Insuring a more open world

2019 SFCR report

Solvency and Financial Condition Report

CNP Assurances SA, solo

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 2019 to 31 December 2019.

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 2019 report was approved by CNP Assurances' Board of Directors at its meeting on 7 April 2020.

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.

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Executive summary

As an insurer, co-insurer and reinsurer, CNP Assurances makes its unique protection and savings expertise available to its policyholders and partners. CNP Assurances is France's leading provider of term creditor insurance [1] and the country's second largest life insurer [2].

Key figures

	2019	2018	Change
Premium income (French GAAP)	**€23,106m**	€21,988m	+5%
Net insurance revenue [3]	**€1,777m**	€1,740m	+2%
Value of New Business [4]	**€263m**	€418m	-37%
Investment income and expenses [5]	**€8,004.5m**	€7,446.1m	+7%
Technical reserves (gross of reinsurance) [6]	**€329.2bn**	€319.9bn	+3%
Eligible own funds covering the SCR	**€35.7bn**	€26.1bn	+37%
SCR	**€14.7bn**	€13.0bn	+13%
SCR coverage ratio	**243%**	201%	+42 pts
Eligible own funds covering the MCR	**€30.6bn**	€22.4bn	37%
MCR	**€6.6bn**	€5.8bn	14%
MCR coverage ratio	**463%**	384%	+79 pts

Business and performance

Antoine Lissowski, CNP Assurances' Chief Executive Officer, said: "CNP Assurances' 2019 results are an illustration of our business model's robustness, rooted in our diverse business base and our relationships with partners around the world. Our financial strength is now recognised in our solvency ratio, with the inclusion on a conservative basis of the policyholders' surplus reserve."

In 2019:

- Our multi-partner and international business model was reaffirmed, with the planned link-up with La Banque Postale Group and extension of the agreements with the BPCE group in France (until 2030) and Caixa Seguridade in Brazil (until 2046).
- We continued to respond to the low interest rate environment in Europe by adjusting policyholder participation rates, driving faster change in the product mix, and increasing our focus on risk-based business lines, which accounted for 51% of EBIT and 63% of VNB for the year.
- The Company's financial strength was recognised in our solvency coverage ratio, with the inclusion of part of the policyholders' surplus reserve in solvency capital leading to a significant increase in the ratio at end-2019.
- The individual Savings/Pensions offer was revamped, with the implementation of the transferability options introduced in the PACTE Law, the gradual roll-out of PER pension savings products and the launch of innovative products such as the protected Pergola contract.

Net insurance revenue (NIR) rose 2% to €1,777 million.

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[1] *Source: 2018 data, Argus de l'assurance, October 2019*

[2] *Source: 2018 data, FFA, July 2019*

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

[4] *Based on MCEV© measurement principles*

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

[6] *Based on Solvency II measurement principles.*

System of governance

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

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.

Following the transactions on 4 March 2020 whereby La Banque Postale became a majority shareholder in CNP Assurances, the Board of Directors noted the resignation of the French State and the six directors representing Caisse des Dépôts and appointed six new directors proposed by La Banque Postale.

Risk profile

The risk profile shows that the CNP Assurances' primary exposure is to market risk, which accounts for more than half of the Solvency Capital Requirement (SCR). However, CNP Assurances' broad and diverse range of products has a significant diversification effect. In all, diversification benefits are estimated at 23%.

2019 saw European interest rates fall to an extremely low level, bottoming out in the third quarter (on 15 August 2019) at an unprecedented -0.44% for France's 10-year OAT and -0.71% for Germany's 10-year Bund, with little prospect of an upturn. We continued to adapt to this low interest rate environment by adjusting policyholder participation rates, driving faster change in the product mix, and increasing our focus on risk-based business lines.

The low rates and rising stock prices led us to adjust our strategic asset allocation, by reducing our exposure to equities and increasing our sovereign debt position (especially French) with extended durations.

In 2020, the spread of the Covid-19 pandemic has revealed a certain number of risks affecting the Company's solvency coverage ratio and earnings. As of 31 March 2020, CNP Assurances' financial strength, resulting from a very conservative risk management policy in line with our long-term strategy, was not compromised and the consolidated solvency coverage ratio remained very high.

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 €329.2 billion at 31 December 2019.

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 €35.7 billion at 31 December 2019. The total breaks down as €27.0 billion[7] in basic own funds classified as unrestricted Tier 1 capital (i.e., the highest-quality component of capital), and €8.7 billion in subordinated liabilities (of which a portion is covered by the grandfathering clause).

The €27.0 billion in basic own funds notably includes part of the policyholders' surplus reserve, in accordance with the calculation method recommended by the insurance supervisor (ACPR) pursuant to the Ministerial Order on life insurance companies' surplus own funds published in the Journal Officiel dated 28 December 2019, which applies to all organisations governed by France's Insurance Code [8].

Its Solvency Capital Requirement, calculated using the Solvency II Standard Formula without applying transitional measures, was €14.7 billion at 31 December 2019.

CNP Assurances' Solvency II SCR coverage ratio at that date was therefore 243%, up 42 points on 2018. SCR coverage ratio calculations take into account the volatility adjustment provided for in the Solvency II directive (Article 77 *quinquies*) which had a +9-point positive impact on the ratio at 31 December 2019.

CNP Assurances' Solvency II own funds eligible for inclusion in the MCR coverage ratio, based on the Solvency II balance sheet, amounted to €30.6 billion at 31 December 2019. The total included €27.0 billion in basic own funds, classified as unrestricted Tier 1 capital (i.e., the highest-quality component of capital), and €3.6 billion in subordinated liabilities.

CNP Assurances' Minimum Capital Requirement was €6.6 billion at 31 December 2019.

The Company's MCR coverage ratio at that date was therefore 463%, up 79 points on the previous year.

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[7] This amount, calculated in early 2020, takes into account the distribution of part of the Company's 2019 profit in dividends. However, in light of the Covid-19 pandemic, at the Annual General Meeting on 17 April 2020, the Board of Directors plans to recommend appropriating the total profit for 2019 to retained earnings and to waive payment of a dividend.

[8] The portion of the policyholders' surplus reserve eligible for inclusion in solvency capital at 31 December 2019 was calculated by the flat rate method recommended by the ACPR, which considers that 70% of the total reserve is eligible for inclusion

Business & 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 63 rue de Villiers 92200 Neuilly-sur-Seine, France represented by Bénédicte Vignon*	2010	AGM to be held to approve the 2021 financial statements
*Deputy: Xavier Crépon**	2016	AGM to be held to approve the 2021 financial statements
Mazars 61, rue Henri Regnault – Tour Exaltis 92400 Courbevoie, France represented by Olivier Leclerc*	1998	AGM to be held to approve the 2021 financial statements
*Deputy: Franck Boyer **	2010	AGM to be held to approve the 2021 financial statements

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

3. Ownership structure

31 December 2019
Number of shares: 686,618,477
Number of voting rights: 1,224,278,213

Shareholders	Number of shares	% of capital	% of voting rights [9]
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 [10]	**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)	505,717	0.07%	-
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.

As part of the constitution of a large state-owned financial group announced by CNP Assurances' public sector shareholders on 30 August 2018, various exchanges and transfers of CNP Assurances shares were made between the French State, Caisse des Dépôts, La Poste and La Banque Postale on 4 March 2020. CNP Assurances' post-4 March 2020 ownership structure is as follows:

- La Banque Postale[11] 62.13%
- BPCE [12] 16.11%
- Free-float [13] 21.76%

The share exchanges and transfers led to the termination of the shareholders' agreement.

[9] 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

10 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

[11] Wholly-owned by La Poste Group, which in turn is 66%-owned by Caisse des Dépôts, a public financial institution.

[12] Following the exercise of La Banque Postale's call option on 13,833,334 CNP Assurances shares held by BPCE.

[13] Including treasury shares (505,717 shares at 31 December 2019).

4. Material subsidiaries and other related companies

The undertakings included in the CNP Assurances group at 31 December 2019 are as follows:

Name	Country	% of capital	% of voting rights
CNP ASSURANCES	France	100.00%	
CNP Asfalistiki	Cyprus	100.00%	100.00%
CNP Caution	France	100.00%	100.00%
CNP Cyprialife	Cyprus	100.00%	100.00%
CNP Cyprus Insurance Holdings	Cyprus	100.00%	100.00%
CNP Europe Life Ltd	Ireland	100.00%	100.00%
CNP Holding Brasil	Brazil	100.00%	100.00%
CNP Luxembourg	Luxembourg	100.00%	100.00%
CNP Partners	Spain	100.00%	100.00%
CNP Assurances Compañia de Seguros	Argentina	76.47%	76.47%
Assuristance	France	66.00%	66.00%
Filassistance International	France	66.00%	66.00%
MFPrévoyance	France	65.00%	65.00%
CNP UNICREDIT VITA	Italy	57.50%	57.50%
Caixa Seguros Holding SA	Brazil	51.75%	51.75%
Caixa Seguros Participações Securitárias Ltda	Brazil	51.75%	51.75%
Holding Caixa Seguros Participações em Saude Ltda	Brazil	51.75%	51.75%
Odonto Empresas Convenios Dentarios LTDA	Brazil	51.75%	51.75%
Previsul	Brazil	51.75%	51.75%
Caixa Assessoria e Consultoria	Brazil	51.75%	51.75%
Caixa Saúde 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 Consórcios	Brazil	51.75%	51.75%
CNP Santander Insurance Europe Dac	Ireland	51.00%	51.00%
CNP Santander Insurance Life Dac	Ireland	51.00%	51.00%
ARIAL CNP ASSURANCES	France	40.00%	40.00%
Caixa Capitalização	Brazil	26.39%	26.39%
Wiz Soluçoes e Corretagem de Seguros SA	Brazil	12.94%	12.94%

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.

The list of CNP Assurances' branches at 31 December 2019 was as follows:

Branch	Country
CNP Assurances Denmark branch	Denmark
CNP Assurances Italy branch	Italy
CNP Assurances Spain branch	Spain
CNP Assurances New Caledonia branch	New Caledonia
CNP Assurances Polynesia branch	Polynesia

5.

5.1. Economic and financial environment

Lower interest rates, narrower credit spreads and sharply higher stock prices

2019 saw a fall in interest rates in both developed and emerging markets. The European 10-year swap rate fell by 60 basis points, France's 10-year OAT rate by 65 basis points, Italy's 10-year government bond rate by 130 basis points and Brazil's Selic rate by 200 basis points over the year. The lower interest rates were accompanied by narrower credit spreads and exceptional increases in stock prices. Most of the world's main indices ended the year up by more than 20%: the CAC 40 was up by 26%, the Euro Stoxx 50 by 25% and the S&P 500 by 29%.

The main commodity prices rebounded strongly, with gold prices up 18% and oil prices (brent) up 25%. Lastly, on the currency markets, the dollar strengthened against its reference basket (up 1.5%), reflecting significant rises against the euro (up 4%), the Yuan (up 2% and emerging currencies in general (up 4.8%).

Economic slowdown confirmed in all regions of the world, with growth held back by the manufacturing sector

The above advances took place in an environment shaped by a loss of momentum that affected all regional economies to a similar extent. Global economic growth declined from 3.7% to 3%, reflecting steep falls in the euro zone (to around 1%), China (around 6%) and emerging economies as a whole (around 4%). The worsening economic situation was due to persistently sluggish global trade (which declined in value on flat volumes), its negative effects on the manufacturing sector (production output and inventory build-ups) and its consequences in terms of investment (with companies scaling back their capital spending programmes). Even the United States showed signs of weakness, with growth at around 2%, after delivering a resilient performance in 2018. Global economic growth escaped these trends, however, thanks to solid consumer demand. Consumer purchasing power was supported by dynamic job markets (with the developed countries enjoying almost full employment) and moderate inflation (at 2% in the United States, 1% in Europe and an average of 4% in emerging economies).

Disappointing corporate earnings performances, with sharp contrasts between sectors

Buoyant consumer spending boosted earnings in the consumer goods and services sectors. The technology sector also benefited from resilient digitisation budgets. However, some sectors that are more cyclical (automotive, energy) or more dependent on global trade (metals, chemicals) were adversely affected by the cycle downturn and reported sharply lower earnings. Overall, corporate earnings were flat (Europe) or declined (United States), confounding predictions of earnings growth made at the start of the year. These contrasting earnings performances were mirrored in the performances of the indices, which differed not from region to region but from one type of stock to another, with growth stocks, defensive stocks and large caps outperforming other stocks by a wide margin.

A still uncertain political environment but surprisingly little volatility

Investors continued to search for visibility throughout 2019, due to the uneasiness observed on the markets in the fourth quarter of 2018 and uncertainty concerning the geopolitical environment. The trade war between the United States and China continued to shape market performances. Similarly, local political spats (UK/Brexit, Italy/EU, China/Hong Kong) sparked fears among investors. However, these upheavals did not prevent stock prices from rising

more or less continuously in 2019 to end the year at annual highs (the S&P500 in the United States set a new record of 3,230 points), with very little volatility (the VIX and V2X volatility indices ended the year at 12 points).

Markets boosted by the central banks' monetary stimulus policies

As has been the case for several years, the explanation of this general euphoria surrounding financial assets (and also real assets not traded on commodity markets, which saw their prices soar) lay in the policies implemented by the central banks. Moves by the Federal Reserve to tighten its monetary policy in 2018 caused the markets to tumble. January 2019 saw a radical about-face, when the Federal Reserve announced a pause in its policy, and promises of a looser policy to come fed the stock market rally from March onwards. The rally was amplified by widespread reductions in interest rates, not only in developed countries (Australia) but also in emerging economies (Brazil, Russia, Indonesia, Mexico, India, etc.). Even the ECB, which had not moved to tighten its monetary policy, reduced its prime rate (by 10 basis points) and revived its programme of bond purchases (investing €20 billion per month in the programme). These coordinated announcements led to widespread declines in long-term interest rates (-65 basis points for the 10-year OAT, -80 basis points for the T-bond, -130 basis points for the Italian BTP). The central banks responded by breaking with tradition and launching a period of monetary stimulus without waiting for the cycle to end. Justifying this decision by the current moderate level of inflation, this policy made 2019 a vintage year in terms of financial performance if not economic performance.

5.2. Significant events for CNP Assurances

5.2.1 Partnerships

Proposed extension of the distribution partnerships with La Banque Postale and the BPCE group

The change in the distribution of the share capital held by public shareholders in favour of La Banque Postale will be an opportunity to extend and grow the business partnership with the bank. In this regard, La Banque Postale has committed to extend its current agreements with CNP Assurances until at least 2036.

In addition, the BPCE group and La Banque Postale informed the Board of Directors of their plan for an expanded industrial partnership that will involve several components, and in particular of the BPCE group's intention to extend, starting 1 January 2020, the current expiration dates of the agreements made in 2015 between BPCE/Natixis and CNP Assurances (covering term creditor insurance, group health insurance, and personal risk insurance). The dates will be extended from 31 December 2022 to 31 December 2030.

Extension of the distribution partnerships with the BPCE group

On 19 December 2019, the BPCE group and CNP Assurances signed agreements extending the 2015 distribution partnerships between BPCE/Natixis and CNP Assurances that were originally due to expire on 31 December 2022 and consolidating CNP Assurances' multi-partner model.

The agreements also provide for the co-insurance rate for group term creditor insurance policies between Natixis Assurances (BPCE Vie and BPCE Prévoyance) and CNP Assurances to be balanced at 50/50 and for 34% of individual term creditor insurance business written by BPCE Vie to be reinsured by CNP Assurances.

BPE, La Banque Postale's private bank, and CNP Assurances announce the launch of BPE Emeraude

BPE Emeraude offers savers the opportunity to invest in a wide range of funds under "client-directed management" and "financial advisor-directed management" formulas. In particular, it responds to the expectations of clients who want to delegate the management of their savings by choosing the "financial advisor-directed management" formula. BPE Emeraude offers a choice of seven strategies (ranging from moderate to very high risk), three of which involve equities. Under the "client-directed management" formula, clients may notably invest in the best French property funds (SCPI) on the market, including those of AEW Ciloger and Sofidy, as well as in temporary EMTN-type (Euro Medium Term Notes) funds.

5.2.2 International

Signature of an addendum to the framework agreement of 29 August 2018 between CNP Assurances and Caixa Seguridade

CNP Assurances has completed its discussions with Caixa Seguridade concerning their new exclusive distribution agreement in the Caixa Econômica Federal network in Brazil and signed an addendum to the framework agreement dated 29 August 2018, which concerned only part of the scope of their partnership. The main changes introduced in the addendum are as follows:

► CNP Assurances will benefit from a 5-year extension of the exclusive distribution agreement, which will now run until 13 February 2046 (versus the original expiry date of 13 February 2041).

► CNP Assurances' share of pensions, personal risk and consumer finance term creditor insurance business written under the 29 August 2018 agreement will be kept at 51.75% until December 2020 (as opposed to being reduced immediately to 40% as previously agreed).

► CNP Assurances will continue to write all the other classes of business through its subsidiary Caixa Seguros Holding until the current operating agreement expires on 14 February 2021 and none of these businesses will be discontinued ahead of that date.

► The amount to be paid by CNP Assurances has been increased from R$ 4.65 billion to R$ 7.0 billion and the payment date has been set in December 2020.

The addendum also includes incentives to outperform the first five years' volume and margin objectives, in the form of additional payments, capped at R$ 0.8 billion based on 31 December 2020 values. The addendum will have the effect of increasing the Group's SCR coverage ratio by an estimated three points.

We continue to expect the investment in the new agreement to generate an internal rate of return in excess of 15%, contributing to our long-term value creation process. The agreement is subject to various conditions precedent, including the issuance of the necessary approvals by the competent supervisory and competition authorities. Subject to these approvals being obtained, the transaction is expected to be completed at the end of December 2020.

Increase in CNP Assurances' ownership in its subsidiary CNP Cyprus Insurance Holdings to 100%

On 4 June 2019, CNP Assurances signed an agreement to acquire Bank of Cyprus's 49.9% interest in CNP Cyprus Insurance Holdings, which had been a 50.1%-owned subsidiary of CNP Assurances since the end of 2008.

The acquisition consideration amounts to €97.5 million and will be financed by CNP Assurances using its own resources. CNP Cyprus Insurance Holdings is the second largest insurance operator in Cyprus, offering the full spectrum of life and non-life insurance products and services distributed through the largest network of independent agents in the country. In 2018, CNP Cyprus Insurance Holdings contributed €157 million to consolidated premium income (up by 8.4% compared to the previous year) and €7.3 million to consolidated net profit.

The acquisition of the Bank of Cyprus's stake enables CNP Assurances to take full control of its subsidiary and thereby strengthen its position in Cyprus, a market with attractive growth potential in which CNP Cyprus Insurance Holdings is a leading player with a market share of 21% in life and 13% in non-life.

The transaction was completed on 7 October 2019, once the necessary regulatory approvals had been obtained.

5.2.3 Share capital

€500 million Tier 2 subordinated notes issue

On 5 February 2019, CNP Assurances completed a €500 million Tier 2 subordinated notes issue under the EMTN programme set up in December 2018. The 2.75% notes have a 10-year life and are repayable at maturity.

The issue proceeds will be eligible for inclusion in Solvency II regulatory capital. The notes have been rated BBB+ by Standard & Poor's and A3 by Moody's. The issue will allow CNP Assurances to refinance upcoming debt maturities.

CNP Assurances carries out an inaugural green subordinated bonds issue

A player in the transition towards a carbon-neutral economy, on 26 November 2019, CNP Assurances announced that it had successfully launched its inaugural green subordinated bonds issue. The bonds are due in July 2050 and have a first call date in July 2030.

This inaugural €750 million issue constitutes Tier 2 regulatory capital in accordance with Solvency II requirements. It was a great success and was heavily oversubscribed, with orders close to €2 billion. The fixed 2% coupon represents the lowest coupon obtained by CNP Assurances on Tier 2 capital.

The funds raised through this operation will enable CNP Assurances to finance green projects in the following areas:

- High energy-performance buildings (new builds and renovations).
- Sustainably-managed forests;
- Green infrastructure such as renewable energy projects and low-carbon transportation systems.

The projects financed within the framework of this issue will help CNP Assurances to meet its objective of doubling its green investments to €20 billion by end-2023, versus €10.4 billion at end-2018.

In application of the best standards of the green bonds market (Green Bond Principles), CNP Assurances will publish a report on the use of the funds raised every year, and depending on the data available, the environmental impact of the projects financed (CO_2 emissions avoided, energy saved).

In June 2019, CNP Assurances became the first European issuer in the insurance sector to publish a green bond framework. The issued bonds are also the first callable green bonds from a European insurer.

€250 million subordinated private placement notes issue

On Tuesday, 10 December 2019, CNP Assurances placed €250 million worth of subordinated notes with an institutional investor.

The notes were issued in response to a specific request from the investor. The proceeds will support business growth and strengthen the Company's balance sheet.

The issue was structured to qualify as Tier 3 capital for the calculation of the SCR coverage ratio under Solvency II. The notes pay interest at an annual rate of 0.80%. This is the lowest rate ever obtained by a European insurer for this type of subordinated debt issue. The notes mature on 15 January 2027.

6. Business review

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

(In € millions)		**2019**
Life	With-profits life insurance	12,016
	Index-linked and unit-linked insurance	3,468
	Other life insurance	2,109
	Health insurance	968
	Life reinsurance	3,753
	Health reinsurance	5
Non-life	Workers' compensation insurance	122
	Medical expense insurance	344
	Income protection insurance	321
TOTAL		**23,106**

The CNP Assurances business model is based on long-term partnership agreements with major banks and social economy lenders. Combining insurance expertise with a local presence, it is a model that has proved its efficiency over the years.

We work closely with every distribution partner to build offers geared to the profiles of our respective clients in terms of age, appetite for risk and income level.

Two bancassurance partners that are also shareholders

In France, our products are distributed through two long-standing partners, La Banque Postale and the BPCE group (Banque Populaire and Caisse d'Épargne networks), under long-term agreements. As CNP Assurances shareholders, they have a direct stake in the Company's performance and its future.

350 non-exclusive partners in France

We have developed non-exclusive partnerships with 40 wealth management firms and with 205 lenders for term creditor insurance. We are also the preferred partner of more than 100 employee benefits institutions, mutual insurers, non-pr ofits and brokers operating in the social protection market.

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.

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 €23.1 billion in 2019, up €1.1 billion, or 5.1%, on 2018.

- Savings premium income was stable, at €17 million. The strong performance by CNP Patrimoine (with premiums up €1 billion) offset a €1 billion decline in premium income generated by the BPCE network that was mainly due to a reduction in “Fourgous” transfers (transfers from traditional to unit-linked funds without losing the tax benefits) by the banking group’s customers.
- The lower rate of Fourgous transfers and the lacklustre market led to 2.6-point reduction in the proportion of total premiums represented by unit-linked contracts to 20.8%. This was despite the €328 million increase in new money invested in unit-linked savings contracts by CNP Patrimoine customers.
- Pensions premium income was €1.2 billion higher than in 2018. After a call for tenders, we were chosen to continue managing the pension plan of France’s electricity utility, EDF, retaining €1.3 billion out of the initial €1.5 billion plan. The contract is 100% unit-linked and is therefore not recognised in premium income in the IFRS income statement.
- The risk business contracted by 8.6% year-on-year, due mainly to policy cancellations and end-2018 reductions in the Company’s share of group policies with corporate customers and employee benefits institutions.
- Term Creditor Insurance premiums amounted to €3 billion, reflecting ongoing strong momentum in BPCE’s lending activities.
- In the Savings/Pensions segment, unit-linked contracts attracted a €1.7 billion net inflow of new money in 2019, contrasting with a net outflow of €2.7 billion from traditional contracts.

Net new money *(In € billions)*	2019
Traditional contracts	(2.7)
Unit-linked contracts	1.7
Total	**(1.0)**

2. Net insurance revenue

Net insurance revenue totalled €1,777 million in 2019, representing an increase of €38 million or 2.2%.

Savings/Pensions net insurance revenue rose by €38 million, reflecting improved margins on savings technical reserves.

Net insurance revenue generated by the Personal Risk/Protection Insurance business was stable on the previous year.

Net insurance revenue by business segment *(In € millions)*	**2019**	2018	Change
Savings/Pensions	**1,247**	1,210	+37
Personal Risk/Protection insurance	**530**	529	+1
Total	**1,777**	**1,740**	**+38**

Net insurance revenue for the period

3. Value of New Business

The Value of New Business (VNB) written in 2019 was €267 million versus €418 million in 2018. The year-on-year decrease of 35.9% was due to several factors:

- ► Favourable opening adjustments (in the Traditional Savings segment, to take into account the calculation of guaranteed amounts before deducting the net asset loading, and in Term Creditor Insurance, to reflect prior-year actual premiums), offset by upward adjustments of Savings surrender rates and cost of capital.
- ► The favourable contribution from operations, reflecting positive changes in product mix in the Traditional Savings and Term Creditor Insurance segments.
- ► Changes in the economic environment, especially the fall in interest rates, leading to an increase in the cost of capital guarantees on Savings/Pensions contracts for €209 million.

Value of New Business (*In € millions*)	**2019**	2018	Change
Total	**267**	418	-35.9%

A3. Investment performance

1. Description of the asset portfolio

1.1. Asset allocation

CNP Assurances' asset portfolio breaks down as follows, based on assets under management and IFRS measurement principles:

Market value (in %)	31 Dec. 2019	31 Dec. 2018	Change
FIXED INCOME PORTFOLIOS	**73.4%**	**73.8%**	**-0.4 pts**
o/w Money market instruments and Derivatives	7.2%	6.9%	+0.3 pts
DIVERSIFIED PORTFOLIOS	**17.0%**	**17.0%**	**0.0 pts**
o/w Equities (*)	10.0%	10.0%	0.0 pts
o/w Private equity	6.8%	6.9%	-0.1 pts
UNIT-LINKED PORTFOLIOS	**9.7%**	**9.7%**	**0.0 pts**
TOTAL	**100.0%**	**100.0%**	**-**

In a year that saw significant shifts in the market (stock prices rallied, while interest rates collapsed and credit spreads narrowed), the asset management strategy focused on dynamically managing fixed income positions and diversification portfolios, as illustrated by:

- The decision to invest in government bonds with longer maturities, to capture the higher yields and increase the duration of the fixed income portfolios backing savings and pensions liabilities.
- The decision to invest in corporate bonds with longer maturities, to capture the higher yields and benefit from the flatter yield curve and narrower spreads that were a feature of the second half of the year.
- The decision, in early June, to reallocate investments in favour of fixed income funds (traditional fixed income funds, emerging market debt funds, funds managed according to total return strategies); this decision enabled the Company to capture the 5.3% gain in fixed income prices during the summer.
- The decision to tactically manage equity positions, (with an increase in positions in January followed by profit-taking in April), and the decision to sell €2.8 billion worth of equities and equity funds as from September in order to lock in the capital gains and adapt to the new market environment (i.e., the cost of negative interest rates in terms of solvency capital).

1.2. Asset-backed securities

Within the Group, only CNP Assurances SA holds a portfolio of asset-backed securities. The portfolio's unamortised nominal value at 31 December 2019 was €3.7 billion (versus €4.3 billion at end-2018) and its market value was €3.6 billion. The portfolio includes securitization funds for a total nominal amount of €428 million, asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), collateralised debt obligations (CDOs)/collateralised bond obligations (CBOs) and collateralised loan obligations (CLOs).

1.3. Unlisted asset classes (private equity, property and infrastructure)

Private equity

During 2019, the Company committed to investing €518 million in 14 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 2019, the private equity portfolio represented a net commitment of €4.7 billion for a carrying amount of €2.6 billion.

In early 2020, we contacted the managers of these private equity portfolios to obtain details of ESG screening results.

Property & forestry assets

The strategy of investing in property and forestry assets was actively pursued in 2019, 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 2019 totalled €1.6 billion, corresponding mainly to commercial property and

CNP Assurances also pursued its geographical diversification strategy, focusing on property markets outside France (Germany) as well as on the Paris market. Dynamic portfolio management strategies were applied to take advantage of an 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.

Infrastructure

The Company continued to invest in infrastructure assets, with commitments of €250 million and US$ 100 million to three funds, invested mainly in Europe and the United States.

1.4. 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. Hedges on a notional amount of €120.3 billion were outstanding at 31 December 2019. Hedged risks include the risk of an increase in interest rates, which is hedged using interest rate and spread caps on long-term rates. The lower interest rates and limited volatility in 2019 reduced the cost of these protections and we therefore chose to purchase hedges on a notional amount of €35.2 billion during the year.

To protect the IFRS income statement against the risk of wider credit spreads, changes in credit indices were hedged by purchasing CDS options on a notional amount of €1 billion in exchange for option premiums of €8.7 million.

To lock in unrealised gains and reduce sensitivity levels, equity risk hedges were purchased on a notional amount of €3.5 billion in 2019 (versus €2.2 billion in 2018).

In addition to these interest rate and equity risk hedges, a R$ 3 billion currency hedge was set up to avoid any increase in the cost of the cash payment to be made under the binding agreement with Caixa Seguradora.

1.5. Sustainable development commitments and indicators

During 2019, CNP Assurances continued to invest in socially responsible investment (SRI) funds and green transition funds, in line with the following objectives:

- To hold at least €20 billion worth of green investments as of 31 December 2023: with green investments totalling €14.4 billion, the objective was 72% met at 31 December 2019.
- To invest at least €5 billion in green investments in the period to 31 December 2021 [14]: this objective has already been met, with the €6.9 billion spent on green investments in the period to 31 December 2019 representing 139% of the target.
- To reduce the listed equities portfolio's greenhouse gas emissions by 47% between 31 December 2014 and 31 December 2021. This objective has already been met, with greenhouse gas emissions reduced by 51% in the five years to 31 December 2019 (representing a reduction in the carbon footprint from 0.468 teq CO_2/€k invested at 31 December 2014 to 0.227 teq CO_2/€k invested at 31 December 2019).
- 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 2019 in any of the companies concerned by this ban;
- To no longer invest in companies that derive more than 20% of revenues from thermal coal or are developing new coal-fired power stations. CNP Assurances no longer holds any investments in companies on the exclusion list.

2. Investment income and expenses

Net investment income [15] *(In € millions)*	2019	2018	Change
Net investment income	6,981.2	7,883.7	*-902.5*
Net profits on disposal of investments	1,602.2	162.4	*+1,439.8*
Investment expenses	(578.9)	(599.9)	*+21.0*
Net investment income	**8,004.5**	**7,446.1**	***+558.4***

Net investment income, determined on a French GAAP basis, amounted to €8 billion in 2019. The increase of €560 million compared with 2018 corresponded to the net impact of:

- a €1,300 million reduction in net investment revenue, due for the most part to the decline in interest income from the bond portfolio in France, as higher yielding bonds matured and the proceeds were reinvested in bonds offering much lower market yields, and
- a €400 million reduction in impairment losses.
- Higher net realised gains on investments, consisting mainly of:
  - an €800 million increase in gains on bonds that matured during the year, and
  - a €600 million increase in realised gains on the sale of equities to take advantage of the sharp rise in market prices.

Note: In the French GAAP accounts, the net impact of bond maturities on investment income and expenses is not material, as the negative impact on investment income is offset by the positive impact of realising the investment.

3. Gains and losses recognised directly in equity

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

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

[15] *Source: Universal Registration Document, Note 6.1 to the Company financial statements*

A4. Other income and expenses

CNP Assurances is not engaged in any business other than the insurance businesses described in section A.1. This being the case, other income and expenses represent amounts that are incidental to the underwriting profits and net investment income presented in sections A.2 and A.3.

B

System of governance

This section presents CNP Assurances' system of governance.

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

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

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

As with any risk management and internal control system, the Company'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 Company'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 Company's financial statements 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 remuneration awarded to the Board 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 [16]) 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. The Chairman's role does not concern exclusively the Board's organisation and practices. The Board's internal rules state that he may be invited to represent CNP Assurances 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.

[16] *The Ad Hoc Committee's work concerned (1) the expected implications of the planned increase in La Banque Postale's ownership interest; (2) the ongoing development of CNP Assurances' multi-partner model, with its current partners and new partners in France and abroad, and (3) the required governance arrangements to support ongoing implementation of the multi-partner model.*

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 2019, the Board met ten times.

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 CNP Assurances' 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 [17]. 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 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 Company'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

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

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.

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 Company'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 CNP Assurances' 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 Chief Actuary. The Actuarial department's activities include coordinating technical reserve calculations and analysing the underlying assumptions. It also examines the measures taken in the areas of reinsurance and underwriting. The results of the actuaries' work, in terms of estimating the impact on the Company's earnings and risk profile, are systematically taken into account.

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 CNP Assurances' 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 is likely to be taken and the commitments that are likely to be given to third parties on behalf of CNP Assurances. They respond to:

► Organisational imperatives, by reflecting the Company's organisation structure.

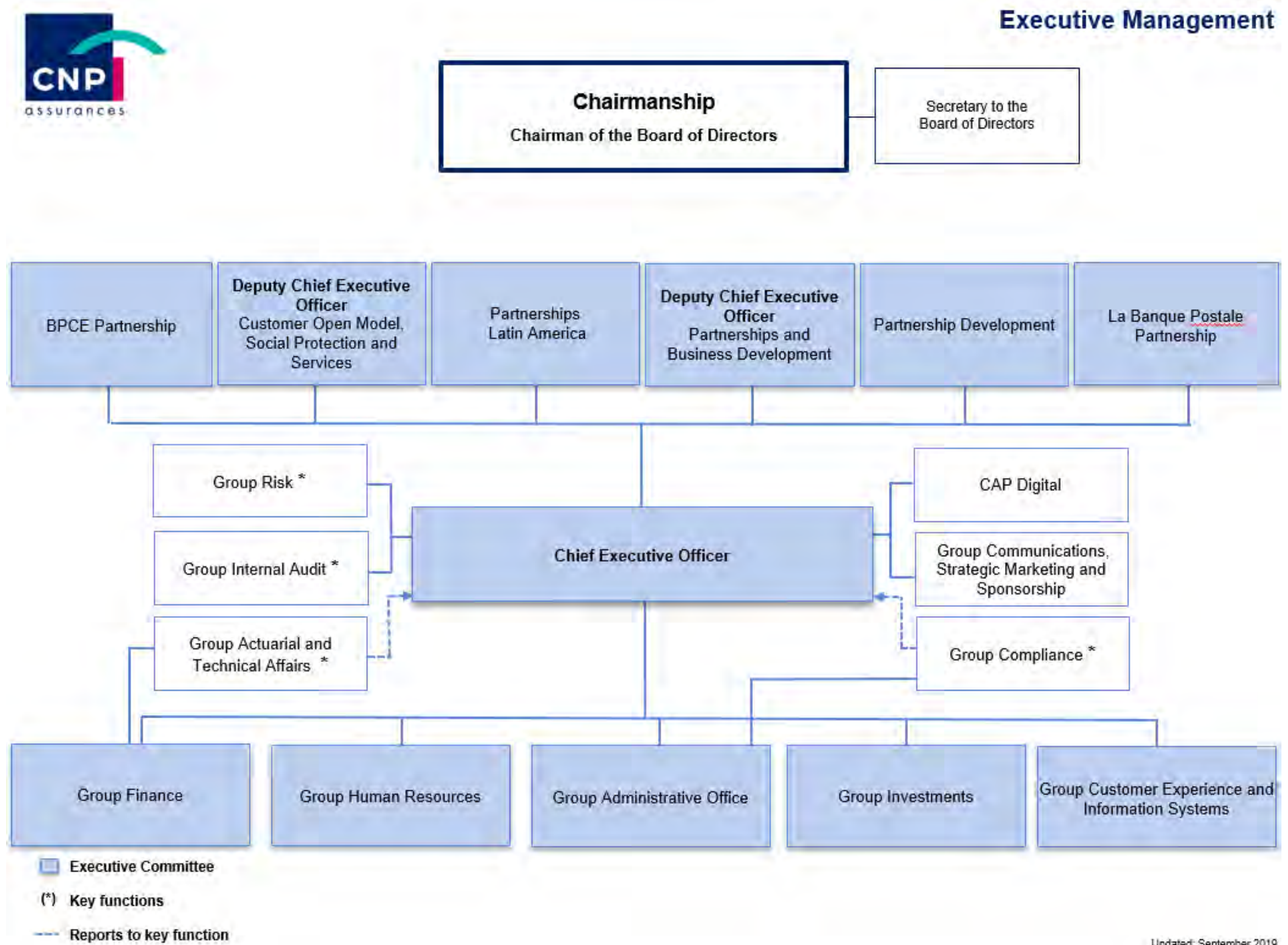
► Operational needs, by describing the powers and responsibilities concerned.

- 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 2019):



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

Note 2: As the persons responsible for key functions, the Chief Actuary and the Chief Compliance Officer report to the Chief Executive Officer.

Note 3: Following the organisational changes implemented at the beginning of 2020, CNP Assurances' organisation structure at the end of March 2020 was as follows:

Executive Management

Chairmanship
Chairman of the Board of Directors

Secretary to the Board of Directors

La Banque Postale business unit

BPCE Partnership business unit, Pensions and Term Creditor Insurance Europe

Latin America business unit

Deputy Chief Executive Officer

Partnership Development

Amétis Network and Social Protection business unit

Group Risk *

Group Internal Audit *

Group Actuarial and Technical Affairs *

Chief Executive Officer

Group Communications, Strategic Marketing and Sponsorship

Group Compliance *

Group Finance

Group Human Resources

Group Administrative Office

Group Investments

Group Customer Experience and Information Systems

Executive Committee
(*) Key functions
--- Reports to key function

Updated: March 2020

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

There were no material changes in the Company's system of governance in 2019. However, during the year, Jean-Christophe Mérer was appointed as Chief Risk Officer and Corinne Gouthière as Internal Audit Director.

In addition, Yves Couturier, Deputy Chief Executive and Head of the Open Model and Social Protection & Services business units, retired on 3 February 2020, leading to the appointments presented in the organisation chart below.

Following the transactions on 4 March 2020 whereby La Banque Postale became a majority shareholder in CNP Assurances, the Board of Directors noted the resignation of the French State and the six directors representing Caisse des Dépôts and appointed six new directors proposed by La Banque Postale. The current membership of the Board of Directors is as follows:

- nine directors recommended by La Banque Postale;
- two directors recommended by BPCE;
- two directors representing employees; and
- four independent directors.

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. A formal remuneration policy has been drawn up and distributed throughout CNP Assurances. The final version was approved by CNP Assurances SA's Board of Directors on 14 November 2019.

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 and shareholders at the annual general meeting 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 variable remuneration are set annually by the Board of Directors. The Board also decides on any quantifiable and qualitative objectives used to determine the variable remuneration to be paid the following year, based on the recommendations of the Remuneration and Nominations 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 CNP Assurances' 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 CNP Assurances' 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. 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 CNP Assurances operates a fully flexible variable remuneration policy, including the possibility of paying no bonus.
- Deferral: a significant proportion of the bonus awarded to material risk-takers is deferred over three years.
- Adjustment: the bonus may be adjusted downwards for exposure to current and future risks, taking into account the Company's risk profile and cost of capital.

Bonus payments are subject to the following conditions:

- Compliance with internal or external rules concerning procedures, ethics, business conduct, etc.
- The Company's performance.

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’ remuneration

The total fixed amount of directors’ remuneration voted by shareholders in General Meeting – currently set at €830,000 – is 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:

- €3,800 for each meeting of the Board of Directors and €3,050 for each meeting of a Board Committee (where applicable) attended by the director,
- €3,050 for each meeting of a Committee of the Board chaired by the director.

No remuneration is paid by CNP Assurances 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 2019 and early 2020, persons who exercise a significant influence over CNP Assurances, 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 17 April 2020:

- 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 between the BPCE group and CNP Assurances.

Detailed information about these transactions and agreements is provided in the CNP Assurances Universal 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, the Group Chief compliance Officer and the Group Chief Administrative Officer.

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

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

For each nomination or renewal, the members of the Fit and Proper Review Committee check that the Nomination 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 CNP Assurances SA's Board of Directors on 14 November 2019.

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 Company'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 Company's risk tolerance limit and its annual solvency assessment process.
- 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 Company's risk exposure, solvency capital, allocation and use of economic capital and risk consolidation by type of risk both on a static basis and by performing stress tests. It reviews the annual solvency assessment process and related financing requirements 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, underwriting policy framework and reinsurance policy. It also validates the policies, procedures and guidelines for monitoring and managing risks and solvency capital, drawing upon the work of committees set up to review specific risks (underwriting risk committee, commitments committee, asset risk monitoring committee, investment committee, ALM committee, operational risk and internal control committee, etc.) and equivalent 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. It alerts the Group Risk Committee to any material risks identified in the course of its work. It contributes to monitoring the application of underwriting policies as part of the overall risk monitoring process. To this end, the Underwriting Risk Committee examines risk underwriting/selection and pricing decisions proposed by the business units, in order to determine and assess the Company's main underwriting risk exposures. It examines the overall consistency of the Company's reinsurance plan, based on the underwriting risk map and the Company's risk management strategy.

This continuous monitoring of risk exposures ensures that we are able to act quickly to correct any deviation from CNP Assurances' risk profile.

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 excess of a certain amount in equities and debt securities, to be held either directly or through a fund (excluding investment funds/hedge funds not regulated by the UCITS directive, for which investment decisions are made directly at the highest level of the Company).
- Decisions to add investment funds/hedge funds not regulated by the UCITS directive (including ETF) to the list of authorised investments.
- Securities lending transactions and purchases of forward contracts (counterparty limits, collateralisation rules, etc.).

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 Company's asset risks. It may also validate the authorisation, modification or suspension of the exposure limit (amount and duration) for an individual fixed income issuer or hedging 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):
  - the underwriting policies,
  - the reserving policy,
  - the investment policy and asset standards (including concentration standards, liquidity standards, currency risk standards),
  - the ALM risk management policy,
  - the operational risk management policy,
  - the 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 Company 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 partly based on an analysis of the related return on ORSA capital and underwriting policies that take into account profitability targets for each product type. The Group Risk department has developed and made available to the business units various tools enabling them to independently measure the return on ORSA capital. These tools help them to take ownership of the metric in question, which is central to commitment decisions. Investment decisions also take into account the impact of investment income on ORSA capital where necessary.
  - ■ One-off strategic decisions or events that significantly impact the Company's risk profile, such as acquisitions/divestments of insurance businesses and the launch of new businesses or major new products.
- ► Decisions designed to ensure compliance with the Group's risk tolerance limit through an ORSA capital allocation system and a system to regularly monitor the business using risk indicators and business reviews prepared in conjunction with the business units and subsidiaries.

The results of the ORSA process are summarised in the annual ORSA report. This report may be updated during the year in the event of a material change in the Company's risk profile.

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 Company 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 Company'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 Company's 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 CNP Assurances' 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

1.1. Description of the internal control system

The main protagonists in risk management and internal control are, at the highest level in the Company, the Board of Directors, 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 permanent 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 three angles – design, procedure and evidencing. Self-assessment quality reviews are performed by the permanent control teams. The review consists of a formal process to check that the self-assessment methodology and the methodology to drive continuous improvement in the risk management system have been properly applied.
- 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), High, Moderate and Low. The inherent risk corresponds to the "spontaneous" risk in the absence of any risk management processes. The residual risk corresponds to the estimated risk after taking into account the effectiveness of existing risk management processes, as assessed by the control system.
- 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 Compliance organisation and control system are described in a code of conduct and a Group policy, both of which are based on industry best practice and aligned with the applicable regulations.

Effectively managing compliance issues is key to earning the trust not only of policyholders and insureds but also of distribution partners. Their trust is essential to drive business growth and promote shared values.

Compliance policy and organisation

The Compliance policy applies to all Group insurance companies and describes each company's roles and responsibilities. It is updated each year to take into account regulatory changes, changes in application scope and the updated Compliance plan for the coming year. The updated policy is submitted to the Board of Directors for approval.

The approved policy is then circulated to all Compliance officers and correspondents at CNP Assurances and the subsidiaries and posted on the Company's Intranet. Presentations are organised after each modification.

The Compliance policy is supported by a set of specific policies on such issues as bribery and corruption, conflicts of interest, data protection, money-laundering, product governance and fraud.

Compliance function scope, role and responsibilities

The Compliance function is responsible for ensuring that the Company's insurance and reinsurance businesses comply with all applicable laws, regulations and standards, and with 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.
- Prevention of money laundering and 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, requests to consult, rectify, delete or oppose personal data, etc.

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.

To effectively fulfil the above responsibilities, the Compliance function also trains employees on key issues related specifically to CNP Assurances' businesses and skill sets, and conducts regular communication and awareness-raising initiatives.

These interlocking activities guarantee the compliance system's robustness.

Compliance processes

The Group Compliance function contributes actively to strengthening risk management systems by playing a coordination role and performing second-tier controls that complement the system of permanent controls. The Group Compliance department does not play any operational role to avoid the occurrence of any conflict of interests.

The Group Compliance department drafts policies, codes of business ethics and compliance standards and procedures. It supports line managers 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 regularly to the Chief Executive Officer and the Chairman of the Board of Directors.

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

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

The Group Compliance department's team is supported by compliance officers appointed in each business unit and corporate department. These officers are the first point of contact of the head office-based Group Compliance department and cover three areas: compliance, financial security and data protection.

As the interface between the Group Compliance department and their local structure, 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.

2.2. Significant events of 2019

2019 was used as an opportunity to strengthen Compliance management processes and document compliance systems in more detail, as well as to inform and train employees about the compliance processes that were significantly upgraded in 2018 following regulatory changes. The upgrades included:

- Deployment of a system to prevent bribery and corruption in application of France's Sapin II Law (on transparency, the prevention of bribery and corruption and modernisation of the economy).
- Improved protection of personal data, in application of the European General Data Protection Regulation (GDPR).
- Deployment of systems for defining and monitoring new products, in application of the Insurance Distribution Directive (IDD).

In addition, work continued on the project to strengthen the system to combat money laundering and the financing of terrorism. This project was launched in 2016 to improve the Company's compliance with increasingly strict regulatory obligations by covering its money laundering and terrorist financing risks more effectively.

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 when the risks, the entities and the 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 Risk 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; and
- 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.

CNP Assurances' Actuarial function is run by the Group Chief Actuary who is a qualified actuary. The Group Chief Actuary has direct access to the Company's decision-making bodies and reports directly to the Chief Executive Officer, allowing him to fulfil his whistle-blowing role.

- The Group Chief Actuary informs Executive Management of his opinion on the calculation of technical reserves during meetings of the Group Risk Committee and the Actuarial Strategy, Assumptions, Laws and Models Committee. This opinion is based on the Actuarial department's report validating the underlying assumptions and laws, as approved by Executive Management.
- The Group Chief Actuary shares his opinion on 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 Underwriting Risk Committee defines the Company's reinsurance policy. This policy is then reviewed by the Audit and Risk Committee and the Group Risk Committee. These Committees also take into account any alerts issued by the Actuarial function concerning reinsurance arrangements.

The Group Chief Actuary's opinions are 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 19 February 2020.

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:

- models are proportionate to the nature, size and complexity of the underlying risks and are correctly used;
- calculation assumptions are evidenced;
- the data used for assumption calibration purposes are complete and of sufficiently high quality.

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 the related corrective action are monitored by the Actuarial Standards department and by Internal Audit.

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

The following measures help to ensure that Executive Management is informed of the assumptions used and the sources of uncertainty:

- Preparation of a validation report. 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 projected future decision.
- Preparation of an analysis plan covering several years to support the assumptions. The purpose of this analysis plan is to:
  - define a list of quantitative analyses, sensitivity tests or controls over relevant variables to be performed in support of each assumption (at the year end and for the target vision);
  - define a frequency and an order of priority for updating each analysis.

4. 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. 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.
- Participating in controls over the techniques used for ORSA purposes, as a member of the committees tasked with:
  - validating ORSA technical stress tests;
  - determining the assumptions used to build strategic plans (and subsequently prepare the liability and cost data used in the models).
- Making recommendations during meetings of the various committees that deal with risk-related issues.

B8. Outsourcing

1. Outsourcing policy

1.1. Objectives and scope

Our outsourcing policy describes the rules applicable to outsourcing activities conducted under the responsibility of the Outsourcing Director who reports to the Group Chief Administrative Officer. The policy's operational roll-out and implementation are the responsibility, in their respective areas, of the heads of the business units and Group functions.

The Company's outsourcing policy is approved by the Board of Directors. It is updated once a year to take into account market changes and ensure that it complies with the latest regulatory requirements.

The outsourcing policy has been drawn up in application of the Solvency II directive. It complies with the measures approved by the European Parliament, which underscore the requirements for outsourced activities:

- *Article 38:* the insurer guarantees access by the supervisor to data on the outsourced activities so that the activities can be supervised.
- Article 41: the insurer has a formal outsourcing policy.
- Article 49: the insurer retains responsibility for compliance with the directive's requirements of any outsourced activities.

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

Outsourcing [18] 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.
- Risk selection for contracts that include coverage of an insurance risk, leading to an insurance policy being written in the name and on behalf of CNP Assurances.

This definition does not include:

- The presentation of insurance operations, except for risk selection, as explained above.
- The collection of group insurance and term creditor insurance premiums.

Solvency II requires special care to be taken when outsourcing critical or important [19] operational functions and activities.

For CNP Assurances, this relates to:

- delegated management of any of the key functions defined in Solvency II:
  - the Risk Management function,
  - the Compliance function,
  - the Internal Audit function, and

[18] Definition based on "Advice for Level 2 Implementing Measures on Solvency II: System of Governance".

[19] Definitions based on Directive 2009/138/EC "Solvency II", Government Order 2015-378 dated 2 April 2015, Decree 2015-513 dated 7 May 2015, and EIOPA guidelines.

  - the Actuarial function;
- outsourcing of operational functions and activities that are essential for the continued operation of the business, or 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;

1.2. Committees

1.2.1 Outsourcing Commitments Committee

The Outsourcing Commitments Committee is led by the Outsourcing Director.

Its members include:

- the Group Chief Administrative Officer;
- the Group Chief Risk Officer;
- the Customer Experience and Information Systems Director;
- the Group Human Resources Director;
- the Planning and Performance Director; and
- depending on the issues covered, the head of the business unit or the Group function concerned.

The Committee reviews the project, checks whether it complies with the Company's outsourcing rules and policy, and issues a recommendation.

1.2.2 Outsourcing Qualification Committee

The Outsourcing Qualification Committee is led by the Outsourcing Director.

Its members include:

- the head of operational risks and internal control (Group Risk department);
- the head of the business law unit (Group Legal department);
- the Group Chief Compliance Officer;
- the Data Protection Officer;
- the head of the crisis management and business continuity unit;
- the information systems security manager; and
- depending on the issues covered, the head of the business unit or the Group function concerned.

After reviewing the outsourcing qualification file prepared by the business unit or Group function, the Committee determines whether the activity to be outsourced is either critical or important.

1.2.3 Outsourcing Management Committee

The Outsourcing Management Committee is led by the Outsourcing Director.

Its members include:

- the Group Chief Administrative Officer;

- the Group Chief Risk Officer;
- the Group Human Resources Director;
- the Planning and Performance Director; and
- depending on the issues covered, the head of the business unit or the Group function concerned.

Once a year, the Committee holds a meeting for each business unit, Group function or contractor working for several business units and/or functions.

Its role consists of overseeing all outsourced activities for the scope concerned and reviewing possible future developments concerning these activities.

1.2.4 The Operational Risk and Internal Control Committee

See section C5 for detailed information on this committee.

The Committee's role includes monitoring outsourcing risks and changes in the coverage of outsourcing risks.

2. Outsourced critical and important functions and activities

CNP Assurances has mapped all outsourced functions and activities and identified those that are qualified as "critical and important".

It outsources (to a varying extent depending on the entity) certain critical or important functions and activities, as defined in Solvency II, in the areas of:

- Policy administration and customer relationship management.
- Asset management.
- Information systems management.

Contractors responsible for outsourced activities qualified as critical or important are required to comply with French law.

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 2019 In € millions	In % [20]
Market risk	*Interest rate risk* *Equity risk* *Property risk* *Currency risk* *Spread risk* *Concentration risk*	**11,696**	60%
Life underwriting risk	*Mortality risk* *Longevity risk* *Disability-morbidity risk* *Lapse (surrender) risk* *Life expense risk* *Life catastrophe risk* *Revision risk*	**3,466**	18%
Health underwriting risk	*SLT Health [21] underwriting risk* *NSLT Health [22] underwriting risk* *Health catastrophe risk*	**1,929**	10%
Non-life underwriting risk		**0**	0%
Counterparty default risk		**1,115**	6%
Intangible asset risk		**0**	0%
Operational risk		**1,393**	7%

As this risk profile shows, CNP Assurances' primary exposure is to market risk, which accounts for just over half of the Solvency Capital Requirement (SCR), and its exposure to underwriting risk arises mainly from the life business.

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

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

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

[22] *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 2019 In € millions	In %
Life underwriting risk	*Mortality risk* *Longevity risk* *Disability-morbidity risk* *Lapse (surrender) risk* *Life expense risk* *Life catastrophe risk* *Revision risk*		**3,466**	18%
Health underwriting risk	*SLT Health underwriting risk*	*SLT Health lapse (surrender) risk* *Health expense risk* *Health mortality risk* *Health longevity risk* *Health disability-morbidity risk* *Health revision risk*	**1,929**	10%
	NSLT Health underwriting risk	*NSLT Health lapse (surrender) risk* *NSLT Health premium and reserve risk*		
	Health catastrophe risk			
Non-life underwriting risk	*Non-life catastrophe risk* *Non–life premium and reserve risk* *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.

Concerning traditional savings products with a unit-linked formula, there is a risk of policyholders transferring their savings from unit-linked funds to the traditional fund. This is unfavourable for the Company due to the significant risk of losses on these funds in the current low interest rate environment.

For group pensions contracts, surrender risk corresponds to the risk of the subscriber requesting the policy be transferred.

In term creditor insurance, surrender risk includes the risk of a contract being surrendered due to the early repayment or renegotiation of the underlying loan (which is more likely in a period of falling interest rates) or the contract's cancellation.

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

2.1. Adaptation of savings products to the very low interest rate environment

The very low interest rate environment in Europe creates a risk for the traditional savings business. For this reason, significant and considered practical measures were taken in the second half of 2019. The main measures were as follows:

- The up-front loading on traditional funds was increased.
- A minimum unit-linked weighting was imposed for certain contracts.
- Policyholder participation rates were adjusted.
- Policyholder dividend matrices were developed, depending on the unit-linked weighting (for introduction in 2020).
- PACTE Law transfer rules were developed that were designed to increase the unit-linked weighting.

2.2. PACTE Law

The PACTE Law, promulgated in May 2019, mainly affects pension savings and life insurance.

The main provisions related to pension savings (Article 71 of the Law) concern the creation of a harmonised pension savings plan (PER) to build up savings through voluntary payments, transfers from employee savings plans and compulsory contributions. At the end of the saving period, savers can choose to receive either a lump sum or a regular pension (except for the capital represented by compulsory contributions which can only be taken out as a regular pension).

The main impacts are as follows: (1) existing pension savings plans will be withdrawn from the market no later than 1 October 2020; (2) savers will be able to make transfers between all types of PER, and (3) insurers will have an even greater duty to provide advice and information to policyholders.

For life insurance, the main provisions (Article 72 of the Law) concern the ability for policyholders to transfer their savings from one life insurance contract to another traditional contract with a unit-linked formula or *Croissance* contract with the same insurer, and the introduction of new duties in terms of the information to be given to policyholders (unit-linked fund performance, fees, yield, participation rate) and stricter anti-disinheritance obligations.

The Company has responded to the new environment created by the PACTE Law by:

- Designing group and individual PER products.
- Organising the conversion or transfer of existing group contracts to PACTE-compliant contracts:

  - this is the case for the points-based Prefon pension plan, which has offered plan participants the option of transferring their savings to PACTE-compliant funds since December 2019;
  - the same measure will be examined for “Article 83” pension plans before the end of 2020.
- Defining the process for PACTE transfers (life insurance to life insurance), one of the key aims being to use the transfers as an opportunity to increase the unit-linked weighting.

2.3. Launch of a protected unit-linked fund, Pergola

CNP Patrimoine’s Pergola 90 offer launched in 2019 is destined for wealth management clients. In the current climate of low rates, this innovative product makes it possible to supplement the secure portion of savings invested in life insurance and endowment contracts, while benefiting from the rise of equity and bond markets. Policyholders benefit from protection at all times for their investment at 90% of the highest historic level reached by Pergola 90. The product provides daily liquidity.

This type of protected unit-linked fund can represent an attractive alternative to traditional funds and accompany the transformation of the traditional/unit-linked fund mix for savings contracts.

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, which notably include:
  - ■ surrender/cancellation rates, transfers between traditional and unit-linked funds, term creditor insurance cancellation rates,
  - ■ mortality rates, death benefit rates,
  - ■ loss ratios, by claim year, by type of contract and by guarantee,
  - ■ number of claims, number of outstanding claims, average claim settlement period, and
- ► risk profile tracking indicators, which break down premium income or mathematical reserves based on discriminating risk deviation factors. These discriminating factors may consist, for example in the Savings business, of the amount of the policyholder's savings, the age of the policy or the level of the capital guarantee.

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 the Company 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. 2019 ***(In € millions)***	**Central value**	Surrenders -10%	Costs -10%	Loss ratio -5% (longevity risk)	Loss ratio -5% (mortality & disability risk)
MCEV© VIF France	**5,534**	35	492	(97)	85
VNB France	**263**	19	36	(1)	55

C2. Market risk

This section deals with the market risks (interest rate, equity, property and currency risks) that are the most likely to have a material adverse effect on the Company. 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. 2019	31 Dec. 2018	Change
Corporate and government bonds	*190*	186	+2%
Investment funds (UCITS)	*63*	62	+1%
Money-market funds	*21*	*20*	*+7%*
Bond funds	*16*	*15*	*+9%*
Equity funds	*10*	*12*	*-17%*
Other funds	*15*	*14*	*+8%*
Equities	*24*	24	0%
Shares in property companies	*8*	*8*	*+1%*
Other equities	*16*	*17*	*-7%*
Structured products	*11*	10	+13%
Collateralised securities	*0*	0	0%
Property and equipment	*0*	0	0%
Total	**289**	**283**	**+2%**

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.

Traditional savings and 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 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 Company 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 2019 is provided in section A1. In summary, 2019 was shaped by very low – and in some cases negative – interest rates in Europe and very strong gains on the world's stock markets at the end of the year.

In this economic environment, we adjusted the asset allocation by selling several billion euros worth of equities, taking advantage of the high market prices while also improving the solvency coverage ratio. In addition, the bond portfolios' average durations were extended – the average duration of new sovereign debt investments in France was 20 years (versus an average 11 years in 2018), although the average yield on the year's investments in France was lower, at 0.8%.

Concerning currency risk, following the increase in the payment to be made upon renewal of the partnership with Caixa Econômica Federal, the related hedge against a fall in the Brazilian currency was also increased.

3. Investment policies, asset standards and monitoring processes

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 Company 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 standards
- 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).

3.1. Monitoring and reporting

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

It requires the use of various reports, including:

- Monitoring Committee reports which track compliance with asset standards and the action taken to resolve any exposure limit overruns.
- ALM indicators, including asset/liability duration mismatch indicators, comparative yield analyses, etc.
- Quarterly Group 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 2019, the Company held a portfolio of caps on a total notional amount of €99.5 billion with an average remaining life of four-and-a-half years and an average strike price equal to the 10-year euro swap rate [23] plus 310 basis points.
- 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.). In 2019, the Company held a portfolio of CAC 40 and Euro Stoxx 50 index options (puts) on a total notional amount of approximately €12.5 billion with an average remaining life of 2 years and average strike prices of 3,546 points (CAC 40) and 2,690 points (Euro Stoxx 50) [24].
- Currency risk: the majority of CNP Assurances' exposures to currency risks are hedged. In particular, a hedge against a fall in the Brazilian R$ has been set up to protect the value of profits dividended up by Caixa Seguradora.

[23] *Unaudited management reporting data*

[24] *Unaudited management reporting data*

At the same time, a hedge against an increase in the real has been purchased to avoid any rise in the cost of the R$-denominated payment to be made on renewal of the distribution agreements with Caixa Seguridade.

In addition, part of CNP Assurances' 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 2019, the policyholders' surplus reserve totalled €13.9 billion.

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 2019 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	€1,412m	-€11.8m	+€12.4m	+9.4	*n/a*
MCEV©	€20,562m	+€2,960.6m	-€3,272.1m	*n/a*	-€3,056.1m
Solvency II coverage ratio	227%	+20 pts	-23 pts	*n/a*	-7 pts

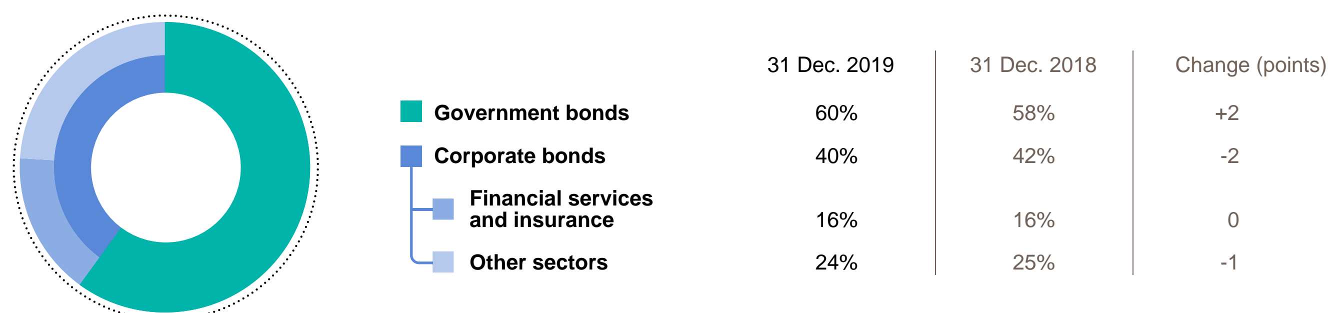
Combined stress tests are performed as part of the ORSA process.

C3. Credit risk

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

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

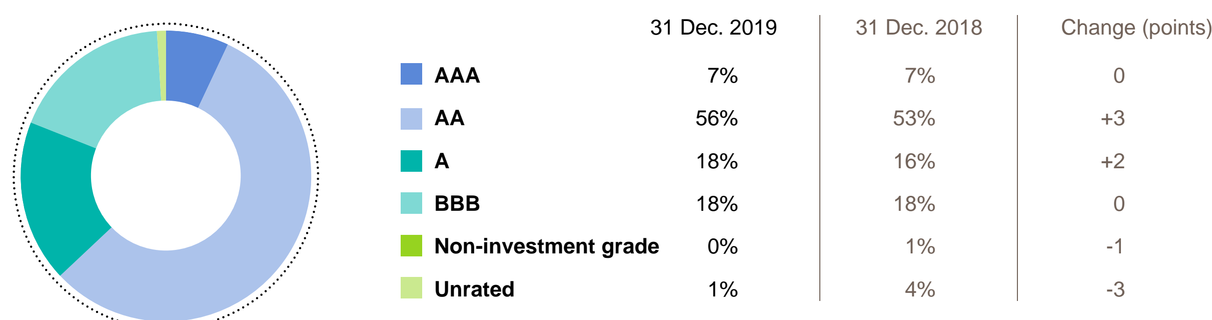
Bond portfolio by type of issuer (source: QRT S.06.02 List of assets) (at cost, in %)



	31 Dec. 2019	31 Dec. 2018	Change (points)
Government bonds	60%	58%	+2
Corporate bonds	40%	42%	-2
Financial services and insurance	16%	16%	0
Other sectors	24%	25%	-1

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

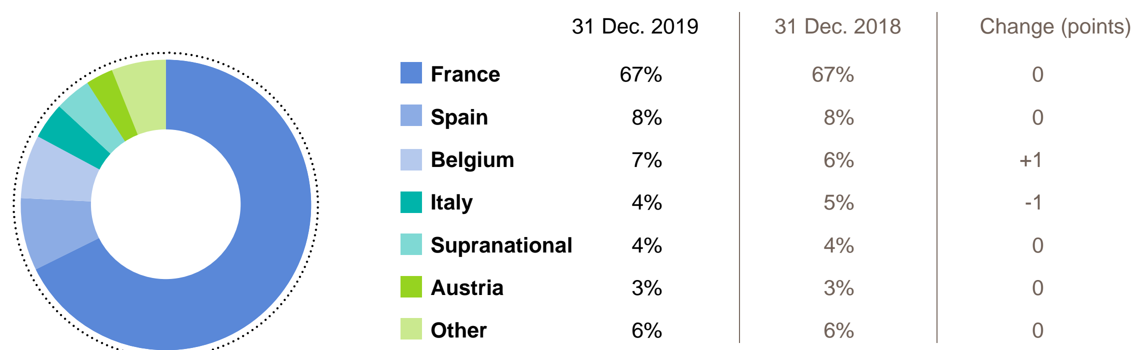
Bond portfolio by issuer rating (source: QRT S.06.02 List of assets) (at cost, in %)



	31 Dec. 2019	31 Dec. 2018	Change (points)
AAA	7%	7%	0
AA	56%	53%	+3
A	18%	16%	+2
BBB	18%	18%	0
Non-investment grade	0%	1%	-1
Unrated	1%	4%	-3

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. 2019	31 Dec. 2018	Change (points)
France	67%	67%	0
Spain	8%	8%	0
Belgium	7%	6%	+1
Italy	4%	5%	-1
Supranational	4%	4%	0
Austria	3%	3%	0
Other	6%	6%	0

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 Company'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 2019, the significant reduction in interest rates led to narrower credit spreads. In this environment, the Company increased its sovereign debt portfolios and reduced its exposure to credit risks on corporate issuers (other than banks).

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 Group Asset Risk 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. 2019	Sensitivity to a 50-bp increase in corporate bond spread[25]	Sensitivity to a 50-bp increase in government bond spread [26]
Solvency II coverage ratio	227%	+8 pts	-7 pts

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

[25] *After recalibration of the volatility adjustment*

[26] *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 2019. 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 the level of the Company.

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

	SCR at 31 Dec. 2019 (In € millions)
Operational risk	1,393

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 CNP Assurances from fulfilling its regulatory obligations or complying with internal standards in its relations with policyholders.
- Process execution, delivery and management: business continuity risks, as well as regulatory or contractual processing times and processing failures or errors, and outsourcing risks and compliance risks related to regulations other than insurance law.
- 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 (including money laundering and terrorist financing).
- Project management: risk of budget overspend, project management failures or failures in related change management processes.

2. Changes during the period

Changes during the period concern CNP Assurances' operational risk profile.

The Company's operational risk profile was relatively stable in 2019 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. During the year, we continued to work on risk management and control systems to comply with the Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR) that came into effect in Europe in 2018. The work also concerned the extensive body of regulations 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.

Two of the Company's strategic choices affect its exposure to this category of risk:

- First, to support the faster pace of digital transformation, we are making growing use of electronic signature and digital data and document transfer technologies. The legal risks associated with electronic signatures have been reduced following the publication of a Government Order clarifying the terms of the Lemaire Act and authorising digital contracts.
- Second, our strategic focus on unit-linked sales in both the mass-market and premium segments increases the Company's exposure to regulatory compliance risk (especially compliance with the Insurance Distribution Directive) and the risk of failing to strictly comply with our contractual commitments concerning the appreciation of policyholder savings. In this regard, deployment of compliance measures and the programme to drive continuous improvement in managing unit-linked contracts has led to a significant reduction in the number of management-related incidents.

Outsourcing and delegated management

The CNP Assurances business model is based on outsourcing solutions and extensive delegations of management powers to distribution partners. The Company is therefore exposed to significant outsourcing risks, related to service quality, dependence on contractors and regulatory compliance.

An Outsourcing department was set up at Group level in 2019 to strengthen the system of outsourcing risk management.

Process execution, delivery and management

The process complexity resulting from the diverse markets, products and partnership arrangements exposes the Company to regulatory risks (aside from insurance law compliance risks), business continuity risks and the risk of human error during manual transactions. Major organisational changes currently in progress that may alter the Company's risk profile include:

- The growing use of teleworking solutions.
- For the accounting function, the changes needed to apply IFRS 17 (recognition and measurement of insurance contracts) and IFRS 9 (application of new classification and measurement rules to financial instruments).

Information systems and data processing

The CNP Assurances business model is based on outsourcing solutions and extensive delegations of management powers to distribution partners. As a result, the Company is heavily exposed to outsourcing risk. As the incidence of cybercrime increases, intruder risk is also still a concern.

Data protection was at the centre of the information systems security strategy in 2019, with the deployment of a Group-level information systems security policy combining technical, human resources and organisational measures.

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.

In 2019, priority was given to setting up a security dashboard to assess our exposure to cyber risks, based on technical and organisational indicators for the Company that also include the subsidiaries and contractors.

We have also begun mapping IT infrastructure in areas identified as sensitive, and are strengthening the system for managing the cyber risk exposures of subsidiaries and contractors.

In addition, exponential growth in the use of the Internet of Things, social networks, cloud computing and smart phones has created potential new cyber attack vectors. The incidence of cyber attacks is growing and 2019 saw the emergence of increasingly complex threats. Nevertheless, the Company experienced only a few information systems incidents during the year, with limited consequences thanks to our robust system.

Various projects to improve data protection are in progress and we are considering options to improve the management of operations staff access rights to all the information systems. In addition, the Information Systems and Internal Control/Operational Risks units are continuing to streamline and enhance controls over cyber risks.

Software or IT production risks

Information systems incidents were once again the main cause of operating incidents in 2019 (accounting for around 51% in volume). These incidents mainly affect the policyholder services units. If several applications go down, this can affect service quality, while calculation or processing errors have to be corrected, which can be a problem especially for the management of unit-linked contracts. The relative financial impact of these incidents remains moderate.

The main action plans deployed to manage these risks concern:

- ► Action to improve the IT department's delivery and acceptance procedure for new applications and software developments: a preliminary study has been carried out to manage this process more effectively and reduce the related incidents.
- ► Action to strengthen the systems and procedures for determining management application settings.

Internal and external fraud

In an environment shaped by complex processes and information systems, many of our distribution and management procedures are exposed to the risk of fraudulent statements, misappropriations of funds, money laundering and bribery attempts.

The project to strengthen risk management systems covering ML-TF and other fraud risks was pursued during the year.

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. All incidents representing a loss of more than €10,000 must be reported, along with any incident that did not generate any loss but could have had material consequences if the circumstances had been different. 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 and all of the subsidiaries must regularly review, test and update their business continuity plans. A dedicated crisis management team has been set up to manage crises.
- An insurance programme: A Group-wide insurance programme has been set up 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

We are exposed to regulatory compliance risks concerning products, product distribution and customer relationship management processes. Our system to manage these risks is organised around:

- policies (covering in particular risk management, underwriting and remuneration);
- committees (Underwriting Committee and New Product Approval Committee);
- procedures (compliance, complaint management, legal watch);
- policyholder services quality committees, set up in all business units, and training plans for the distribution networks on duty-of-advice and know-your-customer procedures.

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

Outsourcing and delegated management

A dedicated department was set up in 2019 to manage these risks, supported by risk maps, an outsourcing policy, a contractor selection process, a permanent monitoring process and periodic audits, incident tracking and stress scenarios (see section B8 for more details).

Process execution, delivery and management

The operational risk management system includes a crisis management and business continuity plan designed to ensure that operations can be pursued in acceptable conditions for both policyholders and employees, as well as for external business partners, in order to deliver our services and products.

The system combines all crisis management procedures, business impact analyses (BIA), business continuity plans, and solutions to deal with situations where several categories of resources (skills, information systems, premises, service providers) become unavailable.

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 Compliance function includes a dedicated unit to deal with ML-TF issues and other fraud risks. This unit works actively to strengthen the prevention system (see section B5.2 for more details).

Safety and security: property damage and personal injury risks

In the Working Environment Unit reporting to the Corporate Secretary, the team responsible for the safety and security of people and assets is tasked with deploying and managing systems for preventing fires, accidents and malicious damage, as well as for implementing "Vigipirate" measures to protect against terrorist attacks. The team contributes to updating the document centralising all related information and helps to ensure that these risks are properly managed during maintenance operations and other work projects.

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. A process to coordinate monitoring processes and mass media presence has been set up at Group level with the French subsidiaries.

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 CNP Assurances' insurance portfolio.

It includes risks concerning the quality of the metrics produced using the models (design errors, implementation errors, poor quality of the underlying data, etc.), the time taken to produce metrics using the models (underperforming modelling system, difficulty in setting the right inputs) and analysis of the metrics taking into account the model's

limits (poor interpretation of the results, use of the results for purposes other than those for which the model was developed, failure to see the bigger picture).

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

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

4. Strategic risks

The main strategic risks to which CNP Assurances is exposed are as follows:

- Partnership risk.
- Risks related to new regulations.

Partnership risk

We enter into various strategic partnerships, directly or through subsidiaries, to strengthen our presence in certain markets. These partnerships represent a means of sharing the business and financial risk with the partners concerned. They may simply be commercial arrangements, such as a distribution agreement, or involve the investment of capital in a joint subsidiary.

Integrating these partnerships or joint subsidiaries into the Group can sometimes take longer, be more difficult and require bigger teams of employees and managers than originally expected, and this may negatively affect consolidated earnings. The constantly evolving nature of the business means that there is no guarantee that the financial performance of acquirees or partners will be aligned with the business plans on which the original investment decision was based. Underperformance may result in impairment losses being recognised on goodwill or other intangible assets that will negatively affect the Company's financial position.

It may be necessary to rethink a partnership in the event of changes either to the project itself or to the local political and economic situation or the partner's own financial situation, or because of a disagreement between partners.

In 2019, over three-quarters of our premium income (on an IFRS basis) was generated through our five main distribution partners (La Banque Postale for 26%, BPCE for 19%, Caixa Seguridade for 20%, Banco UniCredit for 9% and Banco Santander for 2%).

Risks related to new regulations

The introduction of new regulations in Europe or the Group's other host countries could prove both complex and costly for the Group. Many different departments may be concerned by the change, information systems may have to be adapted and significant costs may have to be incurred for staff training to ensure compliance with the new regulatory framework. Since 2018, for example, we have had to implement major projects to comply with the new General Data Protection Regulation (GDPR) and the Insurance Distribution Directive (IDD).

In addition, new regulations may be adopted that affect our business model. The new insurance accounting standard IFRS 17, which is due to come into effect in the near future, may have a significant impact on the IFRS earnings reported by CNP Assurances every quarter. Similarly, discussions currently in progress about the revisions to be made to Solvency II include consideration of yield curve and interest rate module issues. The Company's risk profile is heavily weighted towards financial risks and it could be faced with a significant reduction in its solvency margin as a result of these revisions. Lastly, if adopted, the proposed capping of life insurance commission rates in Germany risks having a material impact on CNP Santander Insurance's business in this country.

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.

CNP Assurances does not expect to make any material adjustments to its asset allocation strategy during the projection period.

6. Climate risk

Climate risk falls into several categories:

- Physical risks, i.e., risks resulting from damage caused directly by climate phenomena.
- Transition risks, i.e., risks resulting from the effects of deploying a low carbon business model. This includes regulatory risk (arising from a change in public policy leading for example to a ban or restrictions on certain activities, or from changes in tax laws), technological risk (arising from innovations and disruptive technologies that help to combat global warming) and market risk (changes in supply and demand from companies and individuals).
- Liability risks (increase in complaints and litigation).
- Reputational risk (changed customer and stakeholder perception of the Company).

Climate risk is therefore treated as a cross-functional risk that may aggravate other identified risks. The Executive Committee and the Audit and Risk Committee were informed about these risks during a specific presentation in November 2019.

CNP Assurances' business consists primarily of writing personal insurance and climate risk is therefore assessed and managed mainly in terms of its impact on asset portfolios. This risk is closely monitored by the Climate Risk Committee: This committee, which has been operational since early 2019, meets each quarter to monitor regulatory developments and the roadmap for managing climate risk in all parts of the Company's activity. The results of the work of the Climate Risk Committee were presented to the Executive Committee and the Audit and Risk Committee.

To mitigate the impact of climate risk on its assets, CNP Assurances has taken the following action:

- 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 directly owned equity and property portfolios is being reduced by calculating and monitoring their footprint and setting objectives for its reduction.
- Assets are managed according to ESG criteria.
- The investment policy is designed to promote energy and ecological transition (forests, green bonds, high energy performance buildings, green infrastructure such as renewable energy projects and low-carbon transportation systems).
- The location of forestry assets in France has been diversified, with close attention paid to avoiding areas exposed to significant natural disaster risks.
- The equities portfolio (other than equity funds) is managed using a low carbon index that takes into account corporate strategies in favour of the energy transition.
- New objectives have been set for reductions in the carbon footprint of the portfolio of listed equities, after the objectives set in 2016 were met in 2019.
- A shareholder activism policy has been deployed to promote energy and ecological transition.
- The physical risk related to the forest and property portfolios is analysed based on scenarios developed by the UN's Intergovernmental Panel on Climate Change (IPCC).
- Physical risks concerning directly held listed securities (equities, corporate bonds, sovereign debt) have been mapped.
- Energy transition risk has been analysed for directly held listed securities by measuring each issuer's contribution to energy transition, and projections have been prepared for the period to 2023 for the sectors most exposed to transition risk.
- Analyses have been performed to determine the alignment of certain categories of investments with the Paris Agreement's 2°C scenario.

Climate risk is also monitored during the quarterly meetings of the Socially Responsible Investment (SRI) Committee held with our asset managers, LBPAM and Ostrum AM.

To mitigate the impact of climate risk on its insurance liabilities, CNP Assurances has taken the following action:

- The risk of higher-than-expected mortality rates (whatever the cause, including a pandemic or a heatwave) has been covered.
- The potential consequences of physical risks on insurance liabilities have been measured by simulating the effects of higher-than-expected mortality rates due to climate change on all of our businesses.
- The potential impact of climate risk on our internal operations is managed through initiatives to reduce the carbon footprint of our operations and also through our business continuity plan.

C7. Other information

In 2020, the spread of the Covid-19 pandemic has revealed a certain number of risks affecting the Company's solvency coverage ratio and earnings.

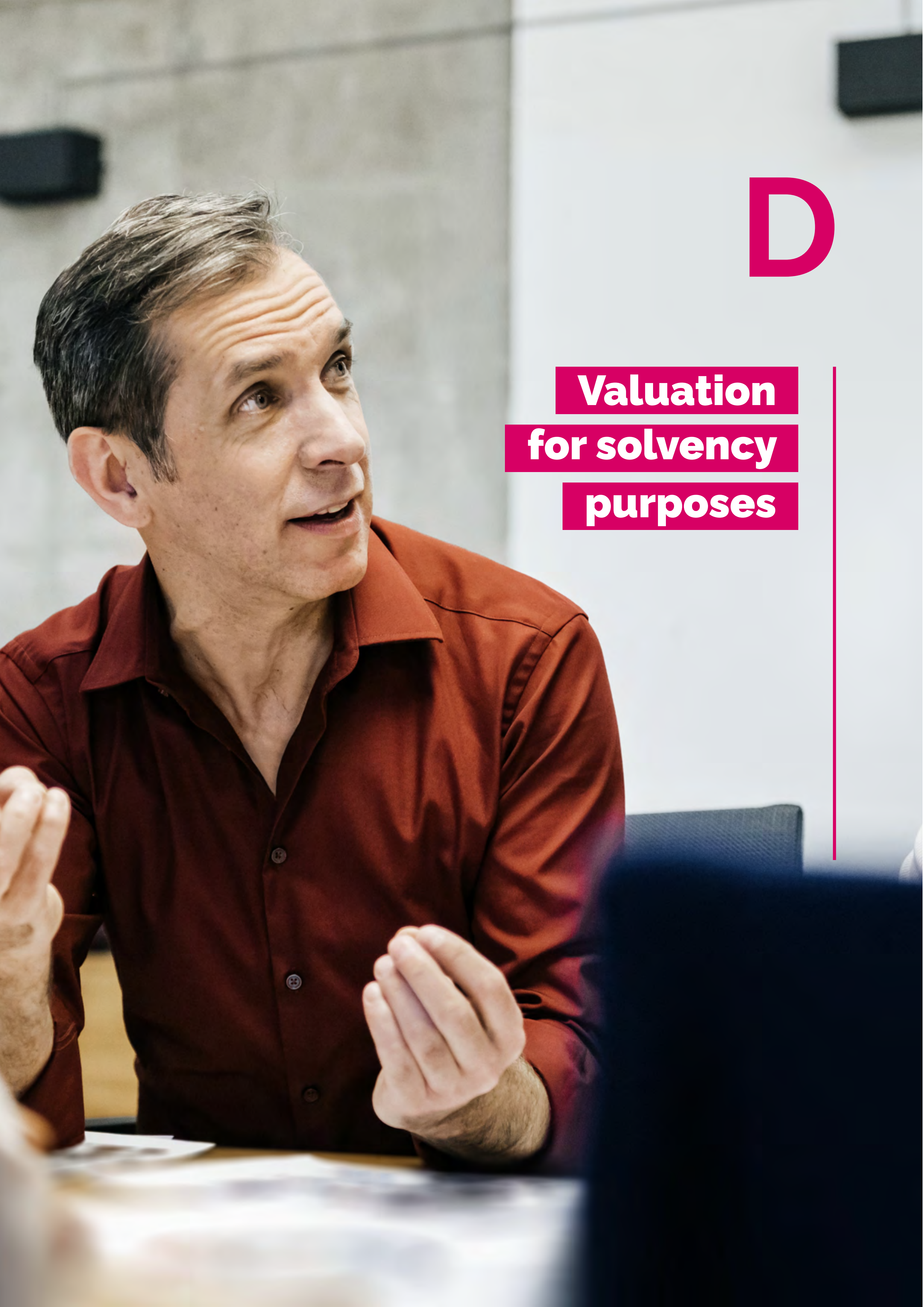
Potential impacts were already visible in March, concerning equity risk, credit risk, currency risk, mortality and sick leave risk, and operational risks in terms of process execution.

In response to these unusual circumstances, a crisis management plan was deployed in March across all levels of the organisation. All employees are now working from home to continue providing the full range of policyholder services.

The Company's financial strength results from a very conservative risk management policy aligned with our long-term strategy. This policy has enabled us to accumulate substantial unrealised capital gains, and we have also set up hedging programmes covering equity risks, currency risks and interest rate risks. Market levels in the most recent period also enabled us to build up significant liquidity.

Insurance risks have been managed by building up a Savings/Pensions portfolio with guaranteed yields close to zero and through measured revaluations that have enabled us to constitute a policyholders' surplus reserve representing more than 6% of technical reserves. The final element in the system is the risk-sharing clause in our partnership agreements and a reinsurance treaty covering pandemic risks.

In the current market conditions, CNP Assurances group's solvency coverage ratio remained high in March 2020.



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 ensures that a reliable Solvency II balance sheet will be produced as part of an orderly, well-managed process. It also ensures consistency with the IFRS financial statements..

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 (more than 99% of which were rated BBB or over at 31 December 2019), 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.

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

- 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, and
- 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 Company 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 Company, 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 BMTNs. 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 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 equivalent-type 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, acting as a delegate. 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) Hybrid Equity Black-FX Model Hull-White 1-Factor Model
Equity linked structured notes	Dupire model Heston model Dupire hybrid equation - Hull-White 1-Factor Model
ıflation-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 group'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, the Company values its investments as follows:

- 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 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 €3.4 million at 31 December 2019.

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 2019, investments totalled €365.6 billion [27] under Solvency II versus €343.3 billion under French GAAP, representing a difference of €22.3 billion that was due mainly to differences in valuation methods:

- 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 2019, other assets and miscellaneous receivables amounted to €9.1 billion under Solvency II versus €8.8 billion under French GAAP, representing a difference of €0.3 billion.

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

[27] *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 2019. These adjustments mainly consisted of taking into account (i) the calculation of guaranteed amounts before deducting the net asset loading for traditional savings contracts and (ii) the new standards concerning the treatment of the policyholders' surplus reserve. For Term Creditor Insurance, the process for aggregating data on insurance liabilities was streamlined.

In the historically low interest rate environment, the lack of a deep market (particularly for interest rate options) caused a certain amount of uncertainty concerning the consistency of asset prices on the financial markets. This situation led us to employ a technique that uses forwards to extend the dispersion on the most extreme downward trajectories. The trigger point for employing this technique is calibrated so that observed option price replication differences stay within the range of buy/sell prices for the products concerned. The modelling tools were also adjusted to better reflect the actual situation.

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 2019. 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 3.7% at 31 December 2019 versus 3.8% 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 2019, the ultimate forward rate used was 3.90%, compared to 4.05% in 2018, a decrease that will continue until 2021. Based on our analyses, the sensitivity of technical reserves and own funds to an increase or decrease 50 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 2019 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 2019 *(In € billions)*	Before volatility adjustment	**After volatility adjustment**	Change	Impact
Total	330.1	**329.2**	-0.25%	-0.8

Impact of volatility adjustment on technical reserves

The volatility adjustment had the effect of reducing the best estimate of technical reserves by €0.8 billion or 0.25%.

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 conservatively increased at 31 December 2017, following the adoption in 2017 of the Bourquin amendment giving borrowers an annual right to switch term creditor insurance provider. As of end-June 2019, the effect of the regulatory change was still limited and the level of uncertainty was therefore considered lower.

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.

After interest rates settled in negative territory, we adjusted our financial strategy and, in the interests of consistency, the assumptions concerning future management decisions used for modelling purposes were similarly adjusted.

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.

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.

Data uncertainties are also addressed on a conservative basis. 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 2019 amounted to €325.5 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 the change in *with-profits life insurance* technical reserves was due to changing economic conditions (low interest rate environment) and the change in *index-linked and unit-linked insurance* technical reserves reflected a volume effect linked to the flow of new money into unit-linked funds.

(In € millions)	**Best estimate Gross 2019**	**Best estimate Gross 2018**	**Year-on-year change**
Medical expense insurance	65	+79	-14
Income protection insurance	902	837	+64
Workers' compensation insurance	320	300	+19
Proportional reinsurance – Medical expense insurance	329	387	-58
Proportional reinsurance – Income protection insurance	12	15	-3
Health similar to life insurance	4,031	4,145	-114
With-profits life insurance	271,816	268,505	+3,310
Index-linked and unit-linked insurance	35,312	31,628	+3,684
Other life insurance	23	40	-17
Health reinsurance	103	111	-8
Life reinsurance	12,546	9,865	+2,682
Total	**325,458**	**315,912**	**+9,545**

Best estimate by Solvency II line of business

CNP Assurances' risk margin at 31 December 2019 was estimated at €3.8 billion.

(In € millions)	**Risk margin 2019**	**Risk margin 2018**	**Year-on-year change**
Medical expense insurance	3	3	0
Income protection insurance	24	17	+7
Workers' compensation insurance	8	13	-5
Proportional reinsurance – Medical expense insurance	20	10	+10
Proportional reinsurance – Income protection insurance	0	0	0
Health similar to life insurance	57	77	-20
With-profits life insurance	2,920	3,109	-189
Index-linked and unit-linked insurance	117	113	+4
Other life insurance	492	526	-34
Health reinsurance	0	0	0
Life reinsurance	129	102	+27
Total	**3,770**	**3,970**	**-200**

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 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 24 January 2019 Act maintained the corporate tax rate payable by “major corporations” on 2019 profits at 33.33%. Including the current additional contribution of 3.3%, the theoretical tax rate for 2019 is therefore 34.43%

Deferred tax assets and liabilities at 31 December 2019 take into account the effects of the 2020 Finance Act. Under the terms of the Act, cuts in the corporate tax rate payable by companies with revenues in excess of €250 million will

be implemented more slowly than originally planned, to 31% in 2020 (32.02% including the 3.3% contribution), 27.5% in 2021 (28.41% including the 3.3% contribution) and 25% in 2022 (25.82% including the 3.3% contribution).

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 (as increased in an addendum dated 20 September 2019) has been identified as a contingent liability.

This liability has been deducted from own funds in CNP Assurances' solo Solvency II balance sheet. It is expected to be settled at the end of December 2020. The contingent liability has been conservatively estimated at a fixed amount of R$ 7 billion (€1.5 billion in the IFRS balance sheet at 31 December 2019, translated at the 31 December 2019 R$/€ spot rate, after taking into account the discounting effect).

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. Subordinated debt classified as equity in the French GAAP balance sheet is reclassified as debt in the Solvency II balance sheet.

At 31 December 2019, subordinated debt amounted to €8.3 billion under French GAAP and €8.7 billion under Solvency II. The valuation difference therefore amounted to €0.4 billion.

2.2. Other liabilities and miscellaneous payables

At 31 December 2019, other assets and miscellaneous payables amounted to €30.5 billion under Solvency II versus €41.6 billion under French GAAP, representing a difference of €11.1 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 €11.9 billion at 31 December 2019) 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 €1.5 billion.

No specific adjustments are made to employee benefit obligations in the Solvency II balance sheet compared to the IFRS balance sheet. Employee benefit obligations recognised at 31 December 2019 amount to €0.3 billion.

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 D1 Assets – 1. Valuation principles.

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 for an amount of €0.7 billion at 31 December 2019.
- ► Share premium account, classified as Tier 1 for €1.7 billion at 31 December 2019.

► The reconciliation reserve, corresponding to the sum of the following items:

(In € billions)	31 Dec. 2019
Excess of assets over liabilities	27.7
Treasury shares (held directly or indirectly)	(0.0)
Foreseeable dividends, distributions and expenses	(0.6)
Other components of basic own funds [28]	(11.5)
Adjustment for restricted own-funds items in respect of matching adjustment portfolios and ring fenced funds	(0.0)
Reconciliation reserve	**15.5**

► Inclusion of part of the policyholders' surplus reserve in surplus own funds based on ACPR calculation guidelines, following publication of the Ministerial Order on life insurance companies' surplus own funds published in the Journal Officiel dated 28 December 2019. Surplus own funds represented €9.1 billion at 31 December 2019.

► Subordinated notes are measured at best estimate [29], corresponding to the present value of future cash flows payable to note holders (as determined based on each issue's characteristics), discounted at the risk free rate plus the issue date credit spread.

Subordinated notes issued before 2015 are classified as 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.

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 €35.7 billion, as follows:

► €27 billion of unrestricted Tier 1 capital, comprising the reconciliation reserve, share capital (excluding any preference shares) and share premium account and surplus own funds.

[28] *Details of the other components of basic own funds are provided in QRT S.23.01.01 (see Appendix) The amount reflects the inclusion, for the first time, of part of the policyholders' surplus reserve. The included amount was calculated using the method recommended by the insurance supervisor (ACPR) pursuant to the Ministerial Order on life insurance companies' surplus own funds published in the Journal Officiel dated 28 December 2019, which applies to all organisations governed by France's Insurance Code.*

[29] *Excluding changes in CNP Assurances' own credit risk*

► €8.7 billion of subordinated debt, breaking down as follows, with 2018 comparatives:

(In € billions)	31 Dec. 2019	31 Dec. 2018
Restricted Tier 1	2.3	2.7
Tier 2	5.2	3.9
Tier 3	1.3	1.0
Total	**8.7**	**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 2019, these quantitative caps on the components of eligible own funds for SCR calculations were not met.

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

Own-funds eligible of €30.6 billion for inclusion in CNP Assurances' MCR coverage ratio are as follows:

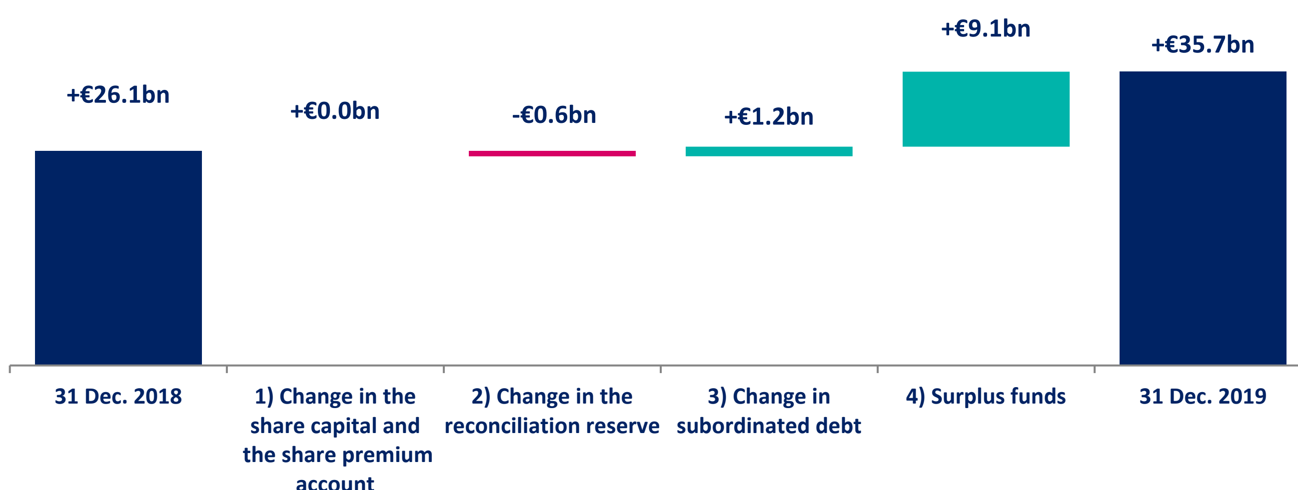
► €27 billion of unrestricted Tier 1 capital, comprising the reconciliation reserve, share capital (excluding any preference shares) and share premium account and surplus funds.

► €3.6 billion of subordinated debt, breaking down as follows, with 2018 comparatives:

(In € billions)	31 Dec. 2019	31 Dec. 2018
Restricted Tier 1	2.3	2.7
Tier 2	1.3	1.2
Tier 3	0.0	0.0
Total	**3.6**	**3.9**

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

3.3. Analysis of changes during the reference period



There were no changes in share capital or the share premium account during 2019.

The Company's eligible own funds increased by €9.6 billion between 31 December 2018 and 31 December 2019, mainly as a result of:

- the decrease in the reconciliation reserve:
  - the fall in interest rates was partly offset by higher stock prices, which had the effect of reducing future Savings/Pensions margins.
  - the inclusion in own funds of profit for the period, net of dividends:
  - advance recognition of the R$ 7 billion payment for the renewal of distribution agreements in Brazil [30] (R$ 4.65 billion at 31 December 2018).
- Inclusion of part of the policyholders' surplus reserve in surplus own funds, for an amount of €9.1 billion. This amount was calculated in accordance with ACPR guidelines, following publication of the Ministerial Order on life insurance companies' surplus own funds published in the Journal Officiel dated 28 December 2019 [31].
- €0.75 billion Tier 2 subordinated notes issue and €0.25 billion Tier 3 debt issue at the end of 2019 [32].

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

The difference between French GAAP equity (€12.8 billion) and Solvency II own funds (€35.7 billion) can be explained as follows:

- Remeasurement of assets due to differences between French GAAP and Solvency II principles (including borrowings and derivatives): +€34.5 billion
- Remeasurement of liabilities (mainly technical reserves) due to differences between French GAAP and Solvency II principles: -€22.5 billion
- Inclusion of subordinated debt in Solvency II own funds: +€8.7 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 14 subordinated notes issues concerned together represent €4.4 billion out of a total of €8.7 billion worth of subordinated debt (at fair value) in the Solvency II balance sheet at 31 December 2019. 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.

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[30] The agreement is subject to various conditions precedent, including the issuance of the necessary approvals by the competent supervisory and competition authorities. Subject to these approvals being obtained, the transaction is expected to be completed at the end of December 2020.

[31] The portion of the policyholders' surplus reserve eligible for inclusion in solvency capital at 31 December 2019 was calculated by the flat rate method recommended by the ACPR, which considers that 70% of the total reserve is eligible for inclusion

[32] A third subordinated notes issue was carried out in 2019 for an amount of €500 million. The issue proceeds offset the retirement of the same amount of subordinated notes earlier in the year, resulting in no net impact on eligible own funds

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 2019

CNP Assurances' SCR at 31 December 2019 was €14.7 billion and the SCR coverage ratio at that date was 243%. The MCR was €6.6 billion and the MCR coverage ratio was 463%.

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

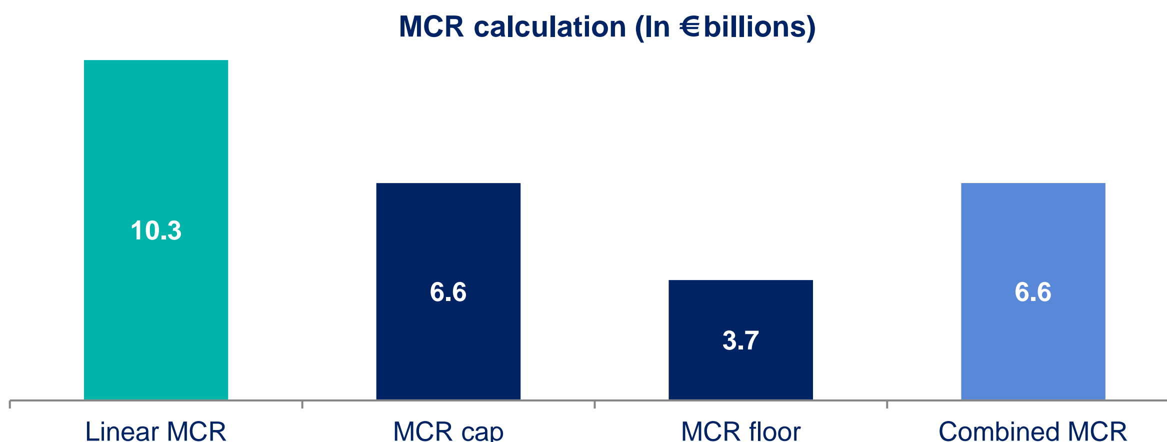
2. Minimum Capital Requirement (MCR)

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.
  - The MCR cap represents 45% of the SCR.

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

The Company's MCR corresponds to the MCR cap, i.e., €6.6 billion.



3. Solvency Capital Requirement (SCR)

6.1. Quantitative SCR information by risk module

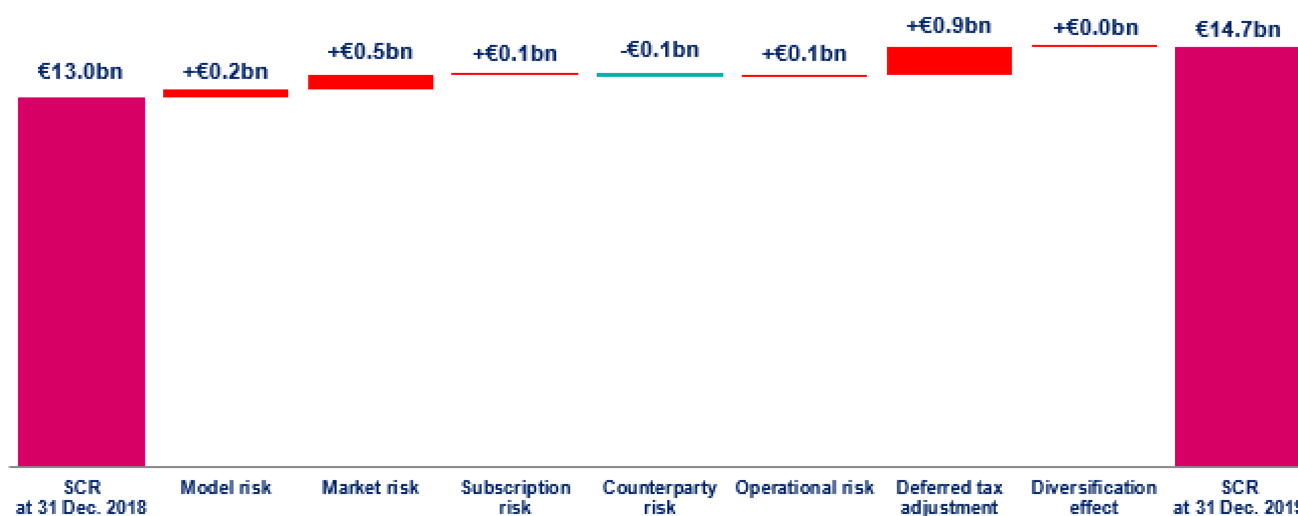
Breakdown of the Company's SCR by risk module, net of losses absorbed by future discretionary benefits:

(In € billions)	**31 Dec. 2019**
Market risk SCR	11.7
Counterparty default risk SCR	1.1
Life underwriting risk SCR	3.5
Health underwriting risk SCR	1.9
Non-life underwriting risk SCR	0.0
Diversification effect	(4.1)
Intangible asset risk SCR	0.0
Basic SCR	**14.1**
Operational risk SCR	1.4
Loss-absorbing capacity of deferred taxes	(0.9)
Other*	0.1
SCR	**14.7**

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

3.1. Significant changes during the period

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



At 31 December 2019, the Company's SCR was €14.7 billion, representing an increase of €1.7 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 €0.2 billion increase in SCR.

- Changes in market risk led to a €0.5 billion increase in SCR. This mainly concerned equity risk and was attributable to higher stock prices, with the resulting increase in SCR partly offset by taking into account the reduced impact of a sharp fall in the price of equities held over the long term.
- The loss-absorbing capacity of deferred taxes was reduced by €0.9 billion (with a negative impact on SCR coverage), reflecting expectations of lower future margins.
- The other factors leading to a change in SCR had only a limited impact in 2019.

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)	6.8	6.6	-0.1
Solvency Capital Requirement (SCR)	15.0	14.7	-0.3
Basic own funds	35.1	35.7	+0.6
Eligible own funds to cover the MCR	30.0	30.6	+0.6
Eligible own funds to cover the SCR	35.1	35.7	+0.6
Solvency II coverage ratio	**234%**	**243%**	**+9%**

The lower impact was due to the tighter spreads observed during the year (9-point impact in 2019 versus 23-point impact in 2018).

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.

Appendix: QRTS

Quantitative reporting templates for public disclosure

Presentation currency: € thousands
Legal name: CNP ASSURANCES
Year ended: 31 Dec. 2019

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	38,768
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	328,441,678
Property (other than for own use)	R0080	903,759
Holdings in related undertakings, including participations	R0090	6,804,115
Equities	R0100	28,810,241
Equities - listed	R0110	18,176,242
Equities - unlisted	R0120	10,633,999
Bonds	R0130	224,464,358
Government Bonds	R0140	131,774,683
Corporate Bonds	R0150	80,211,735
Structured notes	R0160	12,165,325
Collateralised securities	R0170	312,615
Collective Investments Undertakings	R0180	66,857,594
Derivatives	R0190	525,849
Deposits other than cash equivalents	R0200	75,761
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	37,953,394
Loans and mortgages	R0230	305,131
Loans on policies	R0240	305,061
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	70
Reinsurance recoverables from:	R0270	23,698,507
Non-life and health similar to non-life	R0280	56,351
Non-life excluding health	R0290	
Health similar to non-life	R0300	56,351
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	21,674,112
Health similar to life	R0320	8,732
Life excluding health and index-linked and unit-linked	R0330	21,665,381
Life index-linked and unit-linked	R0340	1,968,044
Deposits to cedants	R0350	232,011
Insurance and intermediaries receivables	R0360	2,555,660
Reinsurance receivables	R0370	84,005
Receivables (trade, not insurance)	R0380	5,244,804
Own shares (held directly)	R0390	8,966
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	652,097
Any other assets, not elsewhere shown	R0420	364,451
Total assets	R0500	399,579,474

Liabilities		
Technical provisions - non-life	R0510	1,682,673
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	1,682,673
TP calculated as a whole	R0570	
Best Estimate	R0580	1,627,387
Risk margin	R0590	55,286
Technical provisions - life (excluding index-linked and unit-linked)	R0600	290,616,202
Technical provisions - health (similar to life)	R0610	4,191,057
TP calculated as a whole	R0620	
Best Estimate	R0630	4,133,864
Risk margin	R0640	57,193
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	286,425,145
TP calculated as a whole	R0660	
Best Estimate	R0670	282,888,907
Risk margin	R0680	3,536,238
Technical provisions - index-linked and unit-linked	R0690	36,928,263
TP calculated as a whole	R0700	
Best Estimate	R0710	36,807,454
Risk margin	R0720	120,810
Contingent liabilities	R0740	1,483,021
Provisions other than technical provisions	R0750	140,326
Pension benefit obligations	R0760	333,227
Deposits from reinsurers	R0770	12,993,117
Deferred tax liabilities	R0780	883,100
Derivatives	R0790	1,123,095
Debts owed to credit institutions	R0800	188,033
Financial liabilities other than debts owed to credit institutions	R0810	12,599,105
Insurance & intermediaries payables	R0820	1,046,818
Reinsurance payables	R0830	462,708
Payables (trade, not insurance)	R0840	2,689,637
Subordinated liabilities	R0850	8,704,598
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	8,704,598
Any other liabilities, not elsewhere shown	R0880	47,865
Total liabilities	R0900	371,921,788
Excess of assets over liabilities	R1000	27,657,687

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

Assets, Solvency II values (In € billions)	**31 Dec. 2019**	Corresponding 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) [33]	328.4	D1
Asset held in unit-linked and index-linked contracts	37.9	D1
Loans and mortgages	0.3	D1
Reinsurance recoverables	23.7	D2
Other assets and miscellaneous receivables [34]	9.1	D1
Total	***399.6***	

Notes:

- The €365.6 billion in insurance investments referred to in the narrative report comprises investments (including derivative instruments with a negative fair value), assets held in unit-linked and index-linked funds, loans and mortgages.
- The €9.1 billion in other assets referred to in the narrative report comprises other assets and miscellaneous receivables and property, plant and equipment held for own use.

Liabilities, Solvency II values *(In € billions)*	**31 Dec. 2019**	Corresponding section of the SFCR
Technical reserves	329.2	D2
Subordinated liabilities	8.7	D3
Deferred tax liabilities	0.9	
Derivative instruments	1.1	
Contingent liability	1.5	D3
Other liabilities and miscellaneous payables	30.5	D3
Total	***371.9***	
Excess of assets over liabilities	27.7	E1

[33] *Not including derivative instruments with a negative fair value for €1.1 billion.*

[34] *Not including property, plant and equipment held for own use in the amount of €0.03 billion.*

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	45,786	314,316	128,543	488,644
Gross - Proportional reinsurance accepted	R0120	272,802	9	0	272,811
Gross - Non-proportional reinsurance accepted	R0130				
Reinsurers' share	R0140	30,204	(3,752)	0	26,452
Net	R0200	288,384	318,077	128,543	735,003
Premiums earned					
Gross - Direct Business	R0210	44,756	321,861	121,645	488,262
Gross - Proportional reinsurance accepted	R0220	298,825	16	0	298,841
Gross - Non-proportional reinsurance accepted	R0230				
Reinsurers' share	R0240	24,822	(5,802)	0	19,020
Net	R0300	318,759	327,680	121,645	768,084
Claims incurred					
Gross - Direct Business	R0310	34,288	355,473	114,988	504,750
Gross - Proportional reinsurance accepted	R0320	260,028	(3,080)	0	256,948
Gross - Non-proportional reinsurance accepted	R0330				
Reinsurers' share	R0340	(12,481)	(4,132)	0	(16,613)
Net	R0400	306,797	356,525	114,988	778,310
Changes in other technical provisions					
Gross - Direct Business	R0410	(10,945)	0	5,858	(5,087)
Gross - Proportional reinsurance accepted	R0420	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430				
Reinsurers'share	R0440	0	0	0	0
Net	R0500	(10,945)	0	5,858	(5,087)
Expenses incurred	R0550	56,460	57,242	15,845	129,548
Other expenses	R1200				
Total expenses	R1300				129,548

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	907,855	12,069,798	3,467,597	1,928,645	3,028	3,788,010	22,164,933
Reinsurers' share	R1420	81,996	477,953	88,368	141,888	0	193,904	984,108
Net	R1500	825,859	11,591,844	3,379,230	1,786,757	3,028	3,594,106	21,180,824
Premiums earned								
Gross	R1510	967,506	12,016,454	3,467,725	2,109,002	5,201	3,753,321	22,319,209
Reinsurers' share	R1520	58,195	491,129	87,664	118,448	0	15,562	770,998
Net	R1600	909,312	11,525,325	3,380,061	1,990,554	5,201	3,737,759	21,548,211
Claims incurred								
Gross	R1610	552,071	16,939,980	3,065,280	843,248	-2,299	257,151	21,655,431
Reinsurers' share	R1620	4,865	1,011,742	75,384	45,414	0	(81)	1,137,326
Net	R1700	547,206	15,928,237	2,989,895	797,833	-2,299	257,232	20,518,105
Changes in other technical provisions								
Gross	R1710	(14,721)	90,948	0	(28,837)	(10,272)	(1,094)	36,024
Reinsurers' share	R1720	5,154	0	0	(99)	0	(3,619)	1,436
Net	R1800	(19,875)	90,948	0	(28,737)	(10,272)	2,525	34,588
Expenses incurred	R1900	417,641	1,596,680	237,148	874,980	837	115,965	3,243,251
Other expenses	R2500							
Total expenses	R2600							3,243,251

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 with options or guarantees		Contracts without options and guarantees				Contracts without options and guarantees		
		C0020	C0030	C0050	C0060	C0070	C0100	C0150	C0160	C0170	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	271,815,511		35,311,866		22,660	12,546,323	319,696,361		4,030,520	103,344	4,133,864
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	21,682,351		1,752,951		(61,682)	259,805	23,633,425		8,732	0	8,732
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	250,133,160		33,558,915		84,342	12,286,518	296,062,936		4,021,789	103,344	4,125,132
Risk Margin	R0100	2,919,773	116,539		491,780		128,955	3,657,047	57,193		0	57,193
Amount of the transitional on Technical Provisions												
Technical Provisions calculated as a whole	R0110											
Best estimate	R0120											
Risk margin	R0130											
Technical provisions - total	R0200	274,735,284	35,428,405		514,440		12,675,278	323,353,408	4,087,713		103,344	4,191,057

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	56,585	(76,620)	22,703	2,668
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	2,850	(37)	0	2,813
Net Best Estimate of Premium Provisions	R0150	53,735	(76,583)	22,703	(145)
Claims provisions					
Gross	R0160	337,233	990,642	296,844	1,624,719
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	25,731	27,807	0	53,538
Net Best Estimate of Claims Provisions	R0250	311,502	962,835	296,844	1,571,181
Total Best estimate - gross	R0260	393,818	914,022	319,547	1,627,387
Total Best estimate - net	R0270	365,237	886,252	319,547	1,571,036
Risk margin	R0280	22,899	23,999	8,388	55,286
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	416,717	938,020	327,936	1,682,673
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	28,581	27,770	0	56,351
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	388,136	910,250	327,936	1,626,322

S.19.01.21 – Non-life Insurance Claims

Accident year / Underwriting year	Z0020	1

Gross Claims Paid (non-cumulative)

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	220,427	397,271	107,616	49,973	18,410	11,307	3,361				
N-5	R0200	191,154	444,106	110,721	47,604	31,097	9,542					
N-4	R0210	201,739	407,858	113,479	41,893	19,245						
N-3	R0220	191,434	379,863	138,525	53,598							
N-2	R0230	187,973	428,203	114,938								
N-1	R0240	196,986	391,721									
N	R0250	166,605										

		In Current year
		C0170
	R0100	0
	R0160	0
	R0170	0
	R0180	0
	R0190	3,361
	R0200	9,542
	R0210	19,245
	R0220	53,598
	R0230	114,938
	R0240	391,721
	R0250	166,605
Total	R0260	759,010

Gross undiscounted Best Estimate Claims Provisions

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	107,161	53,937	87,190	84,256				
N-5	R0200	0	0	210,444	117,441	99,385	91,949					
N-4	R0210	0	435,960	233,690	123,715	108,045						
N-3	R0220	1,211,614	451,101	165,689	125,333							
N-2	R0230	1,114,682	291,938	190,623								
N-1	R0240	695,554	321,993									
N	R0250	604,651										

		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.22.01.22 – Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	329,227,138	0	0	829,608	0
Basic own funds	R0020	35,721,974	0	0	(629,665)	0
Eligible own funds to meet Solvency Capital Requirement	R0050	35,721,974	0	0	(629,665)	0
Solvency Capital Requirement	R0090	14,710,664	0	0	296,925	0
Eligible own funds to meet Minimum Capital Requirement	R0100	30,636,812	0	0	(602,942)	0
Minimum Capital Requirement	R0110	6,619,799	0	0	133,616	0

S.23.01.22 – Own-funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial 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	9,132,000	9,132,000			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	15,481,911	15,481,911			
Subordinated liabilities	R0140	8,704,598		2,295,477	5,150,006	1,259,115
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	35,721,974	27,017,375	2,295,477	5,150,006	1,259,115
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	35,721,974	27,017,375	2,295,477	5,150,006	1,259,115
Total available own funds to meet the MCR	R0510	34,462,859	27,017,375	2,295,477	5,150,006	
Total eligible own funds to meet the SCR	R0540	35,721,974	27,017,375	2,295,477	5,150,006	1,259,115
Total eligible own funds to meet the MCR	R0550	30,636,812	27,017,375	2,295,477	1,323,960	
SCR	R0580	14,710,664				
MCR	R0600	6,619,799				
Ratio of Eligible own funds to SCR	R0620	2.43				
Ratio of Eligible own funds to MCR	R0640	4.63				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	27,657,687
Own shares (held directly and indirectly)	R0710	8,966
Foreseeable dividends, distributions and charges	R0720	631,345
Other basic own fund items	R0730	11,535,465
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	15,481,911
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	1,716,913
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	3,410
Total Expected profits included in future premiums (EPIFP)	R0790	1,720,323

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

		Gross solvency capital requirement	Simplifications	USP
		C0110	C0120	C0090
Market risk	R0010	26,532,899		
Counterparty default risk	R0020	1,192,414		
Life underwriting risk	R0030	5,412,865		None
Health underwriting risk	R0040	2,951,897		None
Non-life underwriting risk	R0050	0		None
Diversification	R0060	(6,371,471)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	29,718,604		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	1,392,675
Loss-absorbing capacity of technical provisions	R0140	(15,516,490)
Loss-absorbing capacity of deferred taxes	R0150	(884,125)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	14,710,664
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	14,710,664
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	14,446,856
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	263,808
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Approach to tax rate		C0109
Approach based on average tax rate	R0590	1

Calculation of loss absorbing capacity of deferred taxes		C0130
LAC DT	R0640	(884,125)
LAC DT justified by reversion of deferred tax liabilities	R0650	(884,125)
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	883,100

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	201,836	

		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	365,237	96,304		
Income protection insurance and proportional reinsurance	R0030	886,252	253,552		
Workers' compensation insurance and proportional reinsurance	R0040	319,547	110,679		
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		10,145,318

		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			243,661,927	
Obligations with profit participation - future discretionary benefits	R0220			25,963,421	
Index-linked and unit-linked insurance obligations	R0230			34,839,409	
Other life (re)insurance and health (re)insurance obligations	R0240			4,845,561	
Total capital at risk for all life (re)insurance obligations	R0250				3,048,988,900

Overall MCR calculation

		C0130
Linear MCR	R0300	10,347,154
SCR	R0310	14,710,664
MCR cap	R0320	6,619,799
MCR floor	R0330	3,677,666
Combined MCR	R0340	6,619,799
Absolute floor of the MCR	R0350	6,200
Minimum Capital Requirement	R0400	6,619,799

Notional non-life and life MCR calculation

		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	201,836	10,145,318
Notional SCR excluding add-on (annual or latest calculation)	R0510	287,242	14,423,422
Notional MCR cap	R0520	129,259	6,490,540
Notional MCR floor	R0530	71,811	3,605,855
Notional Combined MCR	R0540	129,259	6,490,540
Absolute floor of the notional MCR	R0550	2,500	3,700
Notional MCR	R0560	129,259	6,490,540

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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 (BUs): 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 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 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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