

SFCR 2017

BNP PARIBAS CARDIF SCHADEVERZEKERINGEN N.V.

BNP PARIBAS CARDIF LEVENSVZERZEKERINGEN N.V.



Oosterhout, 7/5/2018



**BNP PARIBAS
CARDIF**

The insurer
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world

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Executive Summary

In 2017 BNP Paribas Cardif Netherlands continued to make progress in achieving our strategic goals. This progress is reflected in the results. The financial results were achieved by implementing our strategy supported by the continuous improvements in the economy.

We are convinced that payment protection has a future. We are very proud of the launch of our new and innovative mortgage payment protection proposition this year: the Hypotheek Aflos Verzekering. The proposition excels in convenience and simplicity for our partners and clients. At the same time, we encountered that the change of processes and behaviour of distribution after the ban on commission is slower than we expected. And these changes are crucial for the success of our product.

Our long term strategy is based on three pillars. In 2017 the Re-mediation and Re-launch of payment protection had a high priority. In 2018 the Re-launch will have the highest priority. Because of the slow changes in distribution and behaviour, we put extra effort in this field. To compensate for the slower than expected Re-launch, our second pillar Re-fficiency needed to speed up, so we continued our cost reduction. Finally, our third pillar Re-mediation was completed successfully at the end of this year, which means improved processes leading to both better control and financial performance.

Economic growth in the Netherlands was sustained in 2017 for the fifth consecutive year. Like last year, the economic growth was strongly reflected in less claim declarations. The improved economy and increased customer confidence also boosted the prices and sales of existing homes especially in the urban region.

The result of BNP Paribas Cardif Levensverzekeringen N.V. of 5.9 million euros in 2017 was driven by the positive claims performance in the technical result and reduced costs. Even though the net result is provisioned to be paid out as dividend, the capital position in 2017 increased. The solvency ratio increased from 227% to 259% mainly due to the increase of the Own funds and the decrease of the Solvency Capital Requirement (SCR) as a result of the decrease of the portfolio.

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The result of BNP Paribas Cardif Schadeverzekeringen N.V. of 28.7 million euros in 2017 was driven by the positive claims performance in the technical result and reduced costs, offsetting the lower financial result due to the decreased investment portfolio. Even though the net result is provisioned to be paid out as dividend, the capital position in 2017 remained stable. The solvency ratio went from 174% to 173%.

A. Business and performance

A.1 Business

General

BNP Paribas Cardif Levensverzekeringen offers term life insurances and manages a portfolio with investment-linked life insurances. BNP Paribas Cardif Levensverzekeringen has a license to offer life insurances within the following sectors:

- ❖ L01 Life insurance - general
- ❖ L03 Life insurance linked to common fund

BNP Paribas Cardif Schadeverzekeringen offers payment protection insurances with covers for disability and unemployment and surety ships. BNP Paribas Cardif Schadeverzekeringen has a license to offer non-life insurances within the following sectors:

- ❖ S01 Accident insurance
- ❖ S02 Health insurance
- ❖ S09 Other property damage insurance
- ❖ S15 Suretyship
- ❖ S16 Pecuniary loss insurance

Portfolio Information

Products and Portfolio

In the figure below, the main products and covers of BNP Paribas Cardif Levensverzekeringen and BNP Paribas Cardif Schadeverzekeringen are presented. In both companies protection products are offered. The protection related products protect a policyholder against financial distress. In BNP Paribas Cardif Levensverzekeringen the portfolio contains savings products as well. None of these products has (discretionary) profit sharing. Furthermore, the distribution type and premium type are recognised. The distribution of these policies is either through independent financial advisors (IFAs), banks, and collectives (classification according to DNB: Direct) – or through accepted reinsurance (classification according to DNB: Indirect).

	Protection				Mortgage	Savings
	Direct		Indirect			
	Mortgage	Consumer Loan	Collective	Other		
BNPPC Leven	Term Life	Term Life	Term Life			Guaranteed-Rate Unit-Linked
				Whole Life		
BNPPC Schade	Disability Unemployment Critical Illness	Disability Unemployment	Disability Unemployment Critical Illness		Disability Unemployment	
				Surety ships		

Single premium / Periodic premium
Periodic premium
Single premium

A distinction is made between creditor protection products and other protection products.

The creditor protection products are linked to either mortgages or consumer loans. BNP Paribas Cardif Levensverzekeringen provides protection for term life risks. The cover (mainly) provides for the outstanding balance of the loan. BNP Paribas Cardif Schadeverzekeringen provides protection for disability, critical illness and unemployment risks. The cover (mainly) provides for the monthly instalments as long as the disability, critical illness or unemployment continues (with a maximum defined per contract).

The other protection products concern a whole life cover in BNP Paribas Cardif Levensverzekeringen and a surety ship in BNP Paribas Cardif Schadeverzekeringen. The whole life insurance covers for funeral costs. A surety ship is sold in combination with the purchase of a new house. BNP Paribas Cardif Schadeverzekeringen mitigates the financial risk of a house seller when a house buyer is liable for the cancellation of the sale. The amount paid to the house seller is reclaimed in some cases (for instance, failure to finance the house), and not reclaimed in other cases (for instance: disability or unemployment). The distribution of these policies is Direct – through IFAs.

The purpose of the savings products is to reimburse an underlying mortgage loan, either by building up capital or providing a death benefit. The distribution of these policies is Direct – through IFAs.

BNP Paribas Cardif Netherlands (NL) recognises the contract term as the contract boundary for all contracts until 31 December 2016. An 'en bloc'-clause is present, and some contracts are explicitly renewed annually, but any significant change cannot be enforced legally in all adverse circumstances. In particular, in the Savings portfolio, revision of the interest rate is not a contract boundary, since the interest rate revision can only be triggered by the bank providing the mortgage – BNP Paribas Cardif Levensverzekeringen has not offered these mortgages itself. Since 2017, BNP Paribas Cardif Schadeverzekeringen offers one-year contracts.

The value of the liabilities entered into by 1 January-2018 are not material due to the low new business volumes in recent years. These are assumed to be nil.

Portfolio Mapping

Below the mapping of the portfolios into lines of business and homogeneous risk groups is presented. This mapping is used in the remainder of this document and is also relevant for Solvency II.

BNP Paribas Cardif Levensverzekeringen

See the table below for the mapping in lines of business. In addition to premium type and portfolio, gender and smoking status are considered when determining homogeneous risk groups.

Overview portfolio		Abbreviation	Code	Line of Business (S2)	Module (S2)
Direct business	Life	D	L_O	Other Life	Life
	Guaranteed-Rate	GR	L_O	Other Life	Life
	Unit-Linked	UL	L_UL	Unit-linked	Life

The breakdown in lines of business in *Other Life* respectively *Unit-Linked* insurance is similar to statutory accounts. However, compared to statutory accounts, the Guaranteed-Rate portfolio is reclassified in Solvency II from *Unit-Linked Savings* to the *Other Life* line of business, since the guaranteed rates from the mortgage provider effectively define the benefits to the policyholder. The Savings portfolio is thus split by Guaranteed-Rate and Unit-Linked. The Guaranteed-Rate policies invest exclusively in a specific asset: a 'Hypotheek Rente Fonds' (HRF); this asset can be available to Unit-Linked policies as well, although not exclusively.

BNP Paribas Cardif Schadeverzekeringen

See the table below for the mapping in lines of business. In addition to premium type and portfolio, the disability criterion – Any, Suitable, or Own occupation – is considered when determining homogeneous risk groups.

Overview portfolio		Abbreviation	Code	Line of Business (S2)	Module (S2)
Direct business	Disability	TD - Direct	L_H	Health	Health SLT
	Unemployment	IU	NL_D_Mis	Miscellaneous Financial Loss	Non-Life
	Surety Ship	SS	NL_D_Cred	Credit and Surety Ship	Non-Life
Indirect business	Disability	TD - Indirect	L_AR_H	Health Reinsurance	Health SLT
	Unemployment	IU	NL_AP_Mis	Miscellaneous Financial Loss	Non-Life

Within the Direct portfolio, the chosen line of business for both the disability and critical illness risk is *Health*. Henceforth in this document, disability and critical illness are considered jointly as Disability. Within the *Health* line of business, these risks are considered by us as *Similar to Life*. Since the creditor protection products are mainly sold in combination with a (mortgage) loan; a duration of these contracts of thirty years is common. During these thirty years, the premium is kept flat, while the risk increases with insured age, and the maximum benefit decreases. Moreover, there are no legally enforceable contract boundaries. Hence, the Non-life cover provided for disability, critical illness and unemployment is therefore similar to that of Life insurance.

The unemployment risk in the Direct portfolio is not related to the life or health of the insured, and thus a Non-Life risk. Moreover, the unemployment risk is not explicitly addressed in any other Non-Life line of business. The line of business *Miscellaneous Financial Loss* is thus chosen by default for the unemployment risk.

The classification *Similar to Life* is only explicitly applicable to the disability risk, and not the unemployment risk. To our opinion this is not due to the nature of the risk, but rather to the fact that Non-Life does not allow such a distinction, whereas *Health* does.

The surety ship product is classified in line with statutory accounts in the line of business *Credit and Surety Ship*.

Finally, for the Indirect portfolio – which concerns an accepted reinsurance contract – the accepted reinsurance line of business is chosen: *Health Reinsurance* and *Miscellaneous Financial Loss*.

Portfolio Overview

To put the different portfolios in perspective, an overview is provided regarding number of covers, written premium, and statutory provisions. The main segments and provisions are highlighted. In both entities, the Mortgage related covers are most material.

BNP Paribas Cardif Levensverzekeringen

In the table below, the life portfolio is broken down by number of covers, written premium, and statutory provisions gross of reinsurance.¹ Mortgage represents most of the covers (62%) and written premium (44%). Savings represents only 4% of covers, but 43% of written premium and 68% of provisions. Although the Savings portfolio is large in terms of written premium and statutory provisions, this is due to the accumulation of fund value that is invested for risk policyholder; these are not indicators of the risk. Hence, Mortgage represents most of the risk: 65% of policies, 78% of written premium, and 94% of provisions of business not related to Savings. Consumer Loan and Collective represent 33% of the covers, but only 11% of the written premium and 1% of provisions; the insured amounts are typically low in these segments. The Other segment is the Whole Life Funeral product.

¹ Note that the statutory provisions for Savings include the claims reserve of 0.4 million euros that is not for the risk of policyholders.

Overview portfolio gross of reinsurance		Covers (#)	Written Premium	Statutory Provisions
Direct business	Mortgage	128,729	17,459	83,719
	Consumer Loan	23,230	1,994	1,788
	Collective	44,304	2,531	407
	Other	1,700	384	3,965
	Savings	8,131	17,206	191,607
Total		206,094	39,574	281,486

Of the total number of covers, 74% are Regular Premium. Only Mortgage has a significant Single Premium portfolio: 41% of covers representing 38% of statutory provisions within the segment. New business is exclusively Regular Premium.

The statutory provisions are for 98% related to unearned premium for long term obligations; claims represent the remaining 2% and this provision is typically short term.² The average duration of the whole portfolio is 22 years. For Single Premium contracts the duration at issue is 20 years and approximately 6 years remaining. For Regular Premium contracts the same figures are respectively 23 and 18 years.

Overview - technical provisions gross of reinsurance		Covers (#)	Written Premium	Statutory Provisions	Statutory Provisions	
					Premium	Claims
Direct business	Life	197,963	22,368	89,879	85,246	4,633
	Guaranteed-Rate	2,639	5,787	58,756	58,325	431
	Unit-Linked	5,492	11,419	132,851	132,851	-
Total		206,094	39,574	281,486	276,422	5,064

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BNP Paribas Cardif Schadeverzekeringen

In the table below, the Health and Non-Life portfolios are broken down by number of covers and statutory provisions gross of reinsurance. Mortgage represents most of the covers (69%), written premium (59%), and provisions (95%). Consumer Loan and Collective represent 28% of the covers and 23% of written premium, but only 5% of provisions; the insured amounts are typically low in these segments. The Other segment is the Surety Ship product. It represents 4% of covers, but 18% of written premium, and 0.1% of provisions: it is a short natured product, running on average for only three months.

Overview portfolio gross of reinsurance		Covers (#)	Written Premium	Statutory Provisions
Direct business	Mortgage	350,523	13,406	306,737
	Consumer Loan	28,475	994	13,668
	Collective	115,893	4,308	1,160
	Other	18,506	4,042	226
Indirect business	Mortgage	6,573	-	4,725
Total		519,970	22,751	326,516

Most in force business is Single Premium: 59% of covers representing 62% of provisions. Mortgage has the most significant Single Premium portfolio: 81% of covers within the segment is Single Premium. By contrast, Consumer Loan has only 6% Single Premium covers, and Collective 0%. Surety Ship is exclusively Single Premium. New business is exclusively Regular Premium with the exception of Surety Ship.

² All claims related to the Savings portfolio are reported in Guaranteed-Rate, since the claims reserve is not for the risk of the policyholder and thus not classified as Unit-Linked.

The average duration of the whole portfolio is 19 years. For Single Premium contracts the duration at issue is 19 years and approximately 6 years remaining. For Regular Premium contracts the same figures are respectively 21 and 15 years. Disability is the most significant long term risk in terms of covers (74%), written premium (59%), and statutory provisions (88%). The remainder of the long term risk is due to Unemployment (provisions: 12%), while Surety Ship represents significant production (written premium: 18%) and is a shorter term risk.

The statutory provisions are split almost equally between unearned premium (49%) and claims (51%). This is due to the materiality and long term nature of the Disability risk: it represents 74% of covers and claim payments can last until the end of the contract. It is not uncommon for the term of contracts to be thirty years. Within Disability, provisions for claims (56%) are higher than for unearned premium (44%). Within Unemployment, the provision related mainly to unearned premium (86%); the claim payments last at most three years. The statutory provisions are decreasing due to the run-off of Single Premium contracts and payment of running claims.

Overview - technical provisions gross of reinsurance		Covers (#)	Written Premium	Statutory Provisions	Statutory Provisions	
					Premium	Claims
Direct business	Disability	377,934	13,488	283,202	125,672	157,530
	Unemployment	116,957	5,221	38,363	33,113	5,250
	Surety Ship	18,506	4,042	226	-	226
Indirect business	Disability	5,233	-	4,421	1,901	2,520
	Unemployment	1,340	-	303	274	29
Total		519,970	22,751	326,516	160,960	165,555

The statutory provision is mainly related to Disability (88%) and this is even more pronounced for claims (97%). Additional detail on the Disability risk is presented in the table below, including a focus on claims. In all segments the provision for claims is higher than that for premium. Paid claims are mainly coming from the Mortgage Single Premium segment (77%). This is where most active claims are accumulated (79%).

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Overview Disability portfolio gross of reinsurance		Premium Type	Covers (#)	Claims (#)	Written Premium	Paid Claims	Statutory Provisions	
							Premium	Claims
Direct business	Mortgage	Regular Premium	53,961	530	10,816	3,800	38,881	47,128
		Single Premium	236,968	3,387	13	18,269	81,789	102,202
	Consumer Loan	Regular Premium	14,285	190	659	1,041	4,935	7,253
		Single Premium	1,131	35	-	113	66	310
		Collective	Regular Premium	71,589	31	1,999	100	-
Other								
Indirect business	Mortgage	Single Premium	5,233	117	-	364	1,901	2,520
Total			383,167	4,290	13,488	23,687	127,573	160,050

Note that in the Mortgage Regular Premium segment a lower ratio of claims to covers is observed than in the Mortgage Single Premium segment (1.0% versus 1.4%) and lower ratio of paid claims to claims provisions as well (8.1% versus 17.9%). This is because the Mortgage Single Premium segment is a more mature portfolio, whereas the Mortgage Regular Premium segment is a more recent portfolio with (relatively) more future accumulation.

Within the Mortgage segment Single Premium represents 81% of covers and Regular Premium 19%. Compared to Regular Premium, the Single Premium segment accumulated more claims reserves, and premium provisions do not anticipate an inflow of written premium. However, the segment only represents 68% of statutory provisions. This indicates that the risk in the Regular Premium segment is more significant than implied at first sight.

Legal structure

BNP Paribas Cardif B.V. holds 100% of the shares of BNP Paribas Cardif Schadeverzekeringen N.V. and 100% of the shares of BNP Paribas Cardif Levensverzekeringen N.V. Hereafter in this document BNP Paribas Cardif is used for general parts relating to both BNP Paribas Cardif Schadeverzekeringen N.V. and BNP Paribas Cardif Levensverzekeringen N.V.



The shares of BNP Paribas Cardif B.V. are owned 100% by the French company BNP Paribas Cardif S.A. which is ultimately owned by the company BNP Paribas S.A. (hereafter BNP Paribas Group).

As part of our Re-fficiency pillar, our shareholder conducted a survey in which the advantages and disadvantages of becoming a branch instead of a subsidiary were explored. The outcome was that our shareholder chooses to keep the legal structure the way it is. Most important reason for this is that it is not easy to embed the existing portfolio of BNP Paribas Cardif NL in the international organization, due to the specific risk profile of the local portfolio.

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Statutory Board

The Statutory Board of the insurance company comprises the following individuals:

- ❖ Mr C. de Jong
- ❖ Mr M.R.E. Harkema (to 1 July 2017)
- ❖ Mr W. Eikelboom (from 1 July 2017)
- ❖ Mrs M. van Zuien (from 19 May 2017)

CCO M. van Zuien joined the Statutory Board on 19 May 2017. With her appointment the Statutory Board consists of three members, which optimizes stability of the Board, creates diversity to give the new business her distinctive power, leads to an odd number and thus always a majority in decision making and assures a more prominent role for client centricity.

W. Eikelboom replaced M.R.E. Harkema as interim CFO from July. He joined the Board of Directors on 1 July 2017. He is primarily responsible for Finance and Risk.

Supervisory Board

There were no changes in the composition of the Supervisory Board in 2017. The Supervisory Board of the insurance company comprises the following members:

- ❖ Mr C.P.F. De Longueville
- ❖ Mr R.H.A. van Vledder
- ❖ Mr O.J.G. Martin
- ❖ Ms I.P.G.M. Brekelmans

Key Functions

Solvency II requires insurance companies to have at least the following four key functions in place. There were some changes in responsibilities during the year, since Mr. Rajabaly left BNP Paribas Cardif NL in August:

- ❖ Risk Management Function (Mr A. Rajabaly to 1 August 2017; W. Eikelboom from 1 August 2017)
- ❖ Compliance Function (Mr R.B.F. Meeuwis)
- ❖ Actuarial Function (Mr A. Rajabaly to 1 August 2017; Wim Eikelboom from 1 August 2017)
- ❖ Internal Audit Function (outsourced within BNP Paribas Cardif Group)

The responsibilities, resources, reporting and escalation lines and other main organizational aspects of these key functions are described in their respective charters that are updated regularly. All key functions are available within our organization and are occupied by our own employees, except for the Internal Audit Function, which is outsourced within the BNP Paribas Cardif Group. Independence and objectivity are guaranteed because of the outsourcing, and by the reporting of the Internal Audit Function to the Audit Committee in the Supervisory Board.

Supervision

Because the maximum partner period of five years passed in 2017, PwC took over the performance of the external audit from Deloitte. Supervision of the insurance companies is performed by DNB.

Mission, vision & strategy

The strategy of BNP Paribas Cardif NL is developed by the Board of Directors and approved by the Supervisory Board. It is also part of the Mid-Term Planning Process within the BNP Paribas Cardif Group, and contributes to its vision towards the 2022 Cardif Forward strategic plan.

Vision: It comforts people to safeguard their financial future.

Mission: BNP Paribas Cardif NL is the specialist enabling people to acknowledge and cover their (credit-related) payment risks.

Strategy: We will build the best specialised insurance company in the Netherlands. We will concentrate on our niche/specialism of payment protection products. We strive for a balanced, well-controlled and profitable portfolio, fully adapted to the new standards of the financial world and the needs of the customers. We will focus on the most efficient distribution models, taking into account our financial stability and robustness. Overall, the strategy is to de-risk our products and to remain focused on our core business – creditor business – with a select number of sizeable distribution partners and banks.

The main strategic objectives are:

- ❖ Re-launch, through a focus on historical niche and re-inventing historical products.
- ❖ Re-fficiency, regain efficiency through digitisation and rationalisation of current processes.
- ❖ Re-mediation, through safety of the in-force portfolio (assets and liabilities) and secured operations.

Important internal and external developments

Processes were further improved in 2017. At the end of the year BNP Paribas Cardif NL finished the last Re-mediation projects, which gives confidence for the future.

When we look at demand and supply, we see that there is definitely potential for our new payment protection product and our plans for the future. Only the distribution is still in a transition phase after the ban on commission, and this is progressing slower than we expected. We recognize the positive effects of the ban on commission in terms of client centricity, but at the same time we see some negative side effects, like underconsumption. We experience that the majority of the brokers leave some valuable products, like coverages for disability and unemployment unattended. This leads to unprotected consumers and problems with paying their mortgage when one of these situations occurs.

We also see that the ban on commission obstructs innovation. When we look at our new product, it is important that it is adapted in the advice software packages that are used by brokers in a correct way.



But as an insurer, we can't support software companies financially to integrate the product in those packages. So we are dependent on the time and investment that the software companies want to spend on our new product. This makes it harder for us to reach the broker market and ultimately the consumer.

These are challenges that not only apply to our products, but are seen on a broader scale in the insurance market. We took the lead in 2017 to focus attention on these topics in the market and to start up discussions on how to solve these issues. We will continue to do this in 2018 to find new ways to speed up change in distribution processes and behavior.

This attitude fits us well: we are the insurer for a changing world. Over the past twenty years we have developed into an innovative market leader in the Netherlands with specific insurance products. As the needs of consumers and business partners are often unique, we go one step further in insurance. In offering relevant products and comprehensive service, we highlight our personal engagement with our customers and with partners' businesses.

Environment – economic situation

Economic growth in The Netherlands is projected to continue in 2018. Gross Domestic Product will increase by more than 3%, as it did in 2017. This is the highest growth percentage since 2007. All forms of spending will contribute to the growth, but government spending is playing a particular role. The government is pursuing a pro-cyclical budgetary policy which fuels economic growth. In 2017, the increase in government spending was no more than 0.4%, whereas in 2018, it is projected to be 3.5%.

Employment will see a substantial increase of 2%. Because of the less-rapidly growing labour supply, unemployment will decrease further down to 3.9% of the labour force (or 390 thousand people) being the lowest level since 2007. The tight labour market means companies will pay higher wages, in order to attract and hold on to personnel. The increase in real wages translates into an increase in purchasing power. The job increase also leads to a higher disposable income for households. Inflation is expected to remain at a modest level of 1.5%, all according to the December 2017 projections of the Netherlands Office for Economic Policy Analysis (CPB).

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Market developments – housing market

Despite the economic growth and the higher disposable income for households, the estimated 225 thousand existing owner occupied houses to be sold in 2018 (estimated by the biggest mortgage funder Rabobank) lies below the actual sales in 2017. In 2017 242 thousand existing owner occupied houses were sold, an increase of 13% compared to 2016, which showed a 20% increase compared to 2015.

Shrinking supply of houses for sale, rising prices of houses and the lower maximum allowed loan-to-value especially affect first-time buyers and young homeowners. Since these buyers remain the largest target group for existing owner occupied houses, the number of transactions is expected to decrease. This change is already seen in some regions. The number of existing owner occupied houses sold in 2017 vs. 2016 in the provinces Noord-Holland and Utrecht only increased 1% and 2% respectively, while other provinces showed increases of over 20%.

The number of *new* owner occupied houses sold, increased to 36 thousand in 2017: +10% vs. 2016. According to the Dutch association of developers and contractors, 50 thousand new houses were needed to meet the demand only a little. It states that province administrations do not select enough locations to build houses.

In 2017 the Cadastre registered 353 thousand mortgages: +15% vs. 2016. The average mortgage amount of 284 thousand euros in December 2017 increased 6% compared to December 2016. This amount differs per province. In December 2017 the highest average amount was registered in Noord-Holland (345 thousand euros) while the lowest amount was found in Groningen (214 thousand euros).

In the third quarter of 2017 the average mortgage amount per starter was 231 thousand euros, while the average mortgage amount per mover was 329 thousand euros. Starters were responsible for 24% of the total mortgage amount, movers for 56%. The remaining 20% was refinanced.

Insurance market

Only a handful of insurers is active in the market of housing expense protectors, while many insurers are active in the market for death risk insurance. Currently, the latter mainly compete on price and efficiency in the application process. At the same time they face decreasing production: year-to-date November 2017 -8% compared to year-to-date November 2016. Lower loan-to-values and changed Income tax regulations for mortgages, apparently make banks less often request an accompanying term life insurance.

Dutch National Mortgage Guarantee (NHG) changed some of their conditions per January 1st 2018. One of them being that in case of a loan-to-value of more than 80%, a term-life insurance for the surplus is not requested anymore.

Result, dividend and evolution of Own Funds

BNP Paribas Cardif Levensverzekeringen

The profit and loss of BNP Paribas Cardif Levensverzekeringen is as follows:

PROFIT AND LOSS ACCOUNT	2017	2016
Earned premiums	35.831	42.499
Claim charge	(28.981)	(25.620)
Movement technical provision risk policyholder	(2.693)	(7.013)
Operating expenses*	(10.719)	(11.846)
Technical result according to SII QRT S.05.01	(6.562)	(1.980)
Result on investments technical accounts*	12.863	11.614
Result technical account life insurance	6.301	9.634
Result on investments non-technical accounts	1.620	1.519
Result before taxes	7.921	11.153
Taxes	(1.988)	(2.791)
Result after taxes	5.933	8.362

* The asset management expenses are reported within the operating expenses in the Solvency II accounts. In the statutory accounts these costs are included in the result on investments (628 thousand euros).

The net profit of BNP Paribas Cardif Levensverzekeringen decreased in 2017 to 5.9 million euros (2016: 8.4 million euros). The technical result is explained in the chapter 'Underwriting performance'. The investment result is explained in the chapter 'Investment performance'.

BNP Paribas Cardif Levensverzekeringen set the target coverage ratio at 150%. As stated in a Financial Agreement with the parent company, support by means of additional capital is arranged in case the coverage ratio breaches 125%. The Own Funds to cover the SCR are 88.2 million euros as shown in the table below.

The Own Funds under Solvency II consist of:

	31-12-2017	31-12-2016
Issued and paid up capital	43.710	43.710
Statutory reserves	-	1
Result of the year	5.934	8.362
Reconciliation reserve	50.063	45.270
Total Own Funds Solvency II Balance Sheet	99.707	97.343
Foreseeable dividends	(5.934)	(8.362)
Foreseeable charges	(5.535)	(3.765)
Total Own Funds to cover SCR	88.238	85.216

The share capital and reconciliation reserve elements are classified as Tier 1. The coverage ratio can be calculated by means of the Own Funds (available capital) versus the SCR (required capital). The SCR of BNP Paribas Cardif Levensverzekeringen is calculated at 34.1 million euros per year end 2017 (2016: 37.6 million euros). The coverage ratio at the end of 2017 is 259% (2016: 227%). BNP Paribas Cardif Levensverzekeringen foresees to pay out the full net result as dividend. After appropriation of the result BNP Paribas Cardif Levensverzekeringen remains well capitalized and meets its regulatory and internal solvency targets as of 31 December 2017.

BNP Paribas Cardif Schadeverzekeringen

The profit and loss of BNP Paribas Cardif Schadeverzekeringen is as follows:

PROFIT AND LOSS ACCOUNT	2017	2016
Earned premiums	49.414	53.617
Claim charge	(15.306)	(10.350)
Operating expenses*	(17.130)	(19.075)
Technical result according to SII QRT S.05.01	16.978	24.192
Other technical income insurer	49	50
Result on investments technical account*	16.681	18.244
Result technical account non-life insurance	33.708	42.486
Result on investments non-technical account	4.629	3.866
Result before taxes	38.337	46.352
Taxes	(9.594)	(11.595)
Result after taxes	28.743	34.757

* The asset management expenses are reported within the operating expenses in the Solvency II accounts. In the statutory accounts these costs are included in the result on investments (968 thousand euros).

The BNP Paribas Cardif Schadeverzekeringen net profit decreased in 2017 to 28.7 million euros (2016: 34.8 million euros). The main drivers are the increase in claims charge, the decrease in operating expenses and the declining result on investments. The technical result is explained in more detail in the chapter 'Underwriting performance'. The investment result is explained in the chapter 'Investment performance'.

BNP Paribas Cardif Schadeverzekeringen set the target coverage ratio at 150% of the SCR. As stated in a Financial Agreement with the parent company, support by means of additional capital is arranged in case the coverage ratio breaches 125%. The Own Funds to cover the SCR are 128.3 million euros as shown in the table below.

The Own Funds under Solvency II consist of:

	31-12-2017	31-12-2016
Issued and paid up capital	62.223	62.223
Statutory reserves	2.255	1
Result of the year	28.744	34.757
Reconciliation reserve	75.140	85.080
Total Own Funds Solvency II Balance Sheet	168.362	182.061
Foreseeable dividends	(30.999)	(32.503)
Foreseeable charges	(9.106)	(9.474)
Total Own Funds to cover SCR	128.257	140.084

The share capital and reconciliation reserve elements are classified as Tier 1. The coverage ratio can be calculated by means of the Own Funds (available capital) versus the SCR (required capital). The SCR of BNP Paribas Cardif Schadeverzekeringen is calculated at 74.1 million euros per year end 2017 (2016: 80.4 million euros). The coverage ratio at the end of 2017 is 173% (2016: 174%). BNP Paribas Cardif Schadeverzekeringen foresees to pay as dividend the full result of 2017 and the undistributed result of 2016. After appropriation of the result BNP Paribas Cardif Schadeverzekeringen is well capitalized and meets its regulatory and internal solvency targets as of December 31 2017.

A.2 Underwriting performance

BNP Paribas Cardif Levensverzekeringen

The underwriting result of BNP Paribas Cardif Levensverzekeringen is the result of earned premiums from which incurred claims are deducted. The underwriting performance is as follows:

BNP Paribas Cardif Levensverzekeringen N.V.	Protection		Savings		
TECHNICAL PROFIT AND LOSS ACCOUNT BY LINE OF BUSINESS	Life	GR **	Unit-Linked ***	2017	2016
Earned premiums	18.625	5.787	11.419	35.831	42.499
Claim charge	(7.522)	(4.952)	(16.507)	(28.981)	(25.620)
Movement technical provision risk policyholder	-	(2.571)	(122)	(2.693)	(7.013)
Operating expenses*	(9.734)	(296)	(689)	(10.719)	(11.846)
Technical result according to SII QRT S.05.01	1.369	(2.032)	(5.899)	(6.562)	(1.980)
Result on investments technical accounts*	3.371	2.745	6.747	12.863	11.614
Result technical account life insurance	4.740	713	848	6.301	9.634

* The asset management expenses are reported within the operating expenses in the Solvency II accounts.

In the statutory accounts these costs are included in the result on investments (628 thousand euros).

** GR refers to Guaranteed-Rate policies. These policies invest exclusively in a specific asset: Mortgage

Interest Funds (in Dutch: "Hypotheek Rente Fonds" (HRF)).

*** In the category of Unit-Linked (UL) also policies with investments in partly Unit Linked and party HRF are included.

In 2017, the technical result for BNP Paribas Cardif Levensverzekeringen decreased by 3.3 million euros to 6.3 million euros.

The following elements explain the evolution:

- ❖ The earned premium decreased by 6.7 million euros: the earned premium in Life decreases by 4.6 million euros and in Guaranteed Rate and Unit Linked Savings by 2.0 million euros. The decrease in the Life portfolio is linked to: new business that does not compensate for expiry in the portfolio; the insured amount that decreases for policies linked to a (mortgage) loan; technical interest that is revised downwards (1.9 million euros). In the Savings portfolio, the decrease is linked to lapse; the housing market is driving mortgage refinances, while this is a closed book portfolio.
- ❖ The claims charge of the BNP Paribas Cardif Levensverzekeringen increased by 3.4 million euros. An amount of 0.4 million euros is due to the Life portfolio and is in line with the standard

volatility observed on mortality rates. An amount of 3.0 million euros is due to the Savings portfolio, and includes the value paid in case of lapse.

- ❖ The movement of technical provisions of 2.7 million euros in the Savings portfolio is completely for risk policyholder.
- ❖ The operating expenses decreased by 1.1 million euros in line with the strategy of Re-fficiency.
- ❖ The result on investment increased by 1.3 million euros of which 0.2 million euros is due the Life portfolio. The remainder is for risk policyholder in the Savings portfolio.

New business volumes are low as most products were de-risked or reduced in distribution scope, and this is in the process of being revised for a Re-launch in 2018.

BNP Paribas Cardif Schadeverzekeringen

The underwriting result of BNP Paribas Cardif Schadeverzekeringen is the result of earned premiums from which incurred claims are deducted. The underwriting performance is as follows:

BNP Paribas Cardif Schadeverzekeringen N.V.	Health		Non-Life			
TECHNICAL PROFIT AND LOSS ACCOUNT BY LINE OF BUSINESS	Disability	Unemploy- ment	Surety- ship	2017	2016	
Earned premiums	34.428	10.944	4.042	49.414	53.617	
Claim charge	(12.967)	(2.381)	42	(15.306)	(10.350)	
Operating expenses*	(11.703)	(2.093)	(3.334)	(17.130)	(19.075)	
Technical result according to SII QRT S.05.01	9.758	6.470	750	16.978	24.192	
Other technical income insurer	29	11	9	49	50	
Result on investments technical account*	14.707	1.971	3	16.681	18.244	
Result technical account non-life insurance	24.494	8.452	762	33.708	42.486	

* The asset management expenses are reported within the operating expenses in the Solvency II accounts.

In the statutory accounts these costs are included in the result on investments (968 thousand euros).

In 2017, the technical result for BNP Paribas Cardif Schadeverzekeringen decreased by 8.8 million euros to 33.7 million euros.

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The following elements explain the evolution:

- ❖ The earned premium decreased by 4.2 million euros. The decrease in the portfolio is linked to new business that does not compensate for expiry in the portfolio and technical interest that is revised downwards (3.5 million euros).
- ❖ The revision of claims management policies and improvement of claims management processes generated increased levels of control of reported claims and renewed claim payments. Moreover, in line with the risk appetite of the company, most products have been revised to target a lower risk profile, which reduces adverse selection. Although the claims charge of BNP Paribas Cardif Schadeverzekeringen increased by 4.9 million euros compared to last year, it is still historically low compared to best estimate level.
- ❖ The low claim charge is attributed to: low entry into disability in the Netherlands (52% of disability); high recovery linked to the economic situation and increased efforts by UWV (24% of disability); favourable economic situation with lower unemployment rates.
- ❖ The operating expenses decreased by 1.9 million euros in line with the strategy of Re-fficiency.
- ❖ The result on investment has decreased by 1.6 million euros due to lower assets under management; the historical Single Premium portfolio is expiring.

New business volumes are low as most products were de-risked or reduced in distribution scope, and have only recently been relaunched.

Claims Development

Claims development is typical for Non-Life risks (BNP Paribas Cardif Schadeverzekeringen). Although Disability is classified as *Health Similar to Life*, the claim payments can take up to thirty years. So a significant claims reserve is held and claims development is relevant.

Paid claims – Disability gross of reinsurance	Occurrence year					Total
	2017	2016	2015	2014	< 2014	
Opening balance claim provision	-	28,385	23,892	19,900	97,816	169,993
Paid claims	84	639	2,396	3,104	17,465	23,687
Closing balance claim provision	28,136	22,544	15,692	16,162	77,516	160,050
Total		5,202	5,804	634	2,835	14,475

The claims development shows that on all occurrence years, the closing statutory claim provision is lower than expected on the out flow of monthly claim payments. On recent years, this can be due to a mix of claim declaration – waiting periods are typically one year for disability contracts – and more recovery. On more mature occurrence years, the result is mainly due to more recovery.

Paid claims Unemployment	Development year										Total
	0	1	2	3	4	5	6	7	8	9+	
Prior											-
N-8	1,316	2,933	432	123	38	15	-	-	-	-	4,857
N-7	1,891	2,430	523	158	59	10	0	4	-	-	5,074
N-6	1,656	2,307	416	243	32	3	6	-	-	-	4,664
N-5	1,762	2,551	833	235	46	6	-	-	-	-	5,432
N-4	2,429	4,515	993	251	54	-	-	-	-	-	8,241
N-3	2,520	3,817	970	263	-	-	-	-	-	-	7,569
N-2	1,936	2,901	925	-	-	-	-	-	-	-	5,762
N-1	1,058	1,741	-	-	-	-	-	-	-	-	2,800
N	871	-	-	-	-	-	-	-	-	-	871
Total	15,438	23,196	5,091	1,272	228	34	6	4	-	-	45,268

The claims development for Unemployment shows that after one development year, 85% of payments are done. This increases to 99% of total paid claims after three development years. The impacts of economic recovery and internal remediation measures are visible in the most recent years, where paid claims decreased sharply.

The claim development for Surety Ship is based on the paid claims. The claims provision is attributed to the current accounting year and not shown separately.

Paid claims Surety Ship	Development year										Total
	0	1	2	3	4	5	6	7	8	9+	
Prior											(28)
N-8	-	-	-	-	-	-	-	26	(12)	-	14
N-7	-	-	-	-	-	-	220	(21)	-	-	199
N-6	-	-	-	-	-	47	(22)	-	-	-	25
N-5	-	-	-	-	17	(10)	-	-	-	-	7
N-4	-	-	-	29	(2)	-	-	-	-	-	27
N-3	-	-	47	(14)	-	-	-	-	-	-	33
N-2	-	86	(21)	-	-	-	-	-	-	-	65
N-1	150	15	-	-	-	-	-	-	-	-	165
N	125	-	-	-	-	-	-	-	-	-	125
Total	275	101	26	15	15	37	198	5	(12)	(28)	634

In 2016, BNP Paribas Cardif Schadeverzekeringen revised the methodology to account the paid claims for Surety Ship. At the moment the initial payment is invoked, the full amount is reported as a paid claim. Any recovery of this amount is also accounted for in the paid claims. Previously, paid claims were only reported when an amount was deemed not recoverable.

As a result, the paid claims in 2017 and previous years cannot be compared properly and therefore do not provide insight in the claims development. The number of claims is insignificant relative to the whole portfolio of BNP Paribas Cardif Schadeverzekeringen.

BNP Paribas Cardif Schadeverzekeringen is not yet able to adapt the claims triangles on prior years to provide detailed insight in the claims development. Given the immaterial impact, this is not given priority.

A.3 Investment performance

Financial Markets

The Eurostoxx50 increased with 6.5% in 2017 from 3,291 to 3,504 which lead to a positive revaluation of the stock funds in de investment portfolios. The European 10 year swap increased in 2017 from 0.663 to 0.886.

BNP Paribas Cardif Levensverzekeringen

The invested assets for BNP Paribas Cardif Levensverzekeringen are split into bonds and investment funds. The bonds are valued at amortised cost price in statutory accounts, and investment funds are valued at market value. Investment funds (26.2 million euros) consist of equity funds (13.1 million euros), bond funds (8.1 million euros) and liquidity funds (5 million euros) and increased from 22.6 million euros to 26.2 million euros. The book value of the bond portfolio increased in 2017 by 6.5 million euros to 117 million euros.

The result on investments in statutory accounts is as follows:

Result on investments	Average investments 2017	Income and expenses 2017	Unrealized change in valuation 2017	Realized change in valuation 2017	Total result on investments 2017	Total result on investments 2016
Shares and other non fixed-interest securities	24.409	52	1.586	(8)	1.630	975
Bonds and other fixed-interest securities	108.008	2.541	(173)	380	2.748	3.145
Investments for the risk of policy holders	189.831	7.118	2.131	229	9.478	8.430
Other investments and cash at bank	2.642	-	-	-	-	-
Total	324.890	9.711	3.544	601	13.856	12.550

The result on investments in 2017 of the portfolio for the risk of the insurer increased by 0.3 million euros to 4.4 million euros compared to 2016, mainly due to higher revaluation (+0.8 million euros) caused by the evolution of the stock markets. In 2017 the Eurostoxx50 increased by 6.5% compared to 0.7% in 2016. The income on bonds is lower (-0.4 million euros) due to lower average interest rates in the portfolio.

The result on investments for risk of policyholders is 1 million euros above 2016 linked to the evolution of the stock markets.

BNP Paribas Cardif Schadeverzekeringen

The invested assets for BNP Paribas Cardif Schadeverzekeringen are split into bonds and investment funds. The bonds are valued at amortised cost price in statutory accounts, and investment funds are valued at market value. Investment funds (68.5 million euros) consist of equity funds (42 million euros) and bond funds (26.5 million euros). The value of the investment funds decreased by 4.1 million euros to 68.5 million euros, due to the evolution of the stock markets and sellings along the year to decrease the Beta exposure. The book value of the bond portfolio decreased by 42.5 million euros to 344 million euros in 2017, mainly due to the run-off of the portfolio.

The result on investments in statutory accounts is as follows:

Result on investments	Average investments 2017	Income and expenses 2017	Unrealized change in valuation 2017	Realized change in valuation 2017	Total result on investment 2017	Total result on investment 2016
Shares and other non fixed-interest securities	70.587	111	3.216	-	3.327	3.566
Bonds and other fixed-interest securities	365.030	10.805	(274)	6.525	17.056	16.973
Other investments and cash at bank	987	13	-	(4)	9	586
Total	436.604	10.929	2.942	6.521	20.392	21.125

The result on investments in 2017 decreased by 0.7 million euros to 20.4 million euros compared to 2016. The decrease is mainly due to a reduction of the recurrent revenues of the portfolio link to the sellings of assets since 2016. This is compensated by realised gains in 2017 while selling assets.

A.4 Performance other activities

There are no other activities.

A.5 Any other information

Products – BNP Paribas Cardif Levensverzekeringen

Life Care Overlijdensrisicoverzekering

Due to changed market conditions and a less favourable portfolio mix, we stopped selling our Life Care Overlijdensrisicoverzekering (LCO). Existing contracts are respected in accordance with the policy conditions. After-sales mutations are still possible. A renewed proposition for term life is planned for 2018.

Products – BNP Paribas Cardif Schadeverzekeringen

Launch Hypotheek Aflos Verzekering

2017 was the year of the launch of the Hypotheek Aflos Verzekering. Based on the market changes we have seen in past years, we began creating the foundation for the next step in payment protection. With our own experience combined with feedback from our stakeholders (clients, partners, supervisor etc.), we developed a totally new proposition in which convenience and simplicity are the key elements. The Hypotheek Aflos Verzekering was introduced at the beginning of 2017. For us this meant a total comeback from scratch in the market of payment protection.

We started the roll-out through a selected number of distribution partners. That way, we could train them intensively and monitor their feedback closely. To support the roll-out, we developed several communication means. For example a flyer, animated videos, sales presentations, newsletters and premium examples. We also did advertisement and banner campaigns through different broker media and were present on relevant events. Lastly, we had a number of interviews with broker magazines, to explain the market circumstances and the effects it has had on the development of our new product.

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As mentioned before, we are working hard on speeding up change in the distribution processes and their behaviour. We chose for a clearly different positioning of our product than was seen before in the market, which makes it hard to fit in the current flow of advice. We keep asking attention for the risk of obstructing innovation due to the ban on commission. And we stay focused on emphasizing the relevance of covering risks like disability and unemployment.

To achieve our goals, we work closely together with our distribution partners and find specific new routes through which each partner can integrate their advice on our coverages in a logical and easy to understand way. At our request, we had our relaunch of payment protection, including our market approach, evaluated by a consulting agency. They confirmed our findings concerning our existing challenges and provided us with valuable feedback which we will use for our ambitious plans in 2018.

The launch of the Hypotheek Aflos Verzekering was the first step of our full relaunch. We will continue with making this successful and in the meantime, preparing for the launch of new propositions for term life and consumer credit protection.

Surety ships

Our surety ships were very successful in 2017, due to the market circumstances on the one hand, and the expansion of our points of sale on the other. Surety ships will also have our focus and attention in 2018.

Distribution

The market circumstances around payment protection products have changed drastically in recent years. That was one of the reasons for taking payment protection to the next level with our new product, the Hypotheek Aflos Verzekering. Together with the launch of this new product, we also made important distribution decisions. We chose to reduce the number of business partners drastically. We have two main reasons for this impactful choice. On the one hand, we chose to create a product that is directly linked to the mortgage advice, we focused on business partners that have a certain volume. On the other hand, we want to guarantee quality and live up to the standards and regulations on chain control from both the regulator and BNP Paribas itself, which may be achieved better by focusing on a limited number of business partners.

Customer Centric

Customer Centric Programme

Initiatives focused on improving customer centricity are organised in the Customer Centric Programme (CCP) within BNP Paribas Cardif Group. The CCP is a comprehensive programme, offering local companies the opportunity to specify the customer-centricity aspects step by step.

Embedding Customer Centricity

Within the international organisation BNP Paribas Cardif NL has remained the pioneer in terms of customer centricity within the organisation. Compliance with the requirements we impose on ourselves in this area, in combination with the mandatory standards of both AFM and Stichting toetsing verzekeraars (Stv), ensures an optimal customer experience.

To ensure that the Board has optimal information on the status of the various aspects of customer centricity, we defined high-level department KPIs in the context of this topic. These KPIs are reported quarterly to the Executive Board. Additionally, each Management Team appointed a 'KKV representative' (Customer Centric Insurance Certificate), designed to ensure continuous monitoring of the KKV standards within their focal area.

Themed assessments

Since 2015, Stichting toetsing verzekeraars (Stv) has assessed all certificate holders on pre-determined themes, reviewing various certification requirements. After three years, all seventeen certification standards and the three performance areas have been assessed. The benefit of themed audits is in gaining a reliable insight into our own performance on a certain theme, enabling us to benchmark it against the performance of other insurers.

All three audited themes were applicable to us in 2017. We began with our death cover in the fourth quarter of 2016 and the first quarter of 2017. Fraud was assessed in the second quarter of 2017. The final theme was Quality, Client satisfaction surveys & Internal control in the third quarter. The results of assessed themes were satisfactory. The recommendations received from Stv were implemented where possible. With the audits on the last three themes in 2017, the assessment cycle has been successfully completed, which results in the preservation of the hallmark for the coming period.

Corporate Social Responsibility

General

An active Corporate Social Responsibility (CSR) policy is one of the key strategic points of attention within the BNP Paribas Group. The scope of the national and international sustainability programmes was extended further in the past year.

Financial education; active involvement in the classroom

Within BNP Paribas Cardif NL, the CSR policy has focused mainly on involvement in society in recent years, which is one of the pillars of the BNP Paribas CSR philosophy. Financial education holds a central position, being the main sponsor of Stichting Leven en Financiën (LEF, or Life and Finance Foundation). We actively communicated the LEF programme, the youth education project initiated by the financial sector, to make young people between ages 16 and 22 more financially aware. Several employees of various departments were trained as guest teachers, and volunteered to present guest lessons at ROC schools. Several employees also participated in the 'Fix je risk' initiative of the Association of Insurers during 'De week van het geld'. They presented an insurance lesson to elementary schools.

North Sea Jazz

BNP Paribas NL has been supporting jazz in all its forms for over twenty years. This includes supporting jazz musicians building their careers through its Foundation, as well as sponsoring several festivals and awards. In the past seven years, BNP Paribas has supported jazz by sponsoring the North Sea Jazz event. Sponsorship is focused on putting children in touch with jazz, and supporting jazz talent. 2017 was the final year of this sponsoring initiative. We will focus on finding a new suitable initiative in 2018.

Social Responsible Investments

A Social Responsible Investment (SRI) policy for new investments has been implemented and is continuously upgraded. The objective is to improve the SRI performance for each portfolio on each asset class, while maintaining the financial performance. Based on equal fundamental and perspectives, the best noted issuer by Vigéo (European leading agency in the SRI notation of companies) is selected.

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The SRI policy for equity mutual funds is to invest at least 20% of the equity exposure in SRI mutual funds. BNP Paribas Cardif NL has invested in two SRI mutual funds (Camdriam Sustainable World and BNP Paribas Aqua), which were selected from a database of SRI funds based on several financial indicators. BNP Paribas Aqua is a thematic fund investing in international companies which have business related to water. Candriam Sustainable World invests in a diversified portfolio of global companies with a strong positioning in sustainable development issues selected based on Best-in-Class analysis.

The selection of new investments in sovereign bonds is based on an ESG (Environmental, Social and Governance) rating determined by the Vigeo criteria Environmental responsibility, Institutional responsibility and Social responsibility & Solidarity. The Asset Manager is required in his mandate to favour the States having ratified the main international treaties on respect, protection & promotion of human and labour rights.

The selection of new investments in corporate bonds is also based on an ESG rating determined by the Vigeo criteria Human rights, Community Involvement, Environment, Governance, Business Behaviour and Human resources.

BNP Paribas Cardif NL has invested in green bonds. Those are bonds for which the issued amount is used for segregated and dedicated environmental investments projects like wind, solar, biomass, geothermal or energy efficiency. BNP Paribas Cardif NL has five green bonds in the portfolio at the end of 2017. Stockland bonds invested the issued amount in sustainable building projects. With the raised amount of green bonds GDF Suez helps to finance projects dedicated to the development of renewable energy and energy efficiency measures. Région Île de France invests in energy efficient projects in public transportation, rehabilitation of real estate and renewable energies.

B. Governance system

B.1 General information on the governance system

We have a two-tier board: a Board of Directors and a Supervisory Board.

The Executive committee manages the daily activities of both companies. The Executive Committee has 5 members per the end of 2017 including the three members of the Board of Directors:

- ❖ Mr C. de Jong
- ❖ Mr M.R.E. Harkema (to 1 July 2017)
- ❖ Mr W. Eikelboom (from 1 July 2017)
- ❖ Mrs M. van Zuien
- ❖ Mr L.P.J. Kasper
- ❖ Mr A.G. de Meij
- ❖ Mr A. Rajabaly (to 1 september 2017)

CCO M. van Zuien joined the Statutory Board on 19 May 2017. With her appointment, the Statutory Board consists of three members, which optimizes stability of the Board, creates diversity to give the new business her distinctive power, leads to an odd number and thus always a majority in decision making and assures a more prominent role for client centricity.

W. Eikelboom replaced M.R.E. Harkema as interim CFO from July. He joined the Board of Directors on 1 July 2017. He is primarily responsible for Finance and Risk.

As of 1 September Mr. A. Rajabally (CRO) left the local organisation to fulfil the CRO function elsewhere in the BNP Paribas Cardif Group.

Solvency II Governance and Key Functions

European insurance companies will have to meet a large number of new requirements with the introduction of Solvency II. Apart from the quantitative requirements in the first pillar and mandatory disclosure in the third, the second pillar contains extensive requirements relating to the way insurers structure their businesses and organisations. Section 41 of the Solvency II Directive stipulates that these companies must have an effective system of governance in place to ensure sound and prudent management of their business. Although this requirement and other provisions will not change the current governance system fundamentally, additional requirements will have to be met.

Solvency II requires insurance companies to have at least the following four key functions in place:

- ❖ Risk Management Function
- ❖ Compliance Function
- ❖ Internal Audit Function
- ❖ Actuarial Function

The responsibilities, resources, reporting and escalation lines and other main organisational aspects of these key functions are described in their respective charters that are updated regularly. All key functions are available within our organisation and are occupied by our own employees, except for the Internal Audit Function, which is outsourced within the BNP Paribas Group. Independency and objectivity are guaranteed because of the outsourcing, and by the reporting of the Internal Audit Function to the Audit Committee in the Supervisory Boards.

Vertical Integration Legal and Compliance

BNP Paribas Group has chosen to organise some of its functions decentral to be better fit to deal with the complex surrounding of all the activities worldwide. The compliance Function, the Legal Function and the Risk Management Function are organized according to the key principles independence, integration and decentralisation. They have an additional hierarchical link (in addition to the existing hierarchical link) within the function itself ensuring a high level of independence.

B.2 Fit and proper requirements

Remuneration and personnel policy

Staffing

In 2017 the staffing levels have decreased from 119.78 FTE on 1 January 2017 to 107.43 FTE on 31 December 2017. As per 31 December 2017, the team consisted of 58 female and 60 male employees. The Board consists of three members, two male and one female. The sick leave increased to 5.06% (previous year 4.89%).

Training and education

Per January 2017 we switched to a new external Occupational Health and Safety Agency. They have provided a training for all managers (consisting of one hole day and a follow-up for half a day five months later) about the new sick-leave protocol, legal rules, practical guidelines and exercises for dealing with sick employees and tips for prevention.

The sales department attended a training for one day as a follow-up of the course 'Inzicht in invloed'. Also a PE programme was further continued at Nyenrode for the group of key officers. And an e-learning was organized for Dutch language, mainly to improve the written communication. Additionally, various individual courses, trainings and programs were started.

Employee satisfaction survey

In May 2017, the annual Global People Survey (GPS) of BNP Paribas Group took place. The participation rate was 74%, which was slightly lower than the 78% of 2016. During 2017 the implementation of the action plan as part of the 2016 GPS was continued. In the fourth quarter we prepared the 2017 GPS Action Plan; further rollout will follow in 2018.

Remuneration Identified Staff

During 2017, two meetings of the Remuneration Committee were convened. The 2017 remuneration report is available in the Appendix to the Annual Report on the website.

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Remuneration Policy

We have a remuneration policy based on function- and salary house, for which we use the Hay-methodology. Each job profile is linked to a salary-scale with a minimum and maximum level.

The fixed remuneration consists of a fixed monthly salary completed with fixed remuneration components such as holiday allowance and a 13th month. For certain positions a variable remuneration of maximum 20% is applicable. In 2017 the total amount of paid out bonuses is 326 thousand euros.

Fit and proper requirements

BNP Paribas Cardif NL has an explicit policy regarding our key personnel being fit and proper. The policy is in line with both the Solvency II requirements and Dutch law (Wet op het financieel toezicht). The policy is applicable to all members of the Supervisory Boards, the Boards of Directors, the other members of the Executive Committee, the Head of Human Resources Management, and the holders of the so-called Key Functions; Actuarial, Compliance, Risk Management Function and Internal Audit Function. The Internal Audit Function is outsourced to the Internal Audit department of BNP Paribas Group. The Internal Audit Guide and the Outsourcing Policy govern that the Internal Audit Function is in compliance with the policies of BNP Paribas Cardif NL, including the Fit & Proper policy.

The required fitness is defined for each role of key personnel; by taking into account the tasks and responsibilities of the role, the nature, scale, complexity of the risk inherent in the business of the company, and the overall composition of the relevant board. The requirements relate to knowledge, competences and professional behaviour. The individuals should be able to demonstrate their relevant knowledge, diplomas, experience and competences. In addition to its own assessment, BNP Paribas Cardif NL also relies on external expertise in assessing the fitness of a person both for external and internal recruitments.

The individuals will be required to take the oath. The purpose of this moral ethical declaration is to stress the responsibility these persons have in respect of the integrity of the business and the duty of care the company has to society in general and to its clients in particular.

The 'properness' of all personnel is assessed before recruitment. Extra attention is given to the 'properness' of key personnel. This 'properness' should be beyond doubt, and will be assessed based on the intentions, the behaviour and the antecedents of the persons concerned. In addition to its own assessment, BNP Paribas Cardif NL relies on an external agency for pre-assessment of the individuals' 'properness'.

B.3 Risk management framework and risk governance system

This section offers a global view of the framework of risk management within BNP Paribas Cardif NL.

The risk management principles, risk management bodies, risk governance sets and risk management teams are applied jointly over all legal entities, and only deviate from the legal entities in certain specific risks.

Risk Management Framework

As BNP Paribas Cardif NL is part of BNP Paribas Cardif Group, its policies and procedures for establishing and maintaining adequate internal control are the local interpretation of those applied by BNP Paribas Cardif Group for its risk management.

The risk management framework is designed under the supervision of the Chief Financial Officer and the Chief Risk Officer, to provide reasonable assurance regarding the identification, measurement, hedging, transfer and management of the risks. They also guarantee good compliance with the Solvency II guidelines related to the governance system.

The ultimate goal for risk management is to provide sound and prudent management for the organisation. The primary responsibility for local risk management lies with the managers of BNP Paribas Cardif NL who make risk-taking decisions. Risk management is the responsibility of all employees in their daily business activities. They are the first lines of defence. They operate within a defined risk appetite and a certain delegation. They have monitoring and reporting obligations.

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A rigorous approach to risk management is essential for guaranteeing the solvency, the business continuation and the development of BNP Paribas Cardif NL, in optimised conditions of risk and profitability, in line with a defined risk appetite.

The management of BNP Paribas Cardif NL considers that effective risk management is a key competitive advantage. The risk management system of BNP Paribas Cardif NL is built from the following elements:

- ❖ Defined risk categories:
 - Financial risk (covering market risk, underwriting risk and credit risk)
 - Operational risk
 - Compliance risk
- ❖ A risk management organisation with:
 - Responsible boards: supervisory and management boards (refer to the next charts)
 - Risk functions, including mandatory key functions as stated in Solvency II: Key functions are the risk management function and the Actuarial Function, guaranteed by the Chief Financial Officer. The compliance functions are guaranteed by the compliance officer. These functions are internal to BNP Paribas Cardif NL. The audit function is relying on the general inspection of BNP Paribas Group and guaranteed by the CEO.
- ❖ Risk-related documents (governances, policies) as presented in the chart below: the risk management organisation is defined and documented for all risk families, and is the translation of BNP Paribas Group governance and risk policies into the Dutch business, covering:
 - Actuarial Governance
 - ALM Governance
 - Credit Governance

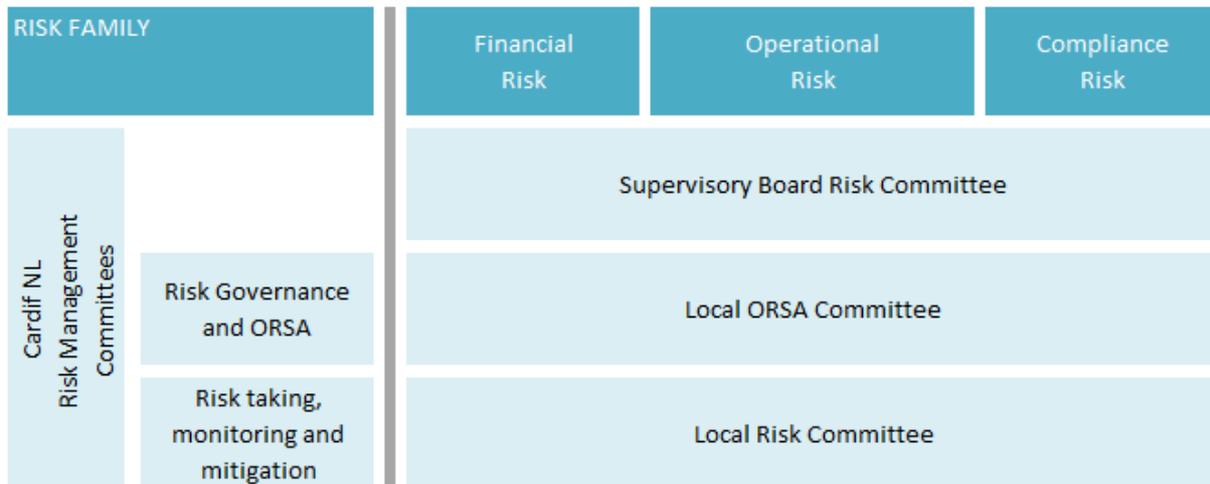
- Operational Permanent Control Governance
- Compliance Governance
- Outsourcing Governance
- Internal Audit Governance

The overview of all policies and governances is shared below:

Local Risk Governance Principles	Governance manual	Investment policy
Risk management charter	Capital management policy	Reinsurance policy
Compliance charter	Fit & Proper policy	Data quality policy
Actuarial charter	Remuneration policy	Reporting policy
Audit Guide	ORSA policy	Actuarial, ALM and Credit governance
	Business Continuity plan	Outsourcing policy

Risk registers at two levels: a risk register at company level built and owned by senior management, covering all major risk categories, and a risk register for each department built and owned by managers, covering operational risks in department processes.

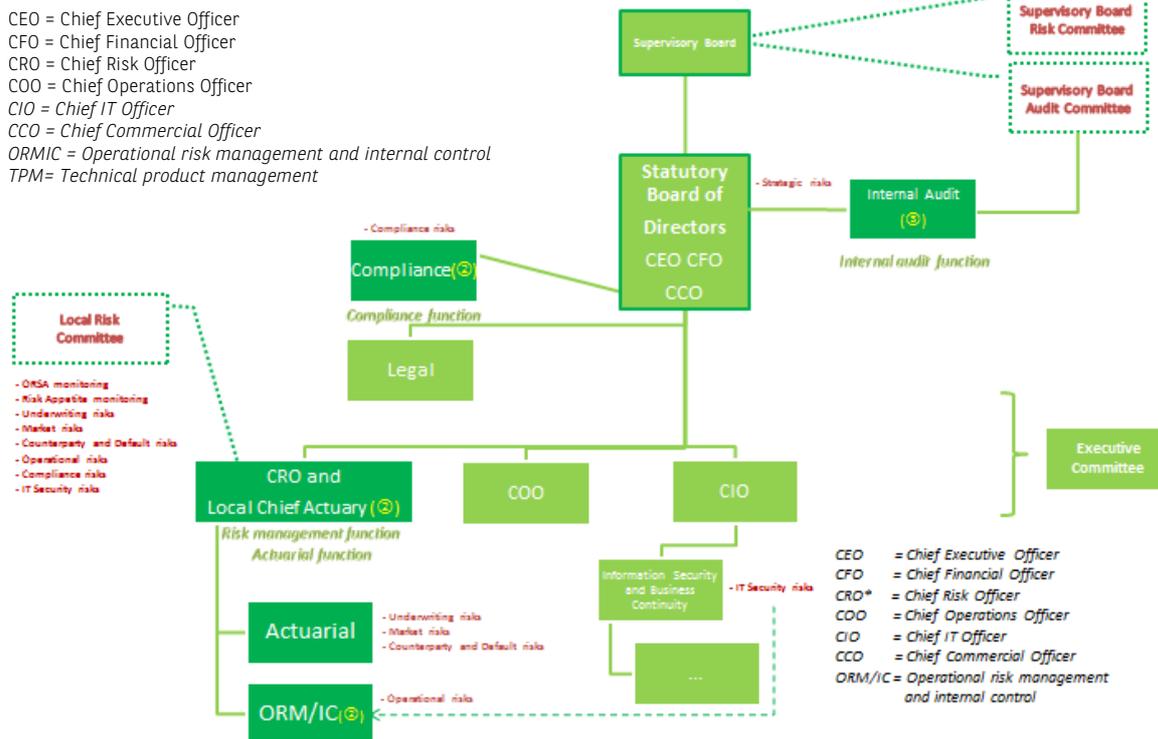
- ❖ An Own Risk and Solvency Assessment (ORSA) with a risk strategy based on risk appetite statement(s).
- ❖ Risk committees have been defined for both risk-taking, like new products or new activities, and risk-monitoring. Both are organised in monthly risk committee meetings. The Risk Committee of the Supervisory Board occurs with the same frequency as the meetings of the Supervisory Board, chaired by a member of the Supervisory Board.



Note that the within Financial risk, Credit Risk is split between Liabilities and Assets. In the Solvency II framework, these risks are captured by different modules of the Standard Formula. BNP Paribas Cardif NL applies the Standard Formula. The Credit Risk on Liabilities is the counterparty default risk in the Standard Formula. The Credit Risk on Assets is further split between the spread risk on bonds and the counterparty default risk on cash and deposits in the Standard Formula.

The chart below provides a comprehensive view of the risk management system, with boards, departments, committees and risk families. The Board of Directors includes the CEO, CFO and CCO.

Synthesis of the Risk Management System:



Note to the chart above:

- ❖ Dark green boxes present risk functions
- ❖ Ownership of risks by function is in red
- ❖ Dotted green frames represent risk committees and associated owners and risk families
- ❖ 2 and 3 represent lines of defence
- ❖ Key functions are mentioned in green italic. Some portfolios can be under the responsibility of the same person

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The organisational structure above presents the overall structure of BNP Paribas Cardif NL, with the Supervisory Board and the management levels: the statutory Board of Directors and extended Executive Committee, where all portfolios are represented. Note that some portfolios can be under the responsibility of the same person.

B.4 Internal control system

Control processes

Control processes can be analysed from different points of view:

- ❖ Control of risk/Control of governance processes
- ❖ Control of the global risk governance/Control of each specific governance
- ❖ Control of operational risk/Control of non-operational risk
- ❖ Control at corporate level/Control at local level

Internal Control Framework

Internal Control Objectives

BNP Paribas Cardif Group's Internal Control Objectives are presented in the Corporate Risk Governance Principles document. Internal Control is the overall framework which aims at controlling the enterprise risk while seeking to achieve strategic objectives. This system aims at ensuring:

- ❖ The effectiveness and efficiency of internal operations
- ❖ The reliability of internal and external information
- ❖ The security of transactions
- ❖ The compliance with laws, regulations and internal policies

Internal Control Processes Scope

BNP Paribas Cardif Group's Internal Control Processes Scope is presented in the Corporate Risk Governance Principles. The scope of internal control processes covers all activities for which BNP Paribas Cardif Group is responsible.

Consequently, it includes:

- ❖ All activities carried out by all departments of BNP Paribas Cardif, at corporate and local levels.
- ❖ All activities for which BNP Paribas Cardif is responsible and which are delegated to an external entity from BNP Paribas Cardif (either internal or external from BNP Paribas Group).
- ❖ Internal Control Processes Principles.
- ❖ BNP Paribas Cardif Group's Internal Control Processes Principles are presented in the Corporate Risk.

Internal control process principles

The internal control processes of BNP Paribas Cardif NL are based on the following principles:

- ❖ Internal Control is in line with the policies and directives of BNP Paribas Group on internal control.
- ❖ Internal control processes are reviewed constantly and are challenged regularly, to ensure continuous improvement.

Internal Control Typology

BNP Paribas Cardif Group's Internal Control Typology is presented in the Corporate Risk Governance Principles. Internal control is composed of Permanent Control and Periodic Control. These two controls are complementary, but are separated and independent from each other.

B.5 Internal Audit Function

The Internal Audit Function is outsourced within the BNP Paribas Group. Independence and objectivity are guaranteed because of the outsourcing, and by the reporting of the Internal Audit Function to the Audit Committee in the Supervisory Boards. The audit plan of the Internal Audit Function is determined in the Audit Committee. Audit objectives are defined from a risk perspective. Reporting on the execution of the audits is discussed in the Audit Committee as well as the follow-up on recommendations.

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B.6 Actuarial Function

Article 48 of the Solvency II Directive sets a minimum level of tasks to be performed by the Actuarial Function of the company:

- ❖ Coordinate the calculation of technical provisions.
- ❖ Inform the Administrative, Management and Supervisory Body (AMSB) of the reliability and adequacy of the calculation of the technical provisions.
- ❖ Express an opinion on the overall underwriting policy and on the reinsurance arrangements.
- ❖ Contribute to the risk management system.

The Actuarial Function is neither necessarily an organisational unit, nor a specific person or group of people, but rather a regulatory 'function' which conducts the list of tasks specified in Article 48.

For BNP Paribas Cardif NL, the organisation of the Actuarial Function relies on the following principles:

- ❖ The Actuarial Function is internal to BNP Paribas Cardif NL.
- ❖ The Actuarial Function-holder is the Chief Risk Officer (CRO).
- ❖ The Actuarial Function-holder will request the support of an external actuarial consultant to review the work of the first-line actuaries and to perform detailed validation work on technical provisions construction (model, assumption, data, outcome), with a focus on Solvency II.
- ❖ The support of the external actuary will be comparable to the work performed as an appointed actuary.
- ❖ The Actuarial Function Report (AFR) will be a master document, collecting a comprehensive analysis of the year-end technical closing, in statutory accounting and Solvency II, enriched with the opinion of the external actuary on the reviewed scope.

- ❖ The external actuary will also express an opinion on the ORSA report.
- ❖ The underwriting and reinsurance policies are reviewed internally and are not subject to an additional review by the external actuary.

The other measures for the independence of the Actuarial Function are:

The CRO is responsible for both the Actuarial Function and the Risk Management Function. The manager of the actuarial department reports to the CRO. To ensure the independent role of the Actuarial Function, BNP Paribas Cardif NL has taken the following measures:

- ❖ The Actuarial Function has a formal status, and the roles and responsibilities are those as described in the Internal Actuarial Function charter.
- ❖ The position in the organisation does not lead to any conflicts of interest, and the function can be executed independently (i.e. without influence of other key functions like the Risk Management Function).
- ❖ The Actuarial Function is separated from operational first-line actuarial activities within the organisation.
- ❖ The representatives of the Actuarial Function have the authority to escalate to the Board of Directors at their own initiative.
- ❖ The Actuarial Function can escalate to the Audit and Risk Committees of the Supervisory Board, if differences of opinion arise between the Actuarial Function and the Board of Directors.

When the Actuarial Function is requested to execute tasks that are not described in the Charter, the Board of Directors decides whether such tasks lead to conflict of interests. Should there be a conflict of interests; the Board will not give permission to proceed with these activities without any additional measures, possibly by outsourcing the activities involved.

The appointment of persons carrying out responsibilities of the Actuarial Function requires the approval of the Board of Directors.

B.7 Outsourcing

The rules applying to an outsourced operational or functional activity are laid down in the BNP Paribas Cardif Group Outsourcing Policy. The policy incorporates the requirements of the Solvency II regulatory framework imposed on the insurance industry, as well as the regulatory changes known to date.

The control framework must be proportionate to the nature, size and complexity of the outsourced activity, as well as to the associated risks. This assessment will be conducted by expert functions in each of the areas including Security, Continuity and Controls. The aspects of risk management in outsourcing projects encompass mainly:

- ❖ The regulatory due diligence
- ❖ The risk approach

These two critical aspects are to be analysed and monitored during the various phases of an outsourcing project. The regulatory due diligence and risk analysis can lead to:

- ❖ Additional requirements in the project specifications.
- ❖ The definition of the applicable control framework.
- ❖ Taking the internal control system of the provider into account when it is a regulated institution, therefore subject to the same constraints and regulatory requirements as BNP Paribas Cardif NL.

A body dedicated to the monitoring and control of the risks associated to Outsourcing has been set up at the corporate and local levels to meet the regulatory and BNP Paribas Group Governance requirements, and reviews the risk analyses prepared for any outsourcing project.

The relationship with the service provider must be subject to a formal agreement. This agreement aims to manage this liaison for both the legal and regulatory aspects, as well as for operational aspects. This monitoring is performed by the contract manager who will lead the relationship with the internal client(s) and will, if needed, get the expert function(s) to intervene for the issues encountered.

As BNP Paribas Cardif NL remains accountable for controlling its risks, including in case of activity outsourcing, the risk analyses are to be reviewed regularly and in case of significant evolutions.

In 2017 BNP Paribas Cardif NL had outsourced the Internal Audit Function, its asset management and the related custody and back office activities all within the BNP Paribas Group.

C. Risk profile

Risk management is an essential part of the business of BNP Paribas Cardif NL. It enables us to steer the company based on four performance indicators: annual result, value creation, required capital and operational risks. Continuous monitoring of these indicators and the annual Own Risk and Solvency Assessment (ORSA) allow the company to assess the exposure to risks and take management actions when warranted.

BNP Paribas Cardif NL is mainly sensitive to market risk and underwriting risk. The market risk is high because of significant assets held due to a historical portfolio, which was in single premiums, and exacerbated due to the current level of interest rates that generate a material amount of unrealised gains. The underwriting risk is linked to future mortality for BNP Paribas Cardif Levensverzekeringen and disability rates for BNP Paribas Cardif Schadeverzekeringen, which are the main drivers of the Life and Disability liabilities in the portfolio.

We manage the market risk through regular asset liability management (ALM) studies. These studies limit the exposure to interest rate risk by duration matching, and advice on the level of spread and equity risk to be taken within the risk profile limits set. Concentration risks – both on company, industry, and geography level – are managed in monthly asset management committees. We do not use complex financial instruments, such as derivatives or swaps, to manage the market risk.

We manage the underwriting risk through product development and reinsurance. The Life risk is partly reinsured in BNP Paribas Cardif Levensverzekeringen, and the Disability risk is partly reinsured in BNP Paribas Cardif Schadeverzekeringen. We do not use other risk limiting techniques, such as special purpose vehicles.

The above risks can be deduced from the absolute and relative contribution of each risk module to the company's capital requirement (SCR). We use the Standard Formula, and don't use a (partial) internal model. However, the risk profile has modelling limits. For instance, non-quantifiable risks are not included (for example operational risks).

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These limits are addressed with another risk identification exercise: the risk register from which are derived the major risks as perceived by the Executive Board Risk Committee. The identification results in a list of major risks which are the main surveillance areas for the Executive Board:

- | | | |
|---|---|----------------------|
| ❖ <i>Disability</i> | ❖ <i>Product development</i> | ❖ <i>Information</i> |
| ❖ <i>Interest rate risk</i> | ❖ <i>Staff/ Human Resources</i> | ❖ <i>Costs</i> |
| ❖ <i>Price volatility</i> | ❖ <i>Security</i> | ❖ <i>Compliance</i> |
| ❖ <i>(Pre)acceptance/
transaction</i> | ❖ <i>Enforceability of contracts
and contract liability</i> | |

The highest risks are subject to specific monitoring by the Executive Committee. The top risks are summarised in risk cards, monitored during monthly risk committees and measured in stress tests. Management actions have been defined in anticipation in case of emergence of these risks.

From the above information, a prospective risk profile is built over the budget horizon of four years. We use deterministic scenarios to assess the impact of adverse events and evolutions on the risk profile. The building of the risk profile results in a risk appetite declaration on what is the acceptable level for the quantitative risk metrics. The risk appetite is not an absolute cap on the risk profile but a level over which risk management actions become a high priority to get back under the risk appetite. Our risk management framework includes a risk preference statement.

The risk preference statements of the company have been set since 2014 and are confirmed in the most recent ORSA:

- ❖ Statement 1: "BNP Paribas Cardif NL is able to accept the current risk profile".
- ❖ Statement 2: "but BNP Paribas Cardif NL wishes to de-risk progressively..."
- ❖ Statement 3: "... to make the company ready for new risk-takings".

Derisking measures have been important in the last years, in compliance with statement 2. For the next three years statement 3 (the relaunch strategy) will become more important, in relation to have statement 1 and 2 under control.

BNP Paribas Cardif Levensverzekeringen

Contribution to SCR	2017	2016
Market	24%	20%
Counterparty Default	2%	2%
Life Underwriting	72%	75%
Health Underwriting	0%	0%
Non-Life Underwriting	0%	0%
Operational	2%	3%
Intangible Asset	0%	0%
SCR	34,106	37,615

The proportion among risk modules is stable compared to the previous year. The evolution of the SCR shows a decrease due to the run-off nature of the in force portfolio.

Life underwriting risks correspond to the term life portfolio where mortality, lapse and expense shock are similar in size.

The proportion of market risk is relatively high for portfolios that consist mostly of protection products; however, it is consistent with the asset size inherited from the single premium portfolio. Interest, spread and equity shocks are equally high: interest risk driven by the current low level, spread risk due to the high share of corporate bonds in the portfolio, and equity due to the perceived risk. These risks are part of the major risks.

BNP Paribas Cardif Schadeverzekeringen

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Contribution to SCR	2017	2016
Market	28%	26%
Counterparty Default	0%	0%
Life Underwriting	0%	0%
Health Underwriting	50%	51%
Non-Life Underwriting	20%	22%
Operational	1%	1%
Intangible Asset	0%	0%
SCR	74,094	80,598

The proportion among risk modules is stable compared to former years. The evolution of the SCR shows a decrease due to the run-off nature of the in force portfolio.

Health underwriting risks correspond to the disability portfolio. The disability shock is 89% of the module's total. Non-Life underwriting risks correspond to unemployment; where premium and reserve shocks represent 93% of the module's total.

The proportion of market risk is relatively high for portfolios that consist mostly of protection products; however, it is consistent with the asset size inherited from the single premium portfolio. Interest, spread and equity shocks are equally high: interest risk driven by the current low level, spread risk due to the high share of corporate bonds in the portfolio, and equity due to the perceived risk. These risks are part of the major risks.

C.1 Underwriting risk

The underwriting risks are managed within the actuarial governance. The actuarial governance of BNP Paribas Group provides the overall framework for risk taking, risk mitigating and risk monitoring. The local actuarial governance of BNP Paribas Cardif NL is a translation of BNP Paribas Group's framework, taking into account local market specificities and local expertise and experience to underwrite risks, under the local risk appetite definition.

Underwriting risks are monitored on a frequent basis as set out in internal risk management governance. Reports are made frequently to risk management committees in charge of monitoring the evolution of risk indicators and profitability indicators. The underwriting profit is monitored in both statutory and Solvency II closing form, where an excess of assets over best estimate provisions with risk margin gives comfort in the adequacy of technical provisions.

The accuracy of the risk monitoring system and reservation policy is evaluated by the Actuarial Function supported by an external independent actuary and the auditors.

C.2 Market risk

Market risk has a relatively high share in the risk profile due to the dominance of past Single Premium products in the balance sheet. This proportion in the risk profile is decreasing along with the exposure in Single Premium policies. The market risk is composed of interest rate risk, equity risk, spread risk, currency risk, property risk and concentration risk.

The interest rates risk reflects the sensitivity of the value of assets, liabilities and financial instruments to changes in terms of the structure of interest rates, or in their volatility. It is measured by the impact of upward and downward shocks.

Sensitivity to market and credit risks is relatively high on the value of assets of the company in the current financial market situation, where very low interest rates increased the market value of bonds in general. The up-shock dominates. The proportion of the interest rates risk has decreased since 2015.

The equity risk reflects the impact of change in equity prices, which impacts direct equity exposure and loss of fees (measured by the impact of downwards shock for EEA and OCDE equities and for the other equities). The level of shocks on this sub-module results in a relatively high weight while equity represents 8% of the assets.

The spread risk reflects the impact of an increase in credit spreads on investments in fixed-income securities, offset by movements in the premiums or on the liabilities. On spread risk, the sensitivity is high because of the high proportion of corporate bonds (46% of bonds). The shock is a negative function of rating.

The currency risk is immaterial. The property risk is absent. The concentration risk is limited and is almost completely diversified within the portfolio.

To manage market risks, an ALM policy is defined in coordination with BNP Paribas Group ALM governance and BNP Paribas Group's governance on market risk monitoring. A comprehensive ALM study is performed at least every three years and results in an investment framework for the asset managers. The transformation from Single Premium production into Regular Premiums production requires close monitoring of the cash flows.

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The latest ALM study reviewed the following elements:

- ❖ Life and Non-Life were previously managed using the same modified duration. They will now be managed using distinct modified duration based on the respective liability profiles for Life and Non-Life.
- ❖ The contractual liabilities are matched with a replicating portfolio, while the rest is considered as free assets and has fewer constraints.
- ❖ Solvency II results in a link between asset allocation and capital requirements. Therefore the study is based on the Solvency II framework.
- ❖ The study is based on risk appetite quantitative metrics.

The management of investments is outsourced to BNP Paribas Asset Management, a BNP Paribas Group company, which is mainly in charge of selecting investments and managing the portfolio's assets in accordance with restrictions set out in the investment policy. The following constraints are given to the asset manager to manage the risks related to the investment portfolio:

- ❖ Asset duration
- ❖ Portfolio composition
- ❖ Equity proportion
- ❖ Ratings limits.

Limits are monitored monthly in the Asset Management Committee. The performance and composition of the portfolio by sector and location is monitored and discussed with the asset manager each quarter.

C.3 Credit risk

The credit (or counterparty default) risk reflects the possible losses due to unexpected default or deterioration in the credit standing of the counter parties. This risk can be present within the investments, for instance as spread risk, or with intermediaries and reinsurers.

The 'counterparty default risk not related to investments' are present in receivables and technical provisions. The company has limited exposure to these credit risks, 1% of the risk profile. The Counterparty Default risk consists of two types of exposures. Type 1 exposures that are relevant to BNP Paribas Cardif NL are reinsurance and cash at bank. Type 2 exposures are other receivables on the balance sheets that cannot be allocated to a single name, which includes the credit risk on intermediaries. The credit risk on investments is analysed by BNP Paribas Cardif NL as spread risk.

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Counterparty default risk - Intermediaries

Because our products are sold mainly on a Business-to-Business distribution mode, monitoring the counterparty default risk of intermediaries is a component of our risk management framework, and we follow the counterparty default risk governance defined by BNP Paribas Group.

The counterparty default risk on distributors can arise in the case of:

- ❖ Upfront-payments to our business partners on periodical premiums contracts, where distributors must pay back a portion of the received commissions in case the customers surrender. This conditional debt of distributors creates a counterparty default risk for us.
- ❖ A surrender on single premiums contracts. We will pay a contractual surrender value to the customers and distributors must pay back the unearned commissions. This conditional debt of distributors creates a counterparty default risk for us.
- ❖ A delay in the event of premium collection.

The risk of commission claw-backs decreases, because no new commissions have been paid since the ban of commissions as of 1 January 2013. The risk is mitigated by a surrender credit reserve, based on surrender, default and recovery rate assumptions.

The risk is monitored on a quarterly basis. The report monitors the exposure, the credit position of the most important counterparties, and sufficiency of the surrender credit reserve.

Counterparty default risk – Reinsurance

A counterparty default risk on reinsurers arises when reinsurance protections are purchased and premiums and reserves are ceded against a protection running in the future. We are exposed to the risk of bankruptcy of the reinsurer.

Our reinsurance cessions represent a small part of the portfolio. Reinsurance covers are purchased for the following scope: a quota share treaty for the term life covers for BNP Paribas Cardif Levensverzekeringen; a surplus share treaty for the highest insured amounts in disability for BNP Paribas Cardif Schadeverzekeringen. The quota share treaty has a quarterly risk premium payment and no reserve cession. The surplus share treaty is yearly renewable with a clean-cut termination mode and without reserve cessions. The exposure is limited conform the balance sheet.

Moreover, we participate in the National Terrorism Reinsurance scheme (NHT), which itself purchases retrocessions to a pool of reinsurers. The analysis of the credit risk shows that there is no credit risk for us because the liability towards the end customer is limited by what can be received from the NHT.

In selecting reinsurers, we use internal reinsurance or strictly adheres to the security list of the BNP Paribas Group. The security-list contains reinsurers selected for their financial strength and rating.

C.4 Liquidity risk

Liquidity risk is the risk that arises in the event that the organisation is unable to fulfil its short-term financial obligations due to a deficit in cash at bank. We manage this risk by monitoring the cash flow closely in the short and mid-term. Estimated cash receivables and payables are recorded in a cash flow model on a daily basis in order to identify cash needs. Actual cash flow is also recorded in the cash flow model, to analyse differences with estimations and to update the model for the next period. In addition to cash, the asset portfolio of both companies is very liquid. There are few short term liabilities. Therefore the liquidity risk is not of concern to us.

C.5 Operational risk

General

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can arise due to a wide range of different external events ranging from power failures to earthquakes. Similarly, operational risk can arise due to internal events such as failures or inadequacies in any of our processes and systems, or those of our outsourced service providers. Operational risk arising from human resources management may refer to a range of issues such as mismanaged or poorly-trained employees, and fraud. Operational risks differ from other risks in a sense that they are typically not born directly in return for an expected reward; rather, these are part of the natural course of corporate activity.

Operational Risk Management

The aim of Operational Risk Management is not to have risks eliminated from the activities at any cost, but rather to ensure that operational risks are managed appropriately to maximise potential opportunities and minimise the adverse effects of risks.

The Operational Risk Management & Internal Control (ORM/IC) department is responsible for supervision and coordination of the risk management activities, providing advice and guidance, including developing standard templates and tools. The ORM/IC department organises training on the principles of risk management, risk assessment and how to implement risk management effectively. The ORM/IC department applies a comprehensive incident reporting system and maintains information on losses or adverse events when risks are evaluated.

In accordance with the control plan, the ORM/IC department will perform operational risk monitoring activities. At a local level the ORM/IC department has a hierarchical reporting line to the CFO. Within the matrix organisation of BNP Paribas Group, the ORM/IC department has a functional reporting line to the Risk department at BNP Paribas Cardif Group. In 2017 the ORM/IC department improved the efficiency and effectiveness of their activities in incident reporting, risk quantification and monitoring. Overall risk awareness improved in the organisation. In 2018 the process of improving the permanent control framework and the risk awareness within the organisation will continue.

C.6 Other material risks

Compliance Risk

Compliance Risk is the combination of the risk arising from non-compliance of the company's business operations with legislation, regulations or the company's own applicable policy framework, processes and procedures on the one hand, and the risk of integrity of the institution or the financial system being affected as a result of improper or unethical conduct on the part of the organisation, its employees or management, in derogation of legislation, (self-) regulation or self-imposed standards or the standards expected by society on the other hand.

The Compliance Function roles, responsibilities and competences are described in the Compliance Function Charter, which is updated annually. Within BNP Paribas Cardif Group there are three levels of the Compliance Function. These levels are: Insurance Compliance, Regional Compliance and Local Compliance. Insurance Compliance is responsible for the Compliance Function at the insurance group level and has the responsibility for the following areas of attention: market integrity, relation with supervision, privacy, corporate social responsibility, financial security, professional ethics and protection of the customer's interests. To enhance the independence, the Local Compliance function hierarchically reports to the entity's Board of Directors and to the Regional Compliance function. The system also enables better knowledge and capacity distribution.

Further steps were taken in 2017 to increase compliance awareness and strengthening the Compliance Risk ownership of the operational departments.

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Information Security

Our work is based primarily on the trust given to us by our customers. It is therefore vitally important that everyone in the company plays their part in protecting assets from theft, unauthorized use, modification, disclosure or destruction through accidental, intentional or malicious means.

The risks recognized within Information Technology relate to integrity, continuity and assurance of confidentiality of our information provision. The digital interaction with both customers and partners is increasing significantly due to deploying web services, social media and operational outsourcing. This trend is expected to continue in even more 2018. For all related existing and new business initiatives the IT Security Manager is involved in order to identify and mitigate the IT risks, including increasing cyber security risks.

In 2017 Security integration was embedded in partnerships and suppliers by negotiating new contracts and pre-security assessments.

- ❖ BNP Paribas Group projects were deployed related to cyber security among other subjects.
- ❖ The ISO27001 Security Improvement cycle was executed, and the general awareness of Information Security increased.
- ❖ The ISO27001 Certification was renewed.
- ❖ Smart passes were implemented for physical as well as system access.

The initiatives will be continued in 2018. Implementing NIST standards and deploying a BNP Paribas Group program on Cyber Security will also take place in 2018.

Business Continuity

Business Continuity Management is the system of activities that serves to assure the reputation, continuity and safety of our visitors and employees. The continuity of our organization is formed by the sum of all operational business processes. The system of activities of the Business Continuity Management process crosses all business processes, and the activities serving to guarantee that continuity occurs on an organization-wide scale.

A crisis management team exercise for Business Continuity was organized in 2017. In addition to all-around Business Continuity simulation, there was an extensive test with the company emergency response team, IT evacuation and the evacuation of users to the disaster recovery site:

- ❖ Ongoing back-up & recovery tests were performed.
- ❖ The relocation disaster recovery solution and site were tested.
- ❖ The Business Continuity scope was extended by relocation to the BNP Paribas European Data Centre.

In 2017 the Information Continuity Plan (ICP) for all critical applications was tested and results were evaluated. In 2018 BCP and ICP will be tested in combination and with a broader scope.

C.7 Any other information

There is no relevant other information to be reported.

Outlook

Each year we prepare a three year forecast for our company, based on economic, social and market developments. When preparing our forecasts, we structurally use the economic expertise of the BNP Paribas economic research office. Based on this information, we make a prediction of the developments of our portfolio of products and services.

In 2018 Re-launch is our number one priority. We will focus on deepening as well as on widening the full relaunch of our core products. Deepening by finalizing the stable foundation for our Hypotheek Aflos Verzekering, including an optimal straight through process. Widening by creating propositions for term life and consumer credit protection, comparable to the way we created the Hypotheek Aflos Verzekering. Innovation, creativity and close cooperation with our distribution partners will be key in these developments and their success.

We keep monitoring unemployment and disability risks closely. In 2017, again we observed market improvements on both risks. Economic recovery in the Netherlands, in combination with the effects of our Re-mediation measures, resulted in good unemployment and disability figures, visible in both inflows and outflows. We expect this to continue in 2018. We also monitor the figures of term life closely. We see that the life expectancy keeps growing, which is and will continue to be reflected in our product portfolio. With the completion of the Re-mediation pillar, our improved processes are in place. This creates a stable base to have both better controls in terms of risk management, but also in terms of financial performance.

In 2018 we will continue to increase our efficiency, improve control, and offer optimal service to our customers. Investments are allocated to supporting platforms to comply with new laws and regulations, to fulfil the expectations of the operations and to prevent systems from becoming obsolete. Digitalization of processes will improve efficiency and decrease the operating costs. The digitalization steps are combined with increased information security.

Re-fficiency will also remain important when we look at our staff. Our goal for 2018 is to secure the knowledge and experiences that we have internally as much as we can. This will eventually lead to a lower number of external employees. In the current market it is a challenge to attract and keep high quality of staff, so we will have to do everything we can to achieve this. We offer a work place that wants to invest in her employees.

Based on the insights of a recently performed asset liability management study, we will create new investment guidelines. This will lead to an optimization of our risk & return, in a social and responsible manner.

We are looking forward to 2018! It will be a year in which we will keep promoting change in the distribution and fulfill our role as an insurer for a changing world.

D. Valuation for solvency purposes

BNP Paribas Cardif NL is part of the larger banking and insurance group BNP Paribas Group. Next to all applicable laws and regulations BNP Paribas Cardif NL acts in line with BNP Paribas Group instructions, also regarding Solvency II. BNP Paribas Group assured that these Solvency II reporting instructions are in line with Delegated Acts. BNP Paribas Cardif NL relies on this process and the audit of this process at BNP Paribas Group.

D.1 Information about the valuation of assets

Accounting principles financial statements

The financial statements (statutory accounts) of BNP Paribas Cardif NL are based on Dutch GAAP.

Internal controls on the process to produce the Solvency II Day One reporting

In the process of producing the Solvency II reporting several controls are performed in order to assure the quality of reported data.

Reconciliation between statutory accounts and Solvency II

In order to make the reconciliation transparent, BNP Paribas Cardif NL performed a two step approach:

- a) Present the Dutch GAAP figures of the statutory accounts in the reporting model of Solvency II (different reporting model). The level of equity (Own Funds) will remain the same.
- b) Translate the Dutch GAAP (statutory) figures to Solvency II figures (different valuation principles).

a) Present the Dutch GAAP figures of the statutory accounts in the reporting model of Solvency II

Below you will find a table with the reconciliation between reporting model statutory accounts (orange part) and reporting model Solvency accounts (blue part). The valuation principles are the same. Differences are the result of reclassifications and are presented in the column 'reclassifications'. In the column 'Ref. no' you will find a reference number linked to the material reclassifications; below the table the reference numbers are explained in a qualitative way. The reclassifications do not influence the total level of equity (Own Funds).

BNP Paribas Cardif Levensverzekeringen

BNP Paribas Cardif Levensverzekeringen NV			
Amounts in thousand euros - Solvency II account description			
	2017YE	2017YE	2017YE
	Dutch GAAP values in Statutory accounts	Reclassification	Dutch GAAP values in Solvency II model
		Ref. No.	
ASSETS			
Deferred acquisition costs	4.806	-	4.806
Deferred tax assets	-	596	596
Investments (other than assets held for index-linked and unit-linked contracts)	131.852	59.974	191.826
Bonds	105.615	1.648	107.263
Government Bonds	39.329	625	39.954
Corporate Bonds	66.286	1.024	67.310
Collective Investments Undertakings	26.237	-	26.237
Deposits other than cash equivalents	-	58.325	58.325
Assets held for index-linked and unit-linked contracts	191.176	-58.325	132.851
Reinsurance recoverables from:	-	662	662
Life and health similar to life, excluding health and index-linked and unit-linked	-	662	662
Life excluding health and index-linked and unit-linked	-	663	663
Insurance and intermediaries receivables	998	-	998
Reinsurance receivables	522	-	522
Receivables (trade, not insurance)	607	-596	11
Cash and cash equivalents	2.572	-	2.572
Any other assets, not elsewhere shown	1.649	-1.649	-
Total assets	334.183	662	334.845
LIABILITIES			
Technical provisions - life (excluding index-linked and unit-linked)	89.647	58.998	148.645
Technical provisions - life (excluding health and index-linked and unit-linked)	89.647	58.998	148.645
Technical provisions calculated as a whole	89.647	58.998	148.645
Technical provisions - index-linked and unit-linked	191.187	-58.336	132.851
Technical provisions calculated as a whole	191.187	-58.336	132.851
Deferred tax liabilities	-	-	-
Insurance & intermediaries payables	2.068	-	2.068
Reinsurance payables	769	-	769
Payables (trade, not insurance)	868	-	868
Total liabilities	284.540	662	285.202
Excess of assets over liabilities	49.643	-	49.643

The material reclassifications of BNP Paribas Cardif Levensverzekeringen between statutory accounts and Solvency II accounts can be explained as follows:

1. The accrued interest related to bonds (1.6 million euros) are reclassified from 'Accrued interest and rent' to the value of the actual bond (0.6 million euros to 'Government Bonds' and 1.0 million euros to 'Corporate bonds').
2. The investment category in statutory accounts: 'the investment risk is born by policyholders and insurance linked saving deposits' consists of Unit Linked funds and Mortgage Interest Funds (MIF). The MIF can be divided in a part which is linked to a hybrid product (policy holder is allowed to invest partly in UL and partly in MIF) and a 100% MIF product (policy holder is only allowed to invest in MIF). The latter can be identified as Guaranteed Rated. In Solvency II unit linked funds and hybrid products are presented in the 'assets held for unit linked funds'. The part related to Guaranteed Rated cannot be identified as unit linked and are for that reason reclassified. A reclassification of 58.3 million euros is made to the category 'Deposits other than cash equivalents'. As a result of the reclassification no. 2 the technical provisions will change accordingly.
3. In the statutory accounts the provision for reinsurance recoverable are reported as a negative amount within the technical provision. In the Solvency II reporting model this provision is presented at the asset side of the balance sheet and for that reason a reclassification for an amount of 0.7 million euros is made. The technical provisions in statutory accounts are split up in 'Technical provisions - For unearned premiums and unexpired risks' and 'Technical provisions for policies under which policyholders bear the investment risk and for insurance-linked savings contracts'. Those categories are not present in the solvency accounts and for that reason a reclassification has been performed to the categories 'Technical provisions - life (excluding health and index-linked and unit-linked)' and 'Technical provisions - index-linked and unit-linked'.
4. The deferred tax assets are reported as part of the receivables within the statutory accounts. This balance is reclassified to the deferred tax assets in the Solvency II balance sheet.

BNP Paribas Cardif Schadeverzekeringen

BNP Paribas Cardif Schadeverzekeringen NV		2017YE		2017YE		2017YE	
Amounts in thousand euros - Solvency II account description		Dutch GAAP values in Statutory Accounts	Reclassification	Ref. No.	Dutch GAAP values in Solvency II model		
ASSETS							
Intangible assets	1.205	-			1.205		
Deferred tax assets	-	-			-		
Property, plant & equipment held for own use	360	-			360		
Investments (other than assets held for index-linked and unit-linked contracts)	412.540	5.566			418.106		
Bonds	343.810	5.566			349.376		
Government Bonds	141.799	2.191	1		143.990		
Corporate Bonds	202.011	3.374	1		205.385		
Collective Investments Undertakings	68.731	-			68.731		
Reinsurance recoverables from:	-	2.991			2.991		
Life and health similar to life, excluding health and index-linked and unit-linked	-	2.991			2.991		
Health similar to life	-	2.991	2		2.991		
Insurance and intermediaries receivables	653	-			653		
Receivables (trade, not insurance)	187	-			187		
Cash and cash equivalents	1.064	-			1.064		
Any other assets, not elsewhere shown	5.854	-5.566	1		288		
Total assets	421.864	2.990			424.854		
LIABILITIES							
Technical provisions – non-life (excluding health)	323.525	-285.305			38.220		
Technical provisions calculated as a whole	323.525	-285.305	2		38.220		
Technical provisions - health (similar to life)	-	288.296			288.296		
Technical provisions calculated as a whole	-	288.296	2		288.296		
Deferred tax liabilities	1.033	-			1.033		
Insurance & intermediaries payables	523	-			523		
Reinsurance payables	219	-			219		
Payables (trade, not insurance)	2.440	-			2.440		
Any other liabilities, not elsewhere shown	902	-			902		
Total liabilities	328.642	2.991			331.633		
Excess of assets over liabilities	93.222	-			93.222		

The material reclassifications between statutory accounts and Solvency II accounts can be explained as follows:

1. The accrued interest related to bonds (5.6 million euros) are reclassified from 'Accrued interest and rent' in 'Any other assets, not elsewhere shown' to the value of the actual bond (2.2 million euros to 'Government Bonds' and 3.4 million euros to 'Corporate bonds').
2. In the statutory accounts (Dutch GAAP) the reinsurance recoverables are reported as a negative amount within the technical provision. In the Solvency II Reporting model this provision is presented at the asset side of the balance sheet and for that reason a reclassification for an amount of 3.0 million euros is made. The technical provisions in the statutory accounts are split into unearned premiums and outstanding claims. Those categories are not present in Solvency II reporting model and for that reason a reclassification has been performed to the categories 'health - similar to life' and 'non-life'. In 'health - similar to life' the disability cover is taken into account. In 'non-life' the unemployment cover and surety ship are taken into account.

b) Translate the Dutch GAAP (statutory) figures to Solvency II figures (different valuation principles)
The next step is to apply the different valuation principles for Solvency II. The table below shows the transition from Dutch GAAP figures to Solvency II figures by means of presenting the individual restatements.

BNP Paribas Cardif Levensverzekeringen

BNP Paribas Cardif Levensverzekeringen NV		2017YE	2017YE	2017YE	2017YE	2017YE
Amounts in thousand euros - Solvency II account description		Dutch GAAP values in Solvency II model	Financial assets fair value	Technical reserves BEI/RM and DAC elimination	Deferred Tax	Solvency II values in Solvency II model
ASSETS						
Deferred acquisition costs	4.806	-	-4.806	-	-	-
Deferred tax assets	596	-	-	-596	-	-
Investments (other than assets held for index-linked and unit-linked contracts)	191.826	56.657	-	-	-	248.482
Bonds	107.263	11.396	-	-	-	118.660
Government Bonds	39.954	6.486	-	-	-	46.440
Corporate Bonds	67.310	4.910	-	-	-	72.220
Collective Investments Undertakings	26.237	-	-	-	-	26.237
Deposits other than cash equivalents	58.325	45.260	-	-	-	103.585
Assets held for index-linked and unit-linked contracts	132.851	58.669	-	-	-	191.520
Reinsurance recoverables from:	662	-	-4.202	-	-	-3.539
Life and health similar to life, excluding health and index-linked and unit-linked	662	-	-4.202	-	-	-3.539
Life excluding health and index-linked and unit-linked	662	-	-4.202	-	-	-3.539
Insurance and intermediaries receivables	998	-	-	-	-	998
Reinsurance receivables	522	-	-	-	-	522
Receivables (trade, not insurance)	11	-	-	-	-	11
Cash and cash equivalents	2.572	-	-	-	-	2.572
Total assets	334.845	115.326	-9.008	-596	-	440.567
LIABILITIES						
Technical provisions – life (excluding health and index-linked and unit-linked)	148.645	-	-10.558	-	-	138.087
Technical provisions calculated as a whole	148.645	-	-148.645	-	-	-
Best Estimate	-	-	121.720	-	-	121.720
Risk margin	-	-	16.367	-	-	16.367
Technical provisions – index-linked and unit-linked	132.851	-	50.125	-	-	182.976
Technical provisions calculated as a whole	132.851	-	-132.851	-	-	-
Best Estimate	-	-	180.318	-	-	180.318
Risk margin	-	-	2.658	-	-	2.658
Deferred tax liabilities	-	28.831	-12.144	-596	-	16.092
Insurance & intermediaries payables	2.068	-	-	-	-	2.068
Reinsurance payables	769	-	-	-	-	769
Payables (trade, not insurance)	868	-	-	-	-	868
Total liabilities	285.202	28.831	27.423	-596	-	340.861
Excess of assets over liabilities	49.643	86.494	-36.431	-	-	99.706

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The material restatements between statutory and Solvency II figures can be explained as follows:

- Financial assets fair value. Investments are valued at fair value on the basis market value:
 - The bonds are valued at amortized cost in the statutory accounts. The accrued interest has been reclassified to the amortized cost value. In Solvency II these investments shall be valued at the amount for which they could be exchanged in a concluded transaction, under normal competitive conditions and between knowledgeable willing parties. The restatement related to the impact between market value and amortized cost plus accrued interest. This resulted in an increase in value of the bonds for an amount of 11.4 million euros.
 - The collective investments undertakings relate to investment funds. The investment funds can be divided into equity funds, bond funds and liquidity funds. These funds are valued at market value in Dutch GAAP and do not need a restatement in Solvency II.
- The MIF are presented in the category 'Deposits other than cash equivalents' for the guaranteed rated funds and in the category 'Assets held for index-linked and unit-linked funds' for the hybrid products with MIF. The MIF are valued according to the below standard which is in line with the letter sent by the Union of Insurers (Verbond van Verzekeraars):

- ❖ In Solvency I the MIF are valued at nominal value. However, in Solvency II, the fair value approach takes into account the guaranteed rate as well as the counterparty risk. Since the default risk is minimal, this is assumed negligible. Only the guaranteed rate is taken into account in the market value.
 - ❖ MIF could be subject to two shocks. For BNP Paribas Cardif NL, all MIF is deposited at Dutch banks in euros. Hence, there is no currency shock to apply. Furthermore, since the bank has provided securities in case of default, the counterparty default shock that MIF is subject to, is type 2.
 - The valuation of the guaranteed rated funds (100% MIF) resulted in an increase of value of 45.3 million euros.
 - The valuation of the part of the MIF which relates to the hybrid product resulted in an increase in value of 58.7 million euros. The other part in the category 'Assets held for index-linked and unit-linked funds' relates to unit-linked funds. These funds are valued at market value in the statutory accounts and for that reason do not need a restatement in Solvency II.
3. Technical reserves - BEL/RM and DAC elimination
- ❖ Cancellation of items that are not admitted in the SII environment:
 - DAC (Deferred Acquisition Costs) that are recognized as null value (unless existence of market value). This resulted in a decrease of asset value of 4.8 million euros.
 - ❖ Technical liability restatement is defined as follows:
 - Cancellation of Statutory technical provisions.
 - Recognition of best estimate (BEL) and risk margin (RM) calculated by the actuarial department (determined with a standard valuation model of 'mark to model'). In practice, technical provisions are valued at 'Current Exit Value' and are made up of two elements: (1) Best estimate = expected present value of future cash flow and (2) Risk Margin = risk premium/additional value that would require a reinsurer to assume the obligations of the insurer. Gross variation on BEL & RM is a higher valuation of 39.6 million euros (negative impact on own fund).
 - The BEL components impacted by projected reinsurance (-4.2 million euros) are the following:
 - Claims: for the products in scope, 40% of the Benefits Paid in the BEL is paid by the reinsurer instead of BNP Paribas Cardif NL.
 - Premium: the premium for the policies in scope is based on the probability of being active times the current age dependent premium paid by BNP Paribas Cardif NL to the reinsurer.
 - Profit commission: on some of the older reinsured policies, a profit commission applies. This profit commission is settled on an annual basis. The annual result on premium and claims (see above) is used as input.
4. Deferred Tax
- ❖ For all restatements a deferred tax position is calculated. The net deferred tax impact of all restatements is a deferred tax liability of 16.7 million euros.
 - ❖ Deferred taxes shall be presented net. The value restatement during the transition from statutory accounts to Solvency II lead to the recognition of deferred taxes. This resulted in a restatement of 0.6 million euros from deferred tax assets to deferred tax liabilities.

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No restatement is made for the receivables in the Solvency II balance sheet. The receivables in the balance sheet relate to insurance and intermediaries receivables, reinsurance receivables and receivables (trade, not insurance). In case of doubtful receivables a provision is taken into account in the statutory account.

BNP Paribas Cardif Schadeverzekeringen

BNP Paribas Cardif Schadeverzekeringen NV		2017YE	2017YE	2017YE	2017YE	2017YE	
Amounts in thousand euros - Solvency II account description		Dutch GAAP values in Solvency II model	Financial assets fair value	Goodwill, Intangible assets	Technical reserves BEI/RM and DAC elimination	Others	Solvency II values in Solvency II model
ASSETS							
Intangible assets	1.205	-	-1.205	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Property, plant & equipment held for own use	360	-	-	-	-	-	360
Investments (other than assets held for index-linked and unit-linked contracts)	418.106	47.694	-	-	-	-	465.800
Bonds	349.376	47.694	-	-	-	-	397.069
Government Bonds	143.990	24.950	-	-	-	-	168.940
Corporate Bonds	205.385	22.743	-	-	-	-	228.129
Collective Investments Undertakings	68.731	-	-	-	-	-	68.731
Reinsurance recoverables from:	2.991	-	-	188	-	-	3.179
Life and health similar to life, excluding health and index-linked and unit-linked	2.991	-	-	188	-	-	3.179
Health similar to life	2.991	-	-	188	-	-	3.179
Insurance and intermediaries receivables	653	-	-	-	-	-	653
Receivables (trade, not insurance)	187	-	-	-	-	-	187
Cash and cash equivalents	1.064	-	-	-	-	-	1.064
Any other assets, not elsewhere shown	288	-	-	-	-	-	288
Total assets	424.854	47.694	-1.205	188	-	-	471.531
LIABILITIES							
Technical provisions – non-life (excluding health)	38.220	-	-	-2.133	-	-	36.086
Technical provisions calculated as a whole	38.220	-	-	-38.220	-	-	-
Best Estimate	-	-	-	25.442	-	-	25.442
Risk margin	-	-	-	10.644	-	-	10.644
Technical provisions - health (similar to life)	288.296	-	-	-51.574	-	-	236.722
Technical provisions calculated as a whole	288.296	-	-	-288.296	-	-	-
Best Estimate	-	-	-	213.014	-	-	213.014
Risk margin	-	-	-	23.708	-	-	23.708
Provisions other than technical provisions	-	-	-	-	198	-	198
Deferred tax liabilities	1.033	11.923	-301	13.474	-49	-	26.079
Insurance & intermediaries payables	523	-	-	-	-	-	523
Reinsurance payables	219	-	-	-	-	-	219
Payables (trade, not insurance)	2.440	-	-	-	-	-	2.440
Any other liabilities, not elsewhere shown	902	-	-	-	-	-	902
Total liabilities	331.633	11.923	-301	-40.234	148	-	303.169
Excess of assets over liabilities	93.222	35.770	-904	40.422	-148	-	168.361

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The material restatements between Dutch GAAP and Solvency II figures can be explained as follows:

- Financial assets fair value. Investments are valued at fair value on the basis of market value:
 - ❖ The bonds are valued at amortized costs in Dutch GAAP. The accrued interest has been reclassified to the amortized cost value. In Solvency II these investments shall be valued at the amount for which they could be exchanged in a concluded transaction, under normal competitive conditions and between knowledgeable willing parties. The restatement related to the impact between market value and amortized cost plus accrued interest. This resulted in an increase in value of the bonds for an amount of 47.7 million euros.
 - ❖ The collective investments undertakings relate to investment funds. The investment funds can be divided into equity funds, bond funds and liquidity funds. These funds are valued at market value in Dutch GAAP and do not need a restatement in Solvency II.
- Goodwill, Intangible assets. Cancellation of items that are not admitted in the Solvency II environment:
 - ❖ Goodwill and intangible assets when market is absent: null value is retained for Solvency II. Impact for BNP Paribas Cardif Schadeverzekeringen is a lower asset value of 1.2 million euros.
- Technical reserves - BEL/RM. Technical liability restatement is defined as follow:
 - ❖ Cancellation of the Dutch GAAP technical provisions.
 - ❖ Recognition of best estimate (BEL) and risk margin (RM) calculated by the actuarial department (determined with a standard valuation model of 'mark to model'). In practice, technical provisions are valued at 'Current Exit Value' and are made up of two elements: (1) Best estimate = expected present value of future cash flow and (2) Risk Margin = risk premium/additional value that would require a reinsurer to assume the obligations of the insurer. Gross variation on BEL & RM is a lower valuation of 55.2 million euros (positive impact on own fund). More details are described in the next chapter technical provisions.

4. Others

- ❖ The best estimate of lawsuits and complaints for an amount of 0.2 million euros are recorded as provisions other than technical provisions. For statutory accounts the principle is more likely than not. As in all cases we expect the chance to win more likely than not no provision is recorded in statutory.

5. Deferred Tax

- ❖ For the restatements 1 till 4 a deferred tax position is calculated. The net deferred tax impact of all restatements is a deferred tax liability of 25.1 million euros.
- ❖ Deferred taxes shall be presented net.

No restatement is made for the receivables in the Solvency II balance sheet. The receivables in the balance sheet relate to insurance and intermediaries receivables, receivables (trade, not insurance). In case of doubtful receivables a provision is taken into account in the statutory account.

D.2 Technical provisions

General

The technical provisions in Solvency II consist of the Best Estimate Liabilities (BEL) and Risk Margin (RM). In this section, the results are presented.

BNP Paribas Cardif Levensverzekeringen

Overview - technical provisions gross of reinsurance		Best Estimate Liabilities		Risk Margin	2017	2016
		Premium	Claims			
Direct business	Life	15,861	4,678	13,906	34,444	36,820
	HRF	100,751	431	1,835	103,017	109,409
	Unit-Linked	180,318	-	3,284	183,602	198,923
Total		296,930	5,109	19,025	321,063	345,153

The technical provisions for BNP Paribas Cardif Levensverzekeringen are declining over all portfolios. This is due to run-off of Single Premium policies in Life, and high lapses in the Savings portfolio. The lower technical provisions in Savings due to these lapses are caused by recovery in the housing market. This reduced the fund value in 2017 by 7.3 million euros and further reduces the future liabilities and the linked assets by 9.2 million euros. Moreover, economic assumption changes account for a reduction of 5.6 million euros in the Savings portfolio.

Recall that the BEL of the Life portfolio is relatively small in absolute terms while relatively big in terms of the number of policies and the underlying risk; the future premiums and benefits in this portfolio offset each other. The technical provisions are increasing for the Regular Premium part of the portfolio, due to accumulation of written premium. BNP Paribas Cardif Levensverzekeringen receives a flat regular premium, while the risk is increasing over time with policyholder age.

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BNP Paribas Cardif Schadeverzekeringen

Overview - technical provisions gross of reinsurance		Best Estimate Liabilities		Risk Margin	2017	2016
		Premium	Claims			
Direct business	Disability	56,042	153,429	23,599	233,070	264,293
	Unemployment	20,127	4,752	9,905	34,784	39,628
	Surety Ship	40	249	436	726	808
Indirect business	Disability	1,415	2,128	407	3,950	4,343
	Unemployment	249	25	5	279	313
Total		77,873	160,583	34,352	272,808	309,385

The technical provisions for BNP Paribas Cardif Schadeverzekeringen are declining due to the run-off nature of the portfolio. In Disability, the claims provision is 73% of the BEL; from this provision, policyholders receive monthly payments for up to thirty years. These foreseen monthly payments of 2017 are the main reason for the reduction of technical provisions: 28.1 million euros. Moreover, the claim performance of the past year has been particularly good; a combination of lower reported claims and higher recovery on existing claims reduced the provisions by 17.2 million euros.

Level of uncertainty

To mitigate the level of uncertainty in technical provisions, BNP Paribas Cardif NL manages the process risk as well as the model risk. Process risk concerns misstatements in financial reports due to errors in the execution of the process. Model risk concerns misstatements due to models not being fit for purpose or inappropriate processes; model risk includes parameter risk.

To mitigate the process risk, BNP Paribas Cardif NL has an operational risk control framework. Key controls are identified and implemented in the calculation process. The responsible managers sign off the controls in the Actuarial Closing Control Report. In addition, shadow calculations are made in separate, independent tools for the most material segments.

To mitigate the model risk, BNP Paribas Cardif NL periodically reviews its models, and annually studies key parameters. The results of these reviews are shared with management. In addition, the Actuarial Function Holder performs an independent review of the technical provisions, and models and parameters in particular.

E. Capital management

E.1 Own Funds

Capital Management Policy

The Solvency II capital policy of BNP Paribas Cardif NL addresses:

- ❖ the core business strategy
- ❖ general principles of the capital management policy
- ❖ Solvency and capital requirements and internal norms
- ❖ description of the risk framework and guarantees
- ❖ management actions and trigger levels
- ❖ Governance

General principles

The primary objectives of the policy are on the one hand, to ensure that BNP Paribas Cardif NL maintains capital ratios that protect its viability in the long term interest of the policyholder and thus complying with externally imposed capital requirements and, on the other hand, to use capital effectively in the interest of its shareholder.

The required capital (SCR) is based on the highest of the SCR as calculated by the standard model and the SCR based on management's own assessment of the required solvency (ORSA).

The target capital is based on the risk appetite of the company and thus takes into account the expected volatility of the solvency ratios (the available versus the required capital) and the exposure to stress scenarios.

The target capital and the capital structure takes into account the cost of capital to maximize shareholder value. Any excess capital may be paid out as dividend.

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A maximum of dividend upstream is targeted, provided that the capital position of the company should never be 'inadequate' after dividend payment. In case of inadequacy the amount of dividend is reduced to return to adequate capital position.

Required Solvency

The SCR is based on a standard model that includes next to a more sophisticated estimation of insurance risks also market risk, operational risk and counterparty risk. Based on the recent ORSA, we don't see a need to increase the calculated SCR.

We take into account the loss absorbing capacity of deferred tax liabilities. The adjustment is justified by proof of the absorbing capacity.

Target on Total Own Funds

The SCR is the required minimum to operate. When below 100%, one has to deliver a plan how to re-establish the solvency. The MCR is the required minimum to exist. A solvency below MCR will imply the resolution of the company. A resolution plan is required as a last will.

When maintaining just 100% solvency by definition one will be below 100% next period in 50% of the cases as the actual development will be distributed around 100% evenly. Based on the risk appetite of BNP Paribas Group, the minimum solvency is set at MCR (approx. 25% of SCR) plus SCR (thus 125% in total) so that even in a scenario where capital is absorbed as big as the whole SCR the company may still have an opportunity to recover. BNP Paribas Group provided both BNP Paribas Cardif Levensverzekeringen and BNP Paribas Cardif Schadeverzekeringen with a financial guarantee to inject additional capital when the 125% solvency level is breached.

The Target Solvency is based on management's risk appetite thus based on the expected volatility in solvency and certain stress scenarios as discussed in the ORSA.

The Target Solvency is set at a coverage ratio of 150% and a target for Hard Own Funds of 90% of the SCR, with a minimum of 80%. As stated in a Financial Agreement with the parent company, support by means of additional capital is arranged in case the coverage ratio breaches 125%.

Based on both the standard formula and the ORSA scenarios a target coverage ratio of 150% is well acceptable and appears to be in line with the market.

Solvency II relies on a standard formula including certain correlation factors and a normal distribution of risks. An SCR of just 100% corresponds to a credit rating between BB and BBB, a chance to default within a year, of a half percent.

An SCR of 125% for BNP Paribas Cardif NL would be in line with an A-rating. An SCR of 150% corresponds to AA or higher.

ORSA

In the ORSA we have done several stress scenarios to test the adequacy of the solvency of BNP Paribas Cardif Schadeverzekeringen. The stress scenarios are performed in addition to the standard model to assure that the companies are not exposed to risk insufficiently covered by the standard formula either in kind or in impact.

Available Capital

The Available Capital (AC) corresponds to the available Own Funds, which is the excess of assets over liabilities, valued on a market consistent method as described in the Solvency II guidelines and taking into account tiering assessment and limitations related to fungibility and transferability if any, excluding the foreseeable dividends.

BNP Paribas Cardif Levensverzekeringen

The available Own Funds under Solvency II to cover the SCR of BNP Paribas Cardif Levensverzekeringen consist of:

	31-12-2017	31-12-2016
Issued and paid up capital	43.710	43.710
Statutory reserves	-	1
Result of the year	5.934	8.362
Reconcillation reserve	50.063	45.270
Total Own Funds Solvency II Balance Sheet	99.707	97.343
Foreseeable dividends	(5.934)	(8.362)
Foreseeable charges	(5.535)	(3.765)
Total Own Funds to cover SCR	88.238	85.216

The Ordinary Share Capital consist of 97.025 shares of 600 euros of which 48.675 shares have been paid in full and 48.350 shares have been paid for 300 euros. The Ordinary Share Capital and Reconcillation Reserve elements are classified as Tier 1.

The Statutory Board proposes to the Shareholders Meeting to pay the full result of 2017 as dividends.

The modelled and provisioned costs are declining with the in-force portfolio and this decline is not fully compensated by the budgeted savings. Besides the new business volumes are insufficient to fund the short term acquisition costs an extra provision for foreseeable charges is taken into account for an amount of 5.5 million euros.

BNP Paribas Cardif Schadeverzekeringen

The available Own Funds under Solvency II to cover the SCR of BNP Paribas Cardif Schadeverzekeringen consist of:

	31-12-2017	31-12-2016
Issued and paid up capital	62.223	62.223
Statutory reserves	2.255	1
Result of the year	28.744	34.757
Reconciliation reserve	75.140	85.080
Total Own Funds Solvency II Balance Sheet	168.362	182.061
Foreseeable dividends	(30.999)	(32.503)
Foreseeable charges	(9.106)	(9.474)
Total Own Funds to cover SCR	128.257	140.084

The Ordinary Share Capital consist of 90.683 shares of 880 euros of which 50.734 shares have been paid in full and 39.949 shares have been paid for 440 euros. The Ordinary Share Capital and Reconciliation Reserve elements are classified as Tier 1.

The Statutory Board proposes to the Shareholders Meeting to pay the full result of 2017 and the undistributed result of 2016 as dividends.

The modelled and provisioned costs are declining with the in-force portfolio and this decline is not fully compensated by the budgeted savings. Besides the new business volumes are insufficient to fund the short term acquisition costs an extra provision for foreseeable charges is taken into account for an amount of 9.1 million euros.

Expected Profits in Future Premium

The Expected Profits in Future Premium (EPIFP) consist of the future profits related to future premium to be received excluding any non-profitable contracts. These future profits are included in the Own Funds through the reconciliation reserve.

In BNP Paribas Cardif Levensverzekeringen, the EPIFP is 40.7 million euros (2016: estimated 52.1 million euros). In BNP Paribas Cardif Schadeverzekeringen, the EPIFP is 29.0 million euros (2016: estimated 26.1 million euros).

E.2 Solvency Capital Requirement and Minimum Capital Requirement

We use the Standard Formula, and do not use a (partial) internal model.

The Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) are:

BNP Paribas Cardif Levensverzekeringen (SCR: 34.1 million euros MCR: 8.7 million euros)

SCR	2017	2016
BSCR	44,212	48,666
Market	12,737	11,791
Counterparty default	1,124	1,222
Life Underwriting	38,914	43,982
Health Underwriting	-	-
Non-Life Underwriting	-	-
Diversification	(8,564)	(8,330)
Operational SCR	1,264	1,488
Adjustment	(11,369)	(12,538)
Total	34,106	37,615

The SCR decreased by 2.5 million euros (2016: 1.5 million euros); this decrease is linked to the decrease of the Basic Solvency Capital Requirement (BSCR). The Life underwriting risk is decreasing with the portfolio. The decrease of Life underwriting risk is partly offset through an increase of market risk. In 2016, the mutation of SCR included two exceptional events: the recognition of reinsurance and the increase in counterparty default SCR due to the Mortgage Interest Fund.

MCR	2017	2016
<i>SCR</i>	<i>34,106</i>	<i>37,615</i>
		-
Linear MCR	8,675	9,560
Linear MCR Life	8,675	9,560
Linear MCR Non-Life	-	-
MCR floor	8,527	9,404
25% of SCR	8,527	9,404
Absolute floor	3,700	3,700
MCR cap	15,348	16,927
45% of SCR	15,348	16,927
Total	8,675	9,560

The MCR in BNP Paribas Cardif Levensverzekeringen decreased to 8.7 million euros (2016: 9.6 million euros). This year, neither the MCR floor nor MCR cap is binding.

The reduction of the Linear MCR (9.3%) is in line with the reduction of SCR (9.4%). The main reason is the reduction of Capital at Risk for all contracts by 9.6% from 7,556 million euros to 6,832 million euros. The Capital at Risk is the main driver for the Linear MCR, while in the SCR other components, such as market risk, do not reduce as quickly.

BNP Paribas Cardif Schadeverzekeringen (SCR: 74.1 million euros MCR: 18.5 million euros)

SCR	2017	2016
BSCR	96,910	105,334
Market	39,213	39,428
Counterparty default	490	484
Life Underwriting	-	-
Health Underwriting	70,876	78,486
Non-Life Underwriting	28,870	33,564
Diversification	(42,539)	(46,629)
Operational SCR	1,881	2,130
Adjustment	(24,698)	(26,866)
Total	74,094	80,598

The SCR decreased by 5.8 million euros (2016: 7.3 million euros); this decrease is linked to the decrease of BSCR. This decrease is observed on all individual elements except market risk, and in line with the evolution of the portfolio and the technical provisions. The market risk increased due to the positive evolution of the markets in 2016: a higher market value leads to a higher shock and a higher capital requirement.

MCR	2017	2016
<i>SCR</i>	<i>74,094</i>	<i>80,598</i>
Linear MCR	17,211	21,017
Linear MCR Life	11,391	14,549
Linear MCR Non-Life	5,821	6,468
MCR floor	18,523	20,149
25% of SCR	18,523	20,149
Absolute floor	3,700	3,700
MCR cap	33,342	36,269
45% of SCR	33,342	36,269
Total	18,523	21,017

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The MCR in BNP Paribas Cardif Schadeverzekeringen decreased to 18.5 million euros (2016: 21.0 million euros). The MCR floor is binding, while in 2016 the Linear MCR was used.

Loss-Absorbing Capacity of Technical Provisions

The loss-absorbing capacity of technical provisions (LAC TP) is nil for both BNP Paribas Cardif Schadeverzekeringen and BNP Paribas Cardif Levensverzekeringen.

Loss-Absorbing Capacity of Deferred Taxes

The adjustment for the loss-absorbing capacity of deferred taxes (LAC DT) of BNP Paribas Cardif NL is 25% of the instantaneous shock equal to BSCR and Operational SCR.

BNP Paribas Cardif Schadeverzekeringen

The loss-absorbing capacity of 24.7 million euros for BNP Paribas Cardif Schadeverzekeringen is lower than the deferred tax liabilities on the balance sheet. BNP Paribas Cardif Schadeverzekeringen is compliant with the best practice of DNB.

BNP Paribas Cardif Levensverzekeringen

The loss-absorbing capacity of 11.4 million euros for BNP Paribas Cardif Levensverzekeringen is lower than the deferred tax liabilities on the statutory balance sheet. BNP Paribas Cardif Levensverzekeringen is compliant with the best practice of DNB.

E.3 Use of standard equity risk sub-module in calculation of Solvency Capital Requirement

We don't apply the transitional measure for equity risk.

E.4 Differences between Standard Formula and internal models

Our solvency is governed by a standard formula, rather than a self-developed internal model. We believe that the standard formula is suitable for us and common use will enhance transparency and consistent interpretation.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

We have not faced any form of non-compliance with the Minimum Capital Requirement or non-compliance with the Solvency Capital Requirement during the reporting period or at the reporting date, no further information is included here.

E.6 Any other information

Dividend policy and capital actions

BNP Paribas Group has formulated a dividend policy in line with its current strategy, where its subsidiaries are requested to pay out the annual statutory profits. We will comply with this policy unless it would be in violation of its own Capital Management Policy. In 2017 we paid out statutory profits of 2016 to the extent that its target solvency ratios are maintained and the minimum ratio for Hard Own Funds. We foresee to pay out the full statutory profit of 2017 and the undistributed profit of 2016 (BNP Paribas Cardif Levensverzekeringen 5.9 million euros; BNP Paribas Cardif Schadeverzekeringen 30.1 million euros).

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