

# SOLVENCY AND FINANCIAL CONDITION REPORT

Solvency 2 Narrative Report

2016

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## SUMMARY

Crédit Agricole Assurances group (CAA or the group), a wholly-owned subsidiary of the Crédit Agricole banking group, presents its solvency and financial condition report (SFCR) for 2016 in accordance with Solvency II, which came into effect on 1 January 2016, and more specifically the Pillar 3 public disclosures required under the European capital requirements directive.

The purpose of the report is to provide a holistic overview of the group's insurance business in a Solvency II environment. The report, together with the various quantitative reporting templates (QRT), provides detailed information about the group's business operations and performance, the adequacy and appropriateness of its system of governance, the valuation differences between its local GAAP and Solvency II balance sheets and an assessment of its solvency. The report was presented to the Audit Committee on 5 May 2017 and signed off by CAA's Board of Directors on 9 May 2017.

### Business and performance

CAA is the leading bancassurer in Europe<sup>1</sup> and leading insurer in France<sup>1</sup> based on the amount of written premiums. It is a rounded, diversified insurance company with three core business activities: savings & retirement, death & disability, creditor and group insurance, and property & casualty insurance.

With written premiums of €30.8 billion in 2016 (83% in France and 17% international), net inflows of €5.8 billion and net earnings of €1,368 million, CAA has demonstrated its robustness in a challenging macroeconomic and financial environment. This performance reflects dynamic business momentum throughout its French and international distribution networks and demonstrates the appropriateness of its integrated bancassurance model built around the branch networks of the Crédit Agricole Regional Banks, LCL and Crédit Agricole Group's banks in Europe.

### System of governance

The group has an appropriate system of governance tailored to its various lines of business and its management methods.

The Board of Directors sets the group's broad business strategy and oversees its implementation. It is responsible at group level for compliance with the legal, regulatory and administrative provisions adopted pursuant to the Solvency II directive. The Board works closely with Senior Management, which consists of the Chief Executive Officer and the two other key executive officers of CAA group, as well as the four key function holders.

This system of governance contributes to achieving CAA's strategic objectives and guarantees effective management of risks with regard to their nature, scope and complexity.

### Risk profile

The group's main risks are market and life underwriting risks due to the preponderance of savings & retirement business, particularly in France and Italy. Given its risk profile, the standard formula is appropriate for calculating the group's capital requirement. Risks that are not captured in the standard formula are, like each identified risk, handled through a risk management and monitoring system that alerts the governance bodies in the event of a deviation from the day-to-day management framework.

### Valuation for solvency purposes

The reporting date for CAA's solvency balance sheet is 31 December.

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<sup>1</sup> Source: La Tribune de l'Assurance, 16 November 2016, and L'Argus de l'Assurance, 16 December 2016, end-2015 data

The solvency balance sheet is based on an economic valuation of assets and liabilities:

- a. Assets are measured at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
- b. Liabilities are measured at the amount for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction.

In most cases, measurement at fair value is permitted under IFRS, in accordance with Solvency II principles. However, some measurement methods such as amortised cost cannot be used to prepare the economic balance sheet.

### **Capital management**

The group has a capital management policy in place. It sets out the method of managing, monitoring and overseeing own funds as well as the funding process for CAA and its subsidiaries.

It takes into account the regulatory constraints applicable to insurance undertakings, banking regulations, financial conglomerate regulations and Crédit Agricole Group's own objectives.

At 31 December 2016, available own funds totalled €21,427 million and the solvency capital requirement (SCR) amounted to €13,303 million. The group has not applied any transitional measures for calculating its solvency ratio other than the grandfathering clause for subordinated liabilities.

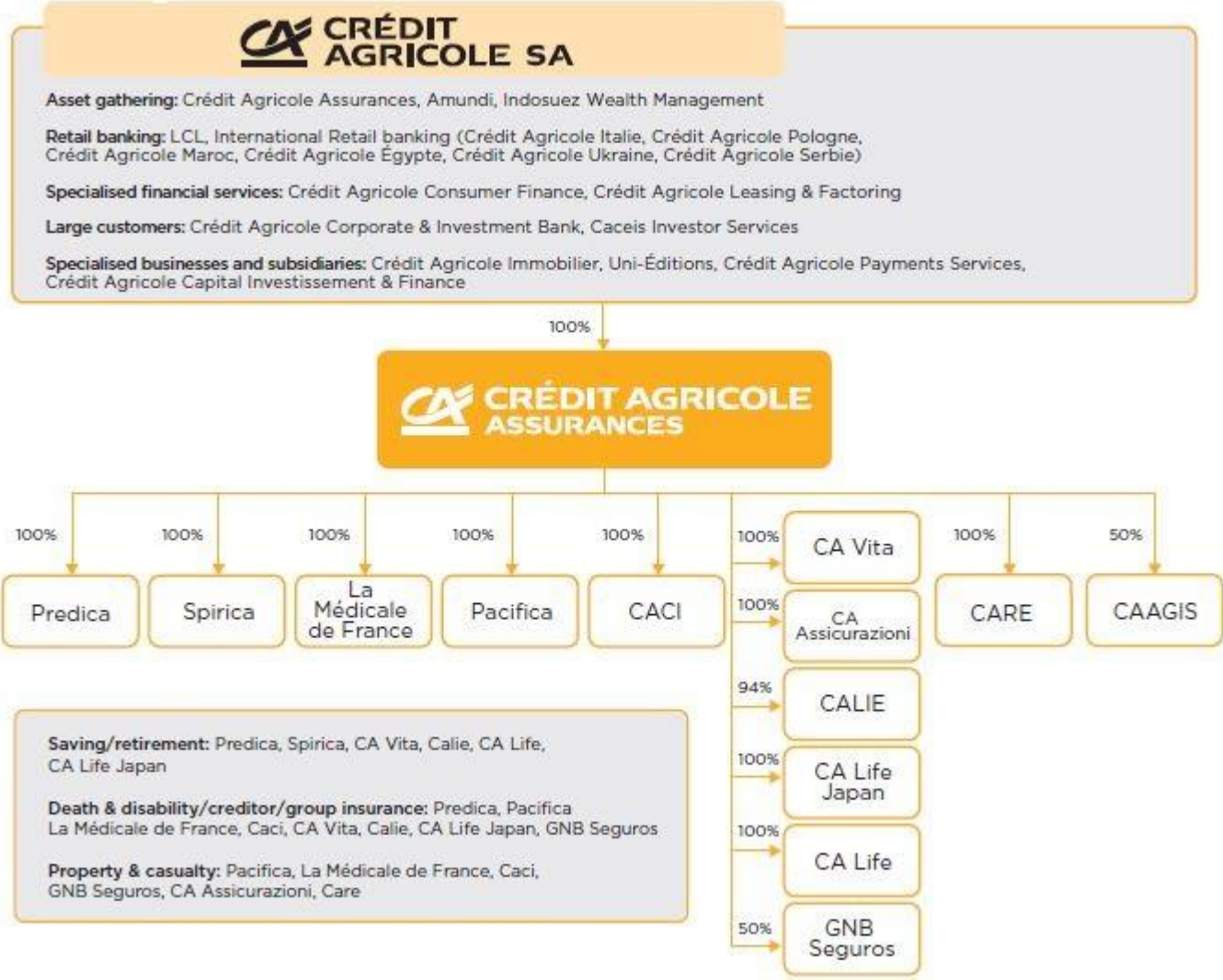
At end-2016, therefore, the group's solvency ratio was 161%.

# A. BUSINESS AND PERFORMANCE

## A.1 Business

### A.1.1. Scope

Crédit Agricole Assurances, an insurance undertaking with a share capital of €1,490,403,670, head office at 50-56 rue de la Procession, Paris, governed by a Board of Directors, is the holding company for Crédit Agricole S.A. Group's insurance business and is wholly-owned by Crédit Agricole S.A. The following chart shows the CAA group's Solvency II consolidation scope.



The CAA group is supervised by the *Autorité de Contrôle Prudentiel et de Résolution*, 61 rue Taitbout, Paris. Its auditors are PricewaterhouseCoopers Audit, 63 rue de Villiers, Neuilly-sur-Seine, and Ernst and Young, Tour First, 1 place des Saisons, Courbevoie.

## A.1.2. General presentation

Crédit Agricole Group is the leading bancassurer in Europe and number one insurer in France based on the amount of written premiums. For 30 years, the Group has built its success on its ability to meet the needs of its customers and distributors through a high quality offering and a proactive approach to a changing environment.

CAA covers all the insurance needs of the Group's customers in France and abroad, through three core business activities: savings & retirement, death & disability, creditor and group insurance, and property & casualty insurance.

- Savings & retirement covers all savings activities, including participating and unit-linked life insurance products, and pension contracts including the *Plan Epargne Retraite Populaire* (PERP). In France, the group distributes its products to the individual, wealth management, farming, small business and corporate customers of Crédit Agricole's Regional Banks and LCL. In the international markets, CAA works mainly with Crédit Agricole Group entities in Italy, Luxembourg and Poland. It also works with external partners in targeted geographical areas, such as Japan. Lastly, CAA is developing its business through other networks, such as independent financial advisers, BforBank online bank and a network dedicated to healthcare professionals.
- The death & disability, creditor and group insurance business encompasses death and disability, credit insurance and group health insurance. Death & disability and health products are sold through Crédit Agricole Group's branch networks in France and abroad, supported by a network of general agents dedicated to healthcare professionals. Credit insurance is sold through 29 partners — consumer finance companies and retail banks — in six countries including France, Italy and Poland.
- The property & casualty business covers insurance of personal, farming and corporate assets, individual health, personal accident, electronic devices in the home, legal protection, professional indemnity and para-banking. These products are sold to customers of Crédit Agricole's Regional Banks and LCL, as well as through a network of agents for healthcare professionals. In the international markets, in line with its development strategy in savings & retirement, CAA is capitalising on its successful bancassurance model to roll out its expertise in P&C insurance, for example, by opening a new P&C entity in Poland in December.

CAA's strength also lies in its membership of the Crédit Agricole Group, which enables it to draw on the efficiency and performance of one of Europe's largest banking groups, with 50,000 advisers serving 52 million customers worldwide in all segments.

CAA has three distribution channels:

- Its bancassurance model (92% of 2016 revenue), which distributes personal, property & casualty and credit insurance products through Crédit Agricole Group's branch networks;
- Internal and external Group partnerships (6% of 2016 revenue) for credit and "financial protection" insurance products;
- Non-Group partnerships (2% of 2016 revenue) in countries such as Japan where the group does not have a retail banking operation.

The table below shows a breakdown of CAA's headcount by geographical area: [Note: need English translation of table below]

Number of employees	31/12/2016	31/12/2015	Variation
France	2,508	2,345	7%
International	467	451	4%
<b>TOTAL</b>	<b>2,965</b>	<b>2,796</b>	<b>6%</b>

Headcount on IFRS consolidation scope

### A.1.3. Significant events in 2016

In early 2016, Crédit Agricole Group unveiled its medium-term strategic plan for 2016-2019, called Strategic Ambition 2020.

As part of this plan, CAA set ambitious targets focusing on optimising intra-group synergies in terms of both activity in its three core business areas and performance:

- Step up growth momentum in P&C across all customers segments;
- Become the leading life insurer in France and establish a strong position in group pension products;
- Scale up the credit insurance business by insourcing the Regional Banks' group insurance contracts;
- Increase net earnings by more than 5% a year on average over the period.

New synergies have been harnessed within Crédit Agricole Group, for example by setting up a partnership in group social protection and retirement between CAA and Amundi and the decision to insource the credit insurance policies distributed by Crédit Agricole's Regional Banks.

Furthermore, in September 2016, CAA placed one billion euros of floating-rate subordinated notes due 2048 with institutional investors in Europe. The quality and diversity of the order book, which was more than 2.7 times oversubscribed, illustrates the positive opinion of CAA held by investors. The purpose of the issue was to contribute to funding CAA's business while maintaining a Solvency II ratio in line with its goals.

In 2016, CAA was ranked the number one insurer by La Tribune de l'Assurance and L'Argus de l'Assurance on 16 November and 16 December, respectively.

### A.1.4. Intra-group transactions

#### A.1.4.1 Intra-group transactions within CAA group

The main intra-group transactions within CAA group in 2016 involved the issuance of subordinated notes between CAA and its subsidiaries.

#### A.1.4.2 Intra-group transactions within Crédit Agricole S.A. Group

CAA is funded mainly by Crédit Agricole Group.

In 2016, Crédit Agricole Group subscribed for €1,157 million (nominal) of perpetual subordinated notes and €2,670 million (nominal) of redeemable subordinated notes issued by CAA.

In its investment portfolio, CAA holds notes issued by Crédit Agricole Group for a total of €18,518 million, including €9,846 million backing unit-linked contracts.

In its bancassurance business, CAA outsources some functions to other Crédit Agricole Group entities:

- Marketing of insurance contracts is outsourced to the Regional Bank and LCL branch networks in France and abroad, and also to partner networks in the international markets (Cariparma in Italy, Novo Banco in Portugal and CABP in Poland);
- Administration of life insurance contracts sold by the branch networks is outsourced to the distributors (Regional Banks, which themselves outsource a part of this function to Caagis);
- Asset management is outsourced to the specialised entities in the various markets (Amundi, CA Immobilier, CACEIS, etc.);
- P&C claims in France are managed by Sirca (company created by Pacifica and the Regional Banks).



### A.1.5. Information on share capital and ownership

The table below shows the change in the number of Crédit Agricole Assurances shares and their ownership over the last three years.

Shareholders	31/12/2016	31/12/2015	31/12/2014
Crédit Agricole S.A.	149,040,361	144,875,464	144,875,464
Other	6	6	6
<b>TOTAL</b>	<b>149,040,367</b>	<b>144,875,470</b>	<b>144,875,470</b>

At 31 December 2016, Crédit Agricole Assurances S.A.'s share capital comprised 149,040,367 ordinary shares, each with a par value of €10. The shares have never been offered to the public and are not traded on a regulated market. At 31 December 2016, employees did not own any Crédit Agricole Assurances S.A. shares.

CAA houses Crédit Agricole Group's holdings in various insurance and reinsurance undertakings in France and abroad.

#### Dividend payout in respect of 2016

On 6 December 2016, the Board of Directors resolved to pay a 2016 interim dividend in cash of €564,862,990.93, or €3.79 per share.

On 9 February 2017, the Board of Directors decided to recommend a final dividend of €260,820,642.25 or €1.75 per share at the Annual Shareholders' Meeting on 9 May 2017, which was approved. The total 2016 dividend payout was therefore €825,683,633.18 or €5.54 per share.

## A.2 Underwriting performance

The group reported IFRS written premiums of €30.8 billion in 2016, slightly ahead of 2015, with France contributing more than 80%. The other main countries where CAA operates are Italy, Luxembourg and Poland. Net inflows totalled €5.8 billion in 2016, with France contributing €3.1 billion. CAA thus continues to demonstrate its robustness in a challenging macro-economic and financial environment.

### A.2.1. Life business

CAA is the second largest personal insurance provider in France<sup>2</sup> and number two in contributions to PERP retirement savings plans.<sup>3</sup>

In 2016, life business, predominantly savings & retirement and death & disability, accounted for almost 90% of CAA's written premiums, mainly in France and Italy. The table below shows life underwriting performance by line of business on a Solvency II basis and consolidation scope. It does not include investment income, which is discussed in section A.3 Investment Performance. [Note: need English translation of table below]

(in € million)	31/12/2016				
	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Other LoB	Total
Gross Premiums written	18,754	4,778	2,008	851	26,392
Gross Premiums earned	18,754	4,778	1,967	835	26,336
Gross claims incurred	17,686	2,259	555	405	20,905
Gross changes in tohet technical provisions	6,449	2,690	202	188	9,529
Gross expenses (w/o investment portfolio expenses)	958	339	921	332	2,550

Life written premiums totalled €26,392 million in 2016, driven mainly by savings & retirement business. Participating contracts accounted for more than 70% of gross written premiums and totalled €18,754 million, a decrease of 3% compared with 2015.

CAA thus continues to shift its savings & retirement mix towards unit-linked business, which contributed more than 18% of written premiums in 2016 and totalled €4,778 million, an increase of 4% compared with 2015.

Death & disability business constitutes the bulk of other life insurance liabilities and continues to grow, driven by the development of funeral and long-term care insurance in addition to the traditional incapacity and disability products. The cost of benefits paid mainly comprises the profit participation distributed to policyholders and the charge to provisions for participating contracts. At end-2016, the participation provision<sup>4</sup> amounted to €7 billion, representing 3.5% of in-force participating business.

<sup>2</sup> Source: L'Argus de l'Assurance, 16 December 2016

<sup>3</sup> Source: L'Argus de l'Assurance, 29 April 2016

<sup>4</sup> Predica scope

## A.2.2. Non-life business

CAA is the largest motor and home bancassurer,<sup>5</sup> second largest health bancassurer and sixth largest property and liability insurer<sup>6</sup> in France.

The table below shows non-life underwriting performance by line of business on a Solvency II basis and consolidation scope. It illustrates the broad range of property & casualty lines.

(in € million)	31/12/2016								
	Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Other LoB	Total
Gross Premiums written	617	461	503	582	1,131	162	238	133	3,829
Gross Premiums earned	606	457	502	556	1,103	157	219	127	3,728
Gross claims incurred	463	212	432	340	642	101	41	46	2,277
Gross changes in tohet technical provisions	2	0	8	0	0	0	0	0	9
Gross expenses (w/o investment portfolio expenses)	110	192	184	109	326	65	124	61	1,172

Non-life written premiums totalled €3,829 million in 2016, derived mainly in France. The good underwriting performance was driven by sustained momentum across all lines of business and particularly comprehensive household and motor policies, which are included in Fire and other damage to property, as well as motor vehicle liability policies.

Fire and other damage to property accounted for 29% of total written premiums and totalled €1,131 million, an increase of 9% compared with 2015. This growth was due mainly to strong business momentum in comprehensive household insurance, with high new business volumes and a slight decrease in the lapse rate compared with 2015, particularly in France, thanks to a strong level of customer satisfaction.

Motor vehicle liability written premiums accounted for 28% of total premiums and totalled €1,085 million, an increase of 8% driven by excellent business momentum in Motor products.

The combined ratio in France, which accounts for most of CAA's business, was 95.9%, reflecting good control over operating costs and the cost of claims.

## A.3 Investment performance

In 2016, CAA's investment performance proved resilient despite a challenging macro-economic and financial environment caused by persistently low interest rates, relatively sluggish growth and low inflation, especially in the Eurozone. As regards the bond markets, it is important to note that during the first three months of the year, yields fell significantly due to the European Central Bank's accommodative monetary policy and the US Federal Reserve's repeated postponement of its second interest rate hike. By contrast, the fourth quarter saw a significant rise in sovereign bond yields.

CAA's investment income amounted to €8,657 million in 2016, down slightly due to lower realisation of gains.

The table below shows net investment income (after dividends) in 2016 on a consolidated IFRS basis.

<sup>5</sup> Source: L'Argus de l'Assurance, 14 April 2017

<sup>6</sup> Source: L'Argus de l'Assurance, 16 December 2016

	31/12/2016					Total
	Investment income	Investment expenses	Gains and losses on investments net of reversals from provisions	Change in fair value	Change in provisions on investments	
<i>(in € million)</i>						
Held-to-maturity assets	547	-	-	-	-	547
Available-for-sale assets	6,060	(6)	892	-	(246)	6,700
Held-for-trading assets	-	-	-	-	-	-
Assets designated at fair value through profit or loss	628	-	-	648	-	1,276
Investment property	159	(2)	2	-	(2)	157
Loans and receivables	145	(2)	-	66	-	209
Derivative instruments	24	(4)	-	(123)	-	(103)
Investments in associates and joint ventures	92	-	-	-	-	92
Other	185	(406)	-	-	-	(221)
<b>TOTAL</b>	<b>7,840</b>	<b>(420)</b>	<b>894</b>	<b>591</b>	<b>(248)</b>	<b>8,657</b>

In keeping with the composition of the investment portfolio, which consists predominantly of fixed-income assets, investment income is derived mainly from available-for-sale assets (AFS), which accounted for almost 90% of fixed-income assets and totalled €6,060 million at end-2016, mainly in interest received. Dividends received also increased by 17% compared with end-2015, to €1,141 million. This growth was driven by buoyant equity markets in 2016.

At end-2016, securitised assets accounted for a minimal proportion of the investment portfolio and revenue from these assets was not material. Most of the securitised assets are held through an SPV invested predominantly in AAA rated securities with an average life of less than 3 years.

The table below shows gains and losses recognised in other comprehensive income in the 2016 IFRS consolidated financial statements.

(in millions of euros)

31.12.2016

31.12.2015

<i>Gains and losses recognised in other comprehensive income that may be subsequently reclassified to profit or loss</i>		
<b>Gains and losses on translation adjustments</b>	<b>1</b>	<b>4</b>
Revaluation gains in the period		
Transfers to profit or loss		
Other movements	1	4
<b>Gains and losses on available-for-sale assets</b>	<b>325</b>	<b>(76)</b>
Gains and losses on available-for-sale assets before profit participation	1,951	(4,749)
Revaluation gains in the period	2,610	(2,959)
Transfers to profit or loss	(661)	(1,512)
Other movements	2	(278)
Change in deferred profit participation in the period	(1,626)	4,673
<b>Gains and losses on hedging derivatives</b>	<b>22</b>	<b>33</b>
Gains and losses on hedging derivatives before profit participation	135	(45)
Revaluation gains in the period	135	(43)
Transfers to profit or loss	-	-
Other movements	-	(2)
Change in deferred profit participation in the period	(112)	78
<b>Pre-tax gains and losses of associates recognised in other comprehensive income that may be subsequently reclassified to profit or loss</b>	<b>(11)</b>	<b>4</b>
<b>Tax on gains and losses recognised in other comprehensive income that may be subsequently reclassified to profit or loss, excluding associates</b>	<b>101</b>	<b>(20)</b>
<b>Tax on gains and losses of associates recognised in other comprehensive income that may be subsequently reclassified to profit or loss</b>	<b>3</b>	<b>(1)</b>
<b>Net gains and losses on discontinued operations recognised in other comprehensive income that may be subsequently reclassified to profit or loss</b>	<b>1</b>	<b>15</b>
<b>Net gains and losses recognised in other comprehensive income that may be subsequently reclassified to profit or loss</b>	<b>443</b>	<b>(40)</b>
<i>Net gains or losses recognised in other comprehensive income that will not be reclassified to profit or loss</i>		
Actuarial gains and losses on post-employment benefits	(2)	(8)
Pre-tax gains and losses of associates recognised in other comprehensive income that will not be reclassified to profit or loss	-	-
Tax on gains and losses recognised in other comprehensive income that will not be reclassified to profit or loss, excluding associates	-	3
Tax on gains and losses of associates recognised in other comprehensive income that will not be reclassified to profit or loss	-	-
Net gains and losses on discontinued operations recognised in other comprehensive income that will not be reclassified to profit or loss	-	-
<b>Net gains and losses recognised in other comprehensive income that will not be reclassified to profit or loss</b>	<b>(2)</b>	<b>(6)</b>
<b>NET GAINS AND LOSSES RECOGNISED IN OTHER COMPREHENSIVE INCOME</b>	<b>441</b>	<b>(46)</b>
Attributable to owners of the parent	441	(45)
Attributable to non-controlling interests	-	(1)

## A.4 Other income and expense

Other income and expense mainly comprises tax and interest expense on subordinated debt.

## B. SYSTEM OF GOVERNANCE

CAA has an appropriate system of governance tailored to its various business activities and its management methods. This system of governance contributes to achieving CAA's strategic objectives and guarantees sound and prudent management of risks in view of their nature, scope and complexity.

### B.1 General information on the system of governance

CAA's general system of governance is based on:

- Board of Directors and Senior Management;
- Hierarchical structure (divisions, departments, services, units);
- Matrix structure through committees.

Membership of Crédit Agricole Group is reflected in a structure organised by business line. The reporting lines of the heads of the corresponding functions within the group are:

- Direct in the case of Periodic Control, Permanent Control and Risks;
- Functional in the case of Finance, Legal Affairs, Compliance, Communications and Human Resources.

The heads of these functions report to both Senior Management of the CAA group entity to which they belong and to the head of the Group business line.

The Investment, Corporate Communications, Customer Communications, Internal Audit, Human Resources and Purchasing functions are pooled at group level.

#### B.1.1. Role and responsibilities

##### B.1.1.1 Board of Directors

The Board of Directors of Crédit Agricole Assurances, parent company of the insurance group, had eight members at 31 December 2016.

It generally meets five times a year. The Board sets the group's broad business strategy and oversees its implementation. Within the limits of its powers, it runs the day-to-day affairs of the business and deals with all matters within its remit by passing resolutions. It draws up and approves the various reports required and also approves policy. It may perform any inspections or checks it deems appropriate. It is responsible at group level for compliance with the legal, regulatory and administrative provisions adopted pursuant to the Solvency II directive. It ensures that an internal assessment of risk and solvency is carried out at group level.

The Board is also responsible for the effectiveness of the risk management system by setting risk appetite and tolerance limits and approving the main risk management policies for the group as a whole.

In this respect, it approves the general organisation of the group, its system of governance and risk management, and its internal control framework. It ensures that these systems are adequate for the nature, scope and complexity of the transaction risks and controls them regularly to make sure that the business is managed on a sound and prudent basis. It is therefore involved in understanding the principal risks encountered by the group and setting relevant limits. It receives regular reports on compliance with those limits. It ensures that the system of risk management is integrated, consistent and effective at group level.

The Board works with Senior Management and the key function holders.

The key function holders report to the Board at least once a year and whenever they believe a particular event needs reporting. The key function holders also attend meetings of the Audit and Accounts Committee, which reports to the Board on its work.

#### **B.1.1.2 Board committees**

##### **Audit and Accounts Committee**

It is composed of three directors. The external auditors and any person responsible for reporting or authorised to report issues relating to risk management, audit work, finance and accounting may also attend committee meetings. In accordance with the internal rules of procedure, representatives of the Finance and Corporate Secretarial Departments and the four key function holders also attend committee meetings.

The Committee meets at least twice year at the initiative of its Chairman or at the request of the Chairman of the Board or the Chief Executive Officer. The Committee reports on its work at the next Board meeting and informs the Board promptly of any difficulties it encounters.

The Committee deals with accounting issues related to CAA's separate and consolidated financial statements, monitors the work of the internal and external auditors, reviews the effectiveness of internal control and risk management systems (in particular the appropriateness of accounting treatment of significant transactions, major risks, overall consistency, etc.) and monitors all strategic matters that could have a major impact on CAA's financial condition at the request of Senior Management, the Committee Chair or the Chairman of the Board.

##### **Ad hoc committees**

The Board may create ad hoc committees to deal with specific matters within its remit. These committees conduct their work under the Board's responsibility.

In 2013, the functions of CAA's Compensation Committee were transferred to the Compensation Committee of Crédit Agricole S.A.

#### **B.1.1.3 Senior Management**

Pursuant to the provisions of the law, CAA has separated the office of Chairman from that of Chief Executive Officer.

On 31 July 2015, the Board appointed Frédéric Thomas as Chief Executive Officer (*de jure* key executive officer) effective 1 September 2015. Senior Management has the broadest power to act in the name of the company at all times and in all circumstances, within the limits of its corporate purpose and subject to the powers expressly vested by law in the general meeting of shareholders and the Board of Directors.

Senior Management implements the strategy set by the Board of Directors and reports on its action to the Board. It supervises, manages and runs the risk governance system put in place by the group. It makes strategy proposals to the Board and draws up policies which the Board approves for the group as a whole. It sets effective decision-making procedures, an organisation structure that clearly indicates reporting lines, assigns roles and responsibilities as regards internal control and allocates the appropriate resources.

It is directly involved in the organisation and operation of the risk management and internal control system and makes sure that risk strategies and limits are compatible with the group's financial condition (level of own funds, earnings) and the strategies determined for the group. It ensures that the key information about the entities and group is regularly reported and properly documented, significant irregularities identified and corrective measures taken. It interacts appropriately with the Board committees and the key function holders.

#### **B.1.1.4 Key executive officers**

The Board of Directors designated Thierry Langreney and Henri Le Bihan, Deputy Chief Executive Officers of CAA, as key executive officers on 1 January 2016. The key executive officers make a direct contribution to Senior Management's role and responsibilities (as described above) and meet as required with the Chief Executive Officer to discuss matters in Senior Management committee meetings.

#### **B.1.1.5 Committees under the responsibility of Senior Management**

CAA has an Executive Committee and a number of special committees (ALM, Risk and Internal Control, Actuarial, etc.) at group level, mainly comprising representatives from the entities.

The Executive Committee (ExCo) is Senior Management's strategic body responsible for approving the strategic proposals made to the Board of Directors, for exchanges and coordination between the Senior Management teams of the entities, and for reviews and decisions on cross-cutting Senior Management issues. It uses information reported by the entities' Management Committees as regards their strategic objectives and drills down strategic decisions to entity level.

#### **B.1.1.6 Key functions**

CAA has designated four key functions for each entity within the group:

- Risk Management;
- Actuarial;
- Compliance;
- Internal Audit.

One person only is responsible for each of these four key functions (key function holders), who provide Senior Management and the Board of Directors with insight and assistance in running the system of governance. They have the authority and independence required to fulfil their role.

#### **Risk management**

The Risk Management function is organised in the same way as Crédit Agricole S.A.'s Risk business line and in accordance with Solvency II requirements.

#### Role and responsibilities

The Risk Management function is responsible at CAA group level for:

- Developing a "risk" framework including a CAA group risk strategy based on a risk appetite framework approved by the Board of Directors;
- Implementing and overseeing a risk management system (risk identification, measurement, control, management and reporting);
- Making sure it is consistently applied in the subsidiaries;
- Meeting oversight and communication needs;
- Reporting to governance on risk exposure and its management.

#### Organisation of the function, reporting lines and relationship with other insurance undertakings

CAA's Risk Management function reports to the Head of Risk Management and Permanent Control, who has a direct reporting line to Crédit Agricole S.A.'s Risk Department and a functional reporting line to CAA's Chief Executive Officer.

The Head of Risk Management and Permanent Control is supported by persons designated within the CAA group entities as Risk Management and Permanent Control Officers (RMPC officers), who report directly to him. Some of them also play a cross-cutting role in the group for a specific risk area and are then known as a "Lead Risk Adviser".



The Risk Management function also draws on other key functions (in particular Actuarial for underwriting risks) and the internal control systems of the group and the entities.

## **Actuarial function**

### Role and responsibilities

The Actuarial function is responsible at CAA group level for:

- Implementing a group system to coordinate and ensure consistency of actuarial practices within the entities;
- Making sure that group technical reserves are reliable and adequate relative to risks and coverage;
- Providing a second opinion on underwriting and reinsurance policies, in particular by making sure that the entities draw up and implement appropriate policies;
- Formally documenting all its work and conclusions in an annual actuarial report for presentation to the Audit and Accounts committee.

### Organisation of the function, reporting lines and relationship with other insurance entities

In 2016, the Actuarial function, which is headed by the head of group ALTM, reported to the Chief Financial Officer. Since February 2017, it has reported directly to one of the group's two Deputy Chief Executive Officers.

The group Actuarial function is based on the principle of subsidiarity. Each subsidiary has a solo Actuarial function commensurate with the scale of its business.

Each entity Actuarial function, which is independent of the operational functions in line with the principle of segregation of tasks, is responsible for:

- Coordinating the calculation of Solvency II technical provisions;
- Ensuring the appropriateness of methodologies, underlying models and assumptions used to calculate Solvency II technical provisions;
- Assessing the adequacy and quality of data used to calculate Solvency II technical provisions;
- Issuing an opinion on the overall underwriting policy and the adequacy of reinsurance arrangements.

The Actuarial functions of the entities liaise with the group Actuarial function to carry out their work and perform controls within the area of their remit.

## **Compliance function**

The Compliance function is organised in the same way as Crédit Agricole S.A.'s Compliance business line and in accordance with Solvency II requirements.

### Role and responsibilities

The Compliance function is responsible at CAA group level for:

- Protecting the group against the risk of non-compliance with the laws and regulations applicable to its business, including those compliance areas defined by Crédit Agricole S.A. Group's business line;
- Implementing a clear and consistent method of operation between CAA, its subsidiaries and Crédit Agricole S.A. Group;
- Obtaining a "group" view of compliance risks across the CAA group scope;
- Implementing systems to manage those risks and reporting to the governance bodies.

### Organisation of the function, reporting lines and relationship with other insurance entities

CAA's Compliance function is centralised within CAA's Corporate Secretarial Department. Since the creation of the Group Compliance business line, CAA's Compliance function now reports directly to Crédit Agricole S.A. and indirectly to CAA's Chief Executive Officer.

CAA group's Compliance Officer is responsible for coordinating the function for the entire Insurance business through meetings with the compliance officers in the subsidiaries.

The Compliance function is supported by the Legal Department and works as required with other parties involved in the internal control system, in particular CAA's Risk Management and Permanent Control and Internal Audit departments.

## Internal Audit function

### Role and responsibilities

The Insurance Audit Department conducts desk and onsite audits across the entire CAA group internal control scope, including its critical service providers. It draws first and foremost on the work performed by the dedicated internal audit units in Italy, Poland and Japan. Its role is to obtain assurance on:

- Proper measurement and management of risks;
- Adequacy and effectiveness of internal control systems;
- Conformity of transactions and compliance with procedures;
- Proper implementation of remedial action decided;
- And to assess the quality and effectiveness of operations.

On the basis of its work, the Insurance Audit department provides Senior Management and the Board of both the group and its subsidiaries with a professional, independent opinion on the operation and internal control of the group and its entities.

### Organisation of the function, reporting lines and relationship with other insurance entities

CAA's Group Head of Internal Audit is the key function holder for the Internal Audit function at the level of CAA group and its French subsidiaries. Furthermore, to guarantee his independence, CAA's Group Head of Internal Audit reports both to Crédit Agricole Group's Audit Inspection business line and CAA's Chief Executive Officer.

## B.1.2. Material changes in the system of governance during the year

There were no material changes in the system of governance during 2016.

However, there were several changes within the Board of Directors:

	Members
Ratification of the co-option of two members	Jérôme GRIVERT (replacement of Bernard DELPIT)
(General Meeting of shareholders of 28/04/2016)	Yves PERRIER (replacement of Jérôme BRUNNEL)
Appointment of two members	Elisabeth EYCHENNE et Isabelle JOB-BAZILLE
Resignation of one member	Jean-Pierre VAUZANGES
Resignation of one censor	Elisabeth EYCHENNE

## B.1.3. Remuneration policy

CAA's remuneration policy is aligned with that of Crédit Agricole S.A. and consistent with its internal structure. CAA's policy is based on responsible remuneration practices protecting it from excessive risk-taking by its senior executives and employees in the interests of all stakeholders — employees, customers and shareholders.

### **B.1.3.1. General presentation and key components of the remuneration policy for members of the Board of Directors and Senior Management**

#### **Board of Directors**

##### Directors' fees

The aggregate amount of directors' fees is set each year at the Shareholders' Meeting and allocated among the directors and Board observers by decision of the Board. A fixed amount, set by the Board, is allocated to each director and observer per meeting of the Board, Audit and Accounts Committee or any ad hoc Committee attended.

##### Variable components of remuneration

CAA's directors do not hold any stock options or performance shares. As CAA has no listed equity securities, only debt securities, directors do not receive any share-based variable remuneration.

#### **Executive officers**

CAA does pay any remuneration to the Chief Executive Officer in respect of his office, as his remuneration is paid by Crédit Agricole S.A. in accordance with the provisions applicable within the Group. The executive officers are not entitled to any benefits, specific pension arrangements, death and disability insurance or severance benefits of any kind in respect of their office. However, they are "identified persons" (as defined under the heading "Remuneration of identified persons") and their remuneration is structured in such a way as to be aligned to the long-term interests of the company.

#### **General principles**

CAA's remuneration policy is an integral part of Crédit Agricole S.A.'s remuneration policy. It is set by the group's Senior Management at the proposal of the Human Resources Department, after review by the Compensation Policy Control Committee. This policy is reviewed and approved each year by Crédit Agricole S.A.'s Board of Directors.

Given the specific nature of its business, its legal entities and national legislation in its countries of operation, CAA strives to develop a remuneration system aligned to market practices in order to attract and retain the talent the group needs. Remuneration is based on both individual performance and collective performance of the business lines. The remuneration policy is designed to discourage excessive risk-taking.

CAA's remuneration policy is therefore devised in line with the objectives set by the group while striving to adapt them to the difference categories of employee and the specific features of the insurance market.

#### **Governance**

CAA's Human Resources Department provides Crédit Agricole S.A.'s Compensation Committee with the information it needs.

CAA aligns its remuneration policy to the decisions taken by Crédit Agricole S.A.'s Board of Directors after obtaining opinions from its own Compensation Committee and Compensation Policy Control Committee, which comprises representatives of the Risk Management and Permanent Control, Compliance and Human Resources departments.

The Finance Department is also involved in approving the methods used to determine the economic results underlying the variable components of executive pay.

The remuneration policy and its implementation are also audited by the Group's Internal Audit and Inspection Department.

In addition, to comply with regulatory obligations, Crédit Agricole Assurances has set up a compensation policy control committee comprising representatives of the Risk Management and Permanent Control, Compliance and Human Resources Departments.

### **B.1.3.2. Main components of the remuneration policy for employees and senior executives**

#### **Employees**

Employees' remuneration is based on the following components:

- Base salary;
- Individual variable remuneration;
- Collective variable compensation;
- Long-term and deferred variable remuneration;
- Other benefits (supplemental pension plans and health, death & disability insurance):

CAA benchmarks its practices against those of insurance and reinsurance companies in the French market and aims to position itself within the market median in terms of overall remuneration.

Individual variable remuneration rewards employees for performance and forms an integral part of the annual remuneration package. It is based on a precise assessment of results achieved relative to the specific targets for the year, taking into account how they were achieved.

In response to European regulatory requirements, rules of conduct for the remuneration policy were introduced in 2015 to ensure that remuneration practices:

- Do not encourage relevant persons to put their personal interests above those of their customers;
- Prohibit employees from using any kind of individual hedging or income protection or liability insurance strategy that could jeopardise the alignment of their remuneration to the risks underlying the variable remuneration arrangements.

Again in response to regulatory requirements and to avoid any conflict of interest, as of 2016 the remuneration of key function holders is set independently of that of the business lines they are responsible for overseeing or controlling. Targets set and metrics used to determine their variable remuneration do not include any criteria related to the results and economic performance of entities they are responsible for controlling.

Collective variable remuneration rewards employees for CAA's overall performance. It comprises mandatory profit-sharing and discretionary incentive schemes, plus an employee savings scheme and a group retirement savings scheme.

In 2016, CAA employees were given the opportunity to subscribe to a share offering open to employees of Crédit Agricole Group.

#### **Senior executives**

##### Individual variable remuneration

Senior executives of CAA benefit from the variable remuneration programme provided by Crédit Agricole S.A. Group — Personal Variable Remuneration (PVR) — based on management by objectives and the achievement of pre-set individual and collective targets on the employee's scope of responsibility.

The programme has been rolled out and adapted to senior executives of CAA, who are also entitled to receive PVR. PVR measures individual performance based on individual and collective targets in four areas:

- Economic results;
- Human capital;
- Internal/external customers;

- Society.

The variable remuneration awarded is also directly impacted by behaviour that fails to respect the fit and proper requirements, compliance rules and procedures and risk limits. Annual variable remuneration is defined as a percentage of base salary which increases in line with the level of responsibility. For all senior executives, regardless of business line or function, a portion of variable remuneration is based on economic targets at group level, increasing in line with responsibility, and the remainder is based on entity targets.

#### Long-term variable remuneration

The long-term remuneration plan, set up by Crédit Agricole S.A. Group in 2011, is based on share or cash awards linked to long-term performance conditions. Performance shares vest in an amount of one third per year over a period of three years, provided the performance conditions have been met. Once vested, the shares may also be subject to a lock-up period.

At the end of the deferral period, the performance shares vest according to the level of achievement of demanding sustainable performance conditions, based on the following criteria:

- Crédit Agricole S.A. Group's intrinsic performance;
- Performance of Crédit Agricole S.A. shares relative to a composite index of European banks;
- Societal performance as measured by the FReD index.

If the performance conditions are achieved or exceeded at the end of the vesting period, 100% of the shares will vest. If the performance conditions are not fully achieved, a discount is applied on a linear basis.

Each performance condition represents one third of the initial award. CAA's executive officers are eligible for this long-term plan. Awards are set annually at the proposal of Crédit Agricole S.A.'s Chief Executive Officer. During the vesting period, the shares awarded vest at the end of each deferral period provided that the beneficiary is still in service or meets one of the following conditions:

- Internal transfer within the Crédit Agricole Group;
- Retirement;
- Termination for economic reasons at the employer's initiative;
- Incapacity or disability;
- Change of control of the subsidiary;
- Death (the heirs will receive the shares awarded during the vesting period).

#### Information on the key characteristics of supplemental pension plans

Since 2011, senior executives of CAA have been entitled to various supplemental pension plans, comprising a combination of defined contribution and defined benefit top-up plans:

- Cumulative contributions to the two defined contribution plans (industry plan and company group plan) are equal to 8% of gross salary capped at eight times the Social Security ceiling (5% paid by the employer and 3% by the beneficiary);
- Benefits in the top-up defined benefit plan are determined after deduction of the pension accrued under the defined contribution plans. They are equal to a pension rate of between 0.125% and 0.30% per quarter of service, capped at 120 quarters and 100% of the reference remuneration, provided that the beneficiary is still in service on the vesting date.

The reference remuneration is defined as the average of the three highest gross annual remuneration amounts received in the last 10 years of service with Crédit Agricole entities, defined as fixed remuneration plus variable remuneration capped at 40% and 60% of fixed remuneration depending on the last salary level. In any event, when claimed, the total pension annuity received from all plans is capped at 23 times the annual Social Security ceiling on that date, and 70% of the reference remuneration.

Benefits accrued within the group prior to the current rules are maintained and are aggregated with benefits accruing under the current plans, in particular for calculating the maximum amount of pension payable.

### **Performance bonus for managerial and non-managerial staff**

Performance bonuses are based on a precise assessment of results achieved relative to the specific targets for the year (quantitative assessment), taking into account how they were achieved (qualitative assessment). They do not reward the fulfilment of normal duties.

The extent to which objectives are achieved or exceeded is the key criterion for the award of performance bonuses, plus a qualitative assessment of how the targets were achieved (based on criteria such as autonomy, engagement, uncertainty, general context, etc.), and in light of the consequences for other stakeholders in the company (managers, colleagues, other sectors, etc.).

The bonus awarded can therefore be tailored to different situations.

The assessment is formally documented in an annual performance appraisal.

In summary, the performance bonus can vary from one employee to another (even within the same category) and from year to year. It is possible that no bonus will be awarded.

### **Remuneration of identified persons**

Identified persons are designated jointly by the Risk Management and Permanent Control, Compliance and Human Resources departments. The process is supervised by Crédit Agricole S.A.'s Compensation Committee. Identified persons are employees who can have an impact on the company's risk profile due to their functions, i.e.:

- Key executive officers;
- Members of CAA's Executive Committee;
- Persons responsible for key functions;
- Persons responsible for underwriting activities and business development;
- Persons responsible for investment.

### **B.1.4. Material transactions with related parties**

The principal material transaction identified during the 2016 was the 2016 dividend distribution (as presented in section A.1.5). There were no material transactions with members of Senior Management.

## **B.2 Fit and Proper requirements**

A "fit and proper policy for Crédit Agricole Group insurance companies" sets out formal rules for assessing and justifying fitness (individual and collective) and propriety of the relevant persons (Board of Directors, key executive officers and key function holders).

The policy is reviewed annually and revised if warranted by an event such as a change in the rules for assessing and justifying fitness and propriety.

### **B.2.1. CAA's Fit and Proper policy**

#### **B.2.1.1 Fitness**

#### **Assessment of fitness**

Collective fitness is assessed in the light of the overall skills, knowledge and experience of CAA's Board of Directors. It takes into account the various responsibilities allocated to each of the directors to

ensure that the Board has a sufficiently broad range of skills, knowledge and experience to guarantee sound, professional management and supervision of the company.

Assessment of individual fitness:

- For key executive officers and key function holders, the assessment is designed to ensure that their qualifications and experience are commensurate with their role and responsibilities. It also takes into account previous executive experience and all training completed throughout their term of office.
- For directors, the assessment looks at fitness for their allocated responsibilities and the Board's overall skills and experience.

## **Skills**

The individual and collective assessment is based on five areas of skills: insurance, management, finance, accounting and actuarial.

This ensures that the Board has the knowledge and experience required in the insurance and financial markets, the company's business strategy and business models, systems of governance, financial and actuarial analysis and the regulatory framework and requirements for the insurance business.

### **B.2.1.2 Propriety**

The propriety assessment checks that the individual has never been involved in money laundering, bribery and corruption, influence peddling, embezzlement, narcotics trafficking, fiscal fraud, personal bankruptcy, etc. It also checks the person's reputation and integrity.

Anyone found guilty of impropriety in any of those areas is required to cease their activity within one month of the court decision.

The minimum proof of propriety is a clean criminal record or equivalent document issued by a competent judicial or administrative authority.

### **B.2.1.3 Notification to the control authority**

The control authority is notified of the names of all key executive officers and key function holders and of any new appointments or re-appointments.

The Legal Department of each entity is responsible for obtaining the information required for notification to the ACPR.

## **B.2.2. Fit and proper assessment and validation process**

### **B.2.2.1 Assessment of fitness**

#### **Individual fitness**

The assessment is based principally on experience acquired (current function, previous executive experience, etc.) and the assessment principles are based on the following factors:

- Key executive officers and key function holders: assessment of skills in five areas for key executive officers and in their area of responsibility for key function holders, based on qualifications, previous executive experience and training, which are detailed in the applications sent to the ACPR for authorisation of their functions in an insurance undertaking.
- Directors: assessment of skills in the five areas referred to above based on their qualifications, previous directorships, experience and approvals for executive offices held.

To identify qualifications, previous directorships, experience and training, a form entitled "Assessment and Validation of Skills, Experience and Knowledge" is completed for all directors and executive officers.

It was completed for the first time before Solvency II came into effect on 1 January 2016 and has been revised to take account of training received and developments in directorships and offices held.



## Collective fitness

In addition to the individual assessment, a questionnaire entitled "Self-assessment of Solvency II skills" is completed by directors to assess the level of skills expected in each of the five areas referred to above. For existing directors, it is completed once upon implementation of Solvency II. For new directors, it is completed upon appointment.

### B.2.2.2 Training plan

The results of the skills assessments are analysed to determine any training requirements.

- Key executive officers and key function holders: upon appointment and depending on needs identified, training plans may be proposed and completed on an individual basis.
- Directors: the training plan proposed is the same for all members of a given Board. However, there may be a special focus on some specific aspects at the request of a director to support the collective training plan, or such training can be provided on an individual basis.

### B.2.2.3 Assessment of propriety

CAA's Corporate Secretarial and Legal departments obtain proof of the propriety of directors, key executive officers and key function holders and check that they have never been subject to any civil or criminal penalties or sanctions.

For this purpose, in addition to providing a clean criminal record or equivalent document, directors, key executive officers and key function holders are required to sign an attestation of propriety. This attestation was initially made before the implementation of Solvency II and is updated annually.

## B.3 Risk management system

### B.3.1. Risk management framework

CAA has devised a risk appetite framework to achieve its strategic objectives while controlling and managing its risk appropriately. This framework is based on strategic financial metrics for solvency, earnings and value, which are drilled down into key indicators by risk type, constituting the basis for the Risk strategy. The Risk strategy is reviewed at least once a year and documents the system for managing and monitoring the various risks inherent in the business (financial risk, underwriting risk and operational risk) and, in particular, all related limits and alert thresholds. It is approved, along with the risk appetite framework, by the Board of Directors after a review of the key indicators and limits by Crédit Agricole S.A. Group's Risk Committee (a sub-committee of Crédit Agricole S.A.'s Executive Committee, chaired by its Chief Executive Officer). Any breach of a limit or alert threshold and the associated remedial measures are reported to CAA's Senior Management or to Crédit Agricole S.A.'s Risk Department if the limits fall under its authority. The risk management framework is supplemented by the own risk and solvency assessment (ORSA) as described below in section B.3.2.

The risk map is the main tool used to identify and measure risks to which each entity and CAA group as a whole are exposed. It is based on available information sources and existing measurement systems, which are standardised across the CAA group: risk dashboards, operational risk map revised regularly, outcome of permanent controls, reporting of operational incidents and losses, audit findings and analyses from the various business lines.

Apart from identifying the key risk exposures, the Risk Management department monitors risks related to the insurance business on an ongoing basis in liaison with senior management of the business lines and the Legal department. It draws on many sources including economic research, internal reports and external reports published by consulting firms or bodies such as EIOPA, ACPR and FFA.

Financial risk is managed transversally across the group through:

- A set of financial risk documents including risk procedures and policies applicable to management mandates given by CAA entities to Amundi, Crédit Agricole S.A. Group's asset management company;



- Financial risk analyses and opinions issued for general use, in particular those related to investments made directly by the Investment department at the decision of CAA's Chief Executive Officer in compliance with a set of delegated authorities.

Other risk types are also managed from a group perspective and are coordinated and consolidated at group level (underwriting risk, operational risk). Information security risk and business continuity risk across CAA group scope are monitored and managed on a centralised basis under the responsibility of the IT and BCP Risk Manager. They are monitored separately on an operational basis, which is also centralised under the responsibility of the CISO (Chief Information Security Officer). The IT and BCP Risk Manager's second review role also extends to security of property and people.

CAA's Executive Committee is informed monthly of risk news and developments through a "Risk flash" and receives the group's Risk dashboard on a quarterly basis, which is used to monitor CAA's risk profile and identify any deviations. Financial risk and compliance with the associated consolidated limits are monitored monthly based on a standardised report.

CAA has set up various bodies to manage risks consistently at group level: a twice-monthly risk monitoring committee (RMPC officers discuss alerts flagged for all risk types), monthly financial risk committee and portfolio reviews by asset type (bonds, equities, property, etc.).

In addition, a methodology committee, run by the Risk Management business line, validates model methodologies and indicators associated with major risks or risks common to the CAA group as a whole.

### **B.3.2. Own risk and solvency assessment (ORSA)**

The own risk and solvency assessment (ORSA) is organised both at entity level and at group level on a consolidated basis. It is the responsibility of the Risk Management function, with a key contribution from the Actuarial function and Finance department. It is based on the existing risk management system (in particular the Risk strategy).

The ORSA approach is embedded in the group's operations and in the decision-making processes in place at strategic, management and operational level. Thus CAA synchronises its ORSA with its budget preparation process (Medium-Term Plan) and uses the results and analyses to update its risk appetite framework and business line policies in line with budget information and capital planning.

The group ORSA is prepared annually but may be updated more often in the event of a material change in the environment or risk profile. It is based on calculations and information produced by the entities on a solo basis using the standard formula.

Overall consistency is assured through the standard reference framework defined by CAA:

- Forward-looking group ORSA guidelines setting out the key points of the methodology;
- Group ORSA scenarios applied by all entities drawn up in line with CAA's consolidated risk profile. However, entities may add specific scenarios to capture material risks at their level, which are not covered by the set of group scenarios;
- A set of metrics shared at group level to provide the minimum common basis of the group dashboard and thus facilitate the risk profile assessment at each level, as well as data aggregation and analysis.

CAA's internal ORSA policy, validated by the Board of Directors, describes the key elements of the ORSA process and the interaction between the group and its subsidiaries.

The 2016 ORSA covered the three regulatory assessments of overall solvency requirement, continuous compliance and appropriateness of the standard formula assumptions for the risk profile. The scenarios used for forward-looking assessments mainly focused on financial stress given the preponderance of financial risk for CAA, but also considered risks not captured by the standard formula (sovereign stress, reputation stress, etc.). Their aim is to analyse the consequences of challenging conditions such as sustainably low interest rates, a deferred bond crash and widening

spreads. For each of these scenarios, business assumptions were adjusted to take account of probable policyholder behaviour.

This work provides quantitative and qualitative information about the group's funding requirements, which is then used to determine any funding operations that would be required were the scenarios to materialise (commented on in section E. Capital Management). It also helps to identify action drivers should one of the more adverse scenarios develop, the most adverse for the solvency plan being sustainably low interest rates.

## B.4 Internal control system

Internal controls are designed to monitor and control operations and risks of all kinds to which the entity is exposed to provide reasonable assurance that the entity operates effectively and efficiently and complies with the applicable laws and regulations.

CAA has an adequate internal control system that meets the following common principles:

- Comprehensive coverage of all business operations, risks and responsibilities of persons involved, with direct Senior Management involvement in the organisation and operation of the internal control system;
- A clear definition of tasks, including effective segregation of underwriting and control functions and a decision-making process based on a set of formal, up-to-date delegated authorities;
- Formal, regularly updated standards and procedures, especially in accounting;
- Risk measurement, monitoring and management systems;
- A system of control encompassing permanent controls embedded in business operations (tier 1) or performed by operational staff not involved in the operations being controlled (tier 2, level 1), or performed by dedicated staff (tier 2, level 2), and periodic controls (tier 3) performed by Group General Inspection or Internal Audit;
- Reporting to Senior Management and the Board on the risk strategy and its implementation (including limits set and their utilisation) as well as the outcome of internal control and the implementation of associated remedial action.

Permanent control plans are based on a local plan comprising targeted controls according to the criticality of processes and the most material risks identified in the risk map, level 1, 2.1 (defined with the persons responsible for processes) and 2.2, and a level 2.2 "key" control reference manual prepared by Crédit Agricole S.A. Group's Risk Department, covering the quality and proper operation of the risk monitoring and management system.

Three separate control functions ensure that the overall internal control system is consistent, effective and complies with the principles described above across the entire CAA internal control scope

- The CAA group Head of Risk Management and Permanent Control, supported by the RMPC officers of the subsidiaries who exercise their role fully in their respective entities;
- CAA's Group Compliance Officer, who directly supervises the compliance officers in the international and French subsidiaries;
- Internal audit, which performs audits on a group-wide basis (including the Risk Management and Permanent Control and Compliance functions).

Compliance risk is integrated in the overall permanent control system (risk mapping, local and consolidated control plan), which contributes to effective coordination between the Risk Management and Permanent Control and Compliance functions. They also work with Internal Audit to prepare audit assignments and use the output reports, findings and recommendations to draw up action plans and, as necessary, update the risk map.

Lastly, CAA's Risk Management and Internal Control Committee coordinates the four key functions.

In all areas of Compliance managed at Crédit Agricole S.A. Group level through the "FIDES" framework revised in 2016, the Compliance function covers those applicable to insurance business, and more specifically in each entity, those applicable to its own business operations. The framework is

drilled down into operational procedures and defines the permanent control plan designed to ensure compliance with the framework and proper management of the compliance risks identified during the risk mapping preparation or revision process. The compliance system, whose purpose is to preserve CAA group's reputation and avoid the impacts of any violation of the applicable regulations (financial loss, civil, administrative or disciplinary sanctions), also includes training and staff and management awareness actions. Like the risk management function, Compliance issues opinions upon the launch of new products or business activities, which are vetted by the new activity and product committees in each entity, and upon the proposal of new investment projects.

The system is managed at group level through coordination committees and also covers the regulatory projects initiated by Crédit Agricole S.A. Group.

## B.5 Internal Audit function

Internal Audit operates in line with the internal audit policy approved by the Boards of CAA and its subsidiaries. This policy, which is fully compliant with the framework set out in the Solvency II directive, is reviewed annually (no change in 2016). It also complies with the principles and standards drawn up by Crédit Agricole S.A. Group's Audit-Inspection business line (LMAI).

CAA's Internal Audit department was created in 2010 and covers all CAA's French entities. It has 19 employees based in Paris and also draws on the LMAI's resources and methodological standards. The Insurance Audit department covers the CAA group's entire internal control scope. It is responsible for auditing CAA's subsidiaries in France and is involved in the international network supported where applicable by the local internal audit teams (5 people in total) in Italy (CA Vita, CA Assicurazioni), Japan (CA Life Japan) and Poland (CA T.U.).

The annual audit plan is drawn up using a risk-based approach. It is based on a risk map covering all operations and the entire system of governance, as well as the expected development in business. It is prepared on a CAA group level and individually for each of its subsidiaries. At both group and subsidiary level, it is part of a broader, longer-term plan that aims to review all operations in full over a maximum period of five years (the frequency may be shorter depending on the risk assessment). The annual audit plan is reviewed annually by the Audit and Accounts Committee and approved by the Board of Directors.

The audits performed by Internal Audit are insurance assignments as defined by professional standards, not consulting assignments. Their purpose is to assess the appropriateness and effectiveness of the risk management and internal control system, and in particular:

- Correct measurement and management of risks related to CAA's business operations (identification, reporting, management, hedging);
- Appropriateness and effectiveness of control systems designed to ensure reliability and accuracy of financial, management and operating data in the audited areas, in compliance with the applicable standards and procedures;
- Proper implementation of remedial action decided (including following audits by the supervisory authorities or Crédit Agricole Group's Inspection-Audit department);
- Assessment of the quality and effectiveness of the organisation structure in general.

Following an audit performed by the *Institut Français de l'Audit et du Contrôle Interne* (IFACI) in May 2015, the Insurance Audit department obtained quality certification for compliance with the requirements of the professional standards and guidance of the Global Institute of Internal Auditors.

## B.6 Actuarial function

CAA's Actuarial function is organised in accordance with Solvency II regulatory requirements. It coordinates and manages the actuarial functions in the entities and is based on the principle of subsidiarity; each CAA entity organises its actuarial function according to its own specific needs and any local regulatory requirements.

The group Actuarial function bases its conclusions and recommendations on its review of specific group issues (e.g. intra-group reinsurance) and on the reviews performed by the entities' actuarial functions.

The role of CAA group's Actuarial function is to:

- Organise quarterly meetings of the actuarial function committee, whose role is to coordinate the work of the group and entity actuarial functions and encourage discussion and exchange about standards, actuarial reports, underwriting years and regulatory developments;
- Organise bilateral meetings with the actuarial functions in the entities to deal with specific issues and oversee the review process;
- Attend meetings of CAA's methodology and reinsurance committee;
- Report half-yearly on its work and the conclusions of its actuarial report to the Risk and Internal Control Committee.

The CAA group Actuarial function also submits its annual report to the governing bodies, covering:

- Its work and coordination with the entities' actuarial functions;
- Its conclusions on the adequacy of technical provisions;
- Its opinion on the overall underwriting policy;
- Its opinion on the adequacy of reinsurance decisions taken;
- Its contribution to the risk management system (ORSA process, risk appetite, capital requirements, etc.);
- Its recommendations on how to remedy identified limitations and monitor action plans.

In 2016, the group Actuarial function strengthened its system, particularly in the following areas:

- Drawing up standards for valuing life and non-life technical provisions for CAA group to guarantee the use of consistent methods and compliance with the Solvency II regulatory requirements;
- Devising a set of controls associated with the review of technical provisions;
- Introducing an analysis of changes in technical provisions over the period, as well as output reports (sensitivities, modelled and non-modelled scopes, best estimate liabilities, etc.) to ensure a consistent analysis of technical provisions at CAA group level;
- Implement a process common to all entity actuarial functions based on key milestones.

The group Actuarial function monitors all actuarial-related matters throughout the year (e.g. developments affecting the entities' technical provisions) and coordinates action plans put in place in response to its recommendations.

## **B.7 Outsourcing**

### **B.7.1. General principles and objective of the group's outsourcing policy**

The outsourcing policy:

- Defines what is considered to be outsourcing, particularly with regard to Solvency II requirements;
- Sets out the criteria for classifying a service as critical, as stipulated in the Solvency II directive and banking regulations;
- Sets the general principles and key stages applying to the outsourcing process;
- Identifies the associated responsibilities;
- Describes the monitoring and control system for outsourcing (including its inclusion in audited operations).

The outsourcing policy, which comprises a set of guidelines, applies to all outsourced activities and functions regardless of the ordering department.

### **B.7.2. Intra-group outsourcing arrangements**

This policy is reviewed and approved each year by CAA's Board of Directors. It is drilled down to the various subsidiaries by the RMPC officers. The outsourcing policies of the subsidiaries are approved by Senior Management of each entity based on their own governance process and presented to their Board of Directors. Each entity is responsible for its outsourcing decisions across its scope of activity.

CAA group plays a coordinating role and draws up common principles to supplement the outsourcing policy to ensure a consistent approach at group level to defining the criteria for assessing a new outsourced function (in particular criteria for classifying a function or activity as critical or important and monitoring shared services).

### **B.7.3. Critical or important activities**

CAA outsources two critical or important activities to CAA group or Crédit Agricole S.A. Group entities to benefit from their expertise, harness synergies and achieve critical mass:

- Investment management outsourced to Amundi (Crédit Agricole S.A. Group's majority-owned asset management company): leading asset manager in France and Europe, Amundi offers a comprehensive range of products covering all asset classes and the key currencies. This service is shared by several CAA undertakings and is partially sub-outsourced to CACEIS (asset servicing);
- Back office and IT services outsourced to Caagis: owned jointly by CAA and the Crédit Agricole Regional Banks, Caagis supports CAA in its development by providing IT and other services dedicated to the insurance business. Caagis is a service provider to most of CAA's French entities and is based in France.

CAA also outsources other functions to Crédit Agricole S.A. Group as presented in section A.1.4 Intra-group transactions.

At end-2016, only CACI and La Médicale outsourced a key function — the actuarial function — whose contractually defined responsibilities have been outsourced to service providers recognised for their expertise.

## C. Risk profile

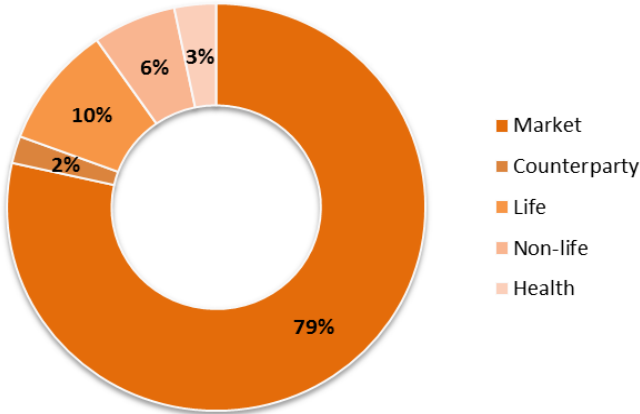
### C.1 Introduction

CAA's risk profile described in this section is derived from the risk map, which is the key tool used to identify and measure the risks to which each entity and, more generally, the CAA group is exposed. The risk profile is used as the basis for calculating CAA's capital requirement, which is further developed in section E. Capital Management.

Due to the preponderance of savings and retirement business, CAA's main risks are market and life underwriting risks, which are covered by the standard formula. The standard formula also covers other underwriting risks, which are less significant on a group scale, and operational risk. Risks that are not captured in the standard formula (liquidity, sovereign spreads, reputation, etc.) are, like all risks identified in the risk map, handled through a risk management and monitoring system that alerts the governance bodies if a deviation from the day-to-day management framework is observed or analysed through stress scenarios. The CAA group's solvency capital requirement (SCR) for the risks identified at end-2016 amounted to €13,303 million.

Risk exposure<sup>7</sup> largely comprises capital requirements for market risk (73%) and, to a lesser extent, underwriting risks (18%).

#### Contribution of standard formula models to the SCR\* at 31 December 2016



\* Before diversification, after loss-absorbing capacity of technical provisions and including operational risk

### C.2 Underwriting risk

Through its subsidiaries in France and abroad, CAA operates in the savings & retirement, death & disability, property & casualty and credit insurance segments. At end-2016, underwriting risk exposure represented 18% of the group's total risk exposure, with a balanced mix between life and non-life risks:

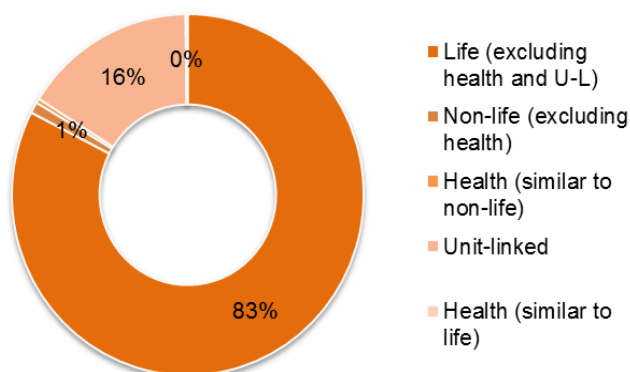
- 9% for life risks;

<sup>7</sup> Risk exposure is defined as the BSCR before diversification, after loss-absorbing capacity of technical provisions and including operational risk

- 6% for non-life risks;
- 3% for health risks.

The savings & retirement business accounts for the bulk of the group's life best estimate liabilities (BEL), as illustrated by the table below.

### Best estimate net of reinsurance at 31 December 2016



## C.2.1. Exposure to principal risks

### C.2.1.1 Life underwriting risk

Through its savings business, CAA is exposed to the risk of insufficient loading to cover operating expenses and commissions paid to distributors, mortality and longevity risk, and, most importantly, surrender risk.

In death & disability and credit insurance, CAA is more particularly exposed to biometric risk (longevity, mortality, disability, long-term care) and health risk. Catastrophe risk, related to a mortality shock (e.g. a pandemic), would be likely to have an impact on the results of individual or group death & disability insurance. Life underwriting risk is the second largest risk encountered by CAA, representing 9% of risk exposure at end-2016. It is naturally more stable than market risk and benefits from better risk diversification.

### C.2.1.2 Non-life underwriting risk

Non-life underwriting risk is encountered mainly in property & casualty. CAA is particularly exposed to frequency risk and calamity risk originating either from catastrophe risk, especially climate-related, or the occurrence of high-severity individual claims.

Non-life underwriting risk is the fourth largest risk encountered by CAA, with a capital requirement representing 6% of risk exposure at end-2016.

### C.2.1.3 Health underwriting risk

Health risks are mainly encountered in the credit insurance business for health similar to life, and in health and personal accident insurance for health similar to non-life.

CAA is mainly exposed to frequency risk, calamity risk (occurrence of high-severity claims) and biometric risk (incapacity/disability). Health underwriting risk is a secondary risk for CAA.



### C.2.2. Risk management and mitigation

In life insurance (savings), the main identified risk is surrender risk. This risk is managed by controlled allocation of competitive profit participation and prudent financial management, particularly through careful management of reserves.

The surrender rate is monitored at several levels:

- Monthly by the relevant entities to identify any drift due to the economic environment;
- Annually to ensure that surrender rates remain in line with the market average.

In P&C, credit and death & disability insurance, anti-selection and mispricing risks are managed through:

- Deployment of the pricing policy;
- The underwriting policy, which is executed by the banking networks and financial partners (for example in D&D, medical selection, maximum death benefit by product and cumulatively per insured);
- The claims administration policy, which is executed by dedicated units, France or multi-country platforms, or outsourced to local service providers.

Catastrophe risk and claims risk are mitigated through the reinsurance policy, which aims to protect own funds and contain earnings volatility.

The ratio of claims - reported, settled or provisioned - to earned premiums (claims ratio) is the key indicator for risk monitoring and is compared with the target ratio based on a standard loss experience scenario.

Additional monitoring of extreme risks and provisioning has also been introduced, mainly by comparison against a climate-related claims budget and a high-severity claims budget.

### C.2.3. Risk concentration

Life technical provisions are mainly held by Predica, CAA group's principal life entity in France. Non-life provisions are mainly held by Pacifica, CAA group's principal non-life entity in France. At 31 December 2016, life, non-life and health business represented, respectively, 53%, 30% and 16% of underwriting risk exposure, revealing a relatively diversified business mix.

Despite the preponderance of savings & retirement liabilities with profit participation in life business, unit-linked liabilities continue to grow rapidly.

In non-life, liabilities are split into six main lines of business, which represented almost 90% of written premiums in 2016, revealing a highly diversified business mix.

### C.2.4. Sensitivity

CAA's main underwriting risk is surrender risk, sensitivity of which is tested indirectly through sensitivity analysis of assets (bond yield curves) or more directly through reputation shock, one of the ORSA stress scenarios. In the current environment, this stress has an impact on earnings but not on solvency.

## C.3 Market risk

Market risk dominates for CAA due to the very high and growing amount of financial assets held to cover policyholder liabilities in the savings business. At end-2016, market risk represented 73% of total risk exposure. Given the diversification of investments, the sources of market risk are:

- Interest rate risk;
- Equity and property price risk;



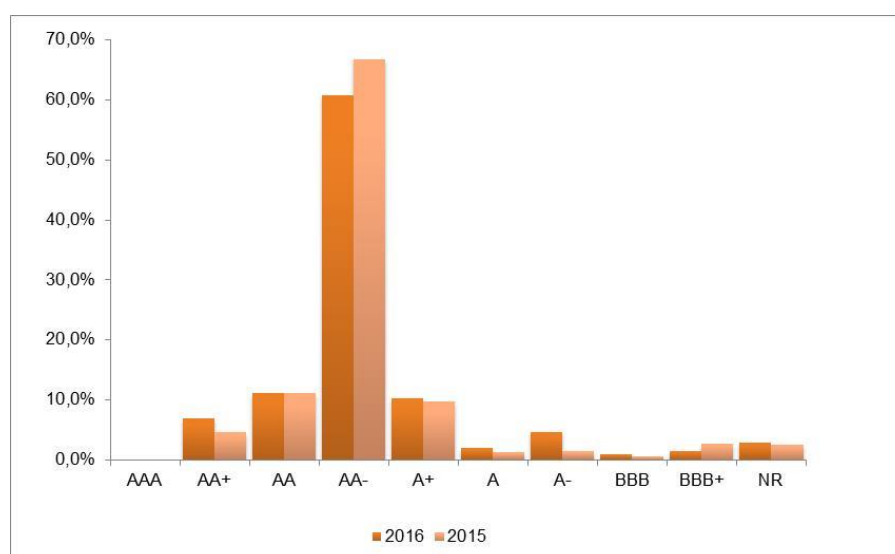
- Exchange rate risk;
- Counterparty risk, both from a default risk perspective (issuers of bonds held in the portfolio, OTC transaction counterparties) and movements in issuer spreads.

### C.3.1. Risk exposure

In-force participating business amounted to €299,591 million in market value, up €12,273 million over one year, while unit-linked financial investments totalled €52,432 million at end-2016, a year-on-year increase of €3,376 million.

The main sources of market risk at end-2016 were spread risk, equity risk and, to a lesser extent, interest rate risk.

The table below shows a breakdown of CAA's total bond portfolio, excluding unit-linked investments, by credit rating.



Exposure to sovereign bonds (and government guarantees), which is not included in the standard formula calculation, is mostly concentrated in France and Italy. Exposure to Italian sovereigns is carried mainly by CAA's life subsidiary in Italy. Exposure to peripheral Eurozone countries is minimal.

Exposure to exchange rate risk is also minimal due to CAA's hedging policy. Low exposure to concentration risk illustrates CAA's policy in terms of issuer diversification, through compliance with concentration limits.

### C.3.2. Risk management and mitigation

CAA has a prudent investment policy. It is based on analyses produced by the Investment Department, which take into account CAA's risk appetite framework, and on information from external sources (financial institutions, asset managers, rating agencies). The various risk management and mitigation techniques described below are also based on this principle.

Furthermore, systems are in place to prevent conflicts of interest and ensure a reliable procedure for vetting new types of investment.

#### C.3.2.1 Spread risk

Counterparty risk and the associated spreads are managed through limits on the breakdown of issues between different rating classes.

Issuer risk is analysed and monitored closely by Amundi's Risk teams (portfolio management is outsourced to Amundi). Risk is actively managed through quarterly portfolio reviews that not only review individual issuers but also address issues related to sector, country, the economic environment

and identified watch points. When necessary, an issuer can be put on the watch list (which is common to CAA group and identifies issuers in which entities must not invest) or be subject to a divestment programme at CAA group level.

In 2016, as part of the risk appetite process, CAA set itself a risk budget to cover default risk or risk of loss on divestments.

#### **C.3.2.2 Interest rate risk**

CAA uses several techniques to protect against sustainable decreases or increases in interest rates:

- Hedging programmes via derivative instruments: caps to hedge upward movements in interest rates, floors and swaps to reduce the reinvestment risk in case of a fall in interest rates;
- A prudent policy as regards profit participation distributions and setting aside provisions (policyholder participation reserve);
- An appropriate marketing policy: discontinuation of guaranteed minimum return contracts and, in the current persistently low interest rate environment, shifting the business mix towards unit-linked contracts;
- Adjusting duration according to projected outflows of liabilities;
- Managing cash and readily marketable fixed-income assets with a low impact in terms of gains and losses.

CAA and each of its insurance undertakings have indicators and committees to monitor these techniques.

#### **C.3.2.3 Diversification asset risk**

Overall limits are set for diversification assets and individual limits for each asset class (equities, property, private equity and infrastructure, alternative investments). These assets, which although likely to generate better returns and provide decorrelation, involve a valuation and accounting provisioning risk (impairment provision, with potential impact on policyholder returns).

#### **C.2.3.4 Concentration risk**

Concentration risk is controlled through different sets of limits, calibrated according to counterparty type:

- For sovereigns and similar, CAA takes into account the country's debt-to-GDP ratio and credit rating;
- For financials and industrials, limits are modulated by rating and supplemented by an issuer group approach;
- For Crédit Agricole group, the measurement of exposure prudently includes a portion of Crédit Agricole bonds backing unit-linked policies, in order to include the potential carrying risk in the event of a wave of surrenders.

Limit utilisation is monitored monthly and any breaches together with remedial measures taken are reported to the appropriate level.

### **C.3.3. Risk concentration**

Given these management measures, exposure to concentration risk is relatively low.

At CAA group level, Crédit Agricole Group is the highest risk concentration, although it was reduced in 2016 following redemptions and divestments of deeply subordinated debt.

Investments in diversification assets also meet the concentration rules on an individual basis and within an asset class (weight of top 10 exposures for example for physical property).

### **C.3.4. Sensitivity**

Stress scenarios related to financial risks are drawn up as part of the ORSA process. They provide a forward-looking view of solvency indicators over the MTP horizon by including the plan assumptions, particularly in terms of dividend payout and funding.

For the 2016 ORSA, the stress scenarios selected with regard to CAA's risk profile were:

1. A decrease in risky assets in 2017;
2. Persistently low interest rates through the medium-term plan period and a downturn in equity and property prices;
3. Continued low interest rates for 2 years followed by a sharp increase in 2019 and a simultaneous decrease in equity and property prices.

The second scenario of persistently low interest rates would have the greatest impact on CAA's solvency ratio.

Financial sensitivity analyses were also performed on the solvency ratio at 31 December 2016. They included the main risk factors on a stand-alone basis (equities, interest rates, spreads) and then combined.

The assumptions used were as follows:

**Stand-alone financial sensitivity**

	Shock
Equities	-25%
Interest rate rise	+50bp
Interest rate fall	-25bp
Increase in government spreads	+75bp
Increase in corporate spread	+75bp

**"Interest rate fall" combined financial sensitivity**

	Shock
Equities	-15%
Interest rates	-25bp
Spread	Govies + 85bp Corporates: A: 110bp; BBB:+140bp

CAA's solvency ratio is sensitive to changes in interest rates and would deteriorate if interest rates were to fall. It is also sensitive to a decrease in equity prices. Consequently, the stress scenario combining a fall in interest rates, a fall in equity prices and widening spreads would be the most adverse for the solvency ratio, even though it would still remain above the regulatory minimum.

**C.4 Counterparty risk**

**C.4.1. Risk exposure**

Counterparty default risk is a minor risk for CAA as it represented only 2% of risk exposure at end-2016. Sources of counterparty risk are:

- Financial counterparties in the case of derivative financial instruments used for hedging purposes (counterparty's failure to meet its obligations) or bank deposits/cash (failure of bank to meet its obligations);
- Reinsurance counterparties (failure of a reinsurer, preventing it from assuming its portion of the claims);
- Guarantees given.

## C.4.2. Risk management and mitigation

### C.4.2.1 Financial counterparties

Cash is not generally held on current accounts but invested in money market funds.

Derivative instruments on an over-the-counter market, used mainly for prudent hedging of interest rate risk, both upward (caps) and downward (floors, swaps, swaptions, etc.) are contracted with counterparties selected for the quality of their credit rating. As these transactions are backed by collateral contracts, with daily margin calls, the residual counterparty risk is minimal.

### C.4.2.2 Reinsurance counterparties

Management of reinsurer default risk is based on CAA group internal standards, namely:

- First, contractual agreements with reinsurers that meet a minimum financial robustness condition (A-), compliance with which is monitored throughout the relationship;
- Reinsurer dispersion rules (by treaty) and concentration limits on premiums ceded to a same reinsurer, defined by each of the undertakings that monitor the limits. CAA group monitors the concentration of total premiums ceded, by reinsurer;
- Securing provisions ceded through standard pledge clauses.

## C.4.3. Risk concentration

There were approximately fifteen counterparties in CAA's portfolio of derivative instruments at end-2016.

As regards reinsurers, excluding internal reinsurance, the top five external reinsurers accounted for less than 15% each of reinsured premiums and less than 60% on aggregate.

## C.5 Liquidity risk

### C.5.1. Risk exposure

Insurance undertakings must be able to cover their liabilities as they become due (benefits, i.e. surrenders and death in life business). The risk is one of having to incur losses in order to meet the liabilities (unfavourable market conditions, benefits shock).

At 31 December 2016, expected profit in future premiums (EPIFP) amounted to €674.7 million for life business and €70.1 million for non-life business. The methods and assumptions used to calculate EPIFP are detailed in section D.3.5.3.

### C.5.2. Risk management and mitigation

First, liquidity is an investment selection criterion: majority of securities listed on regulated markets, limits on naturally less liquid assets such as property, private equity, unrated bonds, participating notes and alternative investments.

Second, liquidity management systems are harmonised at CAA group level and are defined by the insurance undertakings as part of their asset-liability management policy, with metrics adapted to various time horizons (short, medium and long term).

Life undertakings manage and mitigate their liquidity risk through three mechanisms:

- Long-term liquidity: monitoring of and limits on annual liquidity gaps, estimated on a portfolio run-off basis so as to match asset and liability maturities under normal and stressed conditions (wave of surrenders/deaths);
- Medium-term liquidity: calculation of a "2-year responsiveness" indicator, which measures the capacity to mobilise short or floating-rate assets while limiting the impacts in terms of capital loss. It is compared with a minimum threshold required to absorb a wave of surrenders, set by each insurance undertaking;
- Short-term liquidity: in case of uncertainty regarding net inflows, minimum one-week and one-month liquidity amounts are set and surrenders monitored daily;
- Temporary liquidity management mechanisms are also in place (repos collateralised by cash or ECB eligible assets) to cope with exceptional circumstances when markets are unavailable.

Life undertakings analyse their liquidity gaps to identify maturities to be addressed in priority or, conversely, avoided (surplus liquidity falling due, with an interest rate risk upon reinvestment). They monitor their responsiveness ratio monthly and compare it with the threshold set, through their reporting dashboard. They also regularly monitor surrender rates and switches between participating and unit-linked funds so that they can swiftly introduce very frequent monitoring should a stress scenario materialise.

Non-life undertakings keep liquid or relatively "non-responsive" assets in proportions sufficient to meet a liability shock.

### C.5.3. Sensitivity

The main life undertakings perform stress tests designed to:

- Simulate a crisis of confidence in a volatile environment (surrender shock on mathematical provisions for contracts classified as less stable coupled with a decrease in asset prices based on the nature, rating and maturity of the assets and a liquidity conversion time of 1 to 6 months);
- On that basis, determine resilience in terms of liquidity, which proved satisfactory.

In addition, the bancassurance model would not jeopardise CAA's solvency in the event of a reputation problem at Crédit Agricole Group likely to generate a surrender shock.

## C.6 Operational risk

### C.6.1. Risk exposure

The capital requirement for operational risk amounted to €1,287 million at end-2016.

The most sensitive risk issues in terms of process execution are intermediation risk when backing unit-linked contracts, which can lead to a gain or a loss (depending on market trends), production of financial and accounting information, with a major issue in terms of data quality, and, more generally, fraud (contracts, claims), the cost of which decreased in 2016 thanks to better detection. IT incidents, which can have impacts on processing times and alter data, are generally difficult to evaluate. Attention is also paid to security of assets and people.

Compliance risk (mainly involving customers, products and commercial practices) is also a major issue in terms of the potential consequences in terms of reputation or even sanctions, while the number of regulations is increasing and the regulatory framework becoming more stringent. The main themes involve anti-money laundering and counter terrorism financing, and customer protection (dealing with complaints, handling unclaimed benefits). CAA carefully manages and monitors the distribution of its products through its networks (Regional Banks, LCL). In addition, for its direct investments, CAA must also make sure it complies with regulations relating to securities (threshold notifications, for example, or insider trading).

### C.6.2. Risk management and mitigation

The operational risk management system in CAA and its subsidiaries is based on mapping of risk events (periodically updated to include organisational changes, new business activities, changes in the cost of risk and audit findings), collecting data on operational incidents and losses, and a monitoring and alert system. Action plans are drawn up for risks considered to be material after any mitigation and management mechanisms.

CAA applies Crédit Agricole Group's general information systems risk management policy. CAA and its subsidiaries have each prepared a business continuity plan focusing on essential activities to cover the potential unavailability of information systems, operating premises and staff. These plans meet Crédit Agricole S.A. Group standards, with the adoption of the Group's solution for the user fallback site and the IT backup plan based on the shared operating and production environment (Greenfield site). Annual drills are held for both the IT backup plan and the user fallback plan, with users moved to the fallback site.

Information security is based on Crédit Agricole S.A. Group security policies. A three-year programme of security projects (including clearances, intrusion tests, and IT failure), based on Crédit Agricole S.A.'s "CARS" programme to combat cyber-attack threats, is currently being implemented. In parallel, staff awareness campaigns are also being conducted.

The Compliance system in place at CAA and its subsidiaries, including new activity and new product committees, helps to mitigate exposure to compliance risk. Risk management is strengthened through coordination committees, which also cover the coordination of regulatory projects, with 2016 having been largely devoted to the OFAC remediation plan projects.

### **C.6.3. Sensitivity**

Sensitivities are not calculated for operational risk.

The impacts are measured in terms of image or financial impacts through the operational risk map, which identifies critical and high-risk processes and the action plans required to improve their management.

## **C.7 Other material risks**

### **C.7.1. Risk exposure**

#### **C.7.1.1 Reputational risk**

Given its distribution model, which is based principally on banking networks affiliated to the Crédit Agricole Group, and despite the development of alternative channels, any factor affecting the competitive position, reputation (products launched, marketing) or credit quality of the Crédit Agricole Group could have an impact on CAA's results.

#### **C.7.1.2 Risk of developments in the legal environment**

Changes in standards due to legal developments and changes in the legal environment in which the insurance undertakings operate (for example, the ability to terminate credit insurance on new contracts in 2017 and existing contracts as of 2018) also constitute a non-negligible source of risk.

### **C.7.2. Risk management and mitigation**

#### **C.7.2.1 Reputational risk**

Compliance of new products is reviewed by the new activity and new product committees, which review contractual and commercial documentation, training material and sales-aid tools for distributors. The distribution networks are supported by training actions and, more generally, CAA has deployed an insurance control approach (life and non-life) in LCL and the Regional Banks, to make sure that the marketing and sales approach is consistent.

Prevention actions in terms of reputation and image also include procedures for managing relations with third parties, in particular the press. There is also a monitoring process designed to detect emerging risk (press, media, social media, comparison sites, forums, etc.) and organise an appropriate response where necessary.

#### **C.7.2.2 Risk of developments in the regulatory environment**

The Legal and Compliance departments monitor developments in regulations, supported by Crédit Agricole Group's monitoring system, in order to anticipate the impacts and prepare for the changes they could entail.

## D. VALUATION FOR SOLVENCY PURPOSES

### D.1 Introduction

CAA's solvency balance sheet is prepared as at 31 December.

#### D.1.1. General valuation principle

The solvency balance sheet is based on an economic valuation of assets and liabilities:

- a. Assets are measured at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
- b. Liabilities are measured at the amount for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction.

In most cases, measurement at fair value is permitted under IFRS, in accordance with Solvency II principles. However, some measurement methods such as amortised cost cannot be used to prepare the economic balance sheet.

Assets referred to in paragraph a. above are measured at their economic value based on the following fair value hierarchy:

- Method 1: Quoted prices in an active market for identical assets: a market is considered to be active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis between a willing seller and a willing buyer;
- Method 2: Quoted prices in an active market for a similar asset, adjusted to take account of specific characteristics;
- Method 3: If no quoted prices in active markets are available, use of valuation techniques based on a model (mark to model); fair values obtained are compared, extrapolated or calculated as far as possible on the basis of relevant observable inputs. Such techniques may be based on:
  - Transactions in similar assets;
  - Present value of future cash flows generated by the asset;
  - Replacement cost of the asset.

No adjustment for own credit quality is made to the valuation of assets referred to in paragraph b. above.

#### D.1.2. Method of consolidation

Failing any specific rules defined in the solvency regulations, consolidation methods used are aligned to those used to calculate the consolidated capital requirements. They are based on the nature of CAA's control over entities that may potentially be consolidated and the entity's business:

- Full consolidation for insurance undertakings controlled by CAA;
- Equity method for jointly controlled entities and entities over which CAA has significant influence, and non-insurance undertakings controlled by CAA.

Adjustments are made to harmonise valuation methods used in the separate financial statements of consolidated entities, by reference to principles common to the group.

Intra-group transactions between the companies consolidated by the group are eliminated.

#### D.1.3. List of entities included in the scope of consolidation

The organisational chart presented in section A.1.1 shows the CAA group's solvency scope of consolidation.



#### **D.1.4. Currency transactions**

On the reporting date, assets and liabilities in foreign currencies are translated into the entity's functional currency at the closing rate.

The balance sheets of foreign subsidiaries are translated into euros, CAA's presentation currency for the consolidated financial statements, at the closing rate.

#### **D.1.5. Offsetting of assets and liabilities**

CAA offsets a financial asset and a financial liability to present a net balance when and only when it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

#### **D.1.6. Use of estimates and judgement**

The preparation of the financial statements requires the use of estimates, assumptions and judgements to determine the accounting values of assets and liabilities that cannot be obtained directly from other sources. Actual results may differ from these estimates.

Actual results may be influenced by many factors, including:

- Activity in the domestic and international markets;
- The economic and political climate in certain industries or countries;
- Changes in regulations or legislation;
- Policyholder behaviour;
- Demographic change.

#### **D.1.7. Events after the reporting period**

No significant events occurred between the reporting date on 31 December and date on which the Board of Directors approved the financial statements.

## D.2 Assets

### Comparison of IFRS and Solvency II assets

	31/12/2016	
	IFRS value	Solvency 2 value
Goodwill	872	-
Deffered acquisition costs	907	-
Intangible assets	278	-
Deferred tax assets	32	24
Pension benefit surplus	-	-
Property, plant & equipment held for own use	221	287
Investments (other than assets held for index-linked and unit-linked contracts)	-	-
Property (other than for own use)	5,539	8,488
Holdings in related undertakings, including participations	9,242	9,330
Equities	21,780	6,950
Bonds	221,795	223,418
Collective Investments Undertakings	33,649	44,444
Derivatives	1,820	1,821
Deposits other than cash equivalents	102	83
Other investments	-	-
Assets held for index-linked and unit-linked contracts	52,489	51,170
Loans and mortgages	2,677	526
Reinsurance recoverables from:	1,497	1,134
Non-life and health similar to non-life	411	307
Life and health similar to life, Life index-linked and unit-linked	1,086	827
Deposits to cedants	350	353
Insurance and intermediaries receivables	1,634	1,565
Reinsurance receivables	78	65
Receivables (trade, not insurance)	4,822	3,770
Own shares (held directly)	-	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	-
Cash and cash equivalents	1,312	1,162
Any other assets, not elsewhere shown	153	149
<b>Total assets</b>	<b>359,753</b>	<b>354,739</b>

The differences between the IFRS and Solvency II balance sheets stem mainly from:

- Change in scope: deconsolidation of IFRS collective investment funds (-€9,337 million from total assets, including -€5,803 million related to non-controlling interests in UL funds) and deconsolidation of CA Life Japan and CA Life Greece;
- Elimination of intangibles: goodwill (-€872 million), software (-€260 million) and deferred acquisition costs (-€907 million);
- Remeasurement of financial assets recognised at amortised cost under IFRS: investment property (+€2,350 million) and HTM bonds (+€2,931 million).

### **D.2.1. Intangible assets and deferred costs**

Intangible assets are identifiable non-monetary assets without physical substance. An asset is considered to be identifiable when it can be sold or transferred separately, or when it arises from contractual or other legal rights. The principal intangible assets are software, goodwill and the acquired value of in-force business.

#### **D.2.1.1. Intangible assets (including goodwill)**

Goodwill has a nil value in the Solvency II balance sheet.

However, other intangible assets may have a non-nil value when:

- They are identifiable;
- It is probable that there will be future economic benefits from the asset;
- There is a value for the asset in an active market.

If those three conditions are met, they are measured at their fair value in the solvency balance sheet.

For example, internally-generated software has a nil value in the solvency balance sheet as there is no active market for such an asset.

Differences between the values of intangible assets under IFRS and Solvency II are as follows:

- Elimination of goodwill;
- Elimination of other intangible assets unless they can be measured at fair value by reference to an active market.

The acquired value of in-force insurance contracts is set to nil and the associated cash flows are included as liabilities in the best estimate measurement of Solvency II technical provisions.

The in-force value, which is the difference between the consideration received (premiums, acquisition or transfer price) and the value of the insurer's liabilities, is recognised in Solvency II own funds in the reconciliation reserve.

The in-force values recognised in the IFRS balance sheet are therefore eliminated.

#### **D.2.1.2. Deferred acquisition costs**

Under IFRS, deferred acquisition costs comprise the portion attributable to future years of commissions payable to intermediaries and other internal underwriting expense arising from the allocation of expenses by nature recognised in the current year expenses.

They are eliminated in the solvency balance sheet.

### **D.2.2. Property, plant and equipment**

Property, plant and equipment are tangible assets which are expected to be used for more than one financial period and are held for:

- Use in the production or supply of goods and services;
- Rental to others;

- Administrative purposes.

They fall into two categories: property held for own use and investment property.

#### **D.2.2.1. Property held for own use**

These assets comprise land, buildings and fixtures and fittings used by the company to produce or supply goods or services or for administrative purposes.

Under IFRS, they are measured at amortised cost and are therefore revalued in the solvency balance sheet at their fair value.

Appraisal value may be used as a proxy for fair value. At CAA, the five-yearly appraisal value is reviewed annually by an expert appraiser.

#### **D.2.2.2. Investment property**

Investment property is held to earn rentals or for capital appreciation or both.

Under solvency rules, investment property is valued at its economic value. Appraisal value may be used as a proxy for economic value.

Under IFRS, investment property is measured as follows:

- At amortised cost when it forms part of a participating fund, in which case it is remeasured for solvency purposes;
- Exceptionally, at fair value when held to back unit-linked insurance contracts, in which case, it is not remeasured for solvency purposes.

#### **D.2.2.3. Other tangible fixed assets**

There are no specific solvency rules for other tangible fixed assets and they are therefore measured at their IFRS value unless revaluation would have a material impact on the solvency balance sheet.

### **D.2.3. Financial instruments**

Investments are presented by nature in the solvency balance sheet (property held for own use, investment property, equities, bonds, investment funds, loans, assets backing unit-linked contracts, etc.).

In the IFRS consolidated balance sheet, investments are presented according to management intention: held-to-maturity (HTM), available-for-sale (AFS), held for trading (assets held for trading – HFT, or designated at fair value through profit or loss — FVPL) and loans and receivables (L&R).

The following adjustments are therefore made in the solvency balance sheet depending on the classification of financial assets under IFRS:

- Assets recognised at fair value under IFRS (AFS, HFT, FVPL): no adjustment as they are already measured at fair value;
- Assets recognised at amortised cost under IFRS (HTM, L&R): these investments recognised under IFRS at cost less any impairment for counterparty risk are remeasured at their economic value.

#### **D.2.3.1. Specific case of participations**

The fair values used for participations under IFRS may differ from their economic value in the solvency balance sheet.

Under Solvency II, if there are no quoted prices in an active market, participations are valued as follows:

- Participations in an insurance undertaking are valued using the adjusted equity method, which consists of valuing the participation based on the excess of assets over liabilities revalued in accordance with the principles set out in the Solvency II directive;
- Participations in non-insurance entities are valued using the adjusted equity method based on revalued net assets adjusted for the value of goodwill and other Intangible assets.

#### **D.2.3.2. Repos and stock lending**

Repos and securities lent are recognised and measured in the same way as they are under IFRS:

- Securities lent and repos are recognised in the solvency balance sheet;
- Funds received in consideration for repo transactions are presented under cash and the financial liability under amounts due to credit institutions or other financial liabilities.

Securities borrowed and reverse repos are not recognised in the solvency balance sheet. Funds paid in consideration for reverse repos are recognised in the solvency balance sheet under loans.

#### **D.2.3.3. Investments held for unit-linked contracts**

These investments, which are measured at fair value, are identified on a separate line of the solvency balance sheet as they are under IFRS.

### **D.2.4. Technical provisions ceded**

The rules for valuing technical provisions ceded are presented in section D.3 on technical provisions.

### **D.2.5. Deferred taxes**

Deferred tax assets are amounts of income taxes recoverable against future taxable profits (other than those already accounted for elsewhere in the solvency balance sheet) in respect of deductible temporary differences, carry forward of unused tax losses and carry forward of unused tax credits.

Deferred tax in the economic balance sheet results from the difference between the carrying amount of an asset or liability in the solvency balance sheet and its tax base. Deferred tax recognised results from:

- Temporary differences (particularly related to the application of fair value) between the solvency value and the tax base of the asset or liability;
- The carry forward of unused tax credits or tax losses.

An entity's deferred tax assets cannot be used by other CAA group entities.

A recoverability test is performed during the financial year.

### **D.2.6. Cash and cash equivalents**

Cash and cash equivalents are measured at fair value in the solvency balance sheet.

Cash includes cash in hand and demand deposits. In practice, given the short-term nature of these instruments, fair value and amortised cost are considered to be close proxies. Accordingly, they are not remeasured for solvency purposes.

## **D.3 Technical provisions ceded**

### **D.3.1. Summary of technical provisions**

The tables below show a breakdown of best estimate technical provisions and a comparison of IFRS and Solvency II technical provisions.

#### **Summary of Solvency II technical provisions**

<i>(in € million)</i>	Non-life (excluding health)	Health (similar to non-life)	Health (similar to life)	Life (excluding health and index-linked and unit-linked)	index-linked and unit-linked	Total
Best estimate - Gross	3,206	913	1,422	252,590	49,168	307,299
Best estimate - Ceded	290	17	359	468		1,134
Best estimate - Net	2,916	896	1,063	252,123	49,168	306,166
Risk margin	218	81	64	1,418	210	1,991
<b>Total Technical provisions</b>	<b>3,134</b>	<b>977</b>	<b>1,127</b>	<b>253,541</b>	<b>49,378</b>	<b>309,290</b>

### Comparison of IFRS and Solvency II technical provisions

<i>(in € million)</i>	IFRS value	Solvency 2 value
Technical provisions - Non-life (excluding health)	3,868	3,206
Technical provisions - Health (similar to non-life)	885	913
Technical provisions - Health (similar to life)	1,707	1,422
Technical provisions - Life (excluding health and index-linked and unit-linked)	249,223	252,590
Technical provisions - Index-linked and unit-linked	52,576	49,168
Other technical provisions	-	-
<b>Total technical provisions</b>	<b>308,260</b>	<b>307,300</b>

The difference in the IFRS and Solvency II balance sheets is due mainly to the change in scope of consolidation arising from the deconsolidation of IFRS UCITS (-€1,619 million).

### D.3.2. Valuation principle

The value of technical provisions under Solvency II is equal to the sum of best estimate liabilities (BEL) and a risk margin (RM).

BEL are calculated:

- On the basis of market information available on the valuation date;
- Using an objective, reliable approach;
- In compliance with the local regulatory framework.

BEL are calculated gross of reinsurance with no deduction of amounts ceded to reinsurers: ceded BEL are calculated separately.

The risk margin is an estimate of the amount, in addition to BEL, that a third party would expect to receive in order to take over CAA's insurance obligations. The risk margin is calculated directly net of reinsurance.

Unlike IFRS provisions, Solvency II provisions are systematically based on the net present value of future cash flows, the valuation of options and financial guarantees (guaranteed rates, profit participation, surrenders, etc.) and include an explicit risk margin.

However, some provisions are valued on an overall basis, with no separate identification of BEL and RM. The amount of such provisions is not material.

### **D.3.3. Segmentation**

Technical provisions are valued on the basis of a best estimate liability per line of business, reflecting the nature of the risks associated with that liability. The legal form of the liability is not necessarily a determining factor in the nature of the risk.

In addition, if a policy covers insurance liabilities in several lines of business, a best estimate liability does not have to be assigned to each one unless one of them is material.

In segmenting their insurance liabilities, CAA subsidiaries group their contracts into homogeneous buckets so that the risks of each individual contract are properly reflected: the result is similar to that obtained by calculating best estimate liabilities on a contract-by-contract basis.

### **D.3.4. Initial recognition**

Insurance liabilities are recognised either because the contract has been signed or because the contract cannot be cancelled by the insurer.

### **D.3.5. General valuation principles**

#### **D.3.5.1. Cash flow modelling**

The best estimate liability gross of reinsurance is calculated as the net present value of probable future benefits paid to policyholders and costs incurred in managing the liabilities until their extinction, less premiums to be received in respect of in-force contracts and any recoveries.

Cash flow projections are based on assumptions regarding policyholder behaviour and senior management decisions. These assumptions include surrender rates, profit participation policy and asset allocation policy.

By definition, these rules are specific to each entity and each insurance portfolio. All assumptions are documented and validated by the entity's senior management.

#### **D.3.5.2. Contract grouping**

Contracts are analysed separately and then grouped into homogeneous risk buckets for modelling purposes.

The following criteria are used to determine the risk buckets:

- Type of cover;
- Time basis of the cover (for example, management based on year of occurrence/reporting);
- Business type (entity's direct business, acceptances, etc.);
- Currency of claims settlement;
- Type of benefit paid (annuity, etc.).

Homogeneous risk buckets are defined at entity level.

#### **D.3.5.3. Valuation – contract boundaries**

The contract boundary date is the earliest of the following:

- When the insurer first has a unilateral right to terminate the contract;
- When the insurer first has a unilateral right to reject premiums payable;
- When the insurer first has a unilateral right to amend the premiums or benefits payable such that the premiums fully reflect the risks.

Premiums paid after the boundary date of an insurance or reinsurance contract and the associated liabilities are not included in the best estimate calculation.

Apart from the above cases, future premiums are not included in the best estimate calculation when a contract:

- Does not provide for indemnification of an event that has a material adverse effect on the insured;
- Does not provide a material financial guarantee.

Future premiums are recognised in respect of:

- Multi-year contracts where the insurer does not have the right to amend or reject the premiums or terminate the contract before its maturity date;
- For annually renewable contracts, regular premiums are projected until the first anniversary date of the policy following the best estimate valuation date.

Future premiums on savings products are projected on the basis of the annual premium paid for each policy in the prior period and an annual decrement on the amount of the prior period premium.

#### **D.3.5.4. Valuation – profit participation**

Profit participation is included in the cash flow modelling to calculate the best estimate liability.

Profit participation modelled complies with the local regulatory requirements and is subject to strategic assumptions reviewed by the entities' senior management.

For the French entities, therefore, compliance with the minimum profit participation rule in the projections is verified and documented.

#### **D.3.5.5. Valuation - options and guarantees**

Life insurance contracts include options and financial guarantees. The best estimate liability includes their impact if it is material.

A stochastic approach to valuation is used.

The main options valued by CAA are:

- Surrender option in savings or retirement contracts;
- Minimum guaranteed rates and technical rates;
- Contractual profit participation clauses;
- Floor rate in unit-linked contracts.

#### **D.3.5.6. Valuation – expenses**

The cash flow projections used to calculate best estimate liabilities include the following expenses:

- Administrative expenses;
- Investment management expenses;
- Claims management expenses;
- Acquisition expenses.

General overheads incurred in managing insurance liabilities are also included. Expense projections are based on the assumption that the undertaking will write new contracts in the future.

CAA group entities allocate expenses to homogeneous risk buckets and at the very least the lines of business used in the segmentation of insurance liabilities.

Exceptional expenses and any other justifiable adjustments are deducted from the expense base used to determine unit costs.

Administrative expenses are adjusted during the projection period to take account of inflation.

The commission levels used in the calculations reflect the terms of all commission agreements existing on the valuation date.

#### **D.3.5.7. Valuation – discounting**

CAA uses the yield curve, CRA and VA data provided by EIOPA for valuation purposes, which are defined by currency and by country.



CRA (Credit Risk Adjustment) is an adjustment to take account of credit risk.

VA (Volatility Adjustment) is a counter-cyclical premium that adjusts the risk-free rate for changes in corporate and sovereign spreads. It reduces the impact of changes in spreads on solvency ratio volatility. For further information on the impact of VA on technical provisions, own funds and regulatory capital requirements, please see QRT S.22.01.21 appended to this report.

The group's solvency would not be threatened should the volatility adjustment no longer be allowed.

Other transitional measures available under Solvency II have not been used by CAA group.

### D.3.6. Risk margin

The risk margin is equal to the cost of the capital requirement for a third party taking over CAA's existing insurance liabilities.

It is calculated by discounting the annual cost of capital equivalent to the reference SCR over the residual life of the liabilities used to calculate best estimate. The cost of capital is set at 6% a year.

The risk margin is calculated on an overall basis for each entity.

### D.3.7. Valuation of business ceded

BEL ceded are valued on the same basis as gross BEL in section D.3.5.

Future cash flows ceded are calculated in accordance with the boundaries of the relevant insurance contracts.

When a deposit has been made for cash flows, the amounts ceded are adjusted accordingly to avoid double counting of assets and liabilities relating to the deposit.

Future cash flows ceded are calculated separately for the premium reserve and claims reserve.

## D.4 Liabilities other than technical provisions

### Comparison of IFRS and Solvency II other liabilities

<i>(in € million)</i>	IFRS value	Solvency 2 value
Provisions other than technical provisions	90	103
Pension benefit obligations	76	58
Deposits from reinsurers	772	729
Deferred tax liabilities	529	1,718
Derivatives	71	8
Debts owed to credit institutions	2,257	1,141
Financial liabilities other than debts owed to credit institutions	-	-
Insurance & intermediaries payables	1,946	1,876
Reinsurance payables	351	213
Payables (trade, not insurance)	26,652	19,370
Subordinated liabilities	6,482	6,880
Any other liabilities, not elsewhere shown	365	389
<b>Total liabilities</b>	<b>39,590</b>	<b>32,486</b>

The excess of assets over liabilities amounts to €14,953 million.

The differences between the IFRS and Solvency II balance sheets stem mainly from:

- Revaluation of subordinated liabilities for +€398 million;
- Other adjustments: revaluation of deferred tax assets and liabilities (€2,977 million).

#### **D.4.1. Provisions**

Under Solvency II, provisions for liabilities and charges are recognised if the probability of an outflow of resources embodying economic benefits is greater than 50% (otherwise it is classified as a contingent liability). Provisions are measured at their economic value based on the net present value of future financial flows.

IFRS provisions are used for solvency purposes as they are measured on the same basis.

#### **D.4.2. Employee benefits obligation**

CAA has valued its obligation in accordance with IAS 19, which is consistent with an economic valuation.

The defined benefit plan obligation is presented net of the fair value of plan assets.

#### **D.4.3. Financial liabilities**

Under IFRS, the measurement method determines the categories of financial liabilities:

- Financial liabilities measured at amortised cost (general rule);
- Financial liabilities measured at fair value through profit or loss.

Financial liabilities recognised at FVPL are measured at fair value.

The main categories of financial liabilities that have to be remeasured at fair value (excluding impact of changes in own credit risk, i.e. use of risk-free rate prevailing on the closing date and spread at the issue date) are medium- and long-term subordinated debt and senior debt.

At CAA group level, this mainly comprises:

- Debt issued by CAA and taken up by Crédit Agricole S.A.;
- Debt issued by CAA and taken up by non-Group investors.

Under IFRS, this debt is measured at amortised cost. The classification used for these financial liabilities is as follows:

- Debt issued by CAA and taken up by Crédit Agricole S.A.: debt instruments;
- Debt issued by CAA and taken up by non-Group investors: equity instruments eligible under Solvency II for the transitional measure allowing them to be classified in Tier 1 own funds during the transitional period and then Tier 2 after that.

For the sake of simplicity, the IFRS value of other financial liabilities (amortised cost) is considered to be an acceptable proxy for Solvency II value, provided that the due date falls within the year following the reporting date. Accordingly, IFRS values are not adjusted in the Solvency II balance sheet.

### **D.5 Alternative methods for valuation**

Securities valued using a method other than quoted prices in an active market represent approximately 20% of total assets, mainly comprising intra-group and property-linked securities.

As there is no active market, an alternative method has been used to minimise valuation uncertainty.

## E. CAPITAL MANAGEMENT

### E.1 Own funds

#### E.1.1. Capital management policy

CAA group has a capital management policy in place. The policy is drilled down to subsidiary level. It sets out the method of managing, monitoring and overseeing own funds as well as the funding process for CAA and its subsidiaries. It is reviewed and approved each year by the Board of Directors.

The capital management policy forms part of the risk appetite framework determined and approved by CAA's Board of Directors.

It takes into account the regulatory constraints applicable to insurance undertakings, banking regulations, financial conglomerate regulations and Crédit Agricole Group's own objectives.

CAA manages its capital in a way that:

- Complies with regulatory solvency requirements;
- Contributes to optimising capital at Crédit Agricole S.A. Group level;
- Provides an appropriate allocation of the group's and its subsidiaries' capital.

The capital allocation policy is adapted to the nature of the risks encountered by all the insurance undertakings. The level of capital relative to the capital requirement for each entity is adapted to its risk profile, business activity (life or non-life), level of maturity and size.

The capital management plan is approved each year by the Board of Directors. It sets out the timetable and nature of financial transactions for the current year and over the medium-term plan horizon (3 years). It is based on the capital management plans of the subsidiaries and the consolidated ORSA results in order to determine what capital issues may be necessary and to estimate the impact of items of own funds reaching maturity, the dividend policy, the end of transitional measures and any other change in an item of own funds.

The solvency of each subsidiary separately and of the group as a whole is monitored at least quarterly to make sure that CAA complies with the capital management plan, its solvency position relative to the defined zone and permanent coverage of the solvency capital requirement (SCR) and minimum capital requirement (MCR).

#### E.1.2. Available own funds

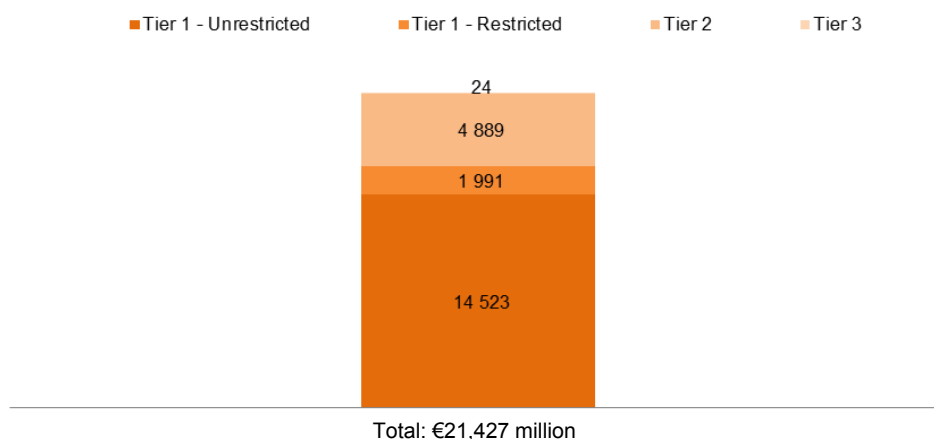
##### E.1.2.1. Breakdown of available own funds

CAA covers its Solvency II capital requirement mainly through Tier 1 own funds. All items of own funds are basic own funds as the CAA does not have any ancillary own funds.

Available own funds at end-2016 totalled €21,427 million. Tier 1 unrestricted capital amounted to €14,552 million, comprising ordinary share capital (€1,490 million), share premium (€7,374 million) and reconciliation reserve (€5,684 million). Subordinated liabilities are divided into Tier 1 restricted capital (€1,991 million) and Tier 2 capital (€4,889 million). Tier 3 capital consists of deferred tax assets available at group level (€24 million).

No deduction is made from total excess assets over liabilities in ring-fenced own funds.

### Breakdown of available own funds by tier



#### E.1.2.2. Subordinated liabilities

The capital management policy permits CAA to issue subordinated debt to Crédit Agricole S.A. and external investors. In 2016, the group issued €1,000 million of 10-year subordinated debt classified as Tier 2 to Crédit Agricole S.A. and €1,000 million of 32-year subordinated debt classified as Tier 2 to external investors.

At 31 December 2016, CAA's subordinated debt was valued at €6,880 million under Solvency II, of which €2,832 million was held by Crédit Agricole S.A. Group.

The subordinated debt documentation contains standard contractual clauses and does not provide for any loss-absorbing mechanism. For subordinated debt where the first redemption date has passed, the redemption clause can be exercised annually on the interest payment date.

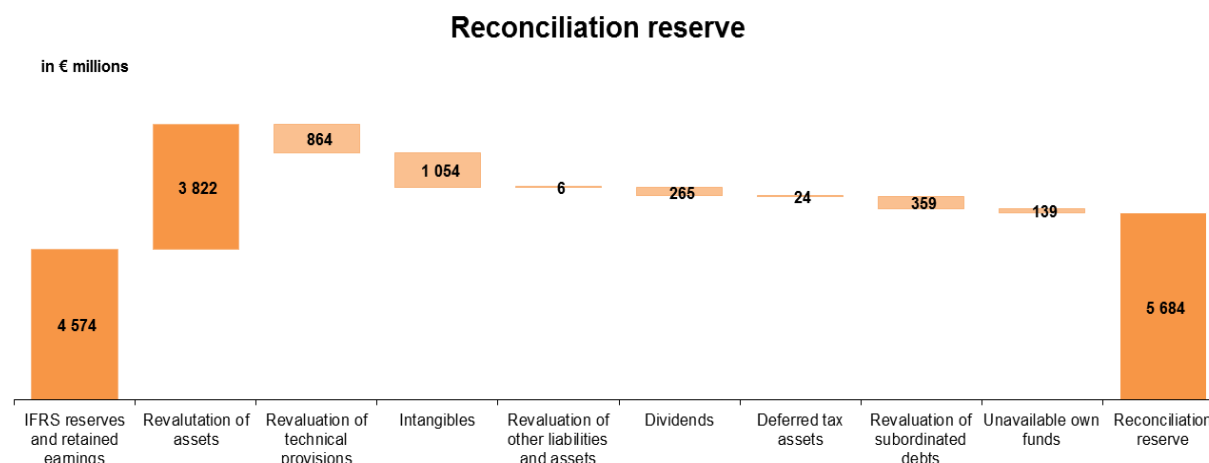
Subordinated debt eligible for Solvency II own funds under transitional measures amounted to €3,778 million. These instruments, issued before 17 January 2015, are included in own funds and classified as Tier 1 or 2 based on specific criteria for a maximum period of 10 years.

Tier	Issuer 1: CAA 2: Other	Transitional measure	Legal maturity	Next call date	Amount (in € m)
Tier 1	1	yes	Perpetual	14/10/2025	791
	1	yes	Perpetual	13/01/2025	1,062
	2	yes	Perpetual	16/10/2017	43
	2	yes	Perpetual	19/11/2017	49
	2	yes	Perpetual	09/10/2017	46
Tier 2	1	yes	19/12/2038	19/12/2018	321
	1	yes	19/12/2038	19/12/2018	64
	1	yes	23/12/2043	23/12/2023	127
	1	yes	23/12/2049	23/12/2019	330
	1	yes	13/12/2022	13/12/2022	614
	2	yes	20/12/2023	20/12/2023	16
	2	yes	12/12/2027	12/12/2017	149
	2	yes	24/07/2027	24/07/2017	167
<b>Sub-total</b>					<b>3,778</b>
Tier 2	1	no	Perpetual	13/12/2022	1,117
	1	no	30/06/2026	30/06/2026	1,006
	1	no	27/09/2048	27/09/2028	979
<b>Sub-total</b>					<b>3,102</b>
<b>TOTAL</b>					<b>6,880</b>

Subordinated liabilities that do not qualify for transitional measures amounted to €3,102 million. This debt was issued by CAA and classified in Tier 2. It consists of a perpetual subordinated issue and two dated subordinated issues due 30 June 2026 and 27 September 2048 respectively.

### E.1.2.3. Reconciliation reserve

The reconciliation reserve is a significant constituent of own funds and consists of the following items:



The reconciliation reserve amounted to €5,684 million at 31 December 2016. It consists of IFRS consolidated reserves (retained earnings, reserves, current year earnings) for €4,574 million, revaluation of investments (excluding technical provisions ceded) and other assets and liabilities for €3,822 million, and revaluation of technical provisions for -€864 million. The main deductions are eliminations of intangible assets for €1,054 million, deduction of the foreseeable dividend for €265 million in addition to the interim dividend of €565 million already paid, deferred tax assets for €24 million and deduction of unavailable own funds of €139 million. It consists of items of own funds of CAA group subsidiaries considered to be non-transferable or non-fungible. Other items are mainly revaluation of subordinated liabilities for €359 million related to interest rate trends, non-controlling interests and other deconsolidation and scope adjustments.

### E.1.2.4. Reconciliation with IFRS equity

Equity as presented in the 2016 IFRS financial statements amounts to €15,028 million.

The excess of assets over liabilities in the solvency balance sheet amounts to €14,954 million. The main differences stem from:

- Deduction of subordinated liabilities classified as equity under IFRS for -€1,628 million;
- Elimination of intangible assets for -€1,055 million;
- Fair value remeasurement of financial assets and other assets and liabilities for €3,822 million;
- Fair value remeasurement of technical provisions for -€915 million;
- Fair value remeasurement of subordinated liabilities for -€359 million.

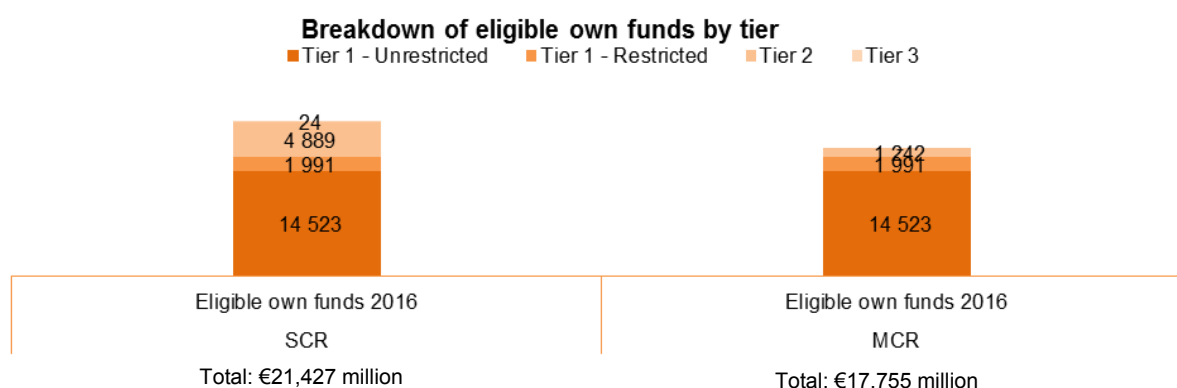
In addition to the excess of assets over liabilities, available own funds also include subordinated liabilities and amounted to €21,426 million at end-2016.

## E.1.3. Eligible own funds

Own funds eligible to meet the SCR amounted to €21,427 million at 31 December 2016.

Own funds eligible to meet the MCR amounted to €17,755 million at 31 December 2016.

The difference in these two figures is due to regulatory restrictions.



At-end 2016, there was no variance between available own funds and own funds eligible to meet the SCR.

## E.2 Solvency capital requirement (SCR & MCR)

CAA uses the standard formula set out in the Solvency II directive to calculate the group's solvency capital requirement (SCR) based on the solvency balance sheet. No transitional measures were applied in calculating the SCR.

In accordance with the values provided by EIOPA, the yield curve used to calculate technical provisions at 31 December 2016 includes a credit risk adjustment (CRA) of -10bps and a volatility adjustment (VA) of +13bps.

CAA's SCR thus amounted to €13,303 million at 31 December 2016. The minimum capital requirement (MCR) at group level, calculated as the sum of the MCRs of the insurance subsidiaries in the Solvency II scope of consolidation, amounted to €6,211 million.

Given the preponderance of savings & retirement business, market risk is the principal risk for CAA, representing 73% of its total risk exposure. Underwriting risk stems primarily from life business (10%) and, to a lesser extent, non-life (5%) and health (3%) business.

As CAA entities are exposed to risks of different types in different countries, consolidation leads to a diversification benefit of €2,634 million at 31 December 2016.