BNP Paribas Cardif Livförsäkring AB
516406-0559

SOLVENCY AND FINANCIAL CONDITION REPORT 2016

BNP PARIBAS CARDIF LIVFÖRSÄKRING AB

BNP PARIBAS CARDIF

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The Board of BNP Paribas Cardif Livförsäkring AB (the "Company") herewith presents the Solvency and Financial Condition Report for the financial year 2016.

Summary

The company supplies Creditor Protection and Payment Protection Insurance as well as individual life insurance policies in the Nordic markets and distributes its products mainly through banks, finance companies, insurance companies and card companies.

The Company has branch offices in Denmark and Norway, and operates through freedom of services in Finland.

In 2016, the Company including its branches had gross written premiums amounting to 186 053 TSEK (150 882 TSEK). Income from asset management amounted to 793 TSEK (1 079 TSEK).

This Solvency and Financial Condition Report is the first such report produced and published by the Company, and is produced in accordance with the Solvency II Directive. It covers the business and performance of the Company, its system of governance, risk profile, valuation for solvency purposes and capital management. The ultimate responsibility for all of these matters lies on the Company's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business of the Company.

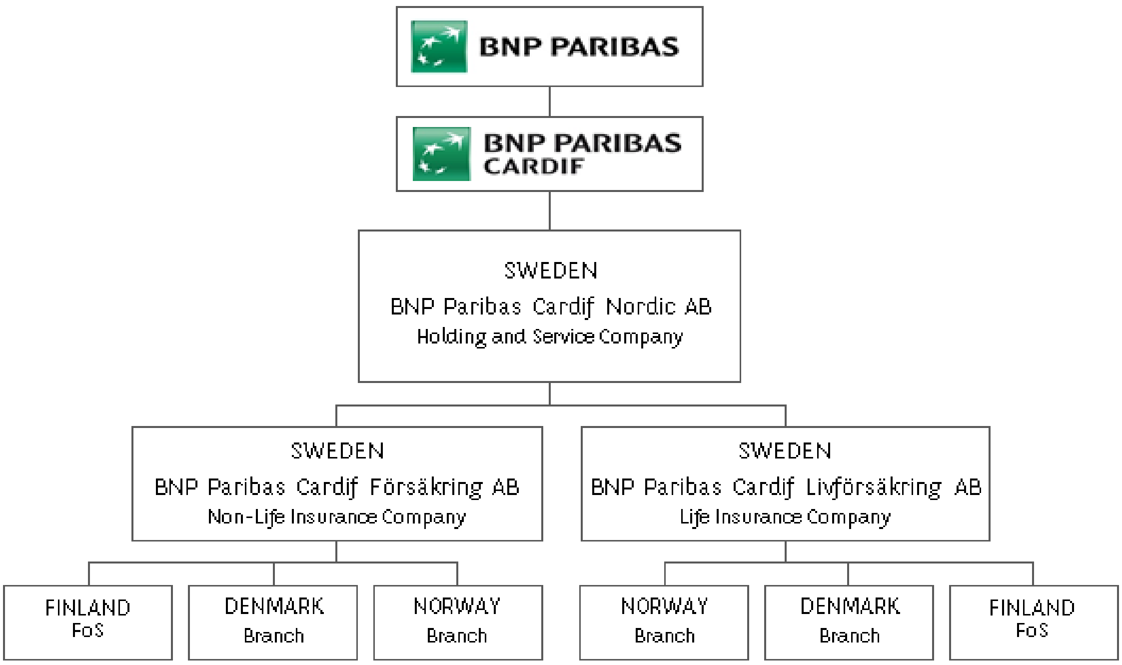
A. Business and Performance

A.1 Business

The Company is a limited liability insurance company, with company registration number 516406-0559. The Company is under the supervision of Finansinspektionen, Box 7821, 103 97 Stockholm, Sweden.

The Company's external auditor is PriceWaterHouseCoopers AB, 113 97 Stockholm. Responsible for the audit: Morgan Sandström.

The Company is a subsidiary of BNP Paribas Cardif Nordic AB, which in turn is wholly owned by BNP Paribas Cardif SA, which is the insurance subsidiary of the French banking group BNP Paribas. Mother company of the group is the French bank BNP Paribas S.A. (corp. ID No: 662 042 449) with registered office in Paris. BNP Paribas Cardif SA is under the supervision (group supervision) of the French supervisory authority ACPR.



BNP Paribas
BNP Paribas is a European leader in global banking and financial services. The Group has some 185 000 employees and operates in more than 75 countries of which four are domestic markets (France, Belgium, Italy and Luxembourg).

BNP Paribas Cardif
BNP Paribas Cardif is the insurance subsidiary of BNP Paribas. The primary business model is bank assurance which means that BNP Paribas Cardif supplies protection and savings solutions to end clients via the distribution networks of actors such as banks and finance companies (B2B2C model). The bank assurance business model was introduced in France in 1973 which today means that BNP Paribas Cardif has over 40 years of experience of the concept.

In total, BNP Paribas Cardif has around 450 partners, amongst which are leading banks, finance companies, insurance companies, card companies, retailers, utilities and broker networks. Out of the world's top 100 banks, 35 are BNP Paribas Cardif partners.

BNP Paribas Cardif has subsidiaries in 36 countries in Europe, Asia, Latin America and Africa and holds about 90 million policy holders and 10 000 employees.

The Company's business and result

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A.2 Underwriting Performance

Underwriting income

Evolution 2015/2016 by country [Table 1]

Technical result - Net of reinsurance - in SEK	2016 Budget	2016	2016 vs Budget	2015	Evolution 2016 vs 2015
Denmark	2 725 940	2 348 860	- 377 080	2 453 859	- 104 999
Finland	-	19 576	19 576	-	19 576
Norway	4 126 311	4 744 845	618 534	1 918 222	2 826 623
Sweden	41 698 736	54 667 404	12 968 668	38 418 217	16 249 187
Total	**48 550 987**	**61 780 684**	**13 229 697**	**42 790 298**	**18 990 386**

Evolution 2015/2016 by line of business [Table 2]

Technical result - Net of reinsurance - in SEK	2016	2015	Evolution
Other Life Insurance	61 905 486	42 394 501	19 510 985
Income protection insurance	- 124 803	395 796	- 520 599
Total Business	**61 780 684**	**42 790 298**	**18 990 386**

Overall view of the 2016 technical result by Country [Table 3]

Technical result - Net of reinsurance - in SEK	**Denmark**	**Finland**	**Norway**	**Sweden**	**Total**
GWP	10 702 810	21 701	26 797 176	140 297 655	177 819 342
Partner Result	5 484 408	3 191	12 651 259	64 307 173	82 446 031
Claim costs	1 251 807	-	1 272 097	33 115 025	35 638 929
Evolution Premium Reserves	74 761	- 237	7 539 957	941 426	8 555 907
Evolution Claim Reserves	1 542 974	- 829	589 019	- 12 733 373	- 10 602 209
Technical Result	**2 348 860**	**19 576**	**4 744 845**	**54 667 404**	**61 780 684**

Overall view of the 2016 technical result by Line of Business [Table 4]

Net of Reinsurance	Other Life Insurance	Income protection insurance
GWP excl IPT	177 444 656	374 686
Partner Result	82 449 703	- 3 672
Claim costs	35 193 929	445 000
Evolution Premium Reserves	8 502 359	53 548
Evolution Claim Reserves	- 10 606 821	4 612
Technical Result	**61 905 486**	**- 124 803**

- In practice, the vast majority of the business is coming from the Line of Business "Other Life Insurance"
- Due to its relatively small size, the portfolio is quite volatile
- All countries are technically profitable in 2016 with all countries except Denmark improving both versus 2015 and versus budget
- Denmark experienced indeed more claims in 2016 than projected but still on acceptable levels
- Sweden stands clearly above budget and 2015 due to release of high case reserves from 2015 as well as less claims than projected
- Norway actual 2016 results have less claims than projected leading to lower claim payments and less claims reserves needed

Expenses

- Expenses have been reduced from 37MSEK in 2015 to 34MSEK in 2016 (-9%) mainly due to higher variable commissions from reinsured business (2MSEK profit in 2015 to 6MSEK profit in 2016)
- Other administration expenses and staff costs have been slightly increasing from 2015 to 2016 along with higher volumes (+0,8MSEK)

A.3 Investment Performance

The investment portfolio comprises bonds of high credit quality, government treasury bills and cash. The total portfolio was valued at 143.4 MSEK as at 31 December 2016 (2015: 126.5 MSEK) out of which 71% was in bonds, and 29% in government treasury bills.

Assets under management (SEK)	**Total Market Value**	**Weight**
Government T-bill	41 901 521	29,2%
Government bonds	1 773 103	1,2%
Covered mortgage bonds	77 938 540	54.4%
Corporate bonds	21 466 597	15.0%
Cash	284 809	0.2%
Total	**143 364 570**	**100,0%**

These investments are held to cover technical provisions of the Company for linked liabilities. The asset selection and investment is made by an external Asset Manager, SEB Wealth Management. The quality and limitations of investments are defined in the Company's Investment Guidelines.

Total net investment return for the year is 1.3 MSEK (2015: 0.4 MSEK) which comprises interest earned on financial investments of 0.5 MSEK (2015: 0.4 MSEK), realized gain on bonds of 0.3 MSEK (2015: 0.6 MSEK), and unrealized gains of 0.5 MSEK (2015: -0.6 MSEK).

A.4 Performance of other activities

The Company does not have any performance of other activities that are significant.

A.5 Any other information

No other material information to report.

B. System of Governance

B.1 General information on the system of governance

Board and Management

The Company's Board consists of three members: Alexandre Draznieks, chairman of the board, Dominique Barthalon and Dag Mevold (who is also Managing Director of the Company).

The Board meets at least six times per year to determine the company's strategic direction, to review the Company's operating and financial performance and to oversee that the Company is adequately resourced and effectively controlled.

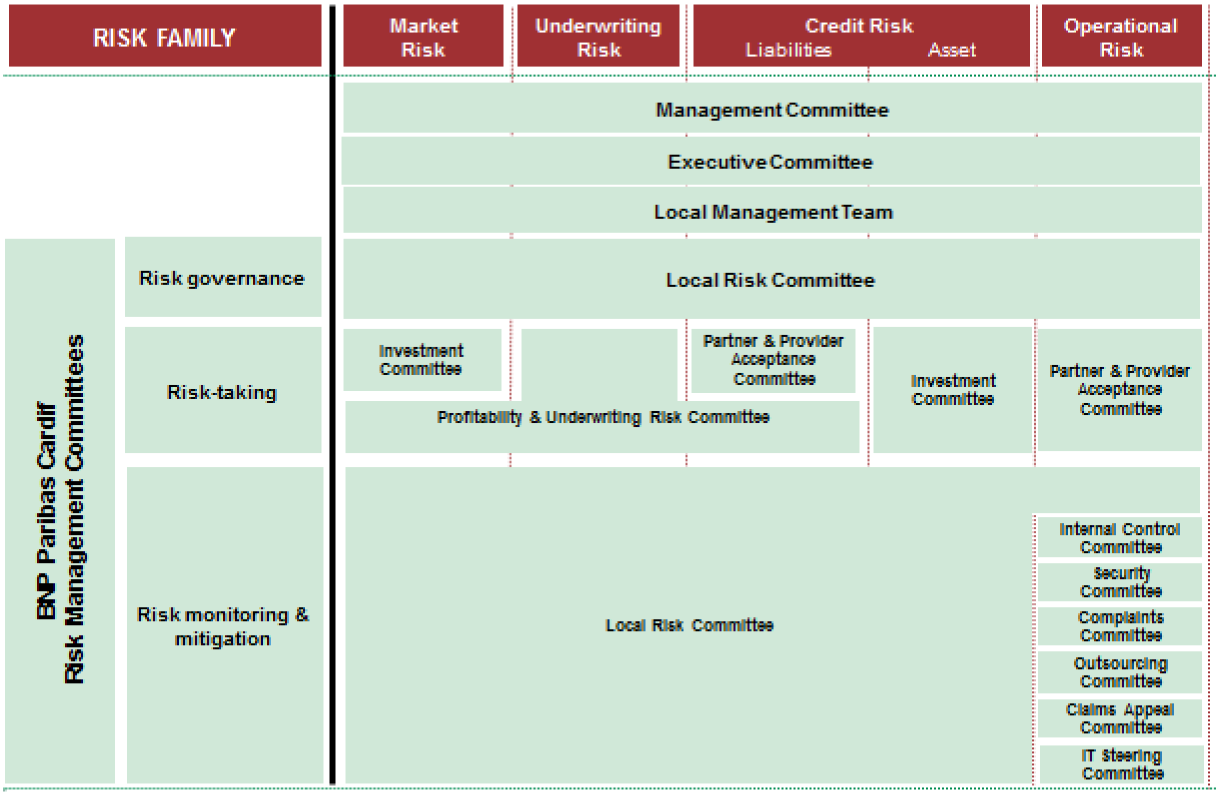
The Managing Director is responsible for implementing the decisions by the Board. To assist with this, there is a Management Committee and an Executive Committee.

General Managers for the Norwegian and Danish branches

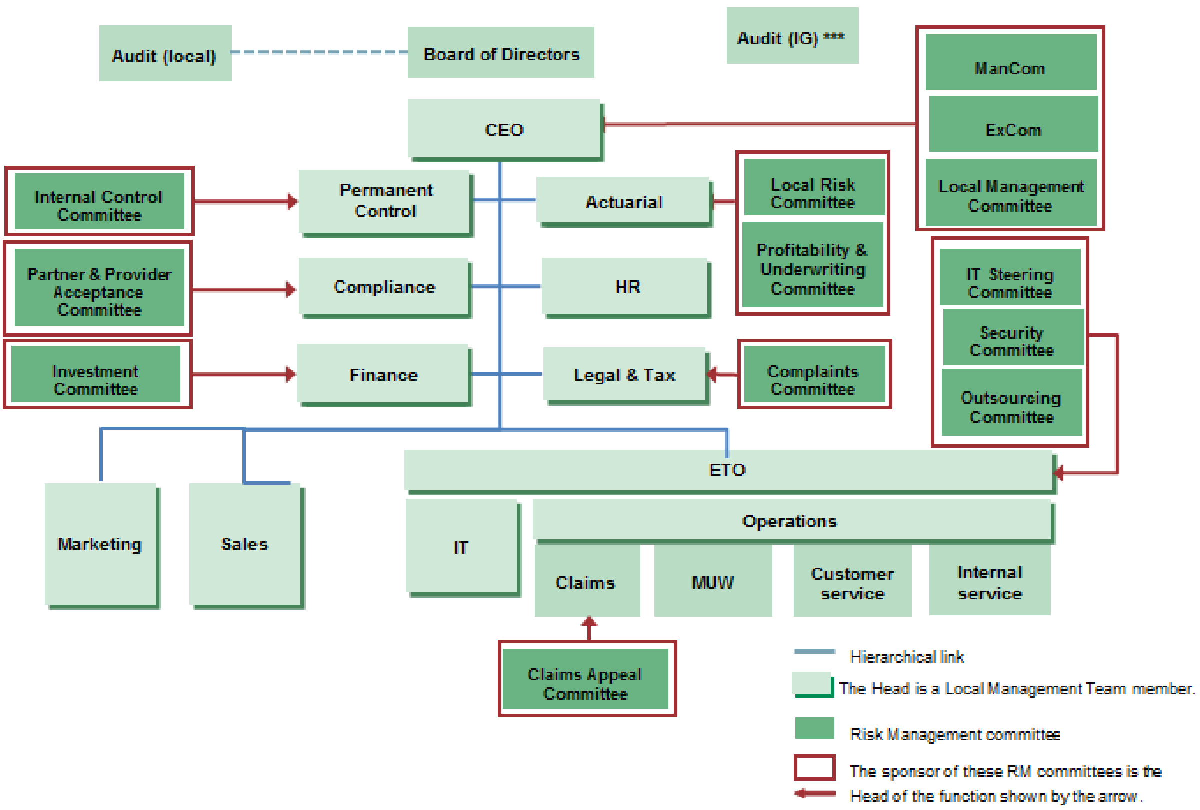
The Company's branch in Denmark is represented by Jan De Geer, also a member of the Board and Managing Director of the Company. The Manager of the Company's branch in Norway is Dag Mevold. In their capacity as general agents for the branches, in accordance with the respective Danish and Norwegian regulations regarding branches, Jan De Geer and Dag Mevold are authorized signatories of the branches.

Management and Risk Management Committees

The Company has a number of management and risk management committees for certain key processes, as illustrated below:



For each of the above committees there is a responsible function. The responsible functions for each committee are set out below. Risk Management Function is called Permanent Control within the BNP Paribas Cardif group.



Key Functions

The *Risk Management Function* (Permanent Control) assists the Board of directors and other functions in implementing the risk management system, and to ensure that monitoring and control is setup to support management in governance and decisions. It reports on exposures to risks and assists the Board of directors in the taking of strategic decisions by shedding light on issues related to risk management. The Risk Management Function is also responsible for the ORSA, together with the Actuarial function.

The *Compliance Function* has the responsibility to provide the Managing Director and the Board of directors with reasonable assurance that the risks of non-compliance, the risks of regulatory and reputation are duly monitored, controlled and mitigated.

The *Internal Audit Function* is responsible for assessing the suitability and effectiveness of the internal control system as well as the other components of governance.

The *Actuarial Function* has responsibility for coordinating the calculation of technical reserves, guaranteeing the appropriate nature of methodologies, the underlying models and assumptions used to calculate prudential technical reserves, assessing the suitability and the quality of the data used, supervising this calculation and comparing the best estimates with empirical observations.

Remuneration Policy

No remuneration is given to the board members for the board assignments.

The Board annually adopts a remuneration policy applicable to all staff. The Board is also responsible to ensure a well-defined remuneration assessment process. For this purpose there is a Compensation Committee appointed to be in charge of the preparation of the decisions and appropriate documentation of the policy implementation and follow up. This Compensation Committee consists of the Chairman of the Board, Head of HR and the CEO or Country Manager of each respective Country and entity. The compensations are finally approved at Head Office level.

The remuneration policy complies with the applicable regulations (Article 275 of Commission Delegated Regulation 2015/35 and FFFS 2015:12).

The Company should strive for a sound and reasonable balance between fixed and variable remuneration, dependent on position and skills of the employee in question. The decision on the variable part, should take the following parameters into account:

- Amount and costs of extra capital needed to cover for the added risk taken on.
- Amount and cost of the liquidity risk, and
- Risk of expected future income not being realized.

The variable part should include benefits. No threshold should prevent it to be nil. The variable part should never exceed 50% of the fixed salary (level depending on position and to be validated by Area Manager if deviation from the thresholds below)

It is important to secure that the individual performance targets stated in an individual contract does not conflict with the long term financial well-being of the company. Financial and also non-financial criteria shall be taken into account when assessing an individual's performance.

For employees that can influence the risk level within the company, deferred payment of variable remuneration shall be applicable (the company shall defer a substantial portion (at least 60%) of the total bonus for a period of at least three years).

Pensions

The company has no supplementary pension or early retirement schemes for the members of the Board or the holders of key functions.

B.2 Fit and proper requirements

The Company has adopted a Fit and Proper Policy which sets out the specific requirements and describes the process for assessing the fitness and the propriety of the persons who effectively run the undertaking or other key functions. The fit and proper assessment process can be described in three steps:

1) assessment of fitness (competence and capability)

2) assessment of propriety (financial soundness, honesty, integrity and reputation) and,

3) potential conflicts of interest shall also be taken into consideration.

Assessment of fitness

<u>Board Members, the Board of Directors' collective qualifications and Managing Director</u>

The members of the Board and the Managing Director shall possess appropriate education, qualification, experience and knowledge about at least:

a) insurance and financial markets
b) business strategy and business model
c) system of governance
d) financial and actuarial analysis and,
e) regulatory framework and requirements for the authorized business.

Some more areas have been evaluated as important such as knowledge about the analysis of customer value and protection, banking business and insurance mediation/distribution.

<u>Persons responsible for outsourced key functions</u>

If applicable, there shall be appointed a person internally within the company with overall responsibility for an outsourced key function who is fit and proper and possesses sufficient knowledge and experience regarding the outsourced key function to be able to challenge the performance and results of the service provider. The assessment criteria for the fit and proper assessment of the responsible for an outsourced key function should be based on the assessment criteria for the relevant outsourced function, but considering that the responsible person will not perform the tasks, but oversee them.

<u>Responsible for the actuarial function</u>

The responsible for the actuarial function shall fulfill the specific requirements set out in SFSA regulation FFFS 2015:8, Chapter 9, Section 9-15 having adequate language skills, compliance with the minimum education and professional experience. The responsible person shall continuously ensure that his/hers knowledge is appropriate considering the tasks the person shall perform and the nature of the Company's business, and, if necessary, acquire further education.

<u>Responsible for the other key functions (compliance, risk management, internal audit)</u>

The responsible for compliance, risk management and internal audit functions shall have adequate language skills, compliance with the minimum education, relevant professional experience within the insurance sector, other financial sectors or other businesses, taking into account the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person. The responsible person shall continuously ensure that his/hers knowledge is appropriate considering the tasks the person shall perform and the nature of the Company's business, and, if necessary, acquire further education.

The responsible persons for key functions have been notified to and approved by the Swedish FSA.

Assessment of propriety

Assessment of propriety includes:

- identification (civic register or copy of passport),
- certificate that the person is not bankrupt,

- certificate that the person is not subject to a trading prohibition,
- certificate that the person does not have a guardian,
- certificate that the person has not had a license or registration revoked during the past five years, or, been a member of the management of a legal person that has had a license or registration revoked.
- certificate that the person does not have debts which exceed SEK 100,000,
- extract from the criminal register

Conflicts of Interest

Analysis of potential conflicts of interest shall be made, for instance if the assessed person has leading positions or ownership interests in several companies. In the recruitment process and annually there is a process for mapping and identifying conflicts of interest, in accordance with the Company's Conflicts of Interest Policy.

B.3 Risk management system including the own risk and solvency assessment

Risk Management System

The Board of Directors in the Company has overall responsibility for the establishment and oversight of the risk management framework. For the purpose of ensuring appropriate handling of each category of risk, a risk committee structure as well as a reporting structure has been put in place and adopted by the Board of Directors. The Board also annually adopts a Risk Management Policy (Local Risk Governance Principles).

The Risk Management function is responsible for monitoring the effectiveness of the risk management framework, as well as advising the business on risk management related matters, such as monitoring and control methods.

The function ensures the implementation of a local risk governance framework, including the setup and maintaining of dedicated risk committees, as well as the existence, efficiency and homogeneity of the permanent control and operational risk management controls of the insurance group entities and controls.

The function draws up an operational risk mapping, which enables the assessment of the residual operational risk. It ensures the relevance of action plans as well as the need of further controls to be implemented. Controls are made both on generic and task specific risks, where Generic Key Surveillance Points have been developed and deployed in the entire group, and through a local control plan defined on the basis of locally assessed needs.

The function monitors the setup rate of procedures and ensures that actions are taken in case of need. Such need may be identified through the analysis of incidents occurred, complaints received and/or caused by changes in the business.

In addition, the function is responsible to monitor the implementation of corrective actions following findings and recommendations issued by internal and/or external auditors.

The outcome of the generic controls, as well as the setup rate of procedures, implementation of recommendations and major incidents is, every six months, compiled into a common reporting grading the level of quality on the internal control in the Company. The synthesis of the report, including the action plan defined for deficient results, is reported not only to the Board of Director of the concerned entity, but is also subject to reporting to the Group.

Furthermore, the internal audit annually assesses the compliance with risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The ORSA Process

The Local Risk Committee (including the Managing Directors and the Country Managers/Branch representatives) defines the stress scenarios to be used for the ORSA exercise. The scenarios are chosen based on their estimated potential impact and probability.

The proposed stress scenarios are reviewed and challenged by the Board of Directors, and final adoption of scenario selection is made before the detailed calculations and analysis are initiated.

A cross functional group including the Local Risk Committee members and the Finance team defines a detailed planning for the production of the ORSA, with clear deadlines and gates (dependencies).

The calculations detailing the outcome of the stress tests and scenarios are carried out by the Finance and Actuarial departments. Inputs are given by other functions, primarily the Sales department and Operations, to determine the impact on premium volumes and costs (including staffing). All calculations are subject to a four-eye validation process before being added to the final report.

A final draft report is presented to the Board of Directors for comments and input, and the final ORSA, taking added input into account, is adopted by the Board of Directors before the ORSA is submitted to the SFSA.

An ORSA will be produced at least annually. In case any of the triggering events for a non-regular ORSA occur, a non-regular ORSA will be produced. Such trigger events could be, for instance, external factors like significant rise in unemployment, financial market collapse, actual or anticipated change to regulations that may significantly impact the Company or alarming development on specific risks in the portfolio (e.g. increasing incidence rates or other). It may also relate to internal factors as business line cession or significant evolution of the strategy. For each triggering event, the degree of change required before ORSA has to be run (whether to be event-driven or relating to expected change in SCR) has been defined.

Assessment of solvency needs and integration of capital management and risk management

Annual group budget process includes a capital request procedure to ensure that additional capital is allocated to entities where SCR sustainability is not yet managed at a local level. Capital is allocated so that each entity has enough capital to meet the lower levels for total own funds during the coming twelve-month period.

Due to an important growth in the business of the Company, the SCR is rapidly increasing and the own fund over SCR ratio will be volatile. Hence a corridor of own funds has been defined that will factor in the variation that will be seen (high level following a capital injection and a low level when actions are required).

After each prudential closing and in relation to budget updates, a review of the capital planning may be necessary if result is showing a significant deviation from earlier prognosis.

The capital planning for the central scenario is performed during the yearly budget process in August and updated during the ORSA process where the following projections are made on the midterm business plan (three years):

- Forward looking assessment of the SCR, the SCR ORSA and the MCR in order to assess the corridor values.
- Forward looking assessment of the own funds taking into account the dividend policy.

The capital planning takes into account the outcome of the stress tests performed during the ORSA process to:
- enable a good understanding of the capacity to absorb unexpected shocks; and
- propose a review of the calibration of the lower boundaries defined for the own funds within this policy if this appears necessary.

This should determine if a call of additional capital is necessary to reach an adequate capital position by year end. The results are communicated to the Board of the Company and the Group Financial Management team.

B.4 Internal control system

The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness, while the implementation of internal control systems is the responsibility of the executive management, supported by the Risk management function. The Company's systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material financial misstatement or loss.

The systems are designed to:
- safeguard assets;
- maintain proper accounting records;
- provide reliable financial information;
- identify and manage risks;

- maintain compliance with appropriate legislation and regulation; and
- identify and adopt best practices.

The Company has an established governance framework, the key features of which include:

- Risk Management Policy including Internal Control Guidelines
- a well-defined structure of risk committees,
- a clear organizational structure,
- documented delegation of authority from the Board to executive management,
- policies and procedures, which set out risk management and control standards for the Company's operations.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

Compliance Function

The Compliance function is directly subordinated to the Managing Director in the Company.

The purpose of the Compliance function may be summarized as the responsibility to support the operations in being compliant and in mitigating and/or eliminating the compliance risks in the following areas:

- Customer interest/protection
- Market integrity
- Financial Security (Prevention of Money laundering and financing of terrorism including bribery and breach of financial sanctions).
- Regulatory systems and controls
- Professional Ethics
- Personal Data Protection
- Corporate Social Responsibility (outsourced to HR)
- Relations with Supervisory authorities

The Compliance function is responsible for monitoring and controlling the risk of non-compliance with regulations, as well as professional standards and internal procedures and instructions. In addition, the function shall perform analysis of the possible impact of any change in the legal environment on the Company's operations and provide trainings on compliance topics.

The Compliance function is responsible for composing an annual activity plan based on the identified compliance areas. The Managing Director adopts the activity plan and the responsible for the Compliance function informs the Internal Control Committee ("ICC") and the Board of directors of its content/scope.

The Compliance function shall at least annually, and/or when needed, submit a written summarized report including an analysis of the Company's compliance environment and present it to the Board of Directors. The Compliance function shall also annually and quarterly submit reports of its activities including an analysis to the Board of Directors and to the Managing Director of the Company.

B.5 Internal audit function

The Internal Audit of the Company consists of the combined use of Group Internal Audit "Inspection General", and an outsourced local Internal Audit function.

The internal auditors intervene independently throughout the auditable scope of the Company. They can seize any subject and have free access to all documents, assets and personnel working directly or indirectly for the Company. Similarly, they are free to issue their conclusions in full independence from the management of the Group. They must remain independent, objective and impartial in their investigations, and cannot directly undertake any operational management acts. They are based on a corpus of internal audit procedures maintained by the BNP Paribas Group.

The activities of the internal audit throughout the year are carried out in accordance with an audit plan based on a risk assessment of the activity. The process differs somewhat between the Group Internal Audit and the Local Internal Audit Function.

Inspection General (IG):

The head of the internal audit function reports regularly to the board of directors of the BNP Paribas group (or to the dedicated committee that represents it) the results of the work of the function. It also submits to it each year a proposal for an audit plan detailing the internal audit missions to be carried out during the following calendar year, this draft audit plan being based on, among other things, an assessment of the risks borne by the various activities of the Group, and by ensuring that all material activities are periodically reviewed.

Local Internal Audit:

A three-year plan has been defined based on the global objectives to be achieved by a good level of internal control. This plan is supported by a more detailed description of the coming year's activity. The audit plans are adopted by the Board of Directors.

In both cases above; the persons in charge of the Internal Audit are not responsible for any other key function, hence no such conflict of interest and/or appropriateness has to be considered.

B.6 Actuarial function

The Company has an in-house actuarial team, led by the responsible for the Actuarial Function (Local Chief Actuary) which carries out day-to-day actuarial role, including claims reserving. The Chief Actuary reports at each meeting of the Board, the Management Committee and the Executive Committee on technical provisions, underwritten insurance and risks.

B.7 Outsourcing

The Company may, in accordance with the Outsourcing Policy adopted by the Board of Directors, outsource activities when the use of external providers shows obvious advantages in terms of costs and flexibility. Outsourcing may also be made when the required competence or systems are not available in-house. Outsourcing of important or critical activities or operational functions must not;

- materially impair the quality of the Company's system of governance;
- unduly increase the operational risk;
- impair the ability of the supervisory authorities to monitor the Company's compliance of its obligations; nor
- undermine continuous and satisfactory services to the Company's policy holders.

Outsourcing procedure

Any activity outsourced, defined as critical, shall be handled in accordance with the Outsourcing Policy (referring to the mandatory Group Standard Outsourcing Procedure). The decision to outsource should be formalized by a decision based on a risk assessment provided by all concerned functions (to cover the entire risk perspective).

There is a template agreement to be used for outsourcing agreements, safeguarding all the legal requirements for outsourcing of critical activities.

Monitoring and supervision
Each function that outsources an activity is responsible for monitoring the risks associated with each stage of outsourcing (as well as during the production phase, when the service has been implemented by the service provider). The result of this monitoring is presented to the Managing Director of the Company at the Outsourcing Monitoring Committees that are held twice per year.

All outsourced service provider contracts include a right for the Company and its supervisory authority to audit the activity if requested.

Outsourced critical functions/activities

The Company has no own staff employed, but has outsourced all its activities to its parent company BNP Paribas Cardif Nordic AB (*management and support services)* and to its sister company BNP Paribas Cardif Försäkring AB (*operations activities*).

The Company's distribution model is entirely based on distribution by partners. Certain partners perform other tasks than pure intermediation of insurance, such as premium collection, keeping of insurance register, issuance of insurance policies etc. Where this is the case, this has been defined by the Company as outsourcing of critical activities. Such outsourcing constitutes more than half of the outsourced services. Such outsourced activities are carried out in all the markets where the Company operates, i.e. Sweden, Denmark, Finland and Norway.

A number of the outsourced activities are outsourced within the group (such as provision of IT platform and telephony, actuarial tools, sanctions screening tools etc.). The main reasons for these intra group arrangements are due to the financial and/or efficiency benefit provided by these services. These services are performed by group companies in France and the UK.

The Chairman of the Board is appointed responsible for the outsourced Local Internal Audit Function.

All outsourced critical activities have been duly notified to the SFSA.

B.8 Any other information

The Company has defined a governance system, with well-defined organization, steering documents and mandates that is found to be appropriate for the type and size of the business. The system is subject to regular review and update whenever required by change in regulation, environment or due to internal causes.

C. Risk Profile

The SCR (Solvency Capital Requirement) is the level of own funds that all European insurance companies are required under the Solvency II EU Directive to hold at each time, in order to be able to fulfil their obligations to their policy holders and beneficiaries over the following 12 months with a 99.5% probability.

The Company's SCR is evaluated by means of the standard formula proposed by EIOPA. It corresponds to the sum of the net BSCR (Basic SCR), of the operational SCR, and the tax adjustment. The BSCR is based on a bottom-up approach, in other words its calculation is divided into risk modules, themselves divided into sub-modules. The capital requirements for each of the various risks are aggregated by means of a correlation matrix.

The information presented in this chapter deals with the nature of the risks to which the Company may be exposed, the evaluation techniques used, the significant risk concentrations as well as the mitigation techniques set up, and the procedures for monitoring their effectiveness.

C.1 Underwriting risk

C.1.a Definition

Underwriting Risk is the risk of a financial loss caused by a sudden, unexpected increase in insurance claims. Depending on the type of insurance business (life, non-life), this risk may be statistical, macroeconomic or behavioral, or may be related to public health issues or disasters.

C.1.b Risk exposure

The underwriting risk of the Company consists of the following risk-modules along with its included lines of business (LoB):

- Life underwriting risk,

- Other life insurance: Cover of death risks.

The SCR for underwriting risk for the Company as at December 31, 2016:

Risk – module	2016
Life underwriting risk	37 539 065
Health Underwriting risk	6 175
Total SCR Underwriting	**37 540 609**

The main contributors to the Life underwriting risks are the following sub-modules:

– Life catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from an increase in the mortality rate (due to a catastrophe like event pandemic event, nuclear explosion, etc.).

– Life lapse risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from a change in the expected lapse rates. This change could correspond to an increase, a decrease or a massive change. The mass lapse scenario has by far the biggest impact of these three scenarios.

C.1.c Risk management and monitoring

The mechanism for monitoring and managing the underwriting risk is based on governance and documented processes. Risks underwritten must comply with delegation limits set at several local and central levels based on estimated maximum acceptable losses, estimated Solvency II capital requirements, and estimated margins on the policies concerned. Each contract is priced in reference to the objectives for rate of return and return-on-own funds set by the Executive Management of BNP Paribas Cardif Group.

Underwriting risks are periodically monitored within the scope of the risk monitoring, based on a dual mechanism:
- quarterly monitoring of claims rate at each accounting quarter end;
- supplemented by monitoring of the insured portfolio characteristics according to a schedule based on the type of product (monthly, quarterly and annually).

C.1.d Stress tests and analyses of sensitivity

At the time of pricing, approval of a product requires systematic analysis of negative (stress test) or very negative (crash tests) scenarios. The stress tests and crash tests are carried out over the same period as the baseline scenario.

C.2 Market risk

C.2.a Definition

Market Risk is the risk of a financial loss arising from adverse movements of financial markets. These adverse movements are notably reflected in prices (foreign exchange rates, bond prices, equity and commodity prices, derivatives prices, real estate prices…) and derived from fluctuations in interest rates, credit spreads, volatility and correlation.

C.2.b Risk exposure

The Company invests all of its assets on liquid or very liquid assets with high credit quality (please refer to the table in the part A.3 Investment Performance).

The market risk SCR is 6.9 MSEK after diversification as at 31 December 2016, compared to 4.7 MSEK as at 31 December 2015. This increase is linked to volume effect, with growth of the business and investments in the Company's portfolio.

The risk modules forming the market SCR are the following:

The **rate risk** module aims at quantifying the capital requirement needed to cope with the impact on the balance sheet value of an upward or downward change in the yield curve. The capital requirement is equal to the impact of the increase in the yield curve and the impact of the decrease in the yield curve. For each maturity, the shocks caused by the increase or decrease are expressed in proportion to the rates by duration. The capital requirement for this module is 20.3% of the Market risk SCR before diversification linked to fixed income bonds in the portfolio.

The **spread risk** module aims to quantify the capital requirement corresponding to the risk of an upward trend in credit spreads (difference in actuarial rate between a bond and the rate of an equivalent risk-free government bond). The spread shock depends on the duration of the rating of the interest rate products. As with the rate risk, its evolution is linked to the make-up of the bond portfolio.

The **foreign exchange risk** module aims to quantify the capital expense of a 25% impairment of foreign currencies against the SEK. The exposure of BNP Paribas Cardif Försäkring AB stems on investments and cash denominated in foreign currencies (NOK, DKK and EUR).

The concentration risk: the governance of the Asset Management Division lays down the rules for the spread of assets. These rules are set out in the investment policy and guidelines and specify limits per issuer on fixed income instruments and rating category.

C.3 Counterparty risk

C.3.a Definition

Counterparty risk is the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations. Among the debtors, risks related to financial instruments and risks related to receivables generated by the underwriting activities (premium collection, reinsurance recovering…) are distinguished into two categories: “Asset Credit Risk” and “Liabilities Credit Risk”.

C.3.b Risk exposure

The counterparty risk SCR was at SEK 2 million as at 31 December 2016.

C.3.c Risk management and reduction

The counterparty risk on reinsurers is managed through a stringent selection of counterparties and regular monitoring of the main exposures.

Partner counterparty risk is assessed and monitored in the KYI (Know Your Intermediary) Process, at commencement of relationship and regularly. Ring fenced accounts are normally set up for premiums collected by partners, as and when required under local regulations.

C.4 Liquidity risk

C.4.a Definition

Liquidity Risk is the risk of being unable to fulfil current or future foreseen or unforeseen cash requirements coming from insurance commitments to policyholders, because of an inability to sell assets in a timely manner.

C.4.b Risk management

The Company mitigates the liquidity risk in the following ways:

- The Company, through Investment Committee and regular cash follow-up, manages the liquidity risk through investments in predominately liquid financial assets and constant monitoring of expected assets maturities regarding liabilities.
- The Company prepares cash forecast regularly to predict required level of liquidity levels both for short-term and medium-term.

C.5 Operational risk

C.5.a Definition

Operational Risk is the risk of loss resulting from the inadequacy or failure of internal processes, IT failures or deliberate external events, whether accidental or natural. The external events mentioned in this definition include those of human or natural origin.

Internal processes are specifically those that involve employees and IT systems. External events include, but are not limited to floods, fire, earthquakes and terrorist attacks. Credit or market events such as default or fluctuations in value do not fall within the scope of operational risk.

Operational risk encompasses fraud, human resources risks, legal risks, non-compliance risks, tax risks, information system risks, risks related to the provision of inappropriate financial services (conduct risk), risk related to failures in operating processes including underwriting procedures; or the use of a model (model risk) along with any potential financial consequences resulting from the management of reputation risk.

C.5.b Risk exposures

The amount of the SCR linked to the operational risk was SEK 7 million at 31 December 2016.

	December 31, 2016
Premium based risk component	7 237 741
Provisions based risk component	81 120
Total capital requirement for operational risk	**7 237 741**

C.5.c Risk management

To manage operational, non-compliance and reputational risk, the Company relies on its general internal control system, a twin-dimension system providing both periodic and permanent control.

The Company also monitors the operational risks through a dedicated Committee; Internal Control Committee, where major exposures and concerns are addressed, and mitigating actions are defined.

C.6 Other material risks

Any significant changes in taxes could impact the Company’s resources and liquidity requirements.

C.7 Any other information

There is no other specific information.

D. Valuation for Solvency Purposes

D.1 Assets

The Company prepares its consolidated balance sheet under Solvency II pursuant to Article 75 of the Solvency II directive, i.e. mainly in market value.

The assets in the Company's balance sheet at 31 December 2016 are comprised as follows:

In millions of SEK, at December 31, 2016	Reference	Solvency 2 Balance sheet	Annual Financial report
Deferred aquisition costs	A	-	7
Other intangible assets	B	-	-
Deferred tax assets	C	-	-
Property held for own use	D	-	-
Investments (other than assets held for index-linked and unit-linked contracts)	E	143	143
Assets held for index-linked and unit-linked contracts		- 0	1
Reinsurance recoverables	F	-	-
Deposits to cedants		-	-
Insurance and intermediaries receivables	G	-	-
Reinsurance receivables	G	10	2
Receivables (trade, not insurance)		14	14
Cash and cash equivalents		25	25
Other assets		-	-
TOTAL ASSETS		**192**	**193**

Letters A to G refer to the assessment methods described below. The other items do not call for any particular comments on the valuation methods used to prepare the financial statements.

Reconciliation with the financial statements and method for evaluating assets

In millions of SEK	Reference	December 31, 2016
Financial assets fair value	E	-
Goodwill and intangible assets fair value	A and F	-
Valuation of insurance liabilities under Solvency II and elimination of deferred acquisition costs	A, C and F	- 9
Revaluation of subordinated liabilities	C	-
Others	C	9
Assets and deferred tax liabilities compensation	C	-
TOTAL OF RESTATEMENTS		**- 0**

Pursuant to Article 75 a) of the Directive, assets are valued "at the amount for which they could be exchanged between knowledgeable and willing parties in an arms-length transaction".

A. Acquisition expenses reported

The share not chargeable to the expenses incurred when purchasing insurance contracts is entered with assets in the Company's balance sheet. These acquisition expenses reported are eliminated under Solvency II.

C. Deferred tax assets

Deferred taxes are determined by the method described in paragraph D.5.a (Other information). Deferred tax assets are recognized for all deductible temporary differences and unused carry-forwards of tax losses only to the extent that the entity in question will in all probability generate future taxable profits against which these temporary differences and tax losses can be offset.

D. Equipment for own use

Equipment for own use are assessed at their economic value, which is assumed to be consistent with a linear amortization over 5 years.

E. Financial investments

Financial assets are listed on the asset side of the balance sheet in accordance with the Complementary Identification Codes (CIC codes) determined by EIOPA.

The fair value of the financial assets is determined by SEB Wealth Management, the asset manager of the Company, obtained directly from market data.

F. Share of reinsurers in the technical reserves

The method for assessing the ceded technical reserves follows the same principles as those of the technical reserves described in paragraph D.2. At 31 December 2016 the ceded technical reserves amounted to -0,14 MSEK.

G. Receivables from insurance and reinsurance transactions

These receivables have a contractual maturity of less than one year. They are assessed at their notional value, possibly corrected by a provision to take into account the credit quality specific to each counterparty.

At 31 December 2016, the receivables from reinsurance transactions mainly correspond to the current accounts of reinsurers.

D.2 Technical provisions

D.2a Summary and reconciliation with the financial statements

LIABILITIES	Solvency II value	Statutory accounts valuation basis (Solvency I)
Technical provisions – non-life	**1 749**	**3 854**
Technical provisions - health (similar to non-life)	1 749	3 854
Technical provisions calculated as a whole		
Best Estimate	1 078	
Risk margin	671	
Technical provisions - life	**21 191 127**	**45 825 740**
Technical provisions – life (excluding health)	21 191 127	45 825 740
Technical provisions calculated as a whole		
Best Estimate	18 019 385	
Risk margin	3 171 742	

The difference between technical provisions under statutory accounts valuation basis (SEK 46 million) and Solvency II (SEK 21 million) is explained by:

- Unrealized gains from existing contracts and future profits resulting from future premiums (SEK 17 million)
- The release of deferred acquisition costs (DAC) (SEK 7 million).

D.2b Principles and assumptions for valuing the technical provisions

Pursuant to Article 75 b) of the Directive, the liabilities are valued "at the amount for which they could be exchanged between knowledgeable and willing parties in an arms-length transaction".

Technical provisions represent the sum of the Best Estimate of the Liabilities ("BEL"), and the Risk Margin ("RM").

The BEL corresponds to the expected value of portfolio cash flows as at 31 December 2016, discounted with the risk free curve without any risk reduced by the credit risk and increased by volatility adjustment.

The risk margin is calculated using the "Method 2" of the simplifications proposed in guideline 61 of the Guidelines for the valuing of technical reserves (EIOPA-BoS-14/166). This methodology is based on the sub-modules' risk forecast in proportion to certain indicators called "drivers".

The calculations have been performed on a best estimate basis. The underlying policyholder behaviour assumptions are based on policyholder behaviour experience (e.g. surrenders/lapses, claim frequency etc). Economic assumptions have been set consistent with economic conditions prevailing at 31 December 2016.

The Company uses the risk-free yield curve obtained from EIOPA, to which the Volatility Adjustment (VA) is added.

The Company does not use the following transitional measures:

- the matching adjustment referred to in Article 77b of Directive 2009/138/EC
- the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC
- the transitional deduction referred to in Article 308d of Directive 2009/138/EC

D.2.c Level of uncertainty related to the value of technical provisions

The main factors of uncertainty identified in the technical reserves are:

- their transposition into a risk neutral environment without real-world assumptions (target policyholder benefit rate, assets dividend rate, etc.);
- the Best Estimate projected costs, in particular for rapid development or run-off portfolios.

D.3 Other liabilities

In millions of SEK, at December 31, 2016	Reference	Balance sheet solvency 2	Annual financial report
Technical provisions incl. Best estimate of liabilities (BEL)		-	-
Provisions for pensions and other benefits	A	21	46
Liabilities for cash deposits of reinsurers	B	6	6
Deferred tax liabilities	C	3	-
Financial liabilities other than debts owed to credit institutions	D	-	-
Insurance & intermediaries payables	E	-	-
Reinsurance payables	E	9	-
Other debts (Not linked to insurance)		30	30
Subordinated liabilities in Basic Own Funds	F	-	-
Any other debts, not elsewhere shown		18	18
Other liabilities		**86**	**99**
Ordinary share capital, Premiums		93	93
Reconciliation reserve		13	0
Dividends		-	-
Own funds		**106**	**94**
Total Liabilities		**192**	**193**

Notes A to F refer to the methods for evaluating other liabilities described below.

Reconciliation with the financial statements and methods for evaluating other liabilities

In millions of SEK, at	Reference	December 31, 2016
Fair value financial assets	C	-
Valuation of insurance liabilities under Solvency II and elimination of deferred acquisition costs	C	- 9
Revaluation of subordinated liabilities	F	-
Others	B, C, D et E	9
Assets and deferred tax liabilities compensation	C	-
TOTAL OF RESTATEMENTS		**- 0**

Pursuant to Article 75 of the Directive, the other liabilities are valued "at the amount for which they could be exchanged between knowledgeable and willing parties in an arms-length transaction".

B. Deposits from reinsurers

As at 31 December 2016, the line item "Deposits from reinsurers" for an amount of 5,58 MSEK mainly corresponds to the cash deposits set up within the scope of the treaty.

C. Deferred tax liabilities

Deferred tax liabilities are tax liabilities. They are determined in accordance with the method described in paragraph D.5., Other information.

E. Liabilities from reinsurance transactions

These liabilities have a contractual maturity of less than one year. In principle, they are valued at notional value.

D.4 Alternative methods for valuation

The Company does not use any alternative methods for valuation.

D.5 Any other information

Deferred taxes are calculated on the basis of the temporary differences between the carrying amount of assets and liabilities in the Solvency II balance sheet and their tax base.

Tax credits and tax loss carry-forwards are recognised and assessed in compliance with IRFS standards.

Deferred tax assets and liabilities are measured using the liability method, using the tax rate which is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been or will have been enacted before the balance sheet closing date of that period. They are not discounted. Deferred tax assets are recognised in the balance sheet if it can be shown that they can be absorbed by future taxable profits within a reasonable period.

Deferred tax assets and deferred tax liabilities may be offset if, and only if:

- they relate to the taxes deducted by the same tax authority and from the same taxable entity;
- there is a legally enforceable right to offset the payable tax assets with the payable tax liability.

The Company calculates its deferred tax on the basis of the local tax required and according to the principles described above. The position of deferred tax in the Solvency II balance sheet is offset by each entity.

At 31 December 2016, deferred tax liabilities were 3,45 MSEK.

E. Capital Management

E.1 Own funds

E.1.a Objectives and policy for own funds management to cover the SCR/MCR

The Company's capital management aims to ensure an optimized and sufficient capital structure, to satisfy prudential requirements and to guarantee adequate financial resilience.

The Capital Management Policy of the Company is based on the following principles:

- ensuring a level of capital so that, following a bicentenary impact and 95% of the SCR absorbed, it will still be sufficient to enable BNP Paribas Cardif Försäkring AB to continue to conduct its business.
- covering at least 100% of the SCR defined within the scope of the ORSA assessment (Pillar II).

Depending on the levels of solvency ratios observed on a quarterly basis and the forecasts made under ORSA and yearly updates if necessary, remedial actions to adjust the capital may be initiated.

E.1.b Structure, amount and quality of own funds

Available own funds were at 106 MSEK at 31 December 2016 and comprised the following elements:

In millions of SEK, at	December 31, 2016
Ordinary share capital	38
Share premiums	55
Reconciliation reserve	13
Subordinated liabilities	-
Guarantee funds	-
TOTAL	**106**

Own-fund items are ranked at three tier with a graduation in quality, according to their availability, their priority subordination for hedging policyholder undertakings, and their duration.

The composition by Tier based on the transitional arrangements, is as follows:

In millions of SEK, at	December 31, 2016					December 31, 2015
	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3	
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	-	38	-	-	-	38
Share premium account related to ordinary share capital	-	55	-	-	-	55
Surplus funds	-	-	-	-	-	-
Preference shares	-	-	-	-	-	-
Share premium account related to preference shares	-	-	-	-	-	-
Reconciliation reserve	-	13	-	-	-	13
Subordinated liabilities	-	-	-	-	-	-
An amount equal to the value of net deferred tax assets						
Other own fund items approved by the supervisory authority as basic own funds not specified above						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-	-	-	-	-	-
Deductions not included in the reconcilation reserve						
Deductions for participations in financial and credit institutions	-	-	-	-	-	-
Total basic own funds after deductions	-	**106**	-	-	-	**106**

The reconciliation reserve, eligible as Tier 1 own funds, is broken down as follows:

In millions of SEK, at	December 31, 2016
Social elements (Capital, reserves, RAN)	0
Solvency II restatements	12
Impact on future profits net of taxes	*12*
Other restatements	*-*
Planned distribution	-
TOTAL RECONCILIATION RESERVE	**13**

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds as at 31 December 2016 (2015: 0 MSEK).

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.a Amounts of SCR and MCR

The amount of SCR was SEK 44 million as at 31 December 2016. The MCR as at 31 December 2016 was given as the absolute minimum floor of MCR, which is equal to SEK 37 million.

E.2.b Information on the data used for calculating the MCR

The data used for calculating the MCR is:

- the technical reserves described in paragraph D.2;
- the amounts of the net reinsurance premiums issued for financial year 2016;
- capital at risk under Solvency I .

The calculated MCR is below the absolute minimum floor.

E.2.c Amount of SCR per risk module

	2016
Market risk	6 945 332
Counterparty default risk	1 620 804
Life underwriting risk	37 539 065
Health underwriting risk	6 175
Non-life underwriting risk	-
Diversification	- 5 780 255
Intangible asset risk	-
Basic Solvency Capital Requirement	40 331 121

Operational risk	7 237 741
Loss-absorbing capacity of technical provisions	-
Loss-absorbing capacity of deferred taxes	- 3 454 812
Solvency Capital Requirement	44 114 049

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not apply this.

E.4 Differences between the standard formula and any internal model used

The Company does not use any internal model.

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

There was no breach of the Solvency Capital Requirement (and hence the Minimum Capital Requirement) over the reporting period.

E.6 Any other information

No other specific information.