SOLVENCY II

# SFCR
# Solvency and Financial Conditions Report at December 31, 2016

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CCR RE

# Foreword

This narrative report is an integral part of Solvency II regulatory reporting and has been filed with the French national financial supervisory body (*Autorité de Contrôle Prudentiel et de Résolution- ACPR*).

It was validated by the Chief Executive Officer and subsequently approved by the CCR Re Board of Directors prior to submission to the *ACPR*.

In compliance with regulatory requirements, this initial report summarizes the information relevant to CCR Re's operations for 2016 concerning assessments implemented for solvency purposes.

All elements indicated within this report are considered to be stated at the date of December 31, 2016.

# SUMMARY

The year 2016 was the year of the launch of CCR Re's reinsurance operations by way of the transfer of the Open Market Reinsurance segment of the *Caisse Centrale de Réassurance* (CCR) to CCR Re on December 31, 2016.

This change was initiated subsequent to the legal separation of CCR's business operations. On January 1, 2017, CCR began conducting exclusively Public Reinsurance operations backed by the guarantee of the State of France (in particular the reinsurance of natural disasters and terrorism risk), while CCR Re, a wholly-owned subsidiary of CCR, began conducting its Open Market Reinsurance activities.

From a legal perspective, Open Market Reinsurance, an entire and autonomous business segment, was transferred by CCR to CCR Re via a partial contribution of assets involving the universal transfer of the Open Market Reinsurance segment in particular the reinsurance portfolio as well as the claims and corresponding assets and liabilities.

• In 2016, CCR Re recorded a solid performance and a robust balance sheet.

Gross premium income increases by 5.8% to € 443 m, driven essentially by new business in the life lines.

Underwriting profit net of retrocession was € 20.9 m.

Despite a decrease in interest rates, financial income was stable at € 35.1 m.

• The ratio of eligible capital to the Solvency Capital Requirement (SCR) was 166.2%.
• The ratio of eligible capital to the Minimum Capital Requirement (MCR) was 399.5%.
• The corporate business plan includes a stable and unchanged reinsurance program for the duration of the planning period.

CCR Re implemented a structured and transparent governance system consisting of:

- a Board of Directors (with a committee created from amongst its members: an Audit, Accounts and Risk Committee);
- an executive body comprised of a Chief Executive Officer and a Deputy Chief Executive Officer;
- and four key functions each with its own function manager.

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# I. PRESENTATION, ACTIVITY AND PERFORMANCE

In conformity with article L 355-1 of the French Insurance Code, reinsurance companies provide the *ACPR* with all the information necessary for the exercise of its control on a regular basis. This information is included in two distinct reports and in the quantitative statements referred to in L 355-1 of the Insurance Code.

Of these two reports, this report is the Solvency and Financial Condition Report (SFCR) otherwise called the
"Public Narrative Report". This report is published on an annual basis.

In conformity with articles R 355-1 and R 355-7 of the French Insurance Code, the Board of Directors approves the public narrative report.

## I.1 Presentation

### I.1.1 Corporate name and legal status

The Company's corporate name is CCR Re, incorporated as a French Limited Liability Company (*Société Anonyme - SA*).

CCR Re is a wholly-owned subsidiary of the *Caisse Centrale de Réassurance* (CCR).

CCR Re was incorporated as a simplified stock corporation and registered on December 28, 2015 then subsequently transformed into a French limited liability company (*société anonyme*) in 2016, adopting the corporate name CCR Re and the corporate purpose of conducting reinsurance operations.

Pursuant to article L. 321-1-1 of the Insurance Code, CCR Re is licensed to conduct Non-Life and Life reinsurance operations as stipulated in article R. 321-5-1 of the aforesaid code, following ACPR decision number 2016-C-46 of September 16, 2016 published in Official Journal number 0262 of November 10, 2016.

As the Company CCR Re was registered on December 28, 2015, its first corporate financial year began on December 28, 2015 and ended on January 31, 2016

### I.1.2 Partial contribution of assets; transfer of the Open Market Reinsurance activities from CCR to CCR Re

In 2016, CCR effected the legal separation of its activities: on January 1, 2017, CCR began to exclusively conduct Public Reinsurance operations backed by the guarantee of the State of France, while its Open Market Reinsurance activities in the Non-Life, Life, Accident & Health lines (Open Market Reinsurance) began to be conducted by CCR Re a separate legal entity and a wholly-owned subsidiary of CCR.

From a legal perspective, Open Market Reinsurance, an entire and autonomous business segment, was transferred by CCR to CCR Re via a partial contribution of assets involving the universal transfer of all asset and liability items of the Open Market Reinsurance segment. The extraordinary general meeting of the shareholders of both companies approved, on October 17, 2016, all the provisions of the draft contribution agreement prepared in the form of a private document dated September 1, 2016 (the Contribution Agreement).

By a document dated September 1, 2016, CCR and CCR Re signed a draft contribution agreement in conformity with the legal provisions governing such operations consisting of the transfer of the entire and autonomous Open Market Reinsurance segment from CCR to CCR Re.

On October 17, 2016, the extraordinary general meeting of the shareholders of each of the two companies approved all the provisions of the draft contribution agreement.

The administrative license authorizing CCR Re to conduction reinsurance operations was granted by the *ACPR* on September 16, 2016 and published in the Official Journal of November 10, 2016.

By the decisions of December 23, 2016, the Chief Executive Officer of CCR and the Chairman and Chief Executive Officer of CCR Re, using the powers granted by the extraordinary general meeting of the shareholders of October 17, 2016, officially recognized the definitive fulfillment of all the conditions precedent of the contribution agreement. Consequently and in conformity with the contribution agreement, the partial contribution of assets from CCR to CCR Re was definitively operated with effect on December 31, 2016 from a legal perspective. From a fiscal and accounting perspective, it took retroactive effect on January 1, 2016.

All items of the entire and autonomous Open Market Reinsurance segment were transferred by CCR to CCR Re in the framework of the partial contribution of assets and particularly the portfolio of reinsurance contracts and claims of the Open Market Reinsurance segment as well as the corresponding assets and liabilities.

As a reminder, all authorizations required to operate the transaction were obtained by CCR Re, in particular in France:

- An administrative license from the *ACPR* dated September 16, 2016 as published in the Official Journal of November 10, 2016;

- An *ACPR* solvency certificate dated September 19, 2016 attesting to the fact that CCR Re would be in possession of the eligible share capital necessary to cover the required solvency capital as set out in article L 352-1 of the Insurance Code on the date of the contribution; This certificate enabled the transfer of the entire Open Market Reinsurance portfolio of reinsurance contracts and claims from CCR to CCR Re, in conformity with article L 324-1-2 of the Insurance Code;

- In Canada, a federal license and provincial licenses were obtained (Ontario and Quebec) in 2016. The Office of the Superintendent of Financial Institutions (OSFI) also authorized in 2016 the transfer of the portfolio of reinsurance contracts and claims of the CCR branch office to the CCR Re branch office;
- In Labuan, Malaysia, the final license was obtained in 2016.

After having obtained the above-mentioned solvency certificate remitted by the *ACPR*, the transfer of the reinsurance contracts was operated:

- either by way of the regulatory transfer of the portfolio, within the European Economic Area (EEA) by application of article L 324-1-2 of the Insurance Code, and, in Canada, by application of local regulations and under the control of the OSFI;
- or by way of novations with the cedants (outside the EEA and Canada).

### I.1.3 CCR Re activity

The Company's activity is Open Market Reinsurance.

On December 31, 2016, the entire and autonomous Open Market Reinsurance segment (reinsurance without State guarantee), including the portfolio of reinsurance contracts and claims, was transferred from CCR to CCR Re by way of a partial contribution of assets (see above).

Beginning on January 1, 2017, CCR Re pursued and developed this segment. Like its Open Market Reinsurance peers, it offers its clients traditional reinsurance products. It operates in France and internationally in all lines of business (Non-Life, Life, Accident & Health).

It is stipulated that, for the renewal of reinsurance contracts at January 1, 2017, CCR temporarily underwrote treaties with cedants that included an automatic transfer of the treaty to CCR Re on December 31, 2016. CCR therefore did not maintain any of its Open Market Reinsurance commitments.

### I.1.4 Branch Offices and Offices of Representation

CCR Re benefited from the transfer of the activities of CCR's branch offices to CCR Re's branch offices, created in 2016 in Canada and in Labuan, Malaysia, pursuant to the partial contribution of assets and in conformity with local regulations.
CCR Re also has an office of representation in Lebanon.

### I.1.5 Participating interests and subsidiaries

In the framework of the partial contribution of assets from CCR to CCR Re, the Luxembourg-based captive reinsurance company, Caisrelux, wholly-owned by CCR, was transferred to CCR Re on December 31, 2016. The Insurance Commission, the Luxembourg authority competent for the supervision of the insurance sector, approved by a decision dated August 12, 2016, the change in share ownership of the subsidiary Caisrelux, CCR Re therefore became the new 100% shareholder following the transfer of all Caisrelux shares by CCR in the framework of the contribution agreement.

Furthermore, the French simplified limited real estate companies Rochefort 25, Pompe 179 and Civry 22, each the proprietor of a building, were transferred by CCR to CCR Re in the framework of the partial contribution of assets at December 31, 2016.

### I.1.6 Supervisory authority and statutory auditors

The supervisory authority responsible for the financial control of CCR Re is:

The French financial supervisory body (*Autorité de Contrôle Prudentiel et de Résolution - ACPR*)
Insurance sector
61, rue Taitbout
75436 Paris Cedex 09
Mr. Pierre Ottenwaelter

The statutory auditor in charge of controlling the CCR Re financial statements is:

PriceWaterhouseCoopers Audit SA
Statutory Auditor
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex
Ms. Christine Billy

Her present six-year term of office shall expire at the end of the ordinary general meeting called to approve the financial statements for the year ending December 31, 2021.

### I.1.7 Measurement of the Solvency Capital Requirement (SCR) and summary

In the framework of Solvency II and for regulatory reporting purposes, CCR Re uses the standard formula for SCR measurement in all its activities.

In compliance with corporate strategy, CCR Re's risk profile did not substantially change in 2016 and corresponds to the previously described risk exposure of its traditional Open Market Reinsurance segment and asset management activity.

The Solvency II ratio was over 165% at the end of 2016. In 2016, CCR Re recorded no substantial change in the Company's pro forma share capital which continued to be strengthened.

## I.2 Activity and performance

### I.2.1 Premium income

CCR Re written premiums, amounted to € 443 m, up 5.8% compared to 2015 (5.2% at constant exchange rates) attributable essentially to the underwriting of new business (an increase of € 58 m of which € 31 m for Life and € 27 m for Non-Life) and to prior-year adjustments (a positive € 16 m). This result was however negatively impacted by cancellations (less € 37 m) and to a lesser extent by adverse renewal conditions (decreases in shares and rates amounting to € 16 m).

Results of the business activities are as follows:

- written premiums from **non-life business** amounted to € 318.4 m, a decrease of 2.4% compared to 2015 (a decrease of 3.0% at constant exchange rates). These represent 28.1% of all written premiums from Open Market Reinsurance.

  This decrease of € 8 m is essentially due to net cancellations and the decrease in shares recorded in Northern and Southern Europe which could not be compensated for by new business underwritten primarily in China and Japan.

- written premiums from **life, accident and health business** amounted to €124.7 m, an increase of 34.7% compared to 2015 (at constant exchange rates, the increase is 33.8%).

  This increase of € 32 m is due essentially to the underwriting of new business in France (€ 21 m) and Chili (€ 9 m) during the year.

Furthermore, the four most important lines of business generated 73.3% of written premiums recorded by Open Market Reinsurance. This includes:

- Life, accident and health (28.1%);
- Fire and property (24.0%);
- Motor (13.4%);
- General Third Party Liability (6.5%);

  CCR Re's other main business lines are, in descending order of written premiums, Credit Suretyship, Marine, Construction Risks and Agricultural Risks.

### I.2.2 Underwriting results

CCR Re underwriting results net of retrocession were a profit of € 20.9 m in 2016, compared to a profit of € 6.5 m in 2015.

### I.2.3 Financial and real estate management

**The net book value of investments**[1] stood at € 1,921.5 m at December 31, 2016, of which € 299.9 m is attributable to deposits to cedants, compared to € 1,775.8 m in the balance sheet at January 1, 2016 (of which € 291.3 m in deposits).

[1] CCR Re financial and real estate investments including cash positions

Taking into account the situation in the financial and real estate markets and the disposals made in 2016, net unrealized capital gains on these assets amounted to € 336.5 m at year-end compared to € 317.5 m the previous year. When marked to market, CCR Re's total financial investments and real estate assets amounted to € 2,258.0 m, which represents an increase of 7.9% compared to year-end 2015.

**Net investment income** for 2016 amounted to € 35.1 m.[2].

This amount is comprised of € 20.4 m in ordinary financial income. Net capital gains increased to € 9.4 m.

Furthermore, net investment income includes € 3.6 m in income from currency translations as well as internal management costs in the amount of € 1.6 m.

The rate of return on financial assets rose to 1.9% in 2016.

***PARTICIPATING INTERESTS AND SUBSIDIARIES***

Since the partial contribution of assets operated by CCR on December 31, 2016, CCR Re has managed a portion of its real estate holdings through three French simplified limited companies whose total shareholders' equity were € 40.6 m at December 31, 2016. In the course of the year under review, these companies generated a net profit of € 1.5 m and contributed € 1.3 m to the ordinary financial income of CCR Re for the 2016 financial year.

Since the partial contribution of assets operated by CCR on December 31, 2016, CCR Re has also become the owner of a Luxembourg-based captive reinsurance company, Caisrelux, which had share capital of € 6.2 million at December 31, 2016, unchanged from the previous year. This company writes only business emanating from CCR Re. Although the 2016 accounts of this company had not been drawn up on the date of this report, it has already been established that this company will report a profit for the year.

### I.2.4 Net profit

**Net profit after tax in 2016** amounted to € 6,0 m.

Perspectives

The year 2016 was focused on the clarification of CCR's business approach and the strategic redeployment of the Company by way of the creation of CCR Re, its subsidiary dedicated to Open Market Reinsurance. For CCR Re, the year 2017 will hinge upon five pillars:

- implementation of a diversified underwriting policy restricted to a limited number of countries and lines of business;
- underwriting based on direct, long-term and selective relations with cedants;
- improvement in profitability over the middle term by way of a refocusing of the business on shorter-term and more diversified risks;
- consolidation of long-term relations with our key clients by offering them tailor-made service;
- pursuit of our efforts to modernize already existing management processes in order to meet set objectives for quality of service and responsiveness as well as for competitiveness.

[2] As this is CCR Re's first financial year, we have no comparable information from the previous year.

From a financial standpoint, current returns from the asset portfolio could increase with the probable and gradual rise in interest rates over the middle and short term signs of which may be seen as early as 2017.

### I.2.5 Post closing events

Since March 20, 2017, the discount rate applied to Third-Party Liability claims arising in Great Britain, Gibraltar and Malta was revised downwards significantly (dropping from 2.5% to a negative 0,75%). Initial estimates performed by the Company tend to indicate that the level of provisions decided by CCR Re is sufficient enough to absorb the impact of this revaluation.

# II. GOVERNANCE SYSTEM

CCR Re implemented a structured and transparent governance system consisting of:

- an organization for the administration, management or control of the Company that includes in particular:
    - a Board of Directors and a committee created from amongst its members: the Audit, Accounts and Risk Committee;
    - an executive body composed of a Chief Executive Officer and a Deputy Chief Executive Officer who are effective managers in the Company;

- and four key functions,

in order to enable optimal performance of its operations.

## II.1 Structure of the organization for the administration, management or control of the Company

### II.1.1 Board of Directors

a) Non disassociation of the positions of Chairman of the Board and of Chief Executive Officer

In conformity with article 225-51-1 of the French Commercial Code and article 16 of the corporation bylaws, the Board of Directors, in its meeting of June 29, 2016, opted to initiate the non-disassociation of the position of Chairman of the Board of Directors from that of Chief Executive Officer.

b) Chairmanship of the Board of Directors and Executive Management

Mr. Bertrand Labilloy was appointed Chairman and Chief Executive Officer by the Board of Directors on June 29, 2016 for the duration of his term of office as director. i.e. five years, or up to the end of the general meeting called to approve the financial statements for the year ending December 31,.2020.

On a proposal by the Chairman and Chief Executive Officer, Mr. Laurent Montador was appointed Deputy Chief Executive Officer by the Board of Directors on June 29, 2016 for a period of six years, or up to the end of the general meeting called to approve the financial statements for the year ending December 31,.2021.

c) Composition of the Board of Directors

In conformity with current legislation applicable to French limited liability companies, the Board of Directors is composed of a minimum of 3 members and a maximum of 15 members of which one member proposed by the French State in respect of order number 2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public-sector companies and one director appointed to represent the employees in respect of article L 225-27 of the French Commercial Code.

The CCR Re Board of Directors consists of 6 members:

- Mr. Bertrand Labilloy, Chairman and Chief Executive Officer
- Mr. Pierre Blayau, permanent representative of the *Caisse Centrale de Réassurance* (CCR)
- Mr. Patrick Cerceau
- Mr. Charles Levi
- Mr. Antoine Mantel (appointed at the start of 2017)
- one employee representative, Mr. John Conan, elected by fellow employees, which completed the appointment of members after his election in March 2017.

The directors' term of office is five years.

### d) Duties of the Board of Directors

The Board of Directors deliberates primarily on the main strategic, economic, financial and technological orientations of the Company's activity.

Besides matters that are of the competence of the Board by virtue of the applicable laws and regulations, and after due consideration by the competent committee(s), the Board of Directors considers and deliberates in particular on:

- the Company's underwriting and investment strategy, at least once a year;
- the Company's annual budget and risk appetite framework;
- merger and acquisition projects as well as projects involving strategic partnerships;
- the broad lines of its retrocession program.

The Board of Directors is provided with:

- a presentation of the financial situation, solvency and portfolio of the Company along with its commitments, at least once a year;
- information concerning the situation of its main subsidiaries, at least once a year and whenever the need arises (particularly in the event of financial difficulties).

The Board performs its duties in compliance with the Solvency II directive and the associated regulations. As such, it examines and approves the reports and policies as required by such regulations.

### e) Operations of the Board of Directors

<u>Internal regulations</u>

The Board of Directors adopted a set of internal rules and regulations governing its operations at the start of 2017 following the realization of the partial contribution of assets and transfer of the entire and autonomous Open Market Reinsurance segment by CCR to CCR Re with effect on December 31, 2016.

The internal rules and regulations of the Audit, Accounts and Risk Committee are appended to the internal rules and regulations of the Board of Directors.

The Board of Directors has also adopted a directors' code of good practice, which defines the principles with which directors must comply and which they are required to put into practice while exercising their duties. This code is also appended to the Board of Directors' internal rules and regulations.

<u>Meetings</u>
The Board of Directors met four times in 2016 and deliberated in particular on items that concerned the partial contribution of asset from CCR to CCR Re and the transfer of CCR's Open Market Reinsurance segment, the appointment of corporate officers (CEO and Deputy CEO) and the key functions as well as on the Executive Management of the Company by the Chairman and Chief Executive Officer.

### II.1.2 Audit, Accounts and Risk Committee

The Audit, Accounts and Risk Committee was established at the start of 2017.

The committee's mission is to assist the Board of Directors in its mission relating to the presentation of the annual statutory accounts, in particular, the monitoring of the effectiveness of internal control and risk management systems, and, whenever necessary, internal audit practices, insofar as concerns the procedures for the development and processing of financial and accounting information. It also assists the Board in assuring that the statutory auditor has satisfactorily performed his mission. The committee also provides its opinion on a selection procedure as well as its recommendation to the general meeting concerning the appointment of the statutory auditor. It is charged with hearing the report of the actuarial function, ensuring the monitoring and verification of compliance with all applicable laws and regulations, particularly those required by Solvency II and, in this context, examining the report of the compliance function. It is also charged with auditioning the internal audit function manager, examining and approving the audit program, analyzing the principal recommendations and outcomes for follow-up. It examines the reports [in particular the Regular Supervisory Report (RSR) and the Solvency and Financial Condition Report (SFCR)] and the written policies under its jurisdiction. It is also responsible for monitoring the risk control indicators, for controlling the Own Risk and Solvency Assessment (ORSA) and for examining the related report, and for hearing the representatives of the risk management function.

The Audit, Accounts and Risk Committee is composed of a maximum of four members appointed by the Board of Directors and selected among its members excluding the Chairman and including the employee representative. The committee, which is to begin its activity in 2017, shall be chaired by Mr. Charles Levi.

Mr. Charles Levi is a committee member with specific financial, accounting or statutory auditing expertise, who is qualified and is an independent member[3] based on the criteria stipulated and published by the Board of Directors.

### II.1.3 Executive body

a) Executive Management

The Executive Management of CCR Re is comprised of:

- Mr. Bertrand Labilloy, Chairman and Chief Executive Officer,
- Mr. Laurent Montador, Deputy Chief Executive Officer.

b) Effective Managers of CCR Re

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[3] On the basis of the criteria for independence set forth in the AFEP MEDEF corporate governance code for listed companies (*Code de gouvernement d'entreprise des sociétés cotées AFEP-MEDEF*) (November 2013), the following criteria for independence were adopted by the Board of Directors:
- Must not be an employee or corporate executive officer of CCR Re or of any CCR Group company, nor a representative of CCR Re's shareholders, nor a civil servant and must not have held any such position in the previous five years;
- must not be an executive director in any company in which CCR Re or any CCR Group company directly or indirectly has a seat on the Board of Directors;
- Must not have any significant ties to CCR Re, whether as a customer of or supplier to CCR Re or to a company of the CCR Group, or through close family ties with a CCR Re executive director.

Messrs. Labilloy and Montador are effective managers ipso jure, with identical fields of competence, following their appointments as Chairman and Chief Executive Officer and Deputy Chief Executive Officer respectively by the Board of Directors on June 29, 2016.

Their appointment was notified and not objected to by the *ACPR*.

c) Missions of the principal internal departments of CCR Re

- ***Underwriting Department***

The Open Market Reinsurance Underwriting Department is tasked with developing a profitable Open Market Reinsurance portfolio that includes cedants with the following key characteristics: small or average sized cedants with considerable need for reinsurance coverage seeking long-term partnerships with reinsurers and who enter into or may enter into negotiations in which CCR Re has significant weight regarding the terms and conditions of business. The mission of the Open Market Reinsurance Underwriting Department is also to develop and capitalize on its technical knowledge in a wide range of risks.
The department's missions also encompass business analysis, contractual management, underwriting decision-making and all aspects of the client relationship.

## II.2 Key functions

The Solvency II Directive establishes the principle that all companies must have, as a minimum, the following four key functions in place: risk management, compliance, internal audit and actuarial function defined respectively by articles 44, 46, 47, 48 of the Solvency II Directive.

The directive defines the principle of "function" in article 13, paragraph 29: "within a system of governance, 'function' means an internal capacity to undertake practical tasks; a system of governance includes the risk-management function, the compliance function, the internal audit function and the actuarial function. "

CCR Re has undertaken measures to accomplish all of the aforementioned tasks. As early as 2008, the Company appointed a Risk Manager charged with the missions of risk piloting and global risk management. Thusly, for each mission, a mission manager is in charge of each key function.

The key function managers are the same as those for CCR, namely:
- Mr. Jérôme Isenbart, risk management function,
- Mr. François Bourchanin, compliance function,
- Ms. Isabelle Grubic, internal audit function,
- Ms. Blandine Pierson, actuarial function.

Their appointment was notified and not objected to by the *ACPR*.

### II.2.1 Governance structure of the key functions

CCR Re key functions report directly to the Chairman and Chief Executive Officer and revert to him as need be.

The present comitology system also enables any necessary exchange.

### II.2.2 Risk management function

Within the ERM Department, the Risk Management, Conformity & Internal Control function assumes this responsibility. It ensures, among other things, that:

- material risks are identified, measured and monitored;
- risk management procedures are in place;
- consistent and exhaustive reporting systems are in place and cover the required scope.

This function is supported by the work of the actuarial function and, in particular, by efforts in the areas of:

- asset-liability management;
- development of an economic capital model;
- monitoring of Natural Disaster exposures;
- analysis of the retrocession program.

It is important to note that the risk management function is supported by the Chief Risk Officer who chairs the risk management committee.

The risk management function is a core CCR Group function as it oversees the work of the internal control team. Indeed, this system is supported by no less than 27 permanent control officers.

**Function managers**
The responsibility of the risk management function is assumed by the Chief Risk Officer.

2016 Activity summary conducted with the support of the actuarial function

- intermittent updating of certain areas of the risk mapping;
- annual updating of the list of major risks;
- review of the stochastic risk model (Governance, efficiency of controls and results);
- development of an asset-liability management system;
- portfolio analysis and monitoring of Natural Disaster exposure;
- development of an economic capital model;
- analysis of the retrocession program.

### II.2.3 Compliance function

The responsibility of the compliance function is assumed by the manager of the Risk Management, Conformity & Internal Control function. Verification of compliance is performed on the basis of a list of non-compliant risks from the CCR risk mapping.

2016 Activity summary
In 2016, the compliance control function assessed the entire array of control measures defined in the CCR mapping. All control measures covering non-compliance risks were assessed as being efficient and effective.

In 2016, the function progressively deployed the "Firco Due Diligence" filtering tool that enables the team to identify irregularities and problem areas.

### II.2.4 Internal audit function

In 2016, an individual was specifically appointed to ensure the management of the internal audit function. This individual reports to the Chairman and Chief Executive Officer of CCR Re, on the one hand, and to the Chairman of the Audit, Accounts and Risk Committee as well as to the Board of Directors, on the other.

2016 Activity summary
In 2016, two major tasks were conducted:
- Audit of the general expenses process;
- Review of the internal control, self-assessment and risk management systems;

### II.2.5 Audit of the actuarial function.

In 2016, an initial report on the actuarial function was drafted and includes:
- a summary of action undertaken;
- a list of identified deficiencies;
- the recommendations made;

The report focused on no less than the calculation of technical provisions, underwriting policy and retrocession agreements.

With respect to the assessment of the quality of data used in the calculation of technical provisions, the actuarial function relies on the work conducted by the Management Control & Inventory function of the Finance Department.

**Function managers**
The responsibility of the actuarial function is assumed by an actuary from the ERM Department.

## II.3 Compensation policy and practices

Beginning in 2017, CCR Re formalized a compensation policy applicable to all employees, officers and directors.

### II.3.1 Compensation policy

Consistent with CCR Group global strategy, the objectives of the compensation policy are to:
- capitalize on the expertise of the Group's employees so as to enable the Group to play its role as the State's risk manager to the fullest whenever new risks appear on the French market;
- avoid excessive risk taking and ensure that the level of risk remains consistent with the Group's risk appetite.

The underlying principles of the compensation policy are:
- Equality between the operational and functional departments and between all other departments;
- Gender parity with equal pay for equal jobs;
- Balance between fixed and variable direct compensation;
- Bonuses capped at 120%;
- Targeted hiring practices;
- Determination of achievable and measurable objectives.

### II.3.2 Compensation awarded to Company directors

No compensation was awarded to Company directors in 2016.

a) Compensation awarded to the Chairman and Chief Executive Officer

The amount of compensation to be awarded to the Chairman and Chief Executive Officer was not set at December 31, 2016.

b) Compensation awarded to the Deputy Chief Executive Officer

The amount of compensation to be awarded to the Deputy Chief Executive Officer was not set at December 31, 2016.

c) Compensation awarded to the members of the Board of Directors

The amount of director's fees to be awarded to the members of the Board of Directors was not set at December 31, 2016.

## II.4 Significant transactions

No significant transactions were concluded during the period considered with shareholders, persons having substantial influence on the Company or members of the administrative, management or control bodies.

## II.5 Competence and honorability

The competence and honorability of effective managers and key function managers were assessed on the same bases as those of CCR. The competence and honorability of members of the Board is also assessed on similar bases although it should be stated that the composition of the CCR Re Board of Directors is not aligned with that of CCR.

A competence and honorability policy is to be formalized in 2017.

### II.5.1 Risk management system (including ORSA)

The CCR Re risk management system is based on the COSO II repository outlined below.

The system is structured around the implementation of:

- an ERM Department operating from the Company's core;
- a risk appetite framework;
- risk limits aligned with the risk appetite;
- an operational system of risk management and control. *Figure 1: Position of ERM and of internal control*

### II.5.2 Presentation of the risk management system

The risk management system is based on:

- A definition of the risk appetite;
- Its breakdown by risk limits at the different Company levels;
- The identification of all risks to which CCR Re is exposed;
- Assessment, monitoring and information.

### II.5.3 Risk appetite

Risk appetite is the level of aggregate risk that CCR Re accepts to take in order to pursue its business plan and achieve its strategic objectives. It is an overall limit.

CCR Re's goal is to build a profitable portfolio while controlling risk.

Taking account for the inversion of the production cycle that characterizes insurance and reinsurance companies, CCR Re is also an asset manager and allocates a risk budget in the aim of managing its asset portfolio in a conservative yet shrewd manner.

This strategy provides that risk assumption is associated above all with the necessity of maintaining the solvency required to protect the State's interest.

The Board of Directors therefore affirmed its intention to maintain a 2017 risk appetite that enables the Company to allocate the capital necessary to successfully achieve its mission while covering its Solvency Capital Requirement at a ratio of over 150% for the year even in the event that the two following crisis scenarios would occur:

- the occurrence of disasters impacting Open Market Reinsurance business;
- the occurrence of a major financial crisis.

### II.5.4 CCR risk repository

The CCR risk repository lists all risks liable to impact the Company. It includes the risk categories stated in the Solvency II Directive and has been adapted to CCR Re's risk profile. The referential is reviewed annually by the risk management committee in the context of the assessment of major risks and a review is conducted once every three years to verify the exhaustiveness of the risks contained in the mapping. The repository takes account of three levels of detail and its architecture is the same as that of the risk appetite framework.
The first risk level is a macrostructure of the major risk families representing each of CCR Re's main activities. The second level provides additional detail to each major category (see parts a, b, and c below). The third level breaks down Level 2 risks whenever pertinent providing a more detailed analysis of certain risk families such as human risk which includes, in particular, the risk of error, internal fraud or non-compliance with procedures.

| Level 1 Risk | Definition Level 1 Risk |
|---|---|
| **Market risk** | the risk of loss or of adverse changes in the financial situation resulting, directly or indirectly, from fluctuations affecting the level and the volatility of the market value of assets, liabilities and financial instruments; |
| **Underwriting Risk without State Guarantee** | the risk of loss or of adverse changes in the value of reinsurance commitments without the guarantee of the State due to the occurrence of events or inadequate assumptions relating to pricing or provisioning; |
| **Underwriting Risk with State Guarantee** | the risk of loss or of adverse changes in the value of reinsurance commitments with the guarantee of the State due to the occurrence of events or inadequate assumptions relating to pricing or provisioning; |
| **Operational risk** | the risk of loss resulting from inadequate or defective internal procedures, members of personnel or systems, or relating to events outside the company; |
| **Piloting risk** | risk relating to the running of the company; |
| **Compliance and ethics risk** | risk ensuing from non-compliance with laws and regulations or with the standards of conduct defined by CCR or the industry. |

### II.5.5 Own Risk and Solvency Assessment (ORSA)

In order to develop a detailed view of its risk profile, and to adapt to the specificities of its markets as best as possible, CCR Re opted to deepen its analysis and further the management of certain risks covered by the standard formula, i.e. the risks to which it is highly exposed and for which their effective management can be challenging. This pertains mainly to natural disaster risk and financial risk.

CCR Re has also developed its approaches to the analysis of certain risks not explicitly covered by the standard formula (see below).

In addition to the preparations associated with the standard formula, and to accurately assess its risk profile, CCR Re began, as early as 2008, to develop and perpetuate the processes that enable precise mapping of the risks to which it is exposed, to analyze them, to measure them--on both a quantitative and qualitative basis--and to contain them: solutions for mitigating risks are implemented once the risks become significant. These processes have been consistently furthered and improved since their implementation.

**a) ORSA policy**

Beginning in 2015, CCR Re implemented a formalized ORSA, or risk management umbrella, the processes of which are based on the system described above and integrate the entire array of strategic piloting processes.

The five processes that form the basis of the ORSA policy are:

- **Own Solvency** including unquantifiable or non-standard formula risks;
- **Overall Solvency Need (OSN)** (solvency forecast);
- **Definition of the Risk Management Framework** with comfort zones;
- **Ongoing supervision** with the relevant risk reports;
- **ORSA exceptional** procedure.

**b) ORSA report**

A report is presented annually at the time of production of an exceptional or recurring ORSA and addressed to Executive Management as well as to the *ACPR* authorities. The report is approved by the Board of Directors before submission to the *ACPR* within a period of two weeks.

The report comprises a summary created on the basis of all deliverables listed in the ORSA policy.

Furthermore, a complete list of the deliverables is included in document form.

## II.6 Internal control system

### II.6.1 Objectives

CCR Re has adopted the internal control objectives defined by the AMF. The internal control system put in place by CCR Re is designed to ensure:

- Compliance with laws and regulations;
- The application of instructions and guidelines established by Executive Management;
- The effective functioning of the Company’s internal processes, particularly those aimed at safeguarding its assets;
- The reliability of financial information.

In general, the system contributes to the monitoring of the Company's activities, the effectiveness of its operations and the efficient use of its resources.

### II.6.2 Approach and organization

The internal control approach is aligned with CCR Re's willingness to effectively manage its risks and fulfill its regulatory requirements.

Indeed, the French decree of March 13, 2006 requires undertakings governed by the Insurance Code to implement an internal control system and to submit an annual report on the internal control system to their Board of Directors. Furthermore, the European directive, Solvency II, states that insurance and reinsurance undertakings shall have in place an effective internal control system. That system shall at least include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking and a compliance function.

CCR Re's approach to internal control and risk management comprises the following main components:

**HEIGHTEN AWARENESS**:
Each employee plays a part in the system and must be capable of providing strong recommendations;

**STRUCTURE**:
Build an effective internal control approach based on proven repositories used by all players and adapt resources to ensure that objectives are met;

**ACCOMPANY**:
Prepare, monitor and accompany all players within the system to ensure application of new methodologies;

**COMMUNICATE**:
Communicate internally and externally on progress achieved with respect to internal control;

**DOCUMENT**:
Create and make available to all players, all items required to formalize internal control system documentation (standardization manuals, procedure manuals, management charts, process flowcharts, test descriptions and control assessment evaluations, risk maps, etc.)

Efforts to continually improve the internal control system help to optimize operations and to control activities more effectively.

The internal control organization and its position within CCR Re are summarized in figure 1. The internal control function reports directly to the ERM Department and is in charge of coordinating internal control across the Company.

### II.6.3 Codes of good practice

Several codes of good practice have been established within CCR Re:

A code of good practice for internal control was approved and distributed in 2012 at CCR and is applicable to CCR Re. The goals are to describe the system implemented by the Company and share the contents of the document with all members of staff.

An Information System code of good practice establishes the conditions for reconciling IS security objectives with a guarantee of respect for the rights and freedoms of the Company’s employees. Pursuant to this code, CCR Re undertakes to act transparently when defining and implementing IS security procedures, while the Company’s employees undertake to comply with the law when using the IS tools available to them.

A code of ethics sets out the Company’s aims and values and describes action principles with which each member of staff is asked to comply in performing his or her duties.

A code of good practice for document archiving sets out document archiving guidelines that enable long-term conservation, lists duties and responsibilities and enables set objectives to be met in terms of compliance with legal and industry regulations.

### II.6.4 Independence and efficiency of internal control

The Enterprise Risk Management Department and the statutory auditors issue recommendations whenever they identify any deficiency in the internal control system. These recommendations are brought to the attention of the Audit, Accounts and Risk Management Committee.

A follow-up of these recommendations is performed by the internal audit function of the Enterprise Risk Management Department. The latter reports at regular intervals to the Audit, Accounts and Risk Management Committee and the Executive Management.

The involvement of the Company's Executive Management and its hierarchical structure help ensure that action plans are implemented to address these recommendations.

## II.7 Business Continuity Plan (BCP)

The purpose of this plan is to ensure the continuation of the Company's essential activities in the event of a serious accident or major catastrophe by limiting the risks to which the Company is exposed. It focuses notably on the risk of the destruction of premises occupied by the Company or the impossibility of accessing these premises, the destruction of certain archives and the risk that information systems (underwriting, accounting and finance activities) and/or means of communication may be totally unavailable for a prolonged period.
The Business Continuity Plan contains:

- crisis management systems (crisis management command structure, phased procedures, decision-making process, personnel management, crisis communication, etc.);
- the Information System backup plan;
- contingency arrangement for staff (relocation, transportation, telephone services, etc.); and
- finally, business recovery plans and guidelines for functioning in downgraded mode.

The BCP has set three priorities in order to ensure business continuity and reduce the unacceptable effects of these major risks on CCR Re:

- ensuring continuous contact with clients and with the State, as shareholder;
- protecting sensitive documents; and
- ensuring the availability of IS applications.

### II.7.1 CCR Re procedures and guidelines

CCR Re has also put in place internal procedures and guidelines enabling the Company to conduct business efficiently while controlling risk. Procedures and/or guidelines have been put in place in respect of:

- compliance by the Company's business with policies and strategies set by management bodies and compliance of reinsurance operations with legal and regulatory requirements;
- assessment and control of investments;
- identification, assessment, management and control of the risks to which CCR Re is exposed;
- conformity of practices for risk assumption and pricing, reinsurance cessions, provisioning of regulatory commitments with corporate policy;
- supervision of claims administration;
- monitoring of affiliates;
- supervision of outsourced activities and methods used to market the Company's products;
- preparation and checking of financial and accounting data.

All procedures and guidelines are presented in detail in the CCR Re internal control report and in the special procedure documents.

### II.7.2 Subcontracting of services

This information is described above.

### II.7.3 Additional information

As of this date, we have no important information to report in addition to the information presented above relating to the CCR Re governance system.

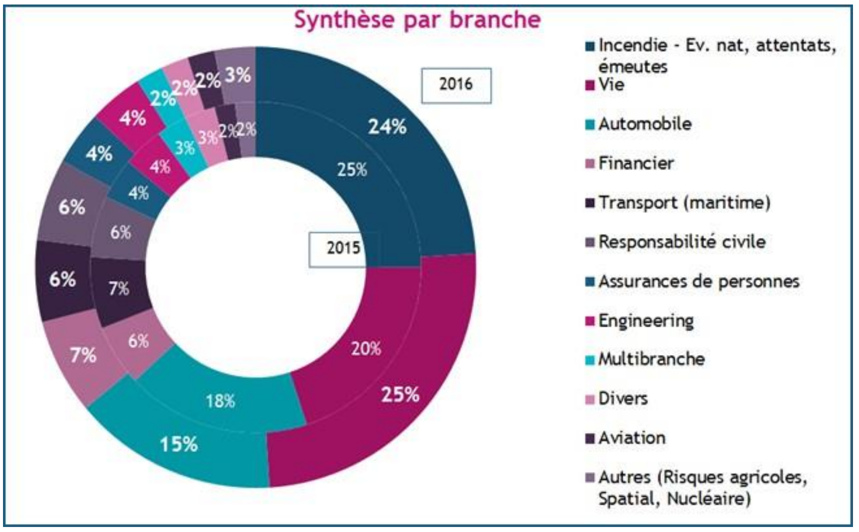
# III. RISK PROFILE

## III.1 Underwriting risk

### III.1.1 Background

CCR Re is a multi-line international reinsurer operating essentially in the Non-Life lines.

In practical terms, premium income from CCR Re operations totaled € 443 m in 2016. These operations were conducted in approximately fifty countries and in all major lines of business: life, non-life and specialty lines.




### III.1.2 Risks viewed through the SCR prism

As demonstrated in the diagram below, an analysis of the Company's risk profile using standard formula metrics indicates that Non-Life risk is significantly high. The other SCRs in descending order of significance are the Open Market SCR, then the Life SCR. The Life and default SCRs are relatively less important. The remaining SCRs are very marginal.

The most significant component of the underwriting SCR is reserve risk. The second most significant is natural disaster risk, which comprises one half of this proportion.

These two risks are managed by CCR Re using these analyses, underwriting processes and the ORSA. They are also managed using risk containment tools such as retrocession.

The principal processes used to control these risks are:

- Adoption of a global risk budget by the Board of Directors;
- Adoption of a natural disaster sub-budget by the Board of Directors;
- Construction of a portfolio using a tightly controlled profit-to-risk ratio and an established decision-making process;

- Verification, validation of strict underwriting guidelines;
- Use of actuarial reports to adjust the risk profile and implementation of retrocession programs.

As CCR Re is assessed using the standard formula, an adequacy analysis (in particular with respect to reserve risk and natural disaster risk) is performed at regular intervals.

All risks, sensitivity analyses and systems in place are described in detail in the CCR Re ORSA report.

## III.2 Asset management

### III.2.1 General principles

Investment policy guidelines are established by the Board of Directors in December of each year and for the subsequent fiscal year.
The guidelines govern, on the one hand, the minimum investment risk budget that CCR Re is authorized to establish, and on the other, the associated objectives and upper and lower limits of investments in the relevant asset categories.
Financial investment results and the consequences of fluctuations in financial markets are items that are regularly discussed in Board meetings.

The Board of Directors receives, in particular, the following information:

- information, at the time of the presentation of the financial statements, on the development of financial investments as a whole (by type of investment and for several accounting periods), in the form of historical cost price and market value,
- periodic information on the development of financial assets, by type of investment,
- periodic information on real estate market trends combined with, if applicable, requests for prior consent for decisions regarding the purchase or disposal of buildings.
- information on special investments (such as derivatives that are managed directly by the investment team) combined with, if applicable, requests for authorization to purchase these investments.

### III.2.2 Analytical framework for asset allocation strategy

Asset allocation is determined on the basis of the analysis of three key factors:

1) **Risk**
   CCR Re assesses three levels of risk simultaneously.
   i. Risk on capital: the risk of recording significant and long-term impairment for an asset.
   ii. Risk of fluctuations in the value of an asset; its impact is of an accounting nature (provisions affecting results) and of a regulatory nature (changes in regulatory equity capital) and will last as long as the asset in question is held.
   iii. Degree of correlation between two assets: risk of recording an impairment for two assets simultaneously. A strong correlation may be observed in extreme or atypical scenarios, while the assets in question appear to be de-correlated, and therefore contribute to the diversity of the portfolio, under normal conditions.

We generally observe a hierarchy among these three levels of risk, the first being the most significant.

2) **Liquidity**

Liquidity is the capacity to sell an asset quickly and at a good price compared to the market value, or to the estimated value for an unlisted asset. Assets come in a wide range of types that vary from those that are highly liquid to those that are not liquid at all.

3) **Expected return**

A distinction can be made between the following two notions:

i. Returns: payment of revenues in the form of coupons, interest, dividends or rent payments.

ii. Profitability: profitability is based on performance and (unrealized or realized) capital gains and losses.

In practice, these dimensions are intertwined.

### III.2.3 Structure of CCR Re assets

Assets are analyzed in respect of past and projected performance.

## III.3 Money market instruments

### III.3.1 Money market investments weigh heavily compared to total investments Bond investments & credit

Bond investments also weigh heavily compared to total investments.

## III.4 Diversified investments

Diversified investments are broken down into three categories, hybrid securities, alternative investments and other diversified investments. These investments are exclusively comprised of investment funds under delegated management.

### III.4.1 Equity investments

Equity investments represent 10.5% of total investments and include a listed equity component (9.7% of total investments of which an Overlay fund that provides partial coverage of the long-term portfolio) as well as unlisted equity (0.7% of total investments).

1) Other investments

CCR Re has only limited exposure to loans.

## III.4.2 Exposure to the main financial risks

### III.4.2.1 Exchange risk

Exposure to exchange risk is relatively moderate and regularly undergoes crisis scenario testing.
Interest rate risk
The sensitivity level of the bond portfolio is relatively low.

### III.4.2.2 Credit risk

The directly-managed bond portfolio is exclusively comprised of Investment Grade securities. AAA/AA rated bonds comprise 70.9% of the bond portfolio.

### III.4.2.3 Liquidity risk

The liquidity of investment assets is very high due to the characteristics of the global asset portfolio. Real estate investments have the lowest liquidity position.

### III.4.2.4 Impact of a financial crisis

This scenario is based on the same assumptions used in the calculation of payability test statistics.

## III.5 Operational risk

CCR Re establishes the principle that the Company is not exposed to major operational risk once adjustments, using a suitable control, have been made.

## III.5.1 Operational application

CCR Re operational risk is monitored by the internal control system within the overall risk management system.

CCR Re has adopted the internal control objectives defined by the AMF. The internal control system put in place by CCR Re is designed to ensure:

- Compliance with laws and regulations;
- The application of instructions and guidelines established by Executive Management;
- The effective functioning of the Company's internal processes, particularly those aimed at safeguarding its assets;
- The reliability of financial information.

In general, the system contributes to the monitoring of the Company's activities, the effectiveness of its operations and the efficient use of its resources.
CCR Re uses COSO II guidelines to assess its global risk management procedures.

## III.6 Other risks

CCR Re has not detected to date any other risk likely to impact or alter the analysis presented above.

### III.6.1 Exposure to risk

### III.6.2 Risk assessment

Risk assessment follows the standard process for operational risk presented above and is carried out on all risks within the Company. Please be reminded that this process is based on periodic mappings, the emerging risk process, the supra-major risk process and all the actuarial studies and analyses conducted by CCR Re.

### III.6.3 Large risks

Large risks are described above (underwriting, investment). Supra-major risks are analyzed unilaterally by the members of the Executive Committee, the risk management committee as well as the conformity and internal control function. Such risks are being analyzed specifically at the time of this writing (April 2107).

- Market risk;
- The risk of not achieving the effective implementation of CCR Re within the lapse of time required for its implementation;
- The risk of illegal access into the Information System or to its data (cyber risk);

As a reminder, the supra-major risk monitoring process is based on a top down approach and has been in place on an annual basis for the last four years. It is being developed in the objective of sharing a continuous overview of supra-major risks and consequently implementing the means of managing or monitoring risk in a flexible, reactive and efficient manner.

### III.6.4 Investment policy

Assets were invested in accordance with the prudent person principle, as specified in article 132 of Directive 2009/138/EC.
Assets were invested in accordance with the investment risk policy adopted by the CCR Re Board of Directors.

### III.6.5 Risk concentration

CCR Re has no important risk concentration to report. Monitoring of risk concentration is performed by Company professionals operating in various disciplines (look-through investments, underwriting on the basis of natural disaster exposure, and development of a diversified portfolio).

## III.7 Risk mitigation techniques

CCR Re practices two major techniques for mitigating risks: retrocession and hedges on equity securities.

### III.7.1 Retrocession

The policy is outlined in detail in the report on retrocession policy. The program presented below was implemented beginning in 2017 and focuses on maintaining a rigorous process for the selection of retrocessionnaires with a minimum S&P rating of A-.

### III.7.2 Protection of the equity portfolio

CCR Re opted to implement a strategy for the protection of its equity portfolio.

- On the basis of forward contracts;
- In order to hedge against a decrease of over **15%** of valuations at December 31, 2016.

## III.8 Sensitivity to risks

The ORSA report describes the sensitivity of the risk profile to several adverse scenarios.
A simple summary table is presented below.

The planned scenarios and their impacts are presented in detail in the ORSA report. They demonstrate the high level of resilience of CCR Re consistent with its risk profile and protection program.

# IV. VALUATION OF ASSETS AND LIABILITIES

This section addresses the valuation of assets and liabilities for the purpose of determining solvency. It also explains the differences in processing between French GAAP standards, valuation under the former Solvency I scheme and valuation under the Solvency II scheme.

## IV.1 Valuation of assets

Generally, assets are valued at their standard market value, therefore there is no internal or external valuation model.

### IV.1.1 Data source, control and use

At regular intervals, the accounting and treasury function presents reporting statements that explain changes in the Company's financial investments.

To guarantee the reliability and exhaustiveness of financial reporting, the extraction of data from the *Chorus Institutionnels* accounting software is automated.

The prices used to perform the calculation are provided by the *Chorus Institutionnels* database, whose data are provided by the main price reporters or investment fund depositories; this Nile database is shared with the reinsurers and insurers of the Paris marketplace.

For the financial instruments generally held by CCR Re, the accuracy of this database is reliable, thereby significantly limiting problems of erroneous or missing prices.

The total value of the portfolio is calculated at the end of each month. However, such calculation may be made at any time at the request of the financial managers or of the Executive Management.

The value of CCR Re's assets is systematically verified against an outside valuation (securities statements received form depositories) at the end of each quarter.

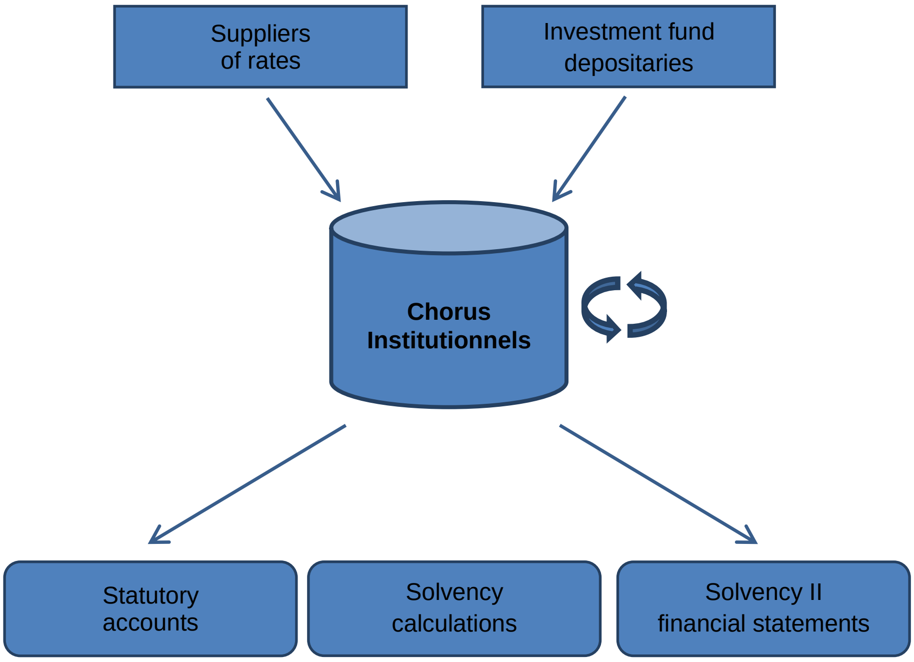
Furthermore, in conformity with regulations, real estate experts assess the fair value of each building, every five years. This value is then adjusted each year. The values are communicated to the *ACPR*.
As these real estate assets are, for the most part, held over a period of several years and because of their quality, they represent significant unrealized capital gains.

Foreign exchange operations (forward sales and non-deliverable forwards) are stated in CCR Re's off-balance sheet commitments; and the valuation of these commitments is systematically reconciled against the valuation results received from financial intermediaries.
In the framework of the European Market Infrastructure Regulation, if variances are detected, a supporting document is requested from the financial intermediaries.
These currency transactions are stated in the prudential balance sheet.

Moreover, in the context of their six-month controls, the Statutory Auditors perform significant testing on the valuation of the various investments held by the Company.

Data extracted from the Chorus application are utilized to calculate solvency, for the "statutory accounts", and for the Solvency II financial reports. For each of these reports, the related data / valuations are processed using the same procedure in terms of both the assumptions and the methods used to develop them.

**Resultantly, there is no difference, from a quantitative or qualitative perspective, between the bases, methods and main assumptions used by CCR Re for the valuation of assets in the aim of determining solvency, and those used for their valuation in the financial statements. It follows that the differences between Solvency I and Solvency II valuations are also traced.**




### IV.1.2 Valuation of investments

Unrealized capital gains enable to identify valuation differences between Solvency I and Solvency II standards.
The cost prices displayed are net of provisions for the long-term impairment of asset values.

### IV.1.3 Valuation of other assets

The valuations for other assets included in the prudential balance sheet at December 31, 2016 are as follows:

| | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| **Assets** | | | |
| Deferred tax assets | R0040 | 8 737 219 | |
| Reinsurance recoverables from: | R0270 | 15 904 086 | 18 043 752 |
| Deposits to cedants | R0350 | 131 709 703 | 129 087 980 |
| Insurance and intermediaries receivables | R0360 | | |
| Reinsurance receivables | R0370 | 240 012 760 | 239 287 922 |
| Receivables (trade, not insurance) | R0380 | 3 833 023 | 3 821 447 |
| Own shares (held directly) | R0390 | | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | | |
| Cash and cash equivalents | R0410 | 321 308 297 | 321 308 296 |
| Any other assets, not elsewhere shown | R0420 | | 296 337 |

The items "Deposits to cedants" and "Cash and cash equivalents" are not restated.

a) Provisions for retrocession

Provisions for retrocession in the statutory accounts are valuated using the Solvency II standard: calculation of a best estimate with an adjustment for consideration of the risk of default on the part of the retrocessionnaires.

b) Reinsurance business receivables and other receivables

These items contain all receivable balances. These items, stated as statutory accounts values, are adjusted to the yearly fixed amount, considering that if in run-off, they would be liquidated within one year.

c) Other assets not indicated in the items above

This item includes assumed reinsurance premiums remaining to be written (estimate based on technical inventory). These premiums are adjusted using their liquidation trajectories (See the section entitled "Valuation of technical provisions").

**The valuation of other assets for Solvency II purposes is similar to the valuation of other assets for financial reporting purposes; the valuation data, methods and main assumptions are the same. It follows that the differences in the manner of processing between Solvency I and Solvency II valuations are traced.**

## IV.1.4 Valuation of liabilities

## IV.1.5 Valuation of technical provisions

### IV.1.5.1 "Statutory accounts" provisioning process

a) Assumed business

The provisioning procedure is described in the guidelines validated by the CORI on an annual basis.

The process of provisioning reinsurance business underwritten by the Company is conducted on a quarterly basis. The process has been the responsibility of the Management Control & Inventory of Technical Provisions function since 2015 and is reviewed every quarter by the CCR Re Actuarial function.
All work is performed in close cooperation with the Technical Accounting and Underwriting Departments.

Reinsurance contracts are organized by actuarial population. An actuarial population is defined as a group of sections with similar behavioral patterns in terms of risks and liquidation levels. Each population is characterized by:

- The risk that it covers; motor liability, fire, etc.,
- the nature of the business; (management) x (Non-Life / Life) x (treaty / facultative) x (proportional / non-proportional),
- A geographic criterion.

For each actuarial population, the provisioning process is conducted in the same manner:

- Collection of "underwriting years / fiscal years" triangles for premiums, paid amounts and claims payable reserves from the actuarial population. The triangles are generated using the accounting data for the underlying sections of the actuarial population;
- when available, claims administration data relating to the reference actuarial population is also collected (information on a contract, on an event, etc.);
- use of the ResQ software application;
- calculation for each underwriting year of:
    - ultimate premium amounts and ultimate amounts for the relative premiums remaining to be written;
    - ultimate total 50-50 claims expense, corresponding to the actuarial expectation;
    - ultimate total 70-30 claims expense, for 50-50 claims payable reserves and the related 70-30 claims payable reserves;

- the liquidation trajectories for these claims payable reserves and premiums remaining to be written;
- split by algorithms of the 50-50 claims payable reserves and the 70-30 claims payable reserves from the actuarial population for the business composing them.

the 70-30 claims payable reserves are the reserves presented in the CCR Re statutory accounts;
This process and the actuarial populations are reviewed annually by the CCR Re Statutory Auditors. This process has been consistently applied throughout the CCR Group since 2001.
The quality of the level of provisioning is also controlled once every three years by an outside auditing firm. The last audit was conducted in 2014.

b) Retrocession

The process for provisioning Non-Life and Life retrocession business is managed directly by the Retrocession Department in cooperation with the Technical Accounting function. Previsions for ultimate premiums and claims are booked on a quarterly basis by the Retrocession Department, business by business. Ceded claims payable reserves and premiums to be ceded are deducted by the Technical Accounting function.

Retrocession business may be managed on a business by business basis, to the extent that it is not significant (less than 20 per retrocession program renewal), and because it is not frequently adversely impacted by claims.

Insofar as concerns retrocession, as there is less uncertainty for ceded reserves and as CCR Re has only limited historical data, ceded 50-50 reserves are identical to ceded 70-30 reserves.

#### IV.1.5.2 Allocation of Lines of Business

At December 31, 2016, the CCR Re portfolio contained the following lines of business:

**Lines of Business**
Motor vehicle liability insurance
Marine, aviation and transport insurance
Fire and other damage to property insurance
General liability insurance
Credit and suretyship insurance
Miscellaneous financial loss
Non-proportional casualty reinsurance
Non-proportional marine, aviation and transport reinsurance
Non-proportional property reinsurance
Health reinsurance SLT
Life reinsurance

This list is susceptible to future changes depending on CCR Re's commercial strategy.

a) Assumed business

The criteria for establishing the actuarial populations are sufficiently detailed to permit adequate allocation on a population by population basis to the lines of business. A transition table was created and audited by independent experts.

Below is an extract of this table:

| Actuarial population | | Line of Business | |
|---|---|---|---|
| ID | Description | ID | Description |
| … | … | … | … |
| AIT009A | Proportional Marine Europe | I00018 | MAT |
| AIT009B | Proportional Marine Rest of World | I00018 | MAT |
| AIT010A | Non-Proportional Marine Europe | I00027 | Reins MAT |
| AIT010B | Non-Proportional Marine Rest of World | I00027 | Reins MAT |
| AIT011A | Proportional Credit Suretyship | I00021 | Credit |
| … | … | … | … |

Each assumed contract is obligatorily allocated to an actuarial population. It is also allocated to a single line of business.

b) Retrocession

Retrocession treaties can cover several lines of business simultaneously. The ceded claims payable reserves and retroceded premiums are apportioned by line of business on a pro rata basis, based on the distribution by line of business for assumed business covered by the retrocession treaty.

### IV.1.5.3 Best estimate and risk margin valuation method

The CCR ERM Department is charged with valuating the best estimate and risk margin.

a) Best Estimate

- Assumed business

Assumed business, from the actuarial populations, is apportioned by line of business.
The criteria for establishing the actuarial populations are sufficiently detailed to permit adequate allocation on a population by population basis to the lines of business. A transition table was created and audited by the firm of PriceWaterhouseCoopers at year-end 2015..
Each assumed contract is obligatorily allocated to an actuarial population. It is also allocated to a single line of business.

Future flows constituting the best estimate are determined by multiplying total 50-50 claims payable reserves for premiums (and claims respectively) for each contract by the adequate liquidation vector (determined for each of the standard groups of contracts).
Updating of the flows is performed by applying the EIOPA risk-free rate curve without a volatility adjuster at the date of calculation, and valid for the currency in which the accounts of the business under consideration are kept.

The aggregation by line of business, then for all lines combined, of the premium and claims best estimates for each contract provides the best estimates gross of premiums and claims respectively by line, and the final gross assumed best estimate.
Checks are performed throughout the process in order to verify that the exhaustiveness of the booked 50-50 claims payable reserves has been effectively integrated into the assumed best estimate.

Concerning foreign currencies, CCR Re, as an international reinsurer, maintains accounts denominated in close to a hundred different foreign currencies. The best estimate is calculated and updated by foreign currency, with distinctive rate curves adapted to each currency. This applies to a minimum of 95% of the overall quantity. The remaining portion is updated using the US dollar rate curve. This choice is explained in particular by the fact that the remaining portion generates financial flows that are for the greater part denominated in US dollars (this is the case for HKD, MYR, etc.).

Regarding CCR Re management costs, they are included in the 50-50 claims payable reserves. These costs are charged to a dedicated account.

Note regarding premiums remaining to be written: CCR Re has followed the line of not recording updated flows from the liquidation of the total premiums remaining to be written in the best estimate. The sum of these updated flows has been left at the bottom of the prudential balance sheet of assets, as is the case for the CCR Re statutory balance sheet. This choice has no impact whatsoever on Solvency II equity capital and the premiums are fully integrated into the different risks to which they apply.

- Retrocession

Retrocession treaties can cover several lines of business simultaneously. The ceded claims payable reserves and retroceded premiums are apportioned by line of business on a pro rata basis, based on the distribution by line of business for assumed business covered by the retrocession treaty and on their recorded loss experience.

The retrocession best estimate is calculated in the same manner as for its assumed business equivalent, on the basis of the ceded 50-50 claims payable reserves and by taking into account the liquidation trajectories of the "experts", provided by the Retrocession Department. As with premiums remaining to be written (assumed business), updated premiums remaining to be ceded appear at the bottom of the prudential balance sheet. Checks are also integrated into the calculation process so as the verify that all 50-50 claims payable reserves and retrocession premiums are integrated into the retrocession best estimate.
It should be noted that the retrocession protection has never been impacted in the past and that consequently, a workable liquidation triangle is not available.

- Assumed business net of retrocession

The net best estimate used in particular to calculate the risk margin is determined by associating the previously mentioned items.

b) Risk margin

The risk margin is calculated on an aggregate basis using the simplified calculation of the risk margin referred to in paragraph (a) of article 58 of Commission Delegated Regulation (EU) 2015/35.

In this manner, the various forward components of the SCR are estimated future year after future year, until liquidation of CCR Re's commitments.
These estimates are based on the Solvency II results at the date of calculation, on CCR Re's accounting calculations, and on the processes substantiated and validated by PwC at the time of their 2015 year-end review.

Overall forward SCRs are calculated using the aggregate of their components. The overall risk margin is determined by updating these forward SCRs.

The risk margins by line of business are deducted from the overall risk margin pro rata of the best estimates by line of business.

## IV.2 Valuation for solvency purposes and valuation for financial reporting purposes

The valuation of technical provisions for solvency purposes is no different from the valuation of technical provisions for financial reporting purposes; the valuation data, methods and main assumptions are the same.

### IV.2.1 Changes in assumptions for the calculation of technical provisions

CCR Re was not in existence at the previous date of registration.

#### IV.2.1.1 Technical provisions and special purpose vehicles at December 31, 2016

a) Assumed / retrocession best estimates and risk margin

The best estimates for commitments (assumed business and retrocession) as well as the risk margin calculation results are performed by line of business and available in the associated Quantitative Reporting Templates (QRTs)

b) Transition from the best estimate at December 31, 2015 to the best estimate at December 31, 2016

CCR Re was not in existence at the previous date of registration.

c) Special purpose vehicles

CCR Re has no special purpose vehicles in its balance sheet at December 31, 2016.

d) Matching adjustment – volatility adjustment – transitional measures

To date, CCR Re does not apply:

- the matching adjustment referred to in article 77c of Directive 2009/138/EC. The Company maintains however the principle of the uniqueness of its assets;
- the volatility adjustment referred to in article 77d of Directive 2009/138/EC;
- the transitional measure for risk-free interest rates referred to in article 308c of Directive 2009/138/EC;
- the transitional deduction referred to in article 308d of Directive 2009/138/EC.

CCR Re therefore does not apply any transitional measures.

## IV.2.2 Valuation of other liabilities

The valuations for other liabilities included in the prudential balance sheet at December 31, 2016 are as follows:

| | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| **Liabilities** | | | |
| Other technical provisions | R0730 | | 9 377 892 |
| Contingent liabilities | R0740 | | |
| Provisions other than technical provisions | R0750 | 1 613 215 | 2 729 112 |
| Pension benefit obligations | R0760 | 2 932 932 | 2 932 932 |
| Deposits from reinsurers | R0770 | | |
| Deferred tax liabilities | R0780 | 56 052 197 | |
| Derivatives | R0790 | 1 563 214 | |
| Debts owed to credit institutions | R0800 | 0 | |
| Debts owed to credit institutions resident domestically | ER0801 | | |
| Debts owed to credit institutions resident in the euro area other than domestic | ER0802 | | |
| Debts owed to credit institutions resident in rest of the world | ER0803 | | |
| Financial liabilities other than debts owed to credit institutions | R0810 | 0 | |
| Debts owed to non-credit institutions | ER0811 | 0 | |
| Debts owed to non-credit institutions resident domestically | ER0812 | | |
| Debts owed to non-credit institutions resident in the euro area other than domestic | ER0813 | | |
| Debts owed to non-credit institutions resident in rest of the world | ER0814 | | |
| Other financial liabilities (debt securities issued) | ER0815 | | |
| Insurance & intermediaries payables | R0820 | | |
| Reinsurance payables | R0830 | 12 739 842 | 12 701 367 |
| Payables (trade, not insurance) | R0840 | 53 191 889 | 53 031 250 |
| Subordinated liabilities | R0850 | 75 010 274 | 75 000 000 |
| Subordinated liabilities not in Basic Own Funds | R0860 | | |
| Subordinated liabilities in Basic Own Funds | R0870 | 75 010 274 | 75 000 000 |
| Any other liabilities, not elsewhere shown | R0880 | | 927 232 |
| **Total liabilities** | R0900 | 1 795 991 591 | 1 851 536 655 |
| **Excess of assets over liabilities** | R1000 | 736 059 329 | 367 099 405 |

## IV.2.3 Other technical provisions

The "Other technical provisions" item exclusively contains the CCR Re equalization reserve.

In the prudential balance sheet, this reserve is booked with no restating of equity capital.

## IV.2.4 Provisions other than technical provisions

This item contains various other than technical provisions. All of these items, stated as statutory accounts values, are adjusted to the yearly fixed amount, considering that if in run-off, they will be liquidated within one year.

## IV.2.5 Pension benefit obligations

These obligations are already valuated in accordance with the IAS 19 standard in the statutory balance sheet. Therefore, they are not restated in the prudential balance sheet.

## IV.3 Deferred tax liabilities

Deferred tax liabilities essentially comprise tax liabilities on unrealized capital gains not as yet subject to taxation, as well as tax liabilities on the portion of the equalization reserve not as yet subject to taxation. The tax rate is 28.92% and corresponds to the recommended flat rate.

### IV.3.1 Reinsurance payables

This item contains retrocession balances stated as liabilities, and in particular balances for premiums to be retroceded. All of these items, stated as statutory accounts values, are adjusted to the yearly fixed amount, considering that if in run-off, they will be liquidated within one year.

### IV.3.2 Payables (trade, not insurance)

This item contains the balances of liabilities for other CCR Re debtors, in particular the State of France. Corporation tax will therefore be allocated to this account in the event of amounts not yet paid to the State. All of these items, stated as statutory accounts values, are adjusted to the yearly fixed amount, considering that if in run-off, they will be liquidated within one year.

### IV.3.3 Any other liabilities, not elsewhere shown

This item includes premiums remaining to be retroceded (estimate based on technical inventory). These premiums are adjusted using their liquidation trajectories (See the section entitled "Valuation of technical provisions").

### IV.3.4 Valuation for solvency purposes and valuation for reporting purposes

The valuation of other liabilities for solvency purposes is no different from the valuation of other liabilities for financial reporting purposes; the valuation data, methods and main assumptions are the same.

## IV.4 Other important information

To the best of our knowledge, there is no additional information other than that reported above relating to the valuation of assets and liabilities for solvency purposes.

# V. CAPITAL MANAGEMENT

## V.1 Equity capital management - Objectives, policies and procedures

### V.1.1 Objectives

With respect to equity capital management, the Company's objective is to be capable, year after year, of preserving and optimizing the profitability of its equity capital in the context of its selected risk appetite framework.

During favorable underwriting years, allowances are made to equalization reserves and provisions in the objective of optimizing profitability.

CCR Re maintains profitability objectives in all its areas of business:
- with respect to the underwriting of Open Market Reinsurance business;
- with respect to its financial investments.

### V.1.2 Policy

The implementation of these objectives is, above all, guided by the risk appetite framework adopted by CCR Re.

In this context, CCR Re's objective is to maintain a Solvency II ratio of 150% over the forecast horizon of the corporate business plan. The forecast horizon corresponds to the horizon of the corporate business plan. Risk appetite strategy is outlined in the ORSA report.

This strategy enables the Company to:
- effectively control its level of equity capital in keeping with the risks it underwrites and the limits it sets;
- allocate, year after year, risk budget envelopes to the Open Market Reinsurance Underwriting Department and to the Financial Investment function.

The Underwriting and Finance Departments may then conduct their activities effectively on the basis of these envelopes.

Protection of equity capital:
In order to increase its financial strength, CCR Re has developed a protection policy for its equity capital. The policy is broken down as follows:
- retrocession policy and policy for the reduction of financial risks;
- risk management policy;
- implementation, where applicable, of management initiatives.

The details of these policies are provided in the corresponding documents.

Canadian branch office: in order to meet Canadian regulatory requirements, CCR Re implemented an equity capital management policy specific to its Canadian branch office. This policy is formalized in a memorandum.

### V.1.3 Procedures

CCR Re implements the corporate strategy validated by its Board of Directors and complies with the directives defined in the three-year corporate plan.

The latter is revised each year to take into account any market interactions that may occur.
The following are recalculated annually and monitored on an ongoing basis:

- The levels of risk appetite and risk tolerance;
- The burned risk budgets – State guarantees, Open Market Reinsurance, Finance.

The calculations are conducted by the ERM Department.

In 2016, the ERM Department ensured compliance with the risk budgets.

Each year, the Board of Directors validates all additional risk budget proposals submitted by the ERM Department, with consideration for risk tolerance limitations.

Any budget amounts remaining after approval by the Board are allocated to the Underwriting and Finance Departments, and may be utilized in keeping with the different policies and guidelines in place. They are then broken down on the basis of the risk limits described in the policies for the protection of equity capital, in the Underwriting guidelines and in the Finance rules which are reviewed annually.

To complete this process, the ongoing monitoring of the different activities enables the detection of required management actions: changes to the investment policy, non-renewal of unprofitable business, occasional decrease or increase in underwriting capacity, etc. in compliance with ORSA policy.

### V.1.4 Changes observed over the course of the last reference period

No changes in the principles for equity capital management were observed over the course of the last reference period

## V.2 Prudential equity capital at December 31, 2016

### V.2.1 Structure, quality and amount of prudential equity capital at December 31, 2016

| | | |
|---|---|---|
| Underlying equity capital | Surplus of assets over liabilities | € 736 m |
| | Subordinated debt | € 75 m |
| | Self-assessment | - |
| Ancillary equity capital | | - |
| **Total prudential equity capital at December 31, 2016** | | **€ 811 m** |

CCR Re has € 75 m in subordinated debt in the form of a subordinated loan in the same amount which it was granted by CCR.

CCR Re does not have a self-assessment system, or any ancillary equity capital.

CCR Re subordinated debt is classified as a Level 2 liability. By nature, all other CCR Re prudential equity capital at December 31, 2016 is Level 1 (see the following section).

### V.2.2 Transition from statutory accounts equity capital to prudential equity capital

CCR Re recorded 2015 equity capital of € 367 m in the statutory accounts and € 811 m in the Solvency II prudential balance sheet.

Prudential equity capital is significantly higher than its equivalent recorded in the statutory accounts. This is due to the quantity of unrealized capital gains recorded in the CCR Re investment portfolio (directly related to the long-term risks that it reinsures) at December 31, 2016. It is also due to the restatement of technical commitments under the two standards.

### V.2.3 Changes in prudential equity capital between December 31, 2015 and December 31, 2016

CCR Re was not in existence at the previous date of registration.

## V.3 Protection of the SCR and of the MCR at December 31, 2016

At December 31, 2016:

- Prudential equity capital totaled € 811 m. Given its composition, prudential equity capital is eligible under the SCR and MCR;
- The SCR amounted to € 488 m, representing an SCR coverage ratio of 166.2%;
- The MCR amounted to € 203 m, representing an MCR coverage ratio of 399.5%;

## V.4 Equity capital and transitional measures

The transitional measures referred to in article 308c paragraphs 9 and 10 of Directive 2009/138/EC do not apply to CCR Re.

## V.5 Description of ancillary equity capital

CCR Re recorded no ancillary equity capital at December 31, 2016.

## V.6 Availability and transferability of prudential equity capital

CCR Re equity capital belongs to CCR Re and is considered available and transferable.

## V.7 Calculation of the SCR, MCR and eligible equity capital

### V.7.1 Method and options used

CCR Re uses the standard formula, for the calculation of the SCR and its sub-components as well as for the calculation of the MCR.

### V.7.2 Absorptive capacity of deferred tax

CCR Re integrates its capacity to absorb deferred tax at the time of a stress test used in the context of the "equivalent scenario". The method used to valuate deferred tax is based on the fiscal, accounting and prudential balance sheets.

### V.7.3 Look-through approach

As of December 31, 2016, CCR Re has applied a look-through approach on a line-by-line basis to determine the market value of over 95% of its investments. This rate will again increase in the future with the progressive broadening of the scope of the look-through approach.

In the absence of detailed information, the capital estimate used for the additional portion of investments is by default conservative and based on the profile that presents the most risk in the sense of the technical specifications, i.e. Type 2 equities.

### V.7.4 Ring-fenced funds

CCR Re maintains the principle of the uniqueness of its assets and consequently does not ring fence funds.

### V.7.5 Simplification methods used

CCR Re does not use any simplification methods in the calculation of its capital requirements.

### V.7.6 Difficulties encountered

As a reinsurer, CCR Re has encountered certain difficulties in determining its Life liabilities in detail and in conducting the associated Solvency II assessments. Per-head calculations are for example difficult to perform. The lack of information is mainly due to the fact that cedants provide incomplete information, or provide information only after a period of several quarters.

As a result of these difficulties, the approaches used to estimate these data are, for certain data groups, of the type "estimation of aggregate portfolio" and a conservative principle is systematically complied with.
In the same manner, the motor treaties underwritten by CCR Re very often combine commitments of different types. Hence, treaties may combine "motor property", with "motor liability – death or disability", with "motor liability – annuity purchase" as well as with "motor liability – wraparound annuity". Separating these different types of commitments in these treaties required that the Company capitalize on its internal expertise.

The information provided by the cedants is also fragmented and/or is made available only after a period of several quarters.

## V.8 SCR and MCR at December 31, 2016

At December 31, 2016, the CCR Re SCR is assessed at € 488 m and its MCR at € 203 m.

## V.9 Changes in the SCR and MCR compared to the previous date of registration

CCR Re was not in existence at the previous date of registration.

## V.10 Changes in the solvency margin compared to the previous date of registration

CCR Re was not in existence at the previous date of registration.

End of narrative report – 52 pages – ERM Department.