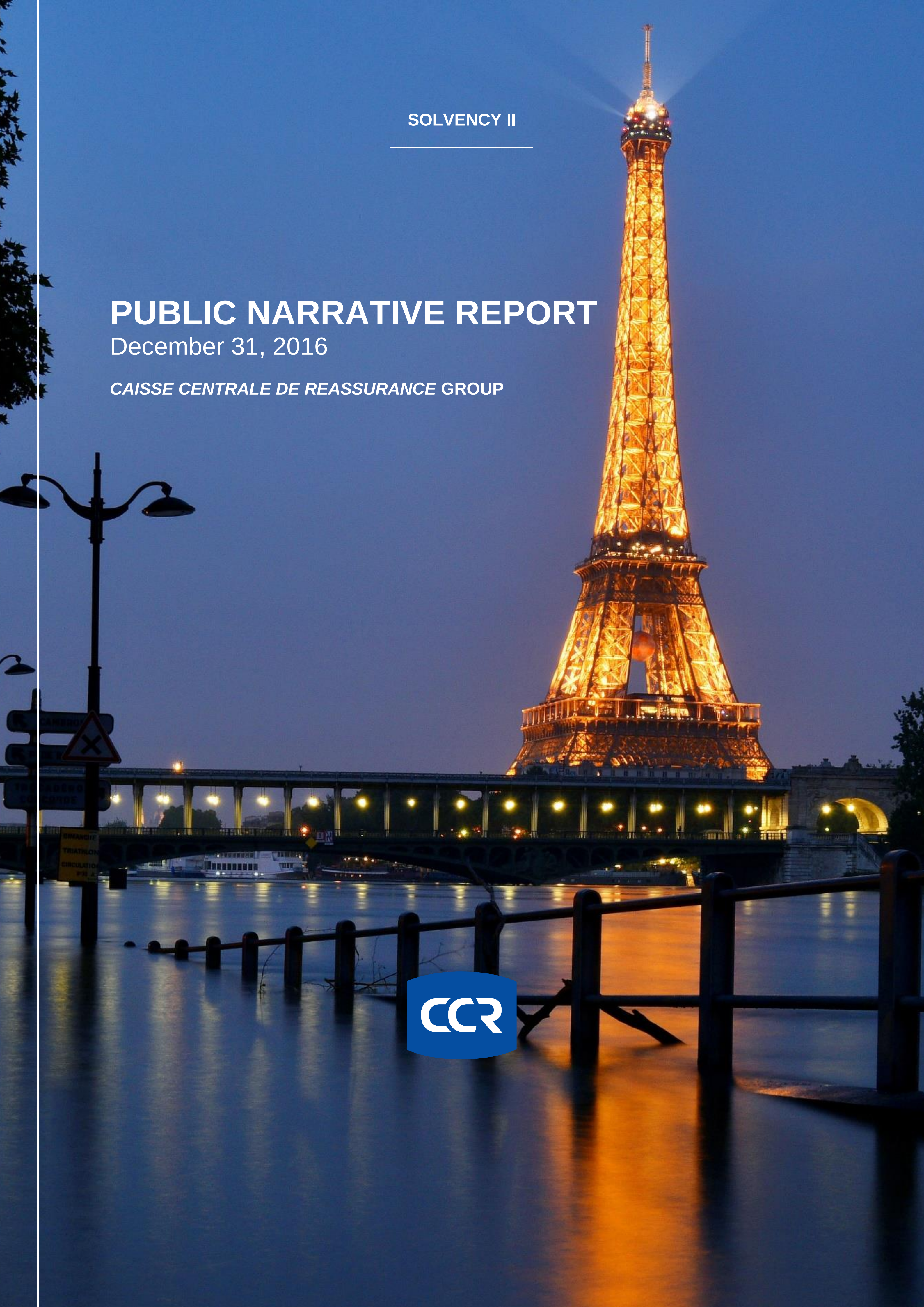
SOLVENCY II

# PUBLIC NARRATIVE REPORT

December 31, 2016

***CAISSE CENTRALE DE REASSURANCE* GROUP**



# 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 presents the operations of *Caisse Centrale de Réassurance* (CCR) within a Group perspective that is by aggregating the activity of CCR and of its subsidiary CCR Re.

It is validated by the Director General and subsequently approved by the Board of Directors of CCR, the participating company, prior to submission to the *ACPR*.

In compliance with regulatory requirements, this initial report summarizes the information relevant to the CCR Group'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 marked by a key event; the subsidiarization of the Open Market Reinsurance operations of CCR

CCR effected the legal separation of its activities: on January 1, 2017, the Company 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 its Open Market Reinsurance activities began being conducted by a separate legal entity, named CCR Re, 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 the Open Market Reinsurance segment in particular the reinsurance portfolio as well as the claims and corresponding assets and liabilities.

From a fiscal and accounting perspective, the contribution took retroactive effect on January 1, 2016.

- The CCR Group presented 2016 results that reflected a robust performance and balance sheet despite the adverse impact of floods in France.

Gross premium income increases by 2.2% to € 1,315 m, driven by the consolidation of the Open Market Reinsurance portfolio.
The loss ratio increases from 57% to 81% as a result of significant Cat loss experience.
Cat loss experience has a limited impact on the open market portfolio.
Net income stood at € 141 m backed by the cushioning effect of equalization reserves and CCR's sound administrative and financial management practices.
Income before tax was € 295 m, a sharp decline compared to 2015. Moreover, the Group's operating expenses decreases by 2% excluding exceptional expenses relating to the creation of CCR Re.
Despite a decrease in interest rates, financial income was stable at € 174 m.

The CCR Group balance sheet at December 31, 2016 was extremely robust with the potential of covering a natural disaster market loss of € 5.7 b without resorting to the use of the State-backed guarantee.

- The ratio of eligible capital to the Solvency Capital Requirement (SCR) was 172.2%.
- The ratio of eligible capital to the Minimum Capital Requirement (MCR) was 578%.
- The business plan includes a stable and unchanged reinsurance program for the duration of the planning period.

The CCR Group implemented a structured and transparent governance system consisting of:

- a participating company Board of Directors;
- an executive body composed of the Chief Executive Officer and the Deputy Chief Underwriting Officer (who is not a company director) of the participating company who are Effective Managers in the Group;
- and four key functions each with its own function manager.

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# 1. PRESENTATION, ACTIVITY AND PERFORMANCE

In conformity with article L 356-21 of the French Insurance Code, participating companies regularly provide the *ACPR* with all information necessary for the exercise of its control of Group operations. This information is included, in particular, in two distinct reports.

Of these two Group 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 article R 356-51 of the Insurance Code, the Board of Directors of CCR, the participating company, approves this Group narrative report prior to filing it with the *ACPR*.

## 1.1 Presentation

### 1.1.1 Corporate name and legal status of the participating company

The participating company's corporate name is *Caisse Centrale de Réassurance* (CCR), incorporated as a French Limited Liability Company (*Société Anonyme - SA*).

CCR is a "special insurance institution" governed by the provisions of Chapter 1 of Title III - Special insurance institutions of Book IV - Organizations and special insurance schemes of the French Insurance Code.

CCR operated, until December 31, 2016, in two reinsurance segments and was entrusted with the management of public funds:

- **Public reinsurance (backed by State guarantee)**: CCR is accredited by law to provide State-guaranteed reinsurance coverage of certain risks of an exceptional nature, in the framework of its general interest missions confided by the State. Coverage is provided in the following areas: reinsurance of natural disaster risks (article L.431-9 of the Insurance Code), terrorism risks (article L.431-10), exceptional risks relating to the transportation of property (article L.431-4) and nuclear risks (article L.431-5).

- **Open Market Reinsurance**[1]: CCR, like the market's other players, operates as a conventional reinsurer, without State guarantee. It conducts business in France and internationally in all lines of business (Non-Life, Life, Accident & Health).
- **Public Fund Management**: CCR is responsible by law for the accounting and financial management of certain public funds on behalf of the State:

  - National Guaranty Fund for Agricultural Disasters (*Fonds National de Gestion des Risques en Agriculture - FNGRA*) pursuant to article L 431-11 of the Insurance Code;
  - Major Natural Risk Prevention Fund (*Fonds de prévention des risques naturels majeurs - FPRNM*), pursuant to article L 561-3 of the Insurance Code;

- [1] See section I.1.2 below

- Compensation Fund for Construction Insurance Risks (*Fonds de compensation des risques de l'assurance construction - FCAC*) pursuant to article L 431-14 of the Insurance Code;
- Guarantee Fund for Risks Linked to Spreading of Urban and Industrial Wastewater Sludge (*Fonds de garantie des risques liés à l'épandage agricole des boues d'épuration urbaines et industrielles - FGRE*) pursuant to article L 425-1 of the Insurance Code;
- Guarantee Fund for Losses Consequential to Preventive, Diagnosis or Treatment Procedures Conducted by Self-employed Healthcare Professionals (*Fonds de garantie des dommages consécutifs à des Actes de Prévention, de Diagnostic ou de Soins dispensés par des professionnels de santé exerçant à titre libéral - FAPDS*), of which CCR also ensures the administrative management, pursuant to article L 426-1 of the Insurance Code.

Reinsurance operations backed by the State guarantee are conducted in compliance with enabling legislation and are covered by the State within the applicable legislative and regulatory framework. The operations are recorded in separate accounts showing separate results, which are then entered in a reserve account set aside exclusively to cover the corresponding operations, as required by the provisions of articles L.431-7, R.431-16-3, R.431-16-4 and A.431-6 of the Insurance Code.

Operations appertaining to public funds managed by CCR on behalf of the State are not recorded in CCR's accounts. A separate account is recorded for each fund outside the accounts of CCR.

### 1.1.2 Exceptional event occurring during the 2016 financial year: subsidiarization of CCR's Open Market Reinsurance activities

Over the course of the 2016 financial year, CCR effected the legal separation of its activities. At December 31, 2016, CCR exclusively conducts Public Reinsurance operations in France backed by the State guarantee while all Open Market Reinsurance activities in the Non-Life, Life, Accident & Health lines (Open Market Reinsurance) are conducted by CCR Re, 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 in the framework of a partial contribution of assets, governed by the legal provisions applicable to such operations, involving the universal transfer of all asset and liability items of the Open Market Reinsurance segment. The partial contribution of assets was carried out on December 31, 2016. From a fiscal and accounting perspective, the partial contribution took retroactive effect on January 1, 2016.

### 1.1.3 List of subsidiaries, significant affiliated undertakings and important branch offices of the CCR Group

| Name | Legal status | Country | % of capital |
|---|---|---|---|
| CCR | French *SA* | France | |
| CCR Re | French *SA* | France | 100 % |

Scope includes entity members of the CCR Group.

### 1.1.4 Supervisory authority and statutory auditors

The supervisory authority responsible for the financial control of CCR 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

Due to the transfer of its Open Market Reinsurance segment to its subsidiary, CCR Re, CCR is required to present consolidated financial statements (article L. 233-16 of the French Commercial Code) at December 31, 2016. This obligation to present consolidated financial statements triggered the obligation for CCR to appoint a second statutory auditor (article L.832-2 of the French Commercial Code).

The statutory auditor responsible for controlling the CCR statutory accounts, the consolidated financial statements, the financial statements of the branch office in Malaysia, of the five real estate subsidiaries, and of the five public funds that CCR manages on behalf of the State is:

Deloitte & Associés, Statutory auditors
185, avenue Charles de Gaulle
92200 Neuilly-sur-Seine
Mr. Lionel Cazali

As the term in office of the previous statutory auditor recently expired, the new statutory auditor was appointed in 2016.

The co-statutory auditor, appointed in 2016 and in charge of controlling the CCR statutory accounts and consolidated financial statements, missions to be shared on a 50/50 basis with the other co-statutory auditor, namely Deloitte & Associés, is:

PriceWaterhouseCoopers Audit
Statutory Auditor
63, rue de Villiers
92200 Neuilly-sur-Seine
Ms. Christine Billy

The six-year terms of office of the two co-statutory auditors shall expire at the end of the ordinary general meeting called to approve the financial statements for the year ending December 31, 2021.

### 1.1.5 Measurement of the Solvency Capital Requirement (SCR) and summary

In the framework of Solvency II and for regulatory reporting purposes, CCR uses the standard formula for SCR measurement for all its activities. In compliance with corporate strategy, CCR's risk profile did not substantially change in 2016 and corresponds to the risk exposure of its Public Reinsurance segment and asset management activity.

The Solvency II ratio was 181% 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.

## 1.2 Activity and performance

### 1.2.1 Premium income

Consolidated premium income for fiscal 2016, gross of retrocessions and for all activities combined, amounted to € 1,315.2 m (€ 1,312.3 m at constant exchange rates), up 2.2% (or 1.9%% at constant exchange rates) compared to premium income for 2015 which stood at € 1,287.2 m. Of this amount, 66.3% was generated by State-guaranteed reinsurance and 33.7% by Open Market Reinsurance.

Written premiums from State-guaranteed reinsurance, all activities combined, rose to € 872.0 m an increase of 0.4% compared to the € 868.6 m in written premiums recorded in 2015:

- Premiums from the reinsurance of natural disasters in France account for 91.1% of the aforementioned amount (or € 794.4 m) The relative stability of this income (limited increase of 0.1% between 2015 and 2016) is due, on the one hand, to the favorable mix between portfolio developments and the premium base (an increase of € 17 m) and, on the other, to prior-year adjustments (a decrease of € 16 m).

- Premiums written in respect of the reinsurance of terrorist acts for small and medium risks (for which capital insured is less than € 20 m) rose by 3.5% to € 47.0 m due to an increase in the treaty base.
- Reinsurance business from the GAREAT terrorist acts pool, which is the co-reinsurance pool for large risks, contributed € 22.7 m in written premiums in 2016, compared to € 20.6 m the in 2015. It should be noted that the risk exposure indexation rule was called into play for the first time in 2016.
- Taken in aggregate, the two segments reinsuring terrorist acts generated € 69.7 m in total written premiums (up 5.6%), accounting for 8.0% of written premiums from State-guaranteed reinsurance.
- Lastly, the reinsurance of so-called exceptional risks generated € 7.8 m of written premiums in 2016, a decrease compared to the € 9.0 m recorded in 2015. This activity covers the reinsurance of risks related to war, civil commotion and similar risks in respect of the use of all means of transport or relating to goods being transported or stored, as well as the reinsurance of third party liability coverage of nuclear vessel operators and power plants. For CCR, this activity represents 0.9% of State-guaranteed reinsurance.

- Written premiums from Open Market Reinsurance, amounted to € 443 m, up 5.8% compared to 2015 (5.2% at constant exchange rates) attributable in particular 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 profit of € 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).
- The results of operations 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 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 and health (28.1%);
- Fire and property (24.0%);
- Motor (13.4%);
- General Third Party Liability (6.5%);

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

### 1.2.2 Underwriting results

In 2016, the CCR Group recorded an underwriting profit, net of retrocession, of € 181.3 m compared to a profit of € 315.2 m in 2015.

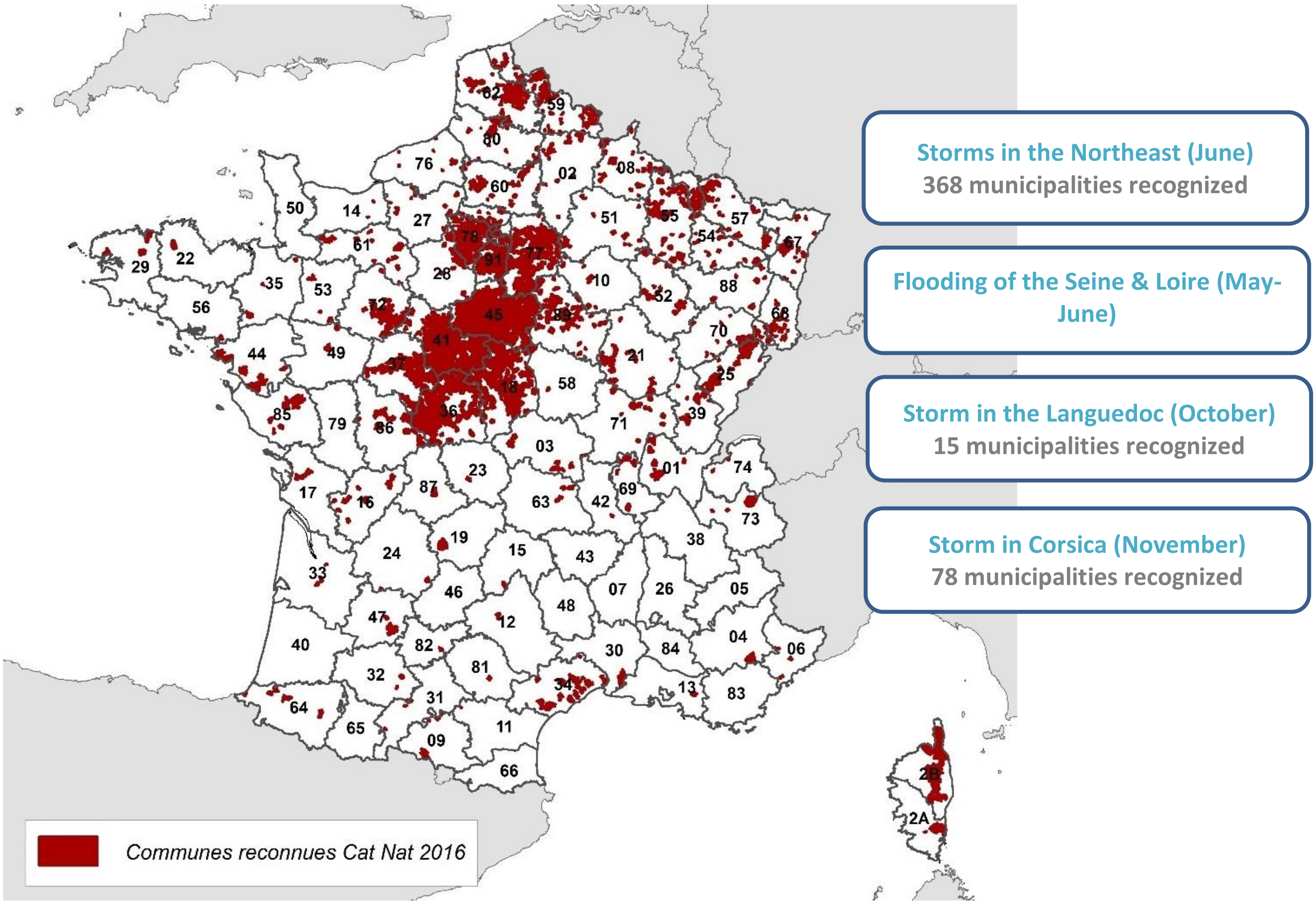
Before taking into account transfers to the equalization reserve and the allocation of general expenses, State-guaranteed reinsurance of natural disasters in France recorded an underwriting loss of € 78.8 m in 2016 compared to a profit of € 348.7 m in 2015. This shortfall is a direct consequence of the exceptional loss experience recorded in 2016. To offset this situation, CCR transferred € 172.7 m from its capital equalization reserve (compared to an allocation of € 67 m in 2015). Consequently, the equalization reserve decreased from € 2,728.0 m at December 31, 2015 to € 2,555.3 m at December 31, 2016.

After taking into account movements on the equalization reserve, underwriting results net of the reinsurance of Natural Catastrophes in France were a profit of € 93.9 m in 2016, compared to a profit of € 281.5 m in 2015.

The loss ratio increased from 81.0% in 2016 compared to 56.7% the previous year. Indeed, the year 2016 was marked by four major flood events: the flooding of the Seine and Loire rivers (May-June), the storms that affected northeastern France (June), the Languedoc area (October) and Corsica (November). In total, loss expense for the flood events amounted to € 833 m. The flood event of May-June 2016 was the costliest "flood" event since inception of the Natural Disaster compensation scheme and, in terms of all perils, the second costliest event since inception of the scheme after the drought of 2003.

At the end of December, 3,851 favorable decisions recognizing a state of disaster were adopted by the interministerial commission. The municipalities for which a state of natural disaster was recognized at December 2016 in respect of events during the year then ended are shown below:

*Natural disaster recognition decrees for mainland France in 2016*
*As at December 31, 2016*




*[Municipalities recognized as natural disaster zones in 2016]*

On the whole, Natural Disaster total claims expense for the 2016 financial year came to € 783.1 m.

For all other State-guaranteed reinsurance business:

- The equalization reserve for the reinsurance of terrorist acts for large risks from the GAREAT Terrorist Acts Pool decreased to € 230.9 m (€ 15.0 m less compared to 2015) while the equalization reserve for the reinsurance of terrorist acts for small and medium risks rose to € 235.7 m (an increase of € 22.9 m). Finally, for the reinsurance of exceptional risks, total reserves for equalization and non-recurring charges for these categories amounted to € 155.8 m at December 31, 2015.
- The net underwriting profit contributed by all these activities came to € 66.6 m, an increase compared to the € 27.2 m recorded in 2015. This development is a direct consequence of movements recorded in 2015 and 2016 in respect of the equalization reserve for terrorism reinsurance (net allocation of € 7.9 m in 2016 compared to € 42.1 m in 2015).

Underwriting results net of retrocession for Open Market Reinsurance were a profit of € 20.9 m in 2016, compared to a profit of € 6.5 m in 2015.

For non-life reinsurance, underwriting results net of retrocession amounted to a profit of € 6.9 m, compared to a profit of € 1.8 m in 2015. This development is the consequence of several contrasting effects among which:

- exceptional transfer to the claims reserve recorded in 2015 of € 14.1 m, incomparable with 2016;
- excluding the effect of the aforementioned 2015 claims reserve, natural disaster loss experience recorded in 2016 was significant (a difference of negative € 17 m compared to 2015). The Fort Mc Murray fire (a loss of € 9 m) and the earthquake in Taiwan (€ 11 m) are the primary events that significantly impacted 2016 results.

Life and health recorded an underwriting profit, net of retrocession, of € 13.9 m in 2016, compared to a profit of € 4.7 m in 2015. This development is essentially due to:

- an improvement in current year results (up € 4 m) attributable to the restrictive underwriting policy maintained by CCR Re in respect of local municipalities and to the absence of major losses in 2016;
- favorable settlement of prior-year claims (excluding "Vie Génération" life treaties) in the amount of € 3 m.

### 1.2.3 Financial and real estate management

**Investments**[1] amounted to € 8,853.5 m of net book value at year-end 2016 compared to € 8,788.2 m at January 1, 2016.

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 € 1,094.6 m at year-end 2016 compared to € 1,057.5 m the previous year. When marked to market, the CCR Group's total financial investments and real estate assets amounted to € 9,948.2 m, which represents an increase of 1.0% compared to year-end 2015.

Net investment income for 2016 amounted to € 174.0 m (similar to the amount recorded in 2015).

This amount comprises € 121.2 m in ordinary financial income and € 58.1 m in capital gains attributable for the most part to real estate capital gains (or € 45.8 m).

Investment management expenses amounted to € 9.5 m.

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

***PARTICIPATING INTERESTS AND SUBSIDIARIES***

The CCR Group manages a portion of its real estate holdings through five simplified limited companies (*sociétés par actions simplifiées*), with total equity capital of € 54.5 m at December 31, 2016. Over the course of the year under review, these companies generated a net profit of € 1.9 m and contributed € 1.7 m to the ordinary financial income of the CCR Group for the 2016 financial year.

CCR previously owned a Luxembourg-based captive reinsurance company, Caisrelux. This captive company was transferred to CCR Re in the framework of the partial contribution of assets 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, enabling CCR to become the new 100% shareholder following the transfer of all Caisrelux shares by CCR in the framework of the contribution agreement.

### 1.2.4 Net profit

**Net profit after tax in 2016** amounted to € 140.1 m and is comprised of:

- An underwriting profit net of retrocession of € 181.3 m. This result was the direct consequence of the decrease in the underwriting profit contributed by the reinsurance of Natural Disasters, for the reasons indicated above, namely:
  - significant current-year loss experience;
  - which compensates a portion of the adjustment in the equalization reserve.
- Net investment income rose to € 174 m. This amount is essentially comprised of ordinary financial income which totaled € 121.2 m. Net realized capital gains amounted to € 58.1 m (of which € 45.8 m relates to real estate disposals).
- Management expenses (excluding charges relating to financial management, taken into account in the net investment income) amounted, in 2016, to € 59.7 m, equivalent to a cost-to-income ratio of 4.8% (i.e. management expenses to net earned premiums for the year) up 4.5% compared to the previous year.
- Non-recurring items in 2016 were € 0.2 m.
- Employee profit sharing amounted to € 0.5 m in 2016.
- Corporate income tax amounted to € 154.8 m in 2016 which represents a recurring tax rate of 52.4%. This amount is a direct consequence of the temporary differences recorded in the course of the year (difference in quantiles and unrealized capital gains on mutual funds and a portion of the non-deductible equalization reserve for the most part).

| In euro millions | 2016 | 2015 |
|---|---|---|
| Underwriting results, net of retrocession | 181.3 | 315.2 |
| General expenses | -59.7 | -56.8 |
| Net investment income | 174.0 | 174.7 |
| Other items | 0.2 | -3.5 |
| Employee profit sharing | -0.5 | -1.4 |
| **Net income before tax** | **295.4** | **428.2** |
| Corporate tax | -154.9 | -209.9 |
| **Net profit** | **140.5** | **218.3** |

### 1.2.5 Perspectives

The year 2016 was focused on the clarification of CCR's business approach and on the strategic redeployment of the Company by way of the creation of its subsidiary dedicated to Open Market Reinsurance, CCR Re. Furthermore, the European Commission recognized the compatibility with EC competition law of the natural disaster reinsurance scheme and moreover the unlimited guarantee granted to CCR by the State. This decision further strengthens CCR's role as regards the natural disaster compensation scheme in France.

2017, the year of **Open Market Reinsurance**, will hinge upon the following 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.

For **reinsurance activities backed by the State's guarantee**, the year 2017 will be marked by the application of the new agreement entered into with the State that includes an increase in the price of the State guarantee for Natural Disaster risks (set at 10.8%). The year 2017 will also provide the opportunity to pursue efforts to modernize the framework for Natural Disaster reinsurance operations. Moreover, CCR will pursue its efforts to improve the quality of the services and expertise rendered to the community.

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.

### 1.2.6 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.

# 2. GOVERNANCE SYSTEM

The CCR Group implemented a structured and transparent governance system consisting of:

- participating company administrative, management or control bodies that include:
  - a Board of Directors and four committees created from amongst its members: an accounts committee, an audit and risks committee, a remuneration, appointment and governance committee and a strategy committee;
  - an executive body composed of a Chief Executive Officer and a Deputy Chief Underwriting Officer (not a company director) who are also Group Effective Managers;
- and four Group key functions to enable optimal operation of its activity.

## 2.1 Structure of the organization for the administration, management or control of the participating company

### 2.1.1 Board of Directors

- Disassociation of the positions of Chairman of the Board and of Chief Executive Officer

With the application of order number 2014-948 of August 20, 2014 primarily concerning governance and transactions involving the share capital of public-sector companies with effect from July 1, 2015, the Board of Directors in its meeting of July 2, 2015 renewed its discussion concerning the method of management and decided to maintain the disassociation of the positions of Chairman of the Board and Chief Executive Officer.

- Chairman of the Board of Directors

In conformity with the above-mentioned order number 2014-948 of August 20, 2014 and the corporate by-laws (modified by the general meeting of the shareholders of June 25, 2015 to comply with the order), the Chairman of the Board of Directors is appointed by the Board and selected among its members for the duration of his or her term of office as director.

Mr. Pierre Blayau has been Chairman of the Board of Directors since January 14, 2015. Following the effective application of the above-mentioned order on July 1, 2015, the Board of Directors in its meeting of July 2, 2015 appointed Mr. Pierre Blayau Chairman of the Board of Directors for a duration of five years expiring at the end of the general meeting called to approve the financial statements for the fiscal year ending December 31, 2019.

The Board did not introduce any specific restrictions on the powers of the Chairman.

- Composition of the Board of Directors

In conformity with current legislation applicable to limited liability companies and the above-mentioned order number 2014-948 of August 20, 2014, the Board of Directors is composed of a maximum of 15 members of which one representative of the State (appointed by ministerial order), several directors appointed by the general meeting of the shareholders (of which some are proposed by the State) and one third of its number is composed of employee representatives.

The directors' term of office is five years.

- Duties of the Board of Directors

In accordance with its internal rules and regulations, the Board of Directors deliberates on the main strategic, economic and financial orientations of the Company's activity.

Besides matters that are of its competence 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:

- all aspects of the Company's underwriting strategy and financial strategy at least once a year;
- the Company's annual budget;
- proposed mergers and acquisitions;
- the broad lines of its retrocession program;
- any prospects for the rental of buildings used for operations.

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 twice a year; and
- information concerning the situation of its main subsidiaries, at least once a year and/or 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.

- Operation of the Board of Directors

<u>Internal regulations</u>

The Board of Directors adopted a set of internal rules and regulations governing its operation.

The internal rules and regulations governing the Board committees 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.

Meetings

The Board of Directors met six times in 2016 and deliberated in particular on:

- discussion and approval of the statutory accounts for 2015 and convening of the shareholders' annual ordinary general meeting;
- the statutory accounts at June 30, 2016;
- approval of the annual financial statements of the Compensation Fund for Construction Insurance Risks (*Fonds de Compensation des Risques de l'Assurance de la Construction - FCAC*)
- the financial statements of the Guarantee Fund for Risks linked to the Agricultural Spreading of Urban and Industrial Sludge (Fonds de Garantie des Risques liés à l'Épandage Agricole des Boues Urbaines et Industrielles - FGRE), of the National Agricultural Risk Management Fund (Fonds National de Gestion des Risques en Agriculture - FNGRA) and of the Major Natural Risk Prevention Fund (Fonds de Prévention des Risques Naturels Majeurs - FPRNM) that were presented to the Board for information purposes;
- the approval of the solvency report, the retrocession policy report and the report on the internal control system;
- the project for the subsidiarization of the Open Market Reinsurance segment;
- attendance fees;
- the determination of the amount of variable compensation awarded to the Chief Executive Officer for 2015 and the variable compensation criteria for the Chief Executive Officer for 2016;
- appointment of the main and alternate statutory auditors;
- the replacement of the directors of the Board of Directors by co-optation and of the directors in its committees;
- the opening narrative report for information purposes;
- the reports of the actuarial and internal audit functions;
- the competence and honorability of the Board of Directors, of executives and of key functions as well as the corresponding policy;
- prospective real estate operations;
- the approval and annual review of corporate policies;
- the Own Risk and Solvency Assessment (ORSA) report;
- the approval of the project for the partial contribution of assets, governed by the legal provisions for such operations, aimed at transferring the entire and autonomous Open Market Reinsurance segment from CCR to CCR Re and of the draft contribution agreement relating to this operation;
- the convening of an extraordinary general meeting to approve the project for the partial contribution of assets;
- the modification of the internal regulations of the accounts committee in accordance with the changes made to the regulations relating to the statutory auditing of the financial statements;
- the 2017 budget and its risk appetite criteria;
- the reports on the compliance monitoring system and the risk management system;
- the policy for gender equality and equal pay;
- the authorization to grant guarantees.

### 2.1.2 Accounts committee

It is recalled that, by decision of the Board of Directors in its meeting of July 2, 2015, the audit, accounts and risk management committee was replaced by two separate committees: the accounts committee and the audit and risk committee.

The accounts committee is composed of four members of which one employee representative. One member of the accounts committee must also be a member of the audit and risk committee.

The accounts committee is chaired by Mr. Patrice Forget and includes one member, Mrs. Pauline Leclerc-Glorieux, with specific financial or accounting expertise, who is qualified as an independent member based on the criteria adopted by the Board of Directors.

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*) (June 2013), the following criteria for independence were adopted by the Board of Directors in its meeting of July 2, 2015:

- must not be an employee or company director of CCR or of any group company, nor a representative of State interests (as per articles 4 or 6–II and III of order number 2014-948 of August 20, 2014), and must not have held any such position in the previous five years;
- must not be a company director in any company in which CCR directly or indirectly has a seat on the Board of Directors;
- must not have any significant ties to CCR, whether as a customer of or supplier to CCR or its Group, or through close family ties with a Company director.

The mission of the accounts committee is in particular to examine the half-year financial statements which are subject to the limited review of the statutory auditor and full-year financial statements, to study changes and adaptations to the accounting principles, to monitor the efficiency of internal control and risk management systems, to oversee the realization of the mission of the statutory auditor. 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 examines the reports and policies within its competence. It is also charged with hearing the report of the actuarial function.

### 2.1.3 Audit and risk committee

The audit and risk committee is composed of four members of which one employee representative. One member of the committee must also be a member of the accounts committee.

The audit and risk committee is chaired by Mr. Gérard Lancner and includes one member, Mr. Gérard Lancner, with specific financial or accounting expertise, who is qualified as an independent member based on the criteria adopted by the Board of Directors.

The criteria adopted by the Board of Directors in its meeting of July 2, 2015 are presented below.

The mission of the audit and risk committee is primarily to monitor the efficiency of the systems of internal control and of risk management as well as to control the policies, procedures and systems of risk management and of internal control. In this framework, the committee's mission is to oversee the monitoring of major risks and the means for controlling and managing these risks, strategic risks as well as risks relating to the Company's principal technical and financial commitments, financial management risks, including off-balance sheet commitments and cases of significant litigation; to oversee the identification of risks as performed by Executive Management, to ensure that an appropriate system for internal control and for the surveillance and management of risks has been set into place; to oversee the verification of compliance with all applicable laws and regulations, notably those required by Solvency II, and, in this context, to examine the reports and policies under its jurisdiction; to hear the internal auditing manager, to examine and approve the audit program, to analyze the principal recommendations of the reports and actions to be undertaken; to examine investment policy. It is also responsible for monitoring the risk control indicators, for monitoring the Own Risk and Solvency Assessment (ORSA) and examining the related report, and for hearing the representatives of the risk management function.

### 2.1.4 Compensation, appointment and governance committee

The compensation, appointment and governance committee is composed of four members of the Board of Directors of which one employee representative. It is chaired by Mr. Patrick Lucas.

The compensation, appointment and governance committee oversees the individual and group components of the Company's employee policy, verifies its consistency with corporate strategy and Company objectives in terms of performance, analyzes the key elements concerning the development of all employees within the Company. Additionally, the committee makes proposals to the Board concerning the terms of remuneration, the definition of performance criteria and the extent to which they are attained for company directors and officers and also proposes to the Board the amount and manner of distribution of directors' fees.

### 2.1.5 Strategy committee

The strategy committee is composed of four members of the Board one of which is an employee representative. This committee is chaired by the Chairman of the Board of Directors.

The principal mission of the strategy committee is to examine and provide the Board of Directors with its opinion and recommendations concerning the development and approval of CCR's strategic orientations especially those of a commercial and financial nature. It examines in particular the definition and the updating of the areas of strategic development of CCR as well as draft strategic agreements. The committee ensures the monitoring of the strategy implemented by Executive Management in particular with respect to the decisions for orientation adopted by the Board.

### 2.1.6 Executive body

- Executive Management

The Executive Management of CCR is as follows:

- Mr. Bertrand Labilloy is Chief Executive Officer of CCR,
- M. Laurent Montador is Deputy Chief Underwriting Officer (not a Company director).

Mr. Bertrand Labilloy has been Chief Executive Officer since January 16, 2015. Following the effective application on July 1, 2015 of the above-mentioned order dated August 20, 2014, Mr. Bertrand Labilloy was appointed Chief Executive Officer by the decree of the President of France on August 17, 2015 (published in the Official Journal of August 19, 2015) upon the recommendation of the Board of Directors.

- CCR and CCR Group Effective Managers

On November 2, 2015, the Board of Directors recognized that Mr. Bertrand Labilloy, as Chief Executive Officer, is by right an Effective Manager as per article L 322-3-2 of the French Insurance Code for the duration of his term in office as Chief Executive Officer, and named as Effective Manager, Mr. Laurent Montador, Deputy Chief Underwriting Officer for the duration of his salaried position as Deputy Chief Underwriting Officer. Mr. Montador's scope of decision-making authority encompasses all Company activities.
It is stipulated that insofar as concerns the CCR Group, Messrs. Labilloy and Montador are also CCR Group Effective Managers.

- Missions of the principal internal departments of CCR

***Missions of the Public Reinsurance and Guaranty Funds Department***

The department oversees the underwriting of State-guaranteed reinsurance for Natural Disaster and terrorism risks. It is also in charge of managing public funds and the Actuarial Department whose mission is:

- to conduct research and development in areas that are or may be covered by the State guarantee. The primary focus of this work is Natural Disaster and Terrorism risks for which the department collects information from CCR's cedants and develops models simulating catastrophic events and their financial consequences;
- to undertake technical and actuarial studies and, in particular, to price business backed by the State guarantee.

***Missions of the Finance Department***

The mission of the Finance Department is to provide a fair and prudent vision of Company financial statements by:

- monitoring the accurate payment of all debts and receivables;
- advising the Company and contributing to corporate strategy by providing accounting expertise;
- providing the Company with information and piloting instruments and meeting its expectations for accounting, financial and regulatory compliance.

The Finance Department is responsible for accounting and management control including the calculation of technical provisions.

***Mission of the Financial Investment Department***

The Financial Investment Department reports directly to the Chief Executive Officer.

The Financial Investment Department's underlying mission is to create added value and to preserve the financial interests of the Company by:

- developing an effective strategic investment allocation;
- advising the Company and contributing to corporate strategy by providing financial expertise.

***Mission of the Enterprise Risk Management Department***

The mission of the ERM Department, which includes the actuarial and the risk management & control functions, it to monitor CCR's risk management system and ensure its compliance with the principles of pragmatism and performance enhancement in accordance with the Company's size and capacity.

Its objectives are to define the risk management methodological framework, ensure the Company's solvency (and notably the adequacy of its technical provisions), undertake actuarial studies to this end, identify key risks and monitor CCR's compliance with the principles of the Solvency II directive.

In addition, the committee participates in the propagation of the risk management culture throughout the Company and assesses the effectiveness of the internal control system to ensure the proper management of the Company's risks.

In general, the ERM Department coordinates and contributes to the piloting of the three pillars of the Solvency II Directive, operationally or intermittently.

The department is organized into two functions:

- Actuarial function:
    - Actuarial review (article 48 of the Solvency II Directive): supervise the adequacy of technical provisions as per article 48 of the aforesaid directive;
    - Analyze the underwritten portfolio;
    - Model and monitor natural disaster exposure;
    - Provide a global Company model;
    - Perform regulatory studies and in particular all work relating to pillar 1 of the Solvency II Directive;
    - Asset-liability management function.
- Risk management, compliance & internal control function (articles 44 and 46 of the Solvency II Directive):
    - Pilot the risk management system: coordinate permanent control, communicate risk culture, launch assessment surveys, test key controls, monitor the realization of action plans, monitor the incident-based reporting system and ensure internal control system reporting;

- Ensure prospective piloting: pilot the risk identification system and coordinate the creation of regulatory reports.

## 2.2 Key functions

The Solvency II Directive establishes the principle that all companies must have 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 has undertaken measures to accomplish all of the aforementioned tasks. As early as 2008, the Company appointed a Chief Risk Officer charged with the missions of risk piloting and global risk management. Thusly, for each mission, a Group mission manager is in charge of each key function.

The Group mission managers in charge of key functions are:

- 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 approved by the *ACPR*.

- Governance structure of the key functions

Group key functions report directly to the participating company's Executive Management and revert to such management as need be.

They have access to the Board of Directors of the participating company through the intermediary of its Chairman.

The present comitology system also enables any necessary exchange with the Board of Directors and its accounting and audit & risk committees.

- Group risk management function

The Group risk management function is supported by the risk management, compliance & internal control function to ensure in particular 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 also supported by the work of the actuarial function and, in particular, by efforts in the areas of:

- asset-liability management;
- development of the 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 manager**

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.

- Group compliance function

The responsibility of the Group 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 Group compliance 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 in areas such as anti money-laundering, the freezing of assets and economic sanctions.

- Group internal audit function

In 2016, an individual was specifically appointed to ensure the management of the Group internal audit function. The Group internal audit function reports directly to CCR Executive Management and provides its report to the audit and risk committee and to the Board of Directors.

*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.

- Group actuarial function

In 2016, an initial report was drafted by the Group actuarial function and includes:

- a summary of action undertaken;
- a list of identified deficiencies;
- the recommendations made;

As a minimum, the report focuses on 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 manager**
The responsibility of the Group actuarial function is assumed by an actuary from the ERM Department.

## 2.3 Compensation policy and practices

CCR formalized a compensation policy applicable to all employees, officers and directors.

### 2.3.1 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 this risk remains consistent with the Company's risk appetite.

The underlying principles of the compensation policy are:

- Equality between the operational and functional departments and among 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.

### 2.3.2 Compensation awarded to Company directors

- Compensation paid to the Chairman of the Board of Directors

The Chairman of the Board of Directors receives fixed compensation.

His compensation is submitted for opinion to the compensation, appointment and governance committee and is set by the Board of Directors subject to ministerial approval in accordance with article 3 of decree 53-707 dated August 9, 1953.

- Compensation awarded to the Chief Executive Officer

Compensation awarded to the Chief Executive Officer is comprised of a fixed component and a variable component. It is submitted for opinion to the compensation, appointment and governance committee and is set by the Board of Directors.

The compensation, appointment and governance committee provides the Board of Directors with a proposal of criteria for determination of the Chief Executive Officer's annual variable component. The Board of Directors is responsible for setting the criteria. The committee also assesses the achievement of the criteria in respect of the previous fiscal year and proposes an amount for the variable component to the Board of Directors which deliberates on the amount.

Decisions relative to the compensation of the Chief Executive Officer are subject to ministerial approval in accordance with article 3 of decree 53-707 dated August 9, 1953.

- Compensation awarded to the members of the Board of Directors

Members of the Board receive compensation in the form of director's fees. The general meeting of the shareholders sets the overall annual amount of director's fees, in conformity with the French Commercial Code.

The arrangements for distributing director's fees among the members of the Board are decided by the Board of Directors, upon proposal of the compensation, appointment and governance committee.
In compliance with order number 2014-948 of August 20, 2014 relating to governance and transactions involving the share capital of public sector companies, compensation due to the State representative in respect of his term of office as a member of the Board is paid to the State budget authority. Compensation due to Board members who are public agents of the State appointed by the general meeting and proposed by the State is paid to the State budget authority. The same applies to compensation due to other members appointed by the general meeting and proposed by the State whenever this compensation exceeds a ceiling set by decree of the Minister for the Economy.
CCR subsidiaries paid no compensation whatsoever in 2016 to their Company directors.

## 2.4 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.

## 2.5 Competence and honorability

A competence and honorability policy that takes into account the special nature of the appointments at CCR was drafted in 2015 and updated in 2016. One example of this special nature is the appointment by the President of France, upon the recommendation of the CCR Board of Directors, of the Company's Chief Executive Officer.

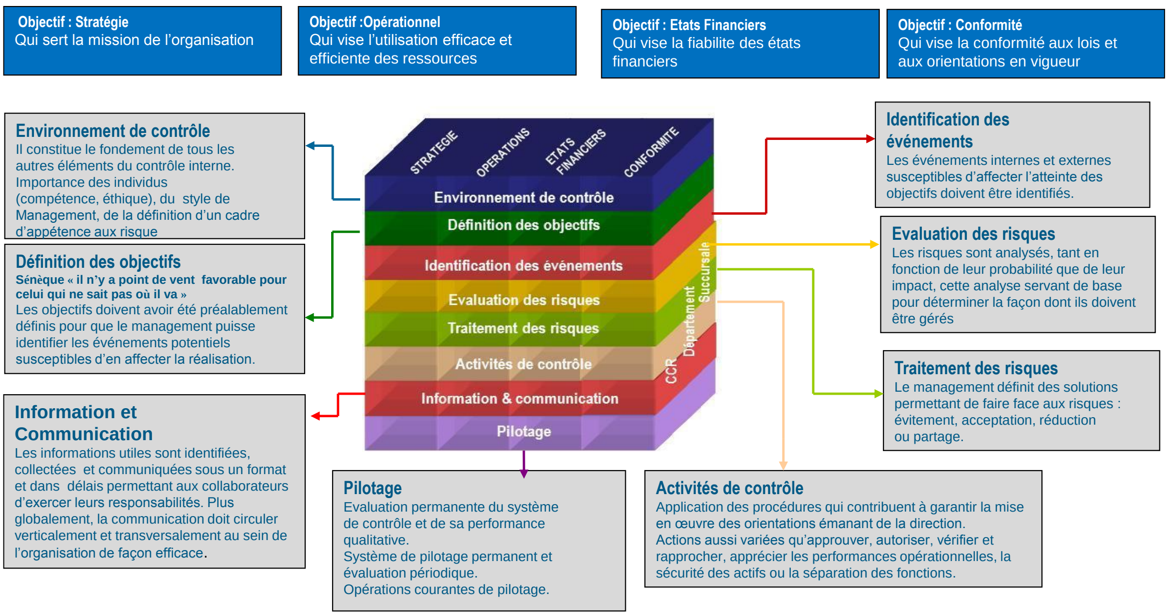
The aim therefore of this policy is to set forth the measures to be taken regarding competence and honorability for Effective Managers, key function managers and members of the Board of Directors.

Competence and honorability were evaluated on the bases established by the related policy.

## 2.6 Risk management system (including ORSA)

The CCR Group risk management system is centralized within the risk management system of the participating company, CCR. This 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.




### 2.6.1 Organization of risk management

Risk management at CCR is everyone's business and is piloted by the CCR Group. It places the ERM Department at the core of risk management. The Board of Directors, Executive Management as well as all the Group's employees are fully integrated in the process.

### 2.6.2 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 CCR Group levels;
- The identification of all risks to which the Group is exposed;
- Assessment, monitoring and dissemination of information for each risk.

### 2.6.3 Risk appetite

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

CCR'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 entities are also asset managers and allocate a risk budget in the aim of managing their asset portfolios 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 115% for the year as well as maintaining a post crisis level without State intervention greater than the total expense of a 15-year return period even in the event that the three following crisis scenarios would occur:

- a fifteen-year Natural Disaster loss impacting CCR;
- a twenty-year Natural Event loss impacting CCR Re;
- the occurrence of a major financial crisis.

### 2.6.4 CCR Group 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 and 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 and CCR Re's main activities. The second level provides additional details for 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 |
|---|---|
| **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; |
| **CCR Underwriting Risk** | the risk of loss or of adverse changes in the value of insurance commitments due to the occurrence of exceptional events or inadequate assumptions relating to pricing or provisioning; |
| **CCR Re Underwriting Risk** | the risk of loss or of adverse changes in the value of insurance commitments 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, relating to members of personnel or systems, or relating to events outside the Group; |
| **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 and CCR Re or the industry. |

- Risks associated with financial activities (Market risk)

- Piloting of financial risk management

The piloting of financial risk management is explained in detail in procedure "FIN 10" as well as in the investment risk management policy. The latter provides details of investment possibilities and authorizations and gives access to the associated compliance system providing CCR and CCR Re with a daily control journal of breaches in limits and warnings that may arise.

- Piloting of the management of Public Reinsurance underwriting risks

The Chief Executive Officer and the Deputy Chief Underwriting Officer are responsible for the management of underwriting risks. Details of the piloting system for the management of Public Reinsurance underwriting risks are provided in the "Public Reinsurance Underwriting Policy".

- Piloting of the management of Open Market Reinsurance underwriting risks

The Deputy Chief Underwriting Officer for Open Market Reinsurance is responsible for the management of Open Market Reinsurance risks. Details of the piloting system for the management of Open Market Reinsurance underwriting risks are provided in the "CCR Re Underwriting Policy".

### 2.6.5 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 efficiently as possible, the CCR Group 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.

The CCR Group 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, the CCR Group 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 these risks are implemented once the risks become significant. These processes have been consistently furthered and improved since their implementation.

- ORSA policy

Beginning in 2015, the CCR Group 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.

- 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 two-week period. The report is comprised on the basis of a summary created using all deliverables listed in the ORSA policy.

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

## 2.7 Internal control system

### 2.7.1 Objectives

The CCR Group has adopted the internal control objectives defined by the AMF. The internal control system put in place by the CCR Group 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.

### 2.7.2 Approach and organization

The internal control approach is aligned with the CCR Group'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 include as a minimum administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking and a compliance function.

The CCR Group's approach to internal control and risk management is based on the following main concepts:

**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 the CCR Group 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 Group.

### 2.7.3 Codes of good practice

Several codes of good practice have been established within the CCR Group:

- A code of good practice for internal control was approved and distributed in 2012 at CCR and is currently applicable. 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, the CCR Group 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.

### 2.7.4 Independence and efficiency of internal control

The Enterprise Risk Management Department and the statutory auditors issue recommendations whenever they identify any deficiencies 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 submits the recommendations at regular intervals to the audit, accounts and risk management committee and the Executive Management.

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

## 2.8 Business Continuity Plan (BCP)

The purpose of this plan is to ensure the continuation of the CCR Group's essential activities in the event of a serious accident or major catastrophe by limiting the risks to which the Group is exposed. It focuses in particular on the risk of the destruction of premises occupied by the CCR Group 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 processes, personnel management, crisis communication, etc.);
- the Information System backup plan;
- contingency arrangement for staff (relocation, transportation, telephone services, etc.); and
- business recovery plans and guidelines for functioning in downgraded mode.

As a result, the BCP has set three priorities in order to ensure business continuity and reduce the unacceptable effects of these major risks on the CCR Group:

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

### 2.8.1 CCR Group internal procedures and guidelines

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

- compliance of business practices 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 the CCR Group is exposed;
- conformity of practices for risk assumption and pricing, reinsurance cessions, provisioning of regulatory commitments with corporate policy in these areas;
- 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 Group internal control report and in the special procedure documents.

### 2.8.2 Subcontracting of services

The CCR Group does not outsource any portion of its activity as defined in its outsourcing policy.

### 2.8.3 Additional information

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

# 3. RISK PROFILE

## 3.1 Underwriting risk

The CCR Group is a non-life reinsurance group operating in France.

In practical terms, premium income from CCR Group operations totaled € 872 m in 2016. 91% of this result was contributed by Natural Disaster reinsurance premiums written in France.

### 3.1.1 Risks viewed through the SCR prism

An analysis of the Company's risk profile using standard formula metrics indicates that Natural Disaster Non-Life risk is significantly high. The other SCRs in descending order of significance are the Open Market SCR, then the Premium & Provisions SCR. The remaining SCRs are quite marginal.

The most significant component of the underwriting SCR is Natural Disaster risk. The second most significant is Premiums & Provisions risk, which is four times less.

These two risks are managed by the CCR Group on a gross basis using these analyses and highly advanced models, underwriting processes and the ORSA. They are also managed using risk containment tools such as retrocession. The guarantee granted by the State of France constitutes, in itself, a highly effective means of reducing risk.

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 tightly controlled underwriting and pricing principles and an established decision-making process;
- Verification, validation of strict underwriting guidelines;
- Use of actuarial reports to adjust the risk profile and models and, in certain cases, the use of additional retrocession.

As the CCR Group 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 Group ORSA report.

## 3.2 Asset management

### 3.2.1 General principles

Investment policy guidelines are established by the Board of Directors in December of each year for the subsequent fiscal year.

The guidelines govern, on the one hand, the minimum investment risk budget that the CCR Group 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 issues 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 data;
- 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.

### 3.2.2 Analytical framework for asset allocation strategy

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

- Risk
  The CCR Group assesses three levels of risk simultaneously:
    - Risk on capital: the risk of recording significant and long-term impairment for an asset;
    - 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;
    - 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.
- 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.
- Expected return
  A distinction can be made between the following two notions:
    - Returns: payment of revenues in the form of coupons, interest, dividends or rent payments.
    - Profitability: profitability is based on performance and (unrealized or realized) capital gains and losses.

In practice, these three key factors are intertwined.

### 3.2.3 Distribution of assets based on risk, liquidity and profitability

The CCR Group has established a hierarchical system enabling it to assess, on a priority basis, investment risk, its level of liquidity and its expected return.

- A relatively low level of risk

From an economic and financial perspective, the investment portfolio is exposed to an overall low level of risk. The volatility rate is between 3% and 5% at cruising speed, which indicates that there is a low probability of an overall 4% decrease in value in the event of financial crisis. From an accounting perspective, French standards given the fact that, on the one hand, bond assets are valuated at their acquisition cost (by way of a premium-discount mechanism) and, on the other, the allocation thresholds for equity impairment, enable the Group to smoothen financial fluctuations to a certain extent.

Lastly, consistently high real estate capital gains provide the CCR Group with significant protection during periods of market decline.

- A preference for highly liquid assets

This choice is due, for the most part, to the characteristics of reinsurance operations, given the considerable weight of Natural Disaster commitments in France. From the standpoint of asset-liability management, the possibility of being impacted by large losses and therefore of being obliged to disburse large sums within relatively short deadlines is an important constraint that influences investment choices. The progressive deterioration of the liquidity quality of investments since 2008 has led us to focus even greater attention on this question that constitutes a priority issue.

- Bond-oriented profitability is relatively consistent over time

The choice of a low level of risk and enhanced liquidity is inevitably accompanied by relatively moderate levels of profitability. It may be matched with returns from a 3-to-5 year bond investment.

Investment decisions are supported by a management process that favors a fundamental approach, i.e. the financial and economic analysis of financial assets and investment funds. This analysis is performed internally. The process enables the Group to develop causal beliefs that direct their allocation choices while complying with financial and regulatory constraints. Because of the long-term nature of liabilities, the investment horizon is from 5 to 10 years, oriented toward a buy and hold approach as opposed to a trading approach, unless certain factors call into question the initial reasons for establishing the investments.

### 3.2.4 Structure of CCR Group assets

| | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| **Assets** | | | |
| Goodwill | R0010 | | |
| Deferred acquisition costs | R0020 | | 33 490 794.42 |
| Intangible assets | R0030 | | 4 078 360.89 |
| Deferred tax assets | R0040 | 4 891 605.05 | 181 462 000.00 |
| Pension benefit surplus | R0050 | | |
| Property, plant & equipment held for own use | R0060 | 66 500 000.00 | 60 083 842.83 |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 9 259 694 163.25 | 8 171 701 591.99 |
| Property (other than for own use) | R0080 | 427 041 000.00 | 199 387 940.23 |
| Holdings in related undertakings, including participations | R0090 | 13 140 964.01 | 6 200 000.00 |
| Equities | R0100 | 185 031 828.98 | 57 379 844.71 |
| Equities - listed | R0110 | 4 586 403.11 | 4 754 214.09 |
| Equities - unlisted | R0120 | 180 445 425.87 | 52 625 630.62 |
| Bonds | R0130 | 5 533 545 395.57 | 5 268 792 380.77 |
| Government Bonds | R0140 | 1 776 320 551.74 | 1 689 248 392.75 |
| Corporate Bonds | R0150 | 3 757 224 843.83 | 3 579 543 988.02 |
| Structured notes | R0160 | | |
| Collateralised securities | R0170 | | |
| Collective Investments Undertakings | R0180 | 2 938 792 459.15 | 2 478 647 857.45 |
| Derivatives | R0190 | 847 182.79 | |
| Deposits other than cash equivalents | R0200 | 161 295 332.75 | 161 293 568.83 |
| Other investments | R0210 | | |
| Assets held for index-linked and unit-linked contracts | R0220 | | |
| Loans and mortgages | R0230 | 4 864 862.56 | 4 875 136.53 |
| Loans on policies | R0240 | | |
| Loans and mortgages to individuals | R0250 | 1 183 556.40 | 1 183 556.40 |
| Other loans and mortgages | R0260 | 3 681 306.16 | 3 691 580.13 |

The cost prices displayed are net of provisions for the long-term impairment of asset values. Assets are analyzed in respect of past and projected performance.

**Note:** CCR's participating interest in CCR Re is shown in the preceding table and amounts to a market value of € 360.9 m. Given short deadlines, the Group was unable to calculate the prudential value of CCR Re prior to the crystallization of the CCR portfolio. The prudential value of € 736 m at December 31, 2016 was however used to determine the prudential values in the CCR Group accounts.

- Money market instruments

Money market instruments represent 9.5% of all investments. They are almost entirely denominated in euros. Cash flow is distributed among different types of investments:

- Money market funds: these provided slightly positive returns in 2016, although they recorded decreases regularly throughout the year.
- Deposits held at call with banks: these amounts do not produce interest yet they are not exposed to negative rate impacts within the limits of a ceiling determined by each bank.
- Term deposits: these enabled the Group to obtain slightly positive interest and to avoid negative rate impacts. These deposits may be several years in duration, yet early withdrawal is possible subject to prior notice and a redemption penalty.

- Bond investments & credit

Bond investments represent 62.6% of total investments. With respect to the management of these assets, directly managed bonds comprise 90% of the total bond portfolio, management of the remaining portion is delegated to managing companies and held in open funds or special funds depending on the type of management. The bond portfolio is denominated exclusively in euros.

The quality of bond investments is high when compared to the level of credit risk. The directly managed bond portfolio comprises investment grade bonds exclusively, the average rate of which is AA.

The delegated management of bonds and credit assets provides a source of diversification in comparison with the directly managed portfolio.

- Diversified investments

Diversified investments are broken down into three categories, hybrid securities, alternative investments and other diversified investments. They are exclusively comprised of delegated investment funds. Diversified investments represent 6.5% of all investments.

- Equity investments

Equity investments represent 7.7% of total investments and include a listed equity component (6.3% of total investments including an overlay fund that provides partial coverage of the long-term portfolio) as well as unlisted equity (0.7% of total investments).

- Loans

Loans represent just over 3.5% of all investments.

### 3.2.5 Exposure to the main financial risks

This section presents the principal risks to which the overall portfolio is exposed although certain indicators were derived solely from the directly held portfolio. The look-through approach provides the possibility of presenting more general indicators.

- Exchange risk

Exchange risk is very marginal.

- Interest rate risk

The sensitivity rate of the bond portfolio is between 3% and 4% including investments in mutual funds. After integration of money market instruments, the overall sensitivity rate for interest rate assets is less than 3%.

- Credit risk

The directly-managed bond portfolio is exclusively comprised of Investment Grade securities. AAA/AA rated bonds comprise 72.5% of the bond portfolio.

- Liquidity risk

The liquidity of investment assets may be appreciated on the basis of the characteristics of the global asset portfolio:

- Liquidity balances representing 9.5% of all investments.
- The portion of financial assets with little or no liquidity is limited to 9.6% of total investments. This essentially includes loan funds and private equity funds.
- A bond portfolio composed of bonds issued by leading issuers comprising 51% of all assets and containing a significant proportion of bonds of short residual duration.
- Mutual funds redeemable within a period of 24 hours or seven days in a wide majority of cases.

In addition to financial assets for which liquidity is low or inexistent, real estate assets have the lowest level of liquidity. These represent 7.3% of all investments. Disposal of a real estate asset can require between 9 and 18 months for most buildings. A maximum investment budget is determined every quarter for assets with little or no liquidity rate.

- Impact of a financial crisis

The Group performs analyses using stress tests and reverse tests on a regular basis.

## 3.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or defective internal procedures, relating to members of personnel, to systems or to events outside the Group.

These risks are identified and assessed mainly by analyzing critical and important processes as well as internal control procedures within the organization regardless of whether the activities are outsourced or not.

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

### 3.3.1 Operational application

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

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

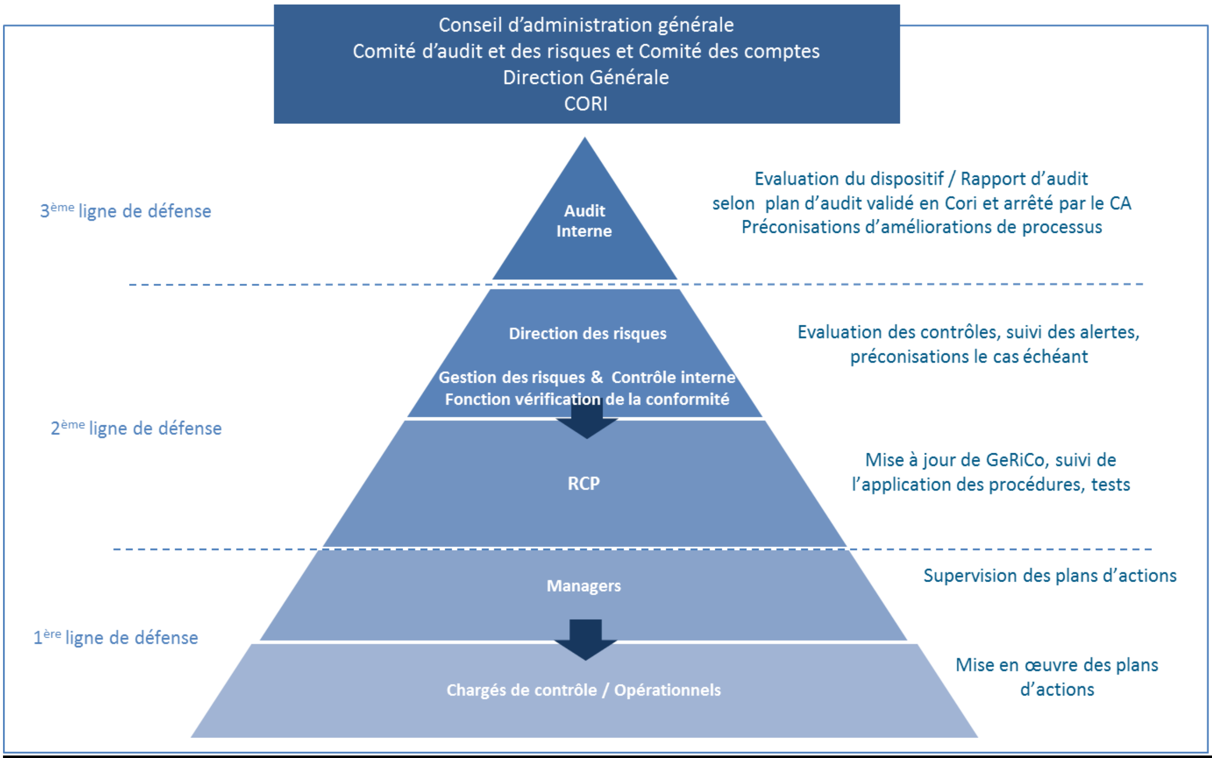
- Compliance with laws and regulations;

- 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.

The CCR Group uses COSO II guidelines in the assessment of its global risk management system.

The position of the internal control function is as follows:




## 3.3.2 Assessment

Periodic review of the different mappings enables the updating and assessment of operational risks.

The Company's stochastic model includes a dedicated operational risk module. It is interfaced with the operational risk assessments available within the mapping (frequency and cost).

The internal control and operational risk policy should be read to complement to this section.

## 3.4 Other risks

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

### 3.4.1 Exposure to risk

- Risk assessment

Risk assessment follows the standard process for operational risk presented above and is carried out on all risks within the Company. As a reminder, 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 the CCR Group.

- Important risks

Important 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 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.

- Investment policy

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

- Risk concentration

The CCR Group 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).

### 3.4.2 Risk mitigation techniques

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

- Retrocession

The policy is outlined in detail in the report on retrocession policy.

- Protection of the equity portfolio

The CCR Group 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.

### 3.4.3 Sensitivity to risks

The ORSA report describes the sensitivity of the risk profile to several adverse scenarios.

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

# 4. 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.

## 4.1 Valuation of assets

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

### 4.1.1 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 Group entities, the accuracy of this database is reliable, thereby significantly limiting problems of erroneous or missing prices.

The total value of the consolidated 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.

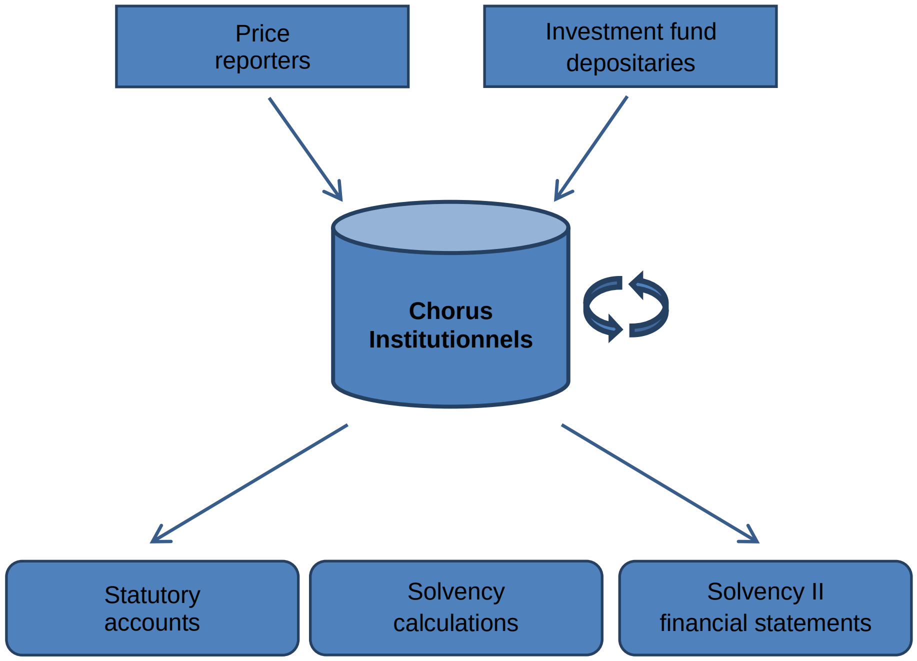
The value of CCR Group assets is systematically verified against an outside valuation (securities statements received form depositories) at the end of each quarter.

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 the off-balance sheet commitments of CCR Group entities; 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 statements. 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 the CCR Group 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 tracked.**



## 4.1.2 Valuation of investments

| | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| **Assets** | | | |
| Goodwill | R0010 | | |
| Deferred acquisition costs | R0020 | | 33 490 794.42 |
| Intangible assets | R0030 | | 4 078 360.89 |
| Deferred tax assets | R0040 | 4 891 605.05 | 181 462 000.00 |
| Pension benefit surplus | R0050 | | |
| Property, plant & equipment held for own use | R0060 | 66 500 000.00 | 60 083 842.83 |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 9 259 694 163.25 | 8 171 701 591.99 |
| Property (other than for own use) | R0080 | 427 041 000.00 | 199 387 940.23 |
| Holdings in related undertakings, including participations | R0090 | 13 140 964.01 | 6 200 000.00 |
| Equities | R0100 | 185 031 828.98 | 57 379 844.71 |
| Equities - listed | R0110 | 4 586 403.11 | 4 754 214.09 |
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| Corporate Bonds | R0150 | 3 757 224 843.83 | 3 579 543 988.02 |
| Structured notes | R0160 | | |
| Collateralised securities | R0170 | | |
| Collective Investments Undertakings | R0180 | 2 938 792 459.15 | 2 478 647 857.45 |
| Derivatives | R0190 | 847 182.79 | |
| Deposits other than cash equivalents | R0200 | 161 295 332.75 | 161 293 568.83 |
| Other investments | R0210 | | |
| Assets held for index-linked and unit-linked contracts | R0220 | | |
| Loans and mortgages | R0230 | 4 864 862.56 | 4 875 136.53 |
| Loans on policies | R0240 | | |
| Loans and mortgages to individuals | R0250 | 1 183 556.40 | 1 183 556.40 |
| Other loans and mortgages | R0260 | 3 681 306.16 | 3 691 580.13 |

The amounts highlighted in yellow in the above table are sub-totals.

## 4.1.3 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** | | | |
| Reinsurance recoverables from: | R0270 | 15 996 890 | 18 136 544 |
| Non-life and health similar to non-life | R0280 | 15 453 492 | 6 205 155 |
| Non-life excluding health | R0290 | 15 453 492 | 6 205 155 |
| Health similar to non-life | R0300 | | |
| Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | 543 398 | 11 931 389 |
| Health similar to life | R0320 | 186 718 | 155 425 |
| Life excluding health and index-linked and unit-linked | R0330 | 356 680 | 11 775 964 |
| Life index-linked and unit-linked | R0340 | | |
| Deposits to cedants | R0350 | 132 097 486 | 129 478 349 |
| Insurance and intermediaries receivables | R0360 | 312 139 399 | 311 196 738 |
| Reinsurance receivables | R0370 | 390 997 | 389 816 |
| Receivables (trade, not insurance) | R0380 | 52 394 294 | 53 494 319 |
| 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 | 543 577 727 | 543 577 727 |
| Any other assets, not elsewhere shown | R0420 | | |
| **Total assets** | R0500 | 10 392 547 423 | 9 511 965 220 |

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

- 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.

- Reinsurance receivables and Receivables (trade not insurance)

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

- 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 does not differ from 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 tracked.**

## 4.2 Valuation of liabilities

Business that was not transferred to CCR Re, although fully retroceded to CCR Re, continues to be processed in the CCR run-off portfolio on both a net and gross basis.

It is for this reason that we list below the different lines of business for the Public Reinsurance operations and describe the customized procedure for processing retrocession and foreign currencies.

### 4.2.1 Valuation of technical provisions

**"Statutory accounts" provisioning process**

*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 annually by the CCR Group actuarial function. It is also reviewed by outside auditors once every three years. All work is performed in close cooperation with the technical accounting function and the Underwriting Department.

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 from 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 related 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 and CCR Re statutory accounts.

This process and the actuarial populations are reviewed annually by the statutory auditors of the CCR Group and of its entities. The 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.

*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 impacted by claims.

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

**Allocation of Lines of Business**

At December 31, 2016, the CCR Group 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 and CCR Re's commercial strategy. It is important to note that only the property lines generate premium risk at this time.

*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, and obligatorily allocated to a single line of business.

*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.

**Best estimate and risk margin valuation method**

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

- Best Estimate

*Assumed business*
Assumed treaties, from the actuarial populations, are 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 treaty by the adequate liquidation vector (determined for each of the standard groups of treaties).

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 treaty 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 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 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 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 to 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.

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 to 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 to calculate the risk margin is determined by associating the previously mentioned items.

- Risk margin

The CCR Group risk margin is equal to the sum of the CCR risk margin and 100% of the CCR Re risk margin. CCR holds 100% of CCR Re equity capital.
The risk margins by line of business are deducted from the overall risk margin pro rata of the best estimates by line of business.

**Valuation for solvency purposes and valuation for financial reporting purposes**

The valuation of technical provisions for solvency purposes does not differ from the valuation of technical provisions for financial reporting purposes; the valuation data, methods and main assumptions are the same.

**Changes in assumptions for the calculation of technical provisions**

The assumptions used to calculate CCR's technical provisions have not undergone any changes since the previous date of registration.

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

- Assumed / retrocession best estimates and risk margin

| | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| **Liabilities** | | | |
| Technical provisions – non-life | R0510 | 2 849 671 247 | 3 305 204 549 |
| Technical provisions – non-life (excluding health) | R0520 | 2 849 671 247 | 3 305 204 549 |
| Technical provisions calculated as a whole | R0530 | | |
| Best Estimate | R0540 | 2 461 649 302 | |
| Risk margin | R0550 | 388 021 945 | |
| Technical provisions - health (similar to non-life) | R0560 | 0 | |
| Technical provisions calculated as a whole | R0570 | | |
| Best Estimate | R0580 | | |
| Risk margin | R0590 | | |
| Technical provisions - life (excluding index-linked and unit-linked) | R0600 | 477 238 539 | 512 907 067 |
| Technical provisions - health (similar to life) | R0610 | 309 472 332 | 350 660 958 |
| Technical provisions calculated as a whole | R0620 | | |
| Best Estimate | R0630 | 267 333 417 | |
| Risk margin | R0640 | 42 138 916 | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | R0650 | 167 766 207 | 162 246 109 |
| Technical provisions calculated as a whole | R0660 | | |
| Best Estimate | R0670 | 144 922 530 | |
| Risk margin | R0680 | 22 843 677 | |
| Technical provisions – index-linked and unit-linked | R0690 | 0 | |
| Technical provisions calculated as a whole | R0700 | | |
| Best Estimate | R0710 | | |
| Risk margin | R0720 | | |

Technical provisions amounted to € 3.8 b in the statutory accounts and € 3.3 b under prudential Solvency II standards as a result of the restatement of the best estimate, the updating and the addition of a risk margin.

- Retrocession and liability best estimates

| | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| **Assets** | | | |
| Reinsurance recoverables from: | R0270 | 15 996 890 | 18 136 544 |
| Non-life and health similar to non-life | R0280 | 15 453 492 | 6 205 155 |
| Non-life excluding health | R0290 | 15 453 492 | 6 205 155 |
| Health similar to non-life | R0300 | | |
| Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | 543 398 | 11 931 389 |
| Health similar to life | R0320 | 186 718 | 155 425 |
| Life excluding health and index-linked and unit-linked | R0330 | 356 680 | 11 775 964 |
| Life index-linked and unit-linked | R0340 | | |

- Special purpose vehicles

The CCR Group had no special purpose vehicles in its balance sheet at December 31, 2016.

- Transitional measures - matching adjustment - volatility adjustment

The CCR Group and its entities do 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.

The CCR Group therefore does not apply any transitional measures.

## 4.2.2 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 | | 3 187 030 181 |
| Contingent liabilities | R0740 | | |
| Provisions other than technical provisions | R0750 | 1 932 131 | 5 352 507 |
| Pension benefit obligations | R0760 | 13 840 876 | 13 840 876 |
| Deposits from reinsurers | R0770 | | |
| Deferred tax liabilities | R0780 | 998 699 273 | |
| Derivatives | R0790 | 1 563 214 | |
| Debts owed to credit institutions | R0800 | | |
| Financial liabilities other than debts owed to credit institutions | R0810 | | |
| Insurance & intermediaries payables | R0820 | 30 193 820 | 30 102 634 |
| Reinsurance payables | R0830 | 16 833 164 | 16 782 327 |
| Payables (trade, not insurance) | R0840 | 40 162 462 | 38 792 386 |
| Subordinated liabilities | R0850 | 0 | 0 |
| Subordinated liabilities not in Basic Own Funds | R0860 | | |
| Subordinated liabilities in Basic Own Funds | R0870 | | |
| Any other liabilities, not elsewhere shown | R0880 | | 1 973 833 |
| **Total liabilities** | R0900 | 4 430 134 726 | 7 111 986 360 |
| **Excess of assets over liabilities** | R1000 | 5 962 412 697 | 2 399 978 859 |

### Other technical provisions

The "Other technical provisions" item contains CCR equalization reserves and claims payable reserves pursuant to article 431 of the Insurance Code. In the prudential balance sheet, these reserves are booked with no restating of equity capital.

### Provisions other than technical provisions

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

**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.

**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 pre-determined 2018 target flat rate.

**Reinsurance payables**

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

**Payables (trade, not insurance)**

This item contains the balances of liabilities for other CCR 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. In the statutory accounts, these values are adjusted to the yearly fixed amount, considering that if in run-off, they will be liquidated within one year.

**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").

**Valuation for solvency purposes and valuation for reporting purposes**

The valuation of other liabilities for solvency purposes does not differ from the valuation of other liabilities for financial reporting purposes; the valuation data, methods and main assumptions are the same.

## 4.3 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.

# 5. CAPITAL MANAGEMENT

## 5.1 Equity capital management - Objectives, policies and procedures

### 5.1.1 Objectives

With respect to equity capital management, CCR Group has set itself the objective of being capable, year after year, of protecting, growing 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 maintains profitability objectives in all its areas of business:
- with respect to the underwriting of Public Reinsurance business;
- with respect to its financial investments.

These objectives are based upon two guiding principles in the context of CCR's risk appetite framework:

**Principle 1:** Post crisis, the CCR Group Solvency II ratio is greater than 115%. This is a direct consequence of the Group solvency constraint. It may be complied with by resorting to the use of retrocession and/or by obtaining of a loan.

**Principle 2:** Post crisis, CCR is capable of absorbing a natural disaster with a 15-year return period without the intervention of the State. This means that the 2017 post crisis level without State intervention was greater than € 2.1 m with the possible use of retrocession.

### 5.1.2 Policy

The implementation of these objectives is, above all, guided by the risk appetite framework adopted by the CCR Group and its entities.

In this context, the CCR Group's objective is to maintain a Solvency II ratio of 115% 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 Group 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 for use in financial investments.

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, the CCR Group has developed a policy for the protection of its equity capital. The policy is broken down as follows:

- retrocession policy and policy for the reduction of financial risks;
- The policy for the management of equalization reserves currently under development;
- risk management policy;
- implementation, where applicable, of management initiatives.

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

### 5.1.3 Procedures

The CCR Group 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, 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, while taking into consideration 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 guidelines 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.

### 5.1.4 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

## 5.2 Prudential equity capital at December 31, 2016

### 5.2.1 Structure, quality and amount of prudential equity capital at December 31, 2016

<table>
<tr><td rowspan="3">Underlying equity capital</td><td>Surplus of assets over liabilities</td><td>€ 5,962 m</td></tr>
<tr><td>Subordinated debt</td><td>-</td></tr>
<tr><td>Self assessment</td><td>-</td></tr>
<tr><td colspan="2">Ancillary equity capital</td><td>-</td></tr>
<tr><td colspan="2">Total prudential equity capital at December 31, 2016 before dividends</td><td>€ 5,962 m</td></tr>
<tr><td colspan="2">Dividends</td><td>€ 100 m</td></tr>
<tr><td colspan="2">Total prudential equity capital at December 31, 2016 before dividends</td><td>€ 5,862 m</td></tr>
</table>

CCR does not have subordinated debt, a self-assessment system, or any ancillary equity capital.
All CCR Group prudential equity capital at December 31, 2016 is Level 1 (see the following section).

### 5.2.2 Transition from statutory accounts equity capital to prudential equity capital

CCR Group 2015 equity capital was € 2,400 m in the statutory accounts and € 5,962 m in the Solvency II prudential balance sheet.

### 5.2.3 Changes in prudential equity capital between December 31, 2015 and December 31, 2016

The "solo" prudential equity capital of the CCR Group could not be calculated at December 31, 2015.

## 5.3 Coverage ratio of the SCR and of the MCR at December 31, 2016

- Prudential equity capital after dividends totaled € 5,862 m. Given its composition, prudential equity capital is eligible under the SCR and MCR.
- The SCR amounted to € 3,403 m, representing an SCR coverage ratio of 172.2%.
- The Group's consolidated MCR amounted to € 1,014 m, representing a coverage ratio of 578.1%.

## 5.4 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 the CCR Group.

## 5.5 Description of ancillary equity capital

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

## 5.6 Availability and transferability of prudential equity capital

The entirety of CCR Group equity capital is held by the CCR Group and is considered available and transferable in the framework of the regulations that apply to CCR.

## 5.7 Calculation of the SCR, MCR and eligible equity capital

### 5.7.1 Method and options used

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

### 5.7.2 Absorptive capacity of deferred tax

The CCR Group 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.

Concerning considerations for future tax credit and deferred tax, the CCR Group estimated that it could justify tax credits over a period of two years even in a severely adverse post-stress environment.

### 5.7.3 Look-through approach

Since December 31, 2016, CCR has applied a look-through approach on a line-by-line basis to determine the market value of over **95%** of its investments. This proportion 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.

### 5.7.4 Ring-fenced funds

The CCR Group does not ring fence assets. For liabilities, the CCR Group applies specific guidelines for the management of Public Reinsurance technical liabilities which does not consist, in substance, of ring fencing its liabilities.

### 5.7.5 Simplification methods used

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

### 5.7.6 Difficulties encountered

CCR encountered no difficulties in assessing capital requirements based on its risk profile, as estimated using the standard formula.

## 5.8 SCR and MCR at December 31, 2016

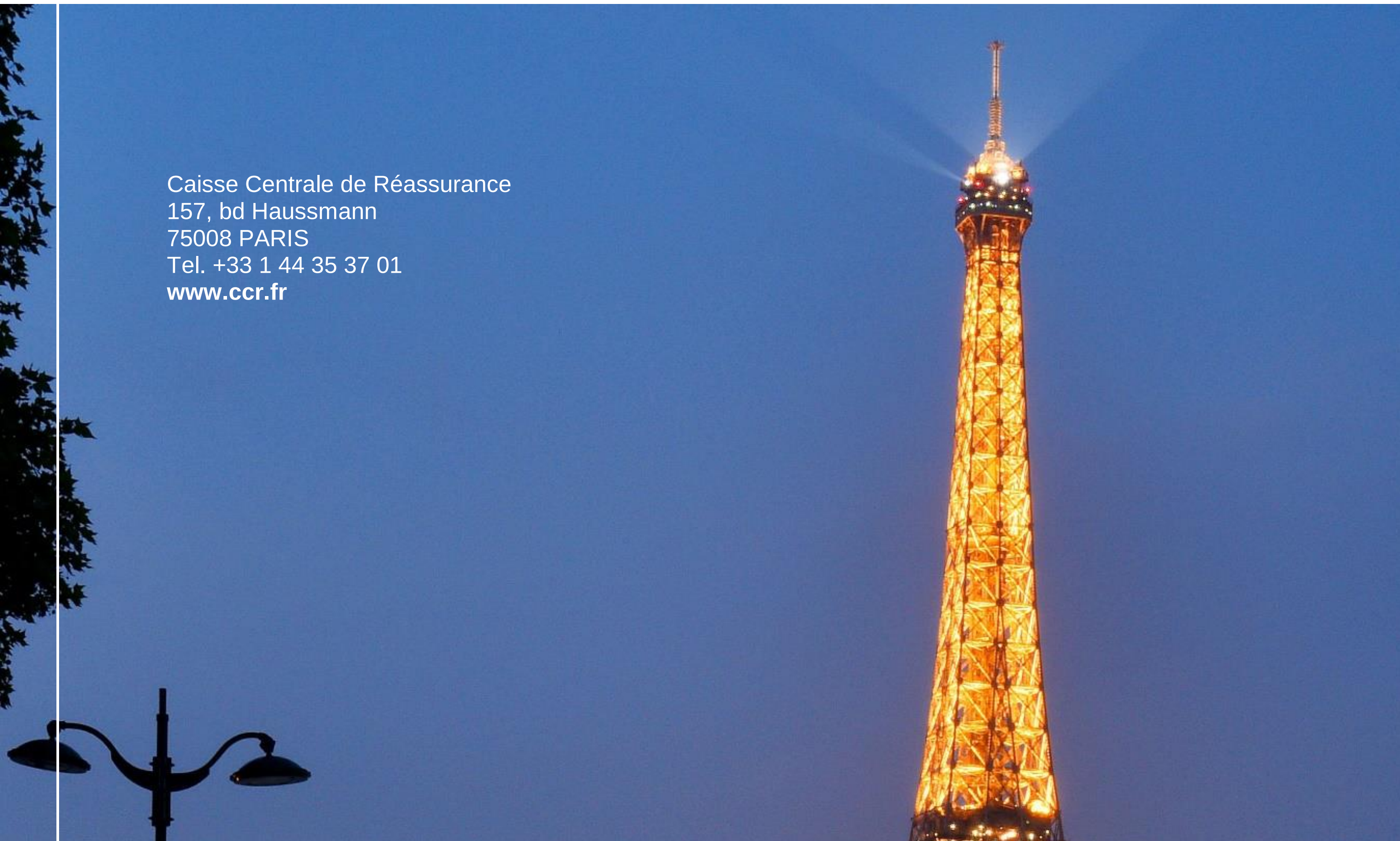
### 5.8.1 Changes in the SCR and MCR compared to the previous date of registration

The SCR and MCR of the CCR Group could not be calculated at December 31, 2015.

### 5.8.2 Changes in the solvency margin compared to the previous date of registration

The solvency margin of the CCR Group could not be calculated at December 31, 2015.

End of public narrative report – ERM Department.



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