Nexgen Reinsurance dac (NRD)

Solvency and Financial Condition Report (SFCR)

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INTRODUCTION

This document sets out the solvency and financial condition of Nexgen Reinsurance dac (NRD) for the year ended 31st December 2016. The format of this report is as set out in Articles 290 to 303 of the Delegated Regulation (EU) 2015/35.

EXECUTIVE SUMMARY

Company Background

NRD has been closed to new business since 2010 and is currently running off the existing business. NRD's in-force business as at end of 2016 consists of three reinsurance treaties with an insurance group. These Treaties are quota share reinsurance of a guaranteed minimum accumulated benefit (GMAB) and guaranteed minimum death benefit (GMDB) book of business. The premium is invested in passively managed funds that track the following indices; Topix, Nomura, MSCI Kokusai and WGBI (excl Japan). Approximately 80% of the policies mature in late 2016 and into 2017.

Except as disclosed in the contents sections of this report there have been no material changes to the business and performance, system of governance, valuation for solvency purposes and capital management over the reporting period.

Business and Performance

A high level summary of the financial results for 2016 compared to 2015 with commentary is included in section A below. The insurance premium income for 2016 was €6.9m compared to €6.6m in 2015. The net result for the year 2016 was a loss before taxation of €(1,.2m) compared to a profit before tax in 2015 of €0.6m. The company holds total assets of €29.5m matched by liabilities of €8.2m and shareholders' Funds of €21.3m.

System of Governance

The company adopts three lines of defence in managing its risks while the overall responsibility rests with the Board of Directors:

1st Line: Day to Day operations by CEO and operations team in Paris
2nd Line: Oversight by Chief Risk Officer, Reviews by the HoAF and Compliance Function
3rd Line: Internal Audit

The company is in run-off with one employee and therefore relies on a number of Outsource providers to support the financial, regulatory and statutory reporting requirements. The following table identifies the critical outsourcing arrangements together with the jurisdiction in which the service provider is located.

Outsource Provider	Service Outsourced	Internal /External	Jurisdiction
Natixis S.A.	Technical Valuations	Internal	France
Ernst & Young	Head of Actuarial Function	External	Ireland
EisnerAmper	Internal Audit	External	Ireland
Ernst & Young	Financial & Regulatory Reporting	External	Ireland

Risk Profile

The company is in run-off since 2010 managing a number of Variable Annuity Life reinsurance treaties. Given the structure of these treaties the principal risk is a counterparty credit risk with the parent company, Natixis S.A. as cash is deposited with the parent as collateral for derivatives written to hedge the treaty risks. The SCR as at 31 December 2016 is as follows:

Current Basis	Pillar I: Standard Formula
Counterparty Default Risk	€2 922 002
Life Risk	€646 331
Market Risk	€597 525
Op Risk	€265 280
Diversification	-€800 854
Total	**€3 630 284**

Other risks include mortality risk, lapse risk and market risk. These are considered low or are fully hedged.

Valuation for Solvency Purposes

The only difference between the valuation for Statutory Financial Reporting purposes and the Solvency II reserve valuation is the method of valuation of the technical provisions.

	€'000
Technical Provisions per Statutory Financials	7,461
Technical Provisions per Solvency II	6,738
Difference: -	723

Capital Management

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. As part of own funds management, the Company prepares ongoing solvency projections in the annual Own Risk and Solvency Assessment (ORSA) a document that reviews the structure of own funds and future requirements. The business plan, which forms the basis of the ORSA contains a three year projection of funding requirements and helps focus actions for future funding. The Company is a single shareholder entity whose ordinary shares are fully paid up. It has no debt financing nor does it have plans to raise debt or issue new shares capital in the future. The company will continue to run-off the portfolio in 2017 and 2018 and will consider external novation options during or after 2017. It is expected that consideration will be given by the Board to a distribution of the surplus capital arising as the run-off continues.

The company solvency position including the individual risks is as follows:

Current Basis	Pillar I: Standard Formula	Pillar II: CAR Basis *
Counterparty Default Risk	€2 922 002	€1 405 905
Life Risk	€646 331	€646 331
Market Risk	€597 525	€1 303 776
Op Risk	€265 280	€331 601
Diversification	-€800 854	-€929 840
Total	**€3 630 284**	**€2 757 773**

A. Business and Performance

A.1 Business Details

Name and Legal Form:	Nexgen Reinsurance dac. (NRD) A private limited company registered in Ireland.
Supervisory Authority: **Contact Name:**	Central Bank of Ireland (CBI) Contacts: Ciaran.Conlon@centralbank.ie. Eamonn.Henry@centralbank.ie
Parent Company:	A wholly owned subsidiary of Natixis S.A. A French Bank and member of "Groupe BPCE".
Position within the Group:	Run-Off Unit of Capital Markets, reporting into Corporate & Investment Banking
Line of Business and Geographical area	Variable Annuity Reinsurance Treaty covering life reassurance business
External Auditor:	Deloitte, Deloitte & Touche House,Earlsfort Terrece, Dublin 2.
Material Lines of Business and Geographical areas	Variable Annuity Life Reinsurance Treaty written in Japan
Significant Business Events	The policies commenced to mature during 2016.

A.2 & 3 Underwriting and Investment Performance.

The following is a qualitative and quantitative analysis of the financial and underwriting performance of NRD during the period. The company uses EUR € as its functional currency. The table below shows a summary of the financial and underwriting performance for the year ended 31st December 2016, based on Irish GAAP:

NEXGEN REINSURANCE DESIGNATED ACTIVITY COMPANY
INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2016

	Actual YTD 31-Dec-16 EUR'000	Actual YTD 31-Dec-15 EUR'000	*Change since Dec-15* EUR'000
Insurance premium revenue	**6,917**	**6,632**	285
Gross change in technical provisions	**(162)**	**(1,527)**	1,365
Other reinsurance (expense)	(1,009)	(16)	(993)
Other trading income/(expense)	(5,671)	(5,676)	5
Net (expense) / income from reinsurance activity	**75**	**(587)**	**662**
Interest income	(108)	1,357	(1,465)
Net (expense)/ income after interest costs	**(33)**	**770**	**(802)**
Administration expenses	(1,053)	(139)	(914)
Other operating expenses	(106)	(76)	(31)
Total net expenses	**(1,159)**	**(215)**	**(944)**
(Loss)/ profit before tax	**(1,192)**	**555**	**(1,747)**
Income tax (expense) /credit	47	(69)	116
(Loss)/ profit after tax	**(1,145)**	**486**	**(1,631)**

Key points for 2016:

- There is a loss after tax of €1.15m for the period to 31 December 2016 (December 2015: Profit €0.49m).
- Premiums have increased by €0.29m to €6.92m (December 2015: €6.63m) due to the reinsurance agreement with the Cedant while claims for the year to date are €1.01m, with €1.00m of these recorded in the final quarter of the year due to the maturity of a high percentage of policies.
- This has resulted in net reinsurance income being €0.08m (December 2015: expense €0.59m).

NEXGEN REINSURANCE DESIGNATED ACTIVITY COMPANY
BALANCE SHEET AS AT 31 DECEMBER 2016

	Actual 31-Dec-16 EUR'000	Actual 31-Dec-15 EUR'000	*Change since Dec-15* EUR'000
ASSETS			
Cash at bank and in hand	4,485	8,612	(4,127)
Other financial investments	24,996	20,001	4,996
Other financial derivatives	0	1,061	(1,061)
Total assets	**29,481**	**29,674**	**- 192**
Liabilities			
Derivative financial instruments - liabilities	354	- 0	354
Reinsurance liabilities	6,738	6,576	162
Corporation tax payable	-	47	(47)
Other payables	1,050	567	484
Total liabilities	8,142	7,190	952
Equity			
Share capital/share premium	11,000	11,000	-
Reserves	10,339	11,484	(1,145)
Total equity	21,339	22,484	-1,145
Total liabilities and equity	**29,481**	**29,674**	**-192**

Key points as at December 2016:

Total assets at the end of December 2016 are €29.48m (December 2015: €29.68m).

Total liabilities at the end of December 2016 are €8.14m (December 2015: €7.20m).

Total equity as at December 2016 is €21.34m (December 2015: €22.48m), a decrease of €1.4m since December 2015.

A.4 Performance of Other Activities

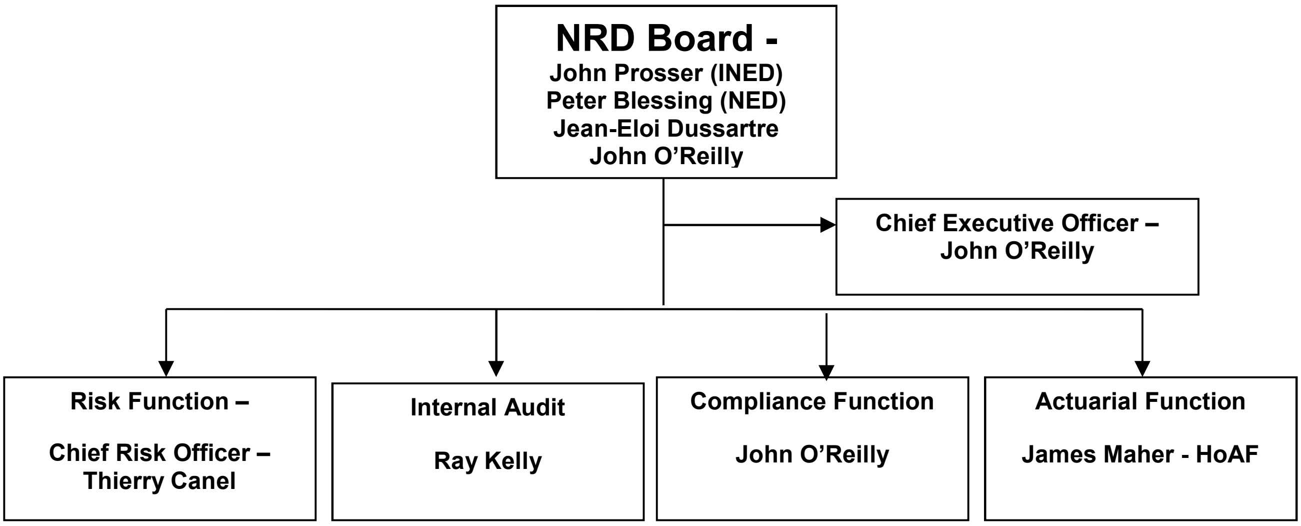
There have been no other significant activities undertaken by the company other than the continuation of the run-off of the single reinsurance Treaty.

A.5 Any Other Information

There are no other material matters in respect of the business and performance of the company.

B. System of Governance

NRD CORPORATE STRUCTURE



The above chart shows the organisational structure of NRD. The Board meets quarterly every year and reviews the following standing order items at each meeting:

- Business Review Update
- Risk Control Report
- HoAF Assessment of Technical Provisions
- Management Financial Statements
- Corporate Governance & Compliance Reports

Given the company's run-off position and low risk status, The Central Bank of Ireland has confirmed a derogation to the company from the requirement to have two Independent Non-Executive Directors (INED) and for the Board to act as Audit and Risk Committee.

The Terms of Reference of the Board covers the following activities:

Business Strategy, including run off plan

Risk Management Framework, including Risk Control Report

Financial Statements, Regulatory Reporting, results and reserving

Board membership and appointment

Fit and proper management of the business

The principal responsibilities of Functions reporting to the Board are as follows:

Risk Function

- Propose risk management policy to Board for approval;
- Assisting the Board and other functions in the effective operation of the risk management system;
- Monitoring the risk management system;

- Monitoring the general risk profile of the undertaking as a whole, including presenting the Risk Control Report to the Board and assess options to mitigate risks evident;
- Detailed reporting on risk exposures and advising the Board or supervisory body on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- Identifying and assessing emerging risks;
- Recommend risk appetite and risk limits.

Internal Audit

- Propose internal audit policy to Board for approval;
- Evaluate the adequacy and effectiveness of the internal control system and other elements of the system of governance.
- Maintain objectiveness and independence from the operational functions.
- Report findings and recommendations to management who shall determine what actions are to be taken with respect to each of the internal audit findings and recommendations. Management shall ensure that those actions are carried out

Compliance Function

- Propose internal control and compliance policy to Board for approval;
- Advise the Board on compliance with the laws, regulations and administrative provisions adopted.
- Ensure consistent standards and proper governance, in line with what is outlined in the Corporate Governance Requirements for Insurance Undertakings 2015
- Assess the possible impact of any changes in the legal environment on the operations of NRD and the identification and assessment of compliance risk.

Actuarial Function

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assess sufficiency and quality of data used in the calculation of technical provisions;
- Inform the board on reliability and adequacy of calculation of the technical provisions;
- Contribute to the effective implementation of the risk management system.

There has been no material change to the system of Governance over the reporting period.

As previously agreed with the CBI, the CEO is on a part time basis contracted for a 20 hour week until the run-off is completed.

B.3 RISK MANAGEMENT SYSTEM

The purpose of the Risk Management Policy is to articulate NRD's approach, appetite and expectations in relation to the acceptance, management and oversight of risk across the organization. The Risk Management Policy sits alongside the ORSA Policy as a key component of NRD's risk management framework.

The responsibilities of the risk management function, as set out in Regulation 46 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015) include the following:

- Assisting the Board and other functions in the effective operation of the risk management system;
- Monitoring the risk management system;

- Monitoring the general risk profile of the undertaking as a whole;
- Detailed reporting on risk exposures and advising the Board or supervisory body on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- Identifying and assessing emerging risks.

A description of how the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making process are fully documented in the Risk Management Policy.

B. 3.1 ORSA

The purpose of the ORSA Policy is to provide a description of the processes and procedures in place to conduct the ORSA Process. In addition, the ORSA Policy is also required to cover:

a) Consideration of the link between the risk profile, the approved risk tolerance limits and the overall solvency needs;

b) Information on:
   i) How stress tests/sensitivity analyses are to be performed and how often are to be performed;
   ii) Data quality requirement, only where not explicitly covered by Data Policy.
   iii) The frequency for the performance of the (regular) ORSA and the circumstances which would trigger the need for an ORSA outside the regular timescales.

It is recognised that requirements in respect of the ORSA are likely to evolve. The ORSA policy and process will be reviewed annually to ensure that the approach remains current and reflects emerging regulatory requirements.

The scope of ORSA includes all reasonably foreseeable and relevant material risks that may impact NRD's ability to meet its obligations through a reduction in the current level of own funds or the protection offered to policyholders.

The ORSA shall be forward-looking and cover the capital needs for each year over the planning horizon taking into account business plans and projections.

B.4 INTERNAL CONTROLS

The Internal Control system operated by NRD includes three lines as follows:

1st line: Control measures that are incorporated into activities, business processes and computer systems and whose ultimate responsibility rests with the first users responsible for implementing and performing these business processes, e.g. calculation of market price of guarantees by Natixis .

2nd line: Control functions that are independent of business processes, including risk management and compliance that assess the implementation of these controls in the business, e.g. review of technical provisions by Head of Actuarial function;

3rd line: Internal Audit provides assurance on the proper design and implementation of the controls and observance of guidelines, policies and processes

The Compliance Officer has overall responsibility for the internal control framework and for the Compliance function. The specific responsibilities of the compliance function are as follow:

- Advise the Board on compliance with the laws, regulations and administrative provisions adopted.
- Ensure consistent standards and proper governance, in line with what is outlined in the Corporate Governance Requirements for Insurance Undertakings 2015
- Assess the possible impact of any changes in the legal environment on the operations of NRD and the identification and assessment of compliance risk

The Compliance officer presents updates to the Board on a quarterly basis setting out any findings from the activities completed each quarter. In addition, the Compliance officer produces an annual compliance officers report summarising the work carried out each year.

The purpose of the Internal Control Policy is:

- To provide an overview of the framework for the implementation of NRD's system of internal controls
- To set out the responsibilities of the compliance function and the reporting procedures in place for the compliance function

B.5 INTERNAL AUDIT

The Internal Audit function is outsourced to an independent firm of consultants.

The Internal Audit function will consider all business activities across the Company, including services provided by third parties, in planning its work. The frequency of any audit of activities will reflect the varying levels of potential risk attaching to them. The deployment of audit resources, which will be in accordance with plans agreed with the Board, will also be weighted towards determining the adequacy and effectiveness of the risk management and internal control systems and other elements of systems of governance over the more significant risks arising from these activities.

The independent assurance provided by the Internal Audit function on the adequacy and effectiveness of the Company's risk management and internal control framework operates on the basis that management, as the first line of defence, has primary responsibility and accountability for effective risk management, including the management of fraud risk.

The Company will have an Internal Audit function which shall be objective and independent of the business units that it reviews and shall functionally report to the Board. Internal Audit will not perform any operational duties or initiate or approve accounting transactions external to Internal Audit.

The Company will ensure the Internal Audit function is established and maintained in a manner which allows for its effectiveness and the fulfilment of its duties.

B.6 HEAD OF ACTUARIAL FUNCTION

As part of the requirements set out by the Central Bank of Ireland (CBI), in the "Domestic Actuarial Regime and Related Governance Requirements under Solvency II", each undertaking is required to appoint a Head of Actuarial Function (HoAF). The HoAF is required to:

1. Take responsibility for tasks of the actuarial function, as set out in section B 2.
2. Provide an actuarial opinion on the technical provisions to the CBI on annual basis;
3. Provide an actuarial opinion to the Board in respect of each own risk and solvency assessment ("ORSA") process.

B.7 OUTSOURCING

The following is a description of the Outsourcing Policy including the outsourcing of any critical or important operational functions.

The purpose of the "Outsourcing Policy" is to:

- Outline the processes and procedures to manage the risks associated with outsourcing;
- Outline procedures to ensure that outsourcing activities are subject to appropriate stages of establishment including due diligence, contractual agreements, ongoing management and monitoring;
- Outline reporting requirements and responsibilities; and,
- Define important outsourcing roles and responsibilities.

For the purpose of this policy, the following definitions apply:

Control Functions ("CF")	These shall include the Internal Audit, Risk Management, Compliance, and Actuarial Functions and any other control function prescribed as such by the Central Bank of Ireland (CBI).
Fit	A person is considered "fit" if their professional qualifications, knowledge and experience are adequate to enable sound and prudent management.
General Manager ("GM")	The General Manager of NRD. Responsible for critical activities outsourced by NRD.
SERVICE PROVIDER	NATIXIS SA
Internal Control System	A process influenced by an organisation's structure, work and authority flows, people and management information systems, designed to help NRD accomplish its specific goals or objectives.
Key Performance Indicator ("KPI")	Goals or targets that measure how well NRD is performing against its overall strategic and operational objectives.
Outsourcing	An arrangement of any form between NRD and an outsourced service provider by which that service provider performs a process, a service or activity which would otherwise be performed by NRD itself.

Pre-approved Control Function ("PCFs")	A Pre-approved Control Function requires express pre-approval of the prospective candidate from the CBI. The CBI has outlined predefined PCFs. Refer to Appendix 1
Proper	A person is considered "proper" if they are of good repute and integrity.

B.8 Assessment of Adequacy of the System of Governance

The Company has assessed its corporate governance system and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of operations of the Company.

B.9 Any Other Material Information

No material changes regarding the system of governance of the Company took place during the period.

C. RISK PROFILE

__Introduction__

The Board of NRD articulated the following run-off strategy to the Central Bank of Ireland (CBI) at the time of Run off Notification in 2010. These key aims remain unchanged, namely:

- Meet obligations as they fall due
- Meet requirements of Authorisation
- Explore opportunities to commute in force transactions
- Maintain comprehensive risk mitigation (including related collateral arrangements)
- Address operating structure, in particular in respect of "head quarter" functions.

In order to achieve these aims, the Board of NRD has established a Risk Appetite which aligns with NRD's stated business strategy as follows:

- NRD shall maintain unencumbered shareholder funds to exceed its net of hedging (including collateral) capital and risk exposure such that the probability of it not being able to meet its future obligations, on an exit basis, will not exceed a 1 in 200 occurrence probability, over a 12 month horizon.
- Measurement of Risk and Capital shall be based on NRD's Solvency II measurement basis for Own Funds under Solvency II Pillar 1 (standard formula) and Solvency II Pillar 2 (CAR model)..
- Furthermore, NRD will look to minimise the likelihood of having to make a call on its shareholders for a capital contribution at a future date, and minimise the likelihood of having to draw on an existing commitment letter to its ultimate parent (Natixis SA).

NRD shall only enter into contracts to commute or assign its reinsurance agreement with the consent its ultimate Shareholder (Natixis SA) and an understanding that such an agreement shall not be entered into, unless or until, resources are made available to NRD such that it will continue to meet its Risk Appetite after such an event.

Risk limits have been determined having considered the Risk Appetite statements (as set out in section 3.2.2) and were communicated to operational functions. NRD actively manage the material risks to which they are exposed through management of the business within these limits:

- Existing market risks are hedged with the aim of reducing exposures to a minimum through the use of best estimate derivatives (put options matching each set of policy conditions). Market risk management limits have been set at a low level to ensure tight control of any possible hedge mismatch.
- Non-hedgeable risks (including mortality/longevity and lapse risk) are limited due to the characteristics of the products and underlying reinsurance treaties.
- Tracking error risk and underwriting risks are monitored with stress-testing and regular review of the assumptions underpinning the computation of capital requirements.
- Expense risk is managed through regular monitoring of the costs of running the business and annual review of the assumptions used to derive the liability and capital figures.

For operational risks, NRD rely on the service level agreements (SLAs) in place with Natixis Group and external counterparties and have appropriate monitoring in place as outlined in the outsourcing policy.

C.1 Underwriting Risk

NRD's in-force business consists of reinsurance treaties with the Cedant.

One is a quota share treaty relating to the reinsurance of a guaranteed minimum accumulation benefit (GMAB) and guaranteed minimum death benefit (GMDB) on a specified block of business. NRD covers 100% of any guarantee payments in excess of the fund value.

Another is a quota share treaty relating to the cover of a proportion of the GMAB and GMDB risks on another block of business. The Company covers 40% of the loss on the difference (if positive) between 75% of the guaranteed value and the account value and the Company also covers 30% of the difference (if positive) between 45% of the guaranteed value and the account value. Therefore, in this instance NRD is covering a proportion of the risk of extreme falls in account values.

The assets held by NRD are primarily long positions in put options with Natixis SA (Paris). This position represents a large number of put options whose size and maturity are based on the expected mortality of the policyholders and the lapse rate specified in the treaty to hedge the cover provided under these treaties.

The two principal Underwriting Risks are:

Mortality Risk

- Severely stressing the mortality tables leads to relatively low P&L impacts.

The time of death of a policy holder only governs the time at which a pay-out is made (at the earliest of death or contract maturity), not the actual occurrence of the pay-out. The sensitivity to this stress-test has been halved over the past three months.

Lapse Risk

- NRD is not exposed to any direct lapse risk for the Cedant tranche 1 (contractual fixed "lapse" both for premiums to be received and for level of guarantees paid).
- Tranche 2.1 and 2.2 carry limited lapse risk: the notional value of premiums to be received is predetermined and fixed, whereas the value of guarantees is not covered by a fixed lapse clause. The pricing of guarantees is done with a conservative lapse hypothesis (0.50% per annum), well below the realised lapse seen up until today.

C.2 Market Risk

Existing market risks are hedged with the aim of reducing exposures to a minimum through the use of best estimate derivatives (Put Options matching each set of policy conditions). Market risk management limits have been set at a low level to ensure tight control of any possible hedge mismatch.

NRD covers its market risks stemming from changes in market prices, FX rates, market volatilities and correlations, through the hedging transactions with its parent Natixis S.A. The table below shows the residual market exposures for the underlying indices. The large decrease in gross Delta position can be explained by the policy maturities and JYP:USD & JYP:EUR movements:

		Apr-17			Dec-16			Sep-16			Decrease in Gross Delta	
Underlying		Delta	Gamma	Vega	Delta	Gamma	Vega	Delta	Gamma	Vega	3M	6M
TMNR												
MSCI Kokusai	Reinsurance Treaty risk	7.2 M€	-0.05 M€	-0.1 M€	19.8 M€	-0.52 M€	-0.1 M€	41.9 M€	-0.48 M€	-0.1 M€	-64%	-83%
	Hedge	-7.3 M€	0.05 M€	0.1 M€	-20.0 M€	0.52 M€	0.1 M€	-42.4 M€	0.47 M€	0.1 M€	-64%	-83%
	Net risk	**-0.13 M€**	**0.00 M€**	**0.0 M€**	**-0.2 M€**	**0.00 M€**	**0.0 M€**	**-0.5 M€**	**-0.02 M€**	**0.0 M€**		
Nomura BPI	Reinsurance Treaty risk	33.0 M€	-1.44 M€	-0.2 M€	61.2 M€	-3.89 M€	-0.2 M€	118.8 M€	-3.86 M€	-0.2 M€	-46%	-72%
	Hedge	-33.5 M€	1.44 M€	0.2 M€	-61.8 M€	3.89 M€	0.2 M€	-119.6 M€	3.75 M€	0.2 M€	-46%	-72%
	Net risk	**-0.4 M€**	**0.00 M€**	**0.0 M€**	**-0.6 M€**	**0.00 M€**	**0.0 M€**	**-0.8 M€**	**-0.10 M€**	**0.0 M€**		
Topix	Reinsurance Treaty risk	7.2 M€	-0.05 M€	-0.1 M€	19.8 M€	-0.52 M€	-0.1 M€	42.1 M€	-0.49 M€	-0.1 M€	-64%	-83%
	Hedge	-7.3 M€	0.05 M€	0.1 M€	-20.0 M€	0.52 M€	0.1 M€	-42.6 M€	0.47 M€	0.1 M€	-63%	-83%
	Net risk	**-0.1 M€**	**0.00 M€**	**0.0 M€**	**-0.2 M€**	**0.00 M€**	**0.0 M€**	**-0.5 M€**	**-0.02 M€**	**0.0 M€**		
WGBI ex Japan	Reinsurance Treaty risk	6.3 M€	-0.09 M€	-0.1 M€	35.5 M€	-2.63 M€	-0.1 M€	84.7 M€	-2.42 M€	-0.2 M€	-82%	-93%
	Hedge	-6.5 M€	0.10 M€	0.1 M€	-36.0 M€	2.64 M€	0.1 M€	-86.0 M€	2.34 M€	0.2 M€	-82%	-92%
	Net risk	**-0.2 M€**	**0.00 M€**	**0.0 M€**	**-0.5 M€**	**0.01 M€**	**0.0 M€**	**-1.3 M€**	**-0.08 M€**	**0.0 M€**		

C.3 Credit Risk

NRD's credit exposures are also actively monitored. Counterparty risk arises due to its arrangements with Natixis SA (as hedge provider) and the Cedant company. The change in credit rating required to breach NRD's solvency targets for both entities are analysed and presented to the Board on a quarterly basis. The Board acknowledges that NRD is heavily dependent on Natixis SA in respect of its ability to recover payments from the over-the-counter derivatives it has in place and accepts this concentration having regard to the overriding objective of matching.

Credit risk with Natixis SA as counterparty to the best Estimate Derivative is cash collateralised under a CSA. There is also a potential credit exposure to the ceding company. A credit default swap has been purchased from Natixis for this risk. Credit exposures are monitored on a daily basis.

The current rating of Natixis is "A".

C.4 Liquidity Risk

Liquidity Risk is linked to the credit risk mentioned above. Liquidity risk is minimized due to the fact the assets in the balance sheet are invested in cash of other short term deposits. However these deposits are held with the parent company Natixis and therefore they carry the credit risk of a Natixis default.

C.5 Operational Risk

Operational risk exists for NRD due to the complex liability valuation and matching derivative hedging due to the structure of the underlying reinsurance Treaties. The procedures and controls in place to identify, assess, manage, monitor and report on the operational risks are covered in detail in NRD's Outsourcing Policy. There are no quantitative operational risk limits in place; however the operational risks are monitored through the Outsourcing policy and the ORSA process.

Operational functions (Middle Office, Back-Office, IT system maintenance, Risk Control) have been outsourced to Natixis SA Paris and are governed by SLAs and mitigated through the daily, monthly and quarterly reviewing and reporting processes.

No specific risk limits are in place for the remaining risks that NRD are exposed to due to a combination of the materiality of these risks and the significant hedging program that NRD currently has in place.
The link between market risk and other risks in adverse scenarios is assessed on an annual basis in the ORSA.

C.6 Other Material Risks

The remaining risk is the Tracking error risk that is monitored with daily calculations of the level of drift on each of the individual funds. The assumptions underpinning the computation of capital requirements are regularly reviewed.

Tracking Error
Tracking error can be described as a mean reverting process. For NRD, the risk is split into two different components:

- The **long term** risk that a fund underperforms its proxy over time (negative and persisting drift). As of today, the realisation of this **risk is remote** given past performances (slight over-performance over time).
- A **short term** risk caused by the technical difficulty to perfectly match the prices of the funds and their proxies (noise in the series due to several factors including inter alia time zone issues and cut-off time, reallocation policies of fund managers...). This risk is **more acute in volatile market conditions and can cause jumps in P&L**. It also leads to monthly settlement risk, for the policy claims settling that particular month, although its magnitude is lower as it concerns only a subset of policies.
- Past periods of stress have led to one-off under-performance in the policy funds, when compared to their contractual benchmark. The calibrated stress-test is set at 0.35% one-off under-performance, with a progressive mean reversion on the subsequent months. The tracking error provision as of 30/09 was equal to 273,246 EUR.

C.7 Expected Profit in Future Premiums

Given the characteristics of the treaty in place with TMNL, neither party will benefit from the termination of the treaty. As a result, the expected profit in future premiums is assumed to be nil.

C.8 Stress and Scenario Testing

Background
NRD's stress-testing framework is based on parent company Natixis' stress-test system Horus, with all positions of NRD included in the process. The framework uses company-wide harmonised stress-test levels with all quantifiable risk axes covered. In order to supplement this tool and to calculate its technical provisions and capital requirements, NRD also calculates additional stress-tests.

Because of the fact that the liabilities are mostly hedged the overall impact of the market stresses is not overly significant. However, under the solvency regime any increase in liabilities feeds through to an increase in the Company's solvency margin requirement.
This section describes the main stress scenarios that NRD perform. The potential impacts of these stress scenarios on NRD's solvency are discussed in the ORSA report.

Combined stress test – counterparty default plus market shock
Given that the market risks are managed through the hedging program, the key risk that NRD is exposed to is counterparty default risk. A default of Natixis itself would not have a material impact on NRD as the present value of the hedges is cash collateralised. However if NRD is unable to put in place a substitution hedge within a reasonable period of time, the variation in the value of the treaty could generate a loss particularly where the market drops. This is considered as part of the annual ORSA process.

Interest rate stresses
NRD performs a series of stress tests on interest rate parameters. The aim of these stress tests is to capture the sensitivity of NRD's positions to extreme market situations in the interest rate markets. The tests allow NRD to monitor the efficiency of its interest rate hedging in case of violent market movements in yield curves.
The following stress tests are applied to all NRD books:

Scenario	Shift parameters
Translation scenarios:	All currency yield curves are shifted upwards, the same shift being applied to all deposit and swap tenors.
Slope scenarios:	The shape of each yield curve is changed so that the short end tenors increase sharply and the long end tenors decrease.
Convexity scenarios:	The shape of each yield curve is changed so that the short end and long end tenors decrease sharply whereas the 2Y-10Y range increases.

Index price and volatility stresses
NRD has implemented a series of extreme scenario stress-tests on NRD market risk positions. These stress-tests have been implemented to capture the impact of a sudden move in the equity markets and in volatility. They are run on a weekly basis and are monitored both at a portfolio level (for a set of market-wide scenarios of equity and volatility movements) as well as on an individual index level (where the analysis concentrates on sudden stresses on a single equity/volatility pairing). Shift parameters have been chosen so as to replicate known past market crises and other extreme situations.
The parameters currently in use are:

Tracking Error/Basis Risk
There is some basis risk (referred to as basis or tracking error risk) under the treaties because the payments by NRD are based on the actual performance of the underlying funds, when the performance of the indices is used for the hedging positions. Each fund tracks the weighted performance of the four indices. Effects of this risk (negative impact when the funds *underperform* the benchmark) are borne by the counterparty beyond a certain level.

Life underwriting stresses
The sensitivity to shifts in the mortality assumption is calculated on a weekly basis through shifts of the improvement factor ROI (Rate of Improvement). This stress-test is based on a full re-computation of the treaties with a shifted set of mortality data.
Shift levels used are -4%, -2%, -1% and +1%, +2% and +4% (annual shift in ROI).
NRD's sensitivity to mortality is not hedged with the best estimate derivative but the exposure is low given the payoff structure of the the Cedant treaties.

Mortality and longevity risks are monitored using shifts of the mortality probability assumption by using shifts in the rate of improvement.

Correlation stresses

The sensitivity to shifts in the correlation between indices is calculated on a weekly basis. First of all, only correlations are shifted, by +7% and -7%.

Additionally, the correlation is stressed in a combined stress-testing setup with index spot prices and implied volatilities, in order to capture interactions in extreme movements in these 3 risk axes. The stresses applied are as follows:

- Spot price stress: -25%, -12%, -6%, +6%, +12%, +25% (identical to spot/volatility stresses)
- Volatility stress: -23%, +30% (identical to spot/volatility stresses)
- Correlation stress: +7%, -7%

Repo rate stresses

A sudden increase (or decrease) in the price of index borrowing is simulated through a stress-test on the repo parameter. The two shifts are defined:

	<= 1Y	>1Y and <3Y	>=3Y
Increase	+10 bps	Linear interp. btwn +10 and +5 bps	+5 bps
Decrease	-10 bps	Linear interp. btwn -10 and -5 bps	-5 bps

Market-wide stress scenario

Additional market wide stress scenarios are applied, covering index spot prices, volatilities, correlations and interest rates.

Counterparty stress-test (Potential future credit exposure)

NRD is potentially exposed to the counterparty risk of 2 entities:

- Natixis SA (as hedge provider)
- the Cedant as ceding company and premium payer.

In the case of Natixis, the potential gross future risk is estimated by the gross Market Value at Risk of the treaty (99.5%, 1 year) computed on a weekly basis. The net exposure is reduced via a cash collateral mechanism. The cash received as collateral by NRD is re-invested in short term deposits with Natixis. In case the short-term rating of Natixis is downgraded under a certain threshold the cash deposit will be moved to another bank.

In the case of the Cedant, the credit exposure is computed daily and the potential credit exposure (estimation over time of the exposure to the Cedant at a 97.5% percentile on market data). A regular credit analysis of the Cedant is conducted by Natixis Risk Department (also in charge of NRD Risk Control) using its IRBA validated methodology. The last internal rating assigned (June 2015) is A.

D. Valuation for solvency purposes

VALUATION for SOLVENCY PURPOSES
D.1 Assets
D.1.1-2 Local GAAP and Solvency II Valuations
The table below sets out the value of the Company's material assets as at 31 December 2016:

	31/12/2016	31/12/2016
	Asset per GAAP	Assets per SII
	€000's	€000's
Derivatives	3,159	3,159
Cash & cash equivalent	4,485	4,485
Deposits other than cash equivalents	24,996	24,996
TOTAL ASSETS	**32,640**	**32,640**

The Company's assets are recognised and valued using the following principles:

Derivatives: Derivatives arising from hedging are classified as held for trading and carried at fair value. For Solvency II the derivative is grossed up to show the asset and liability separately. Due to over collateralisation of the hedge the net position as at 31 December 2016 is a net liability.
Cash and cash equivalents: Cash and cash equivalents are carried at cost.
Deposits: Deposits are carried at cost.

There are no operating or finance leases.

D.2 Technical Provisions

D.2.1 Local GAAP and Solvency II Valuations

The Best Estimate Liability (BEL) for NRD is calculated as the sum of the following components:
- Market price of the guarantee for the TMNR treaties
- Expense provision
- Tracking error provision

There are two key data sets that are used in the calculation of the BEL: policyholder data and market data. The Risk Margin calculation is based on the data used to calculate the projected market price of guarantees and expense provision.

NRD calculates the number (and terms) of put options required to replicate the liabilities (the embedded put options). The treaties have been structured so that the counterparty retains almost all the lapse risk. NRD sets mortality assumptions for each treaty, and is exposed to the risk of mortality experience being different to that assumed. The value of the options used to replicate the liability is then calculated using a Black-Scholes methodology, which is the market value of the guarantee. The model used to calculate the value of the options is a standard model used by Natixis at a group level. It is not owned or controlled by NRD, and can be considered an external model under Solvency II.

The risk margin is calculated using a cost of capital approach, as described in the standard formula for Solvency II. NRD's solvency capital requirement is projected in the future and the prescribed cost of capital charge (6%) is applied to the resulting SCR profile. NRD has chosen to use a simplification for valuing the future SCR values. This approach uses a proportional proxy and does not allow for tracking error. The opening *SCR (0)* is calculated for existing liabilities, then future SCRs are approximated by multiplying the opening SCR by the ratio of expected (discounted) outstanding liabilities at each future time period to the opening expected (discounted) outstanding liabilities

There are certain risks and uncertainties around the calculation of the Technical Provisions. These include Attribution of movement analysis and Settlement Risk and premium rebate calculations. These risks are mitigated through the use of detailed controls and checks.

The movement in Technical Provisions from Statutory Financial Reporting to Solvency II is shown below;

	€'000
Technical Provisions per Statutory Financials	6,738
Adjustments:	
- Market price of guarantees	254
- Expense Provision	264
- Mortality Provision	(103)
- Risk Margin	308
Technical Provisions per Solvency II	7,461

D.2.2 Uncertainty associated with the value of Technical Provisions

The value of the Technical Provisions is based on a number of assumptions that are expected to evolve in the future. As these assumptions evolve they will be reviewed by the Head of Actuarial Function on a quarterly basis and the Technical Provisions adjusted accordingly.

D.2.3 Solvency II and local GAAP valuation differences of Technical Provisions by material line of business

There is only one line of business: Life Reinsurance

D.2.4 The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

D.2.5 The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

D.2.6 The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

D.2.7 The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

D.2.8 Recoverables from reinsurance and special purpose vehicles.

There were no recoverables or special purpose vehicles as at 31 December 2016 (2015 € Nil). There is no retrocession arrangement in place.

D.2.9 Material changes in relevant assumptions made in the calculation of technical provisions

There are no material changes in the relevant assumptions made in the calculation of the technical provisions compared to the previous reporting period ("Day 1" Solvency II reporting).

D.3 Other liabilities

	31/12/2016	31/12/2016
	Other Liabilities per GAAP	Other Liabilities per SII
	€000's	€000's
Derivatives	715	715
Debts owing	2,799	2,799
Payables	1,050	1,050
TOTAL ASSETS	**4,564**	**4,564**

Derivatives: Derivatives arising from hedging are classified as held for trading and carried at fair value. For Solvency II the derivative is grossed up to show the asset and liability separately. Due to over collateralisation of the hedge the net position as at 31 December 2016 is a net liability.
Debts owing to credit institutions: This is the collateralised portion of the derivative.
Payables: Payables are composed of accrued expenses.

D.4 Alternative Methods for Valuation for other liabilities

The Company does not use any alternative methods for valuation.

D.5 Any Other Information
There are no other material matters in respect of the valuation of assets and liabilities.

CAPITAL MANAGEMENT

E.1 Own funds

E.1.1 Objective, policies and processes for managing own funds

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. As part of own funds management, the Company prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The Run-Off plan, which forms the basis of the ORSA assumes an orderly management of the policies as they mature and the possibility of a novation of the Treaties during 2017 or 2018. Given the current level of capital it is not expected that the company will require additional funding in the near future. As the policies mature it is expected that the surplus capital arising will become available for distribution.

The Company is a single shareholder entity whose ordinary shares are fully paid up. It has no debt financing nor does it have plans to raise debt or issue new shares capital over the next three years.

The medium-term capital management plan set by the Board is as follows:

- Own funds to be maintained at an agreed level in excess of the SCR, target solvency margin
- cover is currently set at 200% of the SCR;
- Dividends will not be paid or will be deferred if doing so would cause the Company to breach its legal and regulatory requirements or fall below the abovementioned target SCR cover;
- The Company's own funds are primarily invested in in cash or cash equivalents and structured products in line with the Board approved Investment Policy.

E.1.2 Own funds analysed by tiers

An analysis of own funds is shown below:

Date	Decsripton	Tier 1 €000's	Total €000's
1 January 2016	Opening Balance comprising :		
	- Ordinary Share Capital	1	1
	- Share Premium	844	844
	- Capital Contributions	10,155	10,155
	Movement in Reconciliation Reserve for the year ended 31 December 2016	9,616	9,616
31 December 2016	Closing Balance		
	Represented By:		
	- Ordinary Share Capital	1	1
	- Share Premium	844	844
	- Capital Contributions	10,155	10,155
	- Reconciliation Reserves	9,616	9,616
	Total Basic Own Funds	20,616	20,616

The Company's ordinary share capital and reconciliation reserve are all available as tier 1 unrestricted own funds as per Article 69 (a)(1) of the Delegated Regulation. The positive reconciliation reserve equals the excess of assets over liabilities less other basic own fund items, as at the reporting date. There are no foreseeable dividends or own shares held.

The Company has no tier 1 unrestricted own funds and no tier 2 or tier 3 own funds.

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers

The eligible amount of own funds to cover the Solvency Capital Requirement is €20,615,607. This is comprised of Tier 1 unrestricted Basic Own Funds of €20,615,607.

E.1.4 Eligible amount of own funds to cover the Minimum Capital Requirement, classified by tiers

The eligible amount of own funds to cover the Minimum Capital Requirement is €20,615,607. This is comprised of Tier 1 unrestricted Basic Own Funds of €20,615,607.

E.1.5 Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

	€000's
Equity per Financial Statements	21,339
Adjust for technical valuations for Solvency II	(416)
Risk Margin	(308)
Regulatory Capital	20,616

E.1.6 None of the Company's own funds are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC.

E.1.7 There are no Tier 3 funds.

E.1.8 No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Reconciliation of Basic Own Funds to Equity as per financial statements as at 31 December 2016

	€'000
Own Funds	
Tier 1	20,616
Solvency Capital Requirement	3,630
Sovency Ratio	568%
Minimum Capital Requirement	3,600
Eligible Own Funds as a % of MCR	573%

E.2.1 Amount of Solvency Capital Requirement and Minimum Capital Requirement

The table below shows the total SCR and MCR at 31 December 2016:

	€000's
SCR	3,630
MCR	3,600

E.2.2 Solvency Capital Requirement split by risk modules

The table below shows the SCR components by risk module (using the Standard Formula) at 31 December 2016.

Current Basis	Pillar I: Standard Formula
Counterparty Default Risk	€2 922 002
Life Risk	€646 331
Market Risk	€597 525
Op Risk	€265 280
Diversification	-€800 854
Total	**€3 630 284**

E.2.3 Simplified calculations are not used for any of the risk modules or sub-modules.

E.2.4 The Company does not use undertaking specific parameters in its computation.

E.2.5 The Minimum Capital Requirement is calculated using the Standard Formula specifications. The table below shows the inputs into the MCR calculation as at 31 December 2016.

Overall MCR calculation		
		C0070
Linear MCR	R0300	150 258,69
SCR	R0310	3 630 283,67
MCR cap	R0320	1 633 627,65
MCR floor	R0330	907 570,92
Combined MCR	R0340	907 570,92
Absolute floor of the MCR	R0350	3 600 000,00
Minimum Capital Requirement	R0400	3 600 000,00

APPENDIX A. ANNUAL QUANTITATIVE REPORTING TEMPLATES

The following QRTs are required for the SFCR

QRT ref.	**QRT Template Name**
S.O2.01/02	**Balance Sheet**
S.05.01.02	**Premiums, claims and expenses by line of business**
S.05.02.01	**Premiums, claims and expenses by country**
S.12.01.02	**Life & Health Technical Provisions**
S.23.01.01	**Own Funds**
S.25.01.21	**Solvency Capital Requirement**
S.28.01	**Minimum Capital Requirement**

Annex I SFCR QRTs 1216.pdf