Ex La Parisienne Assurances

Single Solvency and Financial Condition Report

Financial year 2019

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SINGLE SOLVENCY & FINANCIAL CONDITION REPORT – FINANCIAL YEAR 2019

1. Summary

La Parisienne Assurances, a leading player in white-label insurance products, posted strong growth in 2019:

- **Its revenue increased from** €311.7 million in 2018 to €381.7 million in 2019 (+22%).
- **Its underwriting margin, net of reinsurance,** increased by €22.6 million in 2018 to €32.9 million in 2019 (+46%).

La Parisienne Assurances governance changed in the 2019 financial year with the appointment of a new Compliance Officer and the creation of a Public Affairs Department.
The company's risk exposure changed only slightly when accounting for portfolio growth, and the company's risk profile is comparable to that of previous financial year with a predominance of risks related to the outsourcing of material claims management, counterparty risks due to the high reinsurance rate and the importance of the affinity activity, and non-life underwriting risks.

According to the assessments carried out as of December 31, 2019, the company therefore complies with its Overall Solvency Needs. **The Solvency Capital Requirement (SCR) coverage ratio amounted to 150% as of December 31, 2019.** The Minimum Capital Requirement (MCR) coverage ratio stood at 419%.

The widening of the solvency margin, particularly monitored through the Own Risk and Solvency Assessment (ORSA), has occurred as the company has:

- **achieved its net income targets**, thereby increasing the company's capital,
- **renewed reinsurance treaties for the 2019 financial year**, which were maintained at quota share of 80% for 2&4 wheeler insurance in France and of 100% for usage-based insurance portfolios outside France, Italy and Spain.
- **continued to grow its Fronting activities**, which support the company's international expansion and thus accumulate market knowledge while limiting underwriting risk.

In continuation of its approach for the 2019 financial year, the company will continue to strengthen its risk management framework, and its associated teams and tools in particular, **during the 2020 financial year** to further automate the production of quantitative assessments and support the strong growth of La Parisienne Assurances. In 2020, once again the first quarter is revealing the growth dynamics at play, even as macroeconomic conditions are turning up to be more difficult than expected. **In the midst of the coronavirus crisis, the company is satisfied with the relevance of the guidelines adopted for this risk control framework and, beyond the effectiveness of its Business Continuity Plan, with how its fully digitalized model is being adapted to this temporarily disrupted environment.**

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Olivier Jaillon Chairman and Chief Executive Officer

2. Activities and Results

2.1. General Information about La Parisienne Assurances

Name and legal form

La Parisienne Assurances is a *société anonyme* (French corporation) governed by the French Insurance Code, with share capital of €4,452,016, headquartered at 120-122, rue Réaumur - 75002 Paris, registered with the Paris Trade and Companies Register under number 562 117 085.

Information on the Supervisory Authority

The company supervised by the Autorité de Contrôle Prudentiel et de Résolution (ACPR), located at 4 Place de Budapest – 75436 Paris.

Name and contact details of the company's external auditor

The company's Statutory Auditor as of 1 December 2019 is Mazars, located at 61 rue Henri Regnault – 92075 Paris La Défense Cedex, represented by Pierre de Latude, Partner.

Holders of "qualifying holdings" in the company

Shareholders who have reached the shareholding or voting rights thresholds set out in Article L. 233-13 of the French Commercial Code are presented in the table below.

	Number of shares		Stake	
	2019	**2018**	**2019**	**2018**
Protegys SAS	271,766	274,868	97.7%	98.9%

On December 31, 2019, Protegys SAS (Group holding company) absorbed Protegys Assurances (Holding company for insurance businesses) which contributed to the new group the shares it held in La Parisienne Assurances. Protegys SAS now holds 271,766 shares, i.e. a stake of 97.67%.

La Parisienne Assurances in the legal structure of the Protegys Group

La Parisienne Assurances belongs to the Protegys Group. The company is owned by Protegys (holding company).

Major business lines and geographical areas

La Parisienne Assurances is authorized in the branches mentioned in paragraphs 1, 2, 3, 8, 9, 10, 13, 16, 17 and 18 of Article R. 321-1 of the French Insurance Code. La Parisienne Assurances creates and underwrites non-life insurance products, mainly for individuals, which are distributed through a network of partners. The company offers car, property damage and affinity insurance in France and in 13 European territories by virtue of the "freedom to provide services" principle.

Highlights of the reporting period

2019 for La Parisienne Assurances was marked by:

- **sustained commercial growth**, both terms of revenue and in the number of partnerships.
- **the growth and improvement of the profitability from insurance activities,** through strong measures to reshape the company's underwriting structure, supplemented by measures to control costs and direct the business towards the most profitable Product Lines.
- **the greater role given to the "bespoke" approach to meet the needs of non-traditional distribution channels** (e-commerce retailers, fintechs, other non-insurer distributors), which is done by structuring the product offering and choosing third-party managers to build modular insurance solutions adapted to each partnership. This bespoke approach structures the company's internal methodology around 4 phases (Seek, Qualify, Achieve, and Develop) in a manner that fosters collaboration and transparency with its partners.
- **the growth in human capital** with the recruitment of 38 employees over the 2019 financial year to support the compliance, audit and portfolio underwriting risk monitoring departments.
- **the control of solvency and risks in** accordance with the commitments made by the company in a stricter regulatory context that requires larger audit teams.

2.2. Underwriting Performance

Overall analysis

(in millions of euros)	12/31/19	12/31/18	Change (€m)	Change (%)
Premiums written	**381.7**	**311.7**	**+70.1**	**+22%**
Change in UEP	(29.1)	(17.8)	-11.4	+64%
Earned premiums	**352.6**	**293.9**	**+58.7**	**+20%**
Gross losses	(196.0)	(170.2)	-25.8	+15%
Fees	(139.6)	(112.5)	-27.1	+24%
Reinsurance balance	15.3	11.4	+3.9	+34%
IPaaS income	0.2	-	+0.2	-
IPaaS grant	0.5	0.5	-0.0	-8%
Net underwriting income	**32.9**	**22.6**	**+10.3**	**+46%**
S/P net of reinsurance	*51.3%*	*54.0%*	*-2.8 pt(s)*	
Fees and commissions ratio	*46.1%*	*44.3%*	*+1.8pt(s)*	
Combined ratio, net of reins.	*97.4%*	*98.3%*	*-1.0pt(s)*	

It is noted that key indicators show a positive trend overall on both revenue and net underwriting margin, which benefit from increased activity and improvements in the underwriting structure.

- **Revenue increased by 22% to €381.7 million**, due to organic growth and the development of new businesses in the gig economy segment (+€44.4 million), mainly concentrated on two new brokers, the growth of the Fronting segment (+€30.5 million), linked in particular to the launch of an important partnership in Italy, and that of the Affinity segment (+€12.0 million), with the launch of two partnerships in Poland and Spain. Conversely, the Car & Fleets and Motorcycle segments were down -€12.6 million and -€13.3 million, respectively.
- **The loss ratio of net of reinsurance was down -2.8 pts,** driven by a significant improvement in the attritional loss experience and a relatively limited occurrence of serious losses (excluding the fronting segment)
- **The net underwriting income** of La Parisienne Assurances thus increased by 46% to €32.9 million, for a €10.3 million gain in the net underwriting margin between 2018 and 2019.

Revenue by segment

(in millions of euros)	12/31/19	12/31/18	Change (€m)	Change (%)
Car & Motorcycle	82.6	108.5	-25.9	-24%
Property damage	18.3	13.0	+5.3	+40%
Fronting	145.2	114.8	+30.4	+26%
Gig Economy	44.5	0.1	+44.4	-
Affinity and Others	91.2	75.3	+15.8	+21%
TOTAL	**381.7**	**311.7**	**+70.0**	**+22%**
France	170.6	186.7	-16.1	-9%
Other European Union	211.1	125.0	+86.1	+69%
TOTAL	**381.7**	**311.7**	**+70.0**	**+22%**

Net underwriting income by segment

(in millions of euros)	12/31/19	12/31/18	Change (€m)	Change (%)
Car & Motorcycle	10.4	7.8	+2.6	+33%
Property damage	3.8	2.7	+1.1	+42%
Fronting	6.0	4.6	+1.5	+32%
Gig Economy	2.9	0.0	+2.9	-
Affinity and Others	9.7	7.5	+2.2	+30%
TOTAL	**32.9**	**22.6**	**+10.3**	**+45%**
France	23.4	18.6	+4.8	+26%
Other European Union	9.5	4.0	+5.5	+139%
TOTAL	**32.9**	**22.6**	**+10.3**	**+46%**

Net loss ratio by segment

(in millions of euros)	12/31/19	12/31/18	Change (€m)	Change (pts)
Car & Motorcycle	67.3%	71.2%		-3.9pt(s)
Property damage	56.4%	52.3%		+4.2pt(s)
Fronting	57.6%	53.2%		+4.4pt(s)
Gig Economy	69.6%	26.1%		+43.4pt(s)
Affinity and Others	19.4%	31.8%		-12.5pt(s)
TOTAL	**51.3%**	**54.0%**		-2.8 pt(s)
France	51.5%	55.9%		-4.4pt(s)
Other European Union	50.8%	51.4%		-0.7pt(s)
TOTAL	**51.3%**	**54.0%**		-2.8 pt(s)

2.3. Financial performance

(in millions of euros)	12/31/19	12/31/18	Change (€m)	Change (%)
Equities	0.0	0.1	(0.1)	-77%
Bonds	1.5	1.5	0.0	0%
UCITS	-	-	-	0%
Real estate	0.5	0.4	0.1	18%
Private Equity	0.2	-	0.2	0%
Loans	1.0	0.2	0.8	331%
Interest on term deposits/current accounts	0.0	0.0	(0.0)	-57%
Investment income	**3.2**	**2.3**	**0.9**	**41%**
Equities	(0.1)	0.1	(0.2)	-213%
Bonds	(0.0)	0.0	(0.1)	-244%
UCITS	0.1	(0.0)	0.1	-1939%
Real estate	-	-	-	0%
Private Equity	-	0.6	(0.6)	-100%
Loans	-	-	-	0%
Realized capital gains/losses	**(0.1)**	**0.7**	**(0.8)**	**-108%**
Provision for long-term impairment	(0.2)	(0.1)	(0.1)	51%
Subordinated debt interest	(1.2)	(1.0)	(0.2)	20%
Foreign exchange gain/loss	0.1	(0.1)	0.3	-215%
Net financial income	**1.9**	**1.7**	**0.2**	**10%**
Average assets over the period	**116.5**	**115.5**	**1.0**	**1%**
Accounting rate of return	**2.73%**	**2.59%**	**+14 bp(s)**	
o/w Income	*2.78%*	*1.98%*	*+80 bp(s)*	
o/w Realized capital gains/losses	*-0.05%*	*0.61%*	*-65 bp(s)*	

Overall Analysis

2019 saw an increase in net financial income before interest on subordinated debt and foreign exchange gains mainly explained by the good performance of private debt funds and real estate funds, which more than offset the drop in yields on equities and bonds.

Change from the Previous Reporting Period

The net financial income after interest on subordinated debt increased by +€0.2 million from:

- **the good performance of private debt securities and real estate funds**, up +€0.9 million compared to the previous financial year, which offset lower income from bonds and equities.
- **a foreign exchange gain up** +€0.3 million in connection with transactions carried out in pounds sterling and zloty.
- **the impact of the subordinated debt's financial cost**, which increased by €0.2 million due to the additional issue of €4 million in October 2018 (impact of full-year interest).
- **the creation of a €0.2 million provision for long-term impairment (LTIP)** on equities, which are penalized by unfavorable market conditions for portfolio securities.

2.4. Performance of Other Activities

Since January 1, 2019, La Parisienne Assurances has been marketing, in addition to its non-life insurance business, Insurance Products as a Service (IPaaS) whereby it assist its partners in the digitalization of their activities. As of December 31, 2019, this activity accounted for €181k in revenue.

2.5. Other information

None.

3. Governance Framework

3.1. General Information

General Organizational Chart, Delegations and Key Functions

- The **Board of Directors** approves on a quarterly basis the strategic objectives and governance framework, the resources necessary for risk management, the risk profile in case of significant change, communications with prudential authorities, and the portfolio of key projects. It assumes responsibility for complying with prudential requirements. It tasks the following two committees with the responsibility of preparing its work:
- **The Audit and Risk Committee,** which meets at least four times a year, is chaired by an independent director. It is responsible for planning and sponsoring internal audits and following up on their recommendations, studying the reports, studies and proposals of key functions before they are approved by the Board of Directors. It also monitors the application of strategic objectives and the governance framework over time, the risk management system and reviews prudential communications before it is approved by the Board of Directors.
- **The ALM and Investments Committee** is convened at least twice a year. It studies and submits to the approval of the Board of Directors the ALM and asset management policy. It also responsible for monitoring how the said policy is applied within the company.

- The system put in place by the Board of Directors is supplemented by an **internal committee structure** whereby the company is managed from an operational perspective.
- **The Group Steering Committee** meets on a monthly basis with the Chairman, the representatives of the majority shareholder and the members of the company's Management. Its objectives are to monitor strategic guidelines and their operational implementation, the resources necessary for risk management and the risk profile, the performance, and the development of the company. It monitors operational, strategic or structuring partnership projects before they are approved by the Board of Directors. Lastly, it examines reports to and communications with prudential authorities.
- **The Bespoke Forum** (Management Committee) brings together each week the Chairman and Chief Executive Officer and the Management members, representing the 11 expertise divisions that participate as necessary in La Parisienne Assurances' 4 key production stages: Seek, Qualify, Achieve, and Develop. It proposes, deploys and implements the strategy approved by the Board of Directors. It manages the operational activity, monitors the progress of the projects and ensures the necessary arbitrages, and analyses the financial results of the company. It now covers all technical, financial, project and product issues.

General Organizational Chart of La Parisienne Assurances

La Parisienne Assurances has **two executive officers**:

- Olivier Jaillon, Executive Chairman of La Parisienne Assurances,
- Nicolas Rincé, Deputy Chief Executive Officer of La Parisienne Assurances.

All key functions have been in place since 2016 in accordance with Article 268 of the Delegated Acts. They report to the Board of Directors, which bears ultimate responsibility for their operation.

- **The risk management function** is responsible for overseeing the adequacy and effectiveness of the risk management system. It assists the Board of Directors and the Company's Executive Management in defining risk management strategies and tools to ensure their assessment and monitoring, in particular by providing, through an adequate reporting system, the elements necessary to assess the performance of the risk management system as a whole.
- **The actuarial function** contributes to the effective implementation of the risk management system, in particular with regard to the risk modeling that underlies the SCR calculation and the assessment of underwriting commitments on a "best estimate" basis. By calculating and approving technical provisions (actuarial reserves), it allows for the implementation of processes and procedures to avoid conflicts of interest and ensure appropriate independence.
- **The compliance function** is responsible for determining whether the organization and internal procedures are appropriate to prevent the risk of legal or administrative sanctions, loss of assets or reputational damage arising from a breach of laws, rules or provisions established by supervisory authorities. It focuses, in particular, on Group ethics and rules, on the provisions relating to its core business such as customer protection, data protection, conflicts of interest, AML/CFT and transactions between related parties.
- **The internal audit function** is responsible for the independent assessment of the effectiveness of the internal control and risk management framework and the proper functioning of controls to ensure the fluidity and reliability of key processes. It communicates any finding and recommendation in the event of the failure of the

internal control and risk management framework to the Board of Directors, which determines which actions are necessary and ensures that they are carried out. Its independence is guaranteed by a direct link to the Board of Directors. Internal audits are carried out, in accordance with the audit plan, based on field reviews conducted on operational departments, or based on the analysis of internal or external reports concerning the risks and controls carried out within the company. However, the General Management may request that additional audits be carried out in addition to the audit plan in certain specific areas of the company.

Policies of La Parisienne Assurances

La Parisienne Assurances updated its policies in 2019 in order to take into account the significant change in its governance and the number of its Management members.

La Parisienne Assurances' policy framework as of December 31, 2019

	Risk management policy					
Risk control and management framework policies	Internal audit	Internal control	Compliance	Outsourcing	Skills and Good Repute	
Policies related to risk types	Underwriting	Provisioning	Investments and Liquidity	Operational Risk and Business Continuity Plan	Reinsurance	Data Protection
Process-related policies	ALM	Capital Management	ORSA	Data quality	Reporting	Products

Executive pay (management/supervisory bodies)

Directors on the Board of Directors of La Parisienne Assurances and Protegys are paid attendance fees. The members of the management and supervisory bodies as well as the holders of the key functions do not, however, have any supplementary and early pension plans beyond the legal and contractual provisions. In particular, La Parisienne Assurances complies with the obligation to ensure members of the management or supervisory bodies or salaried key personnel join a B2V group, and thus benefit from the supplementary B2V pension plan.

Employee compensation

- **Compensation policy:** The compensation policy and practices are established, implemented and maintained in a manner consistent with the business and risk management strategy, risk profile, objectives, risk management practices and the long-term interests and results of the company as a whole. In particular, La

Parisienne Assurances granted raises on an individual basis and implemented during the 2019 financial year a three-year employee incentive plan to achieve the company's strategic objectives. The compensation policy applies to La Parisienne Assurances as a whole. It includes specific provisions taking into account the respective tasks and performance of the administrative, management or supervisory body, the persons who effectively direct the company or hold other key functions, and other categories of staff whose professional activity has a significant impact on the company's risk profile. The company's administrative, management or supervisory body, which sets out the general principles of the compensation policy for the categories of staff whose professional activity has a significant impact on the company's risk profile, is responsible for overseeing the implementation of this policy. The compensation is therefore subject to clear, transparent and effective governance, particularly with regard to the supervision of the compensation policy, which is brought to the attention of each member of the company's staff.

- **Relative importance of the variable portion:** 100% of employees are paid a mix of fixed and variable compensation. The variable component represents between 10% and 40% of their total compensation. The components of the compensation are thus balanced so that the fixed component represents a sufficiently high share of the total compensation.
- **Criteria for awarding variable compensation:** Variable compensation is granted in relation to the employee's performance, and total amount depends on the achievement of the objectives that are previously set with their direct manager and reviewed each year.

Significant transactions with shareholders and directors

No significant transactions were concluded during the 2019 financial year between La Parisienne Assurances and its shareholders and directors.

3.2. Skills and Good Repute

Requirements for executive officers and key functions

When appointing an executive officer or the head of a key function, the HRD, if necessary in connection with the Compliance Officer, ensures that the person is competent for the position in question. In the case of the Compliance Officer only, the Internal Audit Officer will make sure of his or her individual competence.

- **The skills required of executive officers** are managerial in nature, including a general knowledge of the insurance market and its environment, the business strategies and business model, governance systems, financial analysis, actuarial analysis, and of the regulatory framework and provisions.
- **The skills required for key functions** are in accordance with provided by area of expertise in Articles 269 to 279 of the Delegated Acts:
- **The actuarial function** must have solid actuarial and financial mathematical knowledge in order to coordinate and assess the calculation of provisions. The

function must also be competent to issue opinions on the company's underwriting and reinsurance policies, to contribute to the implementation of the management system and to ensure data quality.

- **The risk management function** must be competent to manage risks related to underwriting, provisioning, asset-liability management, investments, liquidity and concentration risk management, operational and strategic risk management and risk mitigation techniques. The function must also be competent to manage the company's own risk and solvency assessment (ORSA).
- **The compliance function** must be competent to put in place internal control procedures, particularly for the identification and assessment of the legal risks inherent in the company in order to comply with the regulations in force.
- **The internal audit function** must be competent to establish, implement and maintain an audit plan, detailing the audit work to be conducted to improve the life of the company. The function must also be competent to understand, test and issue an opinion on the various works carried out by the company.

Process for assessing skills and good repute

- **Skills assessment process:** The Compliance Officer evaluates the skills of an executive officer or a key function, starting from minimum of 10 years' experience in the field and postgraduate education equivalent to a master's degree ("BAC+5" in France). The person's résumé is analyzed for each new hire, appointment or replacement. The company's executive officers also ensure that all information and data inherent in the areas of responsibility of key functions is communicated to them.
- **Process for assessing good repute:** A person's good repute depends on their honesty and experience as a director, executive officer, head of a key function or head of a critical function. That assessment shall be based on concrete information relating to their character, personal behavior and professional conduct, including any information of a criminal, financial or prudential nature relevant to that assessment. Past experience also indicates whether the person has not previously served as an executive officer or head of a key function in a company at the time said company filed for bankruptcy. When a person holds or wishes to hold an executive position or lead on of the key functions, the company ensures that the person's good repute and integrity are assessed on the basis of documents attesting the individual's good repute and of the responses given in the questionnaire in the appointment or reappointment form for an executive officer or the head of a key function made available by the ACPR. The documents requested for each individual are provided to the Compliance Officer, who updates them every 3 years. The Compliance Officer reports the result of their analysis concerning the good repute of the persons in question to the Board of Directors. In the event that one of the rules of good repute has not been complied with, the Board of Directors is asked to decide on whether to dismiss the person in question.

3.3. Risk management system

Risk management policies

The Risk Management Policy is established in accordance with all the regulatory provisions applicable to the insurance sector, particularly those of Order No. 2015-378 of 2 April 2015 transposing Solvency Directive 2 2009/138/EC of the European Parliament and of the Council, of 25 November 2009 and Article 258 *et seq.* of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 on the Risk Management System, which require the establishment of a governance and a clearly defined risk management strategy, in line with the company's overall strategy, and of policies to determine significant risks and the approved risk-tolerance limits.

The Risk Management Policy in place within La Parisienne Assurances aims to set out the strategies, principles and processes for identifying, measuring, managing and monitoring the risks to which La Parisienne Assurances' activities are exposed, including activities entrusted to its partners and delegates.

The Risk Management Policy defines in particular:

- The governance framework in place, including the roles and responsibilities of the various stakeholders in the risk control framework,
- The categories of risks to which La Parisienne Assurances is exposed and the processes in place to identify and analyze them as well as the methods for measuring and assessing the risks in question,
- The framework for defining the insurance risk strategy,
- The processes and procedures to ensure effective risk management and the implementation of appropriate risk mitigation measures,
- The internal and external reporting obligations,
- The risk culture in the company and how it is integrated into key decisions.

This policy aims to ensure that the risk management frameworks enable La Parisienne Assurances to meet the sector requirements applicable to it.

The definition and implementation of the risk management, control and monitoring framework for insurance activities carried out by La Parisienne Assurances are entrusted to the Risk Management key function, which:

- Implements the company's risk management frameworks,
- Ensures, within the company, compliance with these frameworks and the applicable regulations,
- And reports on this work to the governing bodies below.

Governing bodies

The Audit and Risk Committee is chaired by the Independent Director Jean-Marie Nessi. Its work is carried out with the participation of two Directors appointed by the Board of Directors, the Chief Executive Officer, the Key Functions, the Statutory Auditors and some of the members of the Management Committee. This committee meets at least 4 times a year and has the following tasks:

- Examining the reports, follow-ups and proposals of key functions before they are approved by the Board of Directors,
- Monitoring the implementation over time of strategic objectives and the governance framework,
- Monitoring the risk management system,
- Reviewing communications with the prudential authorities before they are approved by the Board of Directors.

The Operational Risk Management, Internal Control and Compliance Committee is chaired by the Compliance key function. Its work is carried out with the participation of the Risk Management Key Function and the participation, as needed, of all key functions and managers of La Parisienne Assurances' departments (Legal, IT, Human Resources, Accounting, Management Control, Partnerships, Claims, Products, Technical and Data Management). This Committee meets at least 6 times a year and has the following tasks:

- Validating the annual work program for internal control by ensuring that the areas and activities generating the main risks are covered frequently enough,
- Examining the results of the checks carried out,
- Monitoring the significant risks incurred by La Parisienne Assurances,
- Ensuring the existence and relevance of mechanisms implemented for the prevention, detection and handling of the risks.

Integration into organizational structure and into decision-making procedures

The risk management system is incorporated into the decision-making processes and into the company's culture at several levels:

- **The company's senior managers** ensure the dissemination of an adequate risk culture to the different types of activities and ensure that employees take the proper level of ownership.
- **The risk appetite framework** is integrated into the budget and planning process as well as the strategic asset allocation process.
- **The capital allocations resulting from the planning work** are adapted by operational limits and incorporated into the day-to-day management of the activities.
- **Appropriate risk measurement indicators** are incorporated into the company's performance management framework.
- **Metrics using risk measures are** used in decision-making. These metrics are defined by the risk management function and approved by the Board of Directors. They are incorporated into the company's objectives.
- **Risk preferences** guide the development of partnerships and products in line with risk appetite and tolerances.

Changes to the governance system over the period

The Audit and Risk Committee saw its meeting frequency increase from 3 to 4 meetings per year. Apart from this change, no major changes were made to the risk governance bodies over the period.

3.4. Internal risk assessment

Description, documentation and analysis of internal risk assessments

As part of its risk management system, La Parisienne Assurances conducts an Own Risk and Solvency Assessment (ORSA).
This assessment relates in particular to the following aspects:

- The overall solvency need, taking into account the specific risk profile, approved risk tolerance limits and the company's business strategy;
- Ongoing compliance with capital requirements;
- The extent to which the company's risk profile differs from the assumptions underlying the Solvency Capital Requirement calculated using the standard formula.

Frequency of review by management, risk or supervisory bodies

The internal risk assessment is approved at least once a year by the Board of Directors after review by the Audit and Risk Committee.

Report on the assessment of the Overall Solvency Need

The company assesses its Overall Solvency Requirement on the basis of the risks identified and the methodology for estimating the Standard Formula presented in the Solvency II Directive. However, the company has identified two risks not identified in the Standard Formula that complement its own risk profile: The Risk of Dependence on a distributor partner where a single distributor partner accounts for an excessive share of La Parisienne Assurances' business and the Risk of heterogeneity of accounts, relating to the issuance of reliable financial statements including the risk of heterogeneity of the information received (extracts and brokers) and the risk of error related to the restatements made by the data integration unit. These two additional risks are considered to be under control.

3.5. Internal control framework

Description of the internal control framework

La Parisienne Assurances' internal control system includes all means, behaviors, procedures and actions:

- that contribute to the control of its activities, including outsourced activities, the effectiveness of its operations and the efficient use of resources,
- and that make it possible to adequately take into account significant risks, whether operational, financial or related to compliance.

In particular, it aims to ensure compliance with laws and regulations, the application of the instructions and guidelines of the executive officers and the Board of Directors, the proper functioning of the company's internal processes, particularly those contributing to the safeguarding of its assets, and the reliability of financial information.

La Parisienne Assurances' internal control framework consists of an ongoing assessment of the controls integrated into the company's internal processes:

- The **first-level controls** are incorporated by the operational managers into the business processes in order to measure, monitor and control the risks within their scope of activity.
- The **second-level controls** aim to ensure the proper execution, the relevance and the reliability of the 1st level controls by means of the chain of command and by the independent actors of the operational activity:
- The control plan is developed from the risk analysis and after taking into account the existing first-level controls within the activities. The second-level controls provide an additional safeguard to ensure the processes are in fact under control, and identify where appropriate the areas for continuous improvement.
- A detailed description is given for each control, which includes the function in charge of carrying out the controls, how frequently control checks are performed, the applicable control methodology, the documentation to be collected and the how the result is formalized.
- The procedures for developing and deploying the control plan are specified in the procedure for implementing the internal control framework.
- In addition, on a regular basis with a frequency depending on the severity of the risk, the Internal Control Officer organizes audit campaigns: spot controls targeting a risk or an activity. Following these assessments, the Internal Control Officer makes recommendations to remedy the points that did not pass the controls.

Description of the compliance framework

An integral part of the Permanent Control system, the Compliance framework put in place by La Parisienne Assurances includes all means, behaviors, procedures and actions that:

- make it possible to know the laws and regulations applicable to the company,
- contribute to the regular monitoring of changes to these laws and regulations,
- are intended to transpose the applicable regulations into the company's internal procedures, and
- ensure the proper information and training of the relevant employees.

The Compliance framework defines the processes for monitoring, raising awareness and sharing regulatory changes with all employees and develops and updates the mapping of laws and regulations governing the company's activity.

3.6. Internal audit framework

Description of the internal audit framework

The internal audit framework put in place by La Parisienne Assurances constitutes the company's third level of control, applied after the first- and second-level controls described in section 3.5. As an independent and objective activity, the internal audit further ensures that the company has its operations under control, provides advice as to how to improve such operations, and contributes to the creation added value. It is primarily intended to:

- identify and control risks through an approach structured around and focused on the company's challenges,
- assess whether the functional and operational processes, as well as actual operations, are under control with regard to the organization's strategic, operational and financial concerns,
- assess the relevance and effectiveness of these processes in relation to their compliance with the rules, standards, procedures, laws and regulations in force,
- verify the integrity, reliability, completeness and traceability of the information produced, whether of accounting, financial or managerial nature,
- propose areas where the organization may improve or progress.

The Internal Audit framework is structured around the following four main stages:

- **Developing the audit plan:** Internal Audit prepares the audit plan and submits it to the Board of Directors for approval. It is defined according to a risk-based methodology. It extends to all activities within the scope of internal control, risk management and governance processes and details the audit work to be carried out for the next three years taking into account all the company's activities. It is reviewed annually. In accordance with the supervisory reporting policy, this audit plan is made available to the Autorité de Contrôle Prudentiel et de Résolution.
- **Conducting the audits:** The objectives of the audits provided for in the multi-year plan are subject to controls by internal auditors, in the form of various tests: observation, analysis of contracts and databases, physical inventories, interviews with staff, development of questionnaires, etc. During the audit and analysis phase, Internal Audit identifies the strengths and weaknesses of the audited area and carries out a comparative analysis of the causes and consequences of the identified risks. Throughout the audit assignment, Internal Audit regularly informs the audited of its findings and its diagnosis.
- **Submission of conclusions:** Each audit is described in a draft report, presented at the closing meeting to allow the auditor to receive feedback from the managers of the audited departments. Following the closing meeting, the auditors prepare the final report, in which they mention the risks identified that could jeopardize the achievement of La Parisienne Assurances' objectives, with their causes and consequences. For each finding, a recommendation submits corrective and/or preventive measures, previously developed in collaboration with the audited. The final report is sent to the Internal Audit key function and all members of the Audit Committee.
- **Following up on recommendations:** The remediation plan with the timetable for the implementation of all corrective and/or preventive measures is reviewed at the Internal Control, Risk and Compliance Committee until the Internal Audit closes off all recommendations in light of the evidence provided by the audited.

Independence of the Internal Audit key function

In order to ensure its independence, the Internal Audit key function is not in charge of any other key functions in the company. Internal Audit duties are entrusted to an independent director, whose competence and good repute have been verified in accordance with the company's internal policy, as described in paragraph 3.2.

Independence is reinforced:

- by outsourcing the operational performance of the audits to PriceWaterhouseCoopers, which the Internal Audit key function may bring in at any time,
- by the statutorily-mandated capacity of the internal audit to have access at all times, to all locations, all documents and all the information systems that it needs to perform its mission, by calling for the full collaboration of the company's staff.

Summary table of the internal control and internal audit framework

	1st level Operational controls	**2nd level** Permanent control, risk management and compliance	**3rd level** Periodic Control and Internal Audit
Responsible person	Operational	Intermediate Management and Compliance Key Function	Internal Audit Key Function
Frequency	High frequency	Recurring	Periodic
Scope	Limited to the scope of responsibility of the operational heads	All operational processes	
Type of control	Self-control (checking-off, reconciling, listing anomalies, etc.)	Oversight, verifying whether the controls are appropriate for the objectives of the process	On-site inspection of documents
Type of reports	Feeds permanent control	Risk indicators, maps and alerts	Audit reports

3.7. Actuarial function activities

Tasks of the Actuarial function

Since January 1, 2016 and in accordance with Article R354-6 of the French Insurance Code, the purpose of the Actuarial function is to:

- coordinate the calculation of prudential technical provisions,
- ensure the appropriateness of the methodologies, underlying models and assumptions used to calculate prudential technical provisions,
- assess the sufficiency and quality of the data used in the calculation of these provisions,
- oversee the calculation of prudential technical provisions in cases where the insurance company does not have sufficient data of adequate quality to apply a reliable actuarial method to a set or subset of its commitments, and
- compare the best estimates with empirical observations.

The Actuarial function is also responsible for informing the Board of Directors of La Parisienne Assurances of the reliability and adequacy of the calculation of prudential technical provisions. Furthermore, it must give an opinion on the overall underwriting policy and on the adequacy of the reinsurance arrangements. Finally, the Actuarial function contributes to the effective implementation of La Parisienne Assurances' risk management system, particularly concerning the risk modeling that underlies the calculation of capital requirements and the own risk and solvency assessment.
In accordance with the provisions of Article 272 of European Regulation 2015/35, the Actuarial function shall prepare at least once a year a written report that it submits to the

Board of Directors of La Parisienne Assurances. This is a report on all the work carried out by the Actuarial function and its results, clearly indicates any significant deficiencies observes, and makes the necessary recommendations for remediation.

Organization of the Actuarial function in 2019

The Actuarial function reports directly to the Deputy Chief Executive Officer in charge of Finance, Underwriting and Risk. These duties are performed by the Chief Underwriting Officer.

In order to prevent any risk of conflicts of interest between those responsible for actuarial work and those responsible for auditing such work, La Parisienne Assurances has put in place the following organization:

- The Compliance key function reports to the Chief Executive Officer.
- The Actuarial key function reports to the Deputy Chief Executive Officer in charge of Finance, Underwriting and Risk.
- **The Chief Underwriting Officer** supervises but does not carry out directly
  - The work relating to the Inventory, carried out by two dedicated employees, in charge of calculating the technical provisions in accordance with corporate standards, Best Estimates for Losses and Premiums assessed in the financial balance sheet and liquidation of favorable/unfavorable variances.
- The technical monitoring and profitability studies of the portfolios, entrusted to research managers specializing in 2- and 4-wheeler risks excluding fleets, on the one hand, and other risks relating to fleets, affinities and property damage, on the other.

3.8. Outsourced activities

Definition of outsourcing

Outsourcing refers to an agreement, regardless of its form, entered into between a company and a service provider, whether or not subject to supervision, under which that service provider performs, either directly or by means outsourcing itself, a procedure, a service or an activity, which would otherwise be executed by the company itself (Art. L.310-3 of the French Insurance Code).

List of important or critical operational functions

As defined in Article R.354-7 of the French Insurance Code, an activity is considered important or critical when it has of least two of the following characteristics:

- It is a core insurance business (management of policies, claims, etc.) or a key function;
- When outsourcing involves a function/activity related to the management of the insured, the replacement of the service provider in the event of a failure or the direct takeover of the function would likely lead to exceeding the regulatory deadlines for responding to the insured or regulatory reports;

- When outsourcing involves an activity that is not directly related to the management of the insured, the replacement of the service provider in the event of default or the direct takeover of the function would probably exceed 1 month;
- The cost of the service exceeds a threshold set at €800K per year;
- The quality of service provided to the insured may suffer in the event of a failure of the service provider;
- A reputational risk or an estimated financial risk exceeding a threshold defined by the Risk team in the event of default by the service provider.
- In the case of outsourcing carried out as part of the call for insurance intermediation (delegation of management of contracts, collections, claims), in order to consider that the activity is critical, a materiality threshold is defined on the basis of revenue.

Outsourcing decision process

For any outsourcing relating to the insurance business, whether critical or not, La Parisienne Assurances carries out an evaluation of the service providers contacted by sending them a Due Diligence questionnaire as soon as a possible business relationship begins to become plausible. A procedure detailing the screening process is written by the Performance Department. This procedure specifies that discriminating criteria are established for all service providers including:

- Verification of their accreditations (if necessary);
- Verification of the good repute and competence of their executives;
- The existence of an BCP.

For critical or important activities, additional discriminating criteria are established from this questionnaire ensuring at least that the service provider has:

- A mature operational risk management and internal control system;
- sufficient financial resources to take on the outsourced activity;
- reliable and qualified personnel to perform these outsourced tasks;
- an adequate AML/CFT risk control system;
- an adequate contingency plan to ensure the continuity of outsourced activities.

Any exemption from these rules is the subject of an reasoned presentation, demonstrating the control of the risk incurred, which is submitted to the management team at least 15 days before a decision-making Management Committee meeting. The exemptions are also recorded in a file drawn up by the Performance and Compliance Departments.

For outsourcing functions not related to the insurance business, a Procurement procedure details the selection process.

3.9. Adequacy of the company's governance system

The company continues to deploy and enrich the governance system, particularly in terms of internal control and the preparation of risk budgets, with the aim of spreading a risk culture to all employees.

This adequacy is further strengthened by additional frameworks that reduce the main risks to which La Parisienne Assurances is exposed. Given its business model focused on the delegation of material claims management, its reinsurance treaties with a high protection of capital and its strong growth, the company is particularly exposed to operational outsourcing risk, counterparty risk and underwriting risk. In order to take into account these specificities, the complete governance framework set out in the preceding paragraphs is thus supplemented:

- **With regard to the outsourcing risk,** since the beginning of 2017, the company has entrusted an external consulting firm and an insurance expert with the responsibility for the audit of its delegates. This independent audit framework is applied annually to all of its delegatees without exception.
- **With regard to counterparty and reinsurance risk,** the company has appointed an independent director who is an expert in reinsurance and also a director of AIG Europe and Validus Holding. Furthermore, even if this provision is no longer mandatory since 2008, the company systematically requests collateral from its reinsurers, mainly pledges, in order to guarantee their commitment to settlements of claims for their quota share.
- **With regard to underwriting risk,** it is at the heart of the company's governance through the 4 phases of the Bespoke process (Seek, Qualify, Achieve, Develop) for which the Chief Partnerships Officer, the Chief Products and Pricing Officer, the Chief Operating, IT and Transformation Officer, and the Chief Financial, Underwriting and Risk Officer carry the responsibility for this risk. In this context, a pre-audit of the partners is carried out in the "Seek" phase. Particular attention is paid to underwriting rules, pricing and loss ratios expected in the "Qualify" phase. The aim of the "Achieve" phase is to ensure the quality of computerized exchanges as well as the mitigation of risks by reinsurance. Finally, during the "Develop" phase, actuarial analyses are carried out on each partnership in order to implement the necessary portfolio adjustments. This system is complemented by the Steering Committee, which meets monthly, chaired by the Chief Executive Officer and at which each new partnership is studied using performance and technical profitability indicators.

3.10. Other governance arrangements

The governance framework presented in points 3.1 to 3.9 is supplemented by an internal committee to prepare the work presented to the Board's Committees, monitor the risk management improvement action plans, manage the various components of the risk budget and disseminate the risk culture within the company. The main Internal Committees are:

- **The Investment Committee:** this is a monthly committee chaired by the Chief Executive Officer. It includes a representative of the majority shareholder as a member, and the participation of the representatives of the asset manager, to whom the company has delegated the management of its investments, and the Deputy

Chief Finance and Performance Officer. Its objective is to manage the company's investments within the set risk limits.

- **Phase 1 Seek & Communication–Marketing Committee:** This committee is chaired by the Chief Executive Officer and is led by the Chief Partnerships Officer as well as the Chief Marketing & Communications Officer and brings together the Expanded Management. Its purpose is to present, on the one hand, activities related to the prospecting of new partnerships and, on the other hand, news in terms of marketing and communications campaigns.
- **Phase 2 Qualify & People Committee:** This committee is chaired by the Chairman and Chief Executive Officer and is led by the Chief Products and Pricing Officer as well as by the Chief Human Resources Officer and brings together the Expanded Management. It is intended to present on the one hand the activities related to the analysis and qualification of new partnerships, the design of new products and the news in terms of human resources management.
- **Phase 3 Achieve & Legal Committee:** This committee is chaired by the Chairman and Chief Executive Officer and is led by the Chief Operating, IT and Transformation Officer as well as by the Chief Legal Officer, and brings together the Expanded Management. It is intended to replace the project committee. The objective is to manage the progress of La Parisienne Assurances' program and project portfolio, allocate the necessary resources and ensure the correct deployment of each of them. The legal issues representing a risk for the company are also presented at this committee.
- **Phase 4 Develop & Performance Committee:** This committee is chaired by the Chairman and Chief Executive Officer and is chaired by the Chief Financial, Underwriting and Risk Officer as well as by the Chief Performance Officer and brings together the Expanded Management. It is intended to replace the Underwriting and Financial Committee. The objective is to share actuarial reviews and underwriting reports and to study the recommendations of the Underwriting Department in order to manage the profitability of the portfolios and maintain the underwriting risk within the defined risk limits. Issues related to the performance of the teams in the implementation of the strategic plan are also presented at this committee.

In 2020, La Parisienne changed this governance by grouping the 4 monthly phase committees into a single weekly committee, the frequency of which is more adapted to the constraints and the pace of the strong commercial growth that the company is seeing.

4. Risk profile

4.1. Information by risk

Underwriting risk

Underwriting risk corresponds to the risk that the insurer takes by distributing insurance policies to natural persons or legal entities due to market segments or risk categories not consistent with the company's risk profile and business strategies, complex risk categories that are difficult to assess, inadequate technical skills within internal staff and sales networks or non-compliance with limits. With regard to La Parisienne Assurances, it includes the following categories:

- **The risk of a fall** resulting from the loss, or adverse change in the value of insurance commitments, resulting from fluctuations affecting the level or volatility of rates of termination, maturity or renewal of policies,
- **The risk of costs** corresponding to the risk of loss, or of an adverse change in the value of insurance commitments, resulting from fluctuations affecting the level, change in trend or volatility of expenses incurred for the management of insurance or reinsurance contracts,
- **The risk of revision** resulting from the loss, or adverse change in the value of insurance commitments, resulting from fluctuations affecting the level, change in trend or volatility of revision rates applicable to annuities, under the effect of a change in the legal environment or the health status of the insured person,
- **The risk of premiums and reserves** depending on the risk of loss, or of an adverse change in the value of insurance commitments, resulting from fluctuations affecting the date of occurrence, frequency and severity of the insured events, as well as the date and amount of claims settlements,
- **The risk of a disaster** corresponding to the risk of loss, or of an adverse change in the value of insurance commitments, resulting from the significant uncertainty, related to extreme or exceptional events, weighing on the assumptions used in terms of price and provisioning.

Market risk

Market risk is the risk of loss, or adverse change in the financial situation, resulting, directly or indirectly, from fluctuations affecting the level and volatility of the market value of assets, liabilities and financial instruments. It includes:

- **Interest rate risk** resulting from the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the interest rate term structure or interest rate volatility,
- **Equity risk** linked to the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the market value of equities,
- **The risk on real estate assets** arising from the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the market value of real estate assets,

- **Spread risk,** reflecting the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads relative to the risk-free interest rate term structure,
- **Currency risk** linked to fluctuations in the level or volatility of exchange rates between the asset currency and the liability currency,
- **Concentration risk** resulting from a lack of diversification of the asset portfolio, or significant exposure to the default risk of a single issuer of securities or a group of related issuers.

Credit risk

Credit risk is the risk of loss, or adverse change in the financial situation, resulting, directly or indirectly, from fluctuations affecting the solvency or credit quality of the company's counterparties. It includes:

- **Spread risk,** which reflects the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads relative to the risk-free interest rate term structure,
- **Counterparty risk,** which is the risk of possible losses that could result from unexpected default, or deterioration in the credit quality, of the counterparties and debtors of the company. The scope of counterparty risk includes contracts to mitigate risks such as reinsurance agreements, securitizations and derivative instruments, and receivables from intermediaries and insured. This risk is provided for in the standard formula.

Liquidity risk

The liquidity risk is the possibility that La Parisienne Assurances will be unable able to make investments and other assets in order to meet its financial commitments at the time when they become due.

Operational risk

Operational and non-compliance risks correspond to unexpected losses arising from inadequate or defective internal processes, internal personnel and systems or external events. Operational risk includes legal risks, but does not include risks arising from strategic decisions or reputational risks. It includes:

- **The risk of internal fraud**, risk of loss resulting from acts that do not comply with legislation or conventions on employment, health, or safety, claims compensation in respect of personal injury or violations of equality/acts of discrimination,
- **The risk of external fraud**, risk of losses due to acts aimed at fraud, misappropriation or the circumvention of legislation by a third party,
- **Risks relating to employment practice and safety in the workplace**, risk of loss resulting from acts that do not comply with legislation or conventions on employment, health, or safety, claims compensation in respect of personal injury or violations of equality/acts of discrimination,

- **Risks relating to customers, products and business practices**, risk of losses resulting from a breach, whether unintentional or due to negligence, of a professional obligation towards specific customers (including trust and compliance requirements) or the nature or design of a product,
- **Risks of damage to tangible assets**, the risk of destruction or damage resulting from a natural disaster or other incidents,
- **The risks of interruption of activity and malfunctioning of systems**, risk of losses resulting from interruptions, activity or malfunctioning of systems,
- **Risks related to the execution, delivery and management of processes**, risk of losses resulting from a problem in the processing of a transaction or in the management of processes or incurred in relations with business counterparties and suppliers.

Other significant risks

Other significant risks that may be encountered by the company are risks whose assessment is not covered by the standard formula provided for in the Solvency II Directive. Based on the stress scenarios carried out for the Own Risk Self Assessment (ORSA), these risks are considered to be controlled:

- **The risk of dependence on a distributor partner** occurs where a single distributor partner accounts for an excessive share of La Parisienne Assurances' business. This risk is controlled by the growth in the number of partners present in the portfolio leading to better diversification, and the extension of effective agreements to December 31, 2019, sometimes for a multi-year period.
- **The risk of heterogeneity for the accounts** relates to the issuance of reliable financial statements including the risk of heterogeneity of the information received (extracts and brokers) and the risk of error related to the restatements made by the data integration unit. This risk has been controlled by the deployment of EDI technology in our partners since 2016. This implementation was intensified in 2019 with the establishment of a process to use the partner's raw data to guarantee the transformation that is carried out for harmonization. This is intended to obtain a unique data extraction and reporting framework for all partners that allows data to be restated and made reliable (EDI project) and to conduct accounting audits, particularly with regard to data traceability, before the closure of the annual financial statements. In 2019, the deployment of API technology on the partners allowed a comprehensive control of the rates applied by each.

4.2. Risk exposure

Measures used to assess risk and change over the period

Unless otherwise stated, the quantitative risk assessment elements are presented in section 6 of this report and correspond to the Solvency Required Capital (SCR) as of December 31, 2019, assessed in accordance with the standard formula, before diversification between risk modules. This represents the impact that a large-scale shock would have on the company's net income that would only occur once every two-century years.

Description of significant risks and change over the period

In addition to the risks not assessed by the Standard Formula referred to in section 3 of this report, the material risks for the company are non-life underwriting risk, counterparty risk and operational outsourcing risk. This risk profile did not change significantly in 2019.

Application of the "prudent person" principle

As stipulated in Article 132 of the Solvency II Directive, La Parisienne Assurances' investments are made in accordance with the "prudent person" principle, thanks to the investment processes and the committee framework accompanying it, which make it possible to guarantee the knowledge of risks a priori and to analyze, manage and control the risk once the investment is made.

The investment policy is structured around three major processes:

- **The strategic asset allocation,** defined according to company's financial risk appetite and based on the macroeconomic context and the results of ALM studies carried out by the Finance Department and completed as part of the ORSA report on the consequences of this allocation on the market SCR and the company's solvency ratio.
- **The central scenario** identifies outgoing cash flows over the claim settlement period (average duration of approximately 3 years), and allocates the premium to investments, mainly fixed income, backed by maturity brackets. This central scenario takes into account some of the future premiums under the assumption of a conservative lapse rate.
- **The stress scenario**, carried out under the assumption of a 10% shock on the portfolio's loss expense, identifies the safety margin to be kept in money market or short-term assets.
- **The surplus identified in this projection** is allocated to diversified assets (equities, real estate, etc.)
- **Tactical asset allocation,** which makes it possible to adjust the strategic allocation on the basis of short-term expectations in interaction with the asset management agent (see next paragraph),
- **The day-to-day management of investments**, which includes the selection of securities by the asset management agent in accordance with the constraints defined in the management mandate.

While the Board of Directors remains the ultimate decision-making body in terms of investment policy and financial risk management, the company has established a specific **ALM Committee** whose role includes examining the investment risk and ALM strategies and policies proposed by the Executive Management as well as the operational implementation of these strategies and policies. This is carried out in particular via the monthly **investment committees** organized with the asset management agent and that include the participation of the managers of the agent, the Chief Executive Officer, the Head of the Capital Department and the Chief Financial Officer of La Parisienne Assurances, as well as a representative of the shareholder Opéra Finance.

Thus defined, the main guidelines of the investment policy are as follows:

- **A target asset distribution of** 80% bonds, 5% money market vehicles, 5% listed shares, 5% in real estate and 10% in illiquid assets (private equity, private debt)
- **A target average duration** of 3.5 years
- **A cash position** awaiting reinvestment on mandates that must not exceed 5%
- **Investments excluding:**
- **By asset class,** derivatives, and generally no leveraged transactions, insurance obligations to avoid concentration risk, subordinated bonds, perpetual bonds, and securitization products,
- **By country,** sovereign bonds issued by periphery countries (Portugal, Ireland, Italy, Greece and Spain).
- **Rating limits for bond investments:**
- **Bonds rated AAA to BBB+:** Minimum 65% / Maximum 100%
- **Bonds rated BBB- and lower:** 20% maximum

Finally, asset management is mainly entrusted to CANDRIAM, via two management mandates: a first bond mandate and a second equity portfolio management mandate. Monthly investment committees based on comprehensive monthly reports monitor the profitability of the asset portfolio, compliance with the investment rules and limits presented above, as well as share the tactical choices of the managers on future investments and matching projections for the company's mandate. These are based on the monthly cash flow monitoring report of La Parisienne Assurances, which systematically includes an annual reforecast. Lastly, the custody of securities and the accounting of investments made via these two mandates are entrusted to CACEIS.

4.3. Concentration of risks

The company has identified a underwriting concentration risk in its Property Damage portfolio. 25% of the insured values of this portfolio, representing a revenue of €16.8 million, are located in the department of Isère (38), which is known to be a seismic zone and whose main city, Grenoble, could be massively flooded in the event the region's dams would break. This risk is controlled by the reinsurance system described in paragraph 4.4.

4.4. Risk mitigation techniques

Description of the framework for the reporting period

La Parisienne Assurances transfers part of its risks to reinsurers. The reinsurance system is studied for each segment, with a large part of the risk being transfered via quota share treaties, supplemented by excess of loss treaties in order to protect the company against losses associated with large-scale unit losses, such as on Corporal Third-Party Liability risks.

The transfer rates for the 2019 financial year were set as part of the work to prepare the risk budget. They concluded on the following:

- **maintaining retention on the 2&4 wheeler segment** on traditional programs (20%);
- **at a level of a 100% transfer on usage-based insurance portfolios,** outside France, Spain and Italy where the transfer is of 80%;
- **maintaining the transfer rate of the Property Damage quota share** at 60% for MRI and MRH, and 15% for the CBNO product.

Proportional treaties

Change in the quota share reinsurance program between 2019 and 2020

	Transfer rate	
	2019	**2020**
Traditional 2- and 4-wheeler quota share	80.0%	80.0%
Usage-base quota share		
France, Italy, Spain	80.0%	80.0%
Other Countries	100.0%	80.0%
Traditional PD quota share*		
Comprehensive Building	60.0%	50.0%
MRH	60.0%	50.0%
CBNO	15.0%	50.0%
Glass and Comprehensive Home	-	50.0%
Traditional Affinity quota share	70.0%	70.0%
Buyback Deductive quota share	50.0%	54.25%
Natural Disaster quota share	50.0%	50.0%

*This program also includes an optional treaty by which La Parisienne Assurances transfer 100% of the Property Damage (PD) risks of the policies for the portion of insured value greater than €15 million.

With regard to quota-share treaties, the level of transfer per program depends on:

- the level of consumption of capital by segment compared to the intrinsic profitability of each of the Product Lines, so as to approach the optimal under constraints of the available Tier 1 Capital,
- knowledge of risks on Partnerships, whose volumes do not allow sufficient pooling. This is the case for fronting programs, whose development is still recent or for the Comprehensive Buildings insurance for which volumes are still limited,

- the appetite of reinsurers over a given financial year.

Non-proportional treaties

Change in the non-proportional reinsurance program between 2019 and 2020

	Priority XS Scope (in €K)	
	2019	**2020**
XS 4-Wheelers and Flees	III XS 1,500	III XS 2,000
Revaluation of annuities	2% XS 0%	2% XS 0%
XS Property Damage*		
Comprehensive Building	13,750 XS 1,250	13,750 XS 1,250
Comprehensive Home	13,750 XS 1,250	14,400 XS 600
CBNO	400 XS 200	14,800 XS 200
Glass breakage	580 XS 170	14,800 XS 200
Stop Loss Cat Nat		
4-Wheelers and 2-Wheelers	ill XS 300%	ill XS 300%
PD	ill XS 200%	ill XS 200%

With regard to the XS reinsurance program, whose main parameters at 100% (i.e. before quota share transfer) are summarized in the table above, it meets the risk tolerance criteria set by the Reinsurance policy, controlled by the Audit and Risk Management Committee and approved by the Board of Directors:

- **Natural Disaster Risks:** the company protects against loss scenarios from decennial to two-centuries,
- **Terrorism Risks:** the protection sought is unlimited beyond a retention equivalent to the maximum amount at risk of the portfolio within a radius of 200m.
- **Other PD Risks:** risk tolerance, measured as the maximum cost retained by the company by policy, is less than 1.5% of earned premiums.
- **Auto Liability and Private Life Risks:** risk tolerance, measured as the maximum cost retained by the company by policy, is less than 2.0% of earned premiums.

Finally, the diversification of the reinsurers panel continued over the financial year 2019 in order to limit concentration risks

4.5. Expected earnings from future premiums

The expected profit of future premiums after application of reinsurance as recorded in the Best Estimate of Premium Provisions is €8.9 million, including €18.5 million in future profit before costs and €9.6 million in associated costs. By comparison, in 2018, the expected profit of future premiums was €3.5 million. This change is explained by the renewal of major three-year agreements during 2019, representing 12.5% of the company’s total premiums.

4.6. Risk sensitivities

Stress tests and scenario analyses

La Parisienne Assurances created stress scenarios in preparing for the 2019 ORSA report. The company complies with the MCR requirement level in the central scenario as well as in the tested stress scenarios. With regard to permanent compliance with SCR requirements, the result of stress tests shows that in a single extreme case (plus no reinsurance transfer), the unconditional commitment of shareholders to recapitalize the company up to €10.5 million appears insufficient.

Assumptions of the central scenario

The tests were conducted around a central scenario developed in October 2019. The changes observed between the assumptions of the central scenario and the scenario carried out do not significantly affect the conclusions or the ranking of the scenarios for their impact on the company's solvency ratio.

Methods and assumptions for stress tests and scenario analyses

The stress tests conducted as part of the 2019 ORSA report and their respective impacts in 2020, 2021 and 2022 are as follows:

- **S1.1/** Combined ratios increase by 15 points across all business lines
- for 20120, 2021 and 2022
- **S1.2/** The loss ratio of the affinity segment increased by 25 points
- **S1.3/** The loss ratio of the traditional 2&4-wheeler segment (excluding fronting) increased by 25 points
- **S1.4/** The loss ratio of the usage-based insurance segment increased by 25 points
- **S1.5/** The loss ratio of the property damage segment (excluding fronting) increased by 25 points
- **S1.6/** Impact of a 1-in-200 years not reinsured event (€23 million) taking place after the termination of a reinsurance treaty but before entering into the following treaty
- **S2.1/** Taking risk to 50% for all segments excluding fronting
- **S2.2/** Total risk aversion across all segments by the company
- **S3.1/** Net income at €0 in 2020, 2021 and 2022 due to failure by the company to achieve its underwriting recovery objectives
- **S3.2/** Default of a delegate and operational impacts
- **S3.3/** Data quality issue impacting actuarial monitoring
- **S3.4/** SCR adjustment offset by deferred taxes
- **S4.1/** 5-year extension of the settlement of claims of the Auto Liability LoB
- **S4.2/** Reload to the inventory of 2- and 4-wheeler files greater than €100k by +10%
- **S5.1/** Increase in the risk-free rate by 200 bps
- **Best case scenario /** Revenue for the years 2020, 2021 and 2022 accelerates while keeping the product mix changes of the 2019-2021 plan.

These stress tests were chosen in view of the main risks identified by the Chief Underwriting Officer and the Chief Risk Officer, and were validated and amended by the Audit and Risk Management Committee.

Stress test results

Scenarios / *(solvency ratio points vs. central scenario)*	**2020**	**2021**	**2022**
S.1.2: S/Ps increase by 25 pts on Affinity	-15.7 pt(s)	-23.9 pt(s)	-30.2 pt(s)
S.1.3: S/Ps increase by 25 pts on Auto and Moto	-12.6 pt(s)	-14.1 pt(s)	-16.1 pt(s)
S.1.4: S/Ps increase by 25 pts on Usage-Based Insurance	-5.3 pt(s)	-7.9 pt(s)	-11.0 pt(s)
S.1.5: S/Ps increased by 25 pts on PD	-2.3 pt(s)	-1.3 pt(s)	-0.1 pt(s)
S.2.1: 50% default of Fronting business reinsurers	-47.7 pt(s)	-48.4 pt(s)	-49.5 pt(s)
S.2.2: Decrease in quota share transfer rates across all segments (100%)	-92.6 pt(s)	-87.4 pt(s)	-80.3 pt(s)
S.3.1: Net income at €0 in 2020, 2021 and 2022	-27.9 pt(s)	-49.7 pt(s)	-70.6 pt(s)
S.3.2: Failure of one of the delegates	-0.9 pt(s)	-0.7 pt(s)	-0.5 pt(s)
S.3.3: Data quality issue impacting actuarial monitoring	-0.9 pt(s)	-1.0 pt(s)	-1.0 pt(s)
S.3.4: SCR adjustment offset by deferred taxes	-19.3 pt(s)	-19.2 pt(s)	-19.0 pt(s)
S.4.1: 5-year extension of the settlement of claims of the Auto Liability LoB	-6.8 pt(s)	-11.0 pt(s)	-12.9 pt(s)
S.4.2: Reload to the inventory of 2- and 4-wheeler files greater than €100k by +10%	-3.6 pt(s)	-2.8 pt(s)	-2.1 pt(s)
S.5.1: Increase in the risk-free rate by 200 pts	-13.9 pt(s)	-10.9 pt(s)	-8.7 pt(s)
S1.1: S/Ps increase consistently by +15pts	-39.0 pt(s)	-56.0 pt(s)	-75.8 pt(s)
S1.6: Impact of a non-reinsured loss (€23m)	-45.0 pt(s)	-33.0 pt(s)	-25.3 pt(s)
Best Case Scenario	-11.6 pt(s)	-18.7 pt(s)	-14.5 pt(s)

The severity of these scenarios is explained as follows:

- **For scenarios 1.1, 1.2 and 1.6, which jointly have a significant impact on net income primarily related to the loss experience,** by the decrease in net income and future profits incorporated into prudential capital, although their impact on the SCR is lower.
- **For scenarios 2.1 and 2.2, where all or part of the risk is entirely borne by La Parisienne Assurances,** by the immediate increase in SCR, which is greater than the increase in results.
- **For scenario 3.1, where premium volumes are insufficient to generate income,** by the sharp increase in SCR while capital is stable.
- **For scenario 3.4, where the adjustment SCR is canceled,** generating a direct increase in the SCR.

4.7. Other information relating to the risk profile

The information on the risk profile as set out in paragraphs 4.1 to 4.6 is exhaustive.

5. Valuation for solvency purposes

5.1. Valuation of assets

Value, methods and assumptions by asset type

- **Valuation of investments:** As of December 31, 2019, La Parisienne Assurances posted an investment volume form a market value of €115.1 million versus a book value of €111.9 million, based on information sent by third parties mandated by La Parisienne Assurances for the management of its assets. All of the company's investments are valued at market value in the Solvency II prudential balance sheet. Accrued interest is taken into account in the valuation. The stake in La Parisienne Services (wholly-owned subsidiary) is set at 0. Accrued interest not due on the corporate balance sheet is repositioned by type in the various investment lines appearing in market value on the Solvency II prudential balance sheet, as well as the overpayment/discount, so as to avoid double counting.

Comparative distribution of La Parisienne Assurances' investments
(Net book value excluding cash)

(in millions of euros)	12/31/18	12/31/19
Equities	4.9	1.6
Bonds	88.7	90.5
Funds	27.0	19.8
TOTAL	**120.6**	**111.9**

- **Valuation of intangible assets:** As part of the valuation of the financial balance sheet, these assets generally do not represent material wealth available for solvency purposes. In the case of La Parisienne Assurances, a significant portion of these intangible assets result from the investment in the IpaaS platform, and will result in future income as services are billed for (management of quotes via web services, automated management of contracts and claims). The recent launch of the platform in 2018 does not yet allow the final assessment of the financial value of this asset; the value of intangible assets in the statutory financial statements is completely canceled, for the sake of prudence, in the Solvency II prudential balance sheet.

- **Valuation of receivables:** As of December 31, 2019, insurance receivables amounted to €176.0 million on the balance sheet. Reinsurance receivables amounted to €5.9 million over the same period. Due to their short-term nature, insurance and reinsurance transaction receivables are not subject to any adjustment between the corporate balance sheet and the Solvency II prudential balance sheet. Similarly,other receivables of €5.6 million, which relate to receivables arising from administrative operations with public bodies (taxation, social contributions, etc.) as well as with suppliers, are not subject to any adjustment between the corporate balance sheet and the Solvency II prudential balance sheet. In total, the financial value of receivables remains the same as the book value of €187.4 million, and is presented as such in the prudential balance sheet.

- **Valuation of other assets:** the book value of the other assets in the balance sheet amounts to €28.8 million, for zero financial value. These restatements result from five effects:
- **Cancellation of the Receivable held against the management delegates (-€2.2m),** corresponding to the costs of managing the claims files entrusted to them and which have already been disbursed in the form of commissions at the time of underwriting without resulting in any future cash flows. It should be noted that this transaction has no impact on the company's capital, since on the corporate balance sheet, this claim is recorded in exchange for a provision for contingencies and charges, in order to materialize the risk of potential default of the delegate.
- **The cancellation of deferred acquisition costs (DACs) (-€24.5m)**, the DACs corresponding to the amount already paid by La Parisienne Assurances relating to acquisition fees on premiums issued but not earned as of December 31, 2019. In accounting, the increase in this item makes it possible to link the company's acquisition costs to the correct financial year. Conversely, Solvency II is based on future cash flow approach. Since the DACs have already been disbursed by the company and are not subject to a future cash flow, they are therefore fully canceled in the Solvency II prudential balance sheet. It should be noted that this transaction does not generate a loss of wealth for La Parisienne Assurances, since these acquisition costs on existing policies will not give rise to a cash flow from the company and are not projected in the "Best Premium Estimate" in the Solvency II prudential balance sheet.
- **The cancellation of prepaid expenses (-€0.9 million),** according to the same principle as deferred acquisition costs, as these expenses have already been paid by the company. Given their relative weakness, the basis used to calculate the Best Cost Estimate has not been corrected for this favorable impact.
- **Cancellation of accrued interest (-€0.7m) and discounts (-€0.5m)** whose amounts are already included in the market value of the company's investments. Thus, in order to avoid any double counting of balance sheet items, this amount is completely canceled in the company's Solvency II prudential balance sheet.

- **The value of "current accounts and cash"** remains identical to the value of the accounting balance sheet.

- **Valuation of deferred taxes**: Deferred taxes on the Solvency II prudential balance sheet correspond to the expense (Liability) or tax credit (Asset) applicable to the change in net assets resulting from restatements between the corporate balance sheet and the prudential balance sheet. As of December 31, 2019, the value of deferred tax assets amounted to €2.3 million.

Differences between Financial Statements

Summary of differences between the corporate and the Solvency II prudential balance sheets as of December 31, 2019

(in millions of euros)	Corporate balance sheet	*Solvency II* prudential balance sheet	Differences
Intangible assets	11.8	0.0	-11.8
Tangible assets	0.2	0.2	0.0
Investments	111.9	115.1	3.2
Share of reinsurers in technical provisions, including:	402.4	347.4	-55.0
Provisions for unearned premiums / Best Estimate of Premium provisions	*96.4*	*43.6*	*-52.8*
Loss provisions / Best Estimate of Loss Provisions	*306.0*	*303.8*	*-2.2*
Receivables	187.4	187.4	0.0
Current accounts and cash	11.3	11.3	0.0
Other assets	28.8	0.0	-28.8
Deferred taxes	0.0	2.3	2.3
Total Assets	**753.9**	**663.8**	**-90.1**

In summary, the differences between the assets on the corporate balance sheet and the Solvency II prudential balance sheet are broken down as follows:

- Intangible assets (-€11.8m): canceled in the Solvency II prudential balance sheet
- Investments (+€3.2m): switch to market value
- Share of reinsurers in technical provisions (-€55.0m)
- Receivables, current accounts and cash (-): No restatement
- Other assets (-€28.8m): transfers of ICNEs and discounts (-€1.2m) in the market value of investments, cancellation of DACs (-€24.5m), prepaid expenses (-€0.9m) and debt held with delegates for managing material claims (-€2.2m)
- Deferred taxes (€2.3m): related to restatements between the corporate balance sheet and the prudential balance sheet

5.2. Valuation of technical provisions

Value, methods and assumptions by type of provision

- The **segmentation** used for the valuation of technical provisions is based on homogeneous risk categories. For presentation purposes, they are then aggregated by Business Line, as described by the regulations.
- The company's commitments on 2- and 4-Wheeler products are distributed in the "Auto Liability" and "Other Motor Vehicle Insurance" business lines.
- The commitments relating to Property Damage products (Comprehensive Home, Comprehensive Building, Glass Breakage and Break-in/Extension of Property Guarantees) are presented in the "Fire and Other Property Damage" and "General Liability" Business Lines.
- Commitments related to Mechanical Failer, Unpaid Rent, Advertisement and Ticket Cancellation products are classified in the "Miscellaneous Financial Loss" Business Line.

- Commitments regarding Legal Protection and Emergency Assistance insurance are reflected in the Business Lines of the same name.
- Commitments relating to Individual Accident products are classified in the "Income Protection" Business Line.

- **The Best Estimate of Gross Reinsurance Claims Provisions** is the sum of future cash flows related to claims that have already occurred, discounted according to the yield curves in the eurozone, Poland and the United Kingdom as provided by the European Insurance and Occupational Pensions Authority (EIOPA) in its "Baseline" scenario without volatility adjustment published on December 31, 2019. Like last year, the projection of future gross reinsurance cash flows was carried out on an aggregate basis, distinguishing between homogeneous liquidation classes on the basis of historical data from the calculation of technical provisions with:
- On the one hand, **delegated losses excluding the "Fronting" and "Affinity" Product Lines:** like last year, the valuation is based on the history of annual **gross recovery** payments and the history of annual recoveries organized by Year of Occurrence, Year of Payment or Collection, and Solvency II Business Line (Payments + Fees – Claims collected + Associated management fees). **The gross recovery payments and recoveries are** then extrapolated over a maximum settlement period of 19 years, based on the so-called "chain-ladder" method and discounted.
- On the other hand, **non-delegated claims of less than €100,000 excluding the "Fronting" and "Affinity" Product Lines** that were valuated using the same methods as the delegated claims.
- And lastly, **claims amounting to more than €100,000 excluding the "Fronting" and "Subsidiaries" Product Lines** for which the valuation is based on the history of total loss expense **net of recoveries**, including allocation to provisions for late claims, by Year of Occurrence, Year of Payment, and Solvency II Business Line. Like last year, total net loss expenses were then extrapolated on the basis of a so-called "Chain-Ladder" method, whether for the "Property Damage" Business Line or the "Auto Liability" Business Line.
- **"Annuity" claims:** the valuation of annuity files is based on the amounts of compensation determined by probabilized loss item using the mortality tables in force.
- **Claims relating to the "Affinity" Product Line:** in the absence of sufficient history on "Break-in/Extension of Guarantee" products launched from financial year 2013 whose cover period may reach six years, the valuation is carried out by applying to the technical provisions recorded in the corporate balance sheet by Year of Underwriting, the settlement rate provided for in the pricing beyond the cover period already passed.
- **Claims relating to the "Fronting: Product Line:** for these partnerships whose underwriting risk is fully assigned, the projected disbursement flows are valued by applying the settlement rate and the rate of claim recoveries by Business Line to the sum of the loss reserves paid and provisions for late claims recorded in the corporate balance sheet. These future cash flows are then discounted.

- **Recurring costs related to the management of commitments during the claim settlement period are** charged to future cash flows as long as they have not already been disbursed on the valuation date. They include expenses directly allocated to the management of commitments and indirect expenses allocated to the management of commitments in the company's analytical accounting:
- **The costs of managing the compensation for material claims** are not projected because they are fully borne by the company's delegates and already paid by the company in the form of management fees paid in accordance with the delegation agreements.
- **Acquisition costs are** also excluded from the projection insofar as they have already been paid to the introducers in the form of distribution commissions paid in accordance with the distribution agreements.
- **Other overheads relating to the administration of contracts and the management of investments** are projected in proportion to future claims settlement flows by following the company's analytical distribution rules and the business continuity scenario provided for in Article 31 of the Delegated Regulation.
- **After discounting, the amount of Costs included in the Best Estimate of Loss Provisions and annuities resulting from gross non-life reinsurance commitments amounted to €3.1 million.**

- **The Best Estimate of the Provisions for Losses transfered by Reinsurance,** represented on the asset side, is the sum of future cash flows related to claims that have already occurred, projected according to the same segmentation and methodology as the Best Estimate of Gross Reinsurance Loss Provisions, but transfered in accordance with the terms and conditions provided for in the reinsurance treaties in force within La Parisienne Assurances:
- **Proportional Treaties are** modeled by applying the transfer rates to the gross future cash flows separately by Treaty, Reinsurer and Year of Occurrence.
- **Non-proportional** treaties are taken into account inseparably for each claim or event involving these coverages, by applying the indexing and reconstruction clauses. For example, for the 2019 financial year, the priorities at 100% of non-proportional treaties are €1.5m for 4-wheeler claims and €1.25m for Fire and Property Damage claims.
- **A probability of default of reinsurers,** identical to that used for the assessment of the Type 1 counterparty SCR, and depending on the individual rating of each of the reinsurers, is applied to the future cash flows transfered thus obtained.

- **Valuation of the Provision for contingencies and charges:** The provision for contingencies and charges, which corresponds to the cost of managing delegated material claims, materializes the risk of potential default of the delegate. This is canceled in the Solvency II prudential balance sheet against the debt held on the delegate, as the company has already paid these fees via the management fee.

- **The Best Estimate of Gross Reinsurance Premium Provisions** is the discounted sum of future cash flows (Premiums, Claims settlements not yet made net of recoveries and associated costs) that will be generated by the portfolio policies on the valuation date for the unacquired portion of the risk or that are renewed or underwritten for the following financial year in cases where the company cannot unilaterally deviate from its commitment to the final insured party or increase the price of the final policy. **The company therefore retains the following policies in its "Frontier":**
- All individual policies if La Parisienne Assurances cannot terminate within two months of the closing date. In certain rare cases where distribution agreements are for multiple years, without the possibility of an unilateral change in pricing, policies underwritten until the end of these agreements are retained.
- The future cash flows of this scope are valued on the basis of premiums, commission rates and loss ratios projected for the 2020 finance year, which are themselves derived from historical observations, assumptions of "aging" of the portfolio, inflation of the average cost, frequency changes and anticipated measures on pricing and the underwriting framework.

- **Recurring costs related to commitment management and renewal** are charged to future cash flows as long as they have not already been disbursed on the valuation date. They include expenses directly allocated to the management of commitments and renewal and indirect expenses allocated to the management of commitments and renewal in the company's analytical accounting: **After discounting, the amount of Costs included in the Best Estimate of Gross Reinsurance Premium Provisions amounted to €15.2 million, including €12.8 million tied to future Premiums.**

- **The Best Estimate of the Provisions for Premiums transfered by Reinsurance,** represented on the asset side, is the sum of future cash flows projected according to the same segmentation and methodology as the Best Estimate of Gross Reinsurance Loss Provisions, but transfered in accordance with the terms and conditions provided for in the reinsurance treaties of La Parisienne Assurances in respect of the 2020 financial year.

- **Valuation of the Provision for Current Risks:** The Provision for Current Risks corresponds in the corporate balance sheet of the company's estimated termination losses over the coming financial years given the average financial performance of a homogeneous group of risks over the last two financial years. Since these termination losses are projected in the Best Estimate of Premium Provisions, the Provision for Current Risks is positioned at 0 in the Solvency II prudential balance sheet.

- **The Risk Margin** is added to all the Best Estimates of Loss and Premium Provisions in order to consider the technical provisions within the meaning of the Solvency II Directive. It is calculated in such a way as to ensure that the value of the technical reserves is equivalent to the amount that insurance and reinsurance companies would request to take over and honor La Parisienne Assurances' insurance and reinsurance commitments. The risk margin is estimated as the updated sum of the future SCRs until the termination of the commitments multiplied by a cost of capital equal to 6% as provided for in Article 39 of the Delegated Regulation. As a simplification measure, the company estimated the risk margin in the Solvency II prudential balance sheet on the basis of the Level 2 simplification defined in the LTGA Technical Specifications, which assumes that the SCR for each financial year is proportional to the Best Estimate of the Provisions Net of Reinsurance. **The risk margin is thus valued at €5.7 million in the Solvency II prudential balance sheet.**

Level of uncertainty

The valuation carried out by the company as part of the regulatory requirements is subject to uncertainties of three types:

- **The insurance business is by nature volatile:** despite the application of risk mitigation techniques via reinsurance, which aims to achieve the tolerance levels accepted by the company's Board of Directors, the risk cannot be completely eliminated. The valuation based on a deterministic projection in a central development scenario does not reflect the volatility of transactions.
- **The growth of La Parisienne Assurances is strong:** with more than 22% growth between 2018 and 2019, La Parisienne Assurances is experiencing very significant growth and new partnerships, whose historical data is sometimes less profound. The valuation of commitments is then based on observations from comparable portfolios that cannot fully reflect the new risk borne by La Parisienne Assurances in this context, despite rigorous selection and increasing diversification of guarantees.
- **The Solvency II Directive has been applied since January 1, 2016:** the valuation of commitments is based in this context on a new body of rules, on which La Parisienne Assurances delivers in this report a true interpretation, after having carried out all the preparatory exercises since 2013, on the basis of restatements made to corporate accounts certified by the Statutory Auditors highlighting the sufficiency of technical provisions. In the context of the supervisory authority's ongoing control, however, the supervisory authority may give a different interpretation of the texts leading to adjustments on the valuation of the company's commitments.

Differences between consolidated and prudential Financial Statements

Summary of differences between technical provision as of December 31, 2019

(in millions of euros)	Consolidated balance sheet	*Solvency II* prudential balance sheet	Differences
Technical provisions, including:	457.8	396.6	-61.2
Provisions for unearned premiums / Best Estimate of Premium provisions	*106.6*	*42.7*	*-64.0*
Loss provisions / Best Estimate of Loss Provisions	*348.2*	*347.5*	*-0.8*
Provisions for contingencies and charges	*2.9*	*0.8*	*-2.2*
Risk margin	*0.0*	*5.7*	*5.7*
Share of reinsurers in technical provisions, including:	402.4	347.4	-55.0
Provisions for unearned premiums / Best Estimate of Premium provisions	*96.4*	*43.6*	*-52.8*
Loss provisions / Best Estimate of Loss Provisions	*306.0*	*303.8*	*-2.2*
Technical provisions net of reinsurance	**55.4**	**49.2**	**-6.2**

In summary, the differences between the net technical provisions on the corporate balance sheet and the Solvency II prudential balance sheet are broken down as follows:

- Net premium provisions (-€11.2 million): Incorporation of discounted profits on premiums not earned in financial year 2019 net of expenses related to management of commitments and renewal (-€2.3 million), integration of discounted profits on policies not yet incurred in 2019 but belonging to the policy "Frontier" (-€8.9 million)
- Net loss provisions (+€1.4 million): Cancellation of the Provision for Current Risks (-€0.3m) offset by the incorporation of the loss provision including costs and discount (+€1.7m)
- Provisions for contingencies and charges (-€2.2 million): Cancellation of the provision relating to material claims management costs already paid to the delegate.
- Risk margin (+€5.7 million): Integration of the margin of prudence assessed according to the standard formula
- **The total value of the net technical provisions on the Solvency II prudential balance sheet was €49.3 million, compared with €55.4 million in the corporate financial statements.**

At the end of the valuation of technical provisions, the breakdown by major business line shows a preponderance of motor liability insurance due to both a higher relative weight of serious claims and a higher duration of commitments than other segments.

Breakdown of technical provisions by business line as of December 31, 2019 (in millions of euros)

	Best estimate of provisions			Risk margin	Technical provisions
	Gross	Transfered	Net		
Income protection insurance	7.1	-5.4	1.8	0.2	2.0
Automobile liability insurance	195.8	-173.4	22.4	2.8	25.2
Other motor vehicle insurance	84.6	-80.7	3.9	0.7	4.6
Fire and other property damage insurance	91.9	-82.0	9.8	1.8	11.6
General liability insurance	2.1	-1.5	0.5	0.1	0.6
Legal protection insurance	-0.1	0.4	0.3	0.0	0.3
Emergency assistance insurance	0.0	0.0	0.0	0.0	0.0
Miscellaneous financial loss insurance	5.6	-4.0	1.6	0.1	1.8
Annuities arising from non-life insurance policies	3.1	-0.8	2.3	0.0	2.3
TOTAL	**390.1**	**-347.4**	**42.7**	**5.7**	**48.4**

Matching adjustment

Article 77b of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) authorizes non-life insurance companies, under certain conditions and subject to the supervisory authority's agreement, to apply a matching adjustment to the relevant risk-free interest rate term structure used to value their portfolio of annuity commitments that may arise from the policies they market.

La Parisienne Assurances does not use this option.

Volatility adjustment

Article 77d of the Solvency II Directive authorizes insurance companies to apply a volatility adjustment to the relevant risk-free interest rate term structure used for the valuation of their portfolio of commitments.

La Parisienne Assurances does not use this option.

Transitional measure on the risk-free interest rates

Article 308c of the Solvency II Directive authorizes insurance companies to apply, subject to the prior approval of the supervisory authority, a transitional measure to the relevant risk-free interest rate term structure used for the valuation of their portfolio of commitments.

La Parisienne Assurances does not use this option.

Transitional deduction

Article 308d of the Solvency II Directive authorizes insurance companies to apply, subject to the prior approval of the supervisory authority, a transitional deduction to the technical provisions of the same homogeneous risk group.

La Parisienne Assurances does not use this option.

Reinsurance recoverable amounts

The amounts recoverable in respect of reinsurance in the Solvency II prudential balance sheet are €347.4 million.

Changes in assumptions compared to the previous period

Compared to the previous financial year, the company did not adjust methodologies or change assumptions beyond that required by the standard (rate term structure, travel clause) or specific to changes in its activity.

5.3. Valuation of other liabilities

Value, methods and assumptions by type for other liabilities

- **Valuation of debts arising from insurance and reinsurance transactions:** the debts arising from insurance transactions correspond to the balances of claim payments and fees due to brokers in the short term, as well as the cash balances of treaties signed by La Parisienne Assurances. They are not subject to any adjustment in the Solvency II prudential balance sheet given their adjustment as from the following financial year. The financial value thus remains the same as the value recorded in the company financial statements of €158.5 million.

- **Valuation of deferred reinsurance fees:** Deferred reinsurance fees (DRFs) correspond to the amount already received by La Parisienne Assurances relating to reinsurance fees on premiums issued but not earned as of December 31, 2019. In accounting, the increase in this item makes it possible to link the company's reinsurance fees to the correct accounting year. Conversely, Solvency II is based on future cash flow approach. Since the DRFs have already been disbursed by the company and are not subject to a future cash flow, they are therefore fully canceled in the Solvency II prudential balance sheet. It should be noted that this transaction does not generate a loss of wealth for La Parisienne Assurances, since these reinsurance fees on existing policies will not give rise to a future cash flow and are not projected in the Best Estimate of Net Provisions on the Solvency II prudential balance sheet. The restatement of DRFs amounted to €26.1 million in the prudential balance sheet of December 31, 2019.

- **Valuation of transferees' deposits:** these cash deposits are created per the contractual terms of certain reinsurance treaties and guarantee La Parisienne

Assurances the reimbursement of claims by the Reinsurer in the amount of its quota share. The financial value on the Solvency II prudential balance sheet remains zero, identical to the value recorded in the company financial statements.

- **Valuation of subordinated liabilities:** in accordance with Article 14 of Delegated Regulation 2015/35 of 10 October 2014 and the EIOPA guidelines on the valuation of financial liabilities, the company takes into account changes in market conditions affecting the value of its subordinated debt, with the exception of changes in market conditions affecting its own credit risk. The subordinated debt is thus valued on the financial balance sheet as the sum of coupons and redemption at maturity discounted at the risk-free interest rate term structure as of December 31, 2019, to which the credit risk premium specific to La Parisienne Assurances is added.

- **Valuation of other debts:** Other debts correspond to amounts due to public bodies (Taxes, Social Contributions, etc.) and suppliers. Their financial value remains the same as the book value in the prudential balance sheet.

- **Valuation of liability adjustment accounts:** The financial value of other liabilities is restated for depreciation of overpayments in the Solvency II prudential balance sheet because these items are incorporated into the market value of the investments appearing on the Asset. The restatement of overpayments was €0.6 million as of December 31, 2019.

Differences between Financial Statements

Summary of liability differences as of December 31, 2019

(in millions of euros)	Corporate balance sheet	*Solvency II* prudential balance sheet	Differences
Technical provisions, including:	457.8	396.6	-61.2
Provisions for unearned premiums / Best Estimate of Premium provisions	*106.6*	*42.7*	*-64.0*
Loss provisions / Best Estimate of Loss Provisions	*348.2*	*347.5*	*-0.8*
Provisions for contingencies and charges	*2.9*	*0.8*	*-2.2*
Risk margin	*0.0*	*5.7*	*5.7*
Deposits of assignees	0.0	0.0	0.0
Other debts	210.2	209.4	-0.8
Deferred reinsurance fees	26.1	0.0	-26.1
Other liabilities	20.1	20.3	0.2
Deferred taxes	0.0	0.0	0.0
Total Liabilities	**714.2**	**626.3**	**-87.9**

In summary, the differences between the liability items on the corporate balance sheet and the Solvency II prudential balance sheet are broken down as follows:

- Technical provisions and other non-technical provisions (-€61.2m): See paragraph 5.2.
- Deposits of transferees and Other Debts (-): No restatement
- Deferred reinsurance fees (-€26.1m): Restatement of deferred reinsurance fees
- Other debts (-0,€8m): Restatement of accrued interest not due on subordinated debt
- Other liabilities (+€0.2m): Fair value adjustment of subordinated debt (+€0.8m) and amortization of overpayments (-€0.6m)

The total value of liabilities on the Solvency II prudential balance sheet was €626.3 million compared with €714.2 million in the corporate financial statements.

5.4. Alternative valuation methods

The valuation for solvency purposes is carried out solely on the basis of the "Standard Formula" provided for in Directive 2009/138/EC and Delegated Regulation 2015/35 (EU) of 10 October 2014. No alternative valuation method is used.

5.5. Other valuation information

All values, methods and valuation assumptions for all of the company's assets and liabilities are presented in full in paragraphs 5.1. to 5.4.

6. Capital management

6.1. Financial capital

Objectives and Capital Management Policies

The capital management framework must take into account the regulatory constraints as well as the assessment that La Parisienne Assurances carries out internally of the amount of capital required to cover its risks. The company therefore identifies the different capital elements that it is likely to hold for the purpose of classifying them according to the tiers and characteristics set out in Section 2 of Chapter IV of the Delegated Acts.

	Core capital	Supplementary capital
Tier 1	Article 71	
Tier 2	Article 73	Article 75
Tier 3	Article 77	Article 78

- **The company must first establish a classification by type of capital:**
  - **Core Capital** consists of the following: assets in excess of liabilities, valued in accordance with Chapter II of Title I of the Delegated Acts and the subordinated liabilities that La Parisienne Assurances would be required to hold.
  - **Supplementary Capital** consists of items, other than core capital, which may be called upon to absorb losses. It may include the following: The fraction of the initial capital that was not called, letters of credit and guarantees or any other legally binding commitment received by La Parisienne Assurances. Where an item making up supplementary capital is paid or called, it shall be treated as an asset and cease to be part of the supplementary capital.

- **La Parisienne Assurances must then classify capital three tiers, in order to assess the quality of the capital it holds:** The classification of capital depends on its type (Core or Supplementary), its duration, which may or may not be determined, and which is compared to the duration of the commitments where applicable, and whether it is available on a permanent or subordinated basis.

	Type of capital	
Quality	Core capital	Supplementary capital
High	Tier 1	
Medium	Tier 2	Tier 2
Low	Tier 3	Tier 3

- **Tier 1 Core Capital,** including capital from paid-up common shares and the linked issue premium account, has a number of characteristics listed in Article 71 of the delegated regulations. The most significant characteristics for La Parisienne Assurances are as follows:
  - **These capital items do not allow distribution,** where the solvency capital is not respected or where a distribution in relation to this item would result in non-compliance, unless the supervisory authorities have exceptionally accepted that the distribution is not canceled, the distribution does not further weaken the solvency position of La Parisienne Assurances and the Minimum Capital Requirement (MCR) is complied with after the distribution.
  - There is no obligation for La Parisienne Assurances to make distributions.

- In the event that La Parisienne Assurances carries out a capital increase, the capital in common shares not paid up and not called, and callable on request is recognized as Tier 2 supplementary capital. When this capital is paid up, it is reclassified as Tier 1 core capital.

- In accordance with Article 76 of the Delegated Regulations, the value of net deferred tax assets and preferred shares are recognized as Tier 3 core capital.

- In the event that La Parisienne Assurances holds capital items with characteristics that do not appear in the usual characteristics of Tier 1, 2 or 3 capital, these items would only be valued subject to supervisory approval for their assessment and classification.

Expected changes in capital

The Board of Directors has put in place a medium-term capital management plan taking into account:

- The maturity of the capital items, including the contractual maturity and any previous opportunity to repay or redeem, linked to the company's capital items,
- The result of the projections made in the ORSA,
- The manner in which the issue, buyback or redemption, or any other variation in the valuation of a capital item, has an impact on the application of limits by tier.

In this context, any capital increase automatically leads to the establishment of an ORSA process, the conclusions of which will be taken into account before any decision of the Board of Directors.

In particular, this medium-term capital management plan resulted in the setting of a target solvency ratio of 140%. The Chief Financial, Underwriting, and Risk ensures compliance with the capital management plan in the medium term, under the supervision of the Executive Officers.

Capital structure of La Parisienne Assurances

Eligibility of the coverage items defined by the Solvency II Directive

SCR	No more than 15% of Tier 3 elements
	Remaining portion eligible for Tier 2
	At least 50% of Tier 1 capital

MCR	No more than 20% of Tier 2 elements
	At least 80% of Tier 1 capital

The principles of eligibility and classification for coverage items are defined in the Solvency II Directive. Each component of capital has a different capacity to absorb losses. The value of SCR and MCR can be compared with the amount of eligible items, the ratio between the two corresponds to the solvency ratios that allow the company to be positioned in relation to regulatory requirements and internal tolerance levels in terms of capital.

- **As of December 31, 2019, 55% of La Parisienne Assurances' capital (€29.8m) is classified as tier 1,** as the sum of the company's share capital and net assets generated in the valuation of the Solvency II prudential balance sheet, **36% is classified as Tier 2,** corresponding to subordinated debts issued on March 9, 2017 and September 28, 2018 (valued at €19m on the financial balance sheet) and **9% is classified as Tier 3**, corresponding to deferred active taxes due to overall negative valuation adjustments.
- **Total capital therefore stands at €54.6 million** as of December 31, 2019, eligible at 92% to cover SCR and and at 64% to cover the MCR.

Difference between the Financial Statements

Difference between the capital of the corporate balance sheet and the Solvency prudential balance sheet as of December 31, 2019

(in millions of euros)	Corporate balance sheet	*Solvency II* prudential balance sheet	Differences
Total Assets	**753.9**	**663.8**	**-90.1**
Total Liabilities	**714.2**	**626.3**	**-87.9**
Capital	**39.7**	**37.4**	**-2.2**

The valuation of the Solvency II prudential balance sheet shows a decrease in financial capital before reclassification of subordinated liabilities for €2.2 million. This corresponds to the outsourcing of future margins in the technical provisions net of risk margin for €4.0 million, the cancellation of intangible assets, DACs net of DRFs, and prepaid expenses for -€11.6 million, to the placing at market value of financial assets for €3.2 million and deferred tax assets of €2.3 million due to negative restatements overall.

6.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

Information by risk module

The SCR and MCR calculations were made as of December 31, 2019 on the basis of the Standard Formula and its parameters as described in the Solvency II Directive, the Delegated Regulation and the review clause. In addition, the elements of the review clause that came into force on January 1, 2019 were incorporated into the calculation, in particular, the extensions concerning shocks on premiums and reserves as well as correlations, risk factors and weightings by disaster risk region, or the evolution of certain shocks on the market SCR.

- **The Market SCR** is valued on a "simplified" look-through basis for funds and loans, which accounts for 10% of total investments.
- **The Equities SCR** is calculated on the basis of the standard formula. **As of December 31, 2019, the amount of the Equities SCR was €4.7 million,** up €1.4 million due to a shock effect linked to the change in the dampener.
- **The Fixed-Income SCR** is estimated on the basis of standard scenarios upwards or downwards, applied to net cash flows (shock on bond assets and UCITS net of shocks on Solvency II Technical Provisions), the most damaging scenario being used. **As of December 31, 2019, the Fixed-Income SCR amounted to €0.3 million, down €3.5 million** due to La Parisienne's sensitivity to a shock on the drop in rates, which is limited by the low interest rate environment.
- **The Spread SCR** represents the impact of an adverse change in the issuer's solvency causing a widening of credit spreads between the risk-free rate and the expected rate of return on investments. The capital requirement depends on the market value, duration and rating of the issuer. **As of December 31, 2019, the Spread SCR amounted to €8.1 million, down €1.2 million compared with the previous financial year**.
- **The Currency SCR represents** the change in the value of the underwriting assets and liabilities denominated in non-euro currencies generated by a change in exchange rates of more or less 25%. The company's exposure to currency risk is increasing, particularly due to activities in the United Kingdom and Poland. **As of December 31, 2019, the Currency SCR of La Parisienne Assurances amounted to €1.6 million**, up €1.3 million in connection with the increase in exposure to zlotys and pounds sterling.
- **The Concentration SCR** represents the volatility risk implied in its investment portfolios by overexposure to a single issuer. The capital requirement depends on the exposure to the issuer in question and its rating. **As of December 31, 2019, the amount of the Concentration SCR of La Parisienne Assurances was €0.1 million,** due to the growth of the investment portfolio, which mechanically lowered below 1.5% the relative weight of all lines in the investment portfolio, with the exception of one.
- **The Real Estate SCR** represents the risk on real estate assets arising from the sensitivity of the value of assets, liabilities and financial instruments to changes

affecting the level or volatility of the market value of real estate assets, **It amounted to €2.3 million as of December 31, 2019,** down €1.5 million compared with December 31, 2018**.**

- **After aggregation and diversification of the various risks, the Company's Market SCR amounted to €14.4 million,** up €0.6 million compared with the previous financial year.

- **The Counterparty SCR** is broken down into 2 sub-categories:
- **The type 1 counterparty SCR** corresponds to the loss that would result from the default of the listed counterparties of La Parisienne Assurances and depends on the amount of their rating and exposure including the Best Estimate of the transferred Provisions net of the value of the pledges granted by the reinsurers, the non-life SCR savings following the transfers to reinsurers and bank deposits. **As of December 31, 2019, the type 1 counterparty SCR amounted to €1.2 million, down €0.7 million compared to the previous financial year**, in connection with better recognition of pledges compared with 2018.
- **The type 2 counterparty SCR** corresponds to the loss that would result from a massive default of the counterparties recorded in the insurance receivables (insureds and brokers), calculated according to the age of the receivables (more or less than 3 months). **As of December 31, 2019, the type 2 counterparty SCR was valued at €5.2 million** and posted an increase of €0.1 million compared with the previous financial year. This change is explained by good management of the level of receivables throughout the year.
- **After aggregation of the two sub-modules, the Counterparty SCR amounted to €6.1 million,** down €0.5 million compared with the previous financial year.

- **The Health underwriting SCR** is marginal given the low weight of Health in the company 's portfolio, **and amounts to €1.1 million as of December 31, 2019**, an increase of €0.7 million compared with the previous financial year following the increase in the volume of future premiums on the Loss of Income LoB.

- **The Non-Life underwriting SCR** reflects the risk of under-pricing and under-provisioning of the company after geographical diversification, as the commitments of La Parisienne Assurances have been distributed among France, Italy, Poland, the United Kingdom, Ireland, Spain, the Netherlands, Germany and an area grouping Réunion Island and the Caribbean, as well as the risk of natural or man-made disasters:
- **For the "Premiums and Reserves" SCR,** the capital required is determined by applying a volatility coefficient specific to each of the Business Lines to the Best Estimate of Net Loss Provisions for the under-provisioning risk and to the Net "Premium volume" for the under-pricing risk. For La Parisienne Assurances, the "Premium volume" defined in the Standard Formula is equal to the sum of the maximum between the Premiums acquired for the 2019 financial year and the Premiums to be acquired for the 2020 financial year, the Premiums to be acquired in 2021 for contracts renewed until December 31, 2020, and the Premiums to be acquired

for the first two months of 2021 for policies underwritten from 1 November 2020. **As of December 31, 2019, the SCR of "Premiums and Reserves" amounted to €19.5 million,** up €2.0 million compared with the previous financial year, due to the growth in premiums expected for 2020.

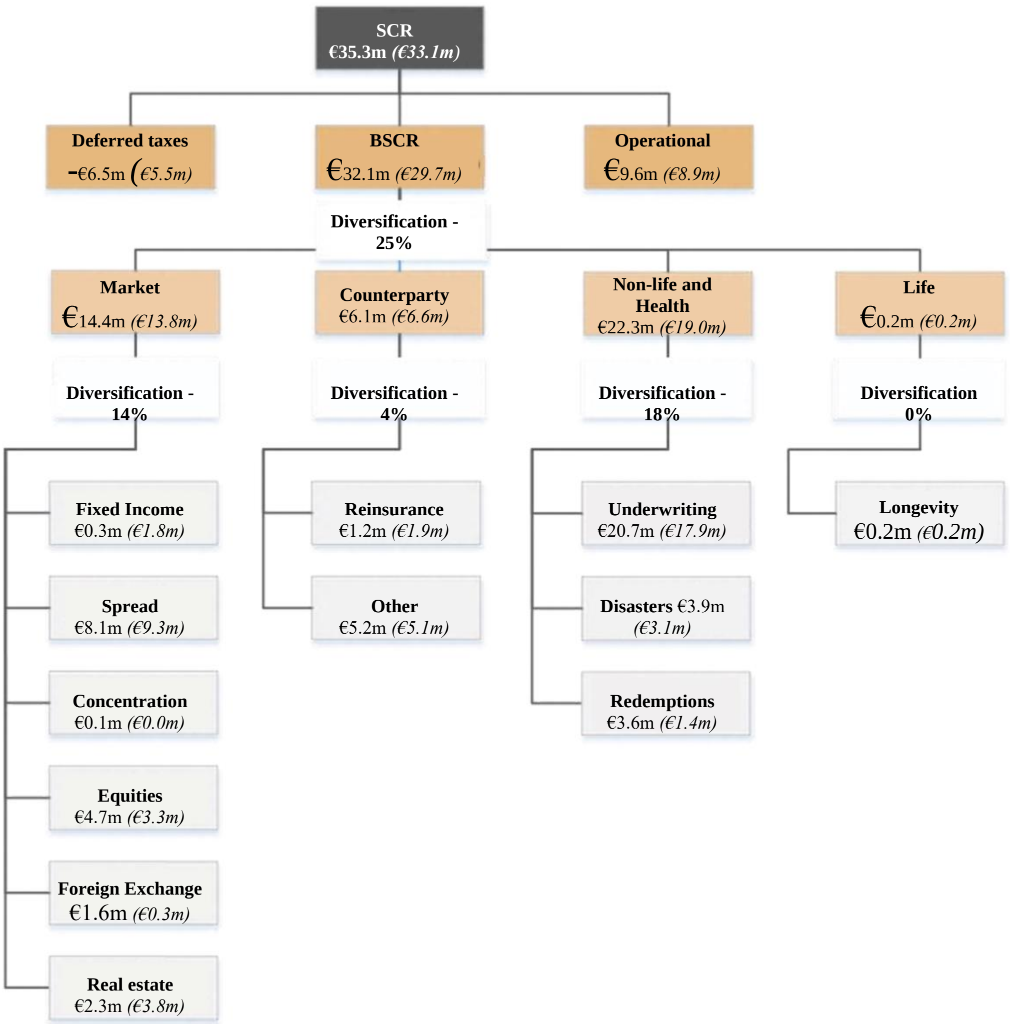
- **The Disaster SCR** is estimated using the "Helper Tabs" provided by the EIOPA. It also incorporates the specific "Disaster" risk into the "Miscellaneous Financial Loss Insurance" Business Line. The Disaster SCR is reduced by the application of the Reinsurance Treaties applicable to the "Fire and Other Property Damage Insurance" and "Other Motor Vehicle Insurance" Business Lines. **As of December 31, 2019, the Disaster SCR amounted to €3.9 million,** up €0.8 million compared to the previous financial year due to an increase in exposure to natural disaster risks, particularly in the United Kingdom.
- **The non-life termination SCR** materializes the lapse risk resulting from the loss, or adverse change in the value of insurance commitments, resulting from fluctuations affecting the level or volatility of rates of termination, maturity or renewal of policies. **At December 31, 2019, it was valued at €3.6 million**, an increase of €2.2 million compared with the previous financial year due to an increase in the best estimate of premiums**.**
- **After aggregation and diversification of the various sub-modules, the company's non-life SCR as of December 31, 2019 amounted to €21.1 million,** an increase of €2.5 million compared with the previous financial year.

- After applying the risk correlation matrices provided for by the standard formula, the sum of individual SCRs benefits from a diversification effect of 25% to reach a **BSCR of €32.1 million as of December 31, 2019**, up €2.4 million compared with the previous financial year. This increase is mainly due to the increase in underwriting risks in Non-Life and Disaster, explained above.

Total Solvency Capital Requirement and Total Minimum Capital Requirement

- **Total Solvency Capital Requirement (SCR) as of December 31, 2019,** which is sum of the Basic SCR (BSCR), operational SCR and depreciation by taxes, **amounted to €35.3 million:**
- **Operational SCR** is a measure of the risk of loss resulting from inappropriate or defective internal procedures, personnel or systems, or external events. It also includes legal risks, but excludes reputational risks and risks arising from strategic decisions. **As of December 31, 2019, the amount of the Operational SCR of La Parisienne Assurances amounted to €9.6 million**, an increase of €0.7 million compared with the previous financial year due to the increase in Market and Non-Life underwriting risks.
- **Deferred tax depreciation** corresponds to the tax credits associated with the loss of the BSCR and the Operational SCR. **At December 31, 2019, the adjustment was valued at €6.5 million**, up €1.0 million compared with the previous financial year.

SCR module tree as of December 31, 2019
(Amounts as of December 31, 2018 in parentheses)



6.3. Company-specific parameters

Article 104(7) of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) allows non-life insurance companies, under certain conditions and subject to the supervisory authority's agreement, to replace, in the design of the standard formula, a subset of its parameters with parameters that are specific to the company, in order to calculate underwriting risks.

La Parisienne Assurances does not use this option.

6.4. Compliance with the overall solvency requirement

SCR and MCR coverage ratios as of December 31, 2019

(in millions of euros)	As of December 31, 2018	As of December 31, 2019
Financial capital, including	**49.9**	**57.3**
Tier 1	30.2	35.2
Tier 2	19.7	19.8
Tier 3	-	2.3
Capital eligible for conversion into SCR	**46.7**	**52.8**
SCR	33.1	35.3
SCR coverage ratio	141.1%	149.6%
Capital eligible for conversion into MCR	**31.8**	**36.9**
MCR	8.3	8.8
MCR coverage ratio	385%	419%

- **La Parisienne Assurances complies with the overall solvency requirement as of December 31, 2019:**
- **As of this date, the SCR coverage ratio is 150%** and the MCR coverage ratio is 419%.
- **The SCR coverage ratio** is significantly higher than in 2018. This is explained by lower growth and a high transfer of usage-based insurance in the context of new partnerships, but also by the improvement in the company's underwriting profitability, which allows the company to face an increase in SCR, and to increase its capital.
- **The MCR coverage ratio** improved by 34 pts, a change consistent with the SCR since its valuation leads keeping the SCR floor of 25% for the same reason as in the 2018 financial year.

6.5. Other Capital Management Information

All information relating to capital management is presented in full in paragraphs 6.1. to 6.4.