

Approved by the Supervisory Board of  
RC NRC JSC  
(Minutes No. 7 dated 26.12.2016).

Reviewed by the Reinsurance  
Board  
(Minutes No. 2 dated 23.11.2016).

### **Net Retention of NRC for 2016-2017**

The proposals on NRC net retention for 2016-2017 are based on the current size of capital of the company, expectations on capital increase by mid-2017 up to RUB 71 billion and on the following:

- Company's position to structure incoming reinsurance into three priority groups (by risk appetite);
- Additional restriction on retention under the basic scenario of max. 50% of the ceded risk;
- Assumptions on catastrophic risk reinsurance contract conclusion;
- Results of capital requirements modeling based on Solvency 2 principles in additional assumption on high probability of positive annual profit of the Company.

NB: These restrictions on the size of net retention of NRC may not apply to sanction risks and facilities in the Crimea for which it will be impossible to provide catastrophic risk coverage.

The amounts of net retentions by separate types of insurance are provided below:

	RUB billion
Property	2.5
Construction and Assembly Operations	2.5
Wells	1
Builders' hull liability	2.5
Marine (hull)	1
Ship owners' Liability	0.5
Cargo	2.5
Aviation (hull)	1
Aviation (liability)	1
Space Risks	1
General Liability	2.5
Professional Liability	1
Directors' Liability	1
Financial Risks / Bank Insurance	1
Other Risks	0.5

These amounts are used in the ordinary course of business. In specific cases, the amount of net retention for one-time projects may be increased by resolution of the Management Board of RC NRC JSC after consideration by the Risk Committee of RC NRC JSC.

#### Net Retention Calculations

The abilities of the Company were assessed on the basis of the following assumptions:

1. Stochastic modeling of extreme events only based on conservative estimate of event probability.
2. Independence of events is assumed.
3. Probability of events and the number of risks for the market in general are determined by experts. At that, the company strove to ensure comparability of the expected number of events broken down by separate risks with historic data on known large losses.  
Severity of the case was not modeled - in all cases total loss in the amount of net retention was assumed.  
The said assumptions are conservative which is evident from the expected amount of payments which materially exceeds the indicators of NRC budget and the reinsurance market indicators in general adjusted to the possible share of NRC.
4. The obtained assumptions were modeled using the simulation of 100 thousand scenarios and deviation of 99.5% and 99.9% of expected loss quintile was determined as the capital requirements.
5. Additional capital requirements in respect of attritional losses were determined on the basis of rough conservative generalization of standard formula - 20% capital

allocation of the amount of planned premiums was used as the capital requirements.

6. Requirements in respect of catastrophic risks were determined on the basis of stress scenario - 5 losses in the amount of net retention.
7. Requirements in respect of other risks were determined on the basis of approach of Solvency II standard formula and planned indicators (first of all, in respect of the investment portfolio).

## General capital requirements

Million RUB

<b>SCR</b>	<b>20,485</b>
Operational Risk	228
<b>BSCR (Base SCR)</b>	<b>20,257</b>
Insurance Risk	19,691
Risk of Premiums and Reserve Risk	15,215
Catastrophic Risk	12,500
Counterparty Default Risk	35
Market Risk	1866
Interest rate risk	764
Spread Risk	146
Concentration Risk	1662

## Calculation in respect of severe losses

Calculations of incurred losses by separate business lines

Million RUB

Type	NR	Average number	Average loss	Number of losses once in 200 years	Amount of losses once in 200 years
Property	2,500	1.0	2,500	4	10,000
Construction and Assembly Operations	2,500	0.1	250	1	2,500
Wells	1,000	1.0	1,000	4	4 000
Builders' hull liability	2,500	0.1	250	1	2,500
Marine (hull)	1,000	0.1	100	1	1,000
Ship owners' Liability	500	0.01	5	1	500
Cargo	2,500	0.1	250	1	2,500
Aviation (hull)	1,000	1.0	1,000	4	4 000
Aviation (liability)	1,000	1.0	1,000	4	4 000
Space Risks	1,000	1.0	1,000	4	4 000
General Liability	2,500	0.1	250	1	2,500
Professional Liability	1,000	0.1	100	1	1,000
Directors' Liability	1,000	0.1	100	1	1,000
Financial Risks / Bank Insurance	1,000	0.5	500	2	2,000
Other Risks	500	1.0	500	4	2,000
<b>Total</b>		<b>7,2</b>	<b>8,805</b>	<b>34</b>	<b>43,500</b>

Calculations of incurred losses in respect of the portfolio as a whole in case of independence of insured events

Million RUB

Amount of Incurred Losses		
Average	Once in 200 years	Once in 1000 years
8,805	20,000	22,500
<b>Capital</b>	<b>11,195</b>	<b>13,695</b>