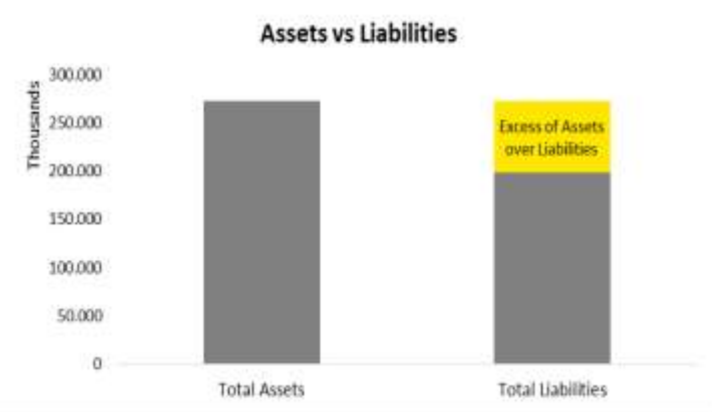
Appendix 4a

Individual Results

Non-Life Companies

1. Generali Insurance AD (SII)

The Company's Balance Sheet is composed of BGN 273.4m Assets and BGN 198.4m Liabilities leading to Own Funds amount of BGN 75m.

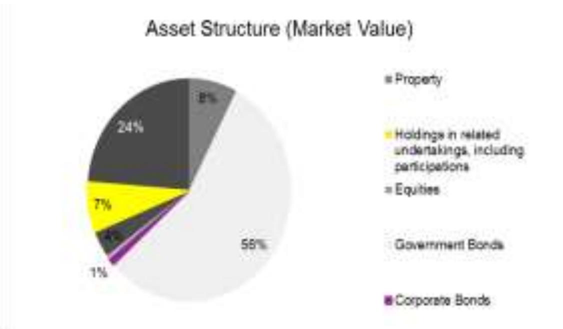


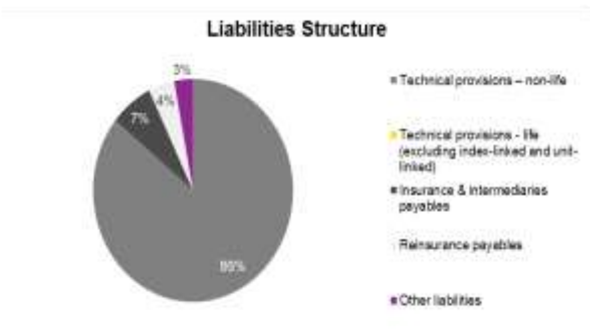
Tiering:

Basic own funds are comprised only by Tier I items:
- Ordinary Share Capital BGN 47m
- Reconciliation Reserve BGN 28m

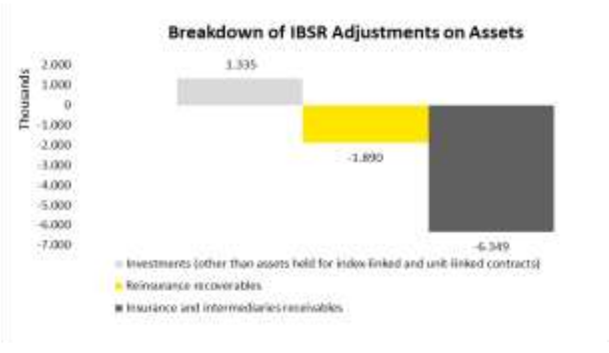
Mainly as a result of the adjustments to technical provisions and insurance receivables, combined with the impact on deferred tax liability, the Own Funds decreased by BGN 4,4m.

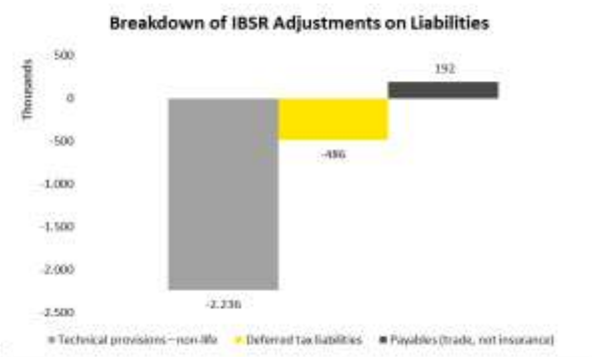
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 6.9m and the total Liabilities decreased by BGN 2.5m.





Assets

On the assets side, main adjustments refer to decrease of BGN 6m in insurance receivables and are due to missing complete run-off analysis of policyholder receivables, subsequent cash collections, cancellations and residual receivables. Also, reinsurance recoverables for claims provisions decreased by BGN 1.9m following the IER analysis described in the following paragraph. The increase in investments is mainly due to the difference in the sources used by the undertaking and IER to value government bonds. It is to be noted that the IER used Bloomberg Last (LCPR) compared to most of the participating IERs that used Bloomberg BGN or Reuters to value government bonds (the difference for common ISINs selected for review being of BGN 1.6m (decrease in adjusted assets).

Liabilities

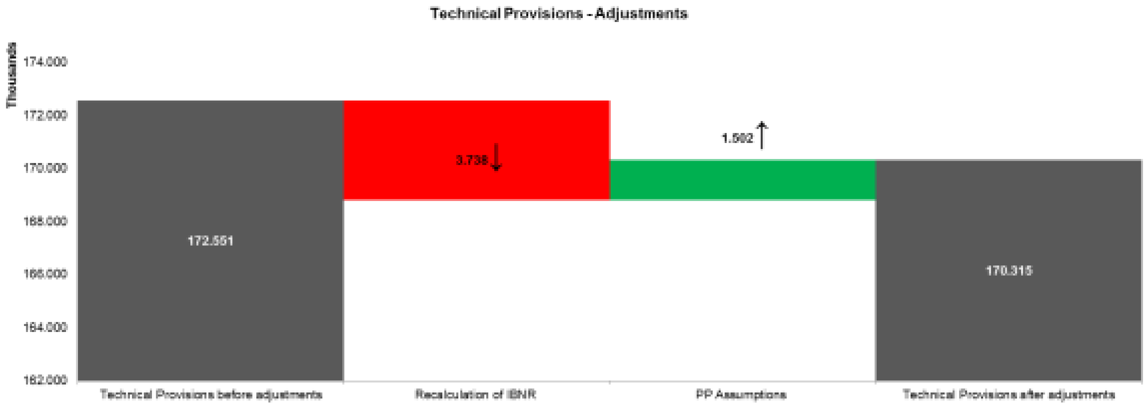
Total liabilities decreased by BGN 2.5m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease by BGN 486k in DTL.
- Increase by BGN 192k in Payables (trade, not insurance) – accruals resulting from the IER's search of unrecorded liabilities after 30 June 2016.

Adjustments in Technical Provisions

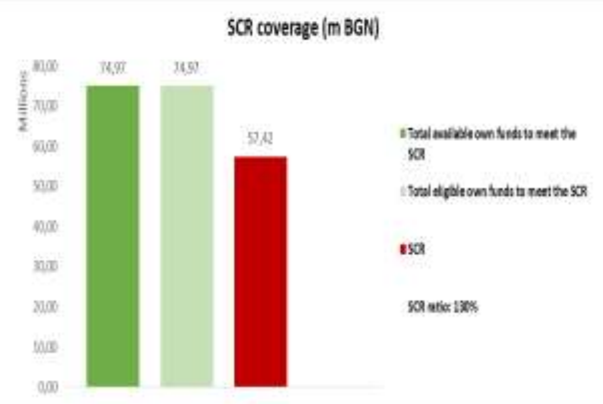
The total amount of the adjustments is BGN 2.2m and further breakdown is presented below:

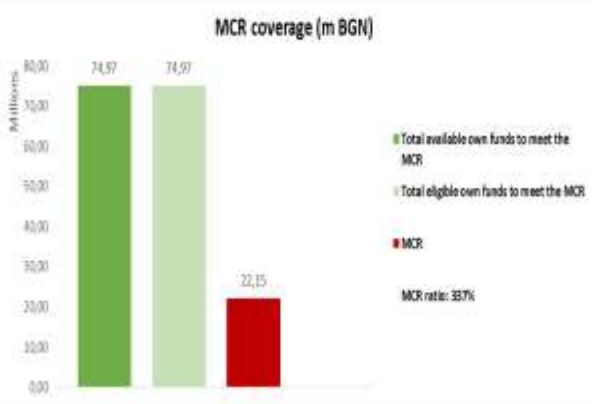


- The undertaking performed roll forward approach on YE2015 results, in line with EIOPA Level 3 guidelines on valuation of technical provisions (Guideline 51).
- The IER has performed roll forward as well, however based on different re-calculation methods for the IBNR and different assumptions (loss ratio, payment patterns) affecting both Claims (decrease of BGN 3.738k) and Premium Provisions (increase of BGN 1.502k).
- Following the adjustments on gross Technical Provisions, reinsurance recoverable were also decreased by BGN 1.890k.

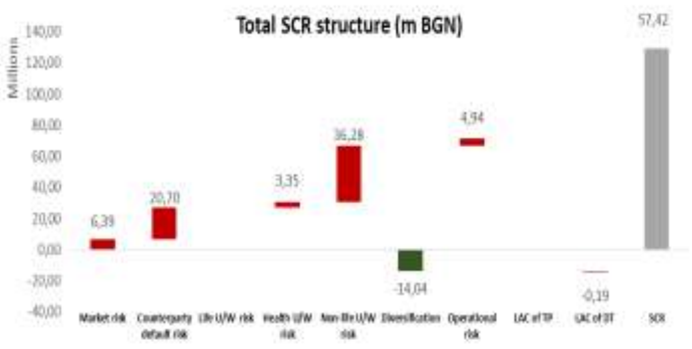
Capital Requirements Compliance

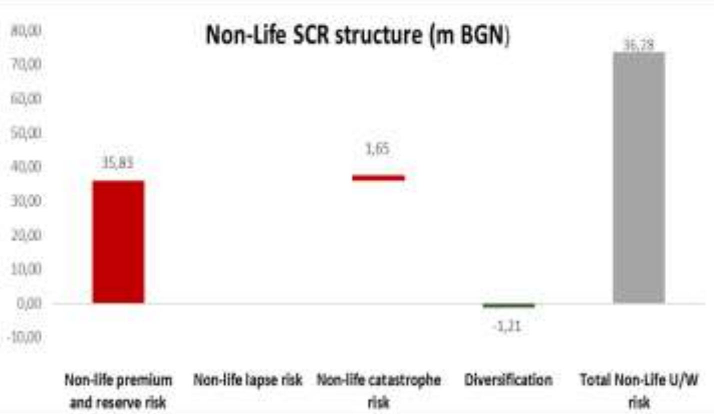
The initial solvency position of Generali Insurance AD was 139% SCR and 356% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 130% and MCR equal to 337%, remaining in compliance.





The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.





As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Counterparty Default Risk. Specifically, exposure to Counterparty Default Risk is equal to approximately BGN 20.7m, whereas exposure to Non-Life Underwriting Risk is equal to approximately BGN 36.3m as at HY2016.

The Non-life premium and reserve risk (BGN 35.83m) and Non-life catastrophe risk (BGN 1.65m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

No significant issues noted.

Corporate Governance, processes and internal control framework, accounting policies

The system of governance has been assessed as robust and appropriate for the undertaking size and business although it has been noted that the undertaking is using extensively the Generali Group policies that in some cases should be further developed to better reflect its environment and operations.

2. GP Reinsurance EAD (SII)

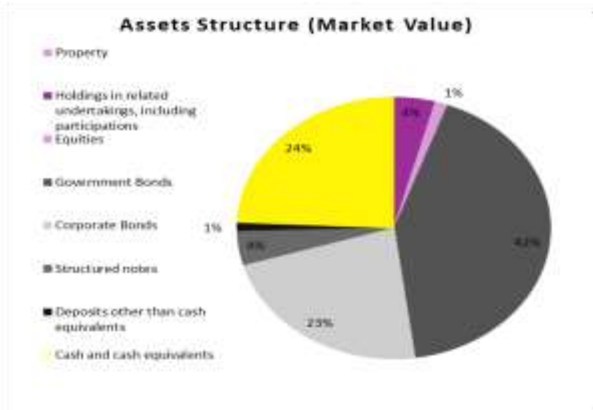
The Company's Balance Sheet is composed of BGN 2.485m Assets and BGN 1.449m Liabilities leading to Own Funds amount of BGN 1.036m.

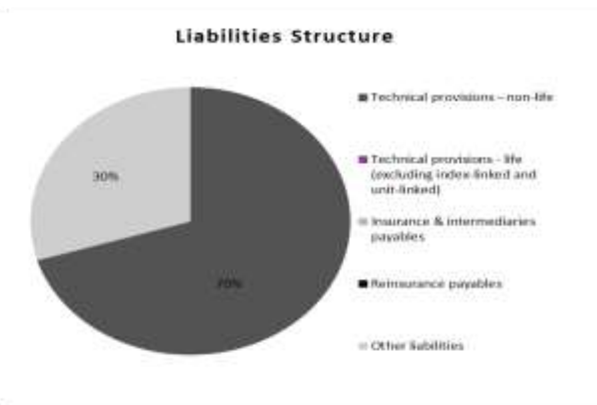
Adjustments to technical provisions influenced both SCR and MCR, the increase in both capital requirements being compensated by an increase in Own Funds.

Basic own funds comprise only Tier 1 items and are equal to the excess of assets over liabilities of BGN 1.036m.

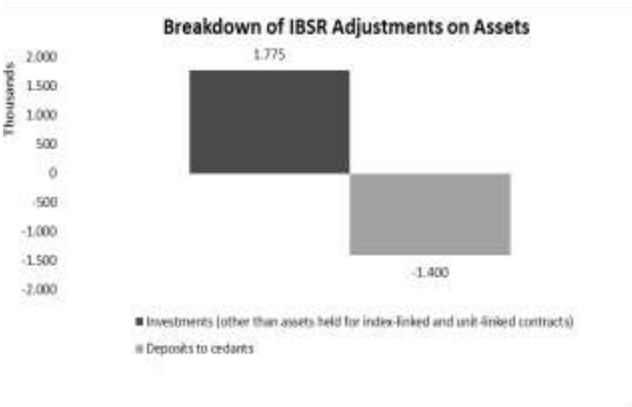
As a result of the IBSR exercise, the Own Funds increased by BGN 31.9m.

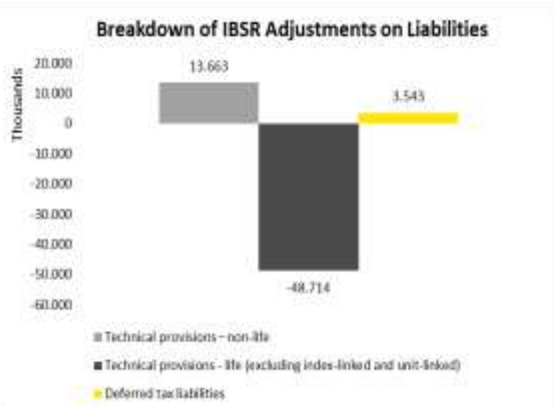
The structure of the balance sheet is presented below:





As analyzed below, the total Assets increased by BGN 375k and the total Liabilities decreased by BGN 31.5m.





Assets

On the assets side, main adjustments refer to an increase of BGN 1.8m from bonds; increase by BGN 4.646k from government bonds and decrease by BGN 2.871k corporate bonds. The decrease by BGN 1.400k reflects the changes in final terms compared to those in a draft reinsurance treaty.

It is to be noted that the IER used Bloomberg Last compared to most of the participating IERs that used Bloomberg BGN or Reuters to value government bonds (the difference for common ISINs selected for review being of BGN 66k decrease in adjusted assets).

Liabilities

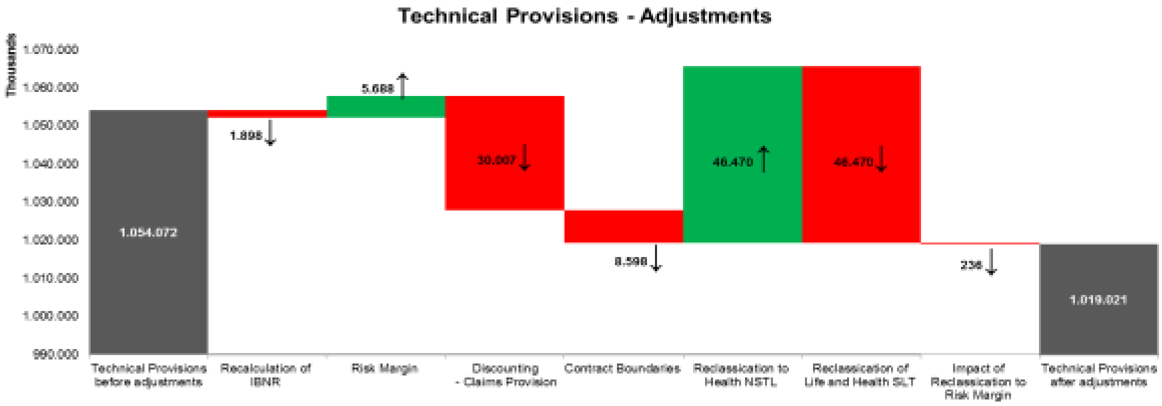
Total liabilities deceased by BGN 31.5m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Increase by BGN 3.5m in DTL.

Adjustments in Technical Provisions

The total amount of the adjustments is decrease by BGN 35m and further breakdown is presented below:

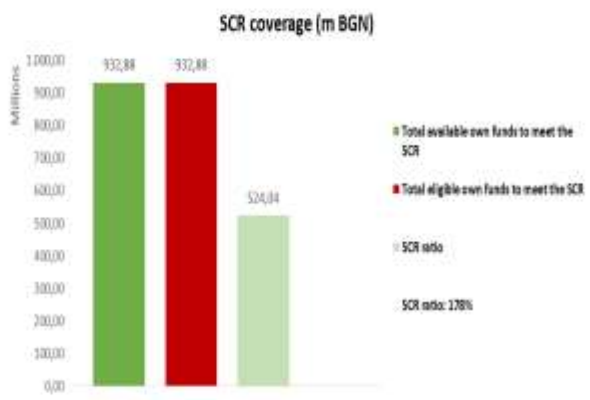


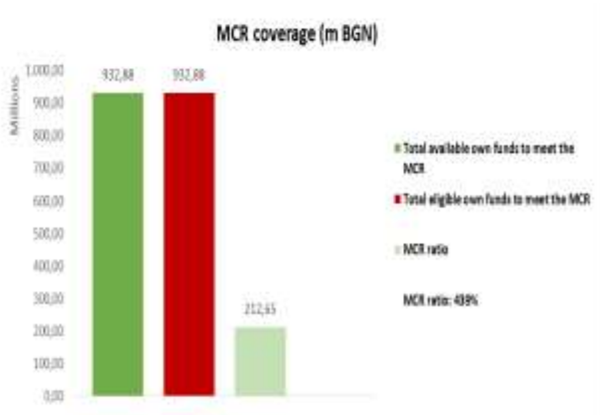
- The Company used CZK RFR for all liabilities (even for liabilities in other currency). The IER performed the appropriate adjustment (RFR curve per currency) leading to a gross decrease of BGN 30m. The company has initiated procedures in order to ensure that from 1.1.2017 and on the Claims Provision will be calculated using the correct RFR per currency.
- A reclassification adjustment has also been performed on Life (excluding Health) portfolio to Health NSLT. It concerns accidental riders to main life covers. The IER proposed to reclassify the business bringing no impact on total TPs.
- A negative impact of approximately BGN 8.6m was performed by the recalculation of the Premium Provision. A certain percentage of the portfolio has clauses for non-termination (the treaty cannot be terminated under other than predefined situations). GP Re calculates PP only based on UPR. In most cases UPR is zero as contracts are written on an earned premium basis. However, if the portfolio cannot be arbitrarily terminated, GP Re should also take into account future written premiums and related cash flows within contract boundaries for SII purposes.

- The undertaking performed roll forward approach on YE2015 results, in line with EIOPA Level 3 guidelines on valuation of technical provisions (Guideline 51). The IER performed full recalculation for MTPL LoB and roll forward on different assumption for the other LoBs. The different assumptions underlying the recalculation performed, led to BGN 1.9m decrease on TPs.
- Risk Margin was decreased by BGN 5.9m mainly by the adjustments performed on the level of SCR and TPs.

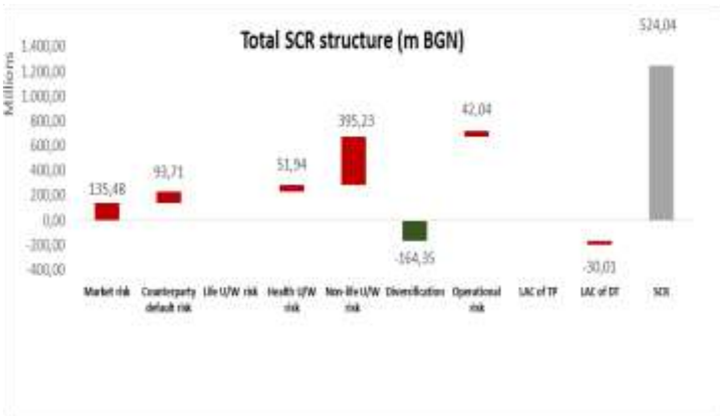
Capital Requirements Compliance

The initial solvency position of GP Reinsurance EAD was 172% SCR and 441% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 178% and MCR equal to 439%, remaining in compliance.

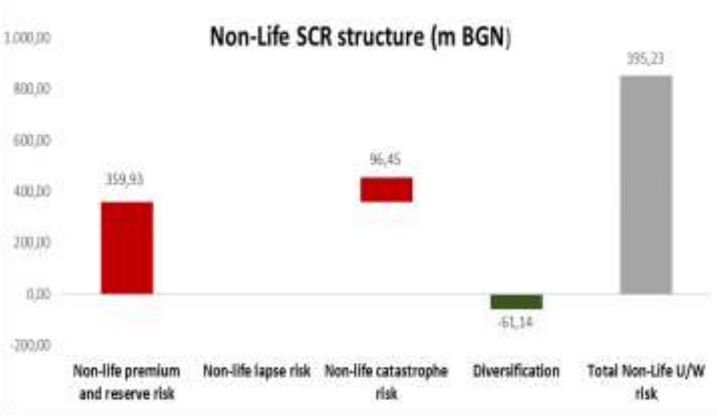




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 395.2m, whereas exposure to Market Risk is equal to approximately BGN 135.5m as at HY2016.



The Non-life premium and reserve risk (BGN 359.93 m) and Non-life catastrophe risk (BGN 96.45 m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Currency risk (BGN 67.67 m)
2. Spread risk (BGN 46.42 m)
3. Interest rate risk (BGN 36.35 m)

The company uses CZK as operational currency without having granted approval by the FSC.

Reinsurance – Effectiveness of Risk Transfer

As is the case with all reinsurance companies, GP Re is generally required to rely on data provided by the cedants, and as a result faces certain data limitations compared to direct insurers. One such case, identified during the review concerns annuities stemming from non-life portfolio, particularly MTPL bodily injury claims.

Corporate Governance, processes and internal control framework, accounting policies

The system of governance has been assessed as robust and appropriate for the undertaking size and business although it has been noted that the undertaking is using extensively the Generali Group policies that in some cases should be further developed to better reflect its environment and operations.

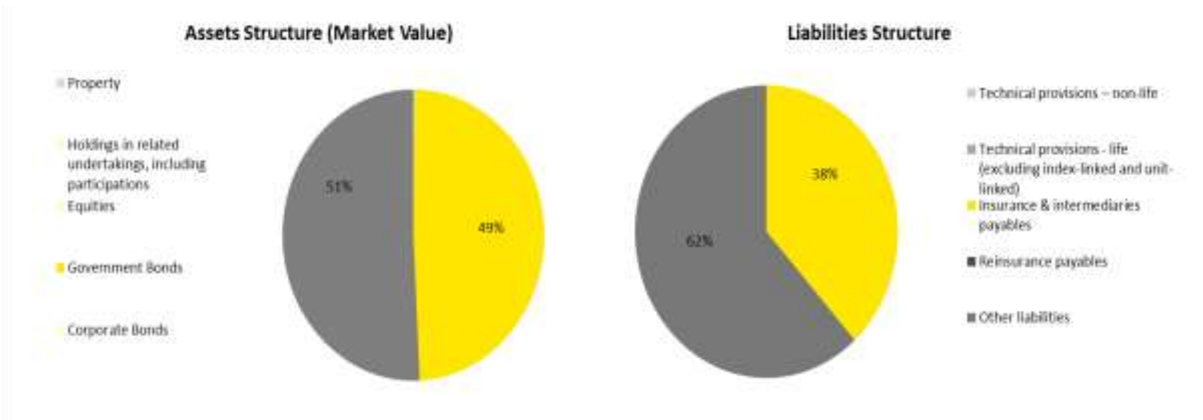
3. INSURANCE COMPANY NOVA INS EAD (SII)

The Company's Balance Sheet is composed of BGN 8.4m Assets and BGN 1.2m Liabilities leading to Own Funds amount to BGN 7.2m.

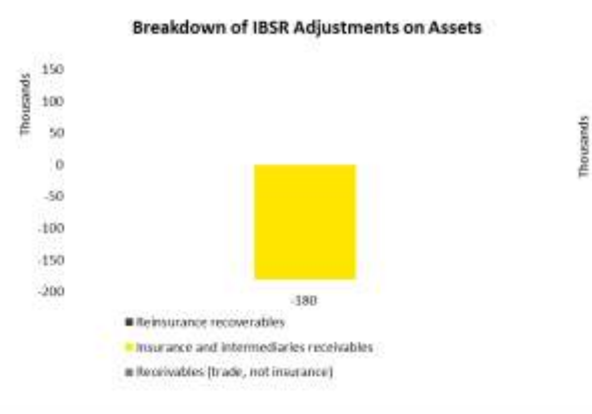
Basic own funds comprise only Tier 1 items and are equal to the excess of assets over liabilities of BGN 7.2m less expected dividend payment of BGN 581k.

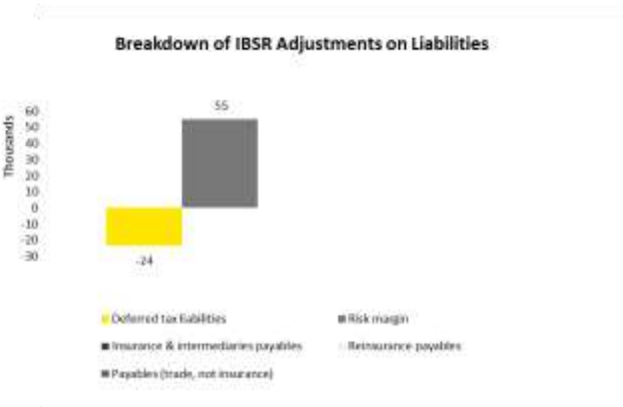
As a result of the IBSR exercise, the Own Funds decreased by BGN 212k.

The structure of the balance sheet is presented below:



As analyzed below, the total Assets decreased by BGN 180k and the total Liabilities increased by BGN 32k.





Assets

On the assets side, the adjustment of BGN 180k (decrease in balance) has been proposed to correctly account for the insurance and intermediaries receivables.

In case of insurance receivables from policyholders, the historical assumption could not be applied in case of Nova Ins.

Liabilities

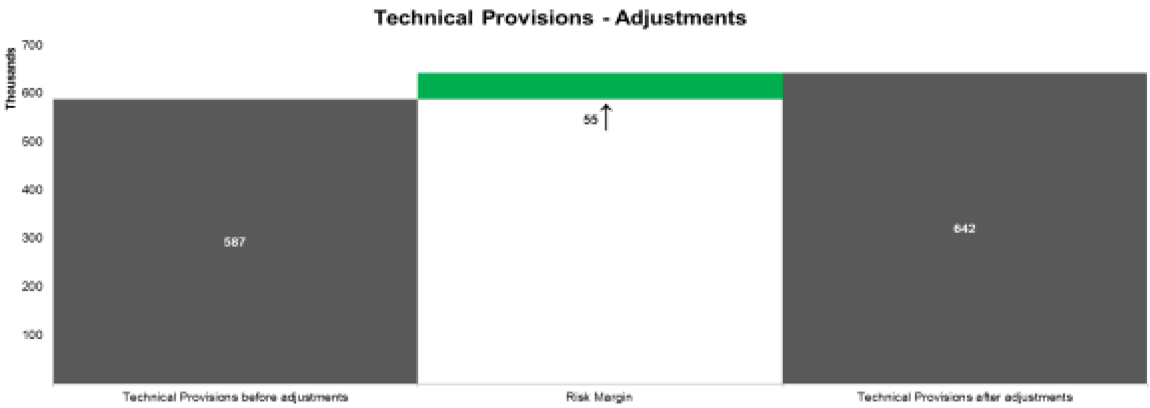
Total liabilities increased by BGN 31.5k due to the following adjustment proposed:

Adjustments in liabilities other than technical provisions

- Decrease by BGN 23.5k in DTL.

Adjustments in Technical Provisions

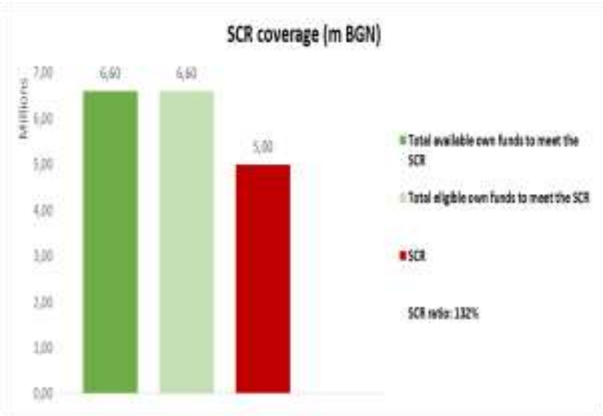
The total amount of adjustments is increase by BGN 55k and further breakdown is presented below:

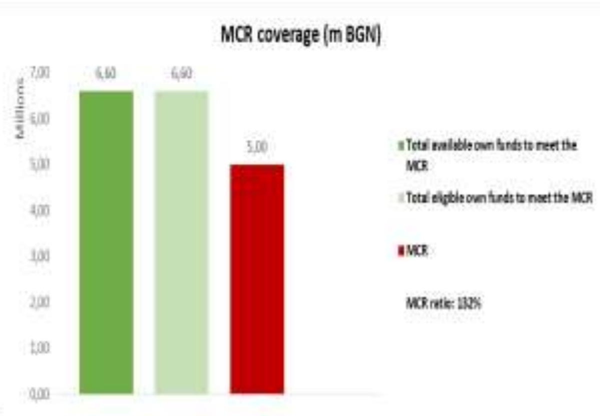


- The only adjustment on the Technical Provisions steams from the Risk Margin. The RM was calculated by the company as a % on Best Estimate. This calculation applied is not any of the EIOPA defined simplifications, hence the IER performed recalculation based on the 3rd simplification.
- Apart from the adjustment on TPs, liabilities were also impacted by a decrease of BGN 24k on deferred tax based on the adjustments on TPs and receivables from policyholders.

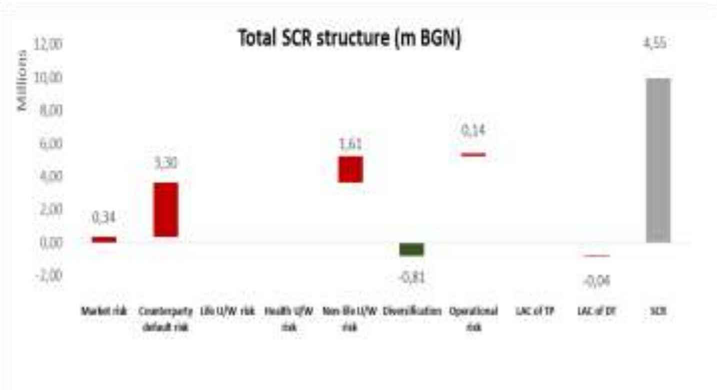
Capital Requirements Compliance

The initial solvency position of INSURANCE COMPANY NOVA INS EAD was 136% SCR and 136% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 132%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR, remaining in compliance.





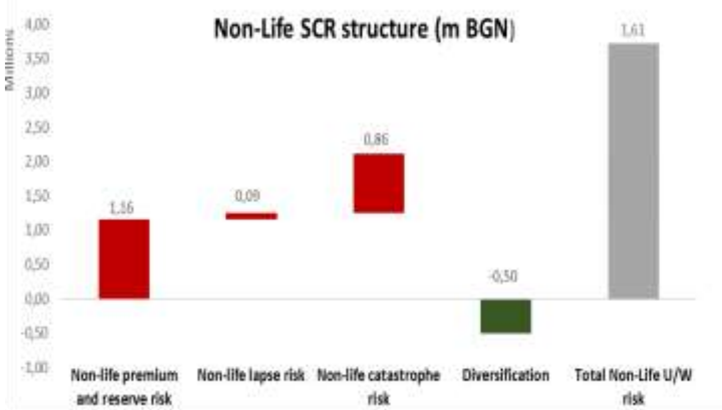
The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Counterparty Default Risk and Non-Life Underwriting Risk. Specifically, exposure to Counterparty Default Risk is equal to approximately BGN 3.3m, whereas exposure to Non-Life Underwriting Risk is equal to approximately BGN 1.61m as at HY2016.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Concentration risk (BGN 0.2 m)
2. Interest rate risk (BGN 0.19 m)
3. Spread risk (BGN 0.11 m)



The Non-life premium and reserve risk (BGN 1.16 m) and Non-life catastrophe risk (BGN 0.86 m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

No significant issues reported.

Corporate Governance, processes and internal control framework, accounting policies:

The Company's Corporate Governance system is designed and implemented based on the Vienna parent Group model, taking in consideration the size and complexity of operations and product types.

Main findings noted by the IER refers to the fact that the risk management policy does not explicitly include monitoring measures on actual or potential exposure to reputational and strategic risks and the interrelationship between these risks and other material risks as well as key issues affecting its reputation, considering the expectations of stakeholders and the sensitivity of the market. Also, the Investment policy of the Company does not include the conditions under which the undertaking can pledge or lend assets. Furthermore, the EIOPA Guideline 25 – Investment risk management policy requires the Company to cover, within the investment risk management policy, the link between market risk and other risks in adverse scenarios.

In relation with EIOPA Guideline 55 - Independent review and verification of valuation methods, the IER noted that the undertaking should ensure that an independent review of the valuation methods, following Article 267 (4)(b) of Commission Delegated Regulation 2015/35 takes place before the implementation of a new method or a major change, and on a regular basis thereafter in accordance with the guideline and legislation applicable and recommends the Company to update its accounting policy and/or internal rules documentation to meet the requirements of the Guideline.

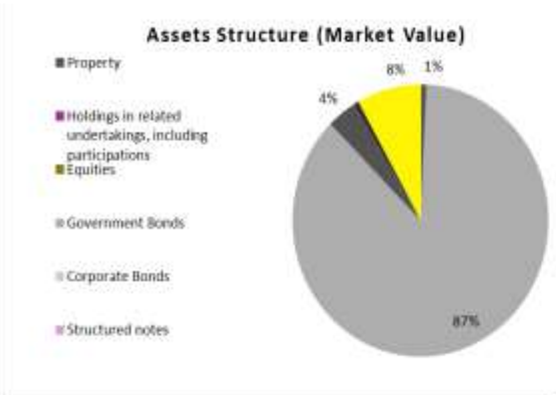
4. GROUPAMA ZASTRAHOVANE EAD (SII)

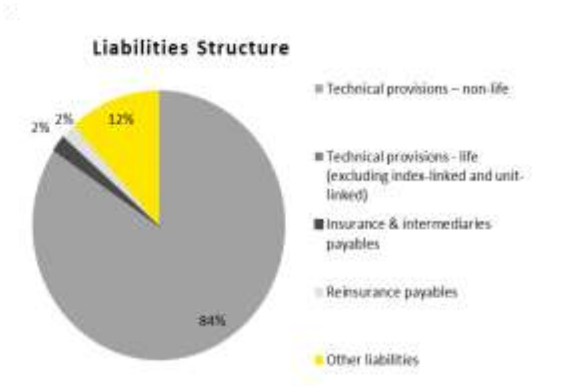
The Company's Balance Sheet is composed of BGN 17.3m Assets and BGN 8.7m Liabilities leading to Own Funds amount of BGN 8.6m.

Basic Own Funds comprise only Tier 1 items and are equal to the excess of assets over liabilities of BGN 8.6m.

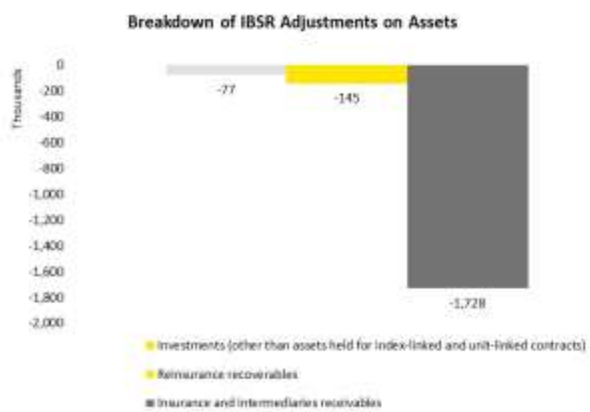
As a result of the IBSR exercise, the Own Funds decreased by BGN 1.2m.

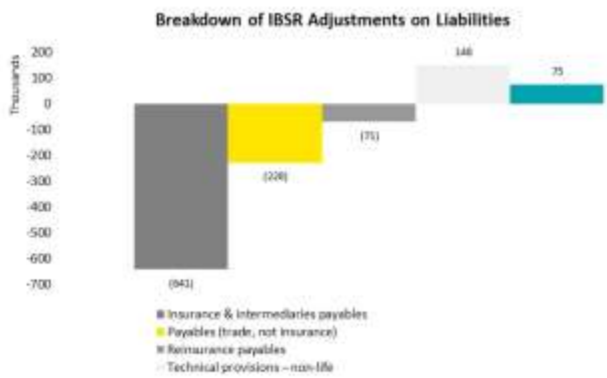
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 1.9m and the total Liabilities decreased by BGN 715k.





Assets

On the assets side, the decrease by BGN 1.9m is mainly due to the correction of the insurance and intermediaries receivables, the adjustment proposed by the IER being in value of BGN 1.7m and refers to the following issues identified:

- The IER noted that the Company has not separated UPR for already paid premium and part of UPR which is related to future installments. In Premiums provisions calculation full UPR amount is used as initial input and no undue receivables are included (nor are the corresponding commission payable included). Everything is combined under UPR, to which the combined ratio is applied.
  The undue premiums and payables related to the in force contracts are recognized under Receivables from policyholders and Payables to intermediaries (the contract boundary for the majority of the contracts is one year and the receivables include the annualized gross written premium related to those contracts, the Payables include the annualized commission expense). An adjustment was proposed to reclassify the Receivables and Payables which are not due to best estimates of liabilities.
  Thus, insurance and intermediaries receivables were adjusted by the IER with the amount of BGN 1.282k to correct for the above (decrease in balance).
- Another BGN 446k decreased the insurance and intermediary receivables following the IER adjustments related to differences identified in impairment of receivables.

Other adjustments on the assets side include the following:

- Decrease by BGN 145k of reinsurance recoverables following the derecognition of premium reserve ceded for XoL reinsurance treaties as the IER noted that there is no significant history of recoveries from reinsurance on these treaties;
- Decrease by BGN 77k of treasury bills: As the Company values the bonds using the 6 banks average price as provided by Price Information Center, the IER used Bloomberg bid quotations.

Liabilities

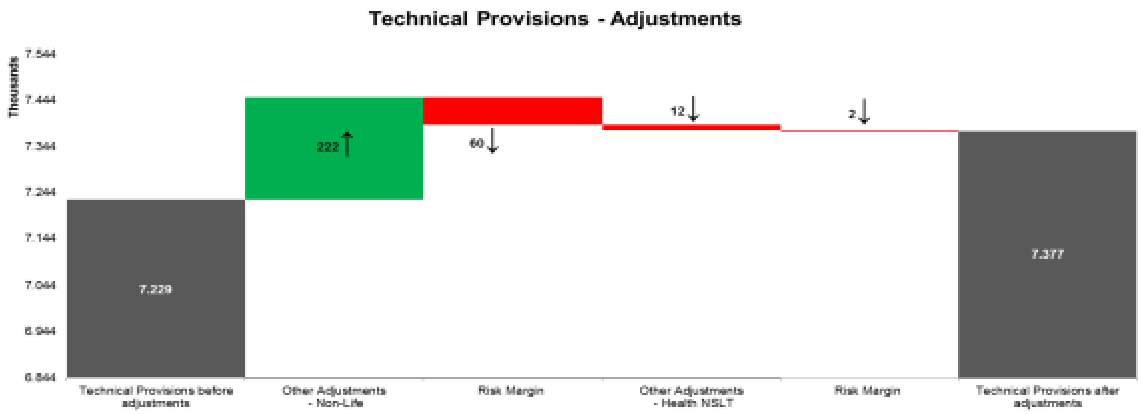
Total liabilities decreased by BGN 715k due to the following adjustment proposed:

Adjustments in liabilities other than technical provisions

- The adjustments described above in the assets side impacted the payables accounts (insurance & intermediaries payables, reinsurance payables, payables trade - not insurance) leading to a total decrease of BGN 938k.
- Increase of Pension Benefit Obligations by BGN 75k.

Adjustments in Technical Provisions

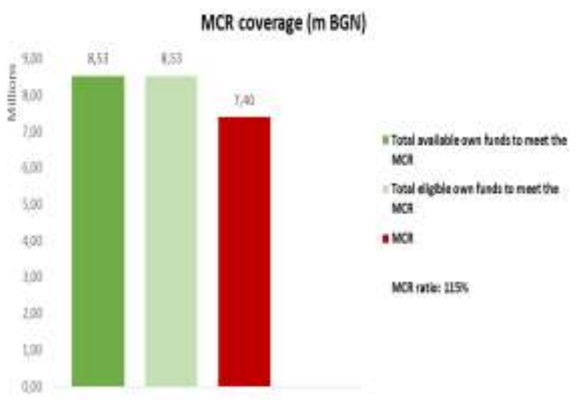
The total amount of the adjustments is an increase by BGN 148k and further breakdown is presented below:



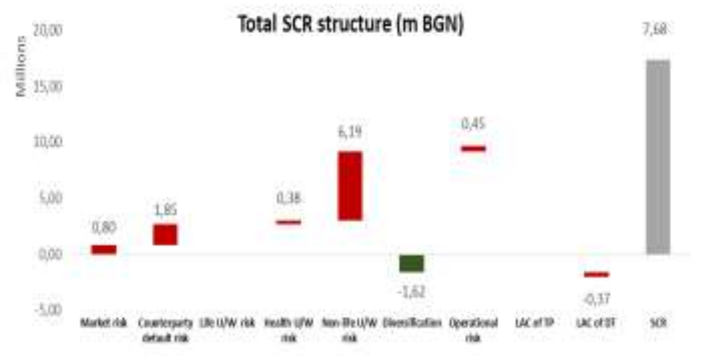
- On the Claims Provisions part, adjustments stem from:
    - ► The re- estimation of IBNR calculation. The main differences were noted for Motor and Fire.
    - ► The IER derecognized 11a reserve - the company includes 11a reserve for MTPL. The IER states that such reserve should not be recognised under Claims provisions, but should be assessed via combined ratio in Premiums Provisions calculation. The IER has performed recalculation of the CP without taking into account such reserve.
    - ► No ULAE reserve is calculated by the Company but the IER performed recalculation.
- On Premium Provisions part:
    - ► Different assumptions were used by the IER leading to slightly higher results.
    - ► The company used the net of DAC UPR amount. Adjustment performed by the IER on the Premium Provisions.
    - ► The Company applies volatility adjustment only using BGN curve for the whole portfolio. The UPR amount denominated in EUR, USD and GBP share is considered insignificant by the company. For Premiums provisions calculation EUR and BGN curves with volatility adjustment were applied by the IER.
- The company is applying 4th simplification (duration approach) and projects risk margin for 3 year and is using 2% as risk-free rate. The IER performed recalculation based on the 3rd simplification leading to a decrease of BGN 2k.

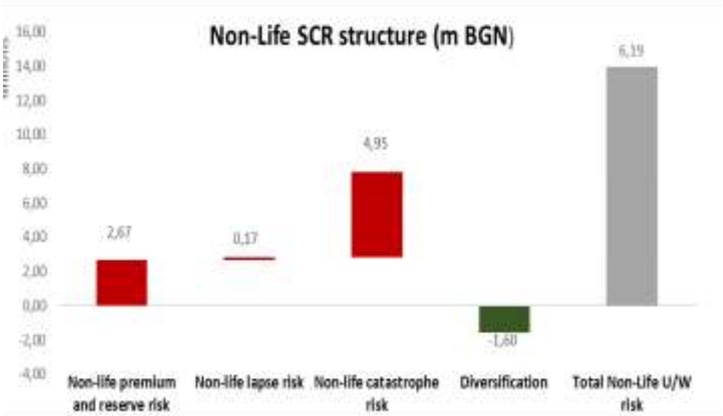
Capital Requirements Compliance

The initial solvency position of GROUPAMA ZASTRAHOVANE EAD was 133% SCR and 132% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 112% and MCR equal to 115%, and is compliant Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.





As presented in the table on the side the majority of the capital requirements comes from Counterparty Default Risk and Non-Life Underwriting Risk. Specifically, exposure to Counterparty Default Risk is equal to approximately BGN 1.85m, whereas exposure to Non-Life Underwriting Risk is equal to approximately BGN 6.19m as at HY2016.

The Non-life catastrophe risk (BGN 4.95m) and Non-life premium and reserve risk (BGN 2.67m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer:

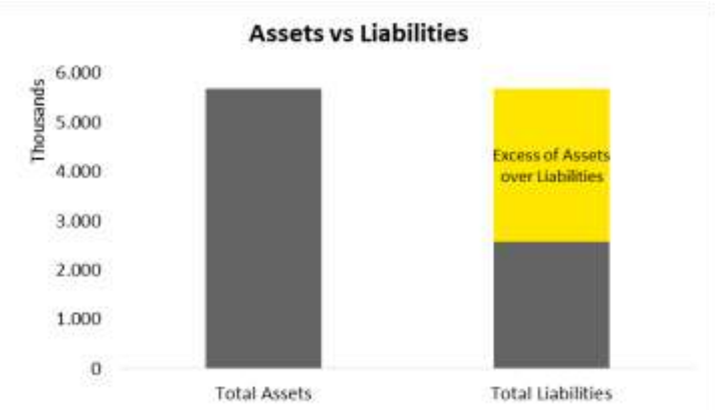
Following the review, the IER noted that there are no indicators that the risk transfer is not reasonably self-evident.

Corporate Governance, processes and internal control framework, accounting policies:

The Solvency II framework implementation within the company's internal framework is finalized except for the compliance policy, ORSA policy and actuarial function policy.

5. Nadejda Insurance (SI)

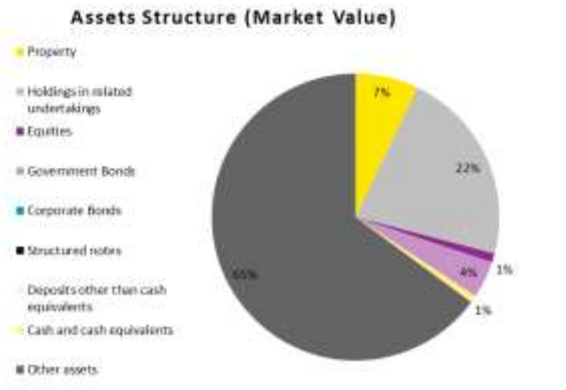
The Company's Balance Sheet is composed of BGN 5.7m Assets and BGN 2.6m Liabilities leading to Own Funds amount of BGN 2.3m.

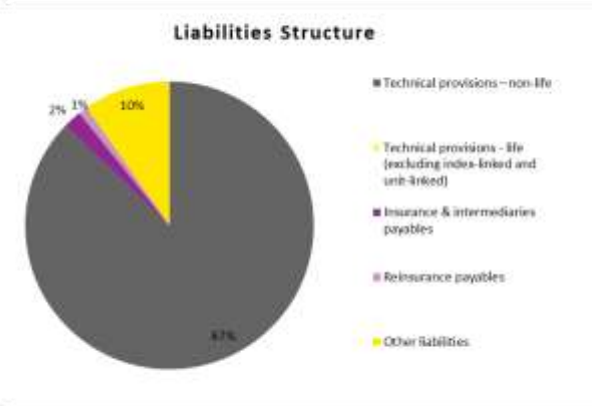


As a result of the IBSR exercise, the Own Funds decreased by BGN 5.2m.

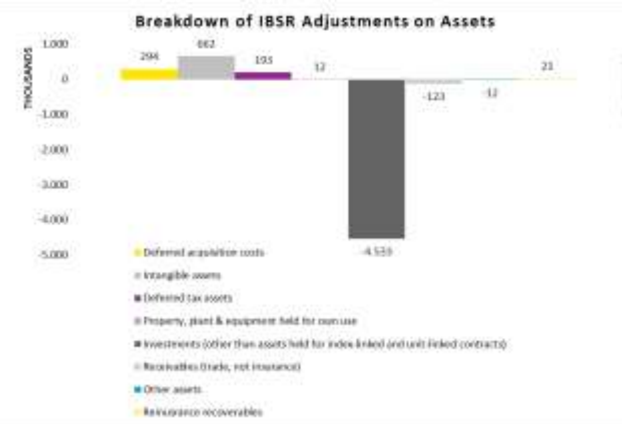
The initial solvency position of Nadejda Insurance was 163% Solvency Margin. Following the recalculation of the prudential parameters the Company has available adjusted Solvency Margin of 49% not meeting the adjusted required Solvency Margin as per the requirements of Solvency I framework (Insurance Code and Ordinance 51 of FSC).

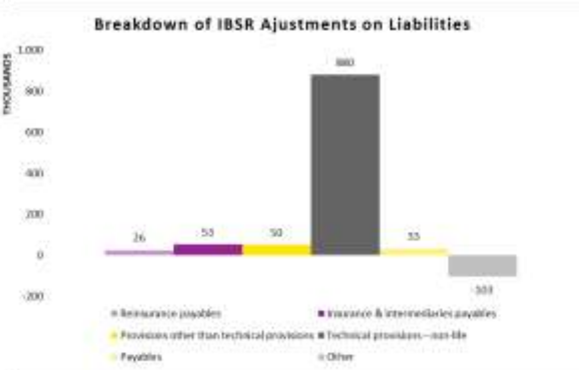
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 3.5m and the total Liabilities increased by BGN 940k.





Assets

On the Assets side, the main adjustment of BGN 4.5m (decrease) has been proposed to correctly account for the investments (other than assets held for index-linked and unit-linked contracts) as follows:

- Property (other than for own use) was adjusted by BGN (3.047)k and refers to:
  - a building under construction. A right of construction over a plot of land owned by a related party. The IER noted that, at the date of their report, there is no construction plan submitted or approved by local authorities. The land is empty and not yet ready for construction. Also, the IER assessed that there is no active market for the construction right, since it relates to a specific plot of land and construction type, with specific characteristics that cannot be similar to other construction rights. Consequently, the IER considered that the construction right should be valued at its historical cost as at 30 June 2016.

- Holdings in related undertakings was adjusted by BGN 991 thousands (decrease): The IER noted that the valuation reports of these holdings contains a series of issues (like lack of proper or complete documentations, calculation errors, unexplained adjustments, elements of assets and liabilities not valued at market value). As a consequence, the IER did not rely on these and valued the participation under the equity method.
- Equities were adjusted by BGN 495k (decrease).

Liabilities

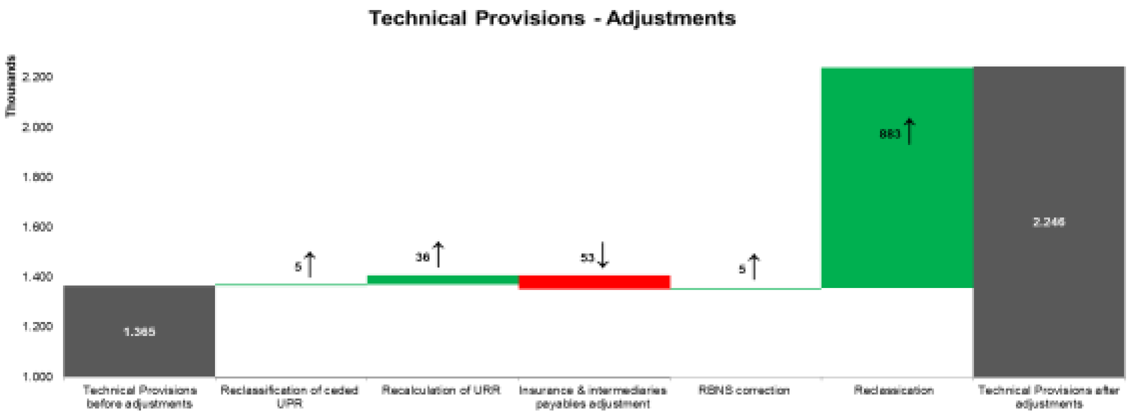
Total liabilities increased by BGN 940k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Increase of Provisions other than technical by BGN 50k.
- Decrease of DTL by BGN 103k.
- Increase of Insurance & Intermediaries payables by BGN 53k.
- Increase of reinsurance payables by BGN 26k.
- Increase of payables (trade, not insurance) by BGN 33k.

Adjustments in Technical Provisions

The total amount of the adjustments is increase by BGN 880k and further breakdown is presented below:



- In the SI BS, the Company deducted ceded UPR in respect of one reinsurance treaty with (4.943 BGN) from both Health NSLT and Non - Life Technical Provisions. The IER proposed an adjustment with respect of ceded UPR as follows: (1) reclassification of the UPR from netting liabilities in respect of general insurance technical provisions to reinsurance recoverables; (2) write off the second deduction of the ceded UPR to P&L.
- UPR used by the Company is presented net of DAC, under local regulatory requirements. Consequently, the balance sheet reflects a DAC equal to zero, and a UPR reserve netted with the DAC. For the purpose of the exercise, in order to separately reflect an asset (DAC) from a liability (gross UPR), the IER performed adjustment on UPR, i.e. the gross amount is presented in the BS. The adjustment caused an increase of BGN 36k in Non - Life portfolio and BGN 883k in Health NSLT.
- Reclassification of trade payables with a claim handling services rendered for non-life insurance portfolio to RBNS, as claim handling fee reserve. The IER has figured out that the company is outsourcing an immaterial portion of its claim handling process and is collaborating with several underwriting intermediaries for its general insurance portfolio (with immaterial commissions expenses in the period under review), however the transaction volumes with these service providers may increase in the future on account of portfolio developments. The increase of BGN 5k on RBNS is because the amount is considered to be claims handling fee.

Reinsurance – Effectiveness of Risk Transfer

The reinsurance treaties cover a small portion of the Company's insurance portfolio (property and personal accident products) and are concluded with external third parties of high credit standing.

The Company does not have any inward reinsurance. Also, the Company's main insurance product (Health) is not covered by any reinsurance treaty. However, the IER noted that, based on the Company's history of very small individual health payments, there is no severity risk pertaining to the product resulting in major capital at risk.

The IER noted that the Company lacks a formalized reinsurance program and a documented analysis with regards to the effectiveness of risk transfer. The reinsurance policy covers only the Company's general insurance portfolio and is insufficiently detailed in order to meet Solvency II corporate governance requirements.

Corporate Governance, processes and internal control framework, accounting policies

Following the review, the IER identified several issues in respect of:

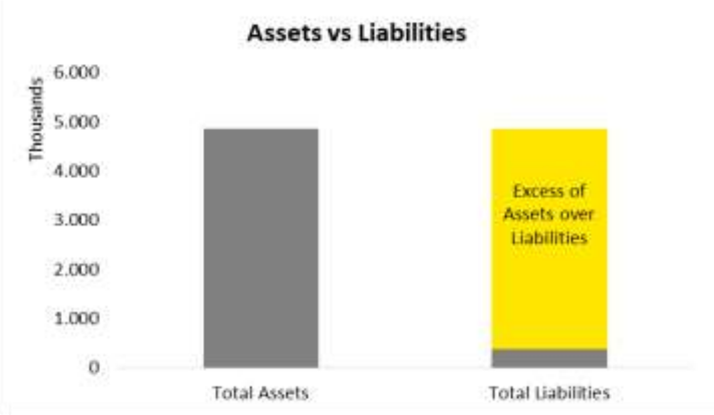
- Segregation of duties with regards to key function and remuneration
- Absence or insufficient formalization of internal policies and procedures and periodic reports
- Information technology environment

Also, it was identified by the IER the absence or insufficient formalization of controls in the Company's internal policies and procedures.

In respect of the Company's accounting policies, in order to ensure compliance to Solvency I prudential and fair value principles, the independent reviewer recommended improvements regarding the Company's financial assets and insurance receivables impairment policy.

6. Health Insurance Institute JSC ("ZOI") (SII)

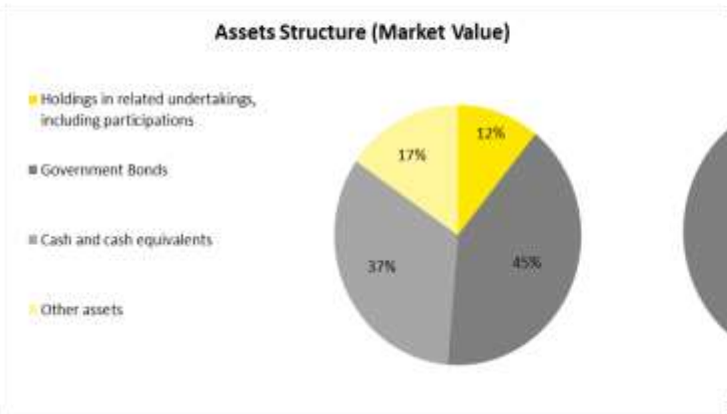
The Company's Balance Sheet is composed of BGN 4.9m Assets and BGN 379k Liabilities leading to Own Funds amount of BGN 4.5m.

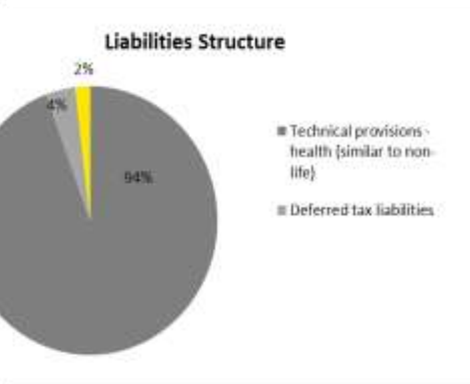


Basic own funds comprise Tier 1 items and are equal to the excess of assets over liabilities of BGN 4.5m.

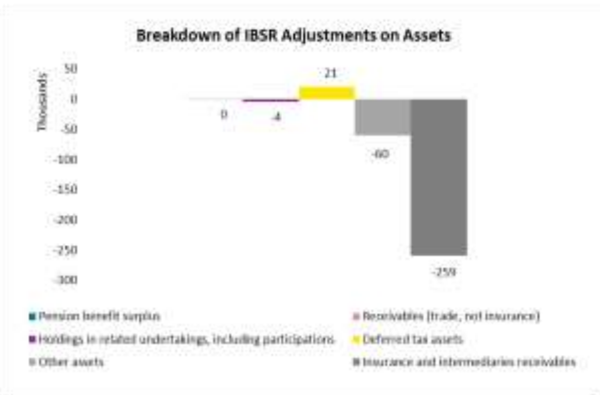
As a result of the IBSR exercise, the Own Funds decreased by BGN 275k.

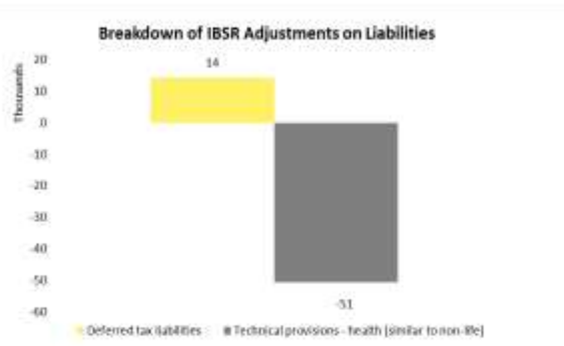
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 311k and the total Liabilities decreased by BGN 36k.





Assets

On the assets side, the decrease by BGN 311k is mainly due to the correction of insurance and intermediaries receivables: adjustment for future receivables not yet due – decrease in assets by BGN

227k and adjustment at the amount of the total insurance receivable for which no payments have been collected at the amount of BGN 32k (decrease in assets).

Another BGN 60k decreased the assets as a result of the IER's adjustment for the correction of the prepayments (the balance of prepayment recognized by the undertaking represents a payment made to the Regulator for the right to operate on the insurance market for 2016. As the asset cannot be sold or transferred at an ordinary transaction, the IER considered its fair value as of 30.06.2016 to be nil).

Liabilities

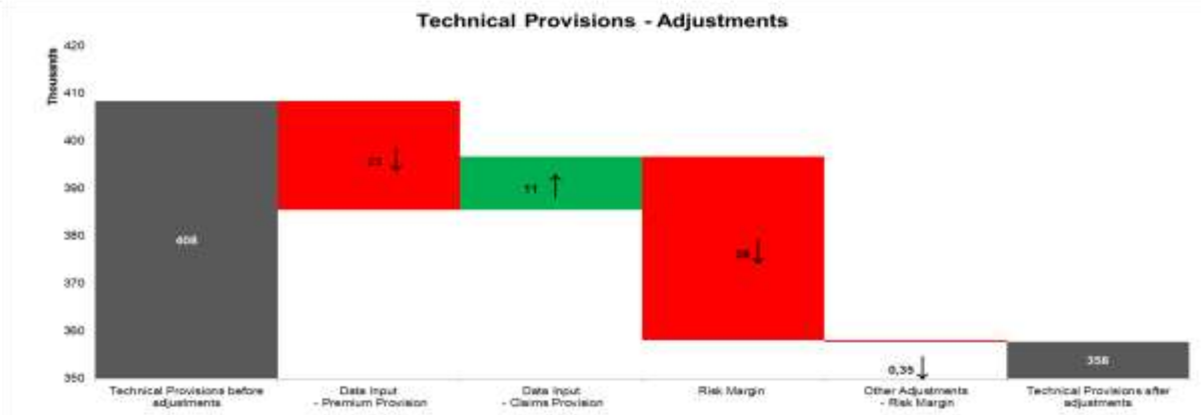
Total liabilities decreased by BGN 36k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Increase of DTL by BGN 14k.

Adjustments in Technical Provisions

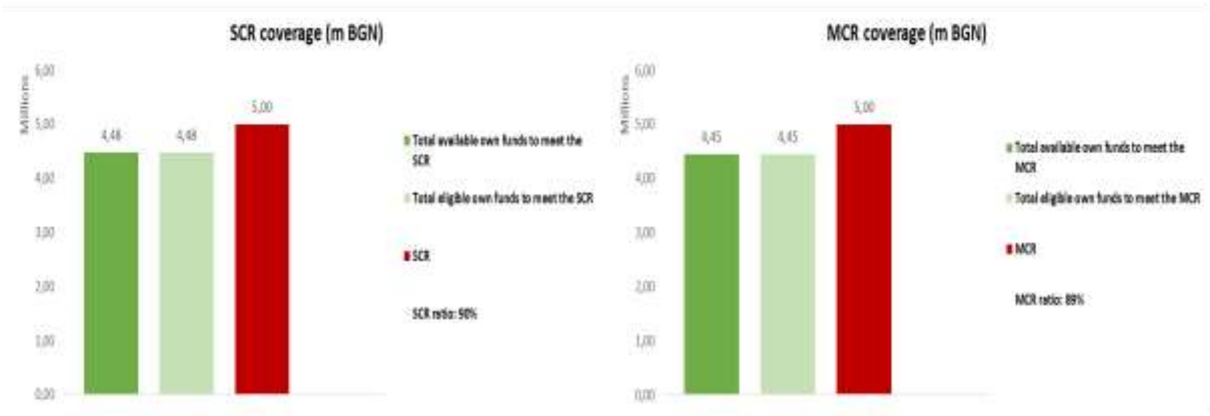
The total amount of the adjustments is BGN 51k and further breakdown is presented below:



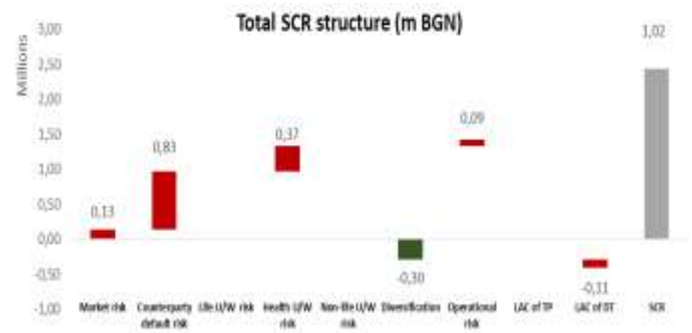
- The data input adjustments refer to:
    - Inclusion of future receivables that were allocated to the insurance receivables account (decrease of BGN 22k).
    - Discrepancies of the claims paid register (increase of BGN 11k).
- Other Adjustments are related to the recalculated SII BS and are not further explained by the IER.
- The Risk Margin decreased by BGN 80k since the IER used different assumption on the future run-off pattern (decrease of BGN 38k).

Capital Requirements Compliance

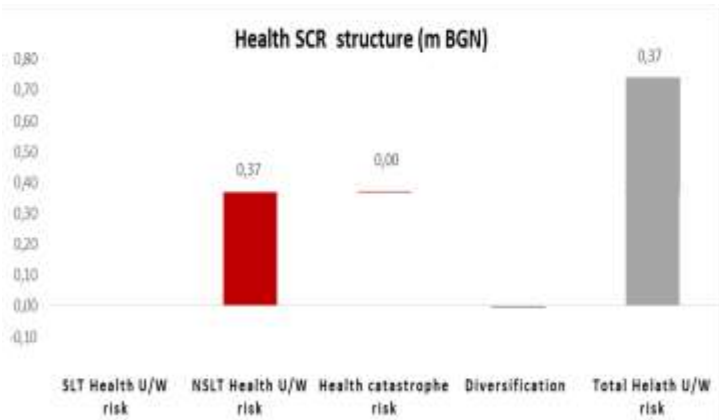
The initial solvency position of ZOI was 95% SCR and 95% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 89%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR, thus the company is not compliant.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Counterparty Default Risk and Health Underwing Risk. Specifically, exposure to Counterparty Default Risk is equal to approximately BGN 0.3m, whereas exposure to Health Underwriting Risk is equal to approximately BGN 0.4m as at HY2016.



Health NSLT (BGN 0.37 m) mainly contributes to the capital requirement for the Health Underwriting risk module.

Reinsurance – Effectiveness of Risk Transfer

The Company does not have any reinsurance treaties.

Corporate Governance, processes and internal control framework, accounting policies

The Company applies Corporate Governance requirements under Solvency II Directive since 01 January, 2016. Because of the close initial date of application of Solvency II (January 01, 2016), there are still items and guidelines which are in process of formalization into the internal policies and procedures.

The Company has developed a common document containing both its IFRS and Solvency II accounting policies. The document though lacks the necessary level of detail for a Solvency II accounting policy.

Also, to be noted that, due to the limited number of employees, the organizational structure approved as at 30 Jun 2016 is not implemented. Moreover, the Audit Committee is composed of the same three members as the BoD. Therefore, the function of the Audit Committee is not designed so as to ensure clear accountability and independence, since the Committee does not include independent members.

The process of identification and verification of the risks associated with the undertaking's business shall cover all significant risks in accordance with Solvency II framework. The Company has not developed written documents defining criteria for risk significance/materiality assessment. There are no defined quantitative principles for risk significance assessment.

As regards the actuarial function, this is performed by a certified actuary who performs the calculations of BE of technical provisions and valuation of SCR modules, though no detailed methodology is available.

Also, the IER noted that the undertaking has not implemented a procedure for impairment analysis on insurance receivables.

7. Bulgarian Export Insurance Agency EAD (BAEZ) (SII)

The Company underwrites insurance (1) on its own name and account "Own business" and (2) on its own name and on the account of the State "State Business". The State Business was not subject to BSR exercise.

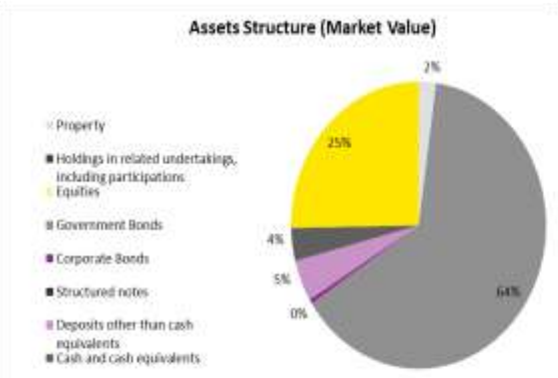
The procedures were performed on the separated Solvency II Balance Sheet and related SCR as of 30 June 2016 of the Own Business. The approval for the separation was obtained in the letter from the Ministry of Economy dated September 9, 2016.

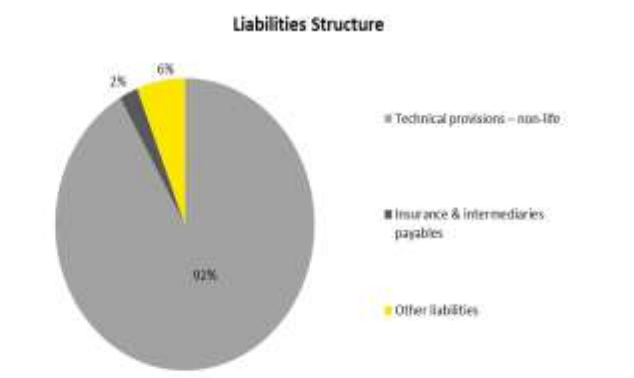
The Company's Balance Sheet is composed of BGN 25m Assets and BGN 7.8m Liabilities leading to excess of assets over liabilities in amount of BGN 17.2m.

Eligible Own Funds comprise only of Tier 1 items and are equal to the excess of assets over liabilities of BGN 17.2m adjusted with BGN 946k representing foreseeable dividends and distributions and deferred tax asset.

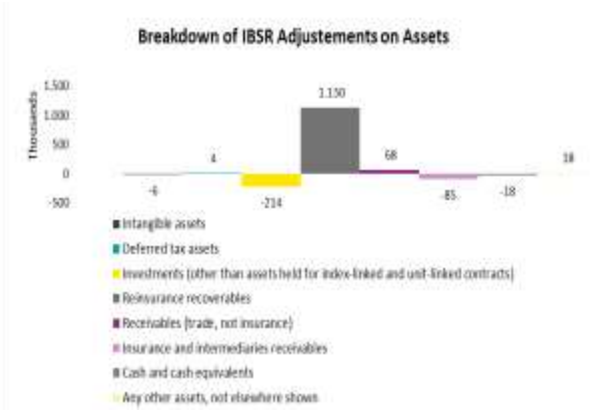
As a result of the IBSR exercise, the Own Funds decreased by BGN 1.5m.

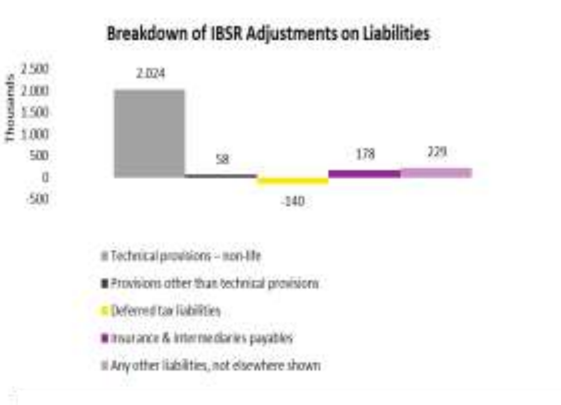
The structure of the balance sheet is presented below:





As analyzed below, total assets increased by BGN 547k and the total Liabilities increased by BGN 2.3m.





Assets

On the Assets side, the increase with BGN 547k is mainly due to the adjustment proposed for Reinsurance recoverables by BGN 1.1m as a result of an increase by BGN 2m in BEL, the ceded amount being estimated considering the QS reinsurance treaty and to the downwards adjustments for Bonds (BGN 214k) and Insurance and intermediaries receivables (BGN 85k).

Other adjustments included:

- Increase in Other Receivables with BGN 68k by updating the FV of the receivable (the company used a higher rate than the Risk-Free-Rate+CDS)
- Deferred tax impact adjustments and Intangible assets elimination in SIIBS
- Other adjustments include reclassifications between assets categories, without impact in Own funds

Liabilities

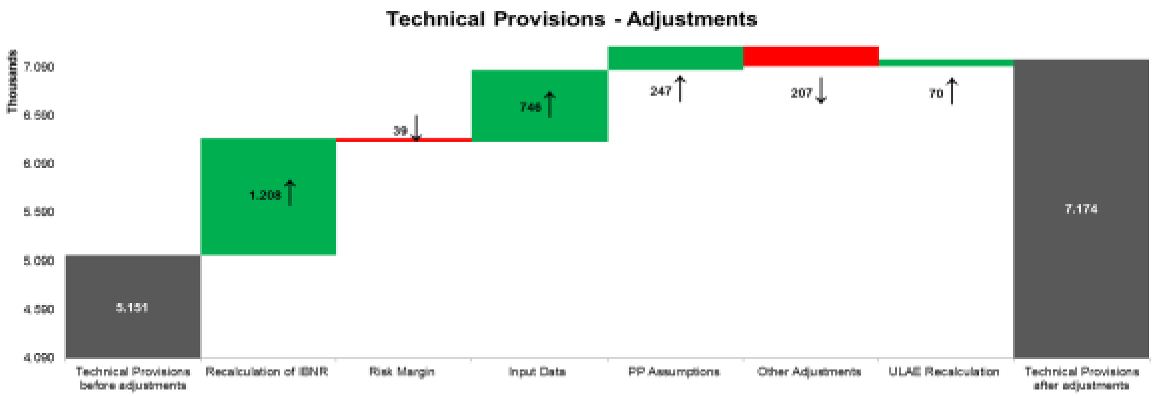
Total liabilities increased by BGN 2.3m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Unrecorded liabilities of BGN 229k reflected in other liabilities.
- Increase proposed for commission payable in amount of BGN 178k due to the fact the Company books the liability with the commission to intermediaries only when the premiums are collected and it was adjusted on accrual principle.
- Increase proposed in provisions in amount of BGN 58k.
- Effect of adjustments in deferred tax of BGN 139k derived mainly from temporary difference between fiscal balances and adjusted SII BS balances resulting in a net off of a deferred tax liability.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 2m and further breakdown is presented below:



- The IBNR re-estimation performed by the IER led to increase of Technical Provisions of about BGN 1,2m. The Company's IBNR method is considered by the IER not to estimate accurately the amount of ultimate paid claims.
- The company distinguishes the GWP used in the UPR computation between utilized part (i.e. turnover declaration and invoices were submitted by the policyholder) and not-utilized part (i.e. corresponding to invoices that were not submitted by the policyholder in the limit unused), and further diminished with 20% acquisition costs. In all cases, the UPR is estimated daily pro-rate of GWP (at invoice level for utilized GWP and at policy start date for not-utilized GWP). Hence, the IER adjusted the accounting UPR amount for the not-utilized part of GWP to 100% of un-utilized GWP leading to increase of BGN 745k.
- The recalculation of Premium Provision based on different Loss Ratio assumption caused an increase of BGN 246k.
- The IER performed estimation of ULAE reserve based on ULAE ratio, since the company does not have a methodology for ULAE reserve and thus does not calculate it. The company did not include future claims management expenses in the Premium Provision as well. The IER used the ULAE ratio as for Claims Provision and applied it to the future claims CFs resulted from BEL Premium Provision. The total adjustment from the recalculation of ULAE amounts to an increase of BGN 70k.
- The IER recalculated the premium refunds provision based on the contractual wordings which says that the bonus is granted at client level if no claims per client have occured. The Company estimated initially this reserve per policy with no claims. The adjustment takes into account the UPR after adjustments.
- Technical Provisions have also been adjusted for a difference between the amount reported by the company in the SI BS as Technical reserves and the amount from the Technical Reserves Computation file.
- Due to the adjustments on Best Estimate and further adjustments on SCR, the Risk Margin decreased by BGN 40k.

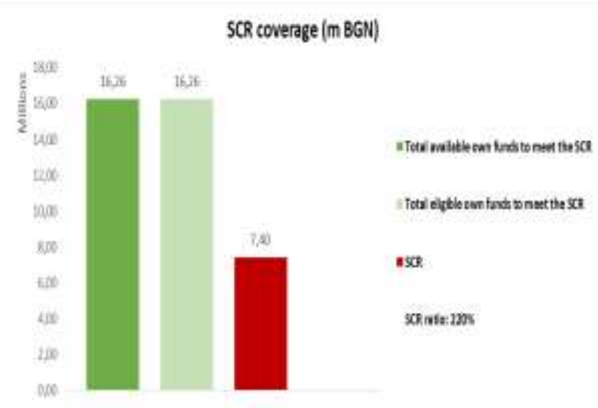
Other issues identified

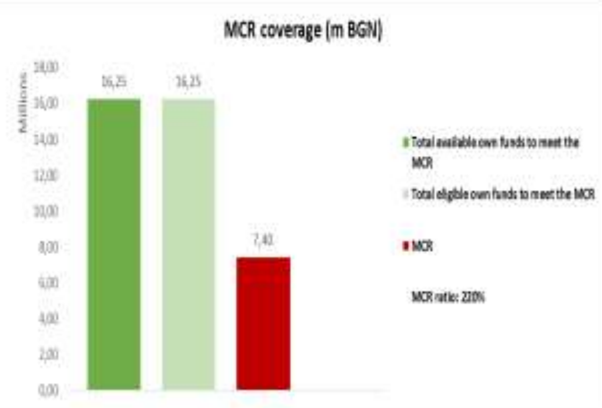
Overall, the Company presents a sound capital base and a Solvency ratio of over 200% which reflects a lower risk profile.

BAEZ's exposure to a single insurance risk allows little space for risk management diversification techniques and this is a constraint embedded in the Company's constitution.

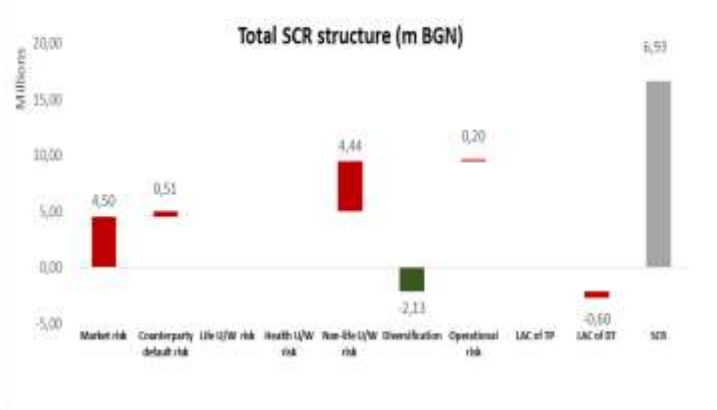
Capital Requirements Compliance

The initial solvency position of BAEZ was 239% SCR and 239% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 220%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. Therefore,the company is compliant.





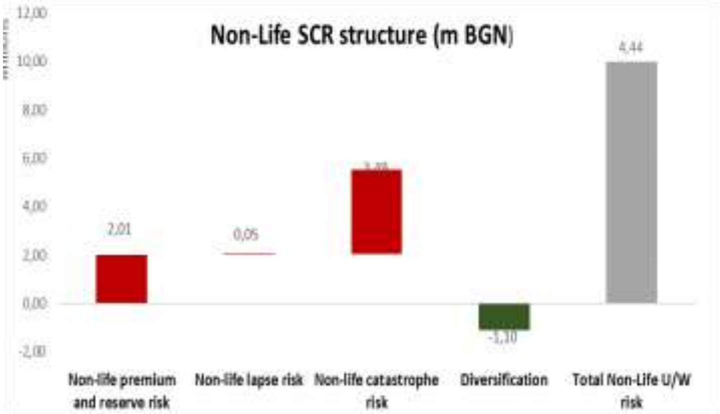
The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Market Risk and Non-Life Underwriting Risk. Specifically, exposure to Market Risk is equal to approximately BGN 4.5m, whereas exposure to Non-Life Underwriting Risk is equal to approximately BGN 4.4m as at HY2016.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Concentration risk (BGN 3.26 m)
2. Spread risk (BGN 2.4 m)
3. Interest rate risk (BGN 1.65 m)



The Non-Life catastrophe risk (BGN 3.49 m) and Non-life premium and reserve risk (BGN 2.01 m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

The IER did not identify elements that would indicate that the transfer of risk is not obvious.

Corporate Governance, processes and internal control framework, accounting policies

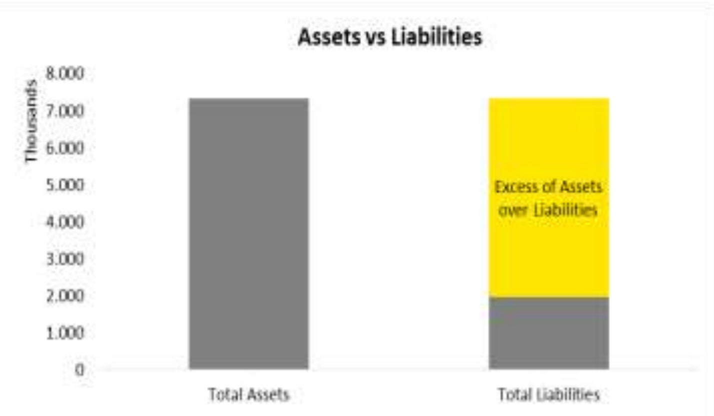
The Company has performed various organizational and internal framework changes within 2015 with the view to implement the Solvency II requirements. Nevertheless, there still are areas where further developments are required.

Main areas for improvement include:

- Segregation of duties, due to lack of personnel in certain areas,
- Lack of controls over the surveillance of outsourced activities output: accounting, actuarial and IT;
- The controls over archiving process concerning important original documents such as insurance policy and claim notification filed by customer, including required and relevant attachments, as well as content (missing documents) and the termination process (review of complete set of documents by both Legal Department and Decision making authority) of claim files;
- IT controls environment for the following areas:
    - Access to programs and data (information security policy, password complexity requirements, users access rights management, generic Ids, period review of users profiles, logs of administrators activity, physical access to server room);
    - Program changes (Change Management Policy);
    - Computer operations (Backup and restoration, Incident and Problem Management);

9. FI HEALTH INSURANCE AD (SI)

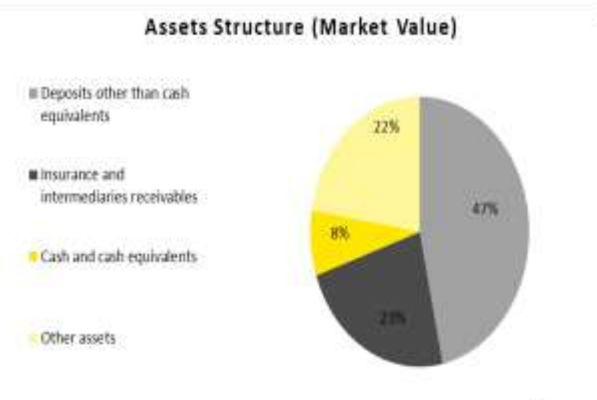
The Company's Balance Sheet is composed of BGN 7.34m Assets and BGN 1.98m Liabilities and Own Funds amount of BGN 4.6m.

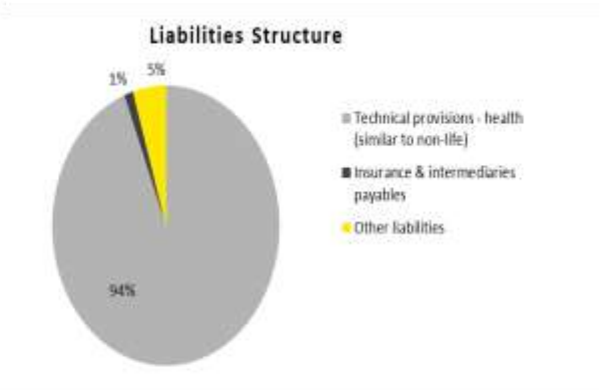


As a results of the IBSR exercise, the Own Funds decreased by BGN 194k.

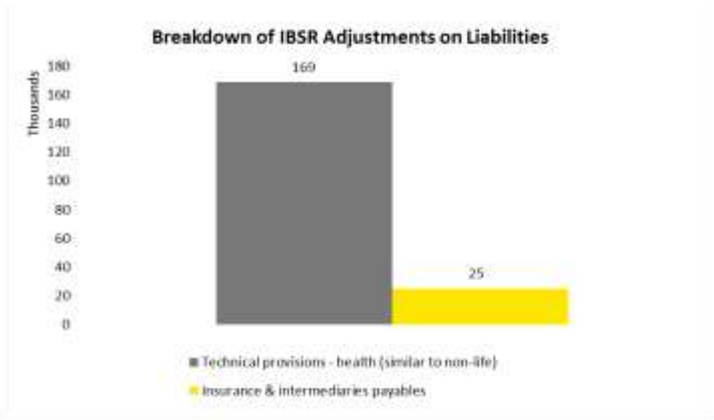
The initial solvency positon of FI HEALT INSRURANCE AD was 106%. Following the recalculation of the prudential parameters in accordance with Solvency I framework (Insurance Code and Ordinance 51 of FSC), the Company has available adjusted Solvency Margin of 101% exceeding the adjusted required Solvency Margin. Therefore, the company is compliant.

The structure of the balance sheet is presented below:





As analyzed, the total Liabilities increased by BGN 194k.



Assets

No adjustments were proposed by the IER on the Assets side.

Liabilities

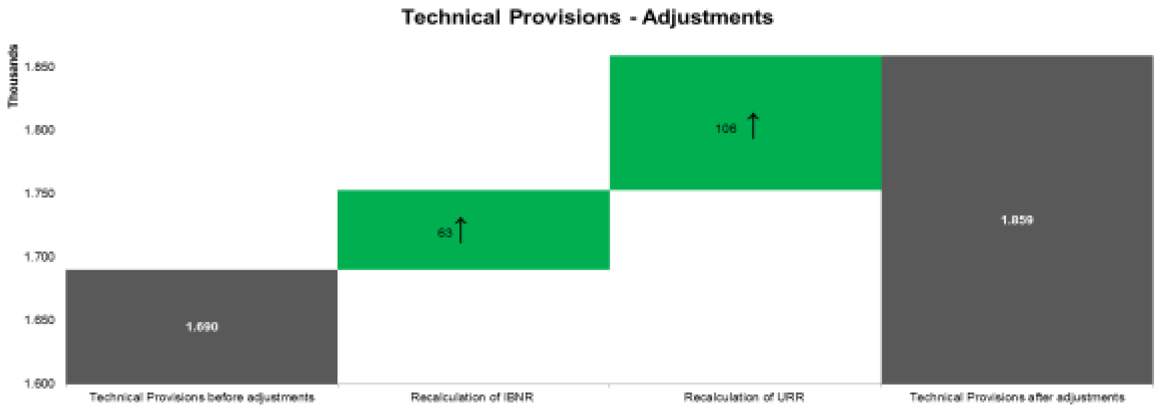
Total liabilities increased by BGN 194k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

Apart from the TPs, liabilities were also impacted by an increase of BGN 25k in Payables (trade, not insurance). The management books payables to intermediaries only when the related insurance receivable is collected and the respective invoice from the intermediary is received, this being not consistent with the policies applied with respect to Gross Written Premium (GWP) (fully recognized when contracts are signed) and with respect to Unearned Premium Reserve (calculated after GWP is corrected for planned acquisition costs). Accordingly, the liabilities of the undertaking are underestimated with BGN 25k.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 169k and further breakdown is presented below:



- The company's IBNR run-off of Sickness product (as at 31.12.2015) showed deficit. The alternative method performed by the IER for the recalculation of IBNR caused an increase of BGN 63k.
- The adjustment on IBNR caused an increase in URR of BGN 106k, since the approximated calculation of URR is dependent on the OCR amount.

Reinsurance – Effectiveness of Risk Transfer

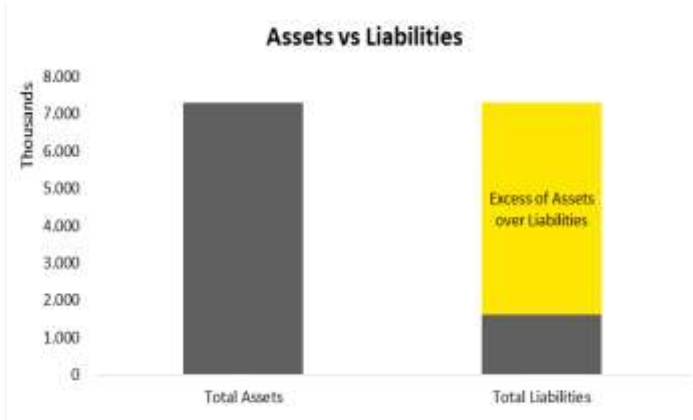
No significant findings.

Corporate Governance, processes and internal control framework, accounting policies

The undertaking has adopted policies and procedures in line with the requirements of EIOPA Guidelines, local legislation (the Insurance Code) and IFRS and reflecting the specifics of Undertaking's operations. With respect to internal control framework, it has been identified that there is no clear audit trail of the control performance as in many cases confirmations for performed reviews are not formally evidenced.

10. INSURANCE COMPANY MEDICO - 21 JSC (SI)

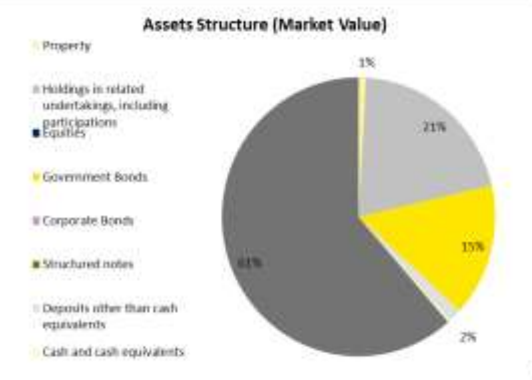
The Company's Balance Sheet is composed of BGN 7.3m Assets and BGN 1.6m Liabilities leading to Own Funds amount of BGN 5.7m.

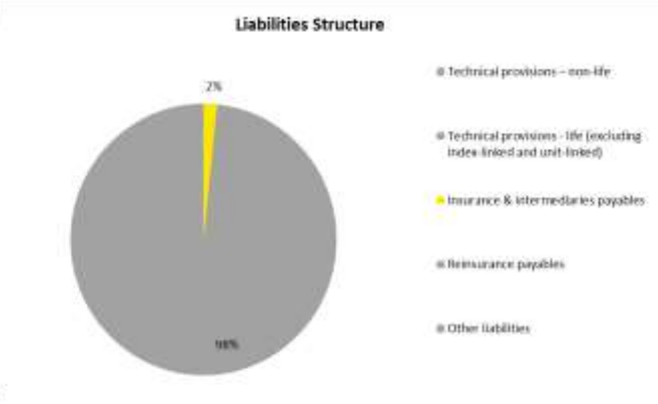


As a result of the IBSR exercise, the Own Funds decreased by BGN 197k.

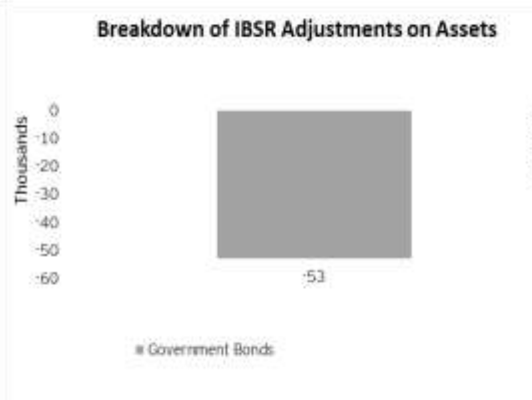
The initial solvency position of the Company was 129% Solvency Margin. Following the recalculation of the prudential parameters in accordance with Solvency I framework (Insurance Code and Ordinance 51 of FSC), the Company has available adjusted Solvency Margin of 123% exceeding the adjusted required Solvency Margin, thus is compliant

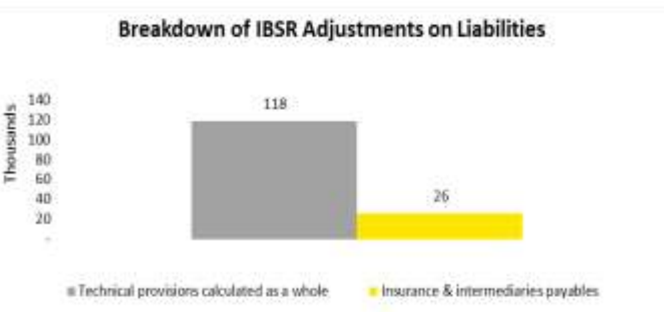
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 53k and the total Liabilities increased by BGN 144k.





Assets

On the Assets side, the adjustment of decrease by BGN (53k) has been proposed to correctly account for the investments in government bonds at amortized cost using the effective interest rate.

Liabilities

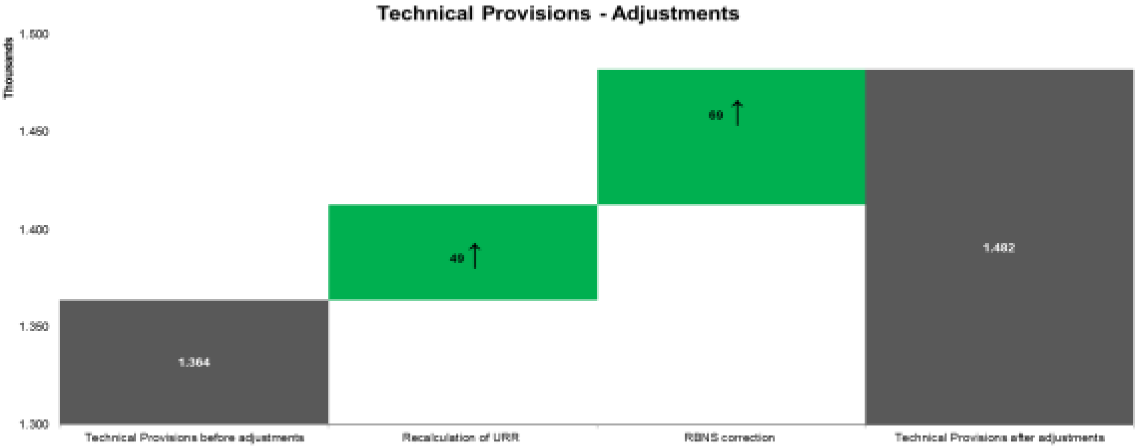
Total liabilities increased by BGN 144k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

In order to avoid the timing mismatch between recognition of gross premium revenue on insurance contract signing date and related acquisition costs not being recognized until the premium is received, an adjustment to increase liabilities by BGN 26k has been included.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 118k and further breakdown is presented below:



- The company omitted the amount of Claims Handling Expenses in URR calculation. URR was impacted by an increase of BGN 49k on both Non Life and Health NSLT portfolios.
- The RBNS reserve as provided by the company included only those claims that have been already approved for payment, but are not yet paid as at the reporting date. The claims that have been received but are not yet reviewed or are under review are not included in the RBNS amount. The result of the misstatement is BGN 69 thousands understatement of the RBNS reserve as of 30 June 2016.

Reinsurance – Effectiveness of Risk Transfer

No reinsurance agreements have been entered into. Management considers this approach as adequate as the Undertaking has not entered into insurance agreements of Property, which may require risk transfer. The characteristics of their main insurance LoB, "Sickness", does not presume insuring risks that would require transfer to reinsures. The risks included in "Sickness" LoB are defined and restricted in the so called packages. The IER considers that the past experience of the undertaking supports management's approach with respect to reinsurance. The remaining LoB "Incident" and "Natural forces" represent less than 1% of the business of the undertaking as evident from the Premiums and technical reserves summary above.

Corporate Governance, processes and internal control framework, accounting policies

The undertaking has adopted policies and procedures in line with the requirements of EIOPA Guidelines, local legislation (the Insurance Code) and IFRS and reflecting the specifics of undertaking's operations. The system of governance is considered to be appropriate for the size of the undertaking and the complexity of its operations.

Other areas for improvement

The Undertaking is recommended to start collecting the necessary data in order to apply more sophisticated reserving methods as well as to allocate the claims handling expenses in a reasonable way so that the estimation of the CHE reserves (ALAE and ULAE) to be made in an appropriate way.

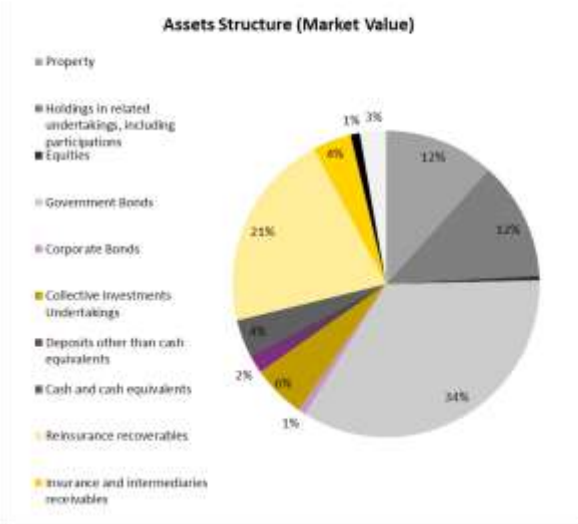
11. BULSTRAD VIENNA INSURANCE GROUP (SII)

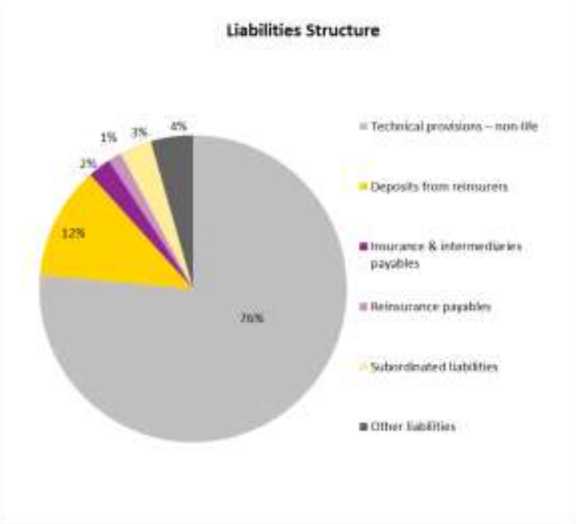
The Company's Balance Sheet is composed of BGN 252m Assets and BGN 187m Liabilities leading to excess of assets over liabilities in amount of BGN 65.6m thousands.

Basic own funds comprise Tier 1 and Tier 2 items and are equal to the excess of assets over liabilities of BGN 65.6m and other basic own funds items in amount of BGN 6.3m referring to subordinated liabilities.

As a result of the adjustments proposed, the Own Funds decreased by BGN 1m.

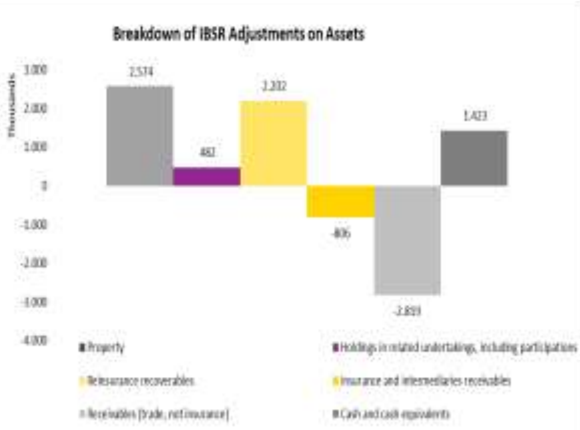
The structure of the balance sheet is presented below:

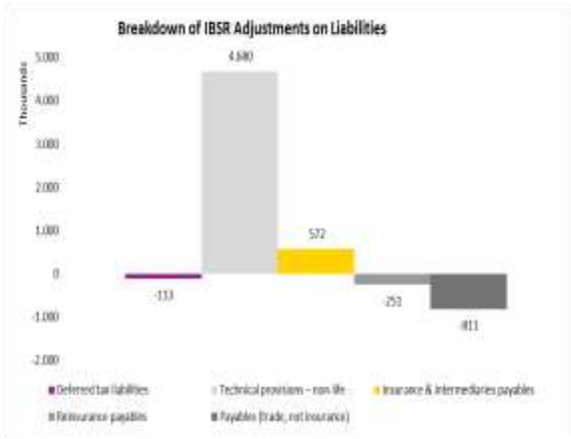




The Other Assets include also Receivables from securities which are resulting from former investments in bonds which are matured. The respective companies have suffered financial difficulties and were not able to repay the original sum loaned at the bond's maturity date which led to insolvency proceedings of the entities. For these bonds, the collateral is a mortgage on land plots and administrative and production building constructed on the plots.

As analyzed below, the total Assets increased with BGN 3m and the total Liabilities increased by BGN 4m.





Assets

The total Assets increased by BGN 3m, due to the following adjustments proposed:

- Property increase by BGN 2.6m – adjustment proposed based on the valuation report for 30 June 2016
- Holdings in related undertakings increase by BGN 482k - resulting from two opposite signs adjustments proposed for holdings in related undertakings valuation
- Reinsurance recoverables increase by BGN 2.2m as a result of the adjustments proposed for technical provisions
- Insurance and intermediaries receivables decrease by BGN 2.8m as a cumulative effect of the subsequent cancellations adjustment, additional provision for receivables from policyholders and for receivables from recourses.
- Other adjustments include reclassifications between assets categories, without impact in Own funds

Liabilities

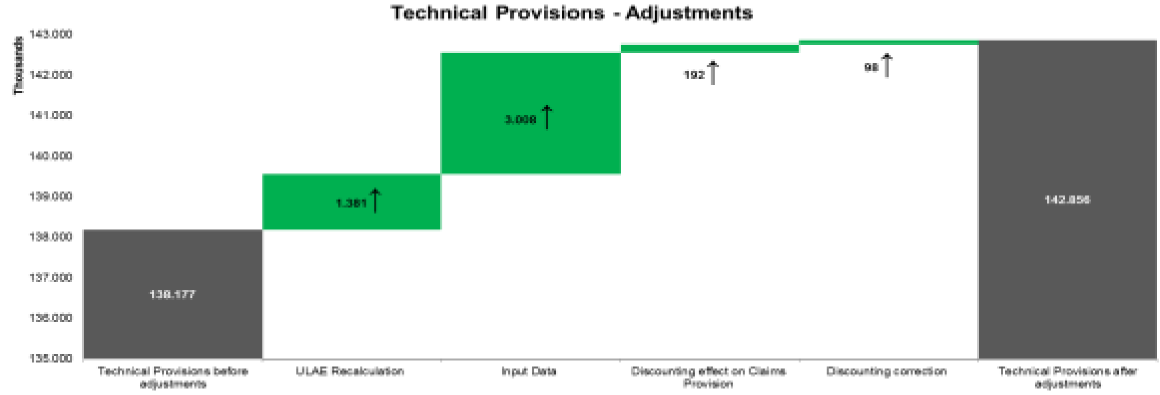
The total liabilities increased by BGN 4m, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Deferred tax liabilities decrease by BGN 113k – reflecting the deferred tax impact of the adjustments proposed.
- Insurance and intermediaries payables increase by BGN 321k – adjustment proposed corresponding to unrecorded liabilities.
- Payables (trade, not insurance) decrease by BGN 811 – adjustment proposed due to tax liabilities on premiums not yet due (future premiums).
- Other adjustments include reclassifications between liabilities categories, without impact in Own funds

Adjustments in Technical Provisions

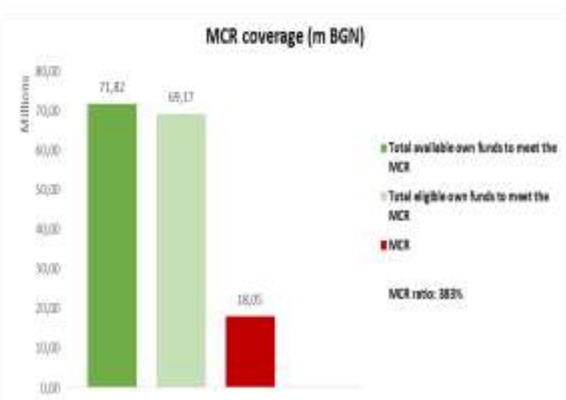
The total amount of the adjustments is BGN 4.7m and further breakdown is presented below:



- The reconciliation performed by the IER on paid claims for MTPL insurance revealed differences between the data used for BE calculations and the accounting data for claims paid for the years from 2011 to 30 June 2016 were established. The adjustment amounts to increase of BGN 3m. The IER performed the BE recalculation based on the corrected amount.
- The company does not establish reserves for ULAE. The IER performed further investigation of reserving methodology providing an estimation of the ULAE reserve leading to an increase of BGN 1,4m (total increase for both Non - Life and Health NSLT portfolios).
- The company performs discounting on the TPs with EIOPA risk free interest rate curve for BGN and EUR (per currency), but nullified for the maturities with negative rates. The IER performed recalculation for the correction of this approach discounting appropriately per currency (total increase of BGN 192k).
- The company performs Risk Margin calculation based on the 3rd Simplification. The discounting is performed as for the TPs, i.e. based on the curves published by EIOPA at 30 June 2016, however the negative rates have been nullified. The IER performed recalculation using appropriate discounting increasing the Risk Margin by BGN 98k.

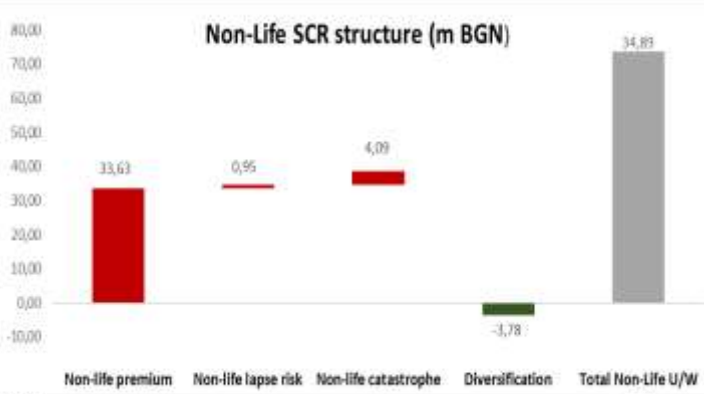
Capital Requirements Compliance

The initial solvency position of Bulstrad Vienna Insurance Group was 137% SCR and 393% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 134% and MCR equal to 383%, thus being in compliance.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.

As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 34.9m, whereas exposure to Market Risk is equal to approximately BGN 18.7m as at HY2016.



The Non-life premium and reserve risk (BGN 33.63 m) and Non-life catastrophe risk (BGN 4.09 m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Equity risk (BGN 8.08 m)
2. Property risk (BGN 7.36 m)
3. Interest rate risk (BGN 5.64 m)

Reinsurance – Effectiveness of Risk Transfer

No significant findings reported.

Corporate Governance, processes and internal control framework, accounting policies

The Company's Corporate Governance and Internal control framework is developed in relevance with the size, nature and complexity of the operations. Main findings and recommendations refer to IT (contract between undertaking and parent company as the companies share the IT infrastructure, maintenance and licences; documented IT continuity plan, manuals for system work flows) and reinsurance process reconciliation per line of business and per source of origination.

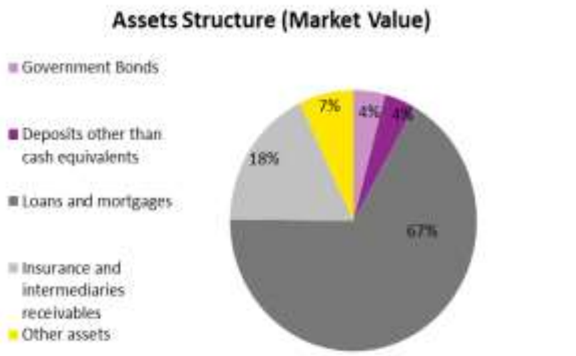
12. (EZOK) ZAD EVROPEJSKA ZDRAVNOOSIGURITELNA KASA (SI)

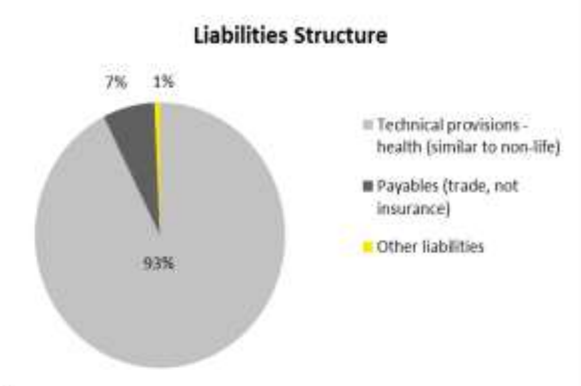
The Company's Balance Sheet is composed of BGN 7.,3m Assets and BGN 1.,5m Liabilities leading to Own Funds amount of BGN 5.,98m.

As a result of the IBSR , the Own Funds increased by BGN 116k.

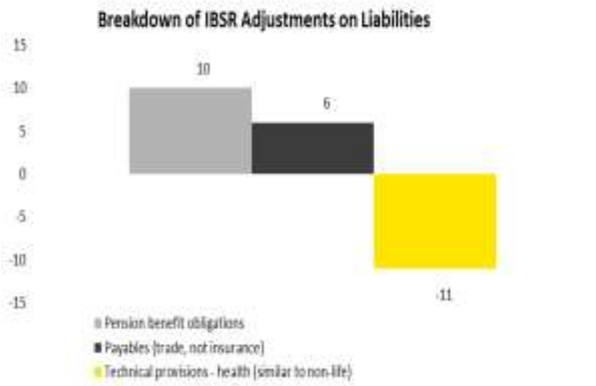
The initial solvency position of EZOK was 106% Solvency Margin as of 30 June 2016 and has not changed following the exercise performed.

The structure of the balance sheet is presented below:





As analyzed below, total Assets increased by BGN 122k and total Liabilities increased by BGN 6k.



Assets

On the assets side, main adjustment refers to computation of accrued interest which was not recorded by the company on the granted loans for the period of January – June 2016 in amount of BGN 120k.

Other adjustments include reclassifications between assets categories, without impact in Own funds

The main asset of the company amounting to BGN 4.,9k (67% of total assets) is represented by loans granted to related parties during the period 2009-2012. Major part of these loans were overdue as of 30 June 2016 or have addendums signed for the prolongation of the initial maturity.

During the period September 2016 – November 2016 part of the loans were repaid or were sold to third parties.

The reviewer had assessed the collectability of loans restructured/rescheduled, loans with extended maturities or loans with features outside the market practice, assessed information about counterparty credit risk, based on publicly available information and performed a credit analysis on the credit recipients with no indications of impairment on the loans granted as of 30 June 2016.

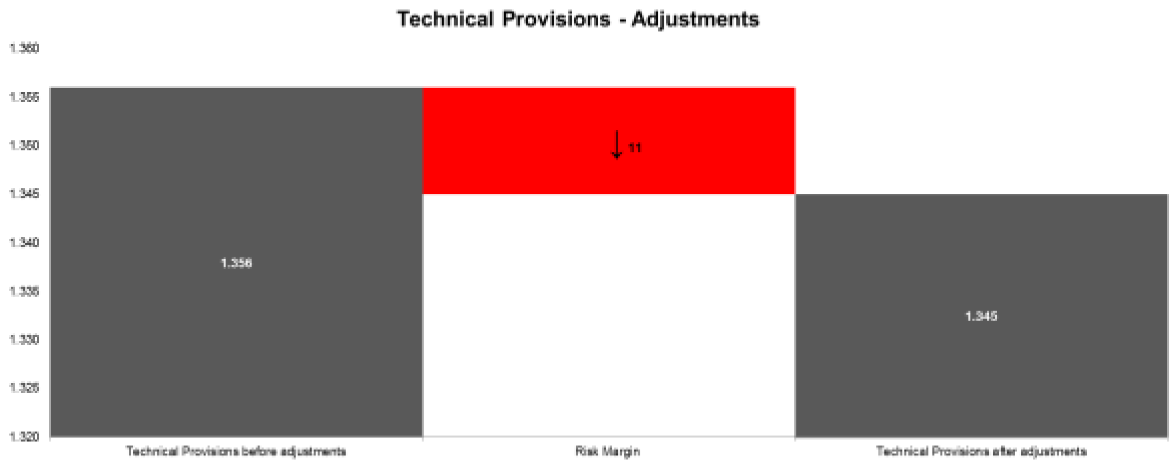
Liabilities

The total liabilities increased by BGN 5, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Pension Benefit Obligations increase by BGN 10.
- Payables (trade, not insurance) increase by BGN 6.

Adjustments in Technical Provisions



On the liability side, the adjustments refer to the decrease in best estimate of reserves in amount of BGN 11k as a result of misstatements identified for equalization and claims reserve and an increase in provisions related to pension benefits provision in amount of BGN 11k.

Reinsurance – Effectiveness of Risk Transfer:

As per reviewer the Company does not have any reinsurance treaty in force during the analyzed period.

Corporate Governance, processes and internal control framework, accounting policies:

In relation to the corporate governance the reviewer recommends the Company to develop contingency plans regarding major risks that might affect the Company.

Following the analysis of the accounting polices the reviewer recommends the Company to update the Accounting manual as to include sufficiently detailed description of the process of computing impairment provision for insurance receivables and to modify the Accounting policy accordingly and implement accrual basis for the brokers' commissions.

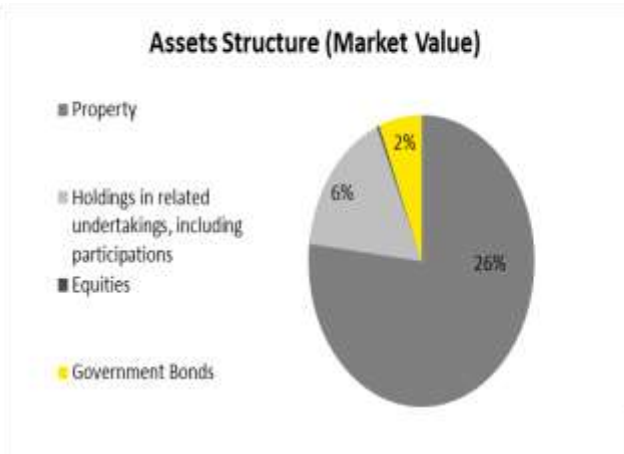
13. Lev Ins (SII)

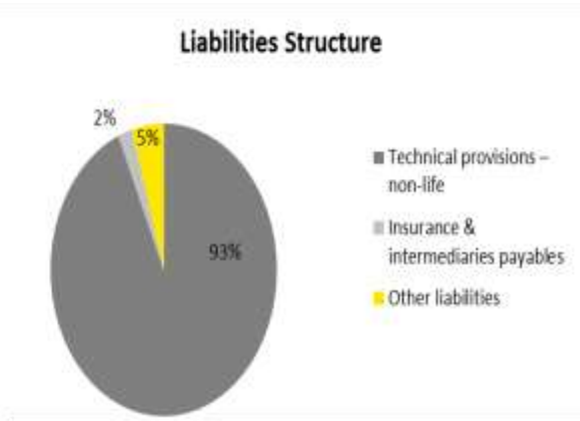
The Company's Balance Sheet is composed of BGN 193m Assets and BGN 139m Liabilities leading to Own Funds amount of BGN 54m.

Basic Own Funds are comprised only by Tier I items and are equal to the excess of assets over liabilities.

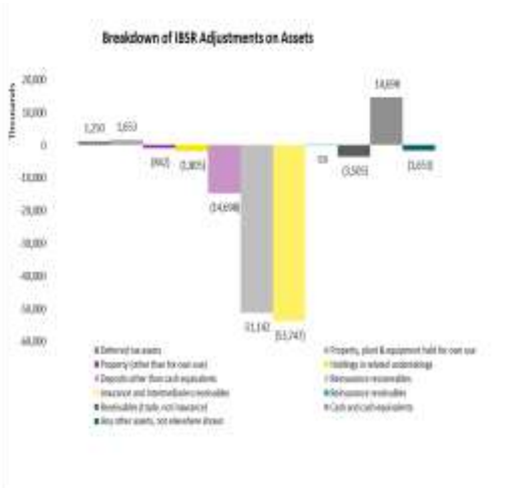
As a result of the IBSR exercise, the total assets decreased by BGN 110m and the total liabilities by BGN 98m.

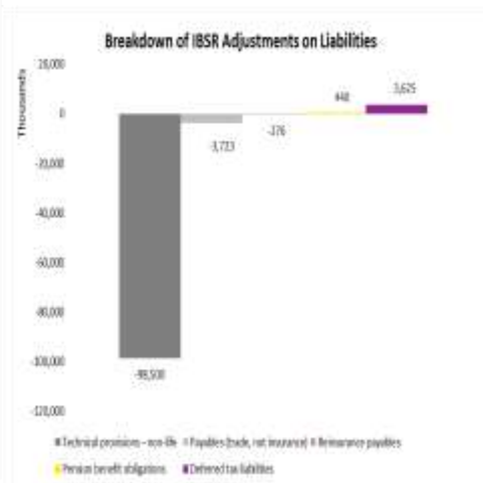
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 110m and the total Liabilities decreased by BGN 98m.





Assets

On the assets side, main adjustments refer to decrease of BGN 52m in Reinsurance recoverables as a result of the recomputed reinsurance share by the IER and the decrease of BGN 54m for future instalments, which are not yet due.

Other adjustments on assets side include the following:

- Decrease in Receivables (trade, not insurance) in amount of BGN 4,190k as a result of the impairment proposed for the receivables from recourses.
- Differences between the first Solvency II Balance Sheet received by the IER on 10 October 2016 and the corrected Quantitative Reporting Templates (QRTs) subsequently received on 20 October 2016 resulting in an increase of BGN 1,203k for Reinsurance recoverables.
- Decrease in Holdings in related undertakings in amount of BGN 1,805 as a result of the impairment proposed
- Decrease in Property (other than for own use) in amount of BGN 842 thousands as a result of the independent assessment performed by the IER.
- Increase in Deferred tax assets of BGN 1,301 thousands as a result of the BSE exercise adjustments proposed.
- Reclassifications proposed with increase effects in both Receivables (trade, not insurance) and Payables (trade, not insurance) in amount of BGN 343 thousands.
- Other adjustments include reclassifications among assets categories without impact in the Own Fund

Liabilities

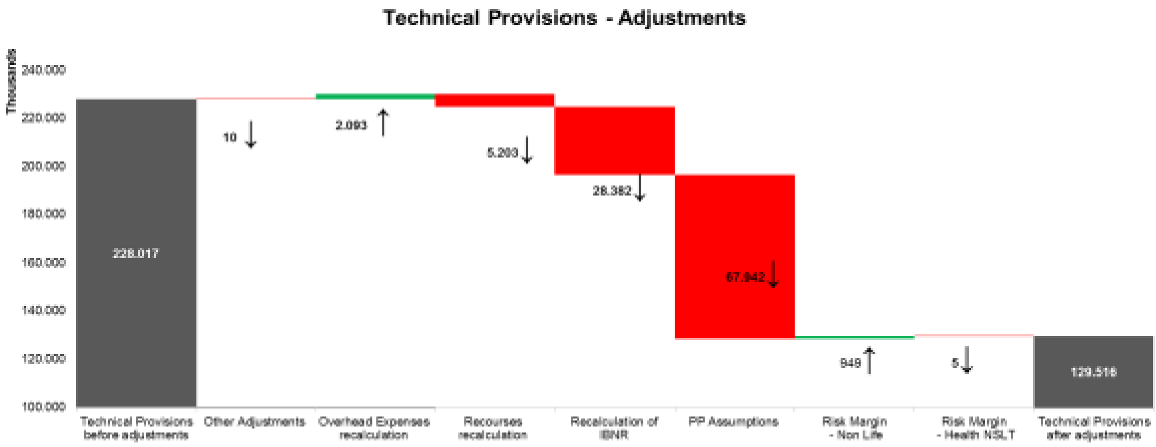
Total liabilities decreased by BGN 98m, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease of BGN 276k of the Reinsurance payables related to reinsurance payables on minimum deposit premium adjustment
- Reclassifications proposed with increase effects in both Receivables (trade, not insurance) and Payables (trade, not insurance) in amount of BGN 343k
- Reclassification proposed from Payables category to DTL in amount of BGN 3,625k
- Other adjustments include reclassifications between liabilities categories without impact in the Own Fund

Adjustments in Technical Provisions

The total amount of the adjustments is decrease by BGN 98,5m and further breakdown is presented below:



- Other Adjustments include differences between the first Solvency II Balance Sheet received by the IER on 10 October 2016 and the corrected Quantitative Reporting Templates (QRTs) subsequently received on 20 October 2016.
    - The Company does not create reserve for overhead expenses. The IER performed calculation for MTPL and Casco LoBs. Due to insignificant amount of potential overhead reserves for other LoBs (insignificant amount of claim reserves) the IER does not propose any adjustment for other LoBs.
    - Salvages and subrogations are not included in the claims triangles by the Company. The IER performed high-level estimation of expected recourses from claims covered by the claim reserves.
- The decrease of BGN 31m related to Claim Provision is caused by the following:
    - ► The Company does not create reserve for overhead expenses. The IER performed calculation for MTPL and Casco LoBs leading to an increase of BGN 2m.
    - ► Salvages and subrogations are not included in the claims triangles by the Company. The IER performed high-level estimation of expected recourses from claims covered by the claim reserves leading to a decrease of BGN 5m.
    - ► Regarding the estimation of IBNR, the IER considers that the method performed by the Company may not be line with the Best Estimate assumption of SII framework. The projection methods performed caused a decrease of BGN 28m.
- The decrease of BGN 68m related to Premium Provision is caused by the following:
    - ► Different assumptions used by the IER with regards to the Administrative Expense Ratio and Loss Ration.
    - ► Inclusion of future premiums in the calculation of Premium Provision.
- The adjustment on Risk Margin comes from the adjustments performed on TPs and SCR. The IER did not receive the data used by the company, in order to justify the calculation performed.

Capital Requirements Compliance

The initial solvency position of Lev Ins was 148% SCR and 326% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 103% and MCR equal to 258%, and is compliant.

Reinsurance – Effectiveness of Risk Transfer

The IER analyzed XL MTPL treaty and clean-cut MTPL QS treaties for effectiveness of risk transfer.

Regarding XL MTPL treaty, based on observed reinsurers share in reported claims, the IER observed that there is significant risk transfer. The IER analyzed the conditions of the clean-cut QS treaties. The IER identified that although the existence of sliding scale commission greatly reduces the actual risk transfer, compared to a QS treaty with constant commission ratio, there is a risk transfer under the treaty.

The IER did not propose an adjustment for the effects from the QS clean cut reinsurance contract, however the IER presented as potential adjustments the following items:

- Possible Reinsurance payables adjustment resulting from QS contract: BGN 16,238
- Potential adjustment related to Reinsurance share in premium provision from QS contract: BGN 1,844

Corporate Governance, processes and internal control framework, accounting policies

The Company applies Corporate Governance requirements under Solvency II Directive since 01 January, 2016. Because of the close initial date of application of Solvency II (January 01, 2016), there are still items and guidelines which are in process of formalization into the internal policies and procedures.

The Company has developed a common policy document containing its accounting policies related to Solvency II reporting and IFRS Statutory reporting. The IER recommends the Company to establish a separate Solvency II accounting policy, including detailed and specific reference to DA 2015/35 and final report EIOPA-BoS-15/113 – IAS 40 for Solvency II reporting purposes.

Limitations

We note that some reconciliation issues have been identified on the QRTs submitted to the PM. A specific request has been sent on the pending items by the PM on Monday 30/1/2017.

Therefore, the information provided in this report is limited on SCR/MCR ratios before and after adjustments.

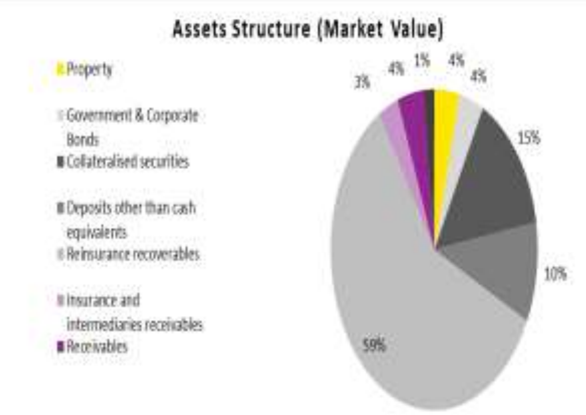
14. Bul Ins

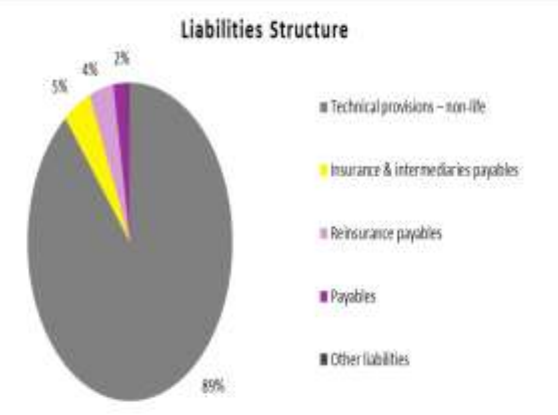
The undertaking's Balance Sheet is composed of BGN 202m Assets and BGN 167m Liabilities leading to Own Funds amount of BGN 35m.

Based on the outcome of the BSR, the insurance undertaking achieve the MCR 334% and SCR 88% as at 30 June 2016 and a solvency margin of 274% as at 31 December 2015.

As a result of the IBSR exercise, the Own Funds decreased by BGN 9m.

The structure of the balance sheet is presented below:

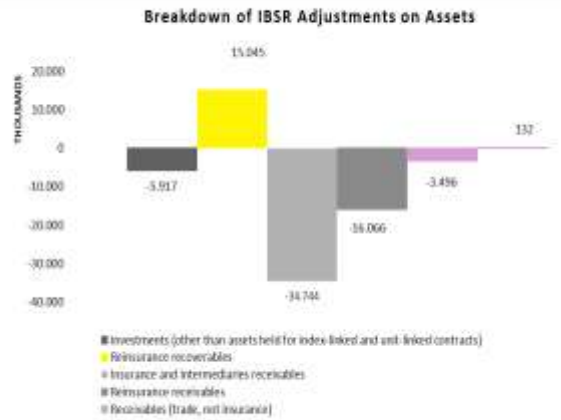


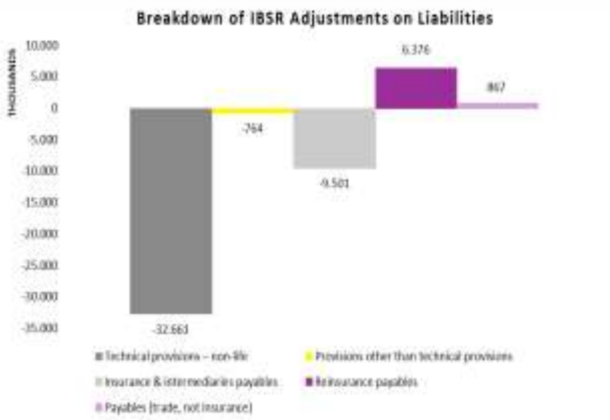


Total assets include collateralised securities, listed for trading on two stock exchanges and also available on an OTC market, amounting to BGN 34 m and acquired by the Company on 30 June 2016 when the securities were issued. The securities were acquired by the Company as part of a swap transaction (for the purposes of transferring of receivables of Bul ins in exchange of the securities). The receivables transferred included receivables on recourses, claims litigation receivables and written off receivables originated in previous years.

The securities are subject to lock-in period and redemption subsequent to the lapse of the lock-in period. There is no restriction on the transferability of the securities on the secondary market. The collateral of the securities consist of Securitization bonds issued by the entity that acquired the receivables (securing the bonds) in its capacity as the Collateral Obligor. There was no collection of funds on these receivables subsequent to the swap transaction.

The IER determined the fair value of the security based on subsequent sales and proposed an adjustment, as described below.





As analyzed below, the total Assets decreased by BGN 45m and the total Liabilities decreased by BGN 36m.

Assets

On the assets side, main adjustments refer to the downward adjustment proposed for Insurance and intermediaries receivables, in amount of BGN 34,7m comprising mainly the adjustment proposed for future premium adjustment of Insurance receivables in amount of BGN 32,3m and for impairment of insurance receivables in amount of BGN 1,3m. A reclassification of BGN 16,1m was also proposed from reinsurance receivables to reinsurance recoverable (netted of by other actuarial adjustments).

Other adjustments on assets side include the following:

- Downward adjustment for Investments of BGN 5,9m (including decrease in Collateralized securities valuation in amount of BGN 5,2m, decrease investment property valuation in amount of BGN 803k and an increase in fair value of government bonds of BGN 46k).

The downward adjustment on Receivables (trade, not insurance) in amount of BGN 3,5m include mainly: a downward adjustment for receivables from litigations in amount of BGN 1,2m, downward adjustment for receivables from cession contracts in amount of BGN 437k, adjustments proposed for other assets impairment and reclassification.

Liabilities

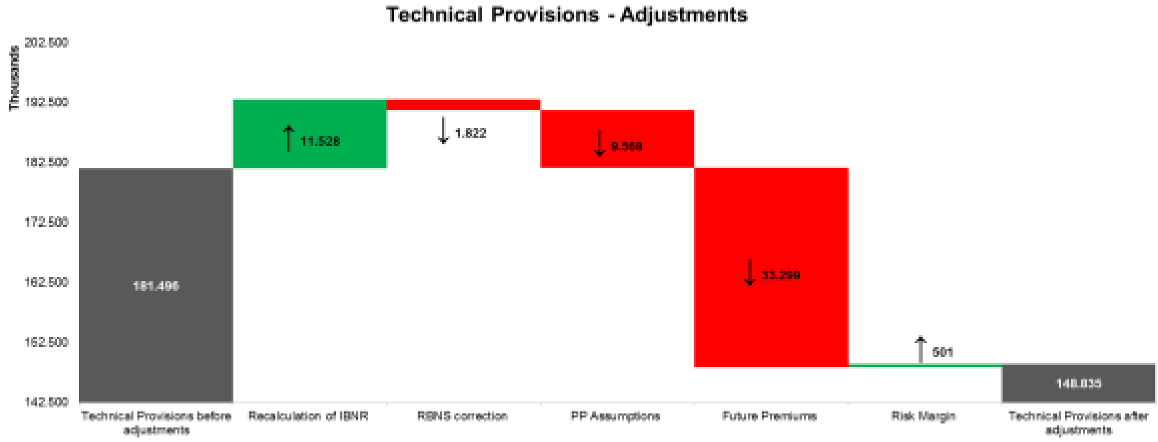
Total liabilities deceased by BGN 36m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease of BGN 764k Provisions other than technical provisions.
- Decrease of BGN 9,5m in Insurance and intermediaries' payables.
- Increase of BGN 6,4m in reinsurance payables.
- Increase of BGN 867k in payables (trade not insurance).

Adjustments in Technical Provisions

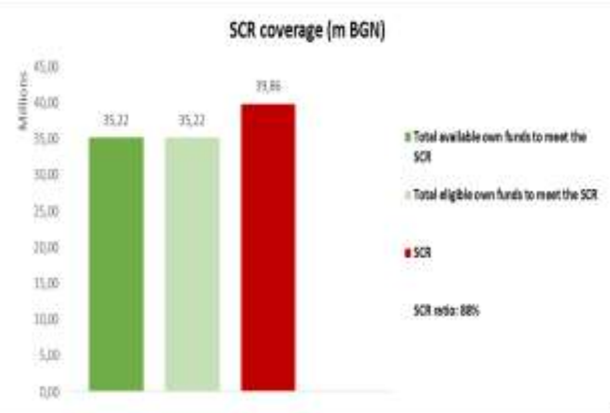
The total amount of the adjustments is BGN 32,7m and further breakdown is presented below:

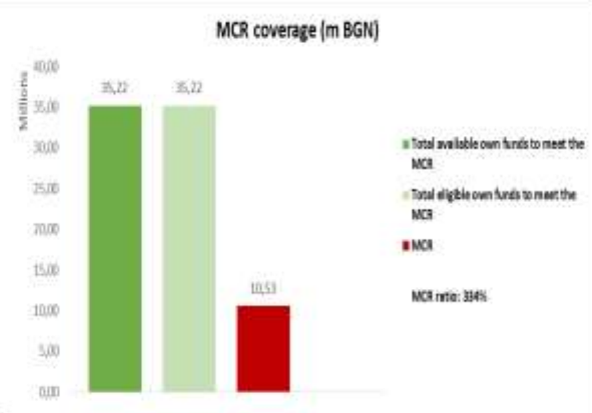


- The total adjustment related to Claim Provision is caused by the following:
  - The Company does not create reserve for overhead expenses. The IER performed calculation for MTPL and Casco LoBs. Due to insignificant amount of potential overhead reserves for other LoBs (insignificant amount of claim reserves) the IER does not propose any adjustment for other LoBs given that the impact is immaterial. The calculation is based on paid-to-paid ratio on gross claim reserves.
  - With regards to the re-calculation of IBNR, the IER based the estimation for MTPL on separate triangles for Property Damage and Bodily Injuries claims. Even if the split is available in the company's database, the company performed the calculation on the aggregated claims.
  - The IER identified technical mistakes in setting the RBNS. The Test performed on a sample of RBNS claims revealed an adjustment of BGN 1,8m in Technical Provisions.
- The decrease of BGN 68m related to Premium Provision is caused by the following:
  - The Company has not taken into account into calculation future premiums to be paid by policyholders since the respective amount was included in Insurance and intermediaries receivables. The IER performed recalculation including the cash flows of future premiums. The adjustment caused a decrease of BGN 33m in Best Estimate.
  - The IER proposed different assumptions (Loss, Expense and Lapse ratios) to be used in the calculation of Premium Provision.
  - Adjustments on UPR were performed by the IER, since the company used the calculation net of DAC.
- The adjustment on Risk Margin comes from the adjustments performed on TPs and SCR. The IER did not receive the data used by the company, in order to justify the calculation performed.

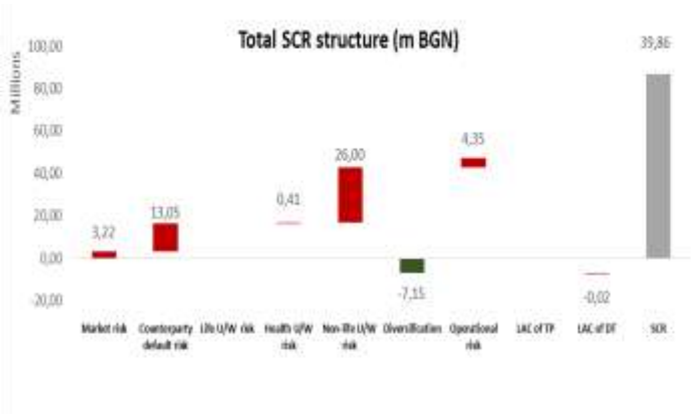
Capital Requirements Compliance

The initial solvency position of Bul Ins was 107% SCR and 352% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 88% and MCR equal to 334% and is not compliant.

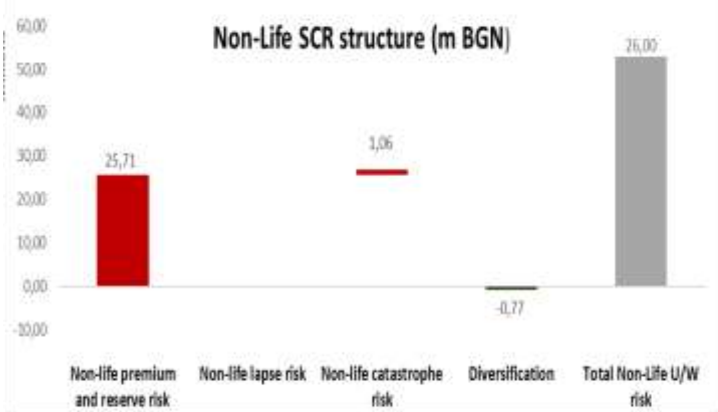




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Counterparty Default Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 26m, whereas exposure to Counterparty Default risk is equal to approximately BGN 13m as at HY2016.



The Non-life premium and reserve risk (BGN 25,7m) and Non-life catastrophe risk (BGN 1m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

Based on reviewed treaties the IER has not found anything that would suggest that there is no risk transfer.

The company has entered into a Quota Share Treaty on clean cut basis, which has significant positive impact on the Own funds and solvency position of the Company.

The IER presented the following comments:

- The quota share clean cut contracts should be subject to a thorough regulatory review and analysis in order to verify the actual positive effect on the solvency position of the Company;
- If the Funds Withheld Account balance is considered as the actual cash flow and result of the contract, the effect would be a recognition of additional liability.

- The Company has not recognized future reinsurers' premiums and future reinsurance commission.

If the effects from the QS clean cut reinsurance contract are analysed based on future cash flows, the following adjustments might be necessary, as presented in the IER report:

Position	Effect in thousands BGN
Reinsurance share in claims reserve	16,582
Reinsurance share in premium provisions	(36,914)
Additional liability to reinsurers – related to "Ceded claims reserve in due"	(45,462)
Total effect on Own funds	**(65,794)**

The approach adopted by the Company was considered allowable under IFRS by the IER, and no adjustment was proposed.

Corporate Governance, processes and internal control framework, accounting policies

The Company has started the process of convergence to Solvency II Corporate Governance requirements but there are still areas, which need improvement, especially in the area of formal processes, procedures and approvals. Our detailed recommendations are listed in each section.

The Company has outsourced activities (actuarial functions, IT functions and investment management functions), which are not documented with sufficient details based on the Solvency II requirements. Also, several deficiencies were identified as regards IT general controls.

It was recommended to the Company to consider building a Reporting manual specifically designed for Solvency II purposes as the requirements under Solvency II may differ significantly from the ones applied by for statutory reporting purposes.

15. ASSET Insurance

The Company's Balance Sheet is composed of BGN 12.8m Assets and BGN 4.8m Liabilities with Own Funds amount of BGN 8m.

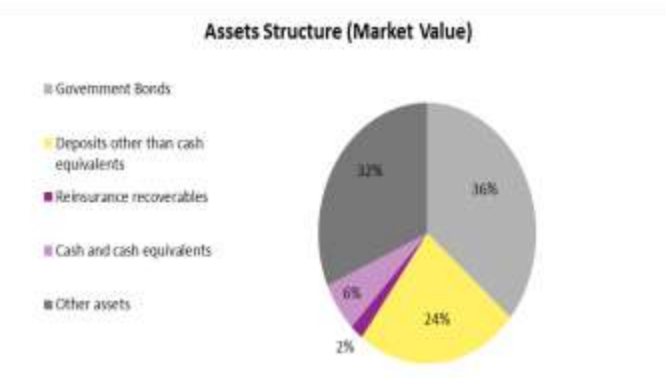
The Company's Own Funds are comprised of Tier I, Tier II and Tier III components.

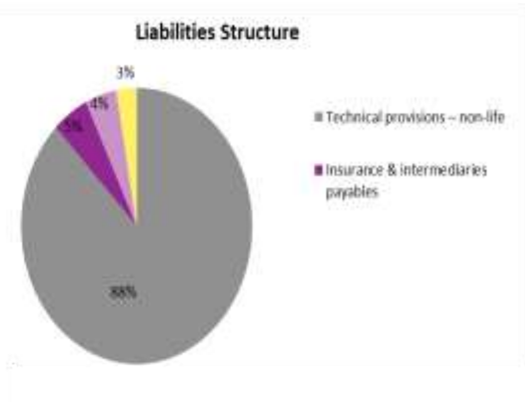
Tier 1 items: Ordinary share capital (gross of own shares) in value of BGN 10.5m and Reconciliation reserve in value of BGN (4.4)m.
Tier 2 item in value of BGN 1.5m representing subordinated liabilities.
Tier 3 item representing net deferred tax assets in value of BGN 435k.

As a results of the IBSR exercise, the Own Funds decreased by BGN 6k.

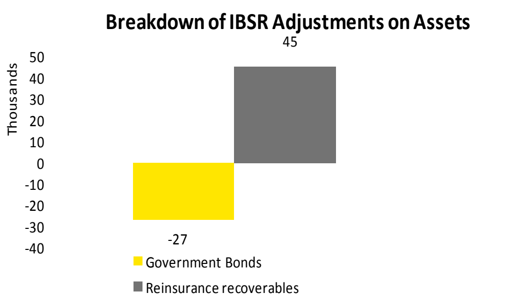
The adjusted SII Balance Sheet presents an excess of assets over liabilities of BGN 8m, higher than MCR of BGN 7.4m and adjusted SCR of BGN 6.4m.

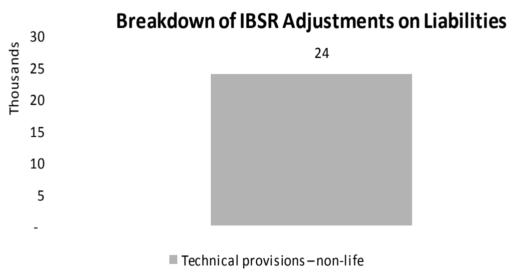
The structure of the balance sheet is presented below:





As analyzed below, the total Assets increased by BGN 18k and the total Liabilities increased by BGN 24k.





Assets

On the assets side, the adjustments resulted in a total increase of BGN 18k and mainly consist of:

- Correction of fair value of government bonds – decrease by BGN 27k following independent valuation made by the IER that has used Reuters/ Bloomberg bid price quotes as compared to the undertaking that uses the average price in the market as quoted by the Bulgarian Association of Supplementary Pension Security Companies.
- Correction of reinsurance recoverables balance – increase by BGN 45k - the reinsurance share in UPR has not been scaled up with the deducted costs.

Liabilities:

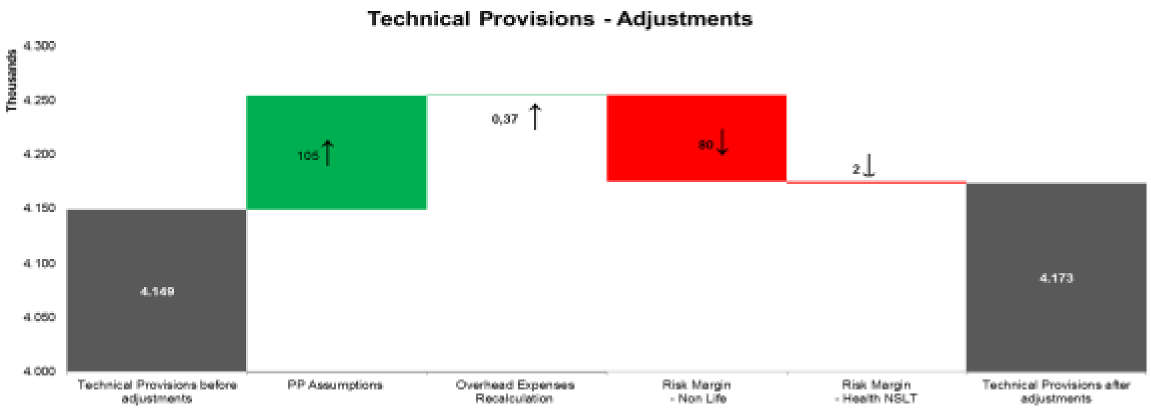
The only adjustment on liability side streams from the Technical Provisions and amounts to BGN 24k.

Adjustment in liabilities other than technical provisions

No adjustments have been performed affecting liabilities other than technical provisions.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 24k and further breakdown is presented below:



- The IER performed adjustments on the assumptions of Acquisition, Ultimate Loss and Expense ratios. The adjustment led to an increase of BGN 119k.
- The Company does not create explicit reserve for overhead expenses, however the IER performed adjustment leading to increase of BGN 0.3k.
- The Risk Margin decreased by BGN 80k since the IER used different assumption on the future run-off pattern.

Other issues identified

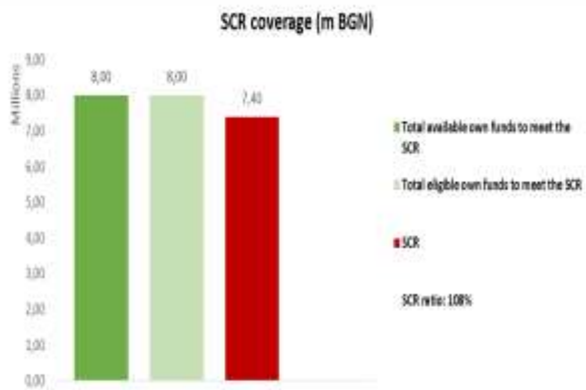
The Company has a Minimum Capital Requirement of BGN 7.4m as per Insurance Code. This minimum capital requirement was not met as of 31 January 2016 so the Company took decision to increase its capital (basic own funds) by obtaining subordinate liabilities from the shareholders as per article 165 (1) of the Code of Insurance. Thus, on 28 March 2016 the Company signed contracts with its 7 shareholders representing a legally binding commitment to subscribe and pay for subordinated liabilities on demand.

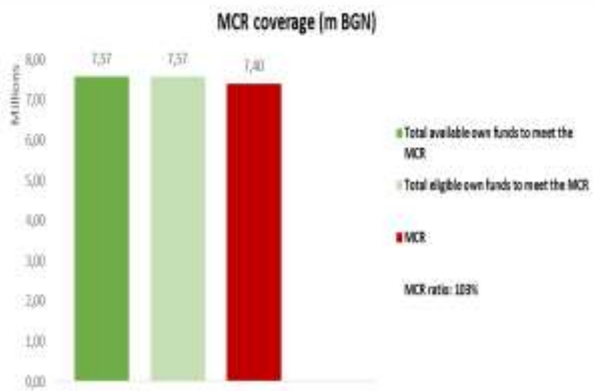
The entity called up the funds and the amount was collected on 2 December 2016, as the shareholders has transferred BGN 1,5m to the Company.

As at 30 June 2016, the Company presented the amount as basic own funds (as per art 88 of SII) thus improving prudential ratios and recognized an asset for the amount receivable. The IER noted that, despite the fact that no funds have been transferred to the Company effectively as of June 30, 2016, the Company has called up the funds and thus they are not a commitment of the shareholders and should not be classified as ancillary funds (as per art 89 of SII) as at 30 June 2016. Furthermore, as per the IER, the funds possess the features determining classification as Tier II basic own funds in accordance with art. 73 of Commission Delegated Regulation 2015_35.

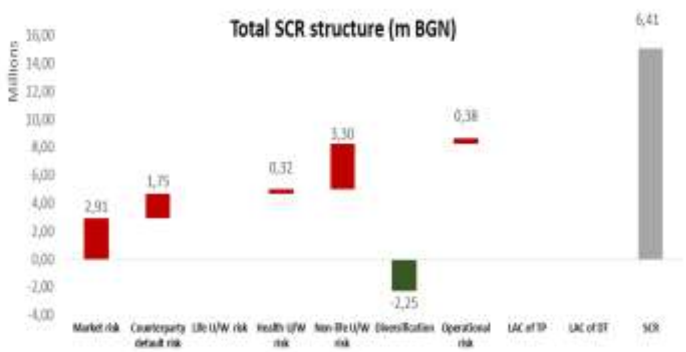
Capital Requirements Compliance

The initial solvency position of ASSET Insurance was 108% SCR and 102% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 103%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR, therefore is compliant.

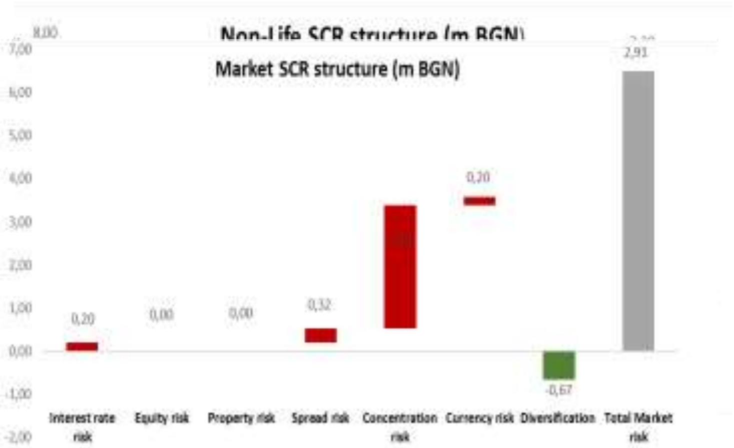




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 3.3m, whereas exposure to Market Risk is equal to approximately BGN 2.9m as at HY2016.



The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Concentration risk (BGN 2.86 m)
2. Spread risk (BGN 0.32 m)
3. Interest rate risk (BGN 0.2 m)

The Non-life premium and reserve risk (BGN 2.66 m) and Non-life catastrophe risk (BGN 1.4 m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

The reviewer recommends the Company to perform an analysis of its operational result from reinsurance as per contract or lines of business. Also recommends the Company formalize a liquidity management procedure applied for any timing mismatch between claims' payments and reinsurance recoverable.

Corporate Governance, processes and internal control framework, accounting policies

The Company's system of governance is designed so as to provide for sound and prudent management of the business without establishing unduly complex organizational structure considering the size of the Company. The IER noted that the Company has developed policies and procedures for most corporate governance areas but the process of Solvency II reporting still needs improvement and detailed documentation as the Company has developed internal policies and procedures for statutory reporting purposes which do not encompass the specific regulatory requirements. Yet, the review did not result in identification of incorrect interpretation of accounting rules as imposed by the SII framework but best market practices in the insurance sector can be further researched and incorporated in the activities of the Company.

Also, the IER observed that the Company does not perform any procedure for identifying its related parties for Solvency II reporting purposes by using IAS 24 requirements.

The lack of a specific Solvency II policy is also noted by the IER in regards of receivables from policyholders, the Company having a policy of recognizing the receivables from policyholders in accordance with statutory reporting requirements and performs adjustments to these receivables in order to be in line with SII framework. The adjustment refers to the elimination of the not due part of the receivables from policyholders as of 30 June 2016.

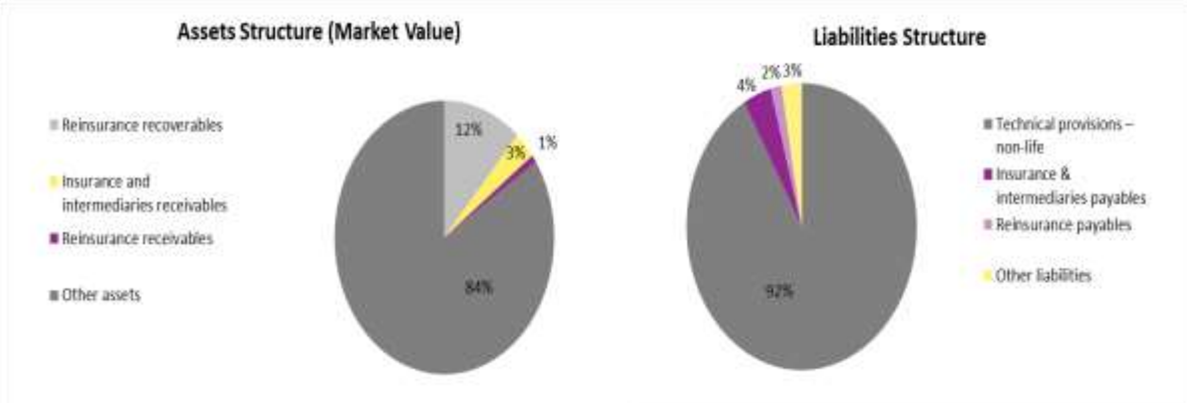
16. ZAD ALLIANZ BULGARIA (SII)

The Company's Balance Sheet is composed of BGN 205m Assets and BGN 146.6m Liabilities leading to Own Funds amount of BGN 58.4m.

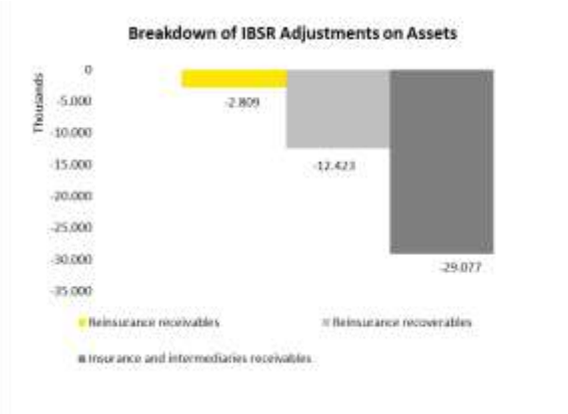
Basic own funds comprise of only Tier 1 items and are equal to the excess of assets over liabilities of BGN 58.4m.

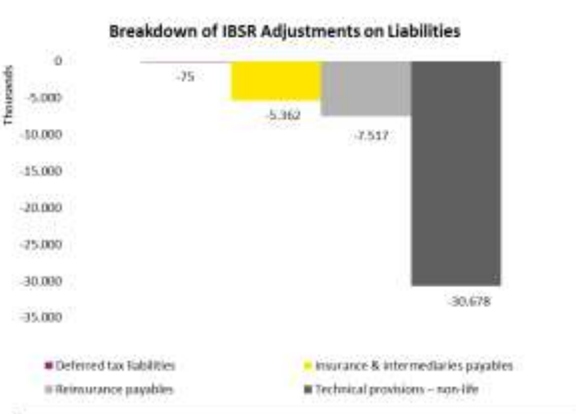
As a result of the IBSR exercise, the Own Funds decreased by BGN 677k.

The structure of the balance sheet is presented below:



As analyzed below, the total Assets decreased by BGN 44.3m and the total Liabilites decreased by BGN 43.7m.





Assets

Total Assets decreased by BGN 44.3 due to the following adjustments proposed:

- Correction of insurance receivables (decrease in balance by BGN 29m that refers to:
    - Adjustment for not due Insurance receivables (decrease BGN 28.6m)
    - Adjustment of policies subsequently cancelled (decrease of 0.4m)
- Premium provision and reinsurance recoverables - The Company has calculated the Premium Provision by discounting the IFRS UPR, where the UPR was calculated on a written basis and net of DAC. This approach is not in line with the Group guidance documents and requirement set out by the Solvency II regulation. The reinsurance share in premium provision adjustment proposed by the IER was of BGN 12.4m (decrease).
- Adjustment of reinsurance receivables (decrease by BGN 2.8m) as the Company has presented in the Solvency II Balance Sheet reinsurance receivables including both due and undue part. Similar to insurance receivables above, the IER proposed adjustments that eliminate the undue part of these balances.

Liabilities

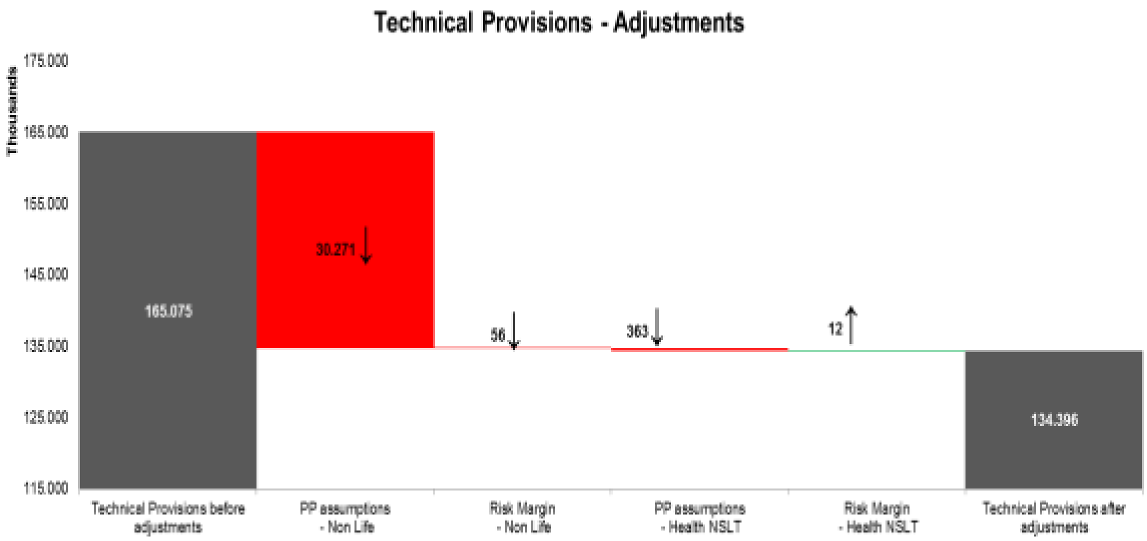
Total Liabilities decreased by BGN 43.7m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions refers mainly to:

- Correction of insurance and intermediary payables by adjusting not due payables to intermediaries in amount of BGN 5.4m.
- Correction of reinsurance payables of BGN 7.5m as the Company has presented in the Solvency II Balance Sheet reinsurance payables including both due and undue part. Similar to insurance payables above, the IER proposed adjustments that eliminate the undue part of these balances.
- Decrease by BGN 75k in deferred tax liability.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 30.7m and further breakdown is presented below:



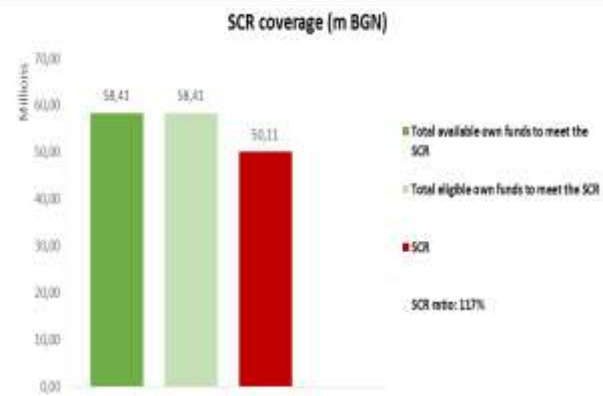
- The Undertaking has used the IFRS UPR amount for the calculation of Premium Provision, where the UPR was calculated on a written basis and net of DAC. This approach is not in requirement set out by the Solvency II regulation. Moreover, the IER performed inclusion of future premium and ultimate loss ratio in the calculation of Premium Provision. The total adjustments amount to a decrease of BGN 30.5m on both Non - Life and Health NSLT portfolios.
- Risk Margin was affected by the adjustments performed on Best Estimate (total decrease of BGN 45k on both Non - Life and Health NSLT portfolios).

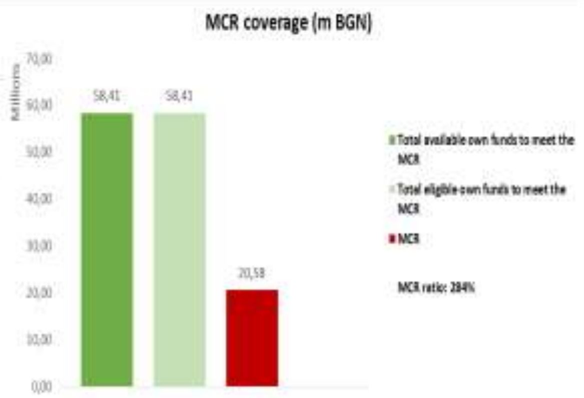
Other issues identified

The Company has used a simplification to calculate their Non-life Lapse SCR, in line with their group guidance. The group guidance allows for three approaches to calculate the Non-life Lapse SCR, out of which two are simplifications and one is detailed and documented calculation. The simplification selected by the company calculates Lapse SCR for S2 lines of businesses where the total net of reinsurance Premium Provision is negative. The group guidance allows these simplifications on the basis of materiality. The original Non-life Lapse SCR the Undertaking calculated using the simplification was zero.

Capital Requirements Compliance

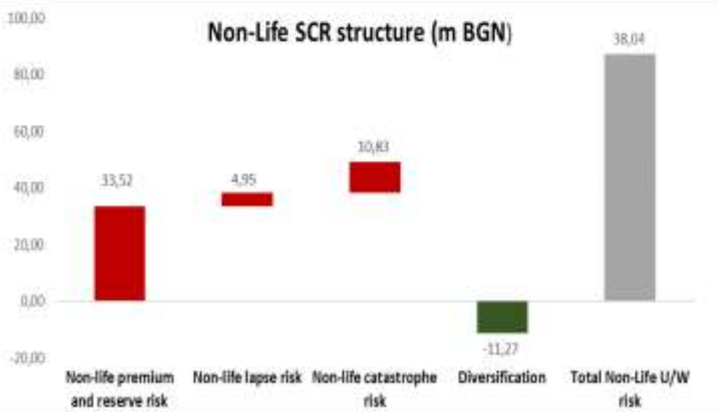
The initial solvency position of ZAD ALLIANZ BULGARIA was 120% SCR and 267% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 117% and MCR equal to 284%, and is compliant.





The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.

As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 38m, whereas exposure to Market Risk is equal to approximately BGN 9.6m as at HY2016.



The Non-Life premium and reserve risk (BGN 33.52m) and Non-Life Catastrophe risk (BGN 10.83m) are the key components contributing to the Non-Life U/W Risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Property risk (BGN 5.27 m)
2. Interest rate risk (BGN 3.58 m)
3. Currency risk (BGN 3.02 m)

Reinsurance – Effectiveness of Risk Transfer

No significant findings.

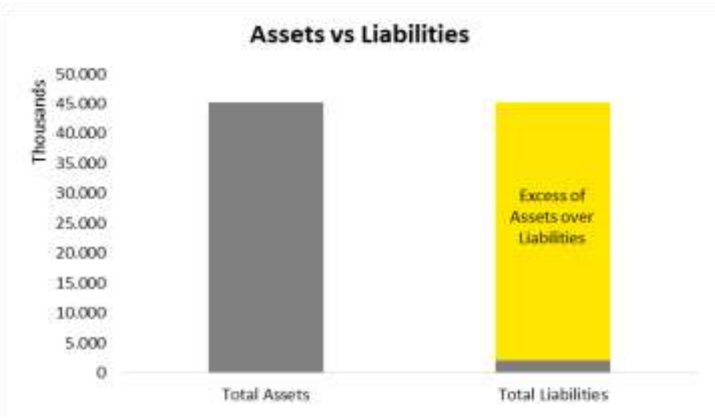
Corporate Governance, processes and internal control framework, accounting policies

The Company has several Group Policies, guidelines and user manuals in place related to Solvency II procedures and methodologies, however, the IER noted that compliance against these Solvency II requirements are not properly checked and documented. This has led to significant adjustments in the insurance receivable and premium provision (presented above). In addition the Policy requires that "the OE should have their own reserving guidelines (that reflect local practices within the framework), which should be regularly reviewed. The Actuarial Functions have the responsibility to regularly review compliance with these standards (both local and group) and to communicate the findings to the local reserving committee."

As regards the processes and internal control framework, the main findings refers to: lack of formal controls over the issuance of policies on blanks (templates), segregation of duties in Underwriting and claims handling process, no automated control over approval limits in Non-motor insurance system although this is compensated by a subsequent manual control performed by accounting department , possibility to change manually limits for claims approval in motor insurance system, manual policy cancellations, default profiles for super-user accounts.

17. ZAD ENERGY AD (SII)

The Company's Balance Sheet is composed of BGN 45.2m Assets and BGN 2m Liabilities leading to Own Funds amount of BGN 43.1m.



There are deductions applicable for own shares (BGN 691k) and foreseeable dividends (BGN 9.95m).

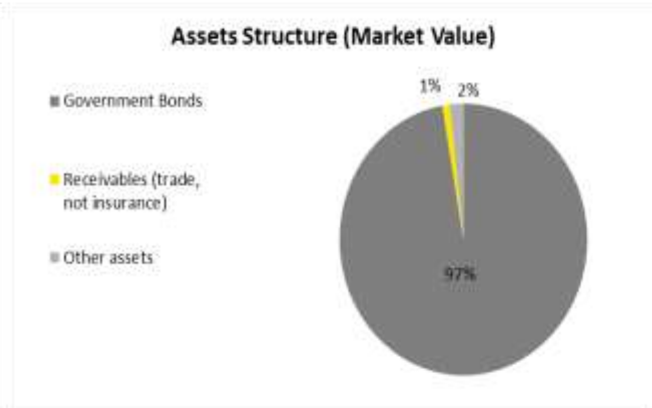
Available Own funds consist of only Tier 1 items:

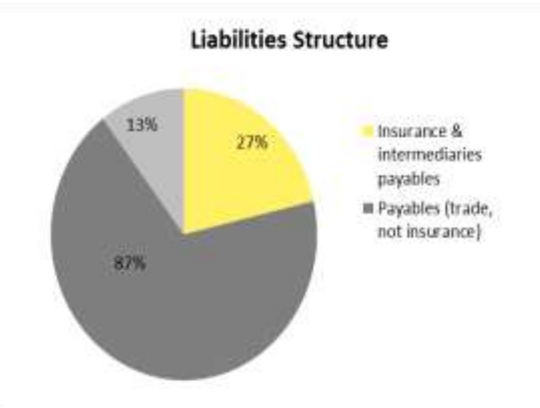
- Ordinary share capital of BGN 18m.
- Reconciliation reserve of BGN 14.4m.

As a result of the IBSR exercise, the Own Funds increased by BGN 7.2m.

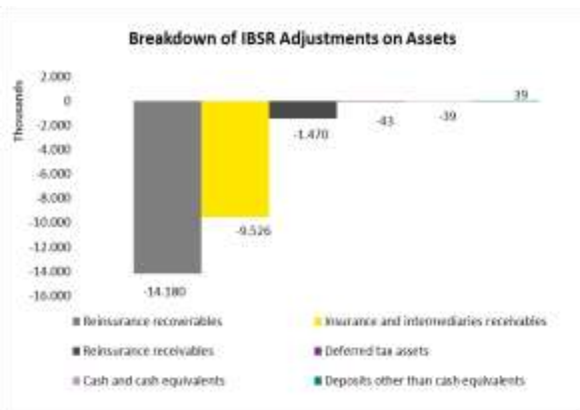
The adjusted SII Balance Sheet presents an excess of assets over liabilities of BGN 43.1m higher than MCR of BGN 7.4m and higher than adjusted SCR of BGN 13.9m.

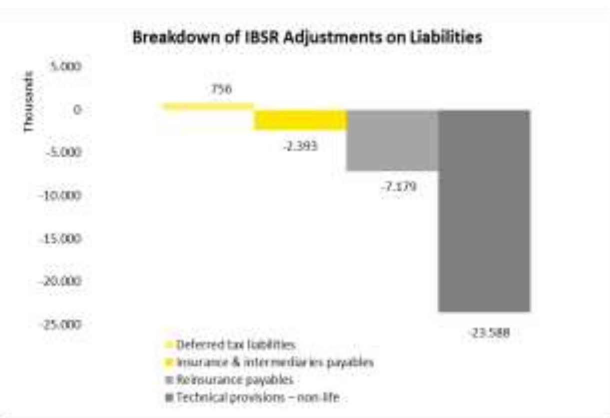
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 25.2m and the total Liabilities decreased by BGN 32.4m.





Assets

Total Assets decreased by 25.2m mainly due to the following adjustments proposed:

- Adjustment for not due Insurance receivables: As the Company has included also the undue part of the insurance receivables, the IER has corrected the balance by proposing the decrease in the insurance receivables value of BGN 9.5m.
- Premium provision and reinsurance recoverables - The Company has calculated the Premium Provision by discounting the IFRS UPR, where the UPR was calculated on a written basis and net of DAC. This approach is not in line with the Group guidance documents and requirement set out by the Solvency II regulation. This error also links to the adjustments marked for insurance receivables and payables, due to consistency. The adjustment proposed by the IER in reinsurance recoverables balance is of BGN 14.2m (decrease).
- Correction of reinsurance receivables (decrease in balance by BGN 1.5m): the IER has identified that the Undertaking has presented in the Solvency II Balance Sheet reinsurance receivables and payables including both due and undue part. Similar to insurance receivables above, IER proposed adjustments that eliminate the undue part of these balances.

Other adjustments on the assets side refers to decrease in deferred tax asset by BGN43k as a result of the impact from the all other asset adjustments and reclassifications between assets categories, without impact in Own funds.

Liabilities

Total liabilities decreased by BGN 32.4m due to the following adjustments proposed:

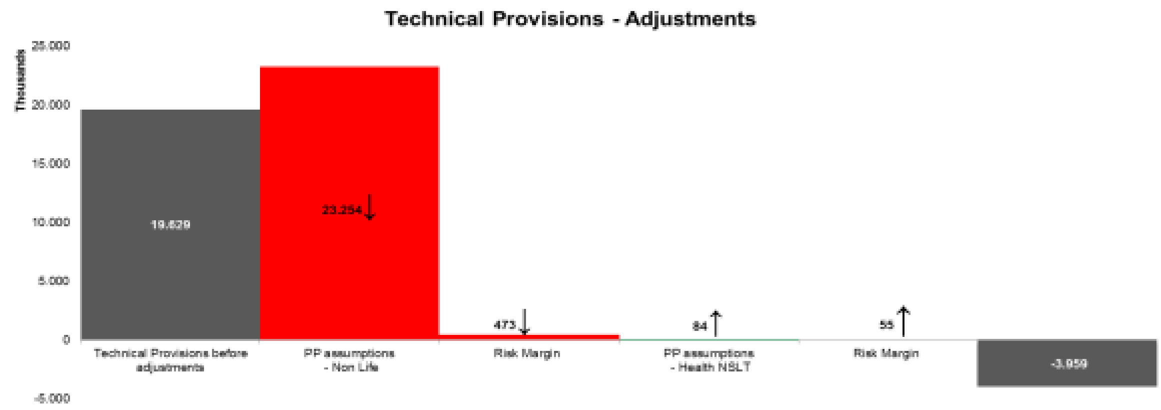
Adjustments in liabilities other than technical provisions:

- Correction of insurance and intermediaries payables: As the Company has included in the balance of the insurance and intermediaries the undue part, the IER has corrected the balance by proposing the decrease of balance in amount of BGN 2.4m.
- Correction of reinsurance payables (decrease in balance of BGN 7.2m): the IER has identified that the Undertaking has presented in the Solvency II Balance Sheet reinsurance receivables and payables including both due and undue part. Similar to insurance payables above, IER proposed adjustments that eliminate the undue part of these balances.

Other adjustments on the liabilities other than technical provisions side refers to decrease in deferred tax liability by 0.08m as a result of the impact from the all other liability adjustments

Adjustment in Technical Provisions

The total amount of the adjustments is BGN 23.6m and further breakdown is presented below:



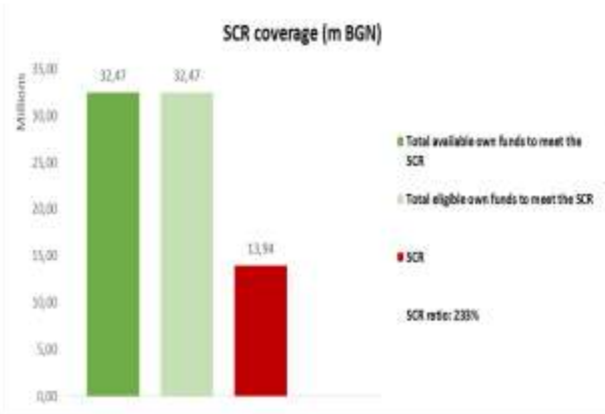
- The Undertaking has used the IFRS UPR amount for the calculation of Premium Provision, where the UPR was calculated on a written basis and net of DAC. This approach is not in line with the Solvency II regulation. Moreover, the IER performed inclusion of future premium and ultimate loss ratio in the calculation of Premium Provision. The total adjustments amount to decrease of BGN 23m leading to negative Technical Provisions.
- Risk Margin was affected by the adjustments performed on Gross Best Estimate (total decrease of BGN 417k on both Non - Life and Health NSLT portfolios).

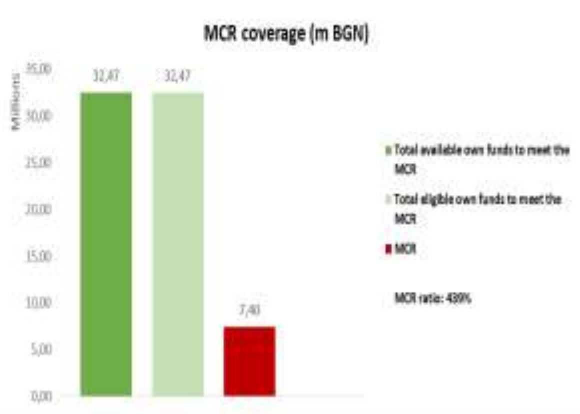
Other issues identified

With respect to Non-Life Lapse SCR, the undertaking has used a simplification to calculate it, in line with their group guidance. The group guidance allows three approaches to calculate the Non-life Lapse SCR, out of which two are simplifications and one is detailed and documented calculation. The simplification selected by the Undertaking calculates Lapse SCR for Solvency II lines of business where the total net of reinsurance Premium Provision is negative. The group guidance allows these simplifications based on materiality. The resulting Non-life Lapse SCR was zero. The original Non-life Lapse SCR the Undertaking calculated using the simplification was zero. AMCR : The Undertaking applies the current exchange rate on the AMCR resulting in a value of BGN 7,235 thousands, instead of the BGN 7.4m prescribed by the FSC. As the AMCR is the effective MCR relevant for the Energy, the IER have proposed an adjustment to correct this.

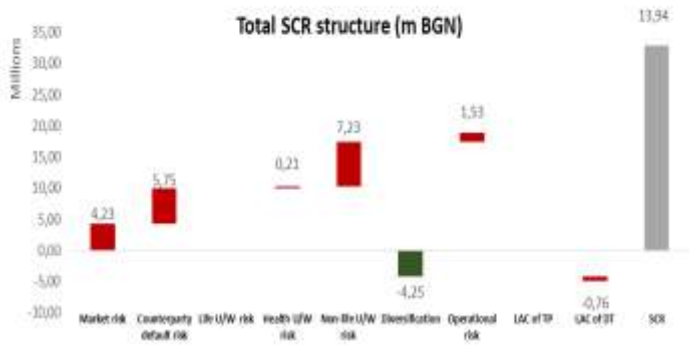
Capital Requirements Compliance

The initial solvency position of ZAD ENERGY AD was 176% SCR and 349% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity ZAD ENERGY achieved a level of SCR equal to 233% and MCR equal to 439%.

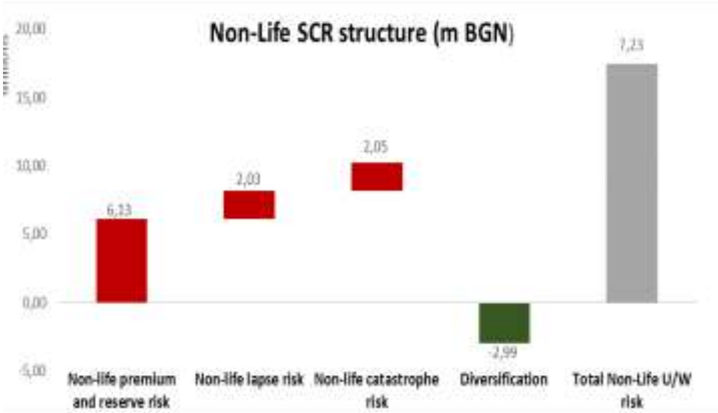




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Counterparty Default Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 7.2m, whereas exposure to Counterparty Default Risk is equal to approximately BGN 5.8m as at HY2016.



The Non-life premium and reserve risk (BGN 6.13 m) and Non-life catastrophe risk (BGN 2.05 m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

No significant finding.

Corporate Governance, processes and internal control framework, accounting policies

In respect of Corporate Governance, processes and internal control framework, accounting policies the main findings are summarized below.

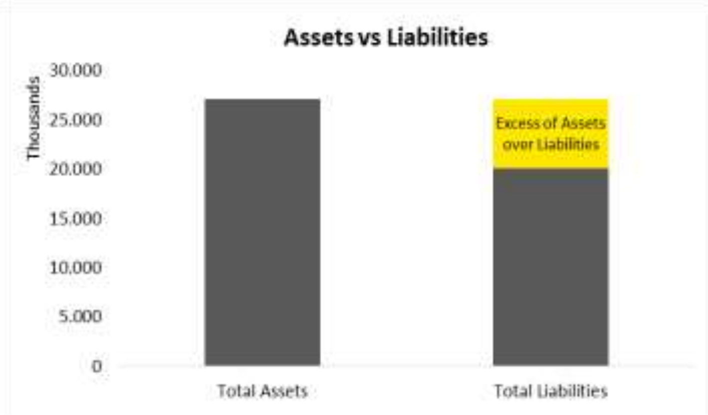
The Company has several Group Policies, guidelines and user manuals in place related to Solvency II procedures and methodologies. These policies apply locally in addition to local laws and regulations. However, the IER noted that compliance against these Solvency II requirements are not properly checked and documented, also potential dispensations for any material deviations are not granted. During the review procedures this deficiency has led to significant adjustments in the insurance receivable and premium provision (presented above).

In addition the Policy requires that "the OE should have their own reserving guidelines (that reflect local practices within the framework), which should be regularly reviewed. The Actuarial Functions have the responsibility to regularly review compliance with these standards (both local and group) and to communicate the findings to the local reserving committee." Lack of segregation of duties and unlimited access to the underwriting system was also noted by the IER. Based on the review, the IER identified that segregation of duties principle is not always followed mainly due to the limited number of human resources involved.

18. INSURANCE COMPANY EIG RE AD

The Company's Balance Sheet is composed of BGN 27.1m Assets and BGN 20.2m Liabilities leading to Own Funds amount of BGN 6.9m.

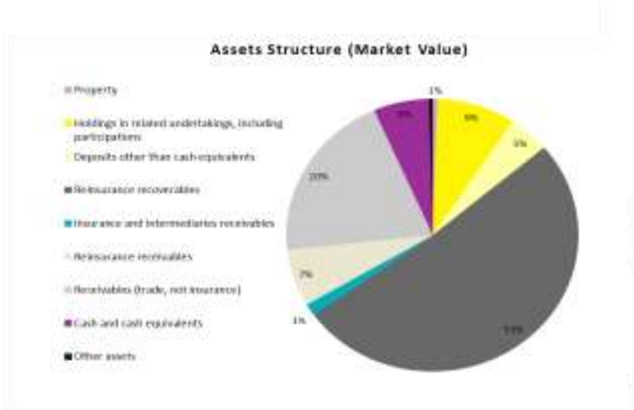
The Company's Own Funds are comprised of Tier I and Tier III components.

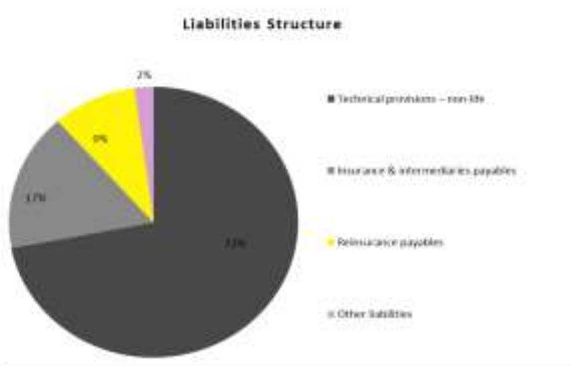


Tier 1 items representing ordinary share capital of BGN 11.3m and reconciliation reserve of BGN (4.5)m and also Tier 3 items representing net deferred tax assets of BGN 76k.

As a result of the IBSR exercise, the Own Funds decreased by BGN 627k.

The structure of the balance sheet is presented below:

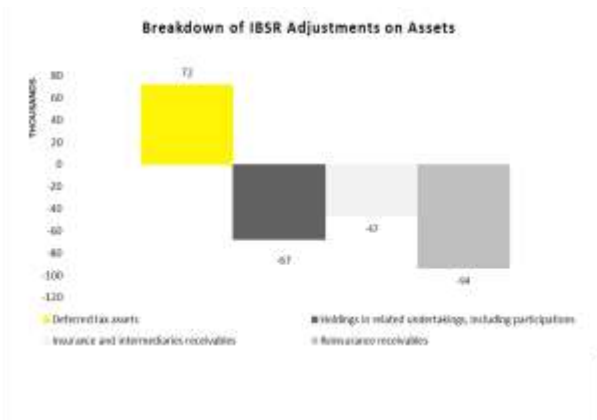


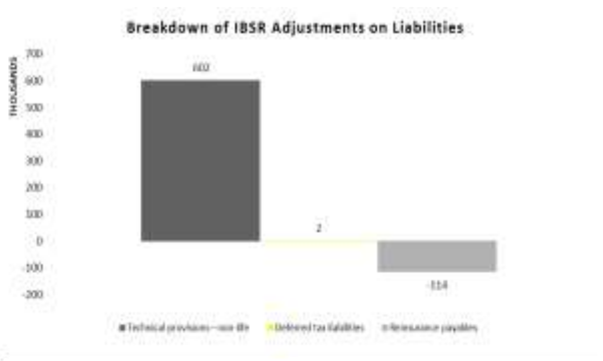


The Company does not underwrite any new business since 2Q 2015 except for property and casualty insurance offered to corporate clients fronted in 100%.

Based on the Board decisions on 28 October 2016 the Company will merge with EIG Health.

As analyzed below, the total Assets decreased by BGN 137k and the total Liabilities increased by BGN 490k.





Assets

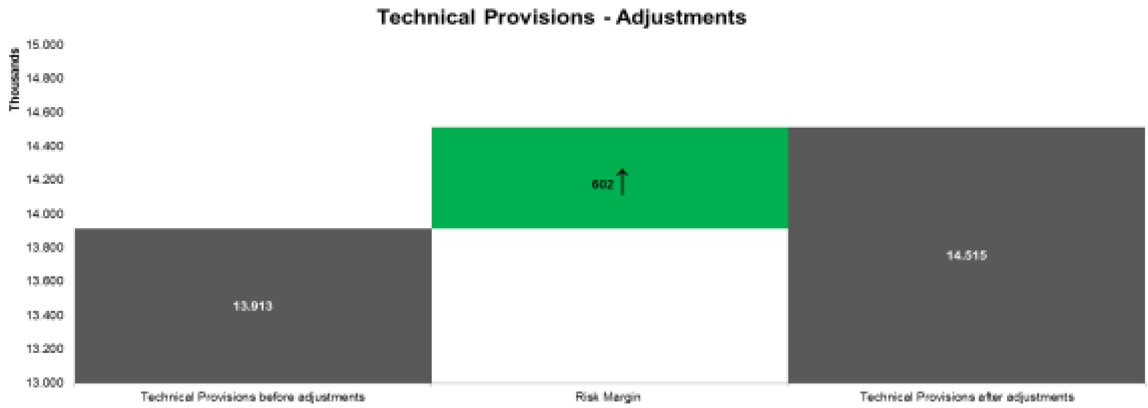
On the Assets side, the adjustments resulted in a total decrease by BGN 137k and consist of:

- Adjustment of receivables from recourses: the Company includes recourse receivables as a trade insurance and does not set a bad debt provisions. The IER has adjusted the balance of receivables from recourses with the amount of BGN 47k representing recognition of impairment.
- Adjustment of holdings in related undertakings, including participations – decrease in assets by BGN 67k. All differences are due to the Company's use of prices different than the Bid price as at 30 June 2016.
- Reinsurance receivables: The adjustment of BGN 94k relates to overstated balance of receivables and, with the same amount of the payables, thus no impact on the excess of assets over liabilities
- Increase in deferred tax asset of BGN 71k as the result of the impact from the all other adjustments.

Liabilities

Adjustments in Technical Provisions

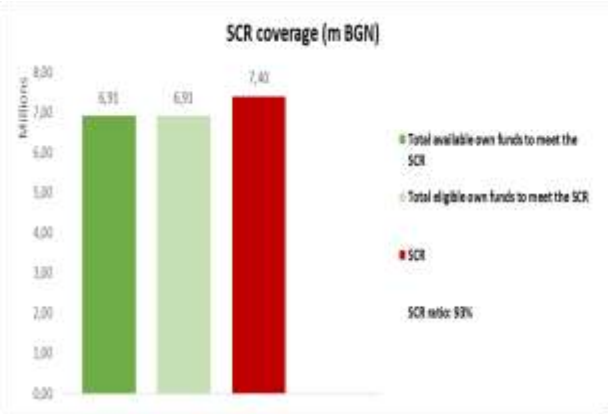
The total amount of the adjustments in BGN 602k and further breakdown is presented below:

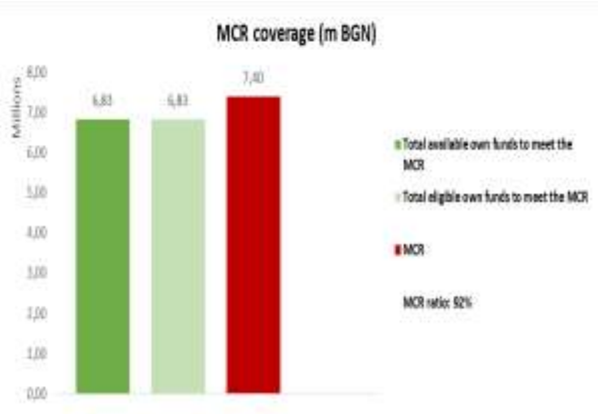


- Increase in technical provisions by BGN 602k as the result of an increase of Risk Margin. This adjustment relates to the impact of risk margin over expected reinsurance default. The Company did not calculated a risk margin. The IER noted that the company's actuary position was that, as the whole portfolio is reinsured, they considered risk margin calculation as not relevant (thus nil in the balance sheet).

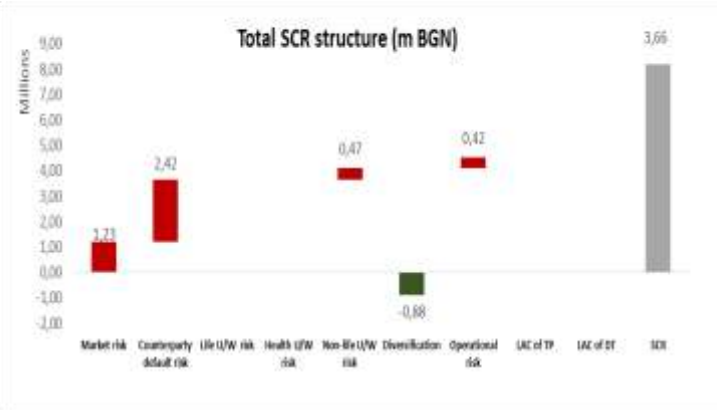
Capital Requirements Compliance

The initial solvency position of INSURANCE COMPANY EIG RE AD was 102% SCR and 102% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 92%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR.Thus the company is not compliant.





The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Counterparty Default Risk and Market Risk. Specifically, exposure to Counterparty Default Risk is equal to approximately BGN 2.42m, whereas exposure to Market Risk is equal to approximately BGN 1.23m as at HY2016.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Concentration risk (BGN 1.06m)
2. Equity risk (BGN 0.52m)
3. Spread risk (BGN 0.09m)

Corporate Governance, processes and internal control framework, accounting policies

Main deficiencies identified by the IER in relation with Corporate Governance, internal control framework and accounting policies refer to:

- Designing and implementing controls to be performed by heads of business units (e.g. Claims, Reinsurance, Finance and Accounting) as the 1st level of defense (risk owners) as well as by the 2nd (Actuarial, Compliance or Risk Management Functions) and the 3rd line of defense (Internal Audit);
- Independent review process and verification of the valuation methods need to be strengthen especially when a new valuation method or technique is applied as well as prior regular reporting for the prudential (or statutory) purposes.
- Thus, the IER recommended to develop more comprehensive Solvency II Accounting Policy and include accounting treatment of all assets and provisions other than technical provisions, specific to the business operations of the Company with a clear reference to the Group Accounting Policy.

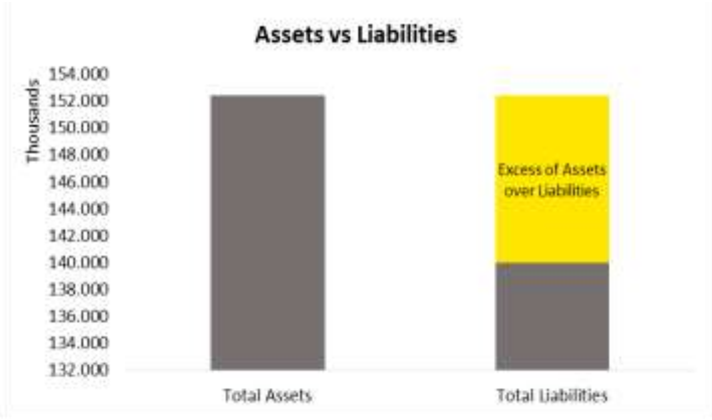
As regards the related parties' transactions, the IER noted that the company has placed 100% of its investments in related parties leading to significant concentration in one category of assets as well as counterparty concentration.

Subsequent events

EIG Re EAD has increased its registered capital by BGN 3,086k. The capital increase is fully paid in according to th
capital of the company is BGN 11,312k.

19. Euroins Insurance PLC (SII)

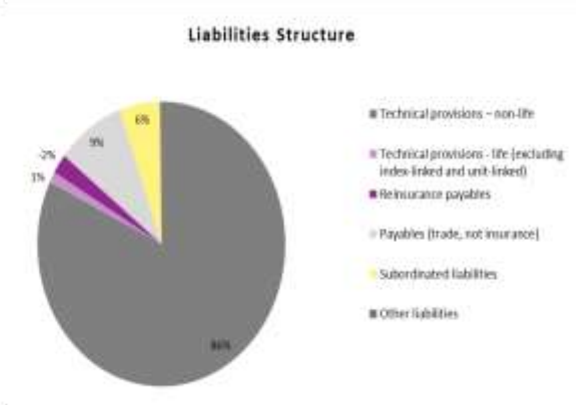
The Company's Balance Sheet is composed of BGN 152m Assets and BGN 140m Liabilities leading to excess of assets over liabilities in amount of BGN 12.5m.



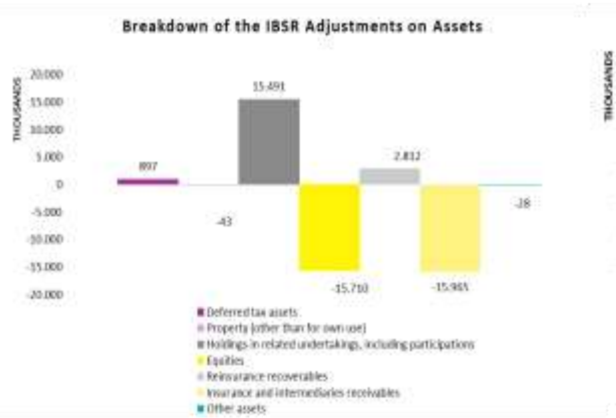
The Eligible Own Funds to meet the SCR amount to BGN 20.1m and the Eligible Own Funds to meet the MCR amount to BGN 13.4m.

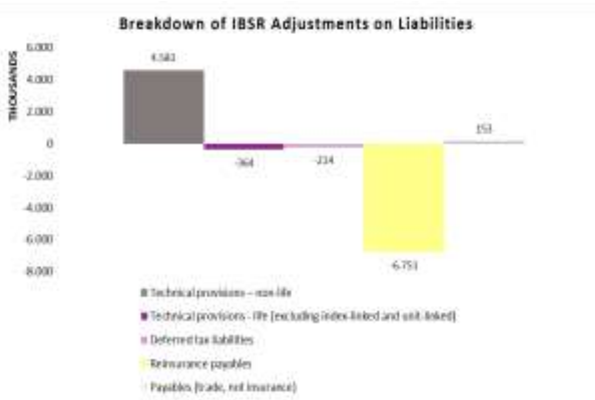
As a result of the IBSR exercise, the total Assets decreased by BGN 12.6m and the total Liabilities by BGN 2.6m.

The structure of the balance sheet is presented below:



As analyzed below, the total Assets decreased by BGN 12.6m and the Liabilities decreased by BGN 2.6m.





Assets

On the assets side, the main adjustments refer to decrease by BGN 15.6m in Insurance receivables as a result of the elimination of the future premiums instalments and the increase by BGN 28m in Reinsurance recoverables as a result of the adjustments proposed for technical provisions.

Other adjustments on assets side include the following:

- Increase in deferred tax asset by BGN 897k representing the net impact of the adjustments proposed for BSR exercise.
- Decrease in Investments as following: Holdings in related undertakings (BGN 219k), Corporate bonds (BGN 10k), Property (BGN 43k) following the assessment performed by the IER.
- Decrease in Insurance and intermediaries receivables by BGN 371k for additional impairment.
- Two reclassifications proposed from assets and liabilities by BGN 48k and BGN 152k.
- Decrease in Receivables as a result of the additional impairment of BGN 171k.
- Reclassification of Equities to Holdings in related undertakings, including participations in amount of BGN 15.710k

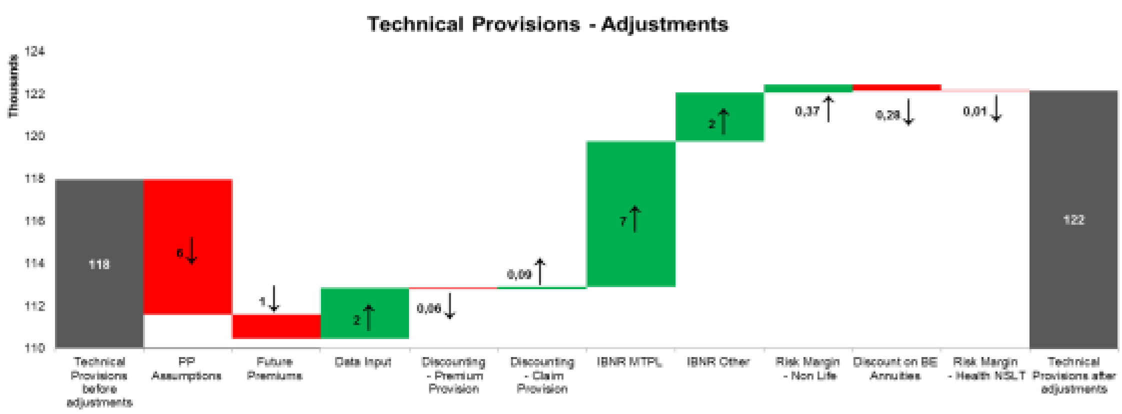
Liabilities

Adjustments in liabilities other than technical provisions:

- Decrease of Deferred tax liabilities with BGN 214k as a result of the adjustments proposed for the BSR
- Decrease of Reinsurance payables with BGN 6.75m representing the cancellation of the related share of the reinsurers in the future premiums
- The two reclassifications affecting assets and liabilities in amount of BGN 48k BGN and BGN152k

Adjustments in Technical Provisions

The total amount of the adjustment is BGN 4.5m and further breakdown is presented below:



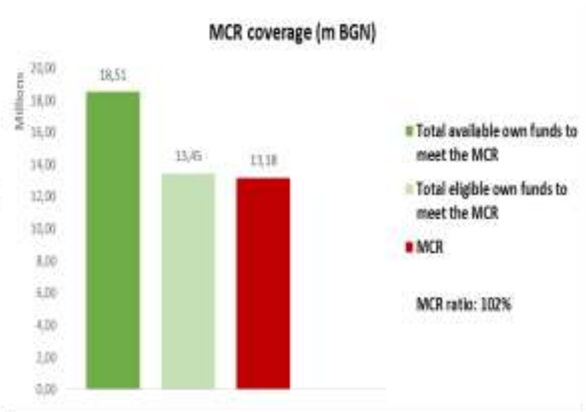
- The decrease of BGN 31m related to Claim Provision is caused by the following:
  - The Company does not create reserve for overhead expenses. The IER performed calculation for MTPL and Casco LoBs leading to an increase of BGN 2m.
  - Salvages and subrogations are not included in the claims triangles by the Company. The IER performed high-level estimation of expected recourses from claims covered by the claim reserves leading to a decrease of BGN 5m.

- Regarding the estimation of IBNR, the IER considers that the method performed by the Company may not be line with the Best Estimate assumption of SII framework. The projection methods performed caused a decrease of BGN 28m.

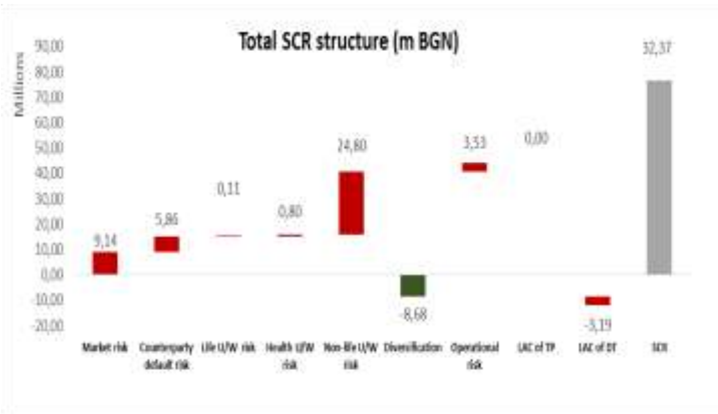
- The decrease of BGN 68m related to Premium Provision is caused by the following:
  - Different assumptions on Loss Ratio used by the IER for the estimation on heavy trucks contracts.
  - The IER identified adjustment for inclusion of the future premiums.
  - In the course of IER review, it appeared that contracts renewed before the closing date (June 30, 2016) and related to future period were not taken into account. We took into account these future premiums in the calculation of the best estimate of premium reserve. The impact is an additional decrease of the BE premium by BGN 1k.
- The adjustment on Risk Margin comes from the adjustments performed on TPs and SCR. The IER did not receive the data used by the company, in order to justify the calculation performed.

Capital Requirements Compliance

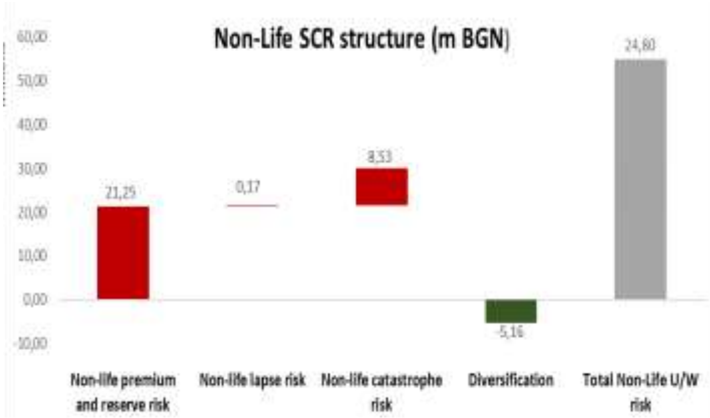
The initial solvency position of Euroins Life was 101% SCR and 221% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 63% and MCR equal to 102%, thus not being compliant.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 24.8m, whereas exposure to Market Risk is equal to approximately BGN 9.14m as at HY2016.



The Non-life premium and reserve risk (BGN 21.25m) and Non-life catastrophe risk (BGN 8.53m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Equity risk (BGN 4.5m)
2. Currency risk (BGN 4.19m)
3. Market risk concentrations (BGN 3.64m)

Reinsurance – Effectiveness of Risk Transfer

The IER concluded that all the treaties subscribed had as a real objective to exteriorize risks to third parties and all reinsurers are well known and well rated reinsurers on the market.

Corporate Governance, processes and internal control framework, accounting policies

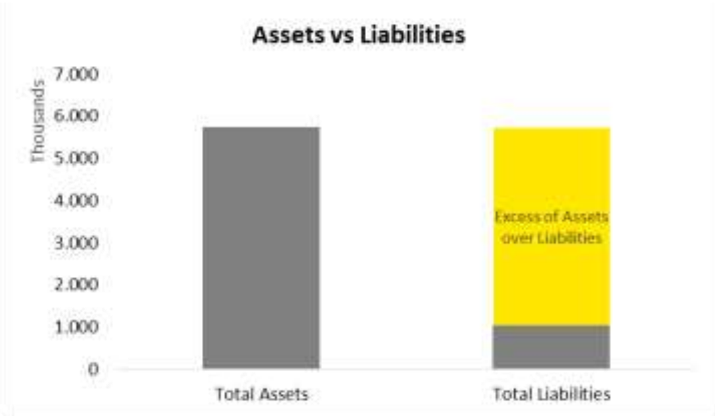
In respect to the corporate governance and internal controls, the IER had several findings and aspects. The main findings refer to the lack independence of Internal Audit function and internal control environment from the Management which adversely impact the 3 lines of defense principles, segregation of duties (i.e. the Actuarial Department of Euroins is composed of only one person), etc.

- **Subsequent events**

In second half of2016 Euroins Insurance Group AD provided a subordinated debt amounting to BGN 12 000 thousand to Euroins AD. The sum has been effectively transferred on 23.12.2016. Further the compliance with own funds requirements stipulated in the Delegated Act 2015/35 will be reviewed.

20. Euroins Health Assurance LLC (SII)

The Company's Balance Sheet is composed of BGN 5.7m Assets and BGN 1m Liabilities leading to excess of assets over liabilities in amount of BGN 4.7m.



As a result of the IBSR exercise, the Own Funds decreased by BGN 434k.

Based on the outcome of the IBSR exercise, the Company achieved 94% MCR and 91% SCR (by taking into account the share capital increase) and 74% MCR and 91% SCR (without taking into account the share capital increase).

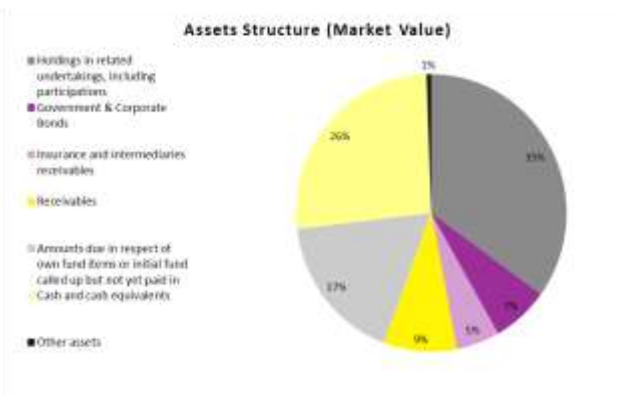
The Company's own funds as of 31 December 2015 did not cover the absolute floor of MCR BGN 5m.

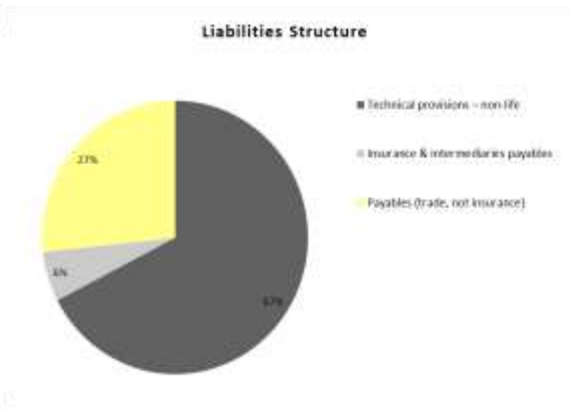
During the period under examination the company proceeded in two share capital Increases correspondingly amounting to BGN 1.5m (which was completed during May 2016) and of BGN 1m (reported as of 30 June 2016 under the line item: Amounts due in respect of own fund items or initial fund called up but not yet paid in – R0400, which was completed during September 2016).

According to Article 90 of the Directive 2009/138/EC, a prior supervisory approval is required for Amounts due in respect of own fund items or initial fund called up but not yet paid in. The Company confirmed that it was not obtain and even asked for. This is because the understanding of the Company about the applicable legal framework is that the approval is not required in the specific case.

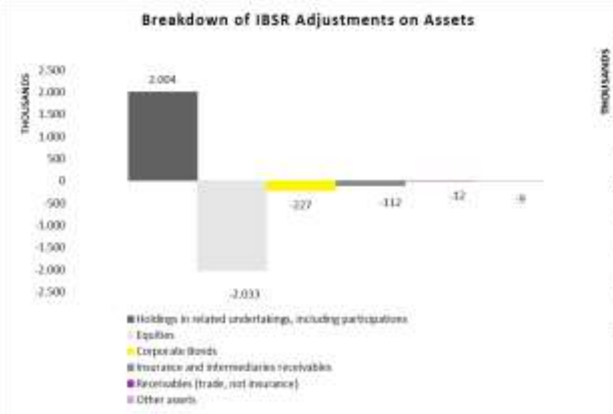
The IER did not conclude on this aspect and believe that it is a supervisory issue of concluding on this and accordingly presented the SII ratios under two scenarios.

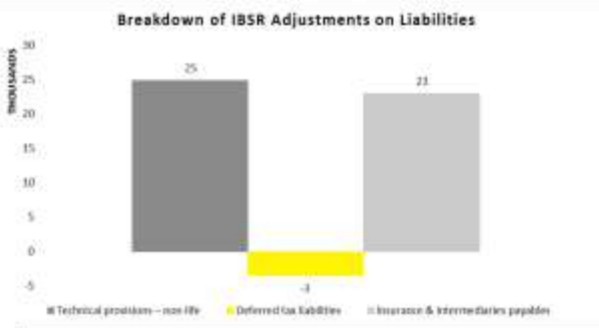
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 390k and the total Liabilities increased by BGN 45k.





Assets

On the assets side, the main adjustments refer to decrease by BGN 227k in Bonds as a result of the impairment proposed for securities and the downward adjustment proposed for Insurance and intermediaries receivables by BGN 112k comprising the adjustment proposed for impairment and future premium adjustment of Insurance receivables by BGN 135k and the reclassification to payables accounts of BGN 23k.

Other adjustments on assets side include the following:

- Downward adjustment for holdings in related undertakings valuation by BGN 29k.
- Downward adjustment for Other assets valuation by BGN 12k.
- Downward adjustment for Deferred tax assets by BGN 9k.
- Other adjustments include reclassifications between assets categories, without impact in Own funds

Liabilities

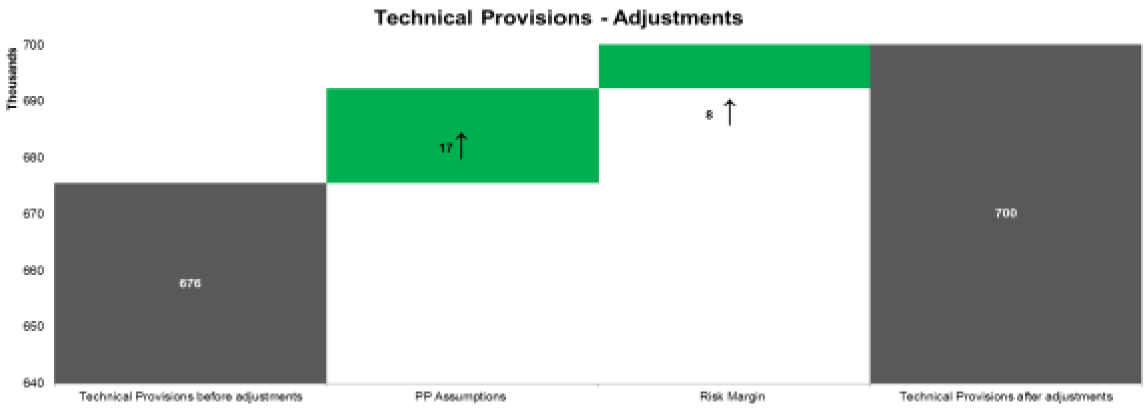
Total liabilities increased by 45k due to the following adjustments proposed:

Adjstemtns in liabilities other than technical provisions

Apart from the technical provisions, liabilities were also impacted by the reclassification from Insurance receivables to Insurance payables in amount of BGN 23k mentioned above and the adjustment proposed for Deferred Tax Liabilities in amount of BGN 3k.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 25k and further breakdown is presented in below:



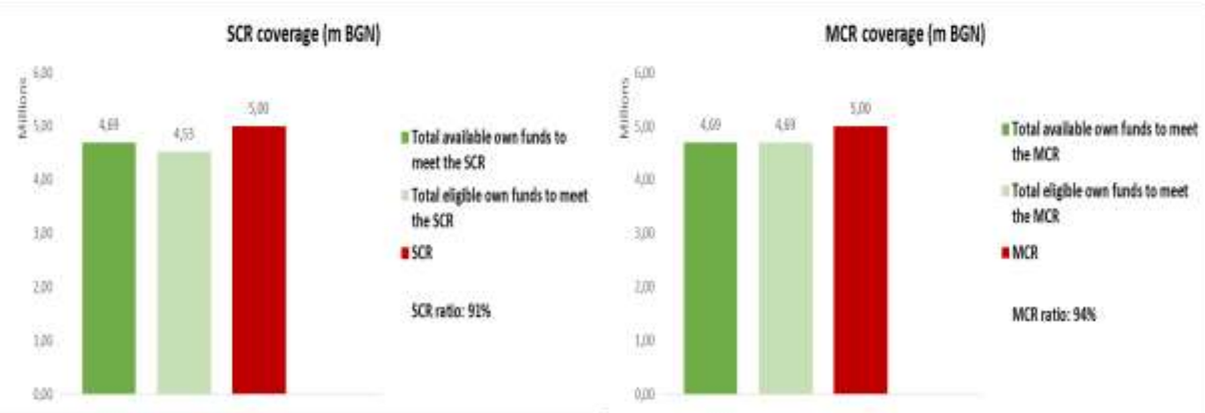
- The increase of BGN 17m related to Premium Provision is caused by the following:
  - The company performed double counting of future premiums installments. The write off of the insurance receivables caused an increase in Best Estimate from the UPR recalculation.
  - The IER used different assumptions of Loss Ratio in the calculation of Premium Provision.
- The Risk Margin increased by BGN 8k due to the adjustments on Best Estimate.

Other issues identified

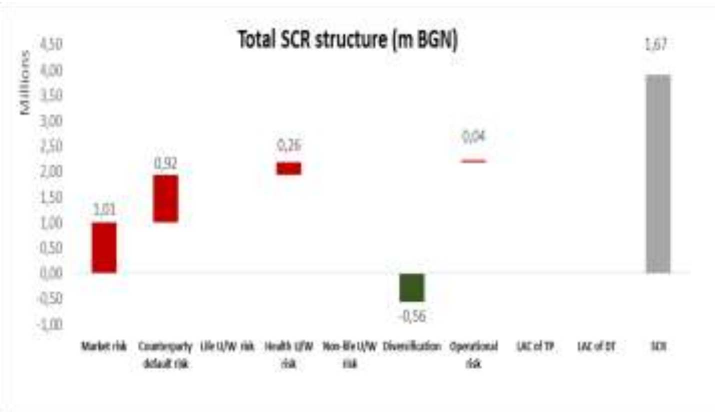
Related parties' transactions review main findings refer to related parties not disclosed concerning the Member of the Management Board and the concerning the Investments.

Capital Requirements Compliance

The initial solvency position of Euroins Health was 99% SCR and 102% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 94% including BGN 1m in own funds. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. If the ancillary own funds are not included, than SCR is 91% and MCR is 74%, therefore the company is not compliant.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Counterparty Default Risk and Market Risk. Specifically, exposure to Counterparty Default Risk is equal to approximately BGN 0.9m, whereas exposure to Market Risk is equal to approximately BGN 1m as at HY2016.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Concentration risk (BGN 0.84 m)
2. Equity risk (BGN 0.56 m)
3. Spread risk (BGN 0.01 m)

Reinsurance – Effectiveness of Risk Transfer

No insurance program has been set up by the Company. The IER believes that it is justified by the run-off status of the insurance contracts portfolio and also by the nature of the risks concerned (health).

Corporate Governance, processes and internal control framework, accounting policies

The Company is in a run-off process and there were several corporate governance and internal control findings mentioned by the IER, several aspects related also to the insufficient number of personnel.

Certain findings mentioned refer to, without being limited to:

- Lack of independence of Internal Audit function from the Management which adversely impact the 3 lines of defense principles.
- Segregation of duties (i.e. the Actuarial Department of the Company is composed of only one person, the Claims Department comprised 2 people – a claims manager and a doctor, etc).
- Lack of Data checks procedures and controls on the main databases (claims, policies).
- IT environment is lacking important controls which renders the environment as not reliable and insecure for data processing.

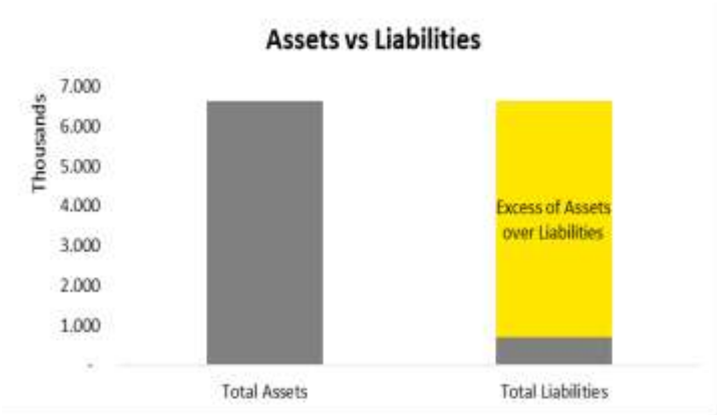
Subsequent events

In addition to the capital increase performed in the first half of 2016, another capital increase was completed at the end of September 2016 for an amount of BGN 1m.

On the 28th October 2016, the Board of Directors of Euroins Insurance Group AD has decided to merge Euroins Health Assurance EAD (100% owned by Euroins Insurance Group AD) into Insurance company EIG Re EAD (100% owned by Euroins Insurance Group AD).

21. OZOK Insurance

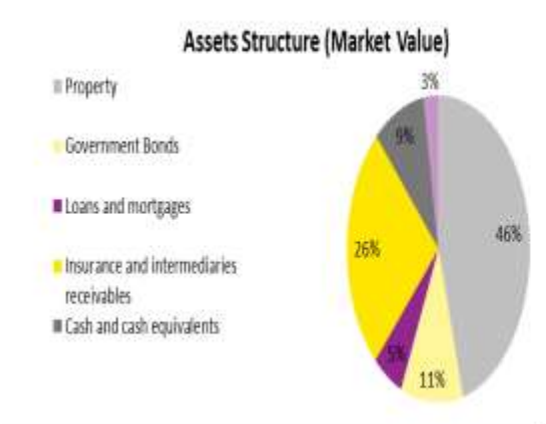
The Company's Balance Sheet is composed of BGN 6.6m Assets and BGN 695k Liabilities leading to Own Funds amount of BGN 5.9m.

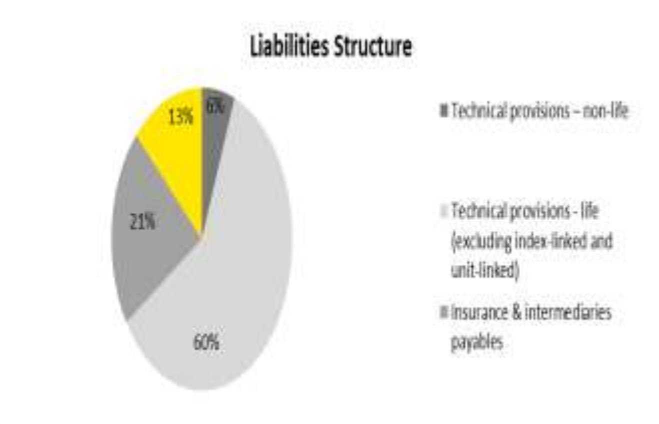


The own funds comprise only of Tier 1 items.

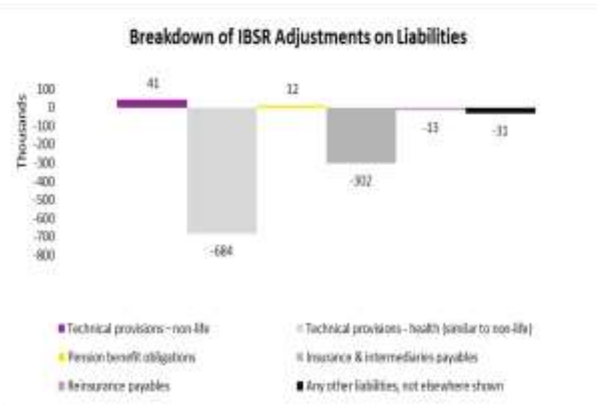
As a result of the IBSR, the Own Funds increased by BGN 130k.

The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 848k and total liabilities increased by BGN 977k.



Assets

Total Assets decreased by BGN 848k due to the following adjustments proposed:

- Decrease in the values of the insurance and intermediaries receivables in amount of BGN 654k resulted as a difference between the computation of the provision in accordance with the methodology and the company's policy
- Decrease in the value of other receivables in amount of BGN 78k following the recoverability test performed by the reviewer. The reviewer took in consideration the period of time since these receivables were due and assessed their recoverability as being doubtful.
- Decrease in Deferred tax asset of BGN 127k as the result of the impact from the all other adjustments.

In relation to the insurance receivables which have a weight of 26% in the total assets during the review period an amount of BGN 1.9m was transferred from the status of more than 1 year overdue to not due status after the company signed new annexes with these clients which deferred the payment by 1 year from 30 September 2016.

For these specific receivables the IER made an analysis of their balance sheets and their relations with the Insurance company OZOK and concluded that these are long term clients of the company, these clients are one of the biggest representatives in the industries in which they operate and their balance sheets indicate sufficient resources and abilities to repay due amounts which are considered recoverable.

Liabilities

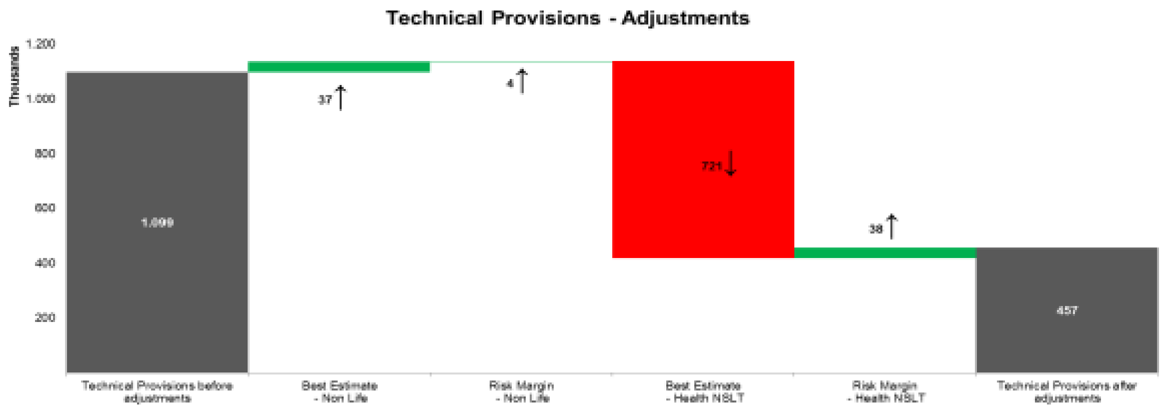
Total liabilities decreased by BGN 977k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease insurance & intermediaries payables of BGN 302k as a result of elimination of undue commission and canceled contract related to the adjustments presented on asset side for insurance receivables.

Adjustments in Technical Provisions

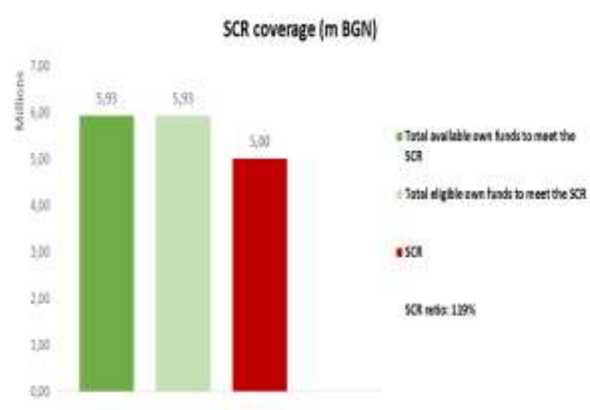
The total amount of the adjustments is BGN 642k decrease and further breakdown is presented below:

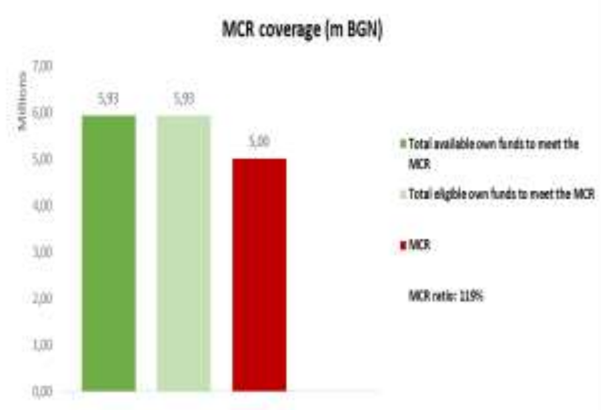


- The company did not perform calculation of Claims Provision for the small products. As a result of the IBSR calculation, the Technical Provisions have been increased by BGN 37k.
- The TP's for HNSLT has been nullified.
- Risk Margin has been increased by BGN 41k, following the adjustments of Technical Provisions and SCR.

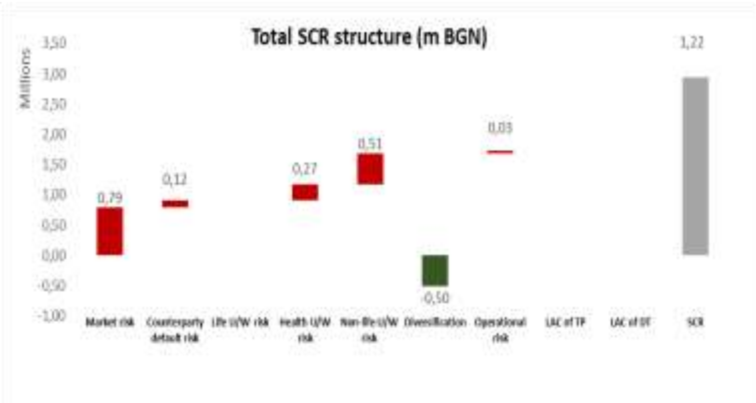
Capital Requirements Compliance

The initial solvency position of OZOK was 116% SCR and 116% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity OZOK Insurance achieved a level of MCR equal to 119%, thus is compliant. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR.





The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



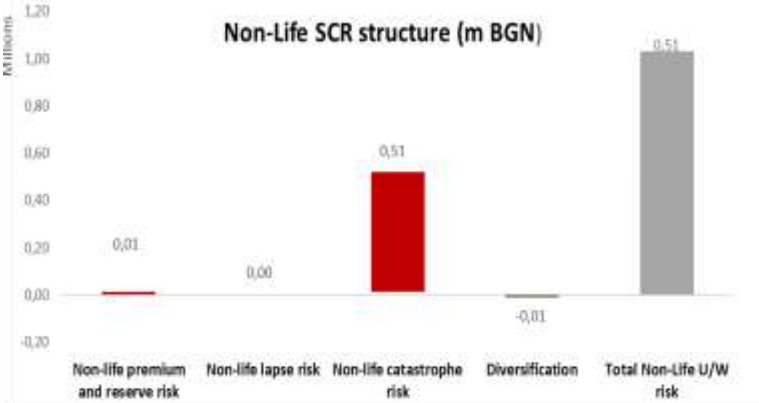
As presented in the table on the side the majority of the capital requirements comes from Market Risk and Non-Life Underwriting Risk. Specifically, exposure to Market Risk is equal to approximately BGN 0,8m, whereas exposure to Non-Life Underwriting Risk is equal to approximately BGN 0,5m as at HY2016.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Property risk (BGN 0.74 m)

2. Market risk concentrations (BGN 0.25 m)

3. Interest rate risk (BGN 0.07 m)



The Non-Life catastrophe risk (BGN 0.51 m) and Non-life premium and reserve risk (BGN 0.01 m) are the key components contributing to the Non-Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

Based on the analysis of the contracts the reviewer concluded that the reinsurance activity is effective in terms of risk transfer.

Corporate Governance, processes and internal control framework, accounting policies

- Improvements were recommended in the areas of the Risk management policy, the Investment policy, the Liquidity risk management policy does not explicitly describe how to identify the costs of alternative means of funding, the Capital management policy
- Company's control environment is designed and implemented in a way which fits to its mission, objectives and business activity while it has been encompassed in its culture and enforces the continuation and functionality of the organization. The Company retains appropriate controls regarding control environment, since they refer to the whole range of activities that this concept indicates. The Company appropriately addresses the control tone and consciousness of the organization.
- In general the company has an accounting policy for preparing Solvency II Balance sheet which stipulates rules that are in compliance with Solvency II. However during the process of performing the procedures required per the Methodology it was identified the need for certain adjustments to be made. This indicates that the accounting policy in place is not appropriate and rules defined in it are not sufficient to address the specific requirements of the Solvency II.

22. JSIC OZK Insurance

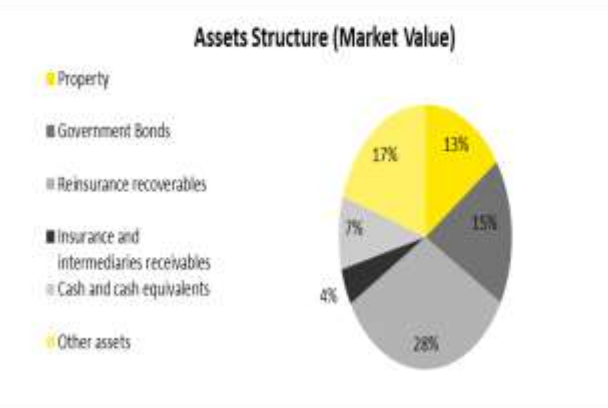
The Company's Balance Sheet is composed of BGN 101.1m Assets and BGN 82.3m Liabilities leading to Own Funds amount of BGN 18.8m.

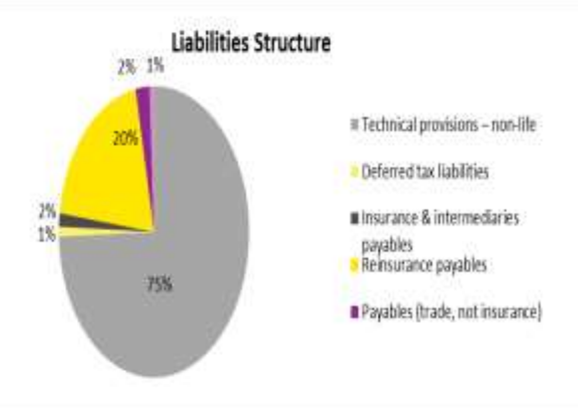
The own funds comprise only of Tier 1 items.

As a result of the IBSR exercise, the own funds being higher by BGN 3.7m.

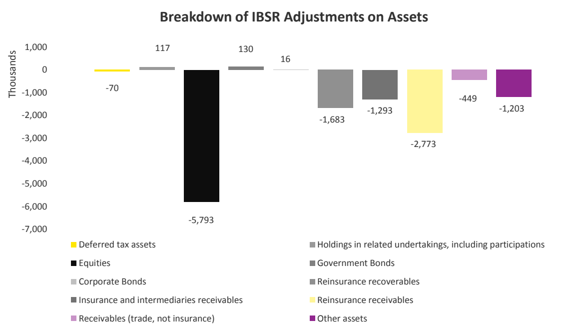
The structure of the balance sheet and the impact of the main adjustments is presented below:

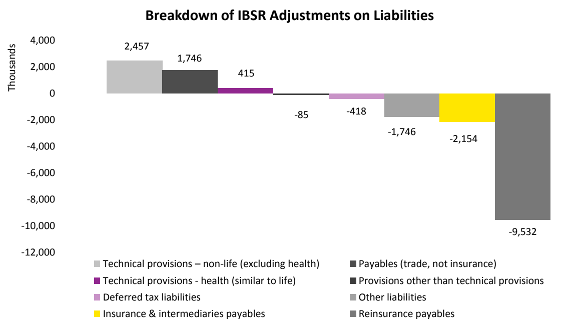
The structure of the balance sheet is presented below:





As analyzed below, total Assets decreased by BGN 13m and total Liabilities increased by BGN 9.3m.





Assets

On the assets side, main adjustment refers to:

- Decrease in the values of the unlisted equities in amount of BGN 5.8m resulted as a difference between the value determined by the CFA analyst which was involved by the reviewer and the value reported by the Undertaking. The method used for valuation by the Company is a weighted value between the method of net asset value and the method of market multiples while the reviewer had used net asset value method.

- Decrease in the values of the insurance and intermediaries receivables in amount of BGN 1.3m resulted as a difference between the computation of the provision in accordance with the methodology and the company's policy.
- Decrease in the value of reinsurance receivables in amount of BGN 2.8m following the recoverability assessment performed by the reviewer which resulted in a write off an amount of BGN 2.2m (out of which receivables of BGN 2.1m due to a legal dispute). The remaining part of the adjustment represents mainly the elimination of receivables from commissions from reinsurers on receivables not due.
- Decrease in the value of reinsurance receivables in amount of BGN 1.9m representing the share of reinsurance in the technical provisions following the adjustment recorded on the gross technical provisions.

Liabilities

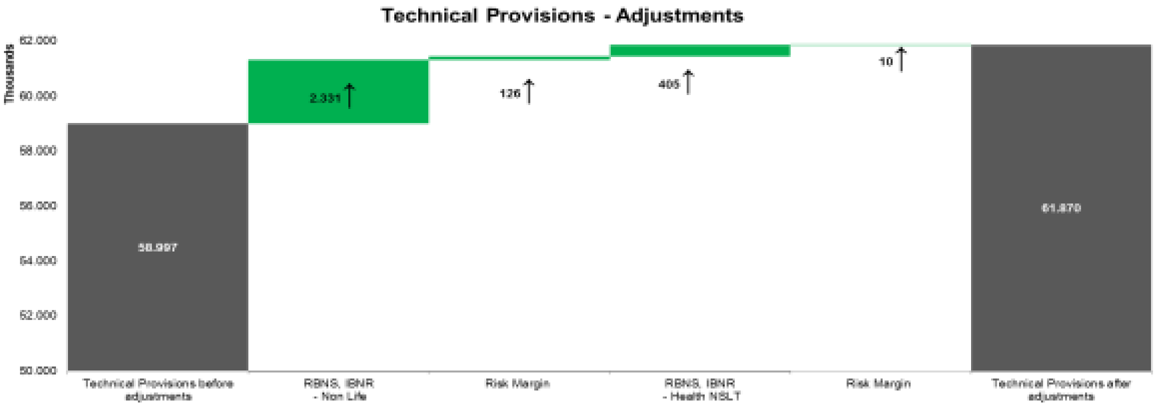
Total liabilities decreased by BGN 9m, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease in the value of reinsurance payables in amount of BGN 9.5m as a result of elimination of payables to reinsurer which were not yet due in amount of BGN 7.2m and write off an amount of BGN 1.8m payable (in connection with the adjustment performed on the asset side)
- Decrease insurance & intermediaries payables of BGN 2.2m as a result of elimination of undue commission and canceled contract related to the adjustments presented on asset side for insurance receivables.
- The remaining adjustments refers to reclassifications between different accounts in asset or liabilities side considering the accounting policies as evaluated by the reviewer.

Adjustments in Technical Provisions

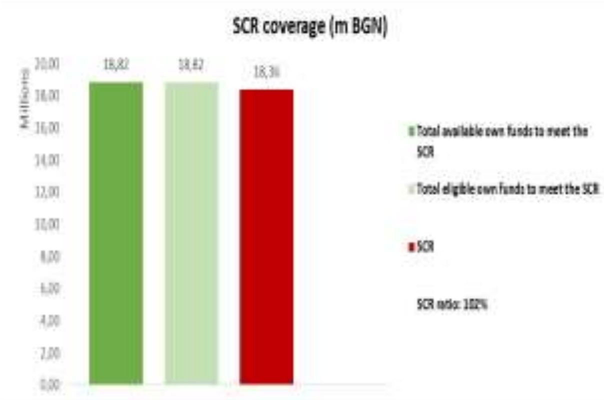
The total amount of the adjustments is BGN 2.8m and further breakdown is presented below:

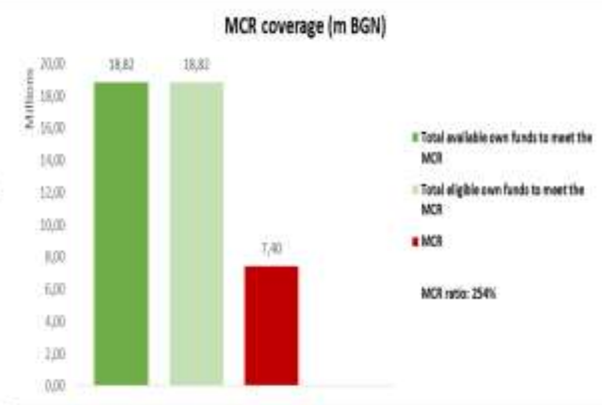


- The IBNR methods used by the company for both Non-Life and Health NSLT portfolios do not reflect to the nature of the business. Adjustment due to different estimation methods performed amounts to an increase of BGN 2.7m.
- Due to the adjustments performed on the Technical Provisions and SCR, Risk Margin increased by BGN 136k.

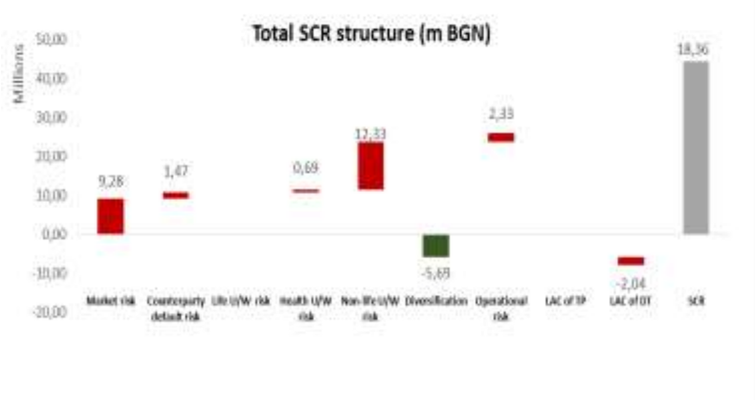
Capital Requirements Compliance

The initial solvency position of OZK was 104% SCR and 304% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity JSIC OZK Insurance achieved a level of SCR equal to 102% and MCR equal to 254%, thus is compliant.

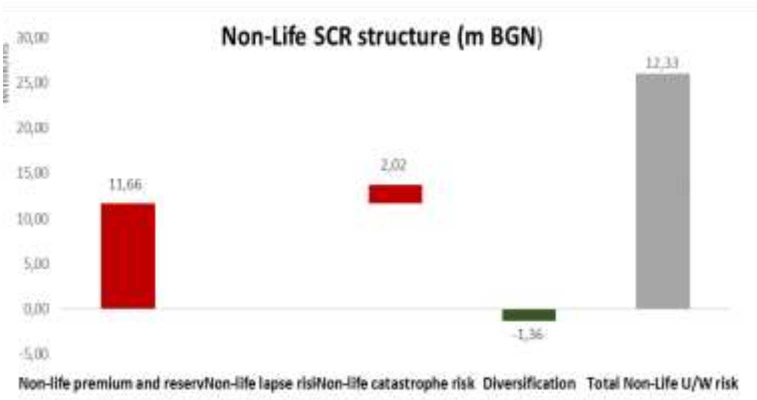




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 9.3m, whereas exposure to Market Risk is equal to approximately BGN 12.3m as at HY2016.



The Non-Life premium and reserve risk (BGN 11.66 m) and Non-life catastrophe risk (BGN 2.02 m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Market risk concentrations (BGN 5.42 m)
2. Equity risk (BGN 4.68 m)
3. Property risk (BGN 2.48 m)

Reinsurance – Effectiveness of Risk Transfer

Based on the analysis of the contracts the reviewer concluded that the reinsurance activity is effective in terms of risk transfer.

Corporate Governance, processes and internal control framework, accounting policies

Regarding Corporate governance the reviewer had concluded some gaps from the SII frameworkand recommended improvements in respect of the Risk management policy to explicitly include which are the appropriate procedures for assessing the effective risk transfer and reporting of baseline risk, Investment policy, the Liquidity risk management policy, the Capital management policy.

Based on the requirements of Guideline 53 – Data quality control procedures, the Company should formally include in their internal policies and procedures the need for periodic review of market data and input to alternative sources and experience.

The company should ensure that an independent review of the valuation methods, following Article 267 (4)(b) of Commission Delegated Regulation 2015/35 takes place before the implementation of a new method or a major change, and on a regular basis thereafter in accordance with Guidance 55.

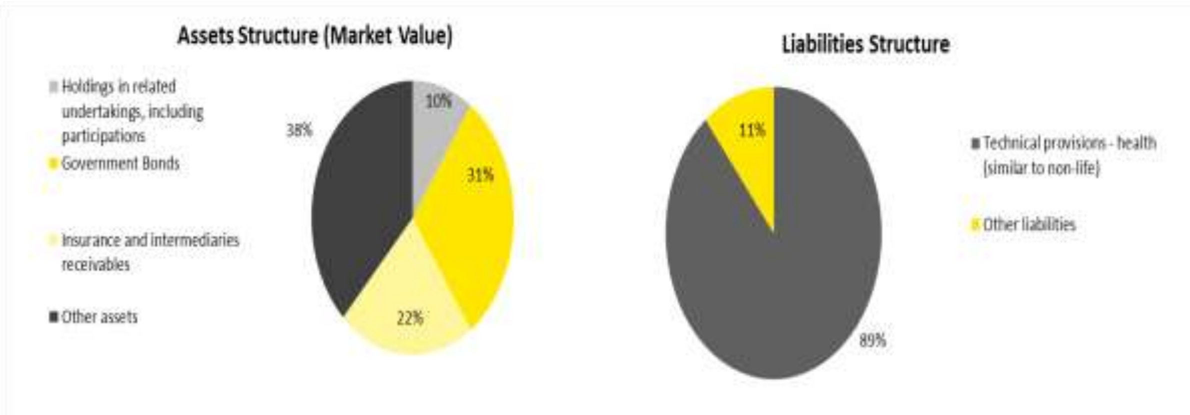
23. United Health Insurance Fund (UHIF Doverie - SI)

The Company's Balance Sheet is composed of BGN 15.5m Assets and BGN 5.3m Liabilities leading to Own Funds amount of BGN 10.2m.

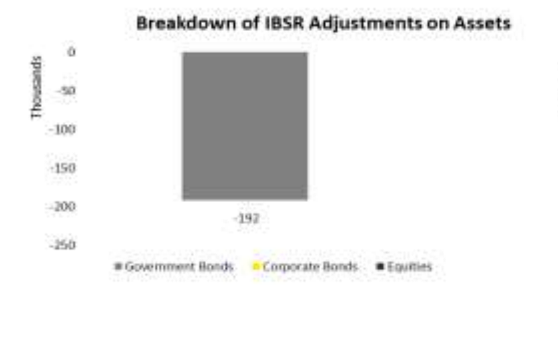
As a result of the IBSR exercise, the own funds decreased by BGN 453k.

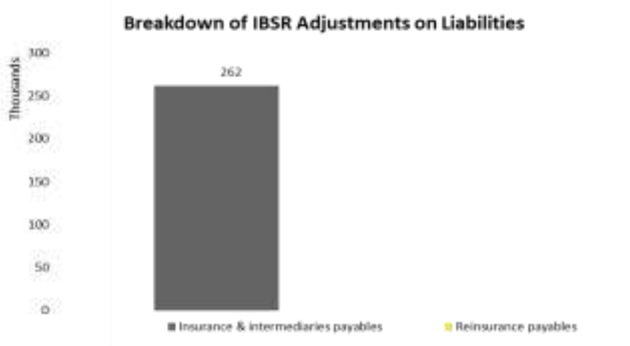
The initial solvency position of UHIF Doverie was 207% Solvency Margin. Following the recalculation of the prudential parameters in accordance with Solvency I framework (Insurance Code and Ordinance 51 of FSC), the Company the achieved a level of Solvency Margin equal to 197% exceeding the adjusted required Solvency Margin.

The structure of the balance sheet is presented below:



As analyzed below, total Assets decreased by BGN 192k and total Liabilities increased by BGN 262k.





Assets

On the assets side, the adjustment of BGN 192k has been proposed to correctly account for the investments in government bonds at amortized cost using the effective interest rate.

Liabilities

The undertaking recognizes gross written premiums (GWP) on insurance contract signing date. The related acquisition costs, however are not being recognized until the premium is received which creates a mismatch between the recognition of revenue and related expense. The understatement of acquisition costs is in the amount of BGN 262k.

No adjustments have been performed affecting Technical Provisions.

Reinsurance – Effectiveness of Risk Transfer

The Company has not entered in any reinsurance agreements. Management considers this approach as adequate given the nature of the activities performed and risks assumed. The IER considers that the past experience of the Undertaking supports management's approach with respect to reinsurance.

Other issues identified

No other significant issues identified to be reported.

Corporate Governance, processes and internal control framework, accounting policies

The undertaking has adopted policies and procedures in line with the requirements of EIOPA Guidelines, local legislation (the Insurance Code) and IFRS and reflected in the specifics of undertaking's operations.

The system of governance, including the internal control mechanisms in place, are considered to be appropriate for the size of the undertaking and the complexity of its operations.

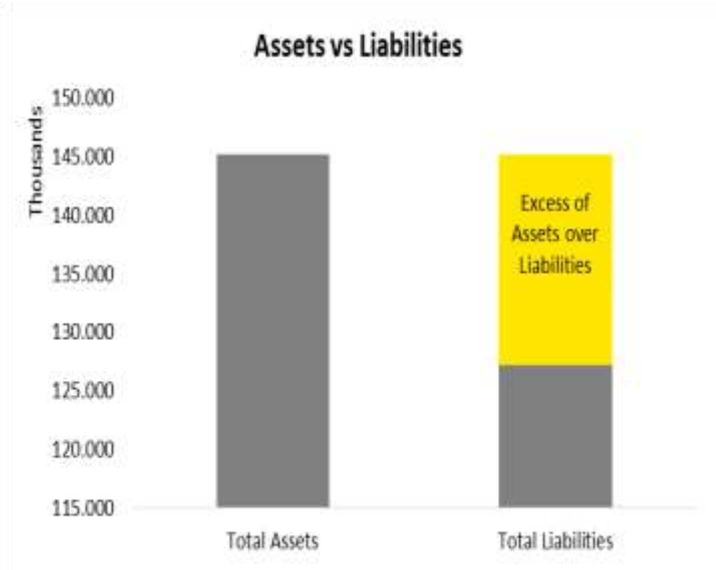
Other areas identified include the following aspects:

- Compliance with IFRS in measuring held to maturity investments according to amortized cost method.
- In order to avoid the timing mismatch between recognition of gross premium revenue and related acquisition costs, the recommendation is that the Undertaking shall recognize acquisition costs in full at the time of entering into a policy.

24. UNIQA INSURANCE AD (Uniqa Non-Life) (SII)

The Company’s Balance Sheet is composed of BGN 145m Assets and BGN 127m Liabilities leading to excess of assets over liabilities amount of BGN 18m.

The Company’s Own Funds are comprised of Tier I, Tier II and Tier III components.



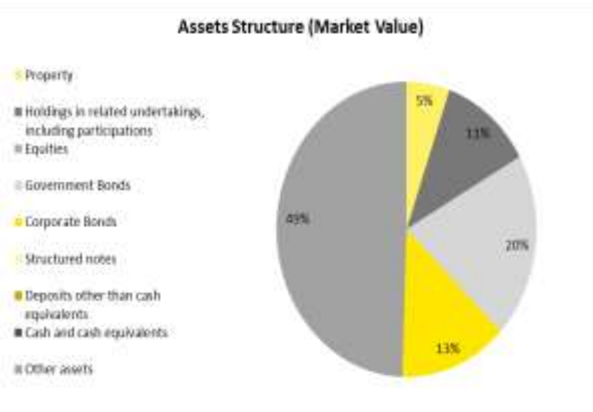
Tier I Own Funds consists of the excess of assets over liabilities and a loan to related party for the amount of BGN 4m as of 30 June 2016.

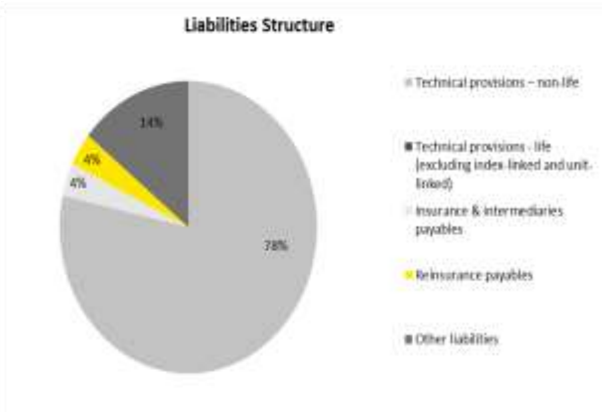
Tier II Own Funds include two loans classified as subordinated liabilities provided by related parties from Uniqa Sub - Group.

Tier III include deferred tax assets.

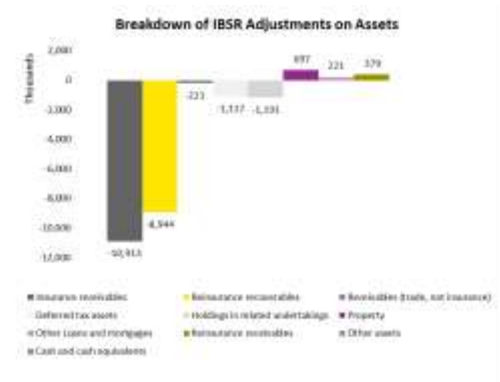
As a result of the IBSR exercise, the Own Funds decreased by approximately BGN 2.4m. The amount of eligible Own Funds to meet the SCR is BGN 33m while the amount of eligible Own Funds to meet the MCR is BGN 23m.

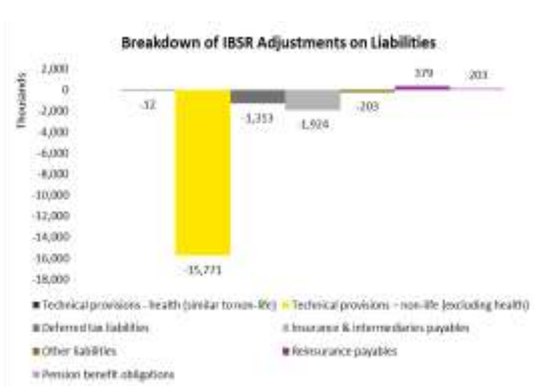
The structure of the balance sheet is presented below:





As analyzed below, total assets decreased with BGN 21.1m and total liabilities decreased by BGN 18.6m.





Assets

On the assets side, the decrease by BGN 21m is mainly due to the adjustment proposed for insurance receivables related to exclusion of amounts not yet due by clients (decrease by BGN 10.4m) and due to the adjustment proposed for reinsurance recoverables due to exclusion of amounts not yet due by clients (decrease by BGN 8.6m).

Other adjustments include the following:

- Decrease by BGN 1.2m of Holdings in related undertakings as a result of change in SII BS of the insurance company UNIQA Life AD accounted for by using the equity method.
- Decrease by BGN 302k of Reinsurance recoverables after taking into account the subrogations and recoveries in the calculation of Best Estimate.
- Decrease by BGN 796k of Insurance receivables as a result of adjustments proposed for cancelled policies and provisions for insurance receivables.
- Reclassification of debit balances in "Insurance and intermediaries payables", which reflect receivables from net brokers, in amount of BGN 235k. These have been reclassified as receivables from intermediaries as of 30 June 2016.
- Reclassification of credit balances from receivables to payables and debit balances from payables to receivables in amount of BGN 379k.
- Increase with BGN 697k of the value of the property as a result of revaluation of PPE.
- Decrease with BGN 1.1m of Deferred tax assets due mainly to setting off deferred tax assets and liabilities in individual FS.
- Other adjustments include reclassifications between assets categories, without impact in Own funds

Liabilities

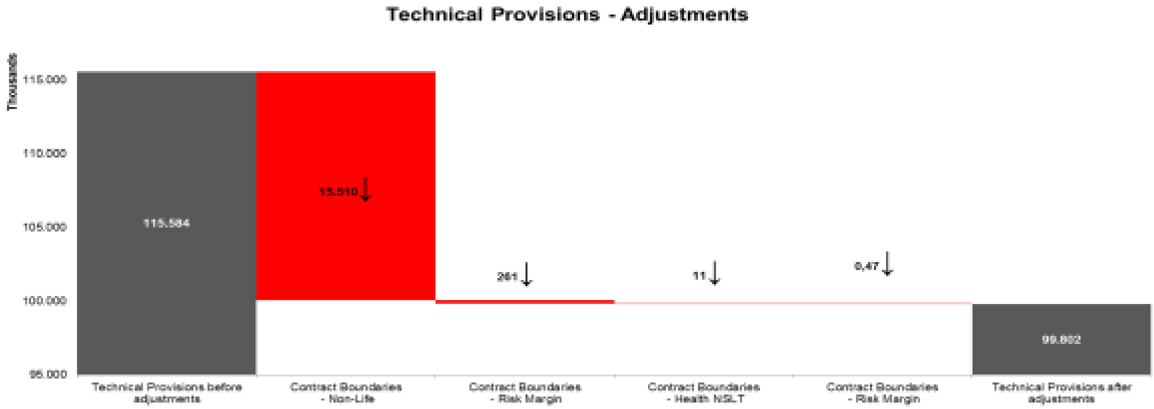
Total liabilities decreased by BGN 18.6m, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease in amount of BGN 2.2m proposed for insurance and intermediaries payables related mainly to exclusion of amounts not yet due by clients.
- Decrease in amount of BGN 1.3m of Deferred tax liabilities due mainly to setting off deferred tax assets and liabilities in individual FS.
- Reclassification of credit balances from receivables to payables and debit balances from payables to receivables in amount of BGN 379k.
- Reclassification of debit balances in "Insurance and intermediaries payables", which reflect receivables from net brokers, in amount of BGN 235k. These have been reclassified as receivables from intermediaries as of 30 June 2016.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 15.8m and further breakdown is presented below:



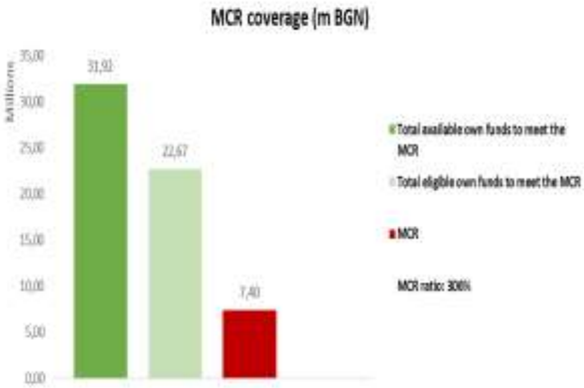
- With regards to the contract boundaries, the company recognizes the whole income, receivables and commissions payables even not yet due in its insurance receivables account upon the issuance of the insurance policy. The adjustment caused a decrease of Technical Provisions by BGN 15,5m regarding the Non - Life portfolio and BGN 11k regarding the Health NSLT portfolio.
- The adjustment on Best Estimate led to a decrease of BGN 261k in Risk Margin.

Other issues identified

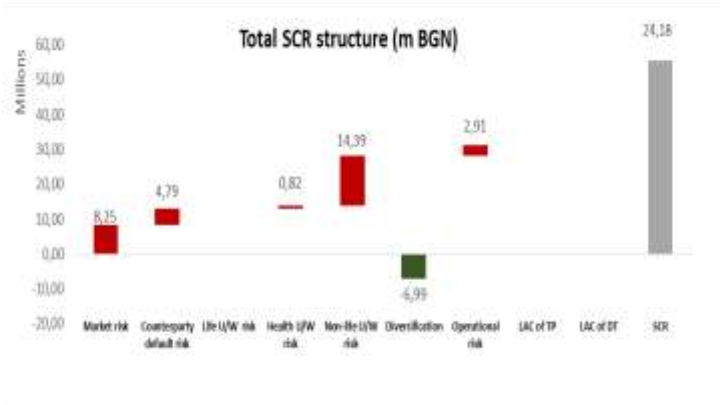
The IER identified that certain claims from LoB Medical expense insurance and Carrier's cargo insurance should be re-allocated to other LoBs given the nature of the underlying risks.

Capital Requirements Compliance

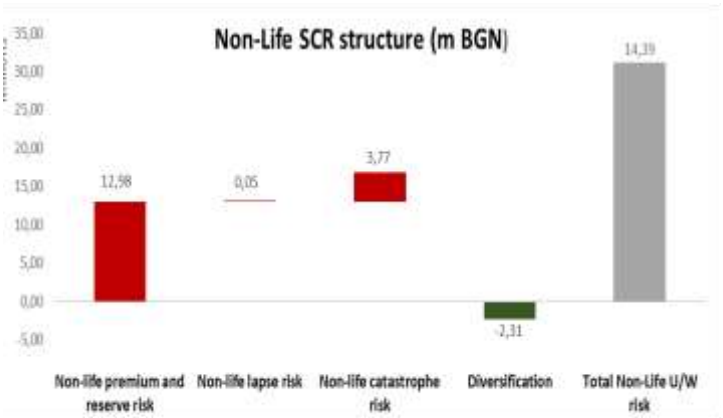
The initial solvency position of Uniqa Non-Life was 140% SCR and 343% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity Uniqa AD achieved a level of SCR equal to 136% and MCR equal to 306%.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 14.4m, whereas exposure to Market Risk is equal to approximately BGN 8.3m as at HY2016.



The Non-life premium and reserve risk (BGN 12.98m) and Non-life catastrophe risk (BGN 3.77 m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Equity risk (BGN 3.93 m)
2. Spread risk (BGN 2.96 m)
3. Property risk (BGN 1.77 m)

Reinsurance – Effectiveness of Risk Transfer

The IER concluded, based on the review performed, that risk transfer is effective.

Corporate Governance, processes and internal control framework, accounting policies

The Company's organizational and operational structures are developed and are consistent with the size, nature and complexity of the operations. Main findings and recommendations refer to the Company to update and elaborate further the respective internal policies and procedures to be able to meet the applicable requirements of EIOPA Guideline 6 on System of Governance ("EIOPA-BoS-14/253") and EIOPA Guideline 52 on Valuation of assets and liabilities other than technical provisions. Other findings and recommendations refer to IT controls (continuity plan/emergency plan, updated IT manuals, security).

The observations of the IER based on the review performed is that the level of preparation of UNIQA AD to comply with Solvency II framework is satisfactory. The company has in place clear organization structure. The three lines of defence are set up to support the business and to ensure the proper level of risks control. The actuarial staff is capable to perform the required activities with very good level of quality. The actuaries provide support to the first line of defence as well as they cooperate actively with the risk manager of the company for ensuring the proper management of risks within the risk appetite of the company.

Based on the IER's review, the Company should consider reallocation of certain claims from LoB Medical expense insurance and Carrier's cargo insurance.

The Company should include salvages and recoverables in the calculation of best estimate of the liabilities in order to comply with SII best estimate definition.

25. Saglasie Insurance JSC (SII)

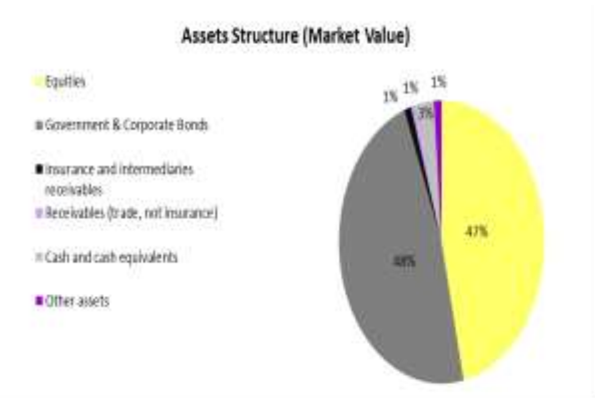
The Company's Balance Sheet is composed of BGN 8.1m Assets and BGN 0.6m Liabilities leading to Own Funds amount of BGN 7.5m.

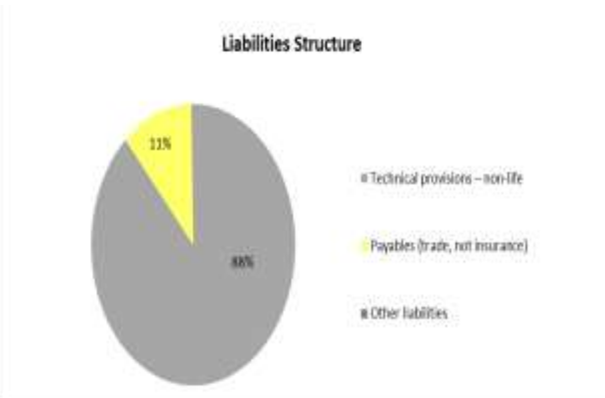
The Company's Own Funds are comprised of Tier I and Tier III components.

Eligible Own Funds to cover SCR are equal to the excess of assets over liabilities of BGN 7.5m and the Eligible Own Funds to cover MCR are equal to BGN 7.5m.

As a result of the IBSR exercise, the Own Funds decreased by BGN 0.6m.

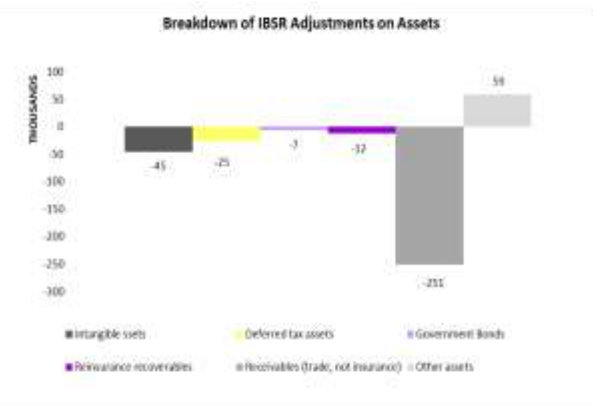
The structure of the balance sheet is presented below:

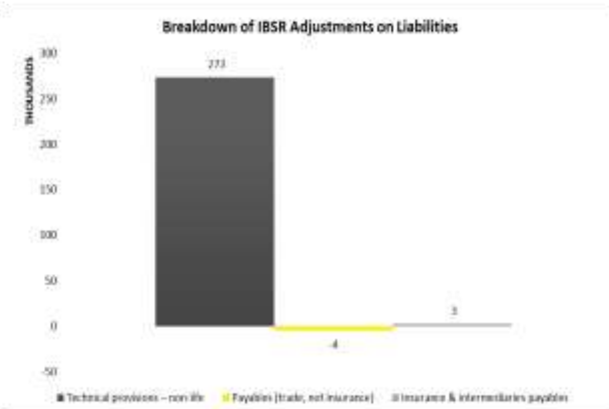




The investments include two Corporate bonds for which the IER stated that by reviewing the available public information they identified the following changes in credit risk which occurred in August 2015 (i.e. prior to the date on which the bonds were acquired by the Company). These include 2 bonds that have passed through an extension of maturity and for one of them, a decrease in interest.

As analyzed below, the total Assets decreased by BGN 283k and the total Liabilities increased by BGN 272k.





Assets

On the assets side, main adjustment refers to decrease of BGN 244k in Receivables (trade, not insurance) due to impairment adjustment proposed.

Other adjustments proposed include:

- Intangibles decrease to nil value by BGN 45k.
- Reinsurance recoverable decrease by BGN 12k.
- Deferred tax assets increase by BGN 29k.
- Government bonds valuation adjustment decrease by BGN 7k.
- Reclassification of BGN 3k from Other assets to Other liabilities (concerning DT)
- Reclassification of BGN 55k from DTA to Other assets and reclassification of 7k from Receivables to Other Assets

Liabilities

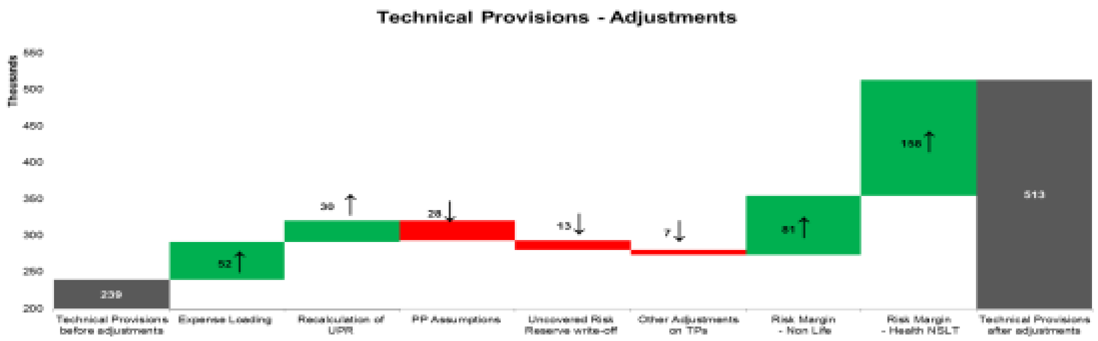
Total liabilities increased by BGN 272k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Increase by BGN 3k in Insurance & Intermediaries.
- Decrease by BGN 4k in Payables (trade, not insurance)

Adjustments in Technical Provisions

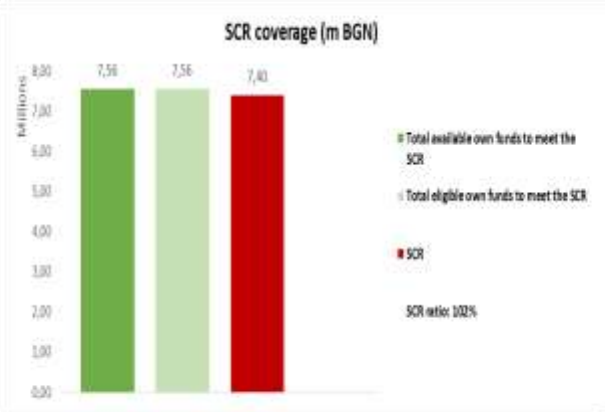
- The total amount of the adjustments is BGN 273k and further breakdown is presented below:

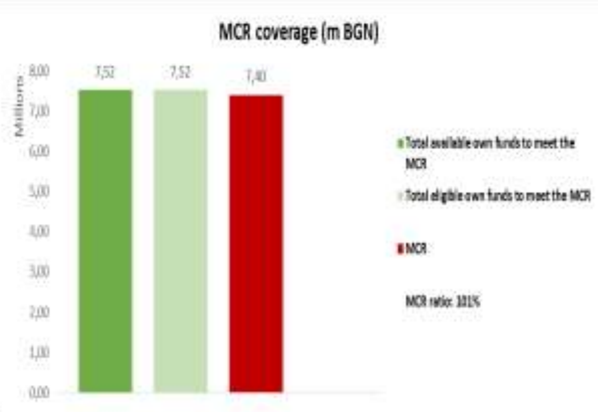


- The adjustment related to Claim Provision is caused by the following:
  - The inclusion of expense loading on Claim Provision caused an increase of BGN 52k in the total Non - Life and Health NSLT portfolio.
  - The IER adjusted the Claims Provision by writing off the reserve for uncovered risk in MTPL LoB, since it is not in accordance with the SII framework. The adjustment performed decreased the Technical Provisions by BGN 13k.
- The adjustment related to Premium Provision is caused by the following:
  - The company used UPR amount net of DAC for the purposes of Premium Provision calculation. The IER performed recalculation using the gross of DAC UPR leading to a total increase of BGN 30k.
  - The IER used different Administrative expenses assumptions for the calculation of the Combined Ratio causing a decrease of BGN 28k in the Premium Provision estimation.
  - Other adjustments refer to impact of interactions between various adjustments to TP and are not further explained by the IER.
- Risk Margin of Non - Life portfolio has increased by BGN 81k following the adjustments on TPs and SCR, while Risk Margin of Health NSLT portfolio has increased by BGN 158k.

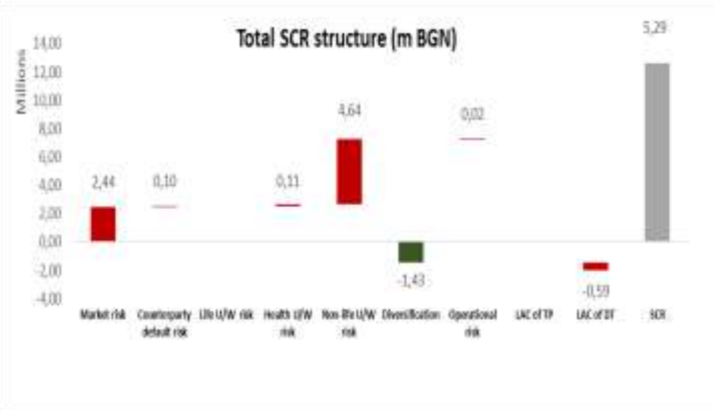
Capital Requirements Compliance

The initial solvency position of Saglasie Non-Life was 110% SCR and 109% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 101%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR, thus being compliant.

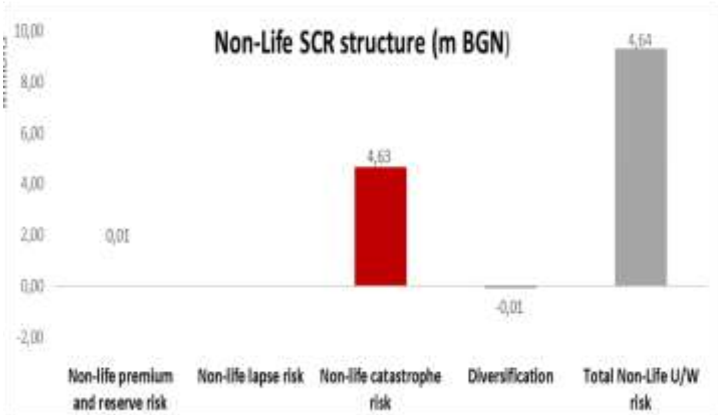




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 4.64m, whereas exposure to Market Risk is equal to approximately BGN 2.44m as at HY2016.



The Non-life catastrophe risk (BGN 4.63m) is the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Concentration risk (BGN 1.91 m)
2. Equity risk (BGN 1.21 m)
3. Interest rate risk (BGN 0.47 m)

Reinsurance – Effectiveness of Risk Transfer

The IER stated that it was not possible to assess effectiveness of risk transfer based on own Company data. However, so far, there has not even been a single claim with non-zero reinsurers share on it. The IER concluded that there is existence of risk transfer as any claim exceeding the threshold established in the contract will trigger payment from reinsurer and will not affect any other cash-flows other than participation in claim cost.

Corporate Governance, processes and internal control framework, accounting policies

The Company applies Corporate Governance requirements under Solvency II Directive since January 01, 2016. There are still SII items and guidelines, which are not implemented into the internal policies and procedures of the Company.

According to the IER, the following main aspects were concluded on Corporate Governance:

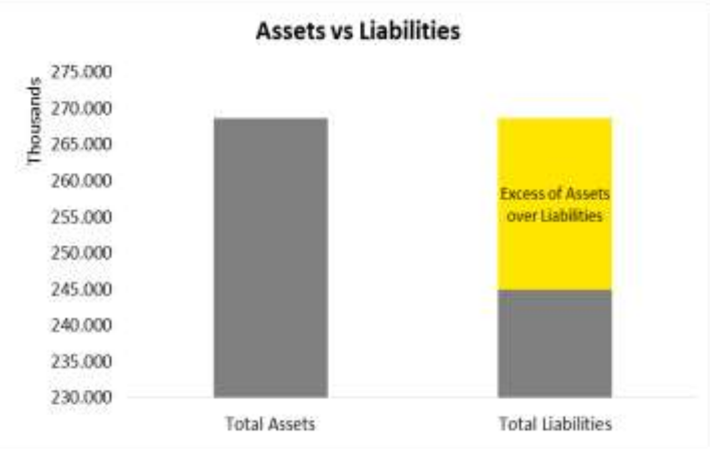
- The organizational structure of the Company is appropriately designed to promote a sound control environment, but it is not fully implemented (some of the departments are not active and have no employees as at June 30, 2016)
- There is only a theoretical Corporate Governance structure implemented by the Company, which in practice does not function. Based on the analysis of the IER there seems to be a formal structure resembling a Corporate Governance structure. However, it seems it is not an effective governance structure in accordance with best practice.
- Considering that the Audit Committee and the Board of Directors are represented by the same people, the IER concluded that the Audit Committee is not designed so as to ensure clear accountability, since it is not consisting of independent directors
- The Company does not have an effective Risk management process.

In terms of internal control framework, the IER has several findings, including without being limited to:

- Missing written underwriting policy which describes the underwriting process
- The Company does not have a formalized reinsurance policy and procedure
- The Company did not design nor implemented Own Risk and Solvency Assessment (ORSA) policy
- The Company uses external services for damage assessment for the claims under MTPL. The Company does not have a formal procedure for using these external services
- The Company records the commission expense at the level of commission paid for premiums collected and not based on annualized premiums nor based on premiums due. This recognition of the commission expenses is in not in accordance with accrual basis principles
- For the paid premium related to instalments which are not due, the Company records the payment received as insurance receivables with minus, thus decreasing the insurance receivables closing balance at the end of the reported period
- Other findings detailed in the report

26. Armeec Insurance Joint Stock Company (SII)

The Company's Balance Sheet is composed of BGN 269m Assets and BGN 245m Liabilities leading to Own Funds amount of BGN 23.7m.



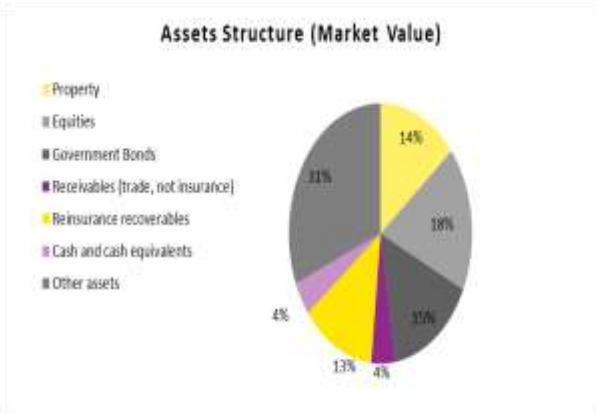
Eligible Own Funds to cover SCR and MCR are equal to the excess of assets over liabilities of BGN 23.7m and consist of Tier I Own Funds.

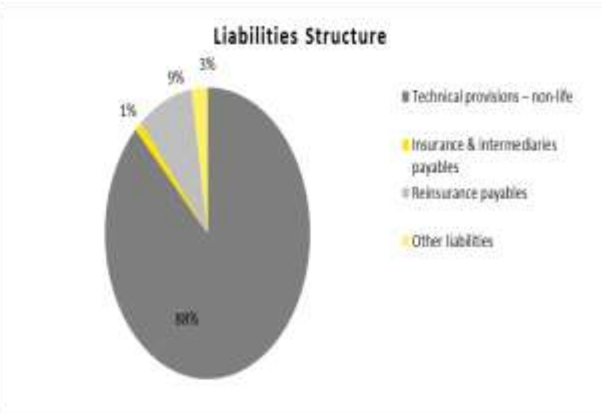
As a result of IBSR exercise, the Own Funds decreased by BGN 55.5m.

As at 30 June 2016 the Company is in breach of the capital requirements following the adjustments proposed by IER and thus is falling under special cases as defined in 1.5.2 of the Methodology.

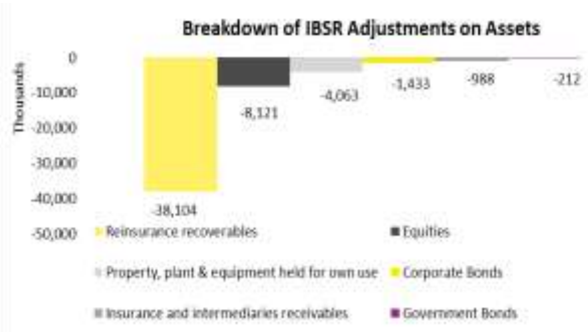
Based on the roll-back procedures performed by the IER on the Solvency I Balance-Sheet and prudential ratios computation as at 31 December 2015, the Solvency Margin recomputed by the IER based on adjusted SIBS is 48.25%.

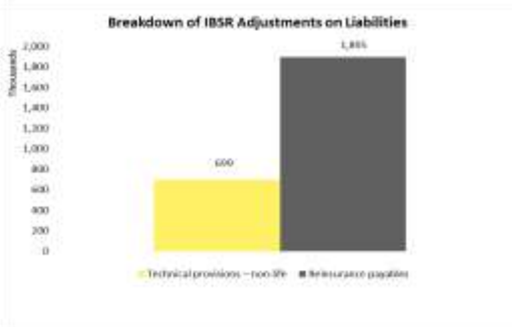
The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 52.9m and the total liabilities increased by BGN 2.6m





Assets

On the assets side, main adjustments refer to the downward adjustment proposed for the "Reinsurance recoverables" in amount of BGN 38.104k, comprising mainly adjustment on MTPL clean cut reinsurance treaty and adjustment in recoverable balance as consequence of adjustments done on the best estimate of liabilities as at 30 June 2016, and the downward adjustment proposed for "Equities", in amount of BGN 8.121k as a result of the independent valuation assessment performed by the IER for listed equities.

Other adjustments refer to:

- Downward adjustment for property valuation in amount of BGN 4.063k
- Downward adjustment for bonds valuation in amount of BGN 1.645k (1.433k for Corporate Bonds and BGN 212k for Government bonds)
- Downward adjustment for Insurance and intermediaries receivables in amount of BGN 989k

Liabilities

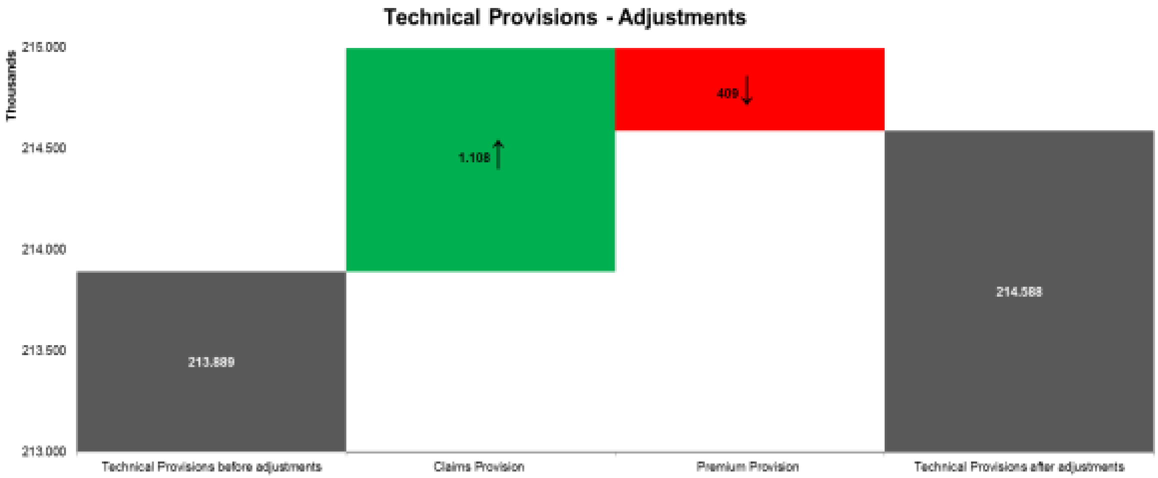
Total liabilities increased by BGN 2.6m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

Liabilities were impacted by an increase of BGN 1.9m in Reinsurance payables as a result of the adjustment on MTPL clean cut reinsurance treaty and adjustment in recoverable balance as consequence of adjustments done on the best estimate of liabilities.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 699k and further breakdown is presented below:



- The adjustments on Claims Provision consist of
  - The IER used different projection method for the estimation of IBNR.
  - The IER included Salvages and subrogations for the calculation of the reserves.
  - The IER used different assumption for Claims Handling Costs.
- The adjustments on Premiums Provision consist of
  - Use of different Ultimate Loss ratio based on the re-projected amounts by the IER
  - Inclusion of Recovery ratio by the IER
  - Inclusion of lapse and Inflation rate included by the IER

Reinsurance – Effectiveness of Risk Transfer

No significant findings as regards risk transfer.

Capital Requirements Compliance

The initial solvency position of Armeec Non–Life was 115% SCR and 325% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity achieved a level of MCR equal to 96%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR, thus the company is not compliant.

Corporate Governance, processes and internal control framework, accounting policies

The Company has started the implementation of the Solvency II framework, having developed internal policies for most of the areas. Nevertheless, these policies do not cover fully the requirements in the system of governance guidelines issued by EIOPA (e.g. in the risk management area, fit & proper framework, valuation of assets and liabilities other than technical provisions). The Company has recently introduced changes in its management to allow expanded capacity to address the relevant requirements.

In respect to processes and internal control framework, the IER identified certain inconsistencies in the inspected files.

Limitations

The report contains limitations related to procedures performed on several areas due to the fact that the IER did not receive the requested information from the undertaking. Such areas include without being limited to:

- valuation of the holdings in related undertaking – Russian subsidiary valuation
- related parties' complete transactions review
- inward reinsurance complete assessment, etc.
- all the required Quantitative Reporting Templates

Other areas for improvement

Several areas for improvement were identified by the IER, including but without being limited to:

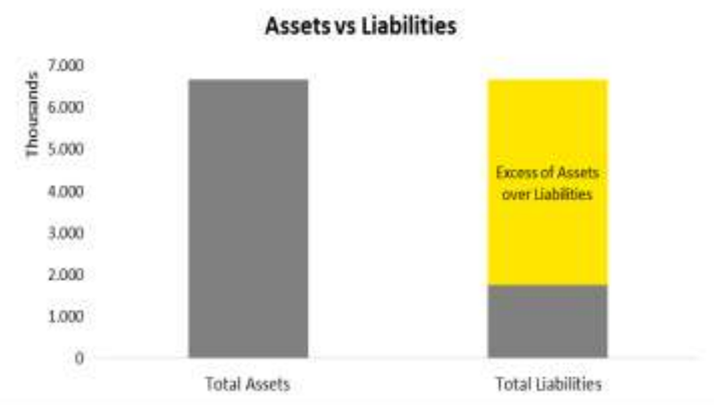
- internal control framework
- valuation of assets and liabilities
- related parties' transactions
- capital requirements computation, etc.

Subsequent events

The sale of financial assets on which we identified adjustments as of 30 June 2016 represents an event that no longer requires the Company to implement the implicit capital measures for the level of such financial assets that were sold.

27. Tokuda Health (SI)

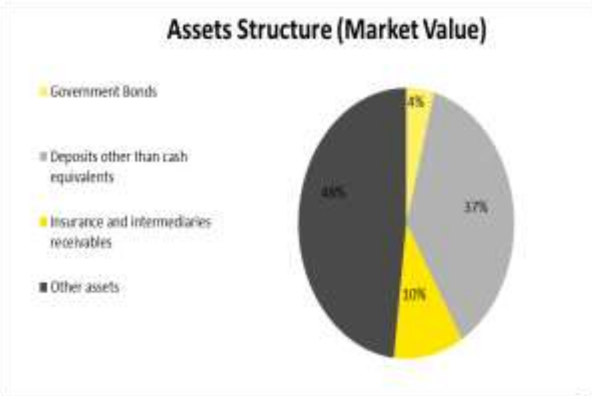
The Company's Balance Sheet is composed of BGN 6.7m Assets and BGN 1.8m Liabilities leading to Own Funds amount of BGN 4.9m.

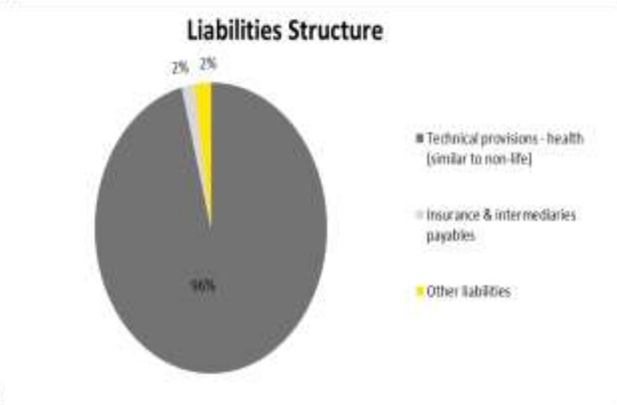


The undertaking has available adjusted Solvency Margin of 107% exceeding the adjusted required Solvency Margin as per the requirements of Solvency I framework (Insurance Code and Ordinance 51 of FSC).

As a result of the IBSR exercise, the Own Funds decreased by BGN 115k.

The structure of the balance sheet is presented below:





Liabilities

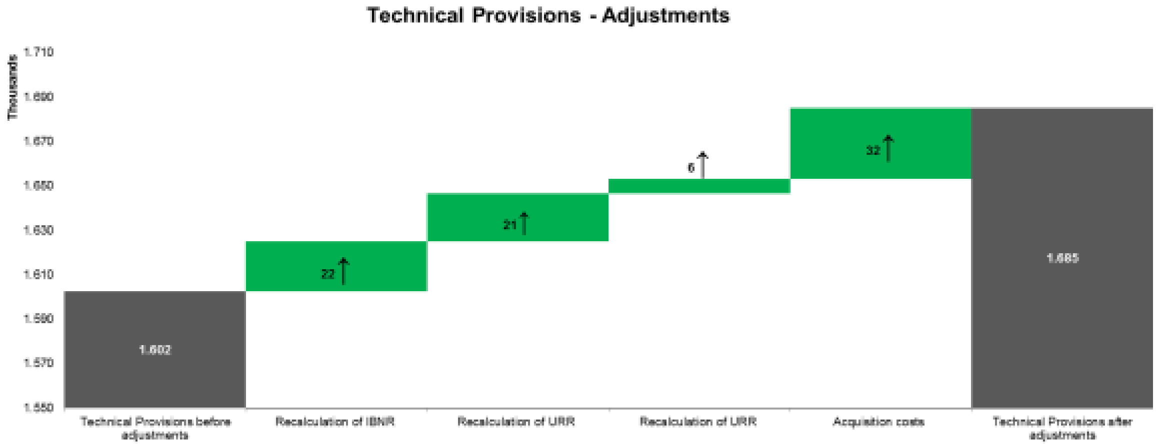
Total liabilities increased by BGN 115k, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Increase of Insurance and intermediaries payables by BGN 32k is due to the fact that the full amount of payables to intermediaries has not been booked as at 30.06.2016 as the management books payables to intermediaries only when the related insurance receivable is collected and the respective invoice from the intermediary is received.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 82k and further breakdown is presented below:



- The company's IBNR run-off of Sickness product (as at 31.12.2015) showed deficit. The alternative method performed by the IER for the recalculation of IBNR caused an increase of BGN 22k.
- URR was impacted by an increase of BGN 27k, due to:
  - The adjustment on IBNR, since the approximated calculation of URR is dependent on the OCR amount.
  - The inclusion of Claims handling expenses, since the company omitted this amount.
- Planned acquisition costs were not correctly input in the formula. The correction increased the TPs by BGN 32k.

Reinsurance – Effectiveness of Risk Transfer

The undertaking has not entered in any reinsurance agreements. The past experience of the undertaking supports management's approach with respect to reinsurance. This justification is considered reasonable by the IER given the specifics of the insurance products offered by the undertaking.

Corporate Governance, processes and internal control framework, accounting policies

The undertaking has adopted policies and procedures in line with the requirements of EIOPA Guidelines, local legislation (the Insurance Code) and IFRS and reflecting the specifics of undertaking's operations.

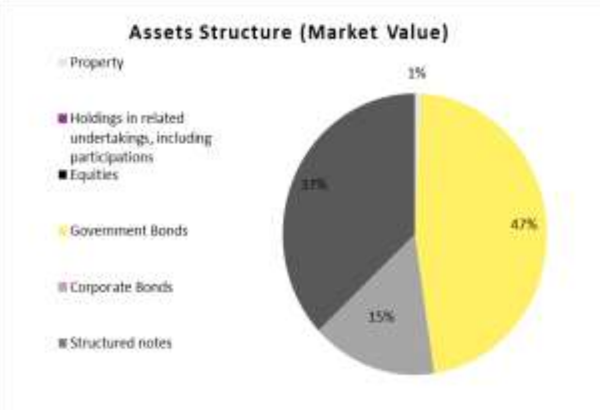
The system of governance, including the internal control mechanisms in place, are considered to be appropriate for the size of the undertaking and the complexity of its operations.

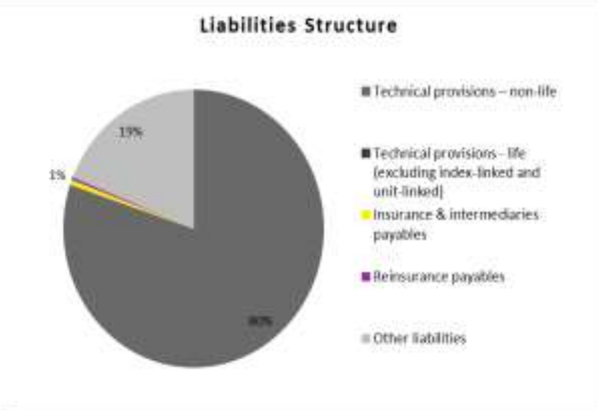
28. Bulgaria Insurance AD (SII)

The Company's Balance Sheet is composed of BGN 6.8m Assets and BGN 2.7m Liabilities leading to excess of assets over liabilities in amount of approximatively BGN 4.2m.

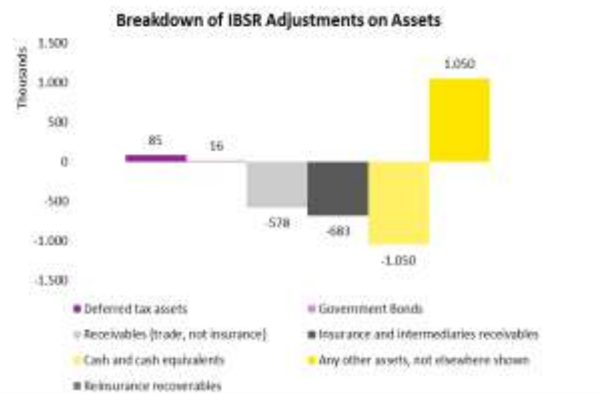
As a result of the IBSR, total assets decreased by BGN 1.2m and total liabilities increased by BGN 0.3m, the own funds decreased by BGN 1.5m.

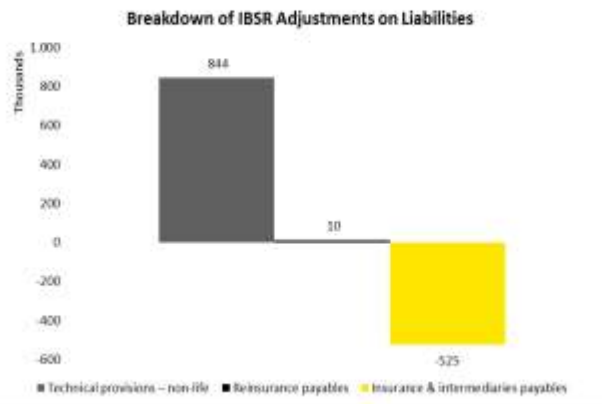
The structure of the balance sheet is presented below:





As analyzed below, total assets decreased with BGN 1.2m and total liabilities increased by BGN 0.3m.





Assets

The main adjustments on the assets side refer to a decrease of BGN 683k due to additional impairment of insurance receivables, decrease of BGN 578k in Receivables due to recording in other assets the claims from medical centers with a related impact in insurance payables (on the liability side, net of other adjustments, decreased by BGN 525k), and a reclassification of BGN 1m from cash and cash equivalents to Any other assets, not elsewhere shown, as this amount it does not meet the definition of cash equivalent.

Liabilities

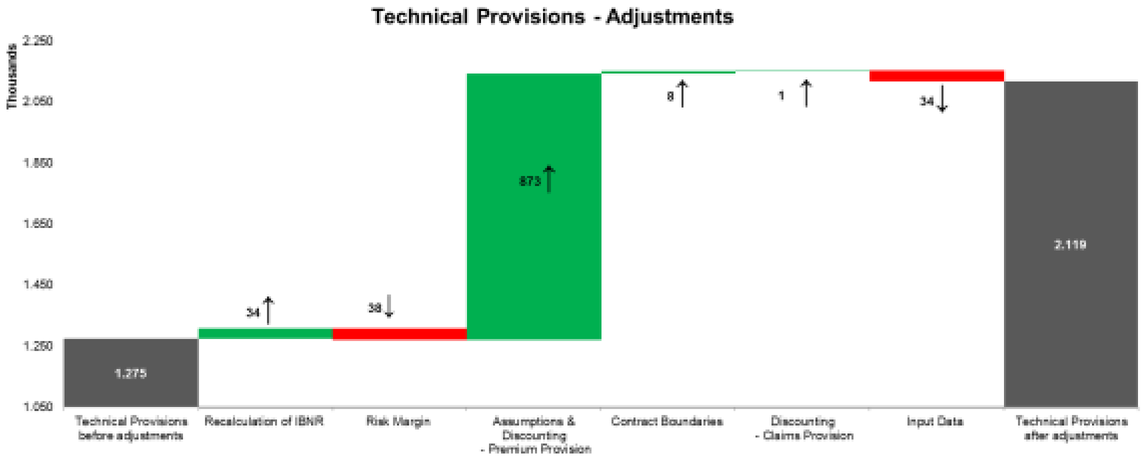
Total liabilities decreased by BGN 329k, due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

The main adjustment of BGN (525)k refers to the related impact in the Insurance payables of the adjustment proposed for receivables due to recording in other assets the claims from medical centers.

Adjustments in Technical Provisions

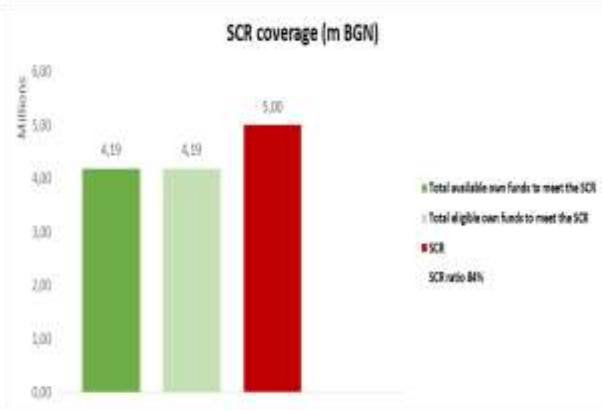
The total amount of the adjustments is BGN 844k and further breakdown is presented below:

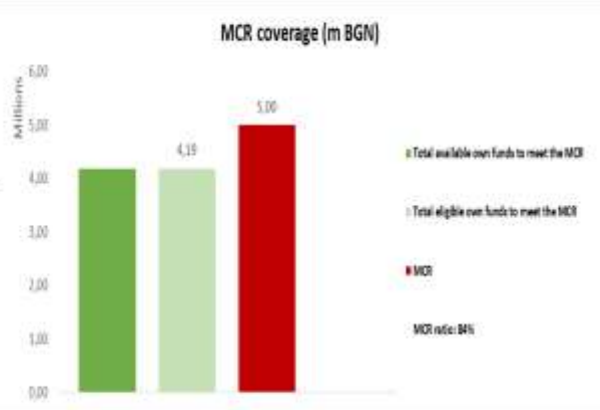


- The major increase comes from the performance of Premium Provision.
  - The company calculates the Loss Ratio for Premium Provision (i) on contract level ignoring the risk pooling nature, (ii) based on the last 3 months individual claim experience, (iii) based on premium earned net of acquisition. The IER performed recalculation based on Loss ratios based on the Financial Statements.
  - Discounting is not applied by the company. The amount of adjustment includes the discounting effect as well.
  - The company did not distinguish between incepted (due) and unincepted (undue) written premiums. Future new business (with paid initial premium) was considered with all premiums (incl. already prepaid) in the PP calculation leading to double-counting (paid premium included both in the premium revenue as well as in the premium provision).
  - Premiums consistent with GWP for UPR
- The company does not apply discounting for the Claims Provisions. The IER performed recalculation and adjustment (although this impact deemed to be immaterial).
- Regarding the Risk Margin, the company performs the calculation of based on the 3rd simplification however, considering the full amount of Counterparty Default Risk instead of only allowing for reinsurance. Further to this, the IER considered adjustment for the receivables. The SCR and TPs adjustments also affected the final Risk Margin amount.

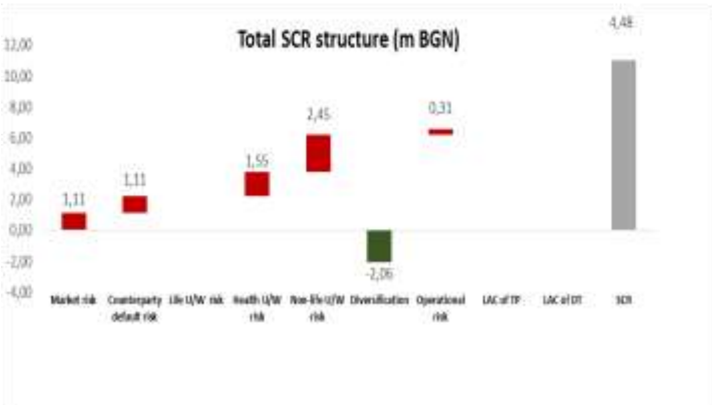
Capital Requirements Compliance

The initial solvency position of Bulgaria Insurance AD was 114% SCR and 114% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity Bulgaria Insurance AD achieved a level of MCR equal to 84%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR, thus the company is not compliant.

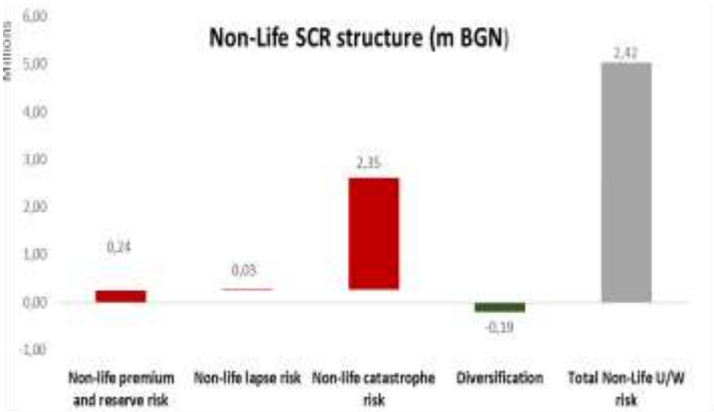




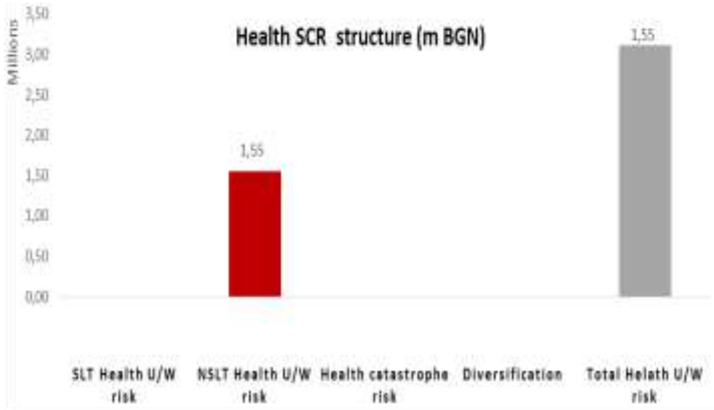
The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Health Underwriting Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 2.5m, whereas exposure to Health Underwriting Risk is equal to approximately BGN 1.6m as at HY2016.



The Non-life catastrophe risk (BGN 2.35m) and Non-life premium and reserve risk (BGN 0.24 m) are the key components contributing to the Non-Life U/W risk.



The NSLT Health Underwriting risk (BGN 1.6m) is mainly contributes to the capital requirement for the Health Underwriting risk module.

Reinsurance – Effectiveness of Risk Transfer

The IER did not found any issues with respect to effectiveness of risk transferred and with respect to the company's reinsurance structure.

Corporate Governance, processes and internal control framework, accounting policies

As regards corporate governance, processes and internal control framework and accounting policies, improvements were recommended in the area of IT controls, documenting existing controls or implementing new ones, improving certain internal policies and procedures, implementation of proper accounting policies addressing the overstatement of assets and liabilities that resulted in adjustments.

Other areas for improvement

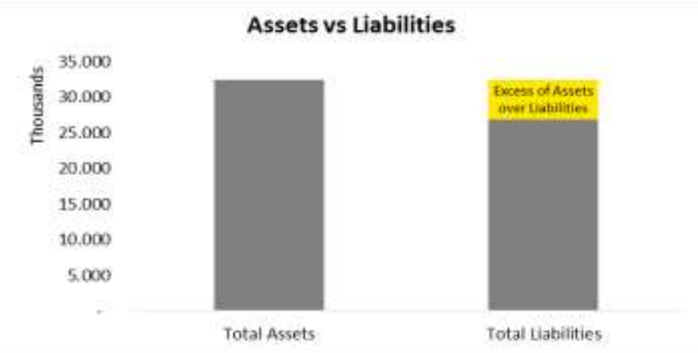
As regards Reliability, quality, sufficiency and relevance of data, it was recommended that proper review control activities to be implemented to ensure that the dates are correctly recorded in the core insurance system. Also, it improvements are required to document data processes, data maps and data dictionaries, to establish data checks and controls to ensure that data in the premium and claim Technical Provision calculation is complete, accurate and appropriate (completeness and data quality controls), to document data manipulation, clearance and amendments used on the data extracts before feeding the calculation files, to segregate administrator, data processing and data controlling roles.

Subsequent events

On 1 December 2016, the extraordinary Shareholders' meeting decided for an increase of capital with BGN 810 thousands.

29. Dallbogg (SII)

The Company's Balance Sheet is composed of BGN 32.4m Assets and BGN 26.9m Liabilities leading to excess of assets over liabilities in amount of BGN 5.6m.



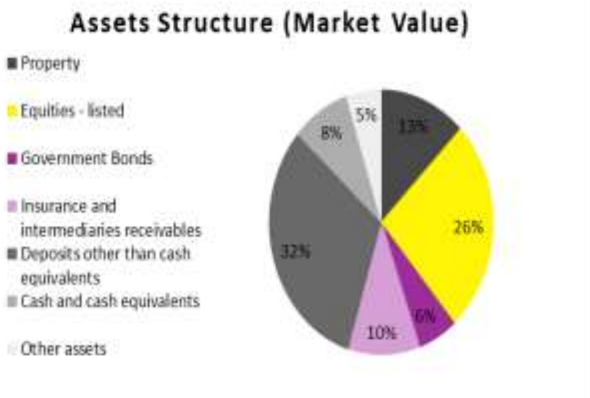
The Own Funds are comprised of subscribed and paid in share capital and, reserve fund, regulatory reserves, retained earnings and result of the year classified in Tier 1. The Own Funds also include Deferred Tax Assets amounting to BGN 820k classified as Tier 3.

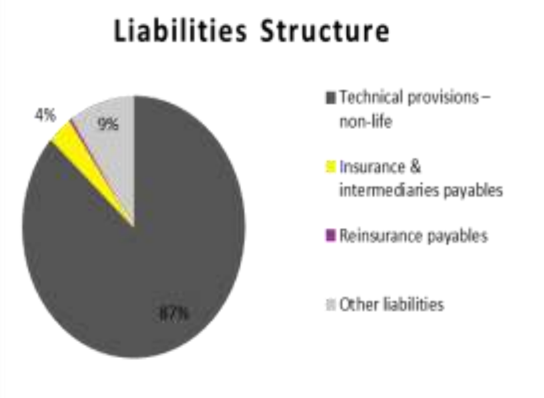
As a result of the IBSR exercise, the Own Funds decreased by BGN 15.7m.

As at 30 June 2016 the Company is in breach of the capital requirements following the adjustments proposed by the IER and thus is falling under special cases as defined in 1.5.2 of the Methodology.

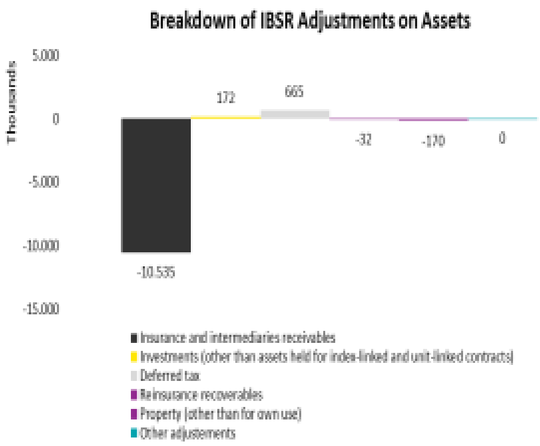
Based on the procedures performed by the IER, the company holds 75% MCR ratio, while based on the Solvency I BS and prudential ratios computation as at 31 December 2015, the Solvency Margin recomputed by the IER based on adjusted SIBS is 40%.

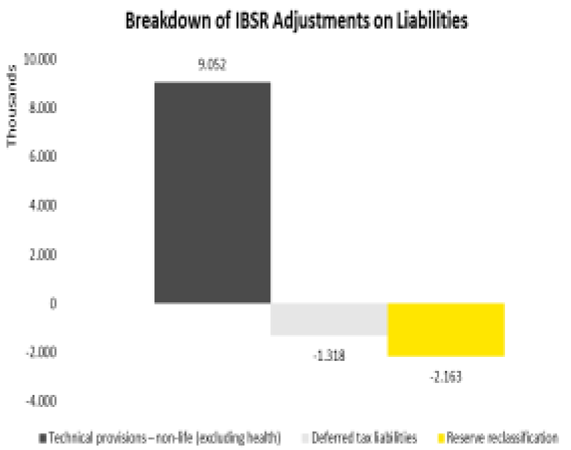
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 10.1m and the total Liabilities increased by BGN 5.6m.





Assets

Total Assets decreased by BGN 10.1m due mainly to the following adjustments proposed:

- Write off recorded on the insurance receivables in amount of BGN 10.5m and was the result of wrong recognition by the undertaking of premium receivables in accordance with the SII requirements which had resulted in a mismatch in correlation with premium reserve on the liability side.
- Increase in the deferred tax asset by BGN 665k as the result of the other adjustments determined by the IER.
- For the adjustment on the insurance receivables the IER had assessed that the approach used by the company is not valid because:
    - The same not yet paid premiums were already recognized as an asset in the economic balance sheet as Insurance Receivables. There is a double counting of the not paid premiums:
        - As a receivable on the asset side of the economic balance sheet
        - As a reduction of the UPR on the liability side of the economic balance sheet
    - The loss ratio included in the combined ratio used for the calculation has to be adjusted to reflect both the impact of our adjustments on the level of IBNR calculation described later and the impact of taking into consideration observed loss ratio in 2015.
    - The UPR used in the EIOPA formula by the company is net of deferred acquisition cost. To apply appropriately the EIOPA formula, the recommendation is to use gross of acquisition cost UPR as prescribed by EIOPA guidelines.

Liabilities

Total liabilities increased by BGN 5.6m due to the following adjustments proposed:

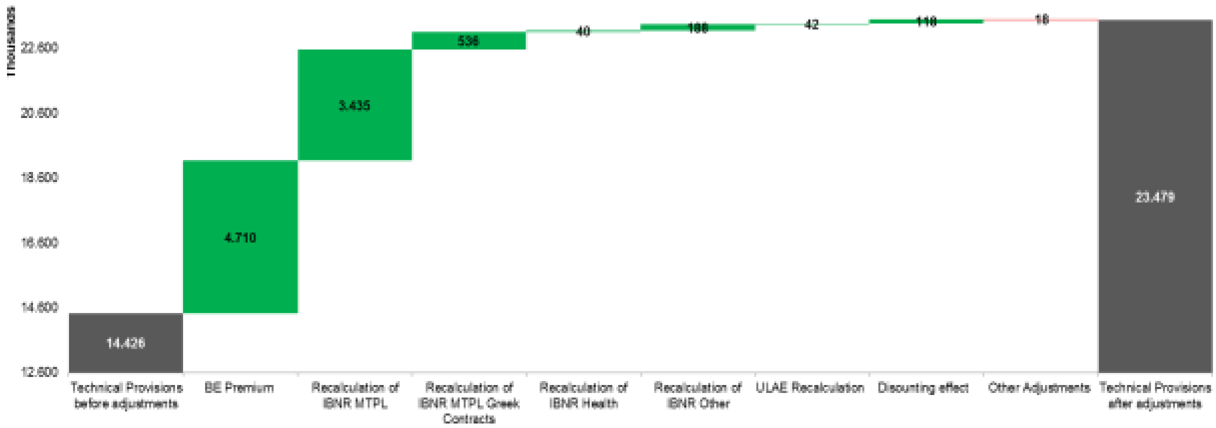
Adjustments in liabilities other than technical provisions

The main decrease refers to reclassification in Own Funds of the provision available for covering financial losses in amount of BGN 2.2m and decrease in the deferred tax of BGN 1.3m as the result of the other adjustments.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 9.1m and further breakdown is presented below:

Technical Provisions - Adjustments



The main adjustment on liability side comes from the Technical Provisions:

- The IER suggests that the company double counts the future premiums of contracts with instalments since they are included in both asset and liability side (amount of BGN 10.5m). Further to this, the IER has performed recalculation of premium provision using different assumption on Loss Ratio and considering the UPR gross of acquisition costs.
- A considerable adjustment on Claims Provisions steams from the recalculation of IBNR. The IER has used different assumptions and projection methods leading to a total increase of BGN 4m.
- Claims Provisions have also been increased by the inclusion of ULAE reserve. ULAE are not estimated by the company taking into account all cost of claim management. Handling costs are mainly composed by banking commissions and salaries of claims manager. The IER estimated ULAE using average handling cost per claim observed during the first semester of 2016 based on data provided by the company and resulted to adjustment of BGN 41k.
- The company did not perform discounting for the calculation of BE. The IER applied appropriate discounting leading to an adjustment of BGN 118k. Risk Margin increased due to the adjustments
- Other Adjustments refer to the adjustment on Risk Margin following the recalculated TPs and SCR amounts.

Other issues identified

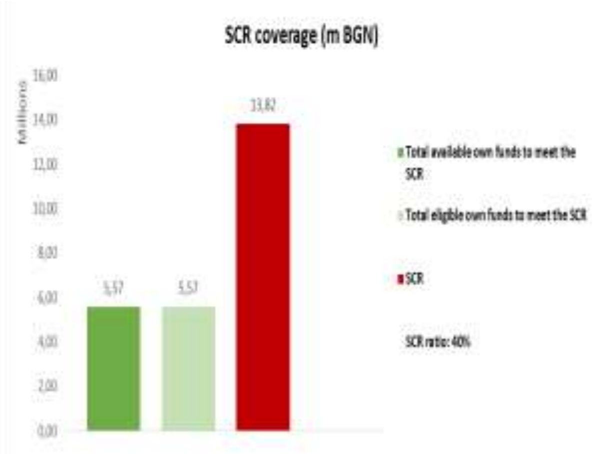
Subsequent events: as per FSC information, the company has increased its registered capital since 30.06.2016 by 11 million leva according to the Commercial register as follows:

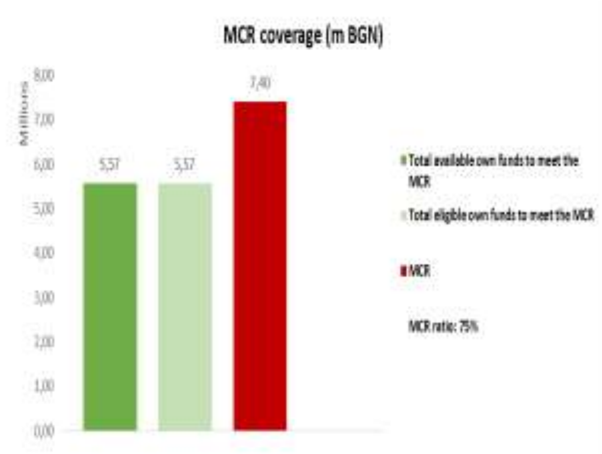
- On 07.07.2016 – by 1,800,000 lv to a total amount of registered capital of 9,800,000 lv;
- On 15.07.2016 – by 2,300,000 lv to a total amount of registered capital of 12,100,000 lv;
- On 12.09.2016 – by 1,400,000 lv to a total amount of registered capital of 13,500,000 lv;
- On 07.12.2016 – by 3,500,000 lv to a total amount of registered capital of 17,000,000 lv;
- On 23.12.2016 – by 2,000,000 lv to a total amount of registered capital of 19,000,000 lv.

The capital increases are fully paid in according to the Commercial register.

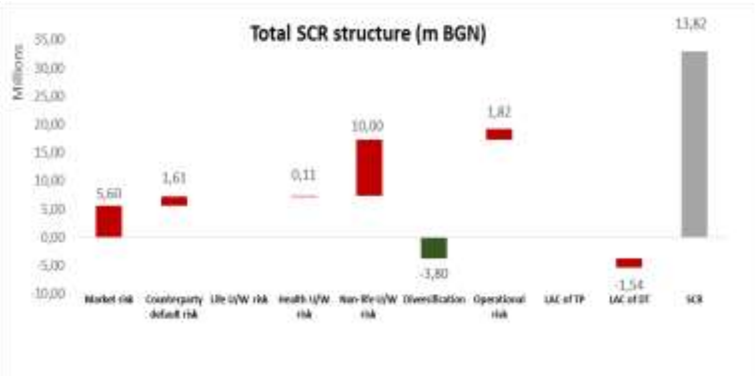
Capital Requirements Compliance

The initial solvency position of Dallbogg Insurance was 159% SCR and 287% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity Generali achieved a level of SCR equal to 40% and MCR equal to 75%, thus the company is not compliant.

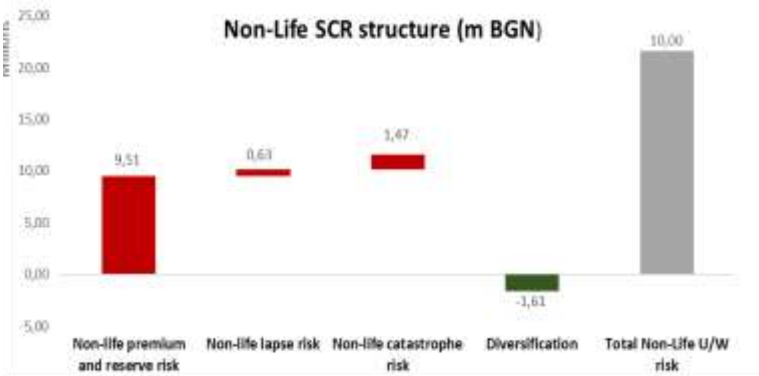




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure to Non-Life Underwriting Risk is equal to approximately BGN 10m, whereas exposure to Market Risk is equal to approximately BGN 5.6m as at HY2016.



The Non-life premium and reserve risk (BGN 9.51 m) and Non-life catastrophe risk (BGN 1.47 m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Currency risk (BGN 2.77 m)
2. Concentration risk (BGN 2.74 m)
3. Equity risk (BGN 2.33 m)

Reinsurance – Effectiveness of Risk Transfer

Regarding the effectiveness of the reinsurance risk transfer the reviewer had not identified any issue to report in respect, except a recommendation for the company to formalize an analysis about the adequacy of the current reinsurance plan.

Corporate Governance, processes and internal control framework, accounting policies

Following the review of the Company's Corporate Governance, several issues were identified by the reviewer:

- the Company's number of staff is limited which leads to segregation of duties issues. The Company intends to resolve them gradually, starting with the most vulnerable sectors.
- the Company did not hold all key functions in the organizational chart to comply with Solvency II requirements, as there was no internal auditor nor Compliance director. During our audit, the Company deployed a process to select and recruit those functions. We understand that highly experienced internal auditor and Compliance director have joined the Company since then.
- Most of underwriting and claim handling are done by outsourced parties (intermediaries / brokers / agents). Regarding Solvency II requirements about outsourcing control, the Company conducts basic monitoring and control which is based on the so called "double sandwich" direct control system under which the Company directly involves medical, legal and technical experts of higher standing, under its instructions, to ascertain quality and more adequate control. The Company indicated that there is a large and well-developed practice to engage experts and lawyers in Italy, Romania and Greece to handle claims and heavier disputes under Green Card liabilities. The reviewer's view is that the control activity is not sufficiently formalized. The reviewer was informed that the intention of the Company is to develop it further in the future both on ad hoc and permanent bases.

For the internal control framework, based on reviewer's work, several issues were identified:

- The reviewer had obtained an annual Internal Control Report providing a high level description of the internal control framework and concluding on the overall output. Nevertheless, had not obtained any detailed written procedures on the key processes. The reviewer recommends accordingly to formalize those procedures including the detailed internal controls designed on this processes.
- There is a need of improvement of internal control documentation. The reviewer din not identify any program or plan describing the monitoring and reporting of internal control.
- There is a need of improvement of internal control resources. The Internal control Director is the only person to perform tests in the Company. With the growing importance of the company's insurance flows, the internal control service should be performed and overseen by more individuals.

Other areas for improvement

The Company is recommended to perform segmentation using Solvency II LoBs and to closely monitor the Greek MTPL contracts given the nature and the specificities of this portfolio.

Subsequent events

The undertaking has increased its registered capital by BGN 13,500k. The capital increase is fully paid in according to the Commercial register and the current capital of the company is BGN 19,000k.

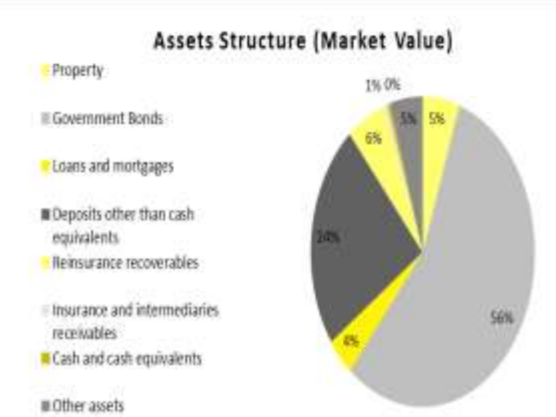
30. DZI – General Insurance (SII)

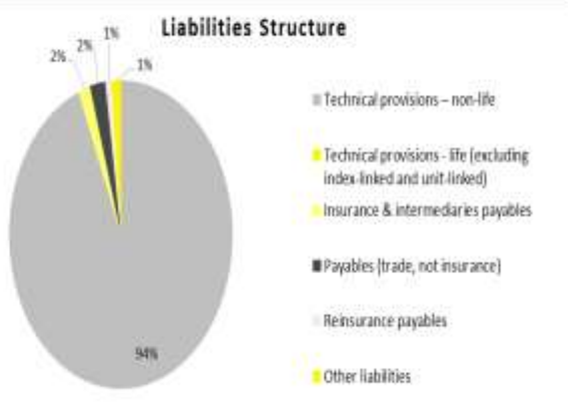
The Company's Balance Sheet is composed of BGN 289.1m Assets and BGN 192.3m Liabilities leading to Own Funds amount of BGN 96.7m.

The Own Funds comprise only of Tier 1 items: ordinary share capital of BGN 66.6m and reconciliation reserve of BGN 30.1m.

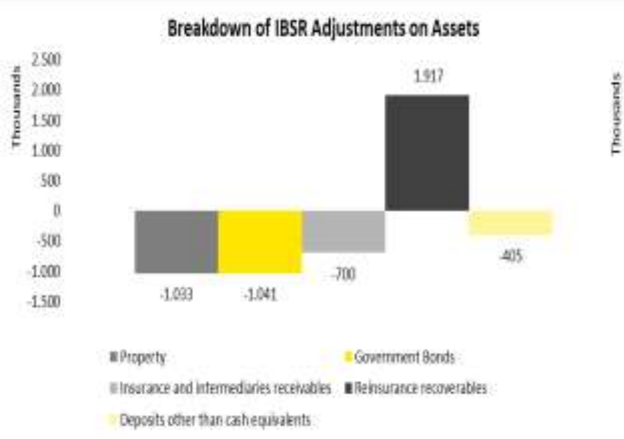
As a result of the IBSR exercise, the excess of assets over liabilities being lower by BGN 4.6m.

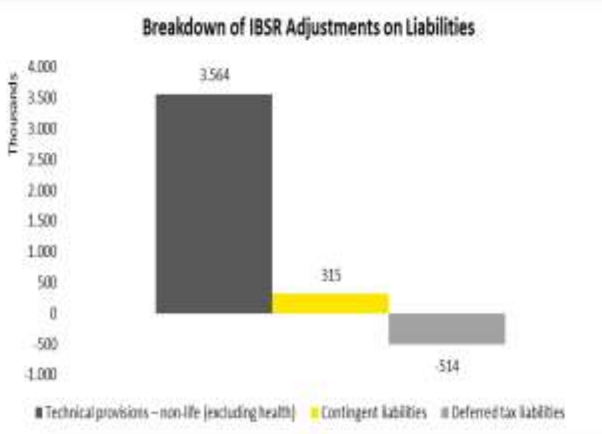
The structure of the balance sheet is presented below:





As analyzed below, the total Assets decreased by BGN 1.3m and the total Liabilities increased by BGN 3.4m.





Assets

On the assets side, main adjustment refers to:

- Decrease in the values of the property in amount of BGN 1.1m as considering the conditions of these properties as assessed by the IER.
- Decrease in the fair values of the government bonds in amount of BGN 1.1m as a result of the use of BBG prices by the reviewer compared to BASPSC used by the company,
- Decrease in the values of the insurance and intermediaries receivables in amount of BGN 700k representing additional impairment.
- Decrease in the values of the deposits other than cash equivalents in amount of BGN 405k following the application of the different discount rates. The reviewer used the discount rates as communicated by the BNB while the company had used the discount rates communicated by the group.
- The adjustments were compensated by an increase in the reinsurance recoverable in amount of BGN 1.9m as a consequence of the adjustments made on the gross technical reserves

Liabilities

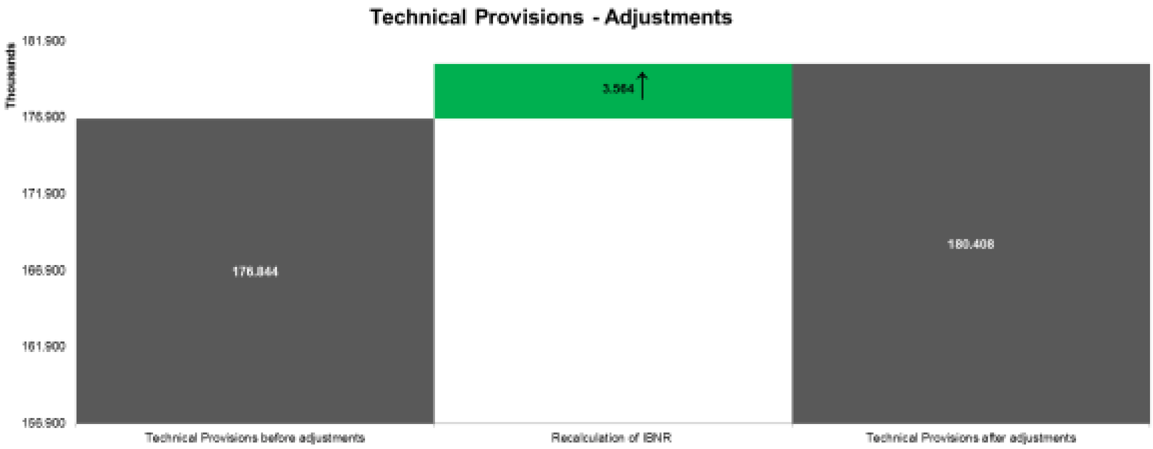
Total liabilities deceased by BGN 3.4m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Increase in the contingent liabilities of BGN 315k as a result of the IERs assessment of ongoing litigation
- Decrease in deferred tax liabilities of BGN 514k following the impact of the other adjustments.

Adjustments in Technical Provisions

The total amount of the adjustments is BGN 3.5m and further breakdown is presented below:



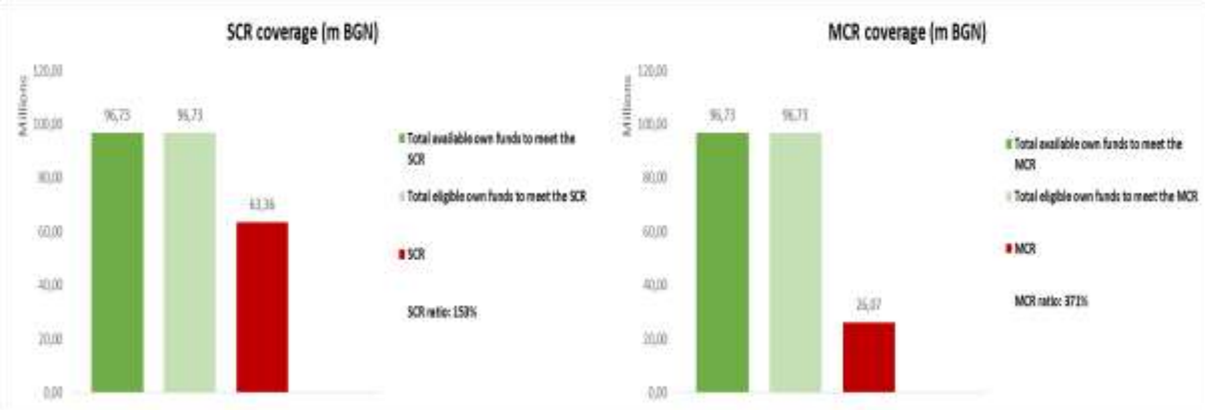
- The re-estimation of IBNR by the IER led to difference compared to the results performed by the company.
  - Increase in BEL claims, related to property line of business. The adjustment is due to sampling of claims files
  - Adjustment related to the future recoverable amounts from recourses for Casco LoB.

Reinsurance – Effectiveness of Risk Transfer

With respect to the effectiveness of risk transfer on reinsurance the reviewer did not identified elements that would indicate the transfer of risk is not obvious.

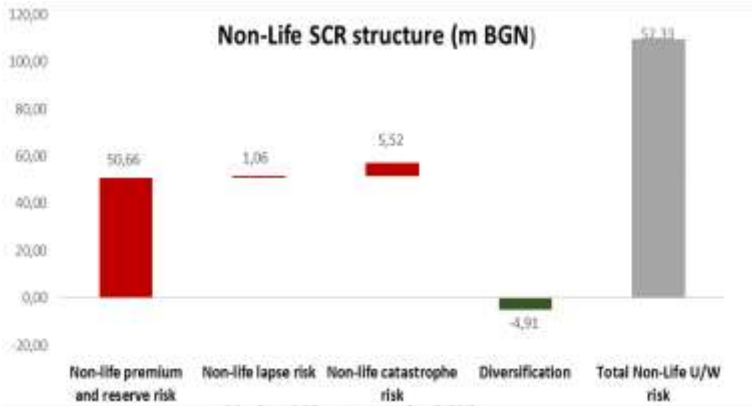
Capital Requirements Compliance

The initial solvency position of DZI Non-Life was 171% SCR and 389% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the non-life entity DZI achieved a level of SCR equal to 153% and MCR equal to 371%, thus the company is compliant.



The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.

As presented in the table on the side the majority of the capital requirements comes from Non-Life Underwriting Risk and Market Risk. Specifically, exposure Non-Life Underwriting Risk is equal to approximately BGN 52.3m, whereas exposure to Market Risk is equal to approximately BGN 20m as at HY2016.



The Non-life premium and reserve risk (BGN 50.66 m) and Non-life catastrophe risk (BGN 5.52 m) are the key components contributing to the Non-Life U/W risk.

The majority of the exposure to Market Risk stems from the following risk sub-categories:

1. Market risk concentrations (BGN 16.77 m)
2. Interest rate risk (BGN 9.49 m)
3. Spread risk (BGN 2.84 m)

Corporate Governance, processes and internal control framework, accounting policies

The entity implement the Group standards for Solvency II requirements. As such, the internal framework covers all main components of the System of governance Guidelines, nevertheless, certain specific processes have not yet been documented (e.g. investments due-diligence, ORSA process) or formalized to the entity level (e.g. risk management policies which were developed mainly at Group level).

In addition to this, the reviewer recommends to the Company to consider putting additional emphasis on the entity level risk profile assessment. The observation is mainly related to the individual responsibility of each of the entities to its own policy holders.

In terms of internal controls the reviewer had identified a wide framework for prevention and detection of errors and material misstatements with certain improvements identified in areas such as:

- four eyes principle regarding calculation of ceded amounts (i.e. premium ceded, claims ceded, commission ceded, case reserves ceded);
- input of prices in the system by the responsible personnel from Investment Department or over the manually input details of transactions into the system; no regular reconciliations of balances with custodians;
- formalized documentation regarding exceptions to the Company's rule and procedures for underwriting operations, in case of policies paid after grace period, that have not been cancelled;
- IT controls environment