Gothaer Asigurări Reasigurări S.A.
2019 Solvency and Financial Condition Report

Issued and published by the Company according to the legal requirements stipulated by Solvency II and Norm no. 21/2016

Issued: April 2020

EȘTI MAI ASIGURAT
DECÂT CREZI

Gothaer
ASIGURĂRI REASIGURĂRI

STAY THE COURSE AND FOLLOW YOUR VALUES

2019 was the 7th year of activity of Gothaer Asigurări Reasigurări ("Gothaer"), a subsidiary of Gothaer Group, one of the largest German mutual insurance associations with more than 4.52 billion Euro in premiums and over 3.5 million customers. 2019 was also a challenging year for Gothaer Romania. In 2019, the Company has reshaped/redesigned its business model and focused on implementing the new business model, the focus being shifted from growth to a more sustainable business model. On 19.02.2019, the Extraordinary Shareholders Meeting adopted a Resolution deciding to reshape the Company's business on a going-concern basis and requesting and delegating to the Board of Administration to develop and approve the New Business Plan. The New Business Plan was approved by the Board of Administration by decision no. 14 of 19.03.2019, by the shareholder by decision 4/27.03.2019 and was submitted to FSA on 29.03.2019

The process of reshaping the strategy was fixed in the New Business Plan and focused on reducing more risky LoB's with low frequency but high claims and to increase efficiency by reducing the cost structure mainly but not limited to personnel cost by reducing staff in order to improve results on a medium term perspective. After many years of following a more risky growth strategy, the shareholders revised certain lines of business (LoB). This changes were mainly for the following LoB's:

- Cessation / limitation of particularly volatile Lines of Business (cessation of Agro, re-orientation of Bonds);
- Stricter rules applicable to multiannual contracts;
- Increased focus on technical profitability, particularly for Casco business; this also brings about a reduction of premium volumes for Casco;
- Conscious growth in profitable Lines of Business;
- Property and other corporate lines with revised risk appetite.

During the period July 2018 – beginning of 2019, the Financial Supervisory Authority had performed a regulatory control to the Company. The Company had not been sanctioned by fine. The result of the control stated a written warning. All the recommendations received have been implemented by the Company by the end of 2019.

In a full Solvency II compliant environment, the Company, through support from its shareholders, improved its solvency ratios to 167% SCR and 356% MCR as at end of 2019, these results being already audited at the moment of writing the report.

SCR = 167%

MCR = 356%

In this challenging business environment, the Company continues to rely on its competent, agile staff and the new management to focus on enhancing excellent client relationships while improving efficiency in operations, reducing costs and a target oriented development.

The Company's board and management would like to use this occasion to express their gratitude to all clients and customers for their trust and to all employees for their unshaken dedication and commitment in facing all challenges in a difficult market context.

ABOUT THE 2019 GOTHAER ASIGURĂRI REASIGURĂRI SOLVENCY AND FINANCIAL CONDITION REPORT

The Solvency II Directive provides not only a more risk orientated, safer environment for insurance customers, but also full, transparent public and regulatory disclosure of insurance companies, under Pillar 3 reporting, respectively the Solvency and Financial Condition Report (SFCR) intended for the public and the Regulatory Supervisory Report (RSR) intended for the local supervisory authority. The disclosure required in both SFCR and RSR is extensive, and concepts of proportionality and materiality are considered, all in a structure and following requirements set by EIOPA.

The following report – the 2019 Gothaer Asigurări Reasigurări Solvency and Financial Condition Report (SFCR) - is the fourth annual reporting prepared under the Solvency II Pillar 3 reporting requirements.

The 2019 Gothaer Asigurări Reasigurări SFCR has been prepared in compliance with EIOPA Guidelines on Reporting and Public Disclosure and local legal requirements, as stipulated in the Law 237/2015 on the authorization and supervision of insurance and reinsurance undertakings and Norm 21/2016 regarding reporting, with subsequent amendments and completion.

The 2019 Gothaer Asigurări Reasigurări SFCR has been reviewed, challenged and approved by the Company's Board of Directors and is made publicly available on the Company's website, www.gothaer.ro.

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SUMMARY

Performance

Gothaer, due to implementation of reshaped strategy ended year 2019 with a double-digit decrease of 42% in the level of **Gross Written Premium** (GWP) compared to the previous year RON 90.2 millions), which is contrary to the 13% increase of the Non-life excluding MTPL Romanian[1] insurance market.

The **portfolio structure** shows lower level of premiums on all lines of business as of 2019 on year-on-year basis, with one line of business being closed in 2019 and highest decrease being recorded on Casco line of business. Still, Gothaer's weight of motor business represents about half of the portfolio – reflecting a share in line with the 49% motor share of the Non-life Romanian insurance market[2].

Main lines of business and main geographical areas where business is carried out

The main lines of business written are Motor Casco, followed by Property & Engineering which represents about 25% of the portfolio and other lines of business such as, General Third Party Liabilities, Travel Health and Personal Accident and Marine. The Company does not write any Compulsory Motor Third Party Liability and at the beginning of 2019 decided to leave Agro insurance LoB. Within the Bond LoB underwriting guidelines have been revised in 2019.

The main source of business is represented by broker business, which has generated 86% of the total underwritings of the Company, the rest being produced by agents and direct business.

Regarding the territorial network, structures recorded lower level of gross written premiums in 2019 compared to the previous year same period, correlated to the overall decrease of premiums of the portfolio. Branches are located in cities such as Cluj-Napoca, Constanta, Craiova, Iasi and Timisoara for a strategic cover for the whole territory of Romania, but main business is generated through the Bucharest area.

System of governance

An effective system of governance is essential for achieving strategic and operational business objectives in any organization. Consequently, it is important for the organization to ensure that the internal risk management and control systems are well organized and that their effectiveness is constantly monitored.

These systems are intended to ensure that the management knows what risks are being incurred, their magnitude, what control measures are in place to manage those risks and their effectiveness, and what additional measures are desirable.

The Company implemented an effective system of governance. The organisational structure has been set up as such to highlight proper roles and responsibilities, together with an adequate system of delegated authorities.

The Company's governance structure is based on the *three lines of defense* model and in top of this structure stands the Board of Directors and Executive Management. Gothaer is organized as a 1-tier company where all significant strategic decisions are made by the Board of Directors. Irrespective of the statutory responsibilities of the Company's Board of Directors (in particular the responsibility for proper business organization of the Company), management is responsible for the establishment and effectiveness of the governance system, comprising committees, strategies, policies, procedures and functioning rules.

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[1] Gothaer does not underwrite MTPL business; source of market data: Financial Supervisory Authority, total Non-life GWP excluding 10th class, as of 30.09.2019

[2] source of market data: Financial Supervisory Authority, total Non-life GWP excluding 10th class, as of 30.09.2019

Key risks (Risk Profile)

The basic risk classification adopted by the Company is in full accordance with the risk typology from the Solvency II methodology even if not all risks may be significant for the Company.

The risk categories are: underwriting risk, market risk, credit risk, operational risk, liquidity risk, legal & regulatory (compliance) risk, concentration risk, reputational risk, strategic risk, contagion risk.

At the end of the year 2019, the assessment for these risks is not different compared to the end of the year 2018.

The Company has implemented a risk management system which is able to identify, assess, measure, monitor and report risks. Risk tolerances are set by the Company up to the extent where it can assume those risks. Any deviation from the tolerance limits set is reported to the management of the Company in a timely manner, together with a plan of measures for larger deviations.

The objective of the Company is to maintain sufficient capital in case risks occur, in order to be able at any time to cover its liabilities.

Key solvency figures

As of December 31st, 2019, the Company held **own funds** amounting 62,698 thousands, LEI enabling the Company to:

- **cover the solvency capital requirement (hereinafter "SCR") amounting 37,562 thousands, LEI in a proportion of 167%;**
- **cover the minimum legal capital requirement (hereinafter "MCR") amounting 17,602 thousands, LEI in a proportion of 356%.**

The disclosed figures are already audited as of December 31st, 2019 by Deloitte Audit SRL.

„Own Funds" of the Company only consist of Basic Own Funds (Balance Sheet elements), insofar that the Company has no unpaid share capital or funds that have not been called up, letter of credit and guarantees. Hence, the eligible Own Funds are all of high quality being posted under the "tier 1".

The Company exceeds both the minimum legal capital requirement and solvency capital requirement, as at the end of the year 2019 with a significant margin.

Significant subsequent events

Subsequent to the balance sheet date, no significant event was identified that may require adjustment to the December 31, 2019 financial statements.

However, a significant emerging risk has been identified that worths separate disclosure within this report. With Coronavirus now taking centre stage in financial markets, the Company has performed an analysis on how the pandemy will impact its solvency and liquidity. The crisis that looms is not merely about liquidity. It is much more about solvency. Being transmitted person-to-person, it will impact the real economy first, and expected at every level.

The Company might be exposed directly through a potential spike in claims and indirectly through the impact on economic growth and the resultant financial market volatility. Solvency II ratio is particularly sensitive to financial market volatility and movements in bond yields and credit spreads (potentially lower bond yields to have bigger impact on insurer's capital and profitability).

An economic slowdown triggered by the outbreak will crimp business volumes for insurers and may also lead to incurred claims for certain types of insurance. However, the expectation is that, as a non-life insurer, the exposure to be limited and consequently doesn't expect a significant claims impact.

Ultimately, in this rapidly changing environment, all matters are reviewed on a case-by-case basis having regard to the policy terms and conditions, as the outcome of any claim will depend upon the actual policy wording.

The longer term impact of the currently unknown magnitude of the pandemic and therefore of any social and economic consequences may affect premium volumes, cash flows, profitability and organizational aspects of our company. Nevertheless at the date of these report Gothaer Asigurări Reasigurări S.A. continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Given the current development and uncertainties, the Management of the company is not able to reasonably quantify any future development and therefore adjustments in the plan have not been performed yet. Economic and organizational development of the Company will be closely monitored.

A

BUSINESS AND PERFORMANCE

A.1 Business

Gothaer Asigurări Reasigurări S.A. (hereinafter referred to as the “Company” or “Gothaer”) is a Romanian legal entity, non-life insurance carrier, organised as a joint stock company under the Romanian law, registered with the Bucharest Trade Registry under no. J40/12276/2006, sole registration number 18892336 and headquartered in Bucharest, No. 42° Pipera Street, 1st Floor (Room 1) and 16th Floor , 2nd District, Bucharest.

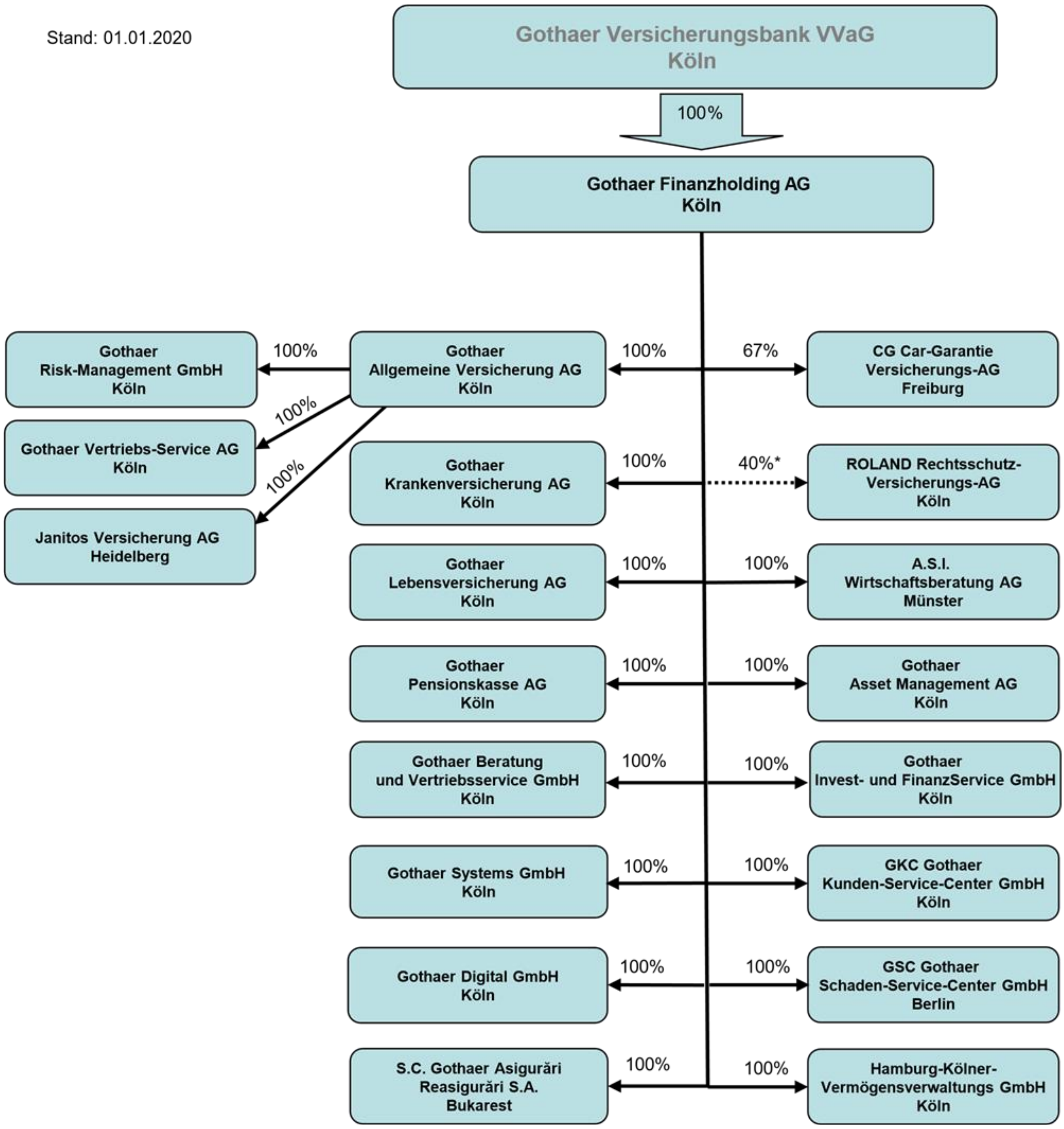
Gothaer Asigurări Reasigurări operates exclusively in Romania, under Law 31/1990 as amended and supplemented, Law no. 237/2015 with subsequent modifications, under the insurance norms and secondary legislations issued by the Financial Supervisory Authority (“ASF”) as well as under its Articles of Association.

According to the data recorded at the Trade Register as of year-end 2019, the shareholding structure of Gothaer Asigurări Reasigurări is, as follows:

1. **Gothaer Finanzholding AG** (holding 99.9995% of the Company’s share capital), a stock corporation organized under the Laws of Germany registered with the commercial register of the lower court of Cologne under HRB 62211 with registered seat in Cologne, Arnoldiplatz 1, 50969 Cologne ("**Majority Shareholder**"); and
2. **Gothaer Pensionskasse AG** (holding 0.0005%of the Company’s share capital), a stock corporation organized under the Laws of Germany registered with the commercial register of the first rank court of Cologne under no. HRB 56824, with registered seat in Cologne, Arnoldiplatz 1, 50969, Cologne („**Gothaer Pensionskasse**“).

At the end of 2019, in addition to 3 capital increases performed in 2019, the Shareholders approved a technical capital reduction in order to meet Law no. 31/1990. This reduction is currently pending for FSA approval. Details on the capital injections are available at section B.1.5 “Material transactions with shareholders”.

The overall Group structure, including Gothaer Asigurări Reasigurări SA placed within this structure, is depicted in the picture below:



* Total Group interest

For purposes of clarity, shareholding structure simplified

Figure 1: Group structure

The Group ultimate parent is **Gothaer Versicherungsbank VVaG,** a mutual insurance association. The Group's financial activities are managed by **Gothaer Finanzholding AG**. Operational activities are handled mainly by the companies listed below:

Gothaer Allgemeine Versicherung AG is the largest risk-bearing entity in property and casualty insurance within the Gothaer Group. This company has ranked among the largest German non-life insurance companies ever since its foundation in the year 1820. Classical single-line products aside, its focus is primarily on combined insurance concepts and multiple-risk products. Custom solutions that take into account the specific requirements of different branches of business and industry make Gothaer a reliable partner not only for private clients, but also for commercial customers from mid-sized companies and industry. The very good product positioning in private-customer business is regularly confirmed by the corresponding product ratings of renowned institutes, like Germany's Finanztest and Ökotest magazines. In hunting-liability insurance and in the insurance of onshore wind farms, Gothaer Allgemeine Versicherung AG has positioned itself as market leader with its product solutions and experience. Regional contacts and on-site specialists ensure the necessary professional competence for customized solutions.

Gothaer Lebensversicherung AG has been a partner for insurance protection, financial planning strategies and investment advice for nearly 200 years. A special focus is on biometrics, company pension plans and unit-linked policies – strategic business fields that Gothaer strengthens year after year. This strategic gearing, which was initiated years ago, already addresses the future demands of Solvency II. Gothaer optimizes and upgrades its product range on a continuous basis.

As the healthcare provider of the Gothaer Group, **Gothaer Krankenversicherung AG** provides policyholders not only with customized insurance coverage and reimbursement of medical expenses, but also with comprehensive support in the event of illness and further enhances its position as service provider in order to protect the health of its clients. As modern health insurers, we strengthen clients' health awareness and personal responsibility in handling illnesses. Gothaer Krankenversicherung AG supports its customers with preventive measures, health guides as well as competent health advice. In addition to classic business in comprehensive health insurance, Gothaer is very well positioned in supplementary insurance as well. Here the stress is on modern, flexible and high-quality product solutions. Other focuses in this area are on company health insurance, group insurance for company staff and corporate healthcare management.

Janitos Versicherung AG has been the broker insurer for the private client business in the Gothaer Group since 2005. Janitos stands for the best-possible coverage of health and assets. Its products, processes and services are systematically geared toward the primary customer 'broker' and his target market. The Janitos product portfolio is geared mainly to the property/casualty lines householders comprehensive, private liability and accident.

Gothaer Asigurări Reasigurări is subject to supervision, at the local level, by the Financial Services Authority (hereinafter „ASF") and at the Group level, by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, hereinafter „BaFin").

In 2019, both the statutory annual financial statements and solvency capital requirement as regulated by the regime Solvency II have been audited by Deloitte Audit SRL.

Name and Contact details of the local supervisory authority („ASF")	Name and Contact details of the Group supervisory authority („BaFin")
Autoritatea de Supraveghere Financiara Splaiul Independentei nr. 15, Sector 5 Bucuresti, Romania http://asfromania.ro/	Bundesanstalt für Finanzdienstleistungsaufsicht Graurheindorfer Straße 108 53117 Bonn, Germany https://www.bafin.de/DE/Startseite/startseite_node.html

The activity of the Company consists of non-life insurance operations which are performed in Romania, in LEI and/ or foreign currency, under legal provisions, for the following Solvency II reporting lines of business:

- Medical expense insurance;
- Income protection insurance;
- Worker's compensation insurance;

- Motor vehicle liability insurance, except Compulsory Motor Third Party Liability;
- Other motor insurance;
- Marine, aviation and transport insurance;
- Fire and other damage to property insurance;
- General liability insurance;
- Credit and suretyship insurance;
- Assistance;
- Miscellaneous financial loss.

Gothaer Asigurări Reasigurări is a non-life insurance company, with a market approach strategy based on high quality products and services, designed to respond to a wide range of customer needs.

The Company offers both tailor-made products and services for corporate clients, as well as standardized, simple and fair products for its retail clients. The Company aims to be recognized as modern, flexible and innovative among clients and partners.

With responsibility, integrity, innovation towards excellence and state of the art customer care, the Company aims to be the first choice for clients and business partners, adding value and permanently improving the stability and security of the Company, both through underwriting discipline and superior financial results.

Gothaer Asigurări Reasigurări acts in accordance with the principles of corporate governance by ensuring transparency in decision making and accountability to its stakeholders in the smooth running of business, involving these parties in the Company's decision-making process.

After adjusting its business model in 2019, Gross Loss Ratio in 2019 (over all Lines of Business, on Financial Year basis) decreased from 69.1% in 2018 to 51.6% in 2019 against a planned 2019 Gross Loss Ratio of 50.0%. The main reasons are normalised loss ratios in Agro and Bonds (including positive effects in 2019 from claim files closed without payment).

Cost ratio 2019 of 56,3% was only slightly lower than 2018 (57.6%) due to a higher than planned cost ratio of 48,3% caused by extraordinary cost / higher expenses as a result of unplanned one time payments and redundancy cost. Administrative expenses are exceeding planned figures as the net loss resulting from final settlement of the AGI case being accounted in his position. Overall 2019 Combined Ratio of 108% (which compares to a 2018 Combined Ratio of 127% and to a planned 2019 Combined Ratio of 98%) is reflecting these developments as well as a negative deviation of the gross loss ratio in MOD which follows the market trend and was 8,6% higher than planned.

All this translates into a **2019 loss after taxes of LEI -18.3m**, which compares to an initially planned 2019 result after tax of LEI -10.9m.

Due to further three capital injections during 2019 performed by the shareholder amounting in total to thousands 16.625 LEI, the Company ended 2019 with a strong coverage ratio of 167% for SCR and of 356 % for MCR.

2020 and beyond should see the Company gain additional momentum with a focus on further implementing and strengthening its more sustainable business model.

The Board of Administration exercised its powers in compliance with legislation and regulations in force and with the company's By-Laws, pursuing and implementing an operational framework of the Company within the Solvency II regime.

A.2 Underwriting Performance

Following on the measures and actions implemented in 2019 in order to stabilize the results, sustained by increased efficiency in internal processes, in 2019 the Company recorded 41.6% reduction in its business.

The Company offers insurance products and solutions for both private and corporate clients, with underwriting activities and processes tailored to suit both client segments.

The portfolio structure is composed by almost 61% corporate and 39% retail, from a gross written premium perspective, and diversified in terms of lines of business written.

The **gross written premium** of the Company in 2019 amounts **90,179 thousands, LEI**. Gross written premiums by significant lines are presented below, together with their development compared to last year:

Thousand LEI

Line of business	2019	2018	2019 vs 2018
Motor insurance	46,841	72,797	-25,956
Property insurance	21,005	46,343	-25,337
Other lines of business	22,333	35,283	-12,949
Total	**90,179**	**154,424**	**-64,244**

The Company recorded an overall decrease of 41.6%, out of which 36% in motor insurance, 55% in property insurance and 37% in other lines of business. Health business similar to non-life represents only 1% of the overall portfolio, while the rest of portfolio is represented by non-life business.

Main underwriting developments during 2019 are the following:

Gross loss ratio for overall portfolio is **51.6%**, compared to 69.1% at the end of 2018, value in 2019; net claim ratio reaches 52.0% in 2019 compared to 71.8% in 2018

Net result (loss) amounts **- 18,294 thousands, LEI**, significantly decreasing from -50,319 thousands, LEI in 2018; negativity of net technical result in 2018 was mainly due to current expenses and provisions booked as for year end 2018 following CBL's insolvency and other future Company expenses

Reinsurance result amounts

-8,224 thousands, LEI, in 2019, increasing from -6,079 thousands, LEI, in 2018; in 2018 the improved result was principally determined by ceded large claims in Property line of business

Gross cost ratio reached **56.3%** in 2019, compared to 57.6% in 2018

A.3 Investment Performance

Investments made by the Company are low risk. Based on known and estimated liquidity requirements and cash flows in addition to liquid funds held in current accounts a basic liquidity volume is invested short-term in overnight money and deposits with banks (in Ron and foreign currencies), whilst the rest is invested in Romanian government bonds (risk free according to Solvency II) for mid and long-term maturities and taking into account ratings and the internal limit system.

The investment portfolio as at 31.12.2019 and 31.12.2018 is presented below:

INVESTMENT	Solvency II value- *thousands, LEI-* 2019	Statutory accounts value- *thousands, LEI-* 2019	Solvency II value- *thousands, LEI-* 2018	Statutory accounts value- *thousands, LEI-* 2018
Participations *(i)*	23,149	2,901	20,438	2,901
Bearer bonds *(ii)*	47,422	46,188	54,881	54,277
Bank deposits *(iii)*	16,025	16,025	2,006	2,006
TOTAL	**86,596**	**65,114**	**77,325**	**59,184**

(i) Gothaer does not invest in derivative financial instruments, investment funds, property or shares. An exception being the Gothaer 15% share in PAID, Insurance Pool for Natural Disasters, a non-listed strategic investment and treated as such under the standard formula.
(ii) Investments in the second category of assets, respectively investments in Romanian Government bonds are short-, medium- or long-term investments having a low liquidity risk and a rating for Romania granted by Standard & Poor's of BBB-.
(iii) Investments in the third category, respectively bank term deposits are short-term investments (maximum 6 months), highly liquid, and have a low level of risk taking into account the weighted average rating.
While considering the investment possibilities on the local market and the risk appetite in accordance with the *Investment Policy*, Gothaer observes the conditions offered by the banks with respect to interest rate levels for deposits or their offers with respect to government securities or other financial instruments, as well as announced t-bills and t-bonds auctions of the Ministry of Finance in order to take the best decisions.
Please see on chapter D.1.7, more details related to valuation differences between Statutory reporting and Solvency II, as well as other rules for mapping and classifications.

The Investment result is presented below:

Investment result	2019 *-thousands, LEI-*	2018 *-thousands, LEI-*
Investment result	**4,112**	**2,236**
Dividends	**1,015**	**-**
Interests	**2,125**	**2,100**
Government bonds	1,570	1,817
Cash and deposits	555	283
Investments expenses	**972**	**136**
Investments management expenses	(10)	(17)
Fx result	982	153

The investment result in 2019 has been positively affected by the increase of bank deposits interest rates and a first time dividend from PAID.

A.4 Performance of other activities

There are no other activities to be mentioned.

A.5 Any other information

Other than the information provided in chapter A of this report, there are no other material information to be disclosed separately.

B

SYSTEM OF GOVERNANCE

B.1. General information on the system of governance

B.1.1. Overview

Gothaer Asigurări Reasigurări is managed based on a unitary (1-tier) management system organisational structure.

The Company has adopted an organisational structure to fit the size, complexity and nature of activities run by the Company. The structure grants the required flexibility that leads to an efficient decentralization of selective decision making while ensuring that responsibility for overall governance rests within the Management Team and the Board of Directors.

The Board and Board Committees are comprised of Nonexecutive Directors who meet on a regular basis, typically on a quarterly basis.

The Company's Board of Directors carry responsibility for the oversight of the business and sets its strategy and risk appetite. The Company is committed to high standards of corporate governance.

The governance structure of the Company is based on the three lines of defense model, having on the top of this structure the Board of Directors, Board Committees and the Management Team (Executive Management).

Further down, the Company is organized so as to follow the three lines of defense in the management of risks. All departments have their own specific responsibilities regarding risk management and compliance, representing the first line of defense, followed by Risk Management, Actuarial, Internal Control, and Compliance and later on Internal Audit, as the third line of defense.

In accordance with the Company's Articles of Association, the management bodies of the Company are:

- General Meeting of Shareholders,
- Board of Directors and
- Executive Management.

B.1.1.1. General Meeting of Shareholders

The supreme governing body of the Company is the **General Meeting of Shareholders** (hereinafter, "GMS"), which decides on the activity of the Company, according to applicable legal provisions of the Articles of Association and legislation in force.

The scope and functioning of the General Meeting of Shareholders are stipulated in the Articles of Association of the Company.

B.1.1.2. Board of Directors

The administration of the company is ensured by **the Board of Directors (BoD)** of the Company, which is composed of five members. The structure of the Board of Directors and its legal responsibilities are set by the Articles of Association of the Company. Members of the Board of Directors are appointed by the General Meeting of Shareholders and they perform their responsibilities and duties after FSA approval.

The members of the Board of Directors, as of the end of 2019, are, as follows:

- DR. CHRISTOPHER LOHMANN, Chairman of the BoD, non-executive;
- KLAUS-CHRISTOPH REICHERT, Vice-Chairman of the BoD, non-executive;

- MAXIM EVTUSCHENKO, member of the BoD, non – executive;
- GERHARD WEIDENFELD, non – executive:
- PAUNICA-GEORGINA POPESCU, non – executive.

Irrespective of the statutory responsibilities of the Company, Board of Directors is responsible for the establishment and effectiveness of the system of governance. The Board of Directors takes all significant strategic decisions, ensures the proper organization and continuous development of the risk management within the company. The Board of Directors elaborates and reviews periodically the Company's business plan and the business strategy related to the Company's activity, including the risk profile and risk strategy. The Board is responsible for all the activities set up by FSA Rule no. 2/2016 and even though it may delegate, as per the risk administration line, it has the ultimate responsibility for the activities performed by the Company.

Within the framework of this responsibility, Board of Directors obtains an overview of the overall risk profile of the Company, sets out the risk-orientated objectives and the framework conditions for dealing with risks. Board of Directors responsibilities also include, in particular:

- stipulating the risk strategy and risk tolerance;
- specifying significant limits for risk limitation;
- maintaining the risk-bearing capacity;
- establishing an ongoing monitoring of the risk profile;
- execution of ORSA;
- implementation of significant strategic and ad-hoc risk control measures;
- stipulating significant risk-related responsibilities and decision-making authorities.

B.1.1.3. Executive Management

Executive Management of the Company is composed of three members, the Chief Executive Officer (CEO) Leslie Jones Breer, Deputy CEO / CFO Reiner Türr and Deputy CEO Cosmin Traian Angheluta in charge of Sales, all appointed by the Board of Directors for a term of office not exceeding 4 years.

The Executive Management of the Company is responsible for the current business of the Company and has all delegated powers necessary to this effect, in accordance with Article 143 of the Company Law, except for those powers specifically reserved to the Board of Directors and/or the GMS. The Executive Management, jointly with the Board of Directors, undertakes also all responsibilities as required by specific regulatory framework administration.

Executive Management members have the right and duty to jointly conduct the Company's affairs, by working collectively and informing each other of any significant events in the Company's operations..

B.1.1.4. Company's Committees

The company has set up 8 corporate governance committees which perform their activity in accordance with the Company's internal rules. All corporate committees offer support either for the Board of Directors or for the Executive Management, acting in accordance with the roles and responsibilities established with the Company's internal policies or regulations.

The current committees created at Board level are:

- Audit Committee – mandatory advisory committee
- Remuneration Committee - mandatory advisory committee

- SII Steering Committee – advisory committee

The current committees created at Executive Management level are:

- Risk Management Committee - advisory committee
- Petitions analysis and settlement team - mandatory decision-making committee
- Committee for Safety and Health at Work - mandatory decision-making Committee
- The Underwriting Committee (UWC) – technical/commercial decision-making committee
- The Claims Forum (CF) - technical/commercial decision-making committee

The Audit Committee

The Audit Committee has a consultancy role in relation to defining the directions and the efficient evaluation and development of the internal control system and of the risk management system. Also, it is responsible with identification and administration of the main risks regarding the corporate governance. This is to eliminate / reduce the major risks and to issue specific recommendations to the Board of Directors regarding the corporate governance, constructed on the three lines of defense. The Audit Committee present to the Board of Directors a recommendation regarding nomination of the statutory auditor or of the audit firm, in accordance with the applicable legal pronunciations.

The Remuneration Committee

The Remuneration Committee supports the Board of Directors in the administration and exercise of its responsibility for supervisory oversight and ensures that remuneration tools for Management are aligned with company objectives and do not threaten the Company's ability to maintain an adequate capital base.

SII Steering Committee

The SII Steering Committee fulfils an advisory role for the Board of Directors in view in respect of ensuring the compliance with Solvency II requirements within the Company. The Committee acts like a precursor for the Board approval of all the documents, methodologies and computation methods, as well as for minimum capital requirement/solvency capital requirement interpretation of results due to the fact that its frequency and timing has been set up as such to precede every Board meetings (4 times per year).

Risk Management Committee

The mission of the Risk Management Committee is to ensure the maintenance of an effective system of organization and risk management in line with the Company's structure, complexity of operations, in the context of the external conditions of the business and the approved risk profile of the Company. It also facilitates setting general standards applicable to all staff and also the establishment of specific rules for certain categories of personal care, use of confidential information or responsibilities hiring the Company in various aspects of business.

Petitions analysis and settlement team

The Complaints Committee aims to analyse and solve the complaints received by the Company and formulated by any individual person or entity that has the quality of customer / insured / beneficiary / contractor or injured person. The committee is functioning in accordance with F.S.A. Norm no. 18/2017 *on the procedure for the settlement of petitions related to the activity of insurance and reinsurance companies and insurance brokers*.

Committee for Safety and Health at Work

The Committee for Safety and Health at Work is established according to local rules and regulations issued by the Romanian competent authorities and reports to the Management Team, respectively Labor Code and Law 319/2006 regarding labor health and safety requirements.

The Underwriting Committee (UWC)

The role of the technical or commercial decision making committees is to ensure a transparent, objective climate for decision making on underwriting issues with a goal to ensure development of disciplined underwriting, stable portfolios and achievement of underwriting results.

The Claims Forum (CF)

The role of the technical or commercial decision making committees is to ensure a transparent, objective climate for decision making on claims handling and settlement issues with a goal to correct, efficient and timely claims management.

B.1.2 Independent Key Functions

The Company has established the four key independent control functions required under the Solvency II Directive - risk management, compliance, actuarial and internal audit. These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework.

- Risk Management Function
- Compliance Function
- Actuarial Function
- Internal Audit Function

Risk Management Function

Risk Management Function is held by the Risk Manager, who is appointed to oversee the implementation of the Company's *Risk Management Policy*, is functionally independent in regard to operative functions, having direct reporting line to Deputy CEO – CFO of the Company. Risk Manager has an unlimited right to information. Risk Manager must be informed of significant risk-relevant situations without prompting and in a timely manner.

Compliance Function

A Compliance Coordinator is appointed with responsibility for the implementation of the Company's *Compliance Policy*, is functionally independent in regard to operative functions, having direct reporting to the CEO of the Company and to the Board of Directors (as AML / FT Compliance Officer). Compliance Function has an unlimited right to information and it must be informed of significant risk-relevant situations without prompting and in a timely manner so he/she can be able to implement corrective controls in addition to preventive and detective ones. Starting with December 2019, the Compliance Coordinator was appointed also Data Protection Officer, in order to comply with the provisions of Regulation (EU) 679/2016 *of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (Text with EEA relevance),* and also Compliance AML/ FT function in order to comply with the provisions of FSA Regulation No. 13/2019 on establishing measures to prevent and combat money laundering and terrorist financing.

Actuarial Function

The Actuarial Function ensures the coordination of the calculation of technical provisions through an independent framework, provides continuous support to Risk Management System as well as providing information to the Board of Directors to enable it to take decisions concerning the *Underwriting Risk Policy, Reserving Policy* and reinsurance arrangements, through the Actuarial Function Report.

Internal Audit Function

The Internal Audit Function of Gothaer Asigurări Reasigurări is held by the Chief Audit Executive. The Internal Audit Function carries out an independent and objective activity, it is a key function in the company, with access to all information, documents and company structures. The Internal Audit Function assesses the adequacy and effectiveness of internal control system and other elements of the governance system.

B.1.3 Other Key Functions

On top of that, a *Procedure on other key functions* has been issued, whereas the Company identifies other functions having a key importance within decision making process at the Company level, as follows:

- Chief Underwriter
- Sales Director
- Claims Manager
- Economic Director
- Legal Manager
- Chief of Internal Control
- Head of IT
- Reinsurance Manager

B.1.4 Remuneration

The Company provides a range of benefits to employees, including contractual fix salary, variable payments (applicable for sales only), as well as a number of benefits. Through its performance management system, the company ensures reward in an equitable, transparent and motivating way of the high performance of employees, who collectively as well as individually contribute to the fulfillment of the company's goals.

There is also an annual bonus program for all employees in place which is granted only if certain KPI's are fulfilled.

The Remuneration Policy strikes a balance between trust in intrinsic motivation on the one hand and agreement on clear targets and assessment of performance of those targets on the other. The total pay-and-benefits package enables the company to compete in the labor market and to attract and retain high professionals. The Company does not have individual nor collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based.
The company does not provide supplementary pension schemes or early retirement schemes for members of the Board, Executive Management or key function holders.

The Remuneration Policy:

- is ethical, sound and sustainable, in line with the Company's Risk Appetite, Risk Management Strategy and Risk Profile, contributes to robust and effective risk management, and does not encourage a greater risk appetite than is acceptable to the business;
- does not restrict, but aids in the Company's scope to maintain and strengthen its robust regulatory capital, solvency margin or own funds;

- performances delivered by employees and by the Company itself are measured on the basis of both financial and non-financial indicators. The Remuneration Policy does not encourage employees to take excessive risks;
- seeks to prevent conflicts of interest;
- the design, governance and methodology of the Remuneration Policy are clear, transparent and applicable to all employees;
- complies with prevailing national and international legislation and regulations. It is evaluated periodically and modified, if necessary, to ensure compliance with new legislation and regulations or market standards.

B.1.5 Material Transactions

Material transactions with shareholders

1. Capital injections

In 2019, capital increases have been performed, as follows:

- Following the General Shareholders Assembly Meeting decision no.10/16.05.2019 – increase in capital amounting thousands RON 4.750 out of which thousands RON 1.948 as contribution to the share capital and thousands RON 2.802 as issue rights, this capital increase has already been recorded to Trade Register;
- Following the General Shareholders Assembly Meeting decision no. 15/28.10.2019 – increase in capital amounting thousands RON 4.750 out of which thousands RON 1.948 as contribution to the share capital and thousands RON 2.802 as issue rights, this capital increase has already been recorded to Trade Register;
- Following the General Shareholders Assembly Meeting decision no. 19/16.12.2019 - increase in capital amounting thousands RON 7.125 out of which thousands RON 2.921 as contribution to the share capital and thousands RON 4.204 as issue rights – in progress for FSA approval; along with a request for reduction in capital amounting thousands RON 25.000, considering total loss cumulated up to 31 December 2018, the aim of the shareholders being to reduce the registered share capital of the Company with a significant part of this loss with the purpose to reestablish the equity ratio (net assets/equity > 50%) in accordance with article 153/24 Law no. 31/1990.
- Following the General Shareholders Assembly Meeting decision no. 16/05.12.2019 – in progress for FSA approval.

The Company's registered share capital at the day of writing the report is of thousands RON 84,789.

2. Shareholder purchasing reinsurer receivables generated by transaction with AGI Capital Investments SRL

Gothaer Finanzholding has purchased Gothaer Asigurari Reasigurari reinsurer receivables coming from the transaction concluded between Gothaer Asigurari Reasigurari and AGI Capital Investments SRL.

Thus, the Company received from the majority shareholder:

- 75% of the payments made by the Company to AGI and
- Costs incurred – all remaining costs have been recovered from Gothaer Finanzholding in January 2020.

The Company has notified the reinsurers that any payment in connection with the transaction be made to majority shareholder and the reinsurers have confirmed that they will reimburse their contractual shares in relation with the amounts. In consequence, Gothaer Asigurări Reasigurări has settled all transactions with AGI Capital Investments.

Material changes regarding the Board of Directors and Executive Management Structure

In 2019, the Company registered the following corporate changes:

- the termination of the mandate of IONUȚ DANIEL BACIU, Deputy CEO/CFO, as of 06.01.2019 due to his resignation;

- the termination of the mandate of ANNA KATARZYNA WLODACZYK MOCZKOWSKA, Non-executive Board Member, as of 28.02.2019 due to her resignation;
- the termination of the mandate of ANCA MIHAELA BABANEAȚĂ, CEO, as of 11.04.2019 due to her resignation;
- the approval of LESLIE JONES BREER, CEO, as of 21.06.2019;
- the approval of REINER TURR, as CFO, as of 19.11.2019;
- the approval of PAUNICA-GEORGINA POPESCU, as of 01.08.2019.

Material transactions with persons who exercise a significant influence on the Undertaking

There were no material transactions with any persons who exercise a significant influence on the Company over the reporting period.

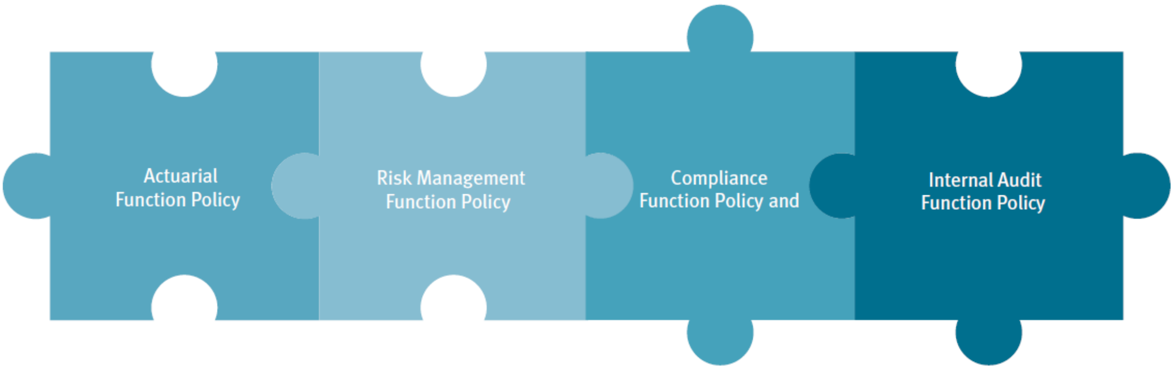
B.1.6. Adequacy of the governing system

Executive Management and Board of Directors regularly review the adequacy of the corporate governance system as a whole and on specific areas of activity to confirm that it remains appropriate to the Company's needs and to prioritize areas that require improvement.

B.2. Fit and proper requirements

B.2.1 Mandatory key functions

Four mandatory key functions at the Company level have been set up and implemented at the Company level, responsibilities as per Solvency II requirements in terms of fit & proper have been clearly assigned to nominated staff and detailed in specific policies, such as:



Fit requirements

The assessment of whether a person is fit shall include an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other businesses and shall take into account the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person.

Proper requirements

Proper criteria require good reputation and integrity. The repute and integrity of the assessed person are being questioned where there is information, not limited to it, on the existence of any of the following situations:

a) criminal proceedings or conviction in cases referring to:

i. crimes provided for in the financial and banking legislation, including crimes set out by the legislation on money laundering and terrorist financing;
ii. property crimes or other crimes specific to the economic/financial field;
iii. crimes provided for in the fiscal legislation;
iv. other crimes provided for in the company law, bankruptcy, insolvency legislation and that on consumer protection.

b) past or ongoing relevant administrative investigations or enquiries, actions for enforcement of the law or imposition of administrative sanctions for breach of the provisions applicable to the activities governed by the financial and banking legislation;

c) past or ongoing relevant enquiries, actions for enforcement of the law taken by other regulatory or vocational bodies;

d) professional misconduct raising reasonable doubts regarding that person's ability to exercise his/her job duties, to ensure a sound and prudent management of the regulated entity.

Apart from fit & proper, the Company also is paying attention to the *Governance requirements* to be met, referring to:

- the existence of a possible conflict of interest;
- restrictions and incompatibilities between the function assessed and the positions held by the person within the same entities or in other entities, as defined in the specific legislation;
- the ability to carry out effective work and properly time allocation to exercise thereof;
- the ability of the evaluated person to perform its tasks independently and also, the ability to solve the relevant issues that may result from the analysis of information obtained, regarding:
- the activities exercised in the past and current functions within the regulated entity or other entities;
- personal relationships, professional or other economic relationships with members of the management
- structure within the same entity, regulated by the parent company or other group entities to which the
- regulated entity belongs;
- personal relationships, professional or other economic relationships with the shareholders who
- controls the regulated entity, the parent company or other group entities.

B.2.2 Board of Directors

The requirements in terms of fit & proper are also applicable to the **Executive Management and the Board of Directors** and those have been defined in a specific policy developed at the Company level: ***Fit & Proper Policy Management Board.***

The purpose of this policy is to ensure that, apart from filling with the fit & proper criteria, the members of the Board of Directors collectively possess appropriate qualification, experience and knowledge about:

a) insurance and financial markets;
b) business strategy and business model;
c) system of governance;
d) financial and actuarial analysis; and
e) regulatory framework and requirements.

B.2.3 Other key functions

Additionally, a ***Procedure on other key functions*** has been issued, whereas the Company identifies other functions having a key importance within decision making process at the Company level, as detailed at chapter *B.1.3 Other key functions.*

Persons assigned with the key functions described above, together with the executive management and Board members, have been nominated to the local supervisory authority (ASF). For some of those key positions, as per the local regulation in force, ASF authorization has been granted.

There are no outsourced key or critical functions.

As detailed in the policies and procedures set out above, requirements in terms of fit, proper and governance are met by the Board of Administrators, Executive Management, as well as for the 4 mandatory key functions and nominated other key functions.

The company has in place a process to validate the continuous assessment of fit and proper criteria for Board of Directors, executive management and key functions. This process was previously described and documented in the internal ***Policy regarding critical functions***. This Policy has been abrogated and included within Fit & Proper Policy as such to be aligned with Rule 1/2019 issued by FSA.

All the critical functions document the compliance with the fit, proper and governance criteria as set out in the related policy.

B.3. Risk management system including the own risk and solvency assessment

Undertaking of risks is part of the core business of the Company. In order to be able to fulfill its tasks reliably, the management follows a prudential approach and value-oriented management principles. The framework for the risks undertaken by the company is defined in the *Risk Strategy*.

Info Risk

Risk management covers all measures for the systematic identification, analysis, assessment, monitoring and control of risks.

Risk management is the responsibility of the Board of Directors in terms of its management and effectiveness. Risk identification, analysis, control and monitoring are primarily carried out in the operational areas of the Company. In doing so, care is taken to avoid conflicts of interest

Risk management is a continuously developing process which runs through the strategy formulation and implementation. The Company intends for the risk management activities to address methodically all risks surrounding the past, present and, in particular, future activities.

The scope of the risk policies developed by the Company is to establish a framework for maximising the Company's ability to achieve its business objectives by creating a comprehensive approach regarding anticipation, identification, prioritization and management of the material risks. Individual risk policies are part of the overall risk management framework, covering the processes of identification, measurement, monitoring, controlling and reporting of risks, either in whole or on a categorical basis, and their interdependencies.

Board of Directors is responsible for ensuring that the Company's implemented risk management framework is suitable, effective and proportionate to the nature, scale and complexity of the risks inherent for the conducted business. Executive Management is responsible for day- to - day management of risks and proper execution of risk management framework.

Particularly, the risk management framework is comprised of a set of systems, processes and employees, who identify, evaluate measure and monitor all internal, as well as, all external, sources of risks that may affect Company's functions or processes.

The minimum requirements for a risk management system that effectively covers all material risks are:

- Clearly defined and documented risk management strategy, risk management objectives, key risk management principles, general risk appetite and assignment of risk management responsibilities across different operations;
- Written policies that implement risk management strategy and facilitate control mechanisms, which must include a definition and classification of the relevant material risks, by type and the levels of acceptable risk limits for each risk type. These policies reflect the nature, scope and horizon of the business functions associated with them;
- Appropriate processes and procedures which enable the Company to identify, assess, manage, monitor and report the risks to which it is or might be exposed.

Through implementing the above requirements, the Company is able to manage risks deriving from its activities and properly allocate its capital.

The key objectives of risk management are to ensure that:

- Policyholders are provided with a reliable service from a solvent and reputable institution and their requirements are timely met;
- Supervisory authorities gain confidence in our ability to control risks arising from our activities;
- All material risks are identified, assessed and managed, in a proper way that protects our net worth in order to increase value for all stakeholders;
- The capital is adequate, in terms of current risks inherent to business activities and in relation to the existing business environment; and
- Risk-bearing capacity is allocated into different business areas according to the established approved strategy.

As a general principle, the Company's perceives solvency capital requirement (hereinafter, "SCR") as the basic parameter for its risk appetite definition. SCR is used within the established risk framework in a variety of ways, such as an indicator for solvency, risk aggregation, limits establishment and capital allocation.

Implementation of risk management at the operational level embraces the identification, assessment, measurement, monitoring and reporting of risks. The framework comprises a series of steps, set out in the diagram below, covering all significant risks, being not a strictly sequential process, but a control cycle that involves feedback and feed-forward loops.

a) Risk identification

Business planning is a prerequisite input for the initial step of risk identification, which in turn is embedded in the Own Risk and Solvency Assessment (hereinafter, "ORSA") processes. The established strategic objectives, the risk appetite statements and the determination of risk limits are valuable information at this stage of the risk management framework.

Risk identification is the process of identifying and documenting all material exposures arising from Company's activities. The identification is performed through the following indicative activities:

- Monitoring of all counterparties' credit standing;
- Examining the risks inherent in the approval process of new products;
- Examining regulation requirements, affecting business;
- Analysing strategic decisions taken by senior management; and
- Monitoring the brand and customer perception.

Internal and external factors are taken into consideration, in order to identify all possible sources of risk that can threaten stakeholders' value and impact the risk position. Internal factors may include changes in infrastructure, process and technology, whereas external factors may refer to changes in economic/market developments, demographic and regulatory requirements. The process is performed for both existing and emerging risks, which are annually re-assessed by the Risk Management Function.

b) Risk assessment

Once risks are identified, an assessment is performed for understanding how the identified risks can affect the achievement of business objectives. For each identified type of risk, different assessment methods are used, in line with materiality and proportionality principle.

Qualitative assessment is one of the assessment methods used. A qualitative assessment method is used when there are not available historical data to conduct meaningful statistical analysis. Often this assessment method is applied to analyse operational, reputational and business risks. In the qualitative assessment, the severity and impact of adverse events are estimated, based on prior experience or expert judgment.

Quantitative assessment is another assessment method used. A quantitative assessment method is used when sufficient historical data is available for statistical analysis and risk capital calculations, such as market and credit risks. The quantitative techniques applied include Pillar I calculations under the standard formula. Risk mitigation techniques are taken into account.

Additionally, stress testing and scenario analysis are used as measurement techniques to estimate whether the solvency capital requirements are met. Also stress testing and scenario analysis are used to quantify risks exposures not covered under Pillar I.

The identified risks are reviewed at least once a year to ensure there are taken into account changes in existing as well as emerging risks. For example, when launching new products, Company may be confronted with risks that previously were insignificant and which must now be considered across other risks.

The full assessment of Company's risk profile is performed as part of the ORSA process.

Stress testing

Stress testing is conducted at least on an annual basis, in order to assess Company's vulnerability to possible future events which might have an adverse effect in the performance, liquidity and solvency position. Scenario and sensitivity analysis are used as part of the stress testing process. The assumptions used and the stress test results are documented as part of the ORSA process.

The scope and frequency of implemented stress testing scenarios are relative to the nature, scale and complexity of Company's operations as outlined in the *Stress Testing Policy*. The stress testing also takes into account the effects of external environments. The objectives of the stress tests are to measure the impact of different scenarios on risk exposures and to test the impact of proposed management actions and identify any consequences.

The Risk Management Function, together with Actuarial Function and Group Risk Management, identifies the key risk factors to perform the tests. Changes in existing and future business plans, as well as to external factors such as economic conditions, are taken into account when drafting the scenarios. The ORSA process documents provide a sample of indicative risk factors to consider in stress tests per risk type.

The tests are reviewed to apply testing methodology on an annual basis. The output of the stress tests is used to design action plans and define mitigation actions to be implemented if a stress were to materialise. In addition, the results are included in the decision making process and review possible enhancements of the risk appetite statements in the light of the stress test results.

c) Risk response and control

After quantifying and determining the materiality for risk, these are used to implement an effective control process, which involve the design and implementation of controls and decisions on management actions in response to the identified risk events. The management actions considered to control risk include risk avoidance, risk mitigation, risk transfer and risk acceptance. These management actions may comprise hedging strategies, shifting targeted asset allocation, implementing/re-evaluating reinsurance programs and launching of new products.

Each of these techniques have different impacts on the risk structure and need to be analysed by the responsible department, risk owner, Risk Management Committee. The results of the analysis form the fundamental basis for the management actions.

d) Risk monitoring and reporting

Risk monitoring refers to the process of ensuring that the risk profile remains in line with the risk appetite at all times. Limits are developed to control and monitor the risk positions. The monitoring process ensures that the risk management strategy is appropriately implemented by the business and includes the monitoring of deviations from the approved risk limits and methods and procedures used for risk management.

Risk monitoring also involves the recommendation by the Risk Management Function of proper actions to the relevant risk owner, the decision for action or escalations and the monitoring of these implementations, which aim to bring the risks into line with Company's targets and risk appetite.

Risk monitoring and reporting is performed considering the specifications made within risk policies. The Company has designed a policy for every risk category which stipulates the methodology to be applied when assessing that specific risk.

Risk reports are and can be used as the basis for decisions and review. Risk Management Function performs the risk reporting to executive management, Risk Management Committee and SII Steering Committee. Reporting to Risk Management Committee takes place on a quarterly basis and to SII Steering Committee takes place on a semi-annually basis.

SII Steering Committee monitors variances given by quantitative aspects / risks as computed in the Standard Formula (non-life underwriting risks, credit risks, market risks, operational risks).

Risk reports are presented quarterly within the Risk Management Committee, risk reports related to each risk category as per the taxonomy adopted, showing progress and/or variances of every risk categories. Where relevant and not modelled as per the Standard Formula, Risk Management Function has implemented own quantitative risk analysis (i.e. reputational risk, liquidity risk) and monitoring considers also qualitative aspects.

Risk reports have been brought to the attention of the Board of Directors on a semi-annually basis as to comply with legal regulation in force (Rule 2/2016 as amended by Rule 9/2019 regarding corporate governance principles).

The scope of risk reporting includes both regular and ad-hoc reports. While the regular reports are defined in advance, ad-hoc reports are provided in cases of unexpected risk events (i.e. ORSA).

e) Risk information and communication

Risk information cascades to all relevant departments, ensuring that the appropriate departments are properly informed about Company's current risk profile.

The information and communication process is both a critical starting and ending point of implemented risk framework cycle.

f) Risk Methodology

Both quantitative and qualitative approaches are used to evaluate and measure Company's risk exposures. To better understand these risks, the below risk categorization is used:

- Quantifiable risks: risks included in the SCR calculations i.e. non-life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.
- Non-quantifiably risks: risks that can only be subject to qualitative assessment such as reputational or strategic risk.
- Assessable risks: risks that can be measured under scenario analysis or simple stresses in order to avoid an enhanced risk capital methodology such as an SCR calculation. An example of such risk type is liquidity risk.

For measuring quantifiable risks, the risk capital methodology is applied, which is the basic component in the risk-bearing capacity calculation. The level of risk capital is determined by SCR requirements calculated on the basis of the standard formula. For non-quantifiably risks, qualitative risk appetite statements are developed. For assessable risks, both qualitative and quantitative measures are developed.

With regards to operational risk management and assessment, risk and control self-assessment exercises are performed at least annually. Further actions for this type of risk contain proposals for documentation of specific processes/procedures in order to assure protection against operational risks.

The Risk Management Function has a delegated responsibility in the development of the Own Risk and Solvency Assessment ("**ORSA**") process, taking into consideration the relationship between the overall SCR calculations under the forward looking perspective and risk tolerance levels.

The Risk Management Function is handled by the Risk Manager of the Company.

The overall responsibilities of the Risk Management Function include, but is not limited to:

- The oversight of the smooth-running of and adherence to the Company's Enterprise Risk Management framework (ERM)
- To be the focal point for risk events reporting and for new and emerging risks, such that these can be assessed and material issues reported to the Board of Directors and to dedicated Committees (SII Steering Committee and Risk Management Committee)
- To assist the first line of defense
- To ensure that the annual 'Own Risk and Solvency Assessment' (ORSA) is prepared and submitted. The ORSA Report engages with the process and recommends outputs to the Board for strategic consideration.

The Risk Management Function has the right to order the application of risk-related methods. Furthermore, Risk Management function is able to make recommendations regarding risk handling.

The risk management system is placed under the responsibility of the Chairman of the Board of Directors and is, therefore, directly attributed to the Board of Directors. In particular, the Solvency II calculations, and the quarterly reporting to the Group Risk Management is actively involved in the organizational structure and the decision-making processes at Gothaer.

Part of the risk management system is the Risk Management Committee and Solvency II Steering Committee. The tasks of those committees, which are set up centrally in the organisation of the Company, include, among other things, risk monitoring using a key figure-based early warning system and the further development of Company's methods and processes for risk assessment and control. The principles, methods, processes and responsibilities of risk management are documented in the risk management policies.

The risk management process focuses on underwriting risks, credit risk, market risks, liquidity risks, strategic and operational risks, as well as reputational and concentration risks, along with compliance risks and contagion risks.

Risk Register

In order to obtain a comprehensive overview of all risks existing in the Company, an annual risk self-assessment is carried out. All departments are invited to report to the risks arising after their expert judgement appraisal and Risk Management Function is coordinating the process, consolidates the information received from departments and she is in charge of following-up the implementation of recommendations.

The risk management process has been extended by various methods and instruments within Solvency II. This ensures that the requirements of the three pillars according to Solvency II are fully covered.

Info The three pillars in Solvency II

The first pillar includes quarterly and annual solvency calculations. The second pillar includes the Own Risk and Solvency Assessment Process (ORSA) as well as the governance system as a whole, which includes both the risk-taking and the internal control system. Under the third pillar, reporting to the public as well as to supervisory authorities takes place.

Info System of the three lines of defense

The Company is responsible for initiating risk-taking measures as well as for risk monitoring. The Compliance Function, as well as the Internal Control, Risk Management Function and Actuarial Function, serve as a second defensive line a monitoring or coordinating function. A third line of defense is the Internal Audit Function. Regular risk reporting as well as ad - hoc reports create transparency over the risk situation and provide guidance for a targeted risk management.

In the so-called first line, the operating business is responsible for the initial acceptance or rejection of a risk. Together with the Internal Control, Risk Management Function and the Actuarial Function in the second line of defense, the Compliance Function monitors the organization and operability of the risk management of the operational areas. In the third line of defense, the Internal Audit Function regularly reviews the entire governance system, as well as all other activities within the Company.

Within the scope of the risk management system, the Company carries out its Own Risk and Solvency Assessment (ORSA) process annually for the Company's risk and solvency assessment.

Info ORSA

ORSA stands for Own Risk and Solvency Assessment and is the company's risk and solvency assessment. Solvency is understood to be an insurer's own resources. Its own resources are used to cover the risks involved.

ORSA is a very important tool for the management of the Company providing it with a comprehensive picture of the risks the undertaking is exposed to or could face in the future. ORSA enables the Board of Directors to understand these risks and how they translate into capital needs or alternatively require risk mitigation techniques.

The ORSA is a component of the risk management system. The objective of the ORSA is to identify, analyze, control and report all risks that the Company faces on a short and long-term basis, as well as assessing the own funds that are required in order to cover these risks. The actual own fund needs can deviate from the solvency capital requirement according to the standard formula, because the standard formula does not reflect the individual risk situation of a company in all cases.

Link between ORSA and business strategy

As a component of the planning process, the ORSA results are incorporated in the capital planning. Due to this future-orientated perspective, the company can analyze the effects of business plans and business decisions, as well as external factors (such as the capital market development) on the risk situation. It is essential to determine whether Gothaer also possesses sufficient own funds in the event of unfavorable developments. The focus here is not only on the quantity, but also on the quality of own funds. As such, the ORSA report is an important source of information for the Board and the Management, as well as for the regulatory authority.

The ORSA process is embedded in the Company's planning process.

ORSA process as a cyclic process embedded in the planning, governance and risk management processes.

In this respect, the results of the ORSA are taken into consideration during the strategic planning process and the management of the company could decide to implement measures on the basis of such results:

- review the Risk Strategy
- review the Risk Appetite and tolerance limits
- mitigate risks
- limit exposure to certain assets categories
- change the capital/liquidity planning
- establish emergency plans

Performing regular ORSA

The points below show, at a high level, the steps taken in performing, reviewing and documenting the ORSA:

- Planning and preparation regular ORSA (annual action plan)
- Update/determination of material risks based on qualitative risk assessment
- Review of risk appetite statements as input for business plan process
- Update / determination of scenario and stress tests based on material risks
- Update description scenario and stress tests
- Approval material risks and scenario and stress tests by Risk Management Committee, SII Steering Committee and the Board of Directors
- Drafting ORSA report
- Final consultation of ORSA report by SII Steering Committee
- Approval ORSA report by the Board of Directors
- Distribute ORSA report to all stakeholders involved

The reporting date is the end of the year. The ORSA process is initiated annually by the Board of Directors. The aim is to determine the total solvency requirement as of the balance sheet date, following the final calculations of the standard formula. The starting point is the annual calculations, as well as the risk increases updated at the beginning of the year.

The most up-to-date planning is the future-oriented perspective. This comes from the medium-term operational planning of the Company approved by the Board of Directors. The stresses and scenarios relevant to ORSA are agreed with the Board of Directors.

The results of the ORSA process are discussed and approved within Board meetings. Subsequently, the ORSA report is finalized and approved by the Board as a result of the ORSA process. ORSA report data is based on the planning conference data.

The ORSA report thus forms an important part of the planning and decision-making process.

Once the ORSA report has been adopted, it will be sent to the supervisory authority within maximum 2 weeks since its approval by the Company's Board of Directors.

The starting point for determining the overall solvency requirement is the risk identification and classifications. The standard formula is used as the basis for assessing the overall solvency requirement.

Monitoring events and triggers (non-regular ORSA)

The Company presents a complete assessment of the risks in the regular ORSA, however, the outcomes presented in the ORSA report is a "snapshot" in time. The Company will evaluate the need for a partial or entire ORSA update in case of significant changes have and/or will take place in the risk profile within one year period (before the regular ORSA will be conducted).

As part of day-to-day risk management practices, executive management and Risk Management Committee will monitor for events or triggers based on the risk appetite and tolerance limits. The decision to perform a full or partial update is taken by the Risk Management Committee. The approval of the reporting of the non-regular ORSA follows the same process as the regular ORSA. The non-regular ORSA outcomes will be included in the next ORSA report which will be submitted to the local regulator.

The following ORSA triggers which could drive to significant changes within the risk profile will be considered:

- sale/purchase of significant insurance portfolio;
- significant changes to the asset allocation;
- growth significantly below or in excess of planning across the entire portfolio;
- significant change to the reinsurance program;
- significant change to the investment strategy;
- significant change of the market conditions or other external factors that impact the activity of the company.

Info Overall solvency requirement (OSN – overall solvency needs)

The OSN is a modification of the standard formula. While the standard formula is a holistic approach to the assessment of risks, the company-specific risk profile at OSN is included in the valuation. For this purpose, the standard formula is adjusted individually for the Company.

An exchange between the risk management system and capital management takes place within the framework of Strategic Asset Allocation (SAA), with particular attention being paid to the risk profile.

Considering all the above, the Standard Formula accurately reflects the risk profile of the Company.

B.4. Internal Control System

B.4.1. Internal Control System Overview

Internal Control System consists of all policies, procedures, decisions and competency limits designed to ensure that management decisions are implemented and actions are taken to achieve the objectives.

The Compliance Function is an important part of an effective internal control system and the three lines of defense model. In this regard, the Company is committed to having in place an effective compliance risk management program and is guided by its core values, appropriate rules, structures, processes, training, documentation and controls to help prevent, detect and remediate compliance breaches and deficiencies.

The aim of the Compliance Function along with the responsible of the Internal Control and Antifraud structure is to provide Executive Management reasonable assurance that effective processes are in place to ensure adherence to applicable laws and regulations (regulatory and internal). It also ensures that any compliance issues uncovered by the program are appropriately addressed and that ownership of the compliance risks and mitigating actions are assigned to business process owners.

B.4.2. Operation of Compliance Function

The Compliance Function is part of the Company's overall corporate governance structure. Compliance Function is responsible for the monitoring, managing, and reporting of the compliance risks to which the Company is exposed. Compliance assessment reports are addressed to the heads of impacted departments and to the Executive Management and they are assessing the effectiveness and adequacy of compliance within the Company and service providers, if necessary.

Compliance function holder is able to make recommendations regarding necessary action plans needed to mitigate the risks. The responsibilities of the Compliance function holder include:

- To report on significant instances of non-compliance to the Company's management;
- To monitor compliance within the Company and its service providers, making recommendations where change is required;
- To monitor regulatory change and to inform responsible persons within the Company where such changes have implications for the Company's processes.

The Compliance function holder has full access, in accordance with local laws and regulations, to all information, systems and documentation related to activities within the compliance scope and it may attend relevant Board of Directors and Committees meetings to raise compliance risk related matters, whenever appropriate. Information and documents accessed are handled in a prudent and confidential manner.

Compliance function holder ensures that the business is aware of regulatory developments likely to have an impact on the business and support the business response to regulatory change. The activities of the Compliance function are subject to periodic review by Internal Audit.

The Compliance function holder prepares an annual report on the activities carried out by the Compliance function, report which is addressed to the Board of Directors, to the Executive Management and to the Chief Compliance Officer of the Group.

Starting with December 2019, Compliance function holder was appointed also as a Data Protection Officer, being responsible for overviewing compliance of personal data processing.

AML/ FT Compliance Function

The function is established on the basis of FSA Regulation No. 13/2019 and on the Law No. 129/2019 on preventing and combating money laundering and terrorist financing.

The AML / FT Compliance Officer as the designated person has the following responsibilities:

- ensures the coordination and implementation of internal policies and procedures for applying the legal provisions regarding the prevention of SB / FT;
- is responsible for fulfilling the tasks established in the application of Law no. 129/2019 for the prevention and combating of money laundering and terrorist financing, as well as for the application of the normative acts of the FSA and the AML Office, insofar as the company has provided the internal operational and procedural framework necessary to fulfill the legal obligations of AML / AFT, including regarding ensuring direct, permanent access, in a complete and unaltered form, to the information and documents needed in this context.
- is responsible for the implementation and periodic updating of the control procedures for testing the system of applying the legislation regarding the prevention and combating of money laundering and the financing of terrorist acts;
- prepares reports to the National Office for Money Laundering and Prevention (AML Office);
- in case of deviations, it sends information to the Executive Management regarding the non-observance of the procedure in order to establish sanctions;
- train the Gothaer staff on the internal procedure provisions;
- draws up and keeps records of the trainings carried out with the subordinate personnel;
- centralizes reports on suspicious transactions from company employees and reports them to executive management and authorities in accordance with the laws and regulations in force.

The compliance AML/ FT appointed as an officer in the fight against money laundering and terrorist financing has the right to address directly, in his own name, the FSA and / or to the AML Office to report violations of any kind in connection with the legislation on preventing and combating money laundering and financing of terrorism.

Communication channels through which AML / FT designated persons, AML / FT compliance officers and employees report violations of AML / AFT profile legislation are established by the FSA and notified in this regard.

B.5. Internal Audit Function

The Internal Audit Function undertakes an independent and objective activity, being a key function in accordance with Solvency II within the Company, with access to all information, documents and structures of the Company. The Internal Audit Function evaluates the degree of effectiveness and efficiency of the internal control system, as well as of other elements of the governance system.

Internal Audit is an independent process of monitoring and measuring which cannot be cumulated with or influenced by other functions within the Company.

Being an independent process of monitoring and evaluation, the Internal Audit function shall not engage in tasks which are not compatible with the audit role or which may impair its independency.

Also, being subordinated to the Board of Directors, the Internal Audit Function is capable to report the results and any concerns and suggestions in relation with these directly to the Board of Directors through the Audit Committee, without any restrictions from any part, in regard with their scope and content.

The Board of Directors and Company's management does not exercise any influence or minimize the results of the Internal Audit activity, with the purpose to not exist any discrepancy between the Internal Audit observations and actions of the Board of Directors and Company's management, matter which may impair the independency and objectivity of the auditor.

B.6. Actuarial Function

The position of the Actuarial Function within the Company complies with the segregation principle between the operational and control functions. Actuarial Function of the Company is operationally independent. Actuarial Function has the responsibility for taking decisions necessary for the proper performance of their duties without interference from others. This is ensured by integrating the Actuarial Function into the organizational structure in a way that ensures there is no undue influence, control or constraint exercised on the functions with respect to the performance of its duties and responsibilities by other operational or key functions, senior management or the AMSB *(= administrative, management and supervisory body)*. Actuarial Function has administrative reporting to the Deputy CEO / CFO, but functionally it is independent from operational considerations, this function being assigned to the Chief Actuary.

Actuarial Function's tasks include, but are not limited to:

- Coordinating the calculation of the Company's technical provisions.
- Assessing the consistency of the internal and external data against the data quality standards.
- Continuous monitoring of the solvency position of the Company and coordination of Pillar 1.
- Support on the local Risk Management Function to the Company's ORSA process, including financial projections for mid-term planning and contribution to the stresses.

The Company implemented an Actuarial Function Policy based on the Group Actuarial Function Guideline and based on EIOPA requirements. Also, the Actuarial Function reports at least yearly to Board of Directors trough Actuarial Function Report findings on the following areas:

- Technical provision calculation and data quality;
- Underwriting policy;
- Reinsurance policy;
- Solvency position.

B.7. Outsourcing

The Company has partially outsourced some of its operational activities, but it does not have outsourced any key or critical function, as established in accordance with Company's corporate governance framework. For outsourced activities, the Company remains fully responsible and accountable for their management. To manage the risks related to outsourcing, the Company has drafted a policy to safeguard controlled outsourced operations. Solid risk management, governance and monitoring are essential to manage outsourced activities. A risk assessment is performed for critical and/or important outsourced activities. This assessment focuses on *e.g.* concentration risk, compliance risk and contingency planning. To define the respective rights and obligations, the Company drafts a written outsourcing contract with the service provider. Confidentiality, quality of service and continuity are key for the Company in carrying out its activities.

In addition, customer centricity and compliance with law and regulations are essential, regardless of who performs the activities. To safeguard the quality of outsourced activities, service providers are closely scrutinized prior to selection and compliance with agreed obligations is monitored during performance of outsourced activities.

Key factors which the Company follows to include in the written outsourcing agreements:

- Clear definitions of the duties and responsibilities of both parties;
- The duration of the outsourcing;
- Requirements that the service provider complies with all applicable laws, regulatory requirements and guidelines and cooperate with the undertaking's supervisory authority;
- An obligation that the service provider discloses any development which may have a material impact on its ability to carry out the outsourced functions and activities;
- Termination periods sufficient to prevent detriment to the continuity and quality of service;
- A right for the insurer to be informed about the outsourced functions and activities and their performance by the service provider as well as a right to issue general guidelines and individual instructions;
- Effective access by the insurer, its external auditor and the Financial Supervisory Authority to all information on the outsourced functions and activities and permission to conduct on-site inspections;
- The ability for the Financial Supervisory Authority to address questions directly to the service provider to which they will reply;
- The terms and conditions of any sub-outsourcing the service provider may carry out.

List of critical or important operational activities that the Company has outsourced, within the reporting period 01.01.2019-31.12.2019, mentioning the jurisdiction in which the service providers carrying out the outsourced activities have their headquarters:

Name of the outsourced function or activity	Description of the outsourced activity	Service Provider Jurisdiction
IT Department	SAP System ERP	Romania
IT Department	DCSI -database and server maintenance services (DBA)	Romania
IT Department	Eurostrada – provider backup Data Center DRP	Romania
IT Department	GTS Telecom – GTS and Data Center provider	Romania
Claims Department	Finding and investigating damage files	Romania and Europe
Operational Sale Department	Insurance distribution activities, as agreed with each contractual partner	Romania
Mazars	Outsourcing components of the internal audit activities	Romania

B.8. Any other information

During 2019, the Company continued to enhance the risk management framework, to ensure continuous full compliance with Solvency II requirements, to safeguard financial stability and to ensure protection of its clients. The following documents have been revised to improve the system of governance in its entirety:

1. **Risk Appetite -** according to the updated plans, "*Risk Appetite will also be impacted by the changes, re-drafted and re-approved as such*".

Risk Appetite for the year 2019 has been adjusted and approved by BoD decision no 18/ 19.04.2019 as such to be aligned with the New Business Plan assumed by the Company. Risk appetite for 2019 has been prepared on regular 'going-concern' Company activity.

2. During 2019, there have been revised all the **SII policies** due to several reasons**:**

- policies needing adjustments as such to align with the New Business Plan developed by the Company in March 2019;

- policies revised following FSA recommendations as highlighted in the Control Report;
- regular annual revision.

All SII policies mentioned as needing adjustments to comply with the new context have been revised accordingly, as reported within the quarterly qualitative reports regarding the status of measures plan implementation approved for the Company, as follows:

- Solvency Management Policy;
- Capital Management Policy;
- Capital Adequacy Policy;
- ORSA Policy;
- Reinsurance Strategy.

All revisions have been approved by the Board of Directors.

3. **Risk Profile** – as detailed further on in the document at the section C.7.

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RISK PROFILE

Risk Profile sets the playing field for (acceptable) risk taking in regular business operations. This is to protect the interests of both policyholders and shareholders, as well, by ensuring that the Company is sufficiently capitalized considering the risks it is exposed to.

Gothaer sets risk profile and risk tolerance limits to be consistent with a low to medium risk, the Company being a prudent risk-taker. Risk tolerance limits (which are included within Risk Profile document) are set and approved each year by the Board of Directors, any change to them being made only with approval of Board members.

The risk profile includes:

- Definition of the risks faced by the Company;
- How the Company might be exposed to these risks;
- Risk monitoring techniques and mitigation strategies adopted;
- Tolerance limits set per risk;
- Qualitative assessment of the risk (high, medium, low);
- Risk sensitivity (stress tests and scenarios analysis).

The Company's risk profile can be affected on an ongoing basis from some factors external to the business operations such as changes in the macroeconomic, political and financial conditions, changes in the regulatory (enforcement of new laws) and supervisory framework and volatilities in global financial markets. The aforementioned factors can materially affect Company's operations, i.e. the nature and type of insurance products offered and therefore can result in variations in its risk profile.

The Underwriting, Market, Credit and Operational risks of the Company have been quantified by the Standard Formula and set out in section E.2 of this report. Also, solvency capital requirement generated by these risks is monitored on a quarterly basis. This facilitates an accurate process decision-making based on the most updated results. The other categories of risks presented in this chapter have not been quantified by the Standard Formula, but they are monitored by the Company qualitatively or, where possible, quantitatively, on a quarterly basis.

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Info Standard Formula

The Standard Formula is a general calculation form for solvency capital requirements according to Solvency II, which is specified by the supervisory authority. This is applied by many market participants within the scope of the calculations and represents a simple and conservative approach. The terms standard formula and standard model are often used synonym.

The standard formula provides information on stresses to each of the risk types. Stress tests are indicating how much additional capital the Company should be holding in case the specific scenario will happen. Additional scenario based stresses are carried out as part of the ORSA process. Based on these results, the Company is satisfied that the standard formula is appropriate.

C.1. Underwriting Risk

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Definition of the Risk: The Underwriting risk reflects the risk arising from the obligations related to insured events, the way in which the activity is being performed, the uncertainty in the results of the insurance activity in relation to the related obligations and estimated value of gross written premiums for the next 12 months.

The Company is exposed to underwriting risk through *general insurances* activity which it is performing, in short through the policies Company is selling. This risk includes that there will be more claims than expected or that they will last longer than expected, that fewer premiums will be paid than expected or that the company will incur more costs than expected in managing the business.

Underwriting risk includes the premium and reserve risk and also catastrophic risk.

Premium risk results from fluctuations in the timing, frequency and severity of insured events. Premium risk relates to policies to be written (including renewals).

Reserve risk indicates fluctuations in the timing and amount of claim settlements.

Catastrophic risk results from possible significant catastrophic events, whether natural (earthquake, flood) or man-made (eg. marine collision, recession) to which the Company is exposed through its portfolio.

Lapse risk results from possible deviations of rates of policy lapses and contract terminations.

The Company's underwriting risks are set out in section E.2 below.

Risk monitoring

The Company monitors the following:

- business portfolio diversification to reduce the impact of exposure to any one risk type;
- reinsurance is in place to mitigate some of these risks; principles of reinsurance are set within Reinsurance Policy and Reinsurance Strategy helps in implementing annual reinsurance programme;
- protects its exposures against catastrophic events, through reinsurance treaties purchased at limits above Standard Formula requirements and concluded with reinsurers with high credit rating (at least "A-");
- the Company performs tests to ensure that its reserving is prudent and sufficient;
- portfolio monitoring on a monthly basis;
- monthly monitoring on concentration limits per region;
- audit on underwriting activity including preventive measures, control of policies and portfolio monitoring. According to the results, measures are taken to reduce the risk exposure.

Geographical concentration risk arises with group schemes and reinsurance is in place to mitigate this risk.

The *Underwriting Risk Policy,* corroborated with the *Reserving Policy* developed at the Company level provides the grounds for setting a robust underwriting system and the supporting documents and methodologies, taking into account the Company's strategy and business objectives based on risks faced by the Company. Good underwriting practices reduce profits volatility and help to manage the associated financial risks within the business.

A significant concentration risk cannot be observed at the Company level. This is because, on the one hand, Gothaer is very well diversified due to its broad product range, and on the other hand, its reinsurance structure ensures that risk concentration is mitigated.

The aim of reinsurance inter alia is to protect the Company portfolio and exposures undertaken against extreme risks (i.e. catastrophe events).
The higher impact (in case of producing the risk) is given by the catastrophe risk which describes the risk of losses from catastrophe events. These may be insured natural hazards, e.g. storm events, earthquakes, but also man-made risks (e.g., tank collision).

This is the reason why a simulation has been performed on the Earthquake scenario.

Risk tolerance limits have been set in terms of:

- Maximum loss ratio for the entire portfolio;
- Maximum loss ratio for certain lines of business;

- Maximum claims frequency for certain lines of business;
- Catastrophe Risk;
- Maximum exposure set per client;
- Concentrations per region (sums insured) to ensure a proper dispersion of portfolio.

The Company aims to create insurance programs that meet individual and complex needs of clients.

Qualitative assessment: Underwriting risk, directly related to the core activity of the Company ranks among the **highest** versus the other risks analysed, in terms of exposure and capital requirement generated. The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

Stress tests and scenario analysis

To illustrate the dependency of the solvency on the main risk drivers, sensitivity calculations are carried out regularly. The scope of the stress test is to answer to the question: How does the Solvency situation (SCR) differ in case of one significant event occurring? For underwriting risk, the Company runs several stress tests, out of which the most important are:

- Earthquake stress test – considers the evaluation of the solvency situation of the Company in case of a severe earthquake event with magnitude higher than 7 on Richter scale, one month after the events date; solvency ratio after stress is 149% compared to 167% current solvency ratio.

- Reserving stress test - consist in stress of best estimate on the lines of business for which assumptions in best estimate are uncertain; solvency ratio after stress test is 183% compared to 167% current solvency ratio.

The results of the stress tests indicate that, in case the presumed scenarios will occur, the Company still holds an adequate solvency capital requirement and minimum regulatory capital is still met.

C.2. Market Risk

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Definition of Risk: The Company can be exposed to market risk through the negative effects of the financial markets volatility in the market assets value: price fluctuations for stocks, bonds and other financial instruments, interest rate, real estate market.

The Company might be exposed to one or several risks, as follows:

- **Interest rate risks:** The Company can be exposed to interest rate risks, due to the fact that its investment portfolio and in particular fixed income assets are subject to fluctuations in interest rates. Fluctuations in interest rates can reduce the value of fixed income investments. The Company monitors its exposure to interest rate risk through the setting of scenarios and performing stress testing analysis.
- **Currency risk:** The Company can be exposed to currency risks since it is carrying out transactions in foreign currencies. Sensitivity of the currency risk is analyzed by applying both an appreciation/depreciation of the local currency (LEI) against other currencies (especially for EUR and USD as being the main foreign currencies in the portfolio).
- **Equity risk:** The Company's investment portfolio can be exposed to fluctuations in market prices due to its strategic participation held in PAID (Pool of Natural Disasters) equity. Gothaer is entitled to underwrite, on behalf of PAID, mandatory household policies. Investment in PAID is treated under Solvency II

Standard Formula within Market risk category – Equity risk sub-component. PAID equities are unquoted, therefore not traded on the capital market. Participation held in PAID equity is not directly sensitive to the risk generated by the price volatility as there is no trading market and there are no historical transactions for this type of equities, but it is computed considering the information from the investment market taking into account the fact there are unquoted over the counter transactions. The Company does not hold investments traded on capital market, as such there is no exposure linked to the volatility of this segment.

- **Spread risk:** The Company can be exposed to spread risk through changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. This risk applies only to government bonds denominated in foreign currency and to deposits with maturity over 3 months.
- **Concentration risk:** The Company analyses concentration risk through exposure of the assets considered in the equity and spread risks as mentioned above. There is no exposure on the property risk given the fact that the Company does not hold investment in properties for its own use, either investments in real estate.

Risk monitoring:

The Company reduces to minimum market risk by investing most of its assets in bonds, treasury bills and money market instruments. Most of its investment portfolio is highly liquid.

Company's strategy to manage market risks includes:

- at all times, a sufficient liquidity buffer will be maintained;
- in order to reduce the market risk concentration risk, dispersion on banks with good rating is considered;
- a proportion of assets are invested in fixed income securities issued by the Romanian state due to low investment risk;
- the portfolio structure of invested assets by the Company on the local market is conservative (bank deposits and fixed income government securities);
- for the currency risk, an analysis is considered between assets and liabilities in foreign currencies.

The principles to ensure the efficient management of the market risk exposure within Gothaer are set within the *Market Risk Policy* developed at the Company level.

Risk tolerance limit: In order to manage and measure market risks, the Company uses risk limits (i.e. internal limits). Investments are allocated in asset classes according to the limits set within *Investment Policy*.

Qualitative assessment: Market risk is rated at a **medium** level. The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

Stress tests and scenario analysis

To illustrate the dependency of the solvency on the main risk drivers, sensitivity calculations are carried out regularly. In addition, stresses and scenarios for the investment portfolio are calculated and the impact on the risk profile is investigated.

The stress test answers the question: *How does the Solvency situation (SCR) differ in different market circumstances?*

This considers the solvency position of the Company in case of a decrease in market values together with decrease in interest rates.

The results of the stress tests indicate that, in case the presumed scenarios will happen, there is no material impact in the Company's solvency capital requirement or in the minimum capital requirement, both SCR and MCR being largely unchanged, as such the Company is sufficiently capitalized.

C.3. Credit Risk

Definition of risk: The credit risk, termed default risk under Solvency II, describes the risk of losses due to unexpected defaults or deterioration in the creditworthiness of counterparties and borrowers over the next 12 months.

The Company can be continuously exposed to credit risk through the collection of insurance premium as well as through investments in securities. In detail, credit risk is related to debt securities, reinsurance assets, premium receivables and cash and cash equivalents.

For credit risk analysis, there are two categories of third parties taken into consideration (to which the Company is highly exposed):

- Counterparty Type 1 related to:

  a. Reinsurance partners – they are chosen based on their financial strength, in accordance to the rating assigned to them by reputable international rating agencies. The Company accepts to transfer part of the risk to those reinsurers with ratings above "A-" for mandatory reinsurance.
  b. Banks – reflects the concentration of liquidity in the bank accounts opened with each counterparty.

- Counterparty Type 2 related to:
  Insurance receivables from insurance policy customers and contract owners, as well as from other subjects involved in the premium collection flow.

Risk monitoring:

The Company monitors credit risk by:

- Client payment behavior analysis, monitored through receivables reports:
- Monitoring the reinsurer ratings provided by reputable credit rating agencies;
- Reducing catastrophic risk exposure, the Company has concluded reinsurance programs with reputable reinsurers;
- Concluding reinsurance treaties with reinsurers rated at least 'A-' according to Standard & Poor's international rating agency;
- Dispersion on reinsurers portfolio so dependency on one reinsurer is avoided;
- The counterparties the Company is highly exposed to with significant amounts should also have the highest ratings, according to Reinsurance Strategy of the Company.

The principles to ensure the efficient management of the credit risk exposure within Gothaer are set within the *Credit Risk Policy* developed at the Company level.

Risk tolerance limit:

Reinsurance credit risk – risk tolerance limits that the Company has proposed:

- Minimum credit rating accepted for reinsurers is 'A-' (according to Standard & Poor's rating agency) in the case of mandatory reinsurance;
- Acceptable loss: maximum 5% of overall receivables related to reinsurance contracts (commissions and claims, including cedeed RBNS);
- Non-rated partners are allowed if Solvency II ratio is at a minimum 200% (applicable only for facultative reinsurance).

Business credit risk - risk tolerance limits that the Company has proposed:

- Gross technical reserves to be covered by assets according to the regulations settled by the Financial Supervisory Authority.

Qualitative assessment: Credit risk is rated at a **medium** level. The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

Stress tests are conducted on an annual basis in order to ensure that the Company is able, at all times, to ensure the coverage for the risks and to comply with the limits set.

Stress test has also been performed in the area of Business credit risk - which has been analyzed based on changes in receivables from clients, agents, brokers, reinsurers and other debtors. The impact of changes in receivables on the assets admitted to cover gross technical reserves is measured by a test of sensitivity which has as a stress factor a loss of 10% and 20% of the receivables from policyholders and intermediaries for direct insurance and reinsurance acceptances. Stress tests results show that, at all times, the coverage rate of gross technical reserves with assets admitted comply with the limits set by the local legislation.

C.4. Liquidity Risk

Definition of risk: The liquidity risk is the risk of not being able to procure the required cash or to obtain sufficient cash at an adequate cost. In particular, in times of low interest rates, it is sometimes necessary to invest in less liquid asset classes, as they often have higher returns.

Risk monitoring: The Company maintains a reasonable weight of high liquid assets (cash and cash equivalents) in its portfolio, while the remaining portfolio is invested in treasury bills and bonds, some of the most liquid instruments on the market. Adequate liquidity is necessary to ensure the sustainability of the commitments. The basis for the liquidity limit is the proportion of readily liquidible investments in the investment portfolio. Investments that can be sold within 30 days are considered to be easy to liquidate.

Liquidity risk is not quantified under standard formula.

The Company monitors:

- liquidity coefficient on a monthly basis (liquidity coefficient as of December 2019 was 2.15, while the minimum liquidity stipulated by local legislation is 1);
- liquidity ratio by calculation of sensitivity tests with the exchange rates appreciation/depreciation of the national currency (LEI) compared to other currencies, with certain percentages that are set out based on exchange rates trend for EURO and USD.

In order to manage the risk, risk management establishes, within the *Liquidity Risk Policy*, principles for maintaining sufficient liquid assets in the Company's portfolio.

Also, the Company has detailed a *Business Contingency Plan* to identify sources of additional funding during crisis in case of liquidity shortage.

Risk tolerance limit: Considering the results obtained in the previous analyzes for liquidity ratio, the risk tolerance limits that the Company has proposed for liquidity risk are:

- 1.2 warning limit;
- 1.05 intervention limit.

Qualitative assessment: The risk exposure to liquidity risk is considered as being **low.** The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

Stress tests and scenario analysis

Stress scenarios take into account the correlations between the risks that may affect Company's liquidity, including liquidity risk, credit risk, market risk, concentration risk.

Stress scenarios are identifying potential vulnerabilities of the Company in case of exchange rates volatilities. Limits (such as: warning limits, intervention limits – as set in the *Liquidity Risk Policy)* and triggers are settled to ensure that the Company operates within a specified tolerance and that the liquidity of the Company will not be affected.

Liquidity risk is analyzed through liquidity ratio and sensitivity tests with the stress factor appreciation/depreciation of the national currency (RON) compared to other currencies, with 15% in Scenario A, respectively 10% in Scenario B.
Sensitivity tests shows that the appreciation scenarios A and B determine a small increase of the liquidity coefficient to 2.17 / 2.18, respectively). This dynamic is determined by the volume of the obligations in foreign currency which changes upon modification of the foreign currency exchange. The depreciation scenarios also show small increases to 2.22 / 2.21 respectively, in scenario B.
In all scenarios the liquidity coefficient shows only small deviations and stays within the tolerance limits.

C.5. Operational Risk

Definition of risk: Operational risk is intended to measure the risk of losses due to inadequate internal processes, human errors or system failures/errors.

Any insurance company can be exposed to operational risks.

Risk monitoring: The analysis made regarding the impact of the operational risk is performed through both quantitative and qualitative methods.

This risk is assessed using the standard formula.

Since operational risks are difficult to measure, a fact-based approach is used, which depends on the earned premiums.

In addition to this standardized valuation, Gothaer carries out a company-specific assessment of the risks

In addition to this standardized valuation, Gothaer carries out a company-specific assessment of the risks.

Gothaer records and classifies its operational risks in the risk management. Risk Management Function evaluates operating risks by means of scenarios that are described in the risk inventory (own methodology of qualitatively assessing operational risks). This is to achieve a plausible assessment of the risks. The target value in risk-taking is the loss expectation value.

Events and situations to be reported are described in the Risk Register which was prepared based on *Operational Risk Policy*.

Operational risk assessments made using the risk assessment methodology revealed the following major operational risks typologies:

- The probability of a human error during the process execution. In order to mitigate this risk we apply certain controls with main focus on the 4 eyes principle, .xls tools and the review of the senior staff or the review of the established Committees formed in order to supervise a specific area (Audit, Risk Management, Complaints, etc) for most important issues.
- The probability of infrastructure and systems failures during the execution of a process or activity. This risk type is mitigated at all levels by implemented controls like reconciliation reports and cross checks either between the files or between the source and result files used in the daily processes.

- The probability of server attacks or system intrusion. This risk is mitigated by specialized controls like antivirus software and activity monitoring.

A possible risk concentration is given by the fact that a large proportion of staff works in the same location. Epidemics or a building fire could lead to a larger failure of staff. To minimize this risk, the Company has a so-called *Business Continuity Plan*. In this plan, various scenarios are analyzed and emergency plans developed. In this way, possible sequences can be reduced.

For the period analyzed there were no major events reported that could lead to operational risk and determine financial losses, except the Coronavirus pandemy which has been mentioned at the "*Subsequent significant event"* section within this report, being an event that occurs after closing of 2019 and only affecting 2020 and potentially the following years.

Risk tolerance limit in relationship to the frequency of the events materializing an operational risk are the following:

- maximum one event per department and per year;
- maximum one event per branch and per year;
- maximum 5 events per overall Company and per year.

Qualitative assessment: The risk exposure to operational risk is considered **medium.** The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

C.6. Other material risks

In addition to the risks considered so far, the Company also analyzes further potential risks. These include, in particular:

- Strategic Risk;
- Reputational Risk;
- Compliance Risk;
- Contagion Risk.

The basic risk classification adopted by the Company is in line with the risk taxonomy from the Solvency II methodology. Not all risks may be significant for the Company, but the categorization ensures a comprehensive overview.

Like the other categories of risks detailed above at chapters *C1 – C5*, these risks are recorded and constantly monitored by the risk management. Every category of risk has an associated policy which sets the ground for risk management (*Strategic Risk Policy, Reputational Risk Policy, Compliance Policy, Contagion Risk Policy* and *Concentration Risk Policy*).

Those risks are not assessed using the standard formula model, instead a qualitative assessment of individual risk positions is carried out, which is updated once a year and followed-up during the year. The valuation is based on the potential impact and the probability of risk to be produced.

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a) **Definition of Strategic risk:** is the risk of adverse impact on the current and prospective earnings or capital arising from improper business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Risk monitoring: The Company, in order to be protected from its exposures to strategic risks, follows the below series of actions / measures / principles:

a) adopts fit and proper requirements for the members of its Board of Directors, all persons that perform key functions and Executive Management;

b) set up Committees at the Company level to monitor key activities, such as: Audit Committee, Risk Management Committee, Complaints Committee, Underwriting Committee and all the committees needed aligned to the size and complexity of activity;

c) makes decisions for the day-to-day management of the business.

This risk arises from several sources such as changes in the regulatory framework, the general environment in which the Company operates, and the market and competitive conditions. The Company monitors these factors and adjusts accordingly its business strategy, if this is needed.

The Company is or may be exposed to strategic risks. When the Company sets its strategy, risk appetite and capital management, it assesses strategic risks in order to ensure that such risks are understood and accordingly identified, quantified, monitored and mitigated.

The principles to ensure the efficient management of strategic risk exposure within Gothaer are set within the *Strategic Risk Policy* developed at the Company level.

Qualitative assessment: The risk exposure to strategic risk is considered **medium**. The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

Risk assessment has led to the **medium** rated score due to the considerations related to the performance of the Company in Financial Year 2018 which was significantly below plan. Shareholders requested and delegated the Board of Directors to develop and approve a New Business Plan to implement changing in business strategy. The New Business Plan details the measures targeted at bringing Gothaer onto the track of profitability in the mid-term.

Thus, a detailed analysis has been performed per line of business in Q1 2019, the outcome being the reshaping of the portfolio, changing direction of the following lines:

- Cessation / limitation of particularly volatile Lines of Business (cessation of Agro, re-orientation of Bonds);
- Stricter rules applicable to multiannual contracts;
- Increased focus on technical profitability, particularly for Casco business; this also brings about a reduction of premium volumes for Casco;
- Conscious growth in all other Lines of Business.

b) Definition of Reputational Risk: can arise from anything that can harm the Company's reputation if it becomes public knowledge. The Company views reputational risk as a consequential risk (for example from a realised operational or compliance risk) of the overall conduct of its operations, rather than a separated, isolated risk.

Reputational Risks refers to:

- Communication of erroneous Company information
- Insufficient complaint management
- Brand risk: positioning on the market / image.

Risk monitoring: In order to minimize these risks, control measures were defined within the framework of the risk management:

a) centralization of company communications

b) release processes by specialist departments

c) ongoing evaluation of all critical issues

d) central coordination of the processing of escalation problems

e) regular compilation and evaluation of the escalation complaints across all areas of the company in a Complaints Committee where the complaints received from clients are being monitored and analyzed

f) advertising

g) campaigns, e.g. with product focus points

h) quality standards for products

The principles to ensure the efficient management of reputational risk exposure within Gothaer are set within the *Reputational Risk Policy* developed at the Company level.

Qualitative assessment: The risk exposure to reputational risk is considered **medium.** The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

c) **Definition of Compliance Risk:** is the potential loss in earnings and capital, arising from regulatory sanctions, material legal or administrative penalties, or damage to reputation resulting from the failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct.

Risk monitoring: The Company manages compliance risk by:

- identifying the compliance obligations arising from relevant laws and regulations as well as internal rules and code of conduct;
- developing and implementing appropriate policies and control procedures, including staff training and education;
- escalating any breaches of compliance obligations to the Compliance function, appropriate management bodies and/or Board Committees.

The principles to ensure the efficient management of compliance risk exposure within Gothaer are set within the *Compliance Policy* developed at the Company level.

Qualitative assessment: The risk exposure to compliance risk is considered **low.** The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

d) **Definition of Contagion risk:** it can affect the activity and the results of the Company due to spreading effect of the difficulties encountered by other entities from the same financial group.

Risk monitoring: Contagion risk is analysed by assessing the psychological and intragroup exposures.

For the psychological risk it was qualitatively assessed the image of Gothaer Group on the insurance market, as one of the major insurance groups in Germany and one of the largest mutual companies, having an 'A-/Positive' rating given by Standard & Poor's Ratings.

For the psychological risk it was qualitatively assessed the image of Gothaer Group on the insurance market, as one of the major insurance groups in Germany and one of the largest mutual companies, having an 'A-/Positive' rating given by Standard & Poor's Rating.

The principles to ensure the efficient management of contagion risk exposure within Gothaer are set within the *Contagion Risk Policy* developed at the Company level.

Qualitative assessment: The risk exposure to contagion risk is considered **low.** The risk assessment outcome at the end of 2019 is similar with the outcome recorded at the end of 2018.

C.7. Any other information

Risk Profile related to 2019, as approved by the BoD in 2018, has been updated and re-approved during the year 2019 as a consequence of the Recovery Plan and the New Business Plan developed by the Company.
According to the Updated Recovery Plan, "*Based on future Shareholder decision, in respect of approval of the new Business Plan, the Risk Profile may be adjusted if the case. Deriving from such a change, "an **ORSA ad-hoc** may be submitted to the local regulator describing the capital calculations in the new context, as well as a **Regular Supervisory Report** may be submitted considering the change in the Risk Profile*."
Starting end of July 2019, the Company has notified the regulatory authority through qualitative quarterly reporting regarding the status of measures plan implementation approved for the Company, thus:

- Risk Profile for the year 2019 has been adjusted and approved by Board of Directors by decision no 18/19.04.2019 as such to be aligned with the New Business Plan assumed by the Company.
- Regular Supervisory Report has been also submitted electronically to ASF considering the change in the Risk Profile.
- ORSA ad-hoc has been included within regular annual ORSA report due to the fact that the two reports would have been overlapping in terms of deadlines.

Also, the Company is considering developing an ORSA ad-hoc report during 2020 due to the threats generated by the Coronavirus pandemy as detailed at the section "Significant subsequent events".

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D

VALUATION FOR SOLVENCY PURPOSES

The Company's assets and liabilities are valued under Solvency II at market values and, where this was not possible, the techniques and methods described in the Solvency II Directive have been used.

The basis for the valuation of assets and other liabilities according to Solvency II, is the Article 75 of EIOPA Directive 2009/138/CE which details general rules for valuation of balance sheet assets on an economic valuation principle.

The basic principle of economic valuation is to determine the amount at which an asset could be exchanged or a liability transferred or settled between knowledgeable willing parties in an arm's length transaction.

In the evaluation, the following evaluation hierarchy shall be complied with, in accordance with Article 10 of the Directive:

- "mark to market", i.e. market prices, which are quoted in active markets for the same asset or liability;
- "mark to model", the market price, taking into account all available market information. Reliable observable prices on active markets of similar assets and liabilities should be used, with adjustments if necessary;
- alternative assessment methods.

In principle, the valuation procedures are preferred, with as many observable market data as possible.

The valuation of assets and liabilities under SII is based on a going concern assumption, according to Delegated Act (UE) 2015/35 Article 7, applying individual valuation principle. On this basis, for solvency purposes the assessment is made on the individual balance sheet items instead of valuation of the transfer price of the whole entity.

Consistent with the economic valuation approach, the definition of assets and liabilities and the recognition criteria under IFRS are, unless stated otherwise, applied to the Solvency II balance sheet also.

The adoption of IFRS as a reference framework to determine economic valuation does not in any way interfere with the accounting principles, standards and procedures that Gothaer is allowed to use when preparing the general purpose financial statements (local GAAP). In order to build the Solvency II balance sheet, Gothaer uses IFRS as a reference point and determines if the accounting figures based on local GAAP provide for an economic valuation. If not, we have to adjust the accounting figures, unless under exceptional situations the balance sheet item is not significant to reflect the financial position or performance, or the quantitative difference between the use of accounting and Solvency II valuation rules is not material. The proportionality principle will be taken into account in such cases.

D.1. Assets

The accounting and valuation methods are based on the applicable provisions of the Financial Supervisory Authority (ASF) and the Delegated Regulation (EU) 2015/35.

The assets structure as at 31.12.2019 and 31.12.2018 is presented below:

Assets		**Solvency II value -** *thousands, LEI-*	**Statutory accounts value -** *thousands, LEI-*	**Solvency II value -** *thousands, LEI-*	**Statutory accounts value-** *thousands, LEI-*
		2019	**2019**	**2018**	**2018**
Goodwill	D.1.1				
Deferred acquisition costs	D.1.2		16,296		23,341
Intangible assets	D.1.3		2,627		2,989
Deferred tax assets	D.1.4				

Pension benefit surplus	D.1.5				
Property, plant & equipment held for own use	D.1.6	1,005	1,005	1,425	1,425
Investments (other than assets held for index-linked and unit-linked contracts)	D.1.7	86,596	65,114	77,325	74,055
Property (other than for own use)					
Holdings in related undertakings, including participations	D.1.7.1	23,149	2,901	20,438	2,901
Equities					
Equities – listed					
Equities – unlisted					
Bonds	D.1.7.2	47,422	46,188	54,881	54,277
Government Bonds		47,422	46,188	54,881	54,277
Corporate Bonds					
Structured notes					
Collateralised securities					
Collective Investments Undertakings					
Derivatives					
Deposits other than cash equivalents	D.1.7.3	16,025	16,025	2,006	2,006
Other investments	D.1.7.4				
Assets held for index-linked and unit-linked contracts					
Loans and mortgages	D.1.8				
Loans on policies					
Loans and mortgages to individuals					
Other loans and mortgages					
Reinsurance recoverables from:	D.1.9	18,235	43,377	31,586	66,415
Non-life and health similar to non-life		18,330	43,377	31,586	66,415
Non-life excluding health		(95)	43,377	31,706	66,415
Health similar to non-life				-120	
Life and health similar to life, excluding health and index-linked and unit-linked					
Health similar to life					
Life excluding health and index-linked and unit-linked					
Life index-linked and unit-linked					
Deposits to cedants	D.1.10				
Insurance and intermediaries receivables	D.1.11.1	2,653	23,628	3,758	40,235
Reinsurance receivables	D.1.11.2	50	50	1,171	1,171
Receivables (trade, not insurance)	D.1.11.3	33,788	33,788	21,257	21,257
Own shares (held directly)	D.1.12				
Amounts due in respect of own fund items or initial fund called up but not yet paid in					
Cash and cash equivalents	D.1.13	41,004	41,004	65,512	65,512
Any other assets, not elsewhere shown	D.1.14	1,768	2,705	2,604	2,604
Total assets		**185,097**	**229,593**	**204,637**	**284,133**

D.1.1. Goodwill

This position does not exist in the Gothaer balance sheet as at 31.12.2019.

D.1.2. Deferred acquisition costs

Acquisition costs are not capitalized under Solvency II. "Deferred acquisition costs" are part of the actuarial provisions. Deferred acquisition costs are therefore set to zero under Solvency II.

The deferred acquisition costs calculation for statutory purposes is performed in an actuarial manner, on a basis compatible with the one used for the calculation of the premiums reserve, as following:

- the commissions expenses were deferred by applying the current percentage of UPR to the base of commission expenses;
- the other acquisition expenses were deferred similarly, during the whole validity period of the policies in force in the expense month, by applying the UPR percentage for each policy over the acquisition expenses booked in that month.

D.1.3. Intangible assets

Intangible assets, such as licenses or patents, are granted under Solvency II pursuant to Article 12 of the Delegated Regulation 2015/35 is set to zero.

The IFRS on intangible assets is considered to be a good proxy if and only if the intangible assets can be recognized and measured at fair value. The intangibles must be separable and there shall be an evidence of exchange transactions for the same or similar assets, indicating it is saleable in the market place.

As the fair value measurement of the intangible assets is not possible, the intangible assets of the company are valued at nil for solvency purposes.

Under Statutory Regulation, intangible assets acquired are stated at acquisition cost less scheduled depreciation based on the expected useful life.

D.1.4. Deferred tax asset

The determination of deferred taxes under Solvency II is provided for in Article 15 of the Delegated Regulation (EU) 2015/35. The deferred taxes are calculated based on the differences between Solvency balances and the tax balances for individual assets and individual liabilities. The difference calculated is multiplied by the applicable tax rate (16%).

The temporary differences between the solvency balance and the tax balance are taken into account by the formation of active or passive deferred taxes.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- deductible temporary differences;
- the carry forward of unused tax losses; and
- the carry forward of unused tax credits.

The deferred tax assets are mainly attributable to lower values in the solvency balance than in the tax account for investments as well as higher values for provisions.

Deferred tax assets are only recognized if they are likely to be offset against future taxable profits. The value of deferred tax assets is reviewed at each balance sheet date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Valuation for solvency purposes:

For valuation purposes the Company adjusted the figures in the Solvency II balance sheet in order to assess the cash-flow projections of future taxation on temporary differences of assets and liabilities (temporary differences between the tax base of an asset or liability and its amount on the Solvency II balance sheet).

The recognition and measurement of deferred tax asset in the Solvency II balance sheet on unused tax losses and unused tax credits was based on requirements in IAS 12.

In particular, IAS 12 requires the Company to recognize a deferred tax asset for all deductible temporary differences, to the extent that it is probable that taxable profit will be available, so that the temporary difference can be used as a deductible.

Furthermore, IAS 12 requires the Company to recognize a deferred tax asset in respect of the carry forward of tax losses and unused tax credits, to the extent that future taxable profits may be available, so that tax losses and unused tax credits can be used.

In assessing the likelihood that future taxable profits will be available so tax losses and unused tax credits can be used, IAS 12 emphasizes that the existence of unused tax losses is a strong evidence that future taxable profits may not be available.

Therefore, when an entity has a history of recent losses, it is only able to recognize a deferred tax asset arising from unused tax losses or tax credits to the extent that the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

While a DTL (deferred tax liability) can be recognized on the balance sheet without any justification, the recognition of a DTA (deferred tax asset) is subject to a recoverability test, which aims to show that there is a sufficient level of availability profit margin to absorb the tax credit, because an DTA can only be recognized "to the extent that a future taxable profit is likely to be available so that the DTA can be used". Thus, it is necessary: If deferred taxes after adjustments, result in a DTA, a recoverability test will be required to verify that the entire taxable amount can be recognized. In order to test the recoverability, any legal or regulatory provisions on the deadlines for the carry forward of unused tax losses / credits must be taken into account"

In respect of the deferred tax asset, following the recoverability test performed, the company recorded in equal amount a deferred tax liability.

Consequently, as at 31.12.2019 the value of DTA is set to zero.

D.1.5. Pension benefit surplus

This position does not exist in Gothaer balance sheet as at 31.12.2019.

D.1.6. Property, plant & equipment held for own use

According to IAS 16 paragraph 6, property, plant and equipment include tangible items that are:

- held for use in the production or supply of goods or services; and
- expected to be used during more than one period.

The company doesn't hold items that should be accounted in accordance with IFRS 5 (property, plant and equipment held for sale).

Property, plant and equipment are recognized as assets if, and only if (IAS 16.6,7,37):

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

As a result, spare parts and servicing equipment are to be recognized immediately in profit or loss. Moreover, renovations, extension and other aspects should be included in the value of the asset when completed, i.e. when likely to produce additional economic benefits.

Valuation for solvency purposes:

In accordance with IAS 16.15, property, plant & equipment are initially measured at cost. For the subsequent measurement, the company has chosen the cost model: cost less any depreciation and impairment loss.

The decision to maintain the value at amortized cost was made following an analysis of the market value for these positions, from which it resulted that the differences between the net book value and the estimated market value are immaterial.

The Company owns no properties.

The revaluation model under the IFRS on Property, Plant and Equipment is therefore considered a reasonable approach for solvency purposes.

Property, plant and equipment are stated under Statutory at cost less scheduled depreciation based on the expected useful lives. Inventories are valued at acquisition cost.

The difference between the two reporting standards is related to the improvement works made for the premises. Because the premises improvements cannot be effectively valued at market price, for Solvency II scope this value was set to 0.

D.1.7. Investments (other than assets held for index-linked and unit-linked funds)

In this caption the Company records investments placed in treasury bills (bearer bonds), participations in companies and bank deposits.

Financial assets as defined in the relevant IAS/IFRS on Financial Instruments shall be measured at fair value for solvency purposes even when they are measured at cost in an IFRS balance sheet.

Consequently, the financial instruments of the Company that are not measured at fair value under accounting are re-measured at fair value solvency purposes.

According to IAS 39.14, the company recognizes the financial asset on the balance sheet when it becomes a party to the contractual provisions of the instrument.

D.1.7.1. Participations

The Company holds a 15% participation in PAID - The Pool of Insurance Against Natural Disasters.

This participation is a long-term strategic investment. For SII purposes, the valuation model used was the equity method; the market value of the PAID shares being computed based on the 2018 SII Own Funds reported by PAID, the last audited SII information available at valuation date was relied on.

D.1.7.2. Government Bonds

The total value of Government bonds for Solvency II represents the market price and the interest accrued at the reporting date.

Government bonds were valued at amortized cost in accordance with local accounting standards in force (Norm 41/2015), while under Solvency II, they are valued at market price.

The fair values calculated correspond to the economic value under Solvency II and can be adopted for the solvency balance sheet. For the government bonds held in the portfolio, a liquid market was observed and valuation was based on quoted prices (Level I).

D.1.7.3. Deposits

In respect of bank deposits, the Company classifies both for Solvency II reporting purposes and for statutory purposes the amount representing placed deposits with initial maturity below 3 months, under the caption "Cash and cash equivalents".

The fair value of the deposits corresponds to the value calculated in accordance with the Solvency II principles and can be taken into account in the economic balance sheet.

D.1.7.4. Other investments

There are no values to be reported in this caption.

As at 31.12.2019 and 31.12.2018 the Company doesn't hold any investment in:

- Property (other than for own use)
- Equities
- Bonds (other than Government Bonds)
- Collective Investments Undertakings
- Derivatives
- Assets held for index-linked and unit-linked contracts

D.1.8. Loans and mortgages

This caption does not exist in the Gothaer balance sheet as at 31.12.2019.

D.1.9. Reinsurance recoverables

The reinsurance recoverable evaluation, calculated as reinsurance weight in technical reserves, is made using the best estimate calculation to reflect a fair value in accordance with Solvency II. The differences between the statutory and Solvency II results from differences in the calculation methodologies used to determine the technical reserves.

D.1.10. Deposits to cedants

This caption does not exist in the Gothaer balance sheet as at 31.12.2019.

D.1.11. Receivables

Receivables are measured at their economic value including the adjustment for expected default of the counterparty.

Those receivables consist of the amounts owed / outstanding from policyholders, insurance intermediaries, other insurers and related to insurance business, not included in the cash flows used in the projection of technical provisions.

D.1.11.1 Insurance and intermediaries receivables

This item includes receivables on policyholders and receivables from insurance intermediaries.

The value of receivables from policyholders and intermediaries is restated in accordance with Solvency II to reflect the definition of the due premium, as opposed to the concept of annualized premium used in the NGAAP.

Generally, these short-term receivables are valued in the statutory balance sheet at nominal value less any specific or general adjustments.

For the Solvency II valuation, there are considered only due receivables (which have the due date before the reporting date), as future receivables are considered to be future cash flows which are taken into account in the calculation of technical provisions using the Best Estimate method.

The valuation for statutory balance sheet is based on the gross written premiums, which are annualized premiums without taking into account the frequency of payment. As a result, receivables from policyholders and intermediaries in the statutory balance sheet include also receivables that have not yet matured, which explains the differences between the economic balance sheet and the statutory balance sheet.

D.1.11.2 Reinsurance receivables

This item includes recoverable receivables from reinsurers. In accordance with statutory reporting standards, these are measured at nominal value.

The reinsurance receivables having a maturity of up to 12 months are recognized at face value. Irrespective of the payment period, the counterparty default risk is identified in accordance with an internal valuation procedure and is adequately taken into account in the SII valuation.

D.1.11.3 Receivables (trade, not insurance)

This item includes all the other receivables that are not derived from insurance business. Irrespective of the payment period, the counterparty default risk is identified in accordance with an internal valuation procedure, based on historic default rates, and is adequately taken into account in the valuation. These receivables are short-term and are measured at fair value in accordance with Solvency II and NGAAP.

In other receivables category are included mainly the amounts estimated to be recovered from the regresses debtors. The Company calculates the impairment for regresses receivables according to the internal methodology. Regresses receivables are presented net of impairment.

D.1.12. Own shares

This caption does not exist in the Gothaer balance sheet as at 31.12.2019.

D.1.13. Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances and deposits with initial maturity below three months. Bank accounts in foreign currencies are converted into national currency at the rate of the National Bank of Romania at the balance sheet date.

Cash and cash equivalents are valued at nominal amounts. There is no difference in valuating methods between solvency and statutory financial statements.

The company includes in the category "Cash and cash equivalents" for reporting purposes the amount of *thousands, LEI* 16,509 as of December 31st, 2019, representing deposits with initial maturity less than 3 months.

D.1.14. Any other assets

All other asset balance sheet entries are presented under this caption. Other assets include mainly prepaid expenses. Other assets are measured at their economic value.

D.2. Technical provisions

Solvency II requires undertakings to set up technical provisions which correspond to the current amount undertakings would have to pay if they were to transfer their (re)insurance obligations immediately to another undertaking. The Company's Solvency II technical provisions calculated as of 31.12.2019 are equal with the sum of a best estimate (claims best estimate plus premium best estimate) and a risk margin. The Company is not using any transitional measure on technical provisions.

The valuation of the best estimate for provisions for claims outstanding and for premium provisions was carried out separately. Calculation of best estimate was performed gross, without deduction of amounts recoverable from reinsurance contracts. Reinsurance recoverable were determined separately, based on the characteristics of each reinsurance treaty.

The Company calculates technical provisions using homogenous risk groups in order to derive assumptions, in such a manner that those are expected to be reasonably stable over time. Homogenous risk groups are used consistently over both best estimate and reinsurance recoverable. Balance sheet includes technical provisions calculated by homogenous risk groups as follows:

- Medical expense insurance
- Workers' compensation insurance
- Motor vehicle liability insurance
- Other motor insurance
- Marine, aviation and transport insurance
- Fire and other damage to property insurance
- General liability insurance
- Credit and suretyship insurance
- Legal expenses insurance
- Assistance
- Miscellaneous financial loss

Claims provision relates to cash-flow projections generated by claim events having occurred before 31.12.2019 – whether the claims arising from these events have been reported or not. Cash-flow projections comprise all future claim payments as well as claim administration expenses arising from these events and reflects the ultimate claims value for claims not settled or not reported, with accident date until 31.12.2019, including allocated and unallocated loss adjustment expenses. Comparison with previous period of gross and net claims provision is presented below:

- thousands, LEI

LoB Standard Formula	Claims Reserve gross 31.12.2019	Claims Reserve gross 31.12.2018	Change in gross Claims reserve
Medical expense insurance	-	6	(6)
Income protection insurance	-	-	-
Workers' compensation insurance	90	73	17
Motor vehicle liability insurance	2,327	2,071	256
Other motor insurance	17,713	16,711	1,001
Marine, aviation and transport insurance	2,207	1,991	216
Fire and other damage to property insurance	6,721	18,859	(12,138)
General liability insurance	3,038	2,318	721
Credit and suretyship insurance	12,733	17,432	(4,699)
Legal expenses insurance	-	-	-
Assistance	1,048	1,257	(209)
Miscellaneous financial loss	2,058	122	1,936
Total NL	**47,845**	**60,761**	(12,916)
Total Health	**90**	**79**	11
Total	**47,935**	**60,840**	(12,905)

- thousands, LEI

LoB Standard Formula	Claims Reserve net 31.12.2019	Claims Reserve net 31.12.2018	Change in net Claims reserve
Medical expense insurance	0	6	-6
Income protection insurance	0	0	0
Workers' compensation insurance	90	73	17
Motor vehicle liability insurance	2,327	2,071	256
Other motor insurance	8,086	7,292	794
Marine, aviation and transport insurance	1,652	1,427	225
Fire and other damage to property insurance	5,286	4,386	900
General liability insurance	3,038	2,318	721
Credit and suretyship insurance	10,514	14,172	-3,658
Legal expenses insurance	0	0	0
Assistance	1,048	1,257	-209
Miscellaneous financial loss	60	12	48
Total NL	**32,011**	**32,935**	**-924**
Total Health	**90**	**79**	**11**
Total	**32,101**	**33,013**	**-913**

Cash-flows for best estimate of premium provisions consider the following:

- Expected cash-flow on unearned business (where the premium and the acquisition costs are already paid but not earned);
- Expected cash-flow on business still not incepted (from contracts which are in force at the valuation date and for which the contract boundary is higher than one year).

The Company calculates the gross premium reserves for both parts similarly, by considering future claim payments, administration expenses, future lapses and future recoveries. Lifetime of cash-flows for premium provisions is estimated depending on the contractual boundary of each contract and product. Not-due insurance receivables and reinsurance payables are reclassified as future cash-flows, from the corresponding balance sheet position to premium provision.
Comparison with previous periods of gross and net premium provision is presented below:

- thousands, LEI

LoB Standard Formula	Premium Reserve gross 31.12.2019	Premium Reserve gross 31.12.2018	Change in gross Premium reserve
Medical expense insurance	49	714	-665
Income protection insurance	-85	726	-811
Workers' compensation insurance	9	2	6
Motor vehicle liability insurance	218	142	76
Other motor insurance	12,519	11,040	1,479
Marine, aviation and transport insurance	-1	156	-157
Fire and other damage to property insurance	2,756	6,178	-3,421
General liability insurance	477	2,880	-2,403
Credit and suretyship insurance	7,022	9,390	-2,368
Legal expenses insurance	0	0	0
Assistance	281	291	-9
Miscellaneous financial loss	459	170	288
Total NL	**23,732**	**30,247**	**-6,515**
Total Health	**-28**	**1,442**	**-1,470**
Total	**23,704**	**31,689**	**-7,985**

- thousands, LEI

LoB Standard Formula	Premium Reserve net 31.12.2019	Premium Reserve net 31.12.2018	Change in net Premium reserve
Medical expense insurance	74	719	-645
Income protection insurance	-19	835	-854
Workers' compensation insurance	13	9	4
Motor vehicle liability insurance	429	377	52
Other motor insurance	8,027	6,090	1,937
Marine, aviation and transport insurance	197	367	-170
Fire and other damage to property insurance	5,974	9,535	-3,561
General liability insurance	726	3,216	-2,490
Credit and suretyship insurance	5,137	6,314	-1,177
Legal expenses insurance	0	0	0
Assistance	288	298	-10
Miscellaneous financial loss	459	170	288
Total NL	**21,236**	**26,367**	**-5,130**
Total Health	**67**	**1,563**	**-1,495**
Total	**21,304**	**27,929**	**-6,626**

The calculation of the risk margin is based on the assumption that the whole portfolio of insurance and reinsurance obligations is transferred to another insurance or reinsurance undertaking. In particular, the calculation takes into account the diversification of the whole portfolio.

The risk margin methodology applied is level (2) simplified approach stated in the EIOPA-BoS-14/166 guideline as a percentage of the SCR for future years, discounted to the valuation date. The SCR relevant to the existing business is expected to develop into the future proportionally with the development of best estimate in the given future year.

Development of risk margin compared to previous period is explained by the following table:

- thousands, LEI

LoB Standard Formula	Risk Margin net 31.12.2019	Risk Margin net 31.12.2018	Change in net Risk Margin
Medical expense insurance	3	13	-10
Income protection insurance	0	2	-3
Workers' compensation insurance	3	18	-15
Motor vehicle liability insurance	92	59	34
Other motor insurance	540	742	-202
Marine, aviation and transport insurance	62	54	8
Fire and other damage to property insurance	377	758	-380
General liability insurance	126	187	-60
Credit and suretyship insurance	525	133	392
Legal expenses insurance	0	0	0
Assistance	45	185	-140
Miscellaneous financial loss	17	8	9
Total NL	**1,785**	**2,124**	**-339**
Total Health	**5**	**33**	**-28**
Total	**1,790**	**2,157**	**-367**

For the Company, a matching adjustment or a volatility adjustment is not applicable. Cash-flows included in the technical provisions are mid-year discounted in order to average out cash-flows that have a uniform projection over the year. Risk-Free term structure used was published by EIOPA as for reference date 31.12. 2019 for the corresponding currencies. Reinsurance recoverables are determined separately, based on the characteristics of each reinsurance treaty and consistently with the boundaries of the insurance or reinsurance contracts to which those amounts relate. Reinsurance recoverables are adjusted to take account of expected losses due to default of a counterparty, considering the expected present value of the change in cash flows underlying the amounts recoverable from that counterparty, that would arise if the counterparty defaults, including as a result of insolvency or dispute, at a certain point in time.

The calculation of the technical provisions necessarily makes numerous assumptions with respect to economic conditions, operating conditions, development of claims and other matters, many of which are beyond the Company's control. Although the assumptions used represent estimates that the Company believes are altogether reasonable, actual experience in the future may vary from that assumed in the calculation of the results. The Company used the following main assumptions within calculation of technical provisions:

- Claims provision is calculated based on the assumption that claims included in its calculation are expected to develop in the future according to the historical development factors observed by the Company until the reporting date; there is a higher level of uncertainty in development of corporate claims than retail claims;
- With minor exceptions triggered by particularities of some of the Company's lines of business, estimation of future claims included in the calculation of Premium Provision is based on the development of claims in the last three accident years;
- Lapse rates included in calculation of Premium Provision is based on the rates recorded by the Company in the last 2 financial years corresponding to each line of business;

- Expenses included in Premium Provision are based on the expenses ratio registered by the Company in the last financial year, adjusted with future development expectations, were that is the case;
- Reinsurance costs are in line with the Reinsurance Strategy approved by the AMSB for the following year.

D.3. Other liabilities

Liabilities		**Solvency II value -** *thousands, LEI-* **2019**	**Statutory accounts value -** *thousands, LEI-* **2019**	**Solvency II value -** *thousands, LEI-* **2018**	**Statutory accounts value -** *thousands, LEI-* **2018**
Contingent liabilities					
Provisions other than technical provisions	D.3.1	6,418	6,418	10,679	10,679
Pension benefit obligations					
Deposits from reinsurers					
Deferred tax liabilities	D.3.2	4,483		3,328	0
Derivatives					
Debts owed to credit institutions					
Financial liabilities other than debts owed to credit institutions	D.3.3				
Insurance & intermediaries payables	D.3.4	2,250	6,528	3,605	10,582
Reinsurance payables	D.3.5	28,367	33,870	25,349	36,031
Payables (trade, not insurance)	D.3.6	7,452	14,577	8,687	8,687
Subordinated liabilities					
Subordinated liabilities not in Basic Own Funds					
Subordinated liabilities in Basic Own Funds					
Any other liabilities, not elsewhere shown	D.3.7		4,972		7,069
Total liabilities		**122,399**	**197,554**	**146,334**	**243,301**
Excess of assets over liabilities		**62,698**	**32,038**	**58,304**	**40,832**

In line with IAS 39, other financial liabilities and amounts payables are only recognized when an undertaking becomes a party to the contractual provisions of the instrument.

As at reporting date, the company has no liabilities as:
- Contingent liabilities
- Pension benefit obligation
- Deposits from reinsurers
- Derivatives
- Debts owed to credit
- Subordinated liabilities

D.3.1. Provisions other than technical provisions

The balance sheet item "Provisions other than technical provisions" includes all provisions which are not part of insurance activity. These are e.g. tax provisions, litigation provisions, provisions for expected bonuses, etc.

Provisions are measured according to IFRS and are shown in the solvency balance with this value. The value is calculated as the best estimate of the payments required to fulfill the obligation (IAS 37). Under Statutory financial statements, in accordance with the Norm 41/2015, the provisions are intended to cover liabilities of which the nature is clearly defined and which at the reporting date is probable or certain to occur, but are uncertain in terms of value or time they will occur.

D.3.2. Deferred tax liabilities

Deferred tax liabilities follow the same rules for deferred tax assets.

Deferred tax liabilities under SII are based on the difference between the SII value of the asset and liability and it's fiscal value item-by-item, using the expected tax rate applicable when the assets (liabilities) are realized (settled) and taking into account the potential impact of any changing of the tax rate. The accounting value of deferred tax liabilities is reviewed at each balance sheet date (recovery test based on the estimated future taxable profits).

D.3.3. Financial liabilities other than debts owed to credit institutions

The balance sheet caption "Financial liabilities, other than liabilities to credit institutions" includes liabilities to leasing companies. There are no valuation differences between the two reporting standards.

D.3.4. Insurance & intermediaries payables

This item covers the overdue / due amounts to the policyholders and intermediaries related to the insurance business, which are not technical reserves. Outstanding obligations for future premiums included in the evaluation of the best estimates of technical provisions are excluded.

Taking into account that these are short-term liabilities, the IFRS value is considered to be reasonable for fair value valuation, except not-due commissions. Therefore, the value of the liabilities in the statutory balance sheet is adjusted by the amount of not-due commissions, just as receivables from policyholders and intermediaries are adjusted with non-exigible premiums, this being the only difference between those two values.

D.3.5. Reinsurance payables

Balance sheet item "Reinsurance liabilities" represents the amounts due to reinsurers, other than the ceded technical provisions. As there are short-term liabilities, the IFRS value is considered reasonable for fair value valuetion, except for not-due debts. Therefore, the value of the statutory balance sheet liability is adjusted by the amount of not-due liabilities, as receivables from policyholders and intermediaries are adjusted with non-exigible premiums, this being the only difference between those two values.

This item covers the overdue / due amounts to the reinsurance companies. This value is valued under Solvency II to reflect the different approach of premium income recognizing (maturity-based as opposed to the NGAAP recognition – premium written).

D.3.6. Payables (trade, not insurance)

Liabilities (trade, not insurance) are valued in accordance with IFRSs and are shown in the solvency balance sheet with this value. The value is recognized in the amount of the repayment amount, which comprises mainly the balances for wages, taxes, social contributions, sundry creditors, and unsettled collected premiums as at 31 December 2019.

They are considered to be held at fair value, both in accordance with Solvency II and NGAAP standards.

According to Solvency II, the amount of thousands, LEI 7,125 representing the capital infusion in December, not yet approved by the ASF at the date of the report, was included in equity, this being the only difference between the two values.

D.3.7. Any other liabilities

All other liability balance sheet entries are presented under this heading.

The value presented in the statutory financial statements represents the deferred reinsurance commission and the balance of the premiums cashed in advance. According to Solvency II these amounts were included in technical reserves, this being the only difference between the two reporting standards.

D.4. Alternative methods for valuation

D.4.1. Assets

The valuation of the investment in PAID was considered at equity method, based on the 2018 SII Own Funds reported by PAID, the last audited SII information available at valuation date.

D.4.2. Liabilities

As at 31.12.2019 and 31.12.2018, there are no valuation differences, other than those explained in the previous chapters, between the value in the economic balance and the value in the statutory balance sheet according to the Norm no. 41/2015.

D.5. Any other information

D.5.1 Currency conversion

The financial statements are prepared and presented in LEI („LEI").

The monetary assets and liabilities registered in foreign currencies are expressed in LEI at the exchange rate published by BNR for the day the accounting balance is prepared.

D.5.2. The significance threshold

The principles of proportionality and materiality are enforced in accordance with Article 9.4 of the EU Delegated Regulation 2015/35, according to the type, size and complexity of the company.

E

CAPITAL MANAGEMENT

E.1. Own funds

The equity capital under Solvency II essentially corresponds to the surplus of assets over liabilities. These constitute the own resources available to cover the Solvency Capital Requirement (SCR), which are then classified according to their quality. The eligible own funds then form the basis for the protection of the SCR.

The available funds of Gothaer are divided into so-called tiers according to the requirements of Solvency II. The categories are defined as a quality class. According to art.92 (1), the criteria of classification is the subordination, the permanent availability and the freedom of repayment incentives. Tier 1 represents the highest quality class. Own funds of this category are available at all times and without restriction for loss cover and thus as solvency capital. The requirements for Tier 2 and Tier 3 are lower.

Gothaer owns only Tier 1 category. Tier 1 is divided into the following components: ordinary share capital, share premium and reconciliation reserve. This category is fully creditable for SCR and MCR.

Own resources overview of eligible capital as at 31.12.2019 compared with 31.12.2018:

Basic own funds	**Total -** *thousands, LEI-*	**Tier 1 – unrestricted -** *thousands, LEI-*	**Total -** *thousands, LEI-*	**Tier 1 – unrestricted -** *thousands, LEI-*
	2019	**2019**	**2018**	**2018**
Ordinary share capital (gross of own shares)	62,710	62,710	80,894	80,894
Share premium account related to ordinary share capital	148,516	148,516	138,707	138,707
Reconciliation reserve	-148,528	-148,528	-161,297	-161,297
Total basic own funds	**62,698**	**62,698**	**58,304**	**58,304**

Significant differences between the statutory financial statements and the surplus of assets over liabilities are the active or passive reserves in the investments or the technical provisions.

There are no positions of surplus funds and subordinated liabilities under Solvency II to be recognized as own funds. There are no deductible items for Solvency II own funds.

As at 31.12.2019 both the regulatory solvency requirements are exceeded, thus there is currently no need for an increase in own funds or a change in the capital structure.

Share capital and share premium – S2 annual movements

As at 31 December 2019, the Company is operating with a subscribed and paid share capital of thousands, LEI 62,710 and a share premium account of thousands, LEI 148,516.

During 2019, the shareholders of the Company approved capital increases in May, October and December by issuance of ordinary nominative shares. The new shares have been offered for subscription to the shareholder Gothaer Finanzholding AG. Consequently, the share capital of the Company has been increased by cash contribution with the amount of thousands, LEI 6,816. Also, the share premium registered an increase of thousands, LEI 9,809.

In December, taking into account the total value of the losses registered by the Company as at 31.12.2018 and the provisions of the Law no. 31/1990 according to which the equity of a company should have a value at least equal to half of its share capital, in order to restore its own capital, it was approved to reduce the share capital of the Company by the amount of thousands, LEI 25,000.

Under Solvency II, after the movements in capital recorded during the period under analysis, the shareholding structure as at 31 December 2019 and 31 December 2018 is presented as following:

Shareholder	Share capital owned 31 Dec 2019 - *thousands, LEI-*	% share capital owned 31 Dec 2019	Share capital owned 31 Dec 2018 - *thousands, LEI-*	% share capital owned 31 Dec 2018
Gothaer Finanzholding AG	62,710	99.999346%	80,894	99.999493%
Gothaer Pensionskasse AG	0.4	0.000654%	0.4	0.000507%
Total	**62,710**	**100%**	**80,894**	**100%**

E.2. Solvency Capital Requirement and Minimum Capital Requirement

Starting with 01.01.2016, the Company reported Standard Formula as determination method of the capital requirement. As of 31.12.2019, solvency capital requirements are highlighted below per each risk category, together with a comparison of the results reported as of 31.12.2018:

- thousands, LEI	SCR		
	31.12.2019	31.12.2018	Variances 2019 vs 2018
Market risk	7,613	13,827	-45%
Counterparty default risk	12,810	13,945	-8%
Health underwriting risk	605	668	-9%
Non-life underwriting risk	22,508	25,824	-13%
Operational risk	3,532	4,159	-15%
Solvency capital requirement	***37,562***	***45,357***	***-17%***

Underwriting risk

The highest risk within Standard Formula is underwriting risk, deriving from continuous development rhythm of the company and, also, from the estimated increase in the gross written premiums, as per the medium-term business plan approved by the Board of Directors.

Underwriting risk components

Underwriting risk under Solvency II considers premium and reserve risk and catastrophic risk. Underwriting risk increased from 25,824 thousands LEI in 2018 to 22,508 thousands LEI in 2019 as follows:

Non-Life underwriting risk	31.12.2018	31.12.2019	var
	25,824	***22,508***	***-13%***
Diversification effects	***-5,104***	***-4,430***	***-13%***
Premium and reserve risk	*22,294*	*19,418*	*-13%*
Lapse risk	*33*	*-*	*-100%*
Non-life CAT risk	*8,600*	*7,520*	*-13%*

The non-life *premium and reserve risk* sub-module takes into account losses that occur at a regular frequency and also risk associated with new business expected to be written in the following 12 months. In this respect, net earned premiums are used in order to build volume measure for premium risk and net claims best estimate is used to reduce volume measure for reserve risk. Premium and reserve risk represents 86% of the overall gross underwriting risk.

For 31.12.2019, volume measure premium risk is directly linked with the planning volumes. Premium and reserve risk is influenced by volume measure premium risk and by volume measure reserve risk as follows:

Premium and reserve risk	31.12.2018	31.12.2019	var
	22,294	***19,418***	***-13%***
Volume measure premium risk	91,372	78,212	-14%
Volume measure reserve risk	32,935	32,011	-3%

Highest exposure on premium and reserve risk is Fire and Other Damage to Property, followed by Other Motor Damage and Credit and Suretyship insurance.

Non-Life Catastrophe Risk Submodule comprises Natural Catastrophe Risk and Man Made Catastrophe Risk. Following results were obtained compared to 31.12.2018:

Non-Life CAT risk	31.12.2018	31.12.2019	var
	8,600	***7,520***	***-13%***
Diversification effects	***-4,346***	***-3,211***	***-26%***
Natural catastrophe	*5,968*	*6,792*	*14%*
Other catastrophe	*844*	*816*	*-3%*
Man Made catastrophe	*6,134*	*3,123*	*-49%*

- Natural catastrophic risk increased by 14% , risk value being stable for both flood risk and earthquake risk;
- Other catastrophic risk remains stable as earned premium volumes for specific lines of business included in its calculation are similar;
- Man-made catastrophic risk decreased by 49% given to offsetting the largest two exposures for credit and suretyship from last year.

Market risk

Market risk arises from the level or volatility of market prices of financial instruments.

Market risk, as part of the financial risks, contains five sub-risks, and they are calculated quarterly by the company and compared with the approved risk appetite.
The decrease of the solvency capital requirement is determined by the decrease in each risk category capital requirement, but mainly generated by the material decrease in Market Risk over the analysed period.
Overall, the Market Risk decreased by 45% over the year 2019 compared to 2018, mainly due to continuous decrease in Currency Risk submodule, as the asset / liability amounts in EUR were reduced. Most of this decrease has been generated in the first quarter of the year (33%) when the asset amount in EUR, increased in December following the capital injection of 7.5 mil EUR, was reduced.

Details of these movements are indicated in the Market risk components below:

Market risk components

- thousands, LEI	SCR		
	2019	**2018**	**Variances 2019 vs 2018**
Market risk	***7,613***	***13,827***	-45%
Interest rate risk	*843*	*1,502*	-44%
Equity risk	*5,093*	*4,496*	13%
Spread risk	*561*	*1,344*	-58%
Currency risk	*2,897*	*10,372*	-72%
Concentration risk	*2,985*	*3,488*	-14%

Market risk consists of the following:

- **Interest Rate Risk** has recorded a decrease in solvency capital requirement by 44% in 2019 compared to 2018 due to efficient allocation of investments, assets have been invested in deposits in RON established on short and medium term, deposits with maturity of one month, two months and three months, as well as overnight deposits. There were no investments in deposits more than 3 months. No placement in deposits in foreign currency has been made, this due to low interest rates considerations of deposits in foreign currency.
- **Equity Risk** is the only risk sub-module within Market Risk recording an increasing in 2019 compared to 2018, this increase has been driven by the revaluation of PAID shares as per the PAID's public audited Solvency and Financial Condition Report disclosed in May 2019 for the reference date December 31st, 2018. The Company owns 15% of PAID's shares. As of December 31st, 2019, the investment held has been valued up to the amount of thousands, LEI 23,149 compared to thousands, LEI 20,438 in 2018, giving rise to a higher solvency capital requirement of thousands, LEI 5,093 compared to thousands, LEI 4,496 registered in 2018.
- **Spread Risk** recorded a significant decrease of 58% in the solvency capital requirement driven by the fact that, at the end of 2018, the Company applied a prudent approach in calculating this risk, approach according to which the parameters used in relation to the risk factor applied to the investment held in government bonds denominated in foreign currency were 100% considered, no reduction being applied. Based on clarification received from the supervisory authorities, starting 2019 the parameters used have been discounted by 50%, which has driven to the decrease.
- **Currency Risk** registered the highest decrease comparing to last year (72% decrease) and this has been due to the asset / liability amounts in EUR which were reduced continuously over the analysed period.
- **Concentration Risk** decreased by 14% at the end of 2019 down to the value of thousands, LEI 2,985 and it is influenced by:
    - the Company's exposure on a counterparty (namely PAID). Concentration on PAID is taking into account the most recent public available solvency ratio of the institution (197% as published as of 31.12.2018). This treatment is in line with the European legislation (i.e. Commission Delegated Regulation no. 35/2015 art 186 paragraph 2);
    - by the effect generated by the change in the risk factor applied to the investment held in government bond denominated in foreign currency from 80% applied in 2018 to 50% applied in 2019. This change in risk factor has been applied according to the local legislation (i.e. Law 237/2015 art. 167 paragraph 10);
    - deposits with maturity over 3 months included in Spread Risk mentioned at point (c) above.

  Government bonds denominated in LEI are not subject to Concentration Risk.

The main driver impacting the Market risk position as of year-end 2019 is Equity risk (in proportion of 41%). Other components are: Concentration Risk (in proportion of 24%), Currency Risk (in proportion of 23%), Interest Rate Risk (in proportion of 7%) and Spread Risk (in proportion of 5%) depicted as follows:

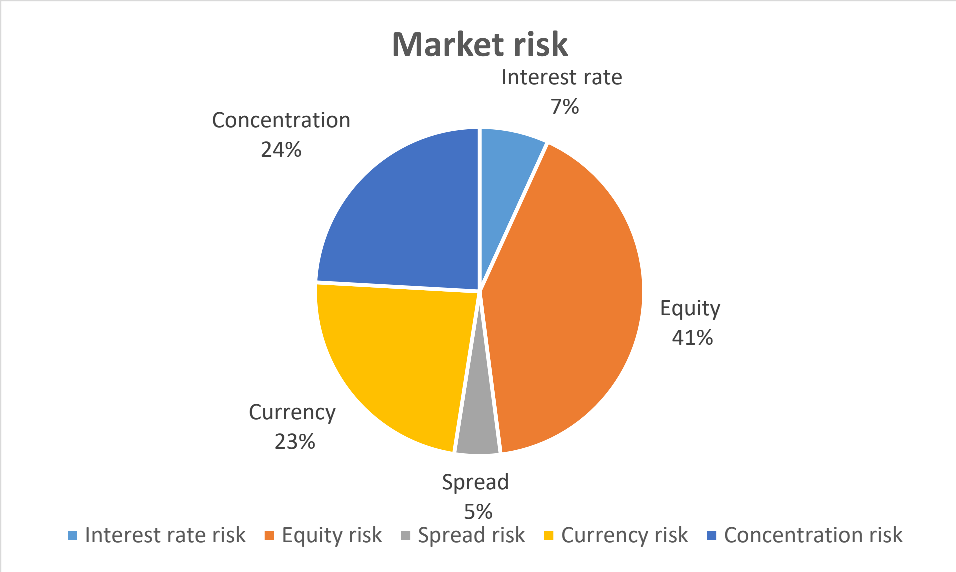

Figure: Market risk composition as of 31.12 2019

Counterparty default risk

Counterparty default risk reflects the change in the value of assets and liabilities caused by unexpected default or deterioration in the credit standing of independent counterparties and debtors. The Company is exposed to Counterparty default risk in respect of reinsurers, governments, banks and other counterparties.

Counterparty default risk components:

The following structure reflects the counterparty default composition by exposures type 1 and 2, 2019 compared to 2018:

- thousands, LEI	SCR		
	2019	2018	Variances 2019 vs 2018
Counterparty default risk	***12,810***	***13,945***	*-8%*
Counterparty default risk of type 1 exposures	*8,585*	*10,881*	*-21%*
Counterparty default risk of type 2 exposures	*5,045*	*3,783*	*33%*

Counterparty default risk of type 1 exposure comprises amounts to be recovered from the reinsurers, cash at banks.

Counterparty default risk of type 2 exposure comprises receivables from intermediaries and/or policyholders, as well as by considering the balance sheet positions related to receivables, irrespective of the counterparty.
Solvency capital requirement related to Counterparty Default Risk has decreased over the year by 8%. This was generated by the decrease in reinsurance receivables following a decrease in overall Gross Written Premiums.

Counterparty Default Risk components as of year- end 2019 can be depicted, as follows:

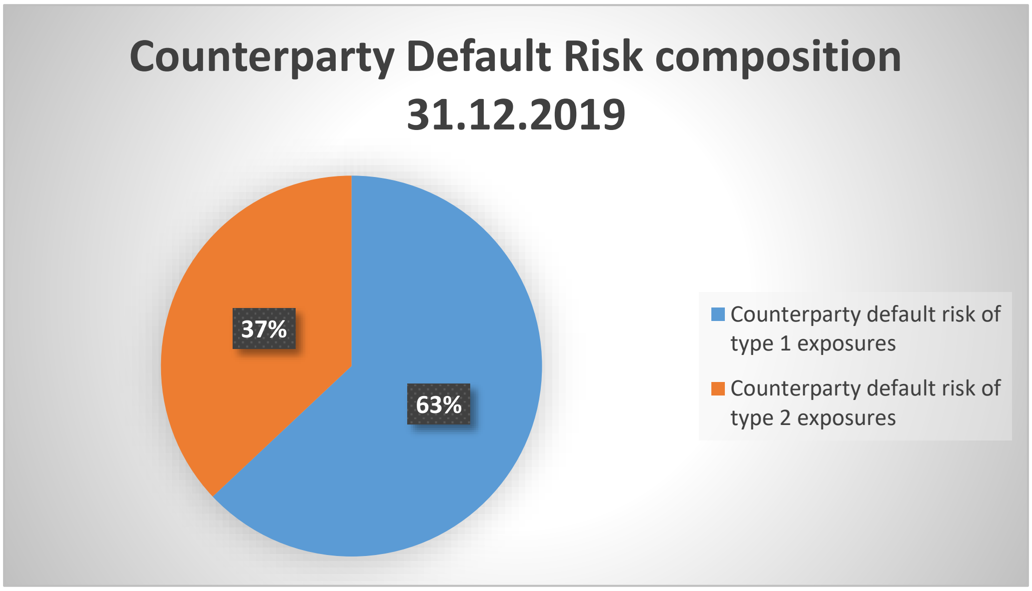

Figure: Counterparty Default Risk composition as of 31.12.2019

The decrease in solvency capital requirement related to Operational Risk by 15% in 2019 compared to 2018 (3,532 thousands LEI in 2019 compared to 4,159 thousands LEI in 2018) is driven by the decrease in earned premium volumes as consequence to reshaping the Business Plan in 2019, in line with the approved strategy. The Company's capital requirement for Operational risk represents 10% from the Basic SCR.

The Company is using simplification to calculate the risk-mitigating effect on underwriting and market risk of a reinsurance arrangements as the difference between:

- the sum of the hypothetical capital requirement for the sub-modules of the underwriting and market risk modules of the insurance or reinsurance undertaking affected by the risk-mitigating technique, as if the reinsurance arrangement did not exist;
- the sum of the capital requirements for the sub-modules of the underwriting and market risk modules of the insurance or reinsurance undertaking affected by the risk-mitigating technique.

The SCR is calibrated using the Value at Risk (VaR) of the basic own funds of an insurance or reinsurance undertaking subject to a confidence level of 99.5% over a one-year period. This calibration objective is applied to each individual risk module and sub-module.

The Minimum Capital Requirement should ensure a minimum level below which the amount of financial resources should not fall. Minimum Capital Requirement shall neither fall below 25% nor exceed 45% of the undertaking's Solvency Capital Requirement and should be at least equal to an absolute floor of 3,700,000 EUR.

As for 31.12.2019, the Company's MCR has the following composition:

- thousands, LEI	**MCR components 2019**
Linear MCR	10,808
SCR	37,562
MCR cap	16,903
MCR floor	9,390
Combined MCR	10,808
Absolute floor of the MCR	17,602
Minimum Capital Requirement	**17,602**

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The duration-based sub-module Equity risk is not used in the calculation of the Solvency Capital Requirement. The Company is not affected by the requirements of article 304 as set out in Solvency II Directive 2009/138/CE.

E.4. Differences between the standard formula and any internal model used

Solvency Capital Requirement is computed exclusively by using Standard Formula, no internal model for such calculation being used. In conclusion, there are no differences to be mentioned.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company exceeds the supervisory minimum and Solvency Capital Requirement at the end of the year, as follows:

- thousands, LEI -	2019
Capital requirement (MCR)	17,602
Capital requirement (SCR)	37,562
Own funds to cover MCR	62,698
Own funds to cover SCR	62,698
Ratio of available capital covering SCR	**167%**
Ratio of available capital covering MCR	**356%**

The surplus of own funds over Solvency Capital Requirement (SCR) is 25,136 thousands, LEI and over Minimum Capital Requirement (MCR) is 45,096 thousands, LEI.

E.6. Any other information

The Company is planning its forward looking assessment based on medium term planning (2020 -2022).
The base of determining the planned solvency position is the mid-term planning results. Those results are approved by the Board of Administration of the Company and are in line with the risk profile that the Company is willing to achieve on a mid-term basis.

In order to perform a forward looking assessment the following steps have been performed:

- Preparation of the business plan for the period 2020-2022*;*
- Estimation of the SCR for the mid-term plan period, using as input business plan; Determination of Solvency II technical provisions for the mid-term plan period using as input business plan;
- Calculation of own funds on a Solvency II basis by adding to planned own funds the adjustments according to Solvency II principles of technical provisions and other assets;
- Identification of necessary capital increases and inclusion of these in own funds value;
- Estimation of MCR for the mid-term planning using the elements above;
- Approval by the Board of business plan for the period 2020-2022.

The business plan is based on the actual results for 2019 and the forward looking assessment has been performed for a 3 (three) years planning period up to 2022 (in line with the period set for the business strategy).

The Company's activity and its capacity for covering its liabilities were not affected as of 31.12.2019.

APPENDIX:
Solvency and Financial Condition Report Disclosures
31 December 2019

(Monetary amounts in RON thousands of units)

General Information

Undertaking name	GOTHAER ASIGURARI REASIGURARI S.A.
Undertaking identification code	5299000TL4WT47U3ZG88
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	RO
Language of reporting	EN
Reporting reference date	31 December 2019
Currency used for reporting	RON
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Assets	Solvency II value C0010
Intangible assets	
Deferred tax assets	
Pension benefit surplus	
Property, plant & equipment held for own use	1,005
Investments (other than assets held for index-linked and unit-linked contracts)	86,596
Property (other than for own use)	
Holdings in related undertakings, including participations	23,149
Equities	
Equities - listed	
Equities - unlisted	
Bonds	47,422
Government Bonds	47,422
Corporate Bonds	
Structured notes	
Collateralised securities	
Collective Investments Undertakings	
Derivatives	
Deposits other than cash equivalents	16,025
Other investments	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	18,235
Non-life and health similar to non-life	18,235
Non-life excluding health	18,330
Health similar to non-life	-95
Life and health similar to life, excluding index-linked and unit-linked	
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	2,653
Reinsurance receivables	50
Receivables (trade, not insurance)	33,788
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	41,004
Any other assets, not elsewhere shown	1,768
Total assets	185,097

	Solvency II value
Liabilities	C0010
Technical provisions - non-life	73,430
Technical provisions - non-life (excluding health)	73,361
TP calculated as a whole	0
Best Estimate	71,577
Risk margin	1,784
Technical provisions - health (similar to non-life)	68
TP calculated as a whole	
Best Estimate	62
Risk margin	6
Technical provisions - life (excluding index-linked and unit-linked)	
Technical provisions - health (similar to life)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - life (excluding health and index-linked and unit-linked)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - index-linked and unit-linked	
TP calculated as a whole	
Best Estimate	
Risk margin	
Contingent liabilities	
Provisions other than technical provisions	6,418
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	4,483
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	2,250
Reinsurance payables	28,367
Payables (trade, not insurance)	7,452
Subordinated liabilities	
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	
Any other liabilities, not elsewhere shown	
Total liabilities	122,399

Excess of assets over liabilities	62,698

Premiums, claims and expenses by line of business

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-				
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	Total
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																	
Gross - Direct Business	380	124	522	2,027	44,861	2,803	21,015	7,704	3,858		5,994	893					90,180
Gross - Proportional reinsurance accepted																	0
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share	9	43	12	666	23,103	832	7,877	1,085	2,695		106	759					37,187
Net	371	81	509	1,361	21,757	1,971	13,138	6,619	1,163	0	5,888	134					52,993
Premiums earned																	
Gross - Direct Business	418	175	670	2,477	58,097	2,878	29,590	8,505	7,972		6,026	926					117,734
Gross - Proportional reinsurance accepted							5	1									6
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share	9	50	12	666	30,480	743	10,743	1,110	4,612		106	788					49,320
Net	409	125	658	1,811	27,618	2,135	18,852	7,395	3,361	0	5,920	138					68,420
Claims incurred																	
Gross - Direct Business	-4		46	1,165	53,066	637	7,884	2,132	11,851		2,722	3,974					83,474
Gross - Proportional reinsurance accepted																	0
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share					28,162	-17	84	-18	13,201			3,165					44,577
Net	-4	0	46	1,165	24,904	654	7,800	2,150	-1,350	0	2,722	809					38,897
Changes in other technical provisions																	
Gross - Direct Business	17		27	9	781	19	-412	-1	329		212	513					1,494
Gross - Proportional reinsurance accepted																	0
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share					31	-12			1,450			446					1,915
Net	17	0	27	9	749	31	-412	-1	-1,121	0	212	67					-422
Expenses incurred	333	85	493	1,733	28,999	1,797	21,025	5,920	4,995	0	5,075	540					70,995
Other expenses																	2,049
Total expenses																	73,044

Premiums, claims and expenses by country

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	90,180						90,180
Gross - Proportional reinsurance accepted							0
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	37,187						37,187
Net	52,993						52,993
Premiums earned							
Gross - Direct Business	117,734						117,734
Gross - Proportional reinsurance accepted	6						6
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	49,320						49,320
Net	68,420						68,420
Claims incurred							
Gross - Direct Business	83,474						83,474
Gross - Proportional reinsurance accepted							0
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	44,577						44,577
Net	38,897						38,897
Changes in other technical provisions							
Gross - Direct Business	1,494						1,494
Gross - Proportional reinsurance accepted							0
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	1,915						1,915
Net	-422						-422
Expenses incurred	70,995						70,995
Other expenses							2,049
Total expenses							73,044

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	0	0	0	0	0	0	0	0	0	0	0	0					0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
Gross	49	-85	9	218	12,519	-1	2,756	477	7,022	0	281	459					23,704
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-24	-66	-4	-211	4,492	-198	-3,217	-248	1,885	0	-6	0					2,401
Net Best Estimate of Premium Provisions	74	-19	13	429	8,027	197	5,974	726	5,137	0	288	459					21,304
Claims provisions																	
Gross	0	0	90	2,327	17,713	2,207	6,721	3,038	12,733	0	1,048	2,058					47,935
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	9,627	555	1,435	0	2,219	0	0	1,998					15,834
Net Best Estimate of Claims Provisions	0	0	90	2,327	8,086	1,652	5,286	3,038	10,514	0	1,048	60					32,101
Total best estimate - gross	49	-85	98	2,545	30,232	2,206	9,477	3,516	19,756	0	1,329	2,517					71,639
Total best estimate - net	74	-19	103	2,756	16,113	1,849	11,260	3,764	15,652	0	1,336	518					53,404
Risk margin	2	0	3	92	540	62	377	126	525	0	45	17					1,790
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole																	0
Best estimate																	0
Risk margin																	0
Technical provisions - total	52	-85	102	2,637	30,771	2,268	9,855	3,642	20,280	0	1,374	2,534					73,430
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-24	-66	-4	-211	14,119	357	-1,782	-248	4,104	0	-6	1,998					18,235
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	76	-19	106	2,848	16,652	1,911	11,637	3,890	16,176	0	1,381	536					55,194

Non-Life insurance claims / Total Non-life business

Z0020 Accident year / underwriting year

Gross Claims Paid (non-cumulative)

(absolute amount)

	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Development year												
Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
Prior											0	0	0
2010	244	23	435	0	0	0	0	0	0	0		0	701
2011	1,075	105	0	0	2	144	1,476	0	0			0	2,802
2012	1,683	982	9	0	0	0	0	0				0	2,673
2013	11,564	12,598	227	208	181	0	12,573					12,573	37,351
2014	41,820	19,602	2,381	1,372	17	39						39	65,231
2015	17,553	6,143	2,381	1,111	91							91	27,279
2016	27,520	8,984	1,125	205								205	37,834
2017	36,812	9,131	954									954	46,897
2018	43,251	17,102										17,102	60,354
2019	53,458											53,458	53,458
											Total	84,423	334,580

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Development year											
Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
Prior											0	0
2010	0	0	0	0	0	0	0	0	0	0		0
2011	0	0	0	0	1,231	1,170	11	0	0			0
2012	0	0	0	0	48	51	49	17				48
2013	0	0	10,600	9,048	8,740	13,199	9					9
2014	0	34,658	19,245	3,681	14,204	2,323						3,558
2015	14,576	6,368	2,925	2,182	1,967							762
2016	13,297	2,554	3,533	3,171								3,203
2017	17,929	7,624	4,103									4,761
2018	21,160	3,916										4,622
2019	21,382											21,310
											Total	38,273

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	62,710	62,710		0	
Share premium account related to ordinary share capital	148,516	148,516		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	-148,529	-148,529			
Subordinated liabilities	0		0	0	0
An amount equal to the value of net deferred tax assets	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
Deductions for participations in financial and credit institutions	0	0	0	0	
Total basic own funds after deductions	62,698	62,698	0	0	0
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
Unpaid and uncalled preference shares callable on demand	0				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Other ancillary own funds	0				
Total ancillary own funds	0			0	0
Available and eligible own funds					
Total available own funds to meet the SCR	62,698	62,698	0	0	0
Total available own funds to meet the MCR	62,698	62,698	0	0	
Total eligible own funds to meet the SCR	62,698	62,698	0	0	0
Total eligible own funds to meet the MCR	62,698	62,698	0	0	

Own Funds

SCR	37,562
MCR	17,602
Ratio of Eligible own funds to SCR	166.92%
Ratio of Eligible own funds to MCR	356.20%

Reconcilliation reserve	C0060
Excess of assets over liabilities	62,698
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	
Other basic own fund items	211,226
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
Reconciliation reserve	-148,529

Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non- life business	
Total Expected profits included in future premiums (EPIFP)	0

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
Market risk	7,613		
Counterparty default risk	12,810		
Life underwriting risk	0		
Health underwriting risk	605		
Non-life underwriting risk	22,508		
Diversification	-9,507		
Intangible asset risk	0		
Basic Solvency Capital Requirement	34,029		

Calculation of Solvency Capital Requirement	C0100
Operational risk	3,532
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
Solvency Capital Requirement excluding capital add-on	37,562
Capital add-ons already set	0
Solvency capital requirement	37,562
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	0
Total amount of Notional Solvency Capital Requirements for remaining part	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
Total amount of Notional Solvency Capital Requirements for matching adjustment	0
Diversification effects due to RFF nSCR aggregation for article 304	0

Approach to tax rate	C0109
Approach based on average tax rate	0

Calculation of loss absorbing capacity of deferred taxes	LAC DT
	C0130
LAC DT	0
LAC DT justified by reversion of deferred tax liabilities	0
LAC DT justified by reference to probable future taxable economic profit	0
LAC DT justified by carry back, current year	0
LAC DT justified by carry back, future years	0
Maximum LAC DT	0

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations	C0010
MCR_{NL} Result	10,808

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
Medical expense insurance and proportional reinsurance	74	371
Income protection insurance and proportional reinsurance	0	81
Workers' compensation insurance and proportional reinsurance	103	509
Motor vehicle liability insurance and proportional reinsurance	2,756	1,361
Other motor insurance and proportional reinsurance	16,113	21,757
Marine, aviation and transport insurance and proportional reinsurance	1,849	1,971
Fire and other damage to property insurance and proportional reinsurance	11,260	13,138
General liability insurance and proportional reinsurance	3,764	6,619
Credit and suretyship insurance and proportional reinsurance	15,652	1,163
Legal expenses insurance and proportional reinsurance	0	0
Assistance and proportional reinsurance	1,336	5,888
Miscellaneous financial loss insurance and proportional reinsurance	518	134
Non-proportional health reinsurance	0	0
Non-proportional casualty reinsurance	0	0
Non-proportional marine, aviation and transport reinsurance	0	0
Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations	C0040
MCR_L Result	0

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
Obligations with profit participation - guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations		
Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation	C0070
Linear MCR	10,808
SCR	37,562
MCR cap	16,903
MCR floor	9,390
Combined MCR	10,808
Absolute floor of the MCR	17,602

Minimum Capital Requirement	17,602

EXPLANATORY NOTE TO
GOTHAER ASIGURĂRI REASIGURĂRI S.A. 2019 SFCR REPORT
RELEVANT EVENTS IN CONNECTION WITH FSA RULE 2/2016

The undersigned **Gothaer Asigurări Reasigurări S.A.**, headquartered in Bucharest, 2nd District, No. 42° Pipera Street, registered at the Trade Register under number J40/12276/2006, having sole registration no. 18892336, registered in the Insurers Register with no. RA-057 / 06.12.2006, duly represented by Christopher Lohmann, in his capacity of Chairman of the Board of Directors,

On behalf of the Company's Board of Directors and considering:

- The provisions of Rule 2/2016, second paragraph of article 49 which states that „*The regulated entities' annual report shall be accompanied by an explanatory note describing the relevant events in connection with the compliance of the requirements of this regulation, occurring over the financial year for which the report is drawn up." (name here and after Rule)*
- The provisions of Law 237/2015, 1st paragraph of article 39 which states that „*Companies, considering the provisions of art. 37 paragraph (6) and (7), shall publish an annual report on solvency and financial condition that includes full information or refers to equivalent information published under other legal provisions*."

With reference to the underlying Note, we hereby mention the following main considerations:

1. The structure of the Explanatory Note follows the template structure set by the Rule's appendix, being inspired from a Comply or Explain approach.
The structure of the Explanatory Note takes into account the modifications made to the FSA Regulation 2/2016, by the FSA Regulation 9/2019.

2. In the financial year ending December 2019, for which a Solvency and Financial Condition Report has been prepared and approved:

- The company has been compliant with the provisions of the Rule;
- The activity performed has been in accordance with the provisions of the Rule and also with all the other applicable legal provisions;
- The organizational structure and reporting lines were established so that they allow an adequate functioning and control of the Company;
- No breaches related to risk management have been recorded.

3. In the Explanatory Note attached hereto, the manner in which the company complies with the set of principles established by the above mentioned Rule during 2019 is described.

4. The principles set by the Rule were implemented and applied by the company as a result of the implementation of Solvency II regime, prior of the of entering into of the Rule.

EXPLANATORY NOTE
as per article 49, 2nd paragraph of Rule

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
1	The regulated entity mentioned in the articles of association the core responsibilities of the Board on the implementation and compliance with corporate governance principles.	X			The Company's Article of Association (chapter VI) has stipulated the core responsibilities' of the Board of Directors related to the implementation and compliance with corporate governance principles, as per the applicable legal requirements set by Rule 2/2016.
2	The internal policies and / or internal regulations include definitions of corporate governance structures, the functions, powers and responsibilities of the Board and the Management Team.	X			The company has developed and implemented a series of internal policies and/or procedures and/or regulations in which are develop the principles of corporate governance. More than that, all the internal policies/procedures include responsibilities of the Board of Directors and of Executive Management, as well as other functions responsibilities. We mention in this sense the following: - Company's Article of Association (chapter VI); - Company's Organizational and Functioning Regulation (Section I, subsection I.3. Management Bodies of Gothaer Asigurări Reasigurări S.A.).
3	The regulated entity's annual report is accompanied by an explanatory note describing the relevant events related to the application of corporate governance principles, recorded during the financial year.	X			The company's former **Solvency and Financial Condition Reports** was accompanied by an explanatory note describing the relevant events related to the application of the corporate governance principles, recorded during the financial year.

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
4	The regulated entity has developed a communication strategy with stakeholders to provide adequate information.	X			The Company is committed to open and honest communication with stakeholders and recognizes this as an important requirement for successfully delivering business objectives and managing reputation risk. The Company has in place a communication strategy which is developed within the following internal regulations that are approved by the Board of Directors: - Guideline for managing risks relating to internal and external communication; - Yearly Communication Strategy. These guidelines on the communication strategy are subject to a yearly review, last updated version being approved by the Board of Directors on December 2019.
5	The structure of the Board ensures, where appropriate, a balance so that no person or small group of persons may influence decision-making.	X			The Board of Directors consists of 5 non-executives members of which 3 are related to Gothaer Group and 2 are independent members
6	The Board meets at least once every 3 months for supervising the activity of the regulated entity.	X			The Board has at least 4 annual meetings to supervise the activity of the regulated entity. During 2019, there were 4 Board of Directors meetings (4- scheduled and 26- additional decisions taken by BoD).
7	The Board or the Management Team, as appropriate, shall regularly examine policies on financial reporting, internal control and system administration / risk management adopted by the regulated entity.	X			Executive Management and Board of Directors regularly review the adequacy of the corporate governance system as a whole and on specific areas of activity to confirm that it remains appropriate to the Company's needs and to prioritize areas that require improvement. Corporate governance system (including policies on financial reporting, Solvency II related policies, internal control system and risk management system policies) are submitted to Board's annual review and approval. Executive Management as well as Group responsible are examining and provide input on the corporate governance internal regulations, prior to Board's approval.

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
8	In its work, the Board has the support of advisory committees issuing recommendations on various topics subject to decision-making.	X			The Company has set up 8 corporate governance committees which perform their activity in accordance with the Company's internal rules. All corporate committees offer support either for the Board of Directors or for the Executive Management, acting in accordance with the roles and responsibilities established by Company's internal policies or regulations. The current committees created at Board level are: ➢ Audit Committee – mandatory advisory Committee ➢ Remuneration Committee - mandatory advisory Committee ➢ SII Steering Committee – advisory committee. The Audit Committee has a consultancy role in relation to defining the directions and the efficient evaluation and development of the internal control system and of the risk management system. Also, it is responsible with identification and administration of the main risks regarding the corporate governance. This is to eliminate / reduce the major risks and to issue specific recommendations to the Board of Directors regarding the corporate governance, constructed on the three lines of defense. The Audit Committee present to the Board of Directors a recommendation regarding nomination of the statutory auditor or of the audit firm, in accordance with the applicable legal pronunciations. The Remuneration Committee supports the Board of Directors in the administration and exercise of its responsibility for supervisory oversight and ensures that remuneration tools for Management are aligned with company objectives and do not threaten the Company's ability to maintain an adequate capital base. The SII Steering Committee fulfils an advisory role for the Board of Directors in view in respect of ensuring the compliance with Solvency II requirements within the Company and its frequency and timing has been set up as such to precede every Board meetings (4 times per year).
9	The remuneration committee submits to the council annual reports on its activity.	X			The company has a Remuneration Committee. The Remuneration Committee advises the Board of Directors on the administration and exercise of supervisory responsibilities and ensures that the remuneration granted at the Company level does not threaten the Company's ability to maintain an adequate capital base. The Remuneration Committee is a mandatory and permanent advisory committee created within the Board of Directors.
10	In its activity, the council has the support of other advisory committees that issue recommendations on various topics that are the subject of the decision-making process.	X			The Board of Directors (the council) is composed of 5 members, of which a President and a Vice-President. The members of the Board of Directors can be executive or non-executive and are appointed and appointed by the GMS, according to the Constitutive Act of the Company and the Policy regarding the professional and moral probity requirements for the administrative and executive management (Fit & Proper Policy Management Board). In its activity, the council has the support of other advisory committees that issue recommendations on various topics that are the subject of the decision-making process.

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
11	Advisory Committees submit to the Board materials / reports on subjects assigned to them by the Board.	X			The advisory committees created at a board level submit to the Board materials/ reports on the subjects assigned to them
12	The internal procedures / policies / regulations of the regulated entity include provisions for selecting candidates for persons within Management Team, appointing new persons or extending the office of existing ones.	X			The company has in place Fit & Proper Board Management Policy which includes provisions for selecting candidates for persons within Management Team, appointing new persons or extending the office of existing ones. The Policy is in force since January 2016 and updated in accordance with the new legal framework in March 2019.The last approved version was updated with the new legal requirements related to fit and proper criteria applicable to Company's management body.
13	The regulated entity shall ensure that Management Team receives training in order for them to perform their duties efficiently.	X			In 2019 the Company set training plan for the new members of the Management Team.

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
14	Key positions are set so that they are appropriate to the organizational structure of the regulated entity and in accordance with its applicable regulations.	X			The Company has established the four key independent control functions required under the Solvency II Directive - risk management, compliance, actuarial and internal audit. These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework. All the holders of key functions mentioned above have appropriate functional reporting lines as to avoid impairment of objectivity and independence, as well as to avoid potential conflict of interests. Other critical functions have been defined within the Company, besides the 4th regulated key functions, respectively: ▪ Economic Director; ▪ Legal Manager; ▪ Chief of Internal Control; ▪ Head of IT; ▪ Claims Manager; ▪ Reinsurance Manager; ▪ Chief Underwriter; ▪ Sales Director. The Company performs an initial evaluation of the persons that are to be appointed in a critical or key function, during the recruitment process and prior to the appointment, assuring that the holders of critical or key functions fulfil the internal and legal fit and proper requirements. After a person is appointed in a critical or key function, the Company performs an annually evaluation of the criteria taken into account at the date of the appointment and a rating note is issued in this sense to each holder. Supplementary, as far as the key functions are concerned, the legal requirements laid down in Regulation 14/2015 are verified and the Company documents the outcome of this verification.
15	The Board regularly reviews the effectiveness of the regulated entity's internal control system and how to update it for ensure rigorous management of risks affecting the regulated entity.	X			The internal control system is supervised and reviewed by BoD on a quarterly basis, at each AC/ BoD meeting. There the results of the second and third lines of defense activities are reviewed and debated carefully. BoD specifically take account of the recommendations of the Audit Committee – as a consultative role, in regard with the internal control system – respectively in areas of internal control, internal audit and external audit. Based on these, during 2019, the BoD undertook the following actions to review the effectiveness of the internal control system: *Internal Audit* - BoD observed the results of the internal audit activity and ensured sufficient resources and expertise of internal audit are engaged; - Reviewed periodically the internal audit plan to ensure the audit activities are best aligned with changes in the business strategy and cover the significant risks; - Observe the implementation process of the audit recommendations *External audit* BoD observed the process of nomination of a new external auditor and reviewed the independency of the new engaged auditor.

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
					Internal control and Compliance BoD oversee the results of the internal control and compliance functions, including implementation of measures resulted from the Report of control, issued by FSA. *Solvency II policies* In 2019, BoD reviewed and approved the Solvency II updated policies to ensure the internal control system is supported by updated policies. *Risk Management* BoD supervise the activities of risk management, based on a more detailed analysis of risks, within the SII Steering Committee.
16	The Audit Committee shall advise the Board on the selection, appointment and replacement of the financial auditor, and the terms and conditions of its remuneration.	X			In accordance with applicable legal provisions, the statutory auditor is appointed through a decision of the Shareholders. The convening of the general shareholder meeting is requested by the Board of Directors. Audit committee presents to the Board of Directors a recommendation as to the appointment of the statutory auditor or audit firm. The roles and responsibilities of the Audit Committee in connection with the selection, appointment or replacement of the financial auditor, including the terms and conditions of the external auditor's remuneration, are set by within the Audit Committee Charter and Statutory auditor selection policy. In 2019 Audit Committee accordingly was involved in the auditor selection process for financial year 2019 and recommended to BoD, based on an selection process carried out by Management Team and internal specialists, to appoint Deloitte Audit SRL, as new auditor. BoD followed this recommendation and proposed Deloitte to shareholder for approval.
17	The Board reviews at least once a year and ensures that the remuneration policies are consistent and that they have effective risk management.	X			The Board of Directors review on a yearly basis the Company's Remuneration Policy which ensures that the remuneration policies are consistent and that they have effective risk management. (Remuneration Policy revised in September 2019, no subsequent changes being necessary).
18	The remuneration policy of the regulated entity is provided in the internal rules concerning the implementation and observance of corporate governance principles.	X			Remuneration Policy adopted within the Company assures strikes a balance between trust in intrinsic motivation on the one hand and agreement on clear targets and assessment of performance of those targets on the other. The total pay-and-benefits package enables the company to compete in the labor market and to attract and retain high professionals. Company's remuneration policy complies with prevailing national and international legislation and regulations and does not encourage employees to take excessive risks The policy in place is approved by Company's Board of Directors being evaluated on a yearly basis, to ensure compliance with new legislation and regulations or market standards.

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
19	The Board adopted a procedure to identify and settle any conflict of interest.	X			The company has in place a Conflict of Interest Policy which sets out how the Company aims to manage any existing and potential conflicts of interest situations. The policy's objective is to minimize conflicts of interest arising from the alignment of the Company's interests with the Customer's ones. Conflict of interest policy sets out specifically (i) the circumstances within Gothaer which could give rise to a conflict of interest, (ii) a description of the systems and regulations to control and prevent possible conflicts of interest and (iii) enforcing procedures. The Company has also included in the 'Internal Regulation 'provisions describing the manner in which the Company identifies, controls and manages potential conflicts of interest situations.
20	Management Team, as appropriate, informs the Board on conflicts of interest in terms of their occurrence and do not participate in the decision making related to the conflicts, if these structures or people are involved in said conflicts.	X			During 2019 there were no conflict of interest situations nor potential ones involving Executive Management. The organization chart and job descriptions are designed to ensure separation of the decision, execution and supervision functions. Consumed and potential conflicts of interest are communicated to Executive Management in accordance with the applicable law and potential conflicts of interest in which Executive Management and key functions are involved are communicated to the Board of Directors, in accordance with the internal Conflict of Interest Policy provisions.
21	The Board reviews at least once a year the effectiveness of the risk management system of the regulated entity.	X			The effectiveness of the risk management system is analyzed by the Board of Directors by acknowledging the Minutes of the Risk Management Committee and SII Steering committee and taking into account reports of internal audit and internal control functions .
22	The regulated entity has developed procedures for identifying, evaluating and managing the significant risks it is or might be exposed to.	X			The company has developed policies for identifying, evaluating and managing the significant risks are or might be exposed to (mentioning in this sense, but without being limited to it: Risk Management Policy, Investment Risk Policy, Credit Risk Policy, and Underwriting Risk Policy).

No.	Rules of application of corporate governance principles	Compliance			Compliance in Gothaer Asigurări Reasigurări S.A.
		Yes	No	If NOT explain	
23	The regulated entity has clear action plans to ensure business continuity for emergency situations.	X			The company has clear action plans that ensure business continuity for emergency situations. Documentation is available, as follows: - Business Continuity Plan (BCP) - Disaster Recovery Plan (DRP) Critical activities in case of catastrophe have been identified and departmental plans have been detailed, describing clear action plans in case of disaster. Overall, there is in place Business Continuity Management Policy which sets out the principles governing this activity, potential inherent risks and what Company must ensure of.
24	The branch council applies internal governance principles and policies similar to those of the parent company, unless there are other legal requirements that lead to the establishment of own policies.	X			The company applies internal governance principles and policies similar to those of the parent company. If there are other legal requirements that lead to the establishment of own policies, the Company informs the parent company in this regard.

Cologne /Bucharest, April 1st, 2020

On behalf of the Board of Directors Gothaer Asigurări Reasigurări S.A.

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Christopher Lohmann

Chairman of the Board of Directors Gothaer Asigurări Reasigurări S.A.

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