Gothaer Asigurări Reasigurări
2016 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

May 2017

EȘTI MAI ASIGURAT
DECÂT CREZI

Gothaer
ASIGURĂRI REASIGURĂRI

LOOKING AHEAD WITH CONFIDENCE

Gothaer Asigurări Reasigurări is the local subsidiary of the Gothaer Group, one of the German largest mutual insurance associations and insurance groups, with over 3.5 million members and premium income of 4.52 billion euros yearly.

With almost 4 years of developing its presence on the Romanian Insurance Market, the company continues to build on a sound strategy based on profitable underwriting, operational efficiency and client centricity, with the aim of developing Gothaer Asigurări into a profitable, sustainable insurance carrier, best serving the needs of its clients and bringing value to customers, partners and shareholders.

2016 should also be looked at in the development context of the company, with operations and business volumes that are to be further developed mid-, as well as long term.

In a challenging and unsettled market context, the company looks wisely at the manner it shapes and grows its operations, to ensure sound development and optimum and safe reach of break even and entry into profit, all under compliance with the Solvency II regime.

Care and concern of both management, board and employees to the positive development of the company is visibe in the performance and results obtained by the company in 2016 and in its short presence on the Romanian Insurance Market.

Customer choices have lead to a portfolio development year over year of almost 20%, while focus and dedication have abled the company to perform and unfold its activities, achieving fast payment of due claims and NIL (0) grounded complaints[1] in 2016.

In a full Solvency II compliant environment, the company, through owh efforts and support from its shareholders, ensure a comfortable solvency ratio of 158% SCR and 256% MCR as at end of december 2016, these results being in the scope of the audit review which is still in progress at the moment of writing the report.

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

ABOUT THE 2016 GOTHAER ASIGURĂRI SOLVENCY AND FINANCIAL CONDITION REPORT

The Solvency II Directive promises 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 2016 Gothaer Asigurări Reasigurări Solvency and Financial Condition Report (SFCR) - is the first annual reporting prepared under the Solvency II Pillar 3 reporting requirements.

The 2016 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 2016 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.

[1] Grounded complaints during 2016, as provided by FSA legislation and norms related to customer complaints: NIL (0).

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A

SUMMARY AND PERFORMANCE

A.1 Business activity

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 6A Barbu Delavrancea Street, Building A2, 1st District, Bucharest.

Gothaer Asigurări Reasigurări operates exclusively in Romania, under Law 31/1990 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. Gothaer Asigurări Reasigurări operates on the Romanian insurance market under this brand name since beginning of 2013, shortly after the shareholding changes in the company and becoming member of the Gothaer group.

The market entry strategy of the Gothaer Group on the Romanian insurance market was based on buying a sound but small local operation that it further intends to develop into a profitable, sustainable market player.

The company is now in the middle of its development years, observing and implementing a sound development strategy, based on profitable, disciplined underwriting, operational efficiency and client centricity.

2016 should be observed in the light of the development stage of the company, the company aiming at reaching a balanced size of its portfolio and subsequent break – even point, in a mid-term outlook.

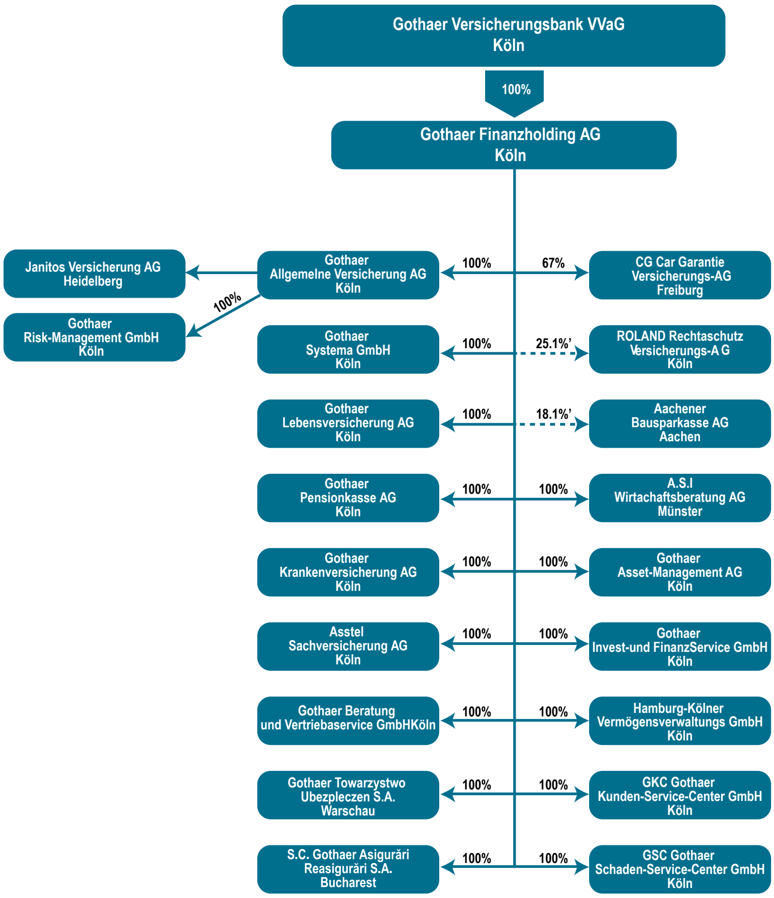
The shareholding structure of Gothaer Asigurări Reasigurări is, as follows:

1. **Gothaer Finanzholding AG** (holding 99.99927% 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 0.00073% 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“**).

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

Figure 1:
Group structure



The Group 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 property 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. At the beginning of 2016, for instance, an innovative term life product was placed on the market, offering tariffs and insurance tailored to each customer's personal risk circumstances. With three product line options – Basis, Plus and the benefit-optimized Premium tariff – optimal cover is achieved for all customer requirements. A new product line will also be introduced in the area of company pension plans in 2016.

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. As modern health insurers, we strengthen clients' health awareness and personal responsibility in handling illnesses. Gothaer Krankenversicherung 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 such as the long-term care insurance product MediP. 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. With its Multi-Rente, Janitos has, since 2008, been successful in covering biometric risks. Since 2010, Janitos has also operated successfully in supplementary health insurance. In product ratings and broker surveys, Janitos regularly scores successes and occupies a very good position as an established broker brand in Germany and Austria.

The focus of the Gothaer Group's business activity is on the German insurance market. Through foreign subsidiaries in Poland – **Gothaer Towarzystwo Ubezpiecze´n S. A.** – and Romania – **S. C. Gothaer Asigurări Reasigurări S.A.** – the Group also shares in the considerable growth potential of the Eastern European property and casualty insurance market. In addition, drawing on international networks and its own branch operation in France, Gothaer supports German corporate customers in this area of business in their international activities worldwide.

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").

The statutory annual financial statements are audited by KPMG, while Solvency II SCR is 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.

Gothaer Asigurări Reasigurări develops and maintains mid-term development plans based on clear objectives, deadlines and concrete responsibilities, together with procedures for monitoring and on-going evaluation of progress in achieving objectives related to the strategy of the Company.

A.2 Underwriting Performance

Building on measures and actions aiming for bettered results, for improved, increased efficiency of internal processes, all rendering positive impacts in its activities, in 2016 the Company regained its growth, while maintaining the same control level of the portfolio, and developing instruments to ensure expected performance in terms of year-end financial result.

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 70% corporate and 30% retail, from a gross written premium perspective, and diversified in terms of lines of business written.

The gross written premium of the Company for 2016 amounts to 97.865.631 LEI.

Main underwriting developments during 2016 are the following:

A.3 Investment Performance

Investments made by the Company are low risk and include risk-free investments (Romanian government bonds) and investments in financial institutions: term bank deposits (in LEI and foreign currencies) and current accounts, taking into account bank ratings and exposure limits settled in risk profile.

The entire investment activity is based on the liquidity requirements and the estimated cash flows. A basic liquidity volume is invested on a short-term basis in overnight money deposits, whilst the rest is invested in government bonds for mid and long-term.

As a general rule, Gothaer does not invest in derivative financial instruments, investment funds, property or shares.

An exception to this rule exists with the Gothaer 15% share in PAID, Insurance Pool for Natural Disasters, these equities being a non-listed strategic investment and treated as such under standard formula.

The internal limits set up yearly, for investment portfolio, expressed as percentage on the type of assets in accordance with the Gothaer 2016 Investment Policy are presented in the table below; the assets detailed herein are defensive assets type, respectively they focus on generating income.

A maximum level of exposure of EUR 100,000 for NR (non-rated) banks is internally. This allocation on asset classes takes into consideration the local financial market specificities and the risk appetite of the company with respect to investments.

Strategic Asset Allocation for 2016

Asset class	Category of investment	Strategic allocation for 2016	Min Limit Allowed	Max Limit Allowed
Money market	Term deposits	35%	10%	90%
„Risk free“	Romanian government bonds	65%	0%	80%
	Supranational bonds			
	EU gov. bonds			
Credits	Bank bonds	0%	0%	20%
	Corporate bonds			
	Municipal bonds			
Total		**100%**		

Investments in the first category of assets, respectively term deposits are short-term investments, highly liquid, readily convertible to cash, and have a low level of risk. As a general rule, the maturity for deposits in the Gothaer investment portfolio is of maximum 6 months. In the Investment Policy, Gothaer considers the placement of investments mainly in banks with rating.

Investments in the second category of assets, respectively investments in bonds are short-, medium- or long-term investments and have a liquidity risk which depends on the bond maturity and on the quality of the issuer. The rating for Romania granted by Standard & Poor's is BBB-.

For 2017, the above limits regarding strategic portfolio structure were changed, with a slight increase of risk free investments weight in total portfolio (from 65% in 2016 to 70% in 2017), while reducing the weight of bank deposits, given the low level of interest rates offered for the traditional bank deposits but also the expected increase of available funds, given planned capital increases.

While considering the investment possibilities on the local market and the appetite for investments 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, in order to take the best decisions. Also, announced t-bills and t-bonds auctions of the Ministry of Finance are monitored in order to participate to the primary market transactions.

The investment portfolio as at 31.12.2016 is presented below.

INVESTMENT	Solvency II value -thousands, LEI-	Statutory accounts value -thousands, LEI-
Participations *(i)*	2,901	2,901
Bearer bonds *(ii)*	69,105	69,105
Bank deposits *(ii)*	1,792	4,792
TOTAL	**73,798**	**73,178**

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	2016 - thousands, LEI -
Government bonds	**1,921**
Interest	1,855
Net gains and losses	-
Unrealised gains and losses	66
Cash and deposits	124
Interest	88
Net gains and losses	7
Unrealised gains and losses	29

The investment result in 2016 has been generated by the weight increase of bearer bonds in total portfolio, given the capital increases cashed in 2016.

Modified duration of the portfolio was 2.55 and the weighted average interest rate was 2.95 for LEI and 3.67 for EUR.

A.4 Performance of other activities

There is no performance of other material activities to be mentioned.

A.5 Other information

The results of 2016 met in full expectations, both in terms of business volume growth and net result, the Company performing at an excellent level, compared to set up targets. At the same time, in the context of a noticeable growth of business volume compared to similar period of previous year (of 19,4%), the level of control on the quality and management of the portfolio has been maintained, ensuring a satisfactory claim ratios both for motor and non-motor business.

The positive results recorded in 2016 (especially on gross loss ratio) reflect the efficiency of the continuous and permanent measures taken by the company in controlling its portfolio.

The achievement of the plan figures, including net result illustrate the ability of the company to sustainably manage its business, under an ambitious planning and difficult market context.

In 2016, the Company also successfully met the expectations deriving out of new legal requirements, of material impact, both in terms of effort and expertise:

- Operating in the new SII solvency regime;
- First time implementation of IFRS (retreatment of 3 past financial statements for balance sheet items and of 2 past financial statements for P&L items);
- DAY1 and QRT (Quarterly Reporting Templates) - reports for Solvency II;
- Implementation of recommendations from the Balance Sheet Review Exercise ("BSRE") plan of measures; BSRE was a mandatory exercise in the insurance market and it consisted in an external party review (performed by auditors agreed by the local supervisory authority) which had in scope the review of the Romanian Accounting Standards ("RAS") balance sheet and Solvency I position and review of the Solvency II balance sheet of the Company;
- IT audit review performed by the external auditor of the Company (KPMG) as required by Norm 6/2015 regarding management of the operational risks report arising from the information systems as amended and completed by Norm 40/2016.

B

SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

B.1.1. Overview

Gothaer Asigurări Reasigurări has adopted a unitary management system organisational structure.

The Company has adopted an organisational structure to fit the size, complexity and nature of activities run by the Company, as well as to meet the requirements of Company's operational needs. The structure grants the required flexibility that leads to an efficient decentralisation 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 a mix of Nonexecutive Directors and Executive 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 defence 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 organised so as to follow the three lines of defence in the management of risks. All departments have their own specific responsibilities regarding risk management and compliance, representing the first line of defence; followed by Risk Management, Actuarial, Internal Control, Compliance and later on Internal Audit, as the third line of defence.

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 from which four non-executive and one executive. 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 2016, are, as follows:

- THOMAS HORST LEICHT, Chairman of the BoD, non-executive;
- KLAUS-CHRISTOPH REICHERT, Vice-Chairman of the BoD, non-executive;
- MAXIM EVTUSCHENKO, Member of the BoD, non – executive;
- ANNA KATARZYNA WLODACZYK MOCZKOWSKA, Member of the BoD, non – executive;
- ANCA MIHAELA BABANEATA –Member of the BoD, executive;

During 2016, the mandate of the following members of the Board of Directors ended:

- GERHARD WALTER WEIDENFELD, Vice-Chairman of the BoD, ended his mandate on October 1st , 2016;
- EFRAIM NAIMER, Member of the BoD, non-executive, ended his mandate on June 30th., 2016.

The Board of Directors ensures the proper organization and continuous development of the risk management within the company.

The Board 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.

All significant strategic decisions are made by the Board of Directors.

Irrespective of the statutory responsibilities of the Company (*in particular the responsibility for proper business organisation of the Company*), Board of Directors is responsible for the establishment and effectiveness of the system of governance.

Within the framework of this responsibility, Board of Director 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), Deputy CEO / CFO and Deputy CEO 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 – F.S.A. Rule no. 2/2016.

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 both mandatory, advisory as well as technical committees which perform their activity in accordance with the Internal Regulation of the Company, such as the *Audit Committee, Remuneration Committee, SII Steering Committee, Risk Management Committee*, *Complaints Committee and Committee for Safety and Health at Work*. The internal regulation is subject to regular reviews and it contains information related to committee's structure, authority, responsibilities and the reporting system towards the Board of Directors or to Executive Management.

At the company level there are set up the following relevant committees:

B.1.1.4.1. Advisory Committees

- The Audit Committee
- The Remuneration Committee
- SII Steering Committee
- Risk Management Committee
- Complaints Committee
- Committee for Safety and Health at Work

The Audit Committee

The Audit Committee has an advisory capacity for defining directives of Internal Control and Risk Management System. It is also responsible for identifying and managing main governance risks and also for assessing the efficiency and effectiveness of the Internal Control system and Risk Management system in order to eliminate/reduce major risks and to provide express recommendations to the Board of Directors regarding the internal control, internal audit and services acquisition of an external auditor.

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 MCR/SCR 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.

Complaints Committee

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 ASF Norm 24/2014.

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.

B.1.1.4.2. Technical or commercial decisions making committees

Additionally to the mandatory and/or advisory committees (*as mentioned above at point B.1.1.4.2.*), the Company has a number of 3 technical or commercial decisions making committees created or established through decisions of the Management Team and following the specific needs of the Company. The role of the technical or commercial decision making committees is to ensure a transparent, objective climate for decision making on matters with impact in the results of the Company, on topics falling under the scope of their work.

- The Underwriting Committee (UWC)
- The Claims Forum (CF)
- The Brokers Committee (BC)

The Underwriting Committee (UWC)

The mission of the Underwriting Committee is to act as a decision making body and/ or a sounding board in respect to underwriting issues with a goal to ensure development of disciplined underwriting, stable portfolios and achievement of underwriting results.

The Claims Forum (CF)

The mission of the Claims Forum is to act as a decision making body and / or a sounding board in respect to claims handling and settlement issues with a goal to correct, efficient and timely claims management.

The Brokers Committee (BC)

The mission of the BC is to ensure development of broker relationships in line with company plans and targets.

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 Risk Manager, which 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 Officer 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. 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 can be able to implement corrective controls in addition to preventive and detective ones.

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 AMSB to enable it to take decisions concerning the underwriting policy and reinsurance arrangements, through the Actuarial Function Report.

Internal Audit Function

The Internal Audit Function of Gothaer Asigurări Reasigurări S.A. is held by the Head of Internal Audit Department. 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, Employee Benefits and Practices

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.

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 Remuneration Policy:

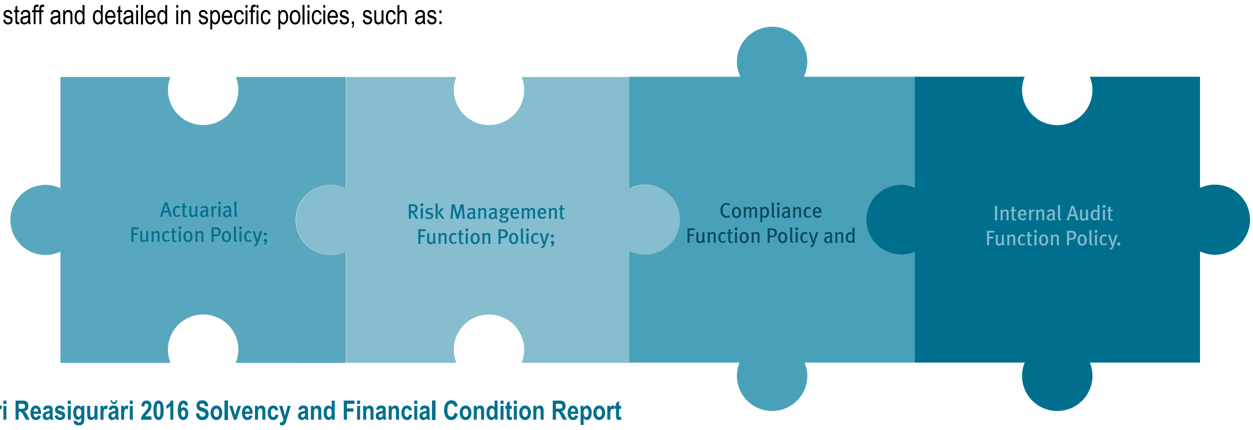
- ties in with the corporate strategy and with the Company's objectives, values and long-term interests. Any changes in strategy, objectives, values and long-term interests are taken into account when updating the Remuneration Policy;
- is ethical, sound and sustainable, in line with the Company's Risk 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;
- encourages employees to act in accordance with the legal requirements and with Company's long-term interests;
- has been designed in such a way that consumers, clients are treated with due care;
- 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

Other than the change in the Board of Directors composition, as set out in ***B.1.1.2*** of this report, there were no material transactions with the Company, with persons who exercise a significant influence on the undertaking and with members of the administrative or executive management.

B.2 Fit and proper requirements

The four mandatory key functions at the Company level have been set up and implemented as per EIOPA System of Governance Guideline, 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:



The requirements applicable to the Executive Management and the Board of Directors have been defined in a specific policy developed at the Company level: ***Fit&Proper Policy_Management Board***.

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 as documented in the internal ***Procedure regarding critical functions***. All the critical functions document the compliance with the fit, proper and governance criteria as set out in their related *Fit&Proper 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

A risk describes the deviation from expectation. The deviation can be either positive or negative. A positive deviation is a chance of a negative deviation being a danger. Every business activity involves risks. They result from the uncertainty of future events.

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.

Info Risk management

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

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 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.

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 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.

The reporting date is the last balance sheet date. 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.

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.

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.

B.4.2. Operation of Compliance Function

The Compliance Function, headed by the Compliance Officer, is part of the Company's overall corporate governance structure. The 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 is able to make recommendations regarding necessary action plans needed to mitigate the risks. The responsibilities of the Compliance Officer 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 the Company where such changes have implications for the Company's processes.

The Compliance officer 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 officer 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 Officer 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.

B.5 Internal Audit Function

Internal Audit Function is a process-independent monitoring measure and a key function in the sense of Solvency II, which can not be cumulated with any other function of the Company and is free from undue influence by any other functions including key functions.

Being an independent process of evaluation, the Internal Audit Function must never undertake tasks that are not compatible with the audit role or that endanger its independence.

Also, in a direct reporting line to the Board of Directors, the Internal Audit Function is able to report the results and any concerns and suggestions for addressing these directly to the Board of Directors through Audit Committee, without restrictions as to its scope or content from anybody else.

The Board of Directors does not exert influence to suppress or tone down Internal Audit Function's results, in order that there is no discrepancy between the findings of the Internal Audit Function and the Board of Director's actions, aspects that can impair its operational independence and impartiality.

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 tehnical 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.

B.7 Outsourcing

The Company has outsourced some of its operational activities. Despite this, the Company remains fully responsible and accountable for the management of these activities. 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.

B.8 Any other information

Other than the information disclosed in the chapter B of this report, there are no any other material information regarding the Company's system of governance.

C

RISK PROFILE

Risk Profile sets the playing field for (acceptable) risk taking in regular business operations.

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:

- A description of risks faced by the Company;
- The factors that can lead to risk occurrence;
- A description of management techniques and mitigation strategies adopted.

The Company's risk profile can be affected on an ongoing basis from some factors external to the business operations such as changes on 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.

C.1 Insurance (Underwriting) Risk

Definition of the Risk: Insurance risk is the probability of a loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. Underwriting risk includes the premium and reserve risk and also catastrophic risk.

The main risk that the Company may face deriving out of its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur only if the frequency or severity of claims and benefits are greater than estimated.

On a quarterly basis, the Company performs tests for claims reserve (RBNS and IBNR) adequacy (run-off test) to ensure that its reserving is prudent and sufficient. The analysis of the loss ratio is performed both on Gross and Net of reinsurance.

Combined ratio is another indicator monitored on a monthly basis, offering important information on the Company's overall peformance. In case of a start-up company, as is Gothaer Asigurări Reasigurări, the Combined Ratio indicates values above 100% (leading to losses), mainly as a direct result of insufficient premiums earned in the development stage against an already normalized level of expenses, corresponding to the operational needs of the Company made.

Also, the Company performs tests for adequacy of unearned premium reserve for each insurance class and, depending on the results, an unexpired risks reserve may be recognized.

Particularly, depending on the type of contracts offered, the Company undertakes exposure related to catastrophe risk which is realized when a low frequency, high severity event leads to a significant deviation in actual benefits and payments from the total expected payments. The Company protects its exposures against catastrophic events, through reinsurance treaties purchased at limits above Standard Formula requirements and concluded with reinsurers with approved credit rating.

Risk monitoring:

The Company monitors the following indicators:

- Net/gross run-off result for the overall Company is monitored monthly by Actuarial department;
- Controlling Department is monitoring loss ratio against planned figures on a monthly basis;
- Actuarial Department performs CASCO portfolio monitoring on a monthly basis for both loss ratio and claims frequency;
- Actuarial Department reports, on a semiannually basis, Cat Risk to the local regulator;
- The Reinsurance Department ensures that in the case of insurance contracts with sums insured over the treaties capacity which should be placed in facultative reinsurance, facultative reinsurance placements are secured;
- Actuarial Department performs monthly monitoring on concentration limits per region;
- Underwriting audit is performed by Head of Underwriting including preventive measures, control of policies and portfolio monitoring. According to the results, measures are taken to reduce the risk exposure by defining the risk appetite of the Company for each LoB.

The Company monitors the results of solvency capital requirement („SCR") for Underwriting risk and its weight in the total SCR according to the standard formula.

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 „Underwriting and Reserving Risk 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, cumulative reinsurance ensures that risk concentration is prevented.

The aim of reinsurance is to protect the Company portfolio and exposures undertaken against extreme risks (accumulation risks, series losses and 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 simulation has been performed on the Earthquake for Property business for 1: 200 scenarios.

Risk tolerance limit have been set in terms of:

- ☑ Maximum loss ratio for the entire portfolio;
- ☑ Maximum UW year (underwriting year) loss ratio for certain lines of business;
- ☑ Maximum claims frequency for certain lines of business;
- ☑ CAT Risk;
- ☑ Concentrations per region (sums insured) to ensure a proper dispersion of Agro portfolio.

This limit will be maintained for the next period since the Company is in process of development and 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.

C.2 Market Risk

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.

Market risk sub-components are described below as applied within the Company:

- **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. The exposure of the Company is limited to the asset and liability mismatch, calculated by each currency, while the matching portion is naturally hedged. Currency risk is analyzed by testing the sensitivity of the assets-liabilities mismatch with the stress factor appreciation/depreciation of the local currency (LEI) against other currencies, with certain percentages set by exchange rates changes for EURO and USD (main foreign currencies in the portfolio).
- **Equity risk**: The Company's investment portfolio can be exposed to fluctuations in equity markets due to its participation in PAID equity.

- **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. Applies only to government bonds.

Risk monitoring: The Company reduces to minimum market risk by investing most of its assets in bonds, treasury bills and money market instruments.

Following the transition to Solvency II regime, the Company monitors the results of SCR for Market risk and its weight in the total SCR according to the Standard Formula.

Risk tolerance limit:

- investments are allocated in asset classes according to the limits set within Investment Policy (revised annually).

Qualitative assessment: Market risk is rated at a **medium** level.

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.

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 agencies internationally recognised. The Company accepts to transfer part of the risk to those reinsurers with ratings above “A-”.
  b. Banks – reflects the concentration of liquidities in the bank accounts opened in each counterparty.
- Counterparty Type 2 related to:

  Insurance receivables from insurance policy customers and contract owners, as well as from 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.

Gothaer secures its insurance portfolio through a comprehensive reinsurance program. In addition, to reduce catastrophic risk exposure, the Company has concluded reinsurance programs with proportional and non-proportional coverage and conventions for mandatory and facultative reinsurance with reputable reinsurers.

For reinsurance treaties, Gothaer prefers reinsurers rated at least ‘A-‘ according to Standard & Poor‘s rating agency.

In setting the limit of the treaty covering catastrophic risks underwritten by Gothaer, the calculation takes into account all exposures, computing a maximum possible loss in line with the standard formula requirements.

The Company considers that the risk in relation to reinsurers’ portfolio is the possibility of loss due to reinsurance counterparty failing to pay reinsurance recoverables in a timely manner, or even not paying them at all. Default by a reinsurer will, potentially, lead to losses to the company, distressing insurance results in the profit and loss statement and the capital position in the balance sheet.

As such, the Company considered the application of a scenario and compared their outcomes to the baseline scenario (i.e. reinsurer portfolio “as is” before the application of a scenario) in order to assess if set risk tolerance limit for the reinsurance credit risk is complied with.

Stress tests are also performed to show, at all times, that the coverage rate of gross technical reserves with assets admitted comply with the limits set. Scenarios have been developed as such to check how does the Solvency situation (SCR and OSN) will differ if the reinsurers from the portfolio drops on rating (if assigned a smaller rating to the reinsurers than they actually has).

These scenarios applied have led to a decrease in solvency capital requirement – SCR - (computed as per the standard formula) but which has maintained above 100% and a modified minimum capital requirement - MCR – also maintained high above 100%. This outcome shows that the Company still holds sufficient capital in case this scenario will happen.

Following the transition to Solvency II regime, the Company monitors the results of SCR for Credit risk, its weight in the total SCR according to the Standard Formula.

The risk assessment of the standard formula assigns a probability of default depending on the rating to the amount at risk. Officially published company rates or solvency figures are used to determine the rating.

The Company does not have a larger risk concentration. The counterparties, which have a significant exposure, should also have the highest ratings, according to risk strategy. Measures to mitigate risks exist in the ongoing monitoring of the rating scores of the counterparties. These are fully revised at least once a year, and financial stability is constantly monitored for important reinsurance partners.

The default risk does not represent a significant risk within the Solvency framework. It is, therefore, not one of the main risk drivers. The effects of the failure of important counterparties are considered as part of the ORSA.

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:

(a) 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);
- acceptable loss: maximum 1% from overall receivables related to reinsurance contracts (commissions and claims, including ceded RBNS).

(b) 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.

C.4 Liquidity Risk

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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.

The Company monitors liquidity coefficient on a monthly basis. The liquidity risk is not included in the standard formula. The company-individual view has shown that there is no liquidity risk for Gothaer, this being at a comfortable level according to the calculations (liquidity coefficient is 2.7 versus 1.05 – intervention limit set by the Company in case liquidity coefficient drops to this value, as the minimum liquidity stipulated by local legislation is 1).

Liquidity risk is analyzed through liquidity ratio and sensitivity tests with the stress factor 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, recommendation of maintaining sufficient liquid assets in the Company's portfolio, along with a prudent correlation between the duration of assets and liabilities and determining the level of mismatch between the cash inflows and the cash outflows of both assets and liabilities, including expected cash flows of direct insurance and reinsurance. Also, the Company has detailed a Business Contingency Plan to identify sources of additional funding during crisis in case of liquidity shortage, along with the specification of Company's management responsibilities in such cases.

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 vulnerabilities of the Company. 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.

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.**

C.5 Operational Risk

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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 so-called standard formula, which is a standardized procedure for the determination of risk capital proposed by the supervisory authority and is a generally recognized market standard. The risk capital shown in the standard formula has proved to be sufficient.

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.

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:

a. 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.

b. 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.

c. 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.

Risk tolerance limit in relationship to the frequency of the events materialising 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.**

C.6 Other material risks

In addition to the risks considered so far, the Company also analyzes further potential risks. This includes, 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.

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.

This risk arises from several sources such as changes in the regulatory framework, the general enviLEIment 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, assesses strategic risks, in order to ensure that such risks are understood and accordingly identified, quantified, monitored and mitigated.

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 daytoday management of the 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 erLEIeous 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:

- centralization of company communications;
- release processes by specialist departments
- ongoing evaluation of all critical issues
- central coordination of the processing of escalation problems
- 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.
- advertising
- campaigns, e.g. with product focus points
- quality standards for products.

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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.

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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-/Stable' rating given by Standard & Poor's Rating and 'A Outlook stable' rating given by Fitch Ratings.

Gothaer Group has expanded its activities out of Germany, entering CEE market by acquiring PTU (Polskie Towarzystwo Ubezpieczen S.A.) in Poland and Platinum Asigurări Reasigurări in Romania.

C.7 Any other information

All important information on the risk profile has already been mentioned.

D

VALUATION FOR SOLVENCY PURPOSES

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.

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.

To prepare the financial statements according to the Order 41/2015 and Law 237/2015 it was necessary to use estimates in relation to the value of the assets and receivables reported in the accounting balance on December 31, 2016, to the presentation of the contingent assets and debts at the date of preparing the financial statements and of the incomes and expenses of the period. Although these individual estimates present a certain degree of uncertainty, their effect on the financial statements is considered insignificant.

The results of this valuation are presented below:

Economic Balance Sheet as at 31.12.2016

Assets	Solvency II value - thousands, LEI-	Statutory accounts value -thousands, LEI -
Goodwill		
Deferred acquisition costs		16,822
Intangible assets		2,266
Deferred tax assets	6,044	
Pension benefit surplus		
Property, plant & equipment held for own use	1,662	1,820
Investments (other than assets held for index-linked and unit-linked contracts)	74,308	73,689
Property (other than for own use)		
Holdings in related undertakings, including participations	2,901	2,901

Economic Balance Sheet as at 31.12.2016

Assets	Solvency II value - thousands, LEI-	Statutory accounts value -thousands, LEI -
Equities		
Equities - listed		
Equities - unlisted		
Bonds	69,105	65,485
Government Bonds	69,105	65,485
Corporate Bonds		
Structured notes		
Collateralised securities		
Collective Investments Undertakings		
Derivatives		
Deposits other than cash equivalents	1,792	4,792
Other investments	510	510
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:	44,103	62,417
Non-life and health similar to non-life	44,103	62,417
Non-life excluding health	44,109	62,417
Health similar to non-life	-6	
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		
Insurance and intermediaries receivables	26,417	26,417
Reinsurance receivables	3,374	3,374
Receivables (trade, not insurance)	20,023	20,023
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	23,106	20,102
Any other assets, not elsewhere shown	998	998
Total assets	**200,031**	**227,928**

Economic Balance Sheet as at 31.12.2016

Liabilities	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Technical provisions – non-life	90,769	113,208

Economic Balance Sheet as at 31.12.2016

Liabilities	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Technical provisions – non-life (excluding health)	90,553	113,208
Technical provisions calculated as a whole		
Best Estimate	88,891	
Risk margin	1,662	
Technical provisions - health (similar to non-life)	216	
Technical provisions calculated as a whole		
Best Estimate	181	
Risk margin	35	
Technical provisions - life (excluding index-linked and unit-linked)		
Technical provisions - health (similar to life)		
Technical provisions calculated as a whole		
Best Estimate		
Risk margin		
Technical provisions – life (excluding health and index-linked and unit-linked)		
Technical provisions calculated as a whole		
Best Estimate		
Risk margin		
Technical provisions – index-linked and unit-linked		
Technical provisions calculated as a whole		
Best Estimate		
Risk margin		
Other technical provisions		
Contingent liabilities		
Provisions other than technical provisions	6,758	6,758
Pension benefit obligations		
Deposits from reinsurers		
Deferred tax liabilities	6,044	
Derivatives		
Debts owed to credit institutions		
Financial liabilities other than debts owed to credit institutions	179	179
Insurance & intermediaries payables	7,368	7,368
Reinsurance payables	36,068	36,068
Payables (trade, not insurance)	5,770	5,770
Subordinated liabilities		
Subordinated liabilities not in Basic Own Funds		
Subordinated liabilities in Basic Own Funds		
Any other liabilities, not elsewhere shown	4,467	4,467
Total liabilities	**157,424**	**173,818**

Liabilities	Solvency II value - *thousands, LEI-*	Statutory accounts value - *thousands, LEI-*
Excess of assets over liabilities	**42,607**	**54,110**

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.

D.1.1. Goodwill

This position does not exist in the Gothaer balance sheet as at 31.12.2016.

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.

Statutory accounting value as at 31.12.2016 amount to thousands LEI 16,822.

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.

In the statutory accounts, as at 31 December 2016, the Company has intangible assets acquired in balance in amount of thousands, LEI 2,261 net of accumulated depreciation (31 December 2015: thousands, LEI 2,219).

These items represent software and computer licenses, depreciated over a life-time of 3 years.

D.1.4. Deferred tax asset

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

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 provisions for provisions.

The determination of deferred taxes under Solvency II is carried out by the 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%).

Generally, the tax values of assets and liabilities are equal to the statutory accounting. Where there is a different tax amount, this amount was taken into consideration when reporting.

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.

As at 31.12.2016 the deferred tax asset value is *thousands,* LEI 6.044.

D.1.5. Pension benefit surplus

This position does not exist in Gothaer balance sheet as at 31.12.2016.

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, equipments are initially measured at cost. For the subsequent measurement, the company has chosen the cost model: cost less any depreciation and impairment loss.

This model was used for equipment because fair value could not be measured reliably. The company owns no properties.

The revaluation model under the IFRS on Property, Plant and Equipment is therefore considered as a reasonable proxy 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 (net book value thousands, LEI 158). Because the premises improvements cannot be effectively valued at market price, for Solvency II scope this value was set to 0. The total Solvency II amount for this caption is thousands, LEI 1,662, whereas for statutory the net book values as at 31.12.2016 is thousands, LEI 1,820.

Tangible assets of the Company as at 31 December 2016 comprise mainly fixed assets consisting of vehicles used for transport, furniture and office supplies. During the year ended 31 December 2016, the Company acquired 4 vehicles in amount of thousands, LEI 399.

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 to companies and bank deposits. The breakdown is as follows:

INVESTMENT	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Participations *(i)*	2,901	2,901
Bearer bonds *(ii)*	69,105	65,485
Bank deposits *(ii)*	1,792	4,792
Other investments *(iii)*	510	510
TOTAL	**74,308**	**73,688**

Government bonds are assessed based on Reuters data, but not assessed according to the rates set by EIOPA. The Company considers this approach reflects much more accurate the specific of such investment due to the fact that the government bonds from the investment portfolio are traded on the capital market.

i) ***Participations***

The Company holds a 15% participation in PAID - The Pool of Insurance Against Natural Disasters. On 31.12.2016, this position had a value of thousands, LEI 2,901.

This participation is a long-term strategic investment, and in the context of Solvency II, in the absence of market prices, a market methodology could not be applied. Thus the evaluation model used is the economic valuation (equity method).

ii) ***Government Bonds and Deposits other than cash equivalents***

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.

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.

In this caption the company records investments placed in treasury bills (bearer bonds) and bank deposits.

The economic value of these assets corresponds to the fair value of the asset at the time of evaluation.

The total value of Government bonds for Solvency II was of thousands, LEI 69,105 and represents the market price and the interest accrued at the reporting date.

As of December 31, 2016, the portfolio of bonds and fixed income securities in LEI is composed of 10,800 of government bonds with a nominal value of thousands, LEI 62,297, with due date between 0.05-7.32 years and a coupon rate between 2.25% and 5.95%.

In respect of bank deposits, the Company classifies into the caption “Cash and cash equivalents” for Solvency II reporting purposes the amount of thousands, LEI 3,000 as at 31 December 2016, representing placed deposits with maturity below 3 months. For statutory purposes, this amount is classified under the caption “Deposits other than cash”.

iii) ***Other investments***

The amount of guarantees on leased spaces is included in this caption. As at 31.12.2016, this position has a value of thousands, LEI 510.

There are no differences in evaluation to statutory accounting values.

As at 31.12.2016 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 31.12.2016.

D.1.9. Deposits to cedants

This caption does not exist in the Gothaer balance sheet as at 31.12.2016.

D.1.10. Receivables

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

RECEIVABLES	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Receivables from primary insurance operations (i)	26,417	26,417
Other receivables (ii)	20,023	20,023
Receivables reinsurance business (iii)	3,374	3,374
TOTAL	**49,814**	**49,814**

(i) As at 31 December 2016, the Company has outstanding receivables from insurance business of LEI 27.4 million, representing gross receivables for which the Company has booked a provision of LEI 0.95 million as at 31 December 2016.

The Company estimates the receivables provision in accordance with the internal provisioning methodology, respectively provides for overdue insurance receivables over 45 days of delay.

(ii) Other receivables consist mainly of outstanding balance of subrogation receivable of approximately LEI 22.6 million for which the Company booked a provision of LEI 5.3 million as at 31 December 2016.

The Company estimates the subrogation provision in line with the internal methodology, namely:

- Administrative subrogation balances are provided 100% for more than 365 overdue days of the balance net of reinsured amount, while for subrogation receivables from Astra and Carpatica Asig 100% provision for the amount net of reinsurance; no provision is made for subrogation files opened within the last year to reporting date;
- Subrogation balances with individuals and legal entities are fully provided for the amount net of reinsured part.

(iii) The amount of LEI 3.4 million derives from the gross receivable reinsurance in amount of LEI 6.93 million, for which a provision in amount of LEI 3.6 million has been recorded.

D.1.11. Own shares

This caption does not exist in the Gothaer balance sheet as at 31.12.2016.

D.1.12. Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances and deposits with initial maturity below three years. 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.

As at 31.12.2016, the balance sheet position was thousands, LEI 20,102 (statutory accounts value) and thousands, LEI 23,102 (Solvency II value). The company includes in the category „Cash and cash equivalents" for Solvency II reporting purposes the amount of thousands, LEI 3,000 as of December 31st, 2016, representing deposits with initial maturity less than 3 months. For statutory purposes, this amount is being classified as being "Deposits, other than cash".

D.1.13. Any other assets

All other asset balance sheet entries are presented under this heading. This includes:

- Prepayments (not related to 'investments' or 'investment property');
- 'Other assets' as presented as part of the Statutory financial statements.

Other assets are measured at their economic value. The Company considers the value as presented in the Statutory financial statements to be a good proxy for the economic value.

ANY OTHER ASSETS	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Prepayments and accrued income	960	960
Other assets	38	38
TOTAL	**998**	**998**

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 31.12.2016 are equal with the sum of a 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 the following distribution of technical provisions by homogenous risk groups:

LoB Standard Formula	Claims Reserve gross	Claims Reserve net	Premium Reserves gross	Premium Reserves net	Risk Margin
Medical expense insurance	0	0	102	1082	15
Income protection insurance	0	0	-53	-53	0
Motor vehicle liability insurance	357	357	905	1,322	62
Other motor insurance	8,923	3,026	20,411	9,349	457
Marine, aviation and transport insurance	3,180	2,453	645	882	124
Fire and other damage to property insurance	16,626	6,144	11,473	12,154	681

General liability insurance	12,903	1,601	1,310	1,584	118
Credit and suretyship insurance	5,661	1,518	4,952	2,778	162
Legal expenses insurance	0	0	0	0	0
Assistance	1,033	1,033	465	475	56
Workers' compensation insurance	39	39	92	947	18
Miscellaneous financial loss	12	12	36	37	2
Total NL	**48,695**	**16,144**	**40,197**	**28,581**	**1,662**
Total Health	**39**	**39**	**141**	**149**	**33**
Total	**48,734**	**16,183**	**40,338**	**28,731**	**1,695**

Claims provision relates to cash-flow projections generated by claim events having occurred before 31.12.2016 – 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 31.12.2016, including allocated and unallocated loss adjustment expenses.

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.

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.

Compared to 2015, the risk margin methodology switched to 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.

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 31.12.2016. 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.

D.3 Other liabilities

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.

Liabilities arising without an observable transaction price at first recognition (i.e. provisions) should be valued by using the risk-free rate.

As at reporting date, the company has no liabilities as:

- Contingent liabilities
- Pension benefit obligation

- Deposits from reinsurers
- Derivatives
- Debts owed to credit
- Financial liabilities other than debts owed to credit institutions
- Subordinated liabilities

D.3.1. 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 in the amount of thousands, LEI 179. There are no valuation differences between the two reporting standards.

D.3.2. 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 in the amount of thousands, LEI 179. There are no valuation differences between the two reporting standards.

D.3.3. 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.

Based on current information there is no difference between Solvency value and statutory balance.

PROVISIONS	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Litigations provisions *(i)*	1,035	1,035
Untaken holidays provision and employees bonus *(ii)*	3,272	3,272
Bonus provision - intermediaries commission	2,450	2,450
TOTAL	**6,758**	**6,758**

(i)) As at 31 December 2016, the Company booked a provision in amount of thousands, LEI 1,035 for a litigation case, following the decision of the Court to pay damages at this level.

(ii) Untaken holidays provision and employees bonus consist of the following: LEI 0.8 million untaken holiday provision and LEI 2.5 million bonus provision for employees.

(iii) Concerning bonus provisions granted to intermediaries, these are related to the bonus campaigns valid in 2016.

D.3.4. Deferred tax liabilities

Income taxes include all domestic and foreign taxes based on taxable profits.

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

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

a. deductible temporary differences;

b. the carry forward of unused tax losses; and

c. the carry forward of unused tax credits.

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

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).

Consequently, for valuation purposes, the company determines the deferred taxes by the differences between the economic valuation of an asset or liability on the Solvency II balance sheet and its tax base.

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. A deferred tax asset on such items can only be recognized to the extent it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. 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.

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 31.12.2016 the value of net DT is set to zero.

D.3.5. Payables

PAYABLES	Solvency II value - thousands, LEI-	Statutory accounts value - thousands, LEI-
Insurance&intermediaries payables	7,368	7,368
Reinsurance payables	36,068	36,068
Payables (trade, not insurance)	5,770	5,770
TOTAL	**49,206**	**49,206**

The balance sheet item “Insurance&intermediaries payables” includes liabilities from the self-insurance business concluded with policyholders and insurance intermediaries. Liabilities against insurance companies and intermediaries are valued in accordance with IFRSs and are shown with this value in the solvency ratio. The value is calculated in the amount of the repayment amount.

The balance sheet item “Reinsurance payables” includes reinsurance obligations. The value is calculated in the amount of the repayment amount. The Company has booked as at 31 December 2016 payable amounts for reinsurance of LEI 36 million in relation to the reinsurance contracts in force as at 31 December 2016.

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, commissions, taxes, social contributions, with sundry creditors, the outstanding of the financial leasing that the Company concluded for the acquisition of vehicles and unsettled collected premiums as at 31 December 2016.

D.3.6. Any other liabilities

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

- Accruals not related to investments or investment property;
- Other liabilities as presented as part of the statutory financial statements not related to insurance contracts.

Any other liabilities are measured at their economic value. The Company considers the value as presented in the Statutory financial statements to be a good proxy for the economic value.

There is no difference between the two reporting standards; the net book values as at 31.12.2016 is *thousands, LEI* 4,467.

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.

In order to ensure that the capital requirements of the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) are adequately high, the available capital of the categories Tier 2 and Tier 3, if necessary, are capped according to prescribed calculation limits. Max. 50% of SCR could be covered by Tier 2 and Tier 3 (MCR 20%). In addition, max. 15% of the SCR will be covered by Tier 3. Tier 3 is not creditable for the MCR.

In addition to the balance sheet own funds, also known as basic funds, there are additional balance sheet resources, also called supplementary own funds. These are funds that a company can request in case of need. These, too, are divided into tiers analogously to the basic own funds. The principle that applies here is that the category of an unpaid capital is a category worse than the category that the own funds would have had if it had been paid.

Own resources overview of eligible capital as at 31.12.2016

Basic own funds	Total - thousands, LEI-	Tier 1 - unrestricted - thousands, LEI-
Ordinary share capital (gross of own shares)\	56,243	56,243
Share premium account related to ordinary share capital	103,233	103,233
Reconciliation reserve	-116,869	-116,869
Total basic own funds	**42,607**	**42,607**

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.

The Tier 1 capital can be calculated 100% for the SCR as of the balance sheet date. For the MCR, the own resources exceed the predetermined credit limit.

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. These are expressed as a balancing balance in the solvency balance.

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 31.12.2016 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 – annual movements

As at 31 December 2016, the Company is operating with a subscribed and paid share capital of LEI 56,243 and a share premium account of thousands, LEI 103,233. During 2016 FY, the Company's share capital had the following movements:

- In October 2015, the shareholders of the Company approved a capital increase consisting of thousands, LEI 3,095 share capital and a corresponding share premium of thousands, LEI 4,453. As at 31 December 2015, the capital increase of LEI 7.5 million (LEI 3 million share capital and LEI 4.5 million share premiums) was in process of being approved by the regulatory body, thus the amount was included in "Other liabilities" caption. The capital increase has been finally approved by the regulatory body and registered at the National Trade Register Office in April 2016.
- In March 2016, the shareholders of the Company approved a capital increase by issuance of a number of 35,680 ordinary nominative shares having a face value of LEI 410 each. The new shares have been offered for subscription to the

shareholder Gothaer Finanzholding AG at the issue price of LEI 410 and a premium of LEI 590 per each share. Consequently, the share capital of the Company has been increased by cash contribution with the amount of thousands, LEI 14,629, from thousands, LEI 41,614 to thousands, LEI 56,243. Also, the share premium registered an increase of thousands, LEI 21,051, from thousands, LEI 82,182 to thousands, LEI 103,233.

After the movements in capital recorded during the period under analysis, the shareholding structure as at 31 December 2016 is presented as following:

Shareholder	Share capital owned 31 Dec 2016 - thousands, LEI-	% share capital owned 31 Dec 2016
Gothaer Finanzolding AG	56,243	99.99927%
Gothaer Pensionkasse AG	0,4	0.00073%
Total	**56,243**	**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 for 31.12.2016 the Standard Formula results are the following:

- thousands, LEI	Net SCR
Market risk	4,829
Counterparty default risk	8,793
Health underwriting risk	308
Non-life underwriting risk	16,337
Diversification	-6,308
Operational risk	3,076
Solvency capital requirement	**27,036**

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. The non-life insurance risk comprises premium and reserve risk, as well as catastrophic risk sub-module. Premium and reserve risk considers losses that occur at a regular frequency. Extreme events, which occur very rarely, are calibrated within catastrophic risk sub-module, representing 27% of underwriting risk. Premium and reserve risk represents 67% from overall underwriting risk.

Market risk arises from the level or volatility of market prices of financial instruments. In the market risk module, exposure to market risk is measured by the impact of movements in the level of financial variables, such as equity prices, interest rates, yield spreads, property prices, and exchange rates. Highest sub-risk within market risk is concentration risk, in amount of 2,836 thousands, LEI.

The counterparty default risk module amounts 8,793 thousands,LEI and 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. It applies to reinsurance arrangements, deposits with ceding and credit institutions, which are classified as type 1 exposures and are assumed not to be diversified but likely to be rated. Exposures to receivables from intermediaries and the capital charges are assessed for exposures to each and every independent counterparty and are then summed into either type 1 or type 2 exposures.

Operational risk increases together with the activity size as it stems from inadequate or failed internal processes, personnel or systems, or from external events, unless the undertaking is well diversified and managed which corresponds to a low value of the BSCR. The Company's capital requirement for operational risk is 3,076 thousands, LEI, which represents 12.83% 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 with an absolute floor of 3.700.000 EUR.

As for 31.12.2016, the Company's MCR has the following composition:

- thousands, LEI	MCR components
Linear MCR	8,303
SCR	27,036
MCR cap	12,166
MCR floor	6,759
Combined MCR	8,303
Absolute floor of the MCR	16,642
Minimum Capital Requirement	**16,642**

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

Gothaer is entitled to underwrite, on behalf of PAID (Pool of Natural Disasters), 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, thereof not traded on the capital market.

Participation held in PAID equities 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 should be computed considering the information from the investment market despite the fact there are unquoted, whatsoever out-of-market transactions.

Considering the above mentioned, the duration-based sub-module equity risk is not used in the calculation of the solvency capital requirement.

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 fully complies with the supervisory minimum and solvency capital requirement, at the end of the year and throughout the reporting period, as follows:

- thousands, LEI	2016
Capital requirement(MCR)	16,642
Capital requirement(SCR)	27,036
Own funds to cover MCR	42,607
Own funds to cover SCR	42,607
Ratio of available capital covering SCR	**158%**
Ratio of available capital covering MCR	**256%**

The surplus of own funds over solvency capital requirement (SCR) is 15,571 thousands, LEI and over minimum capital requirement (MCR) is 25,965 thousands, LEI.

E.6 Any other information

The Company is planning its forward looking assessment based on medium term planning (2016 -2021), following Group request. 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 forward looking assessment the following steps are performed:

- ☑ Preparation of the business plan for the period 2016-2021;
- ☑ 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 2016-2021.

The actual results for 2016 and the forward looking assessment has been performed for the entire 5 (five) years planning period up to 2021 (in line with the period set for the business strategy).

As reflected by statutory financial statements, the company closed 2016 with an accounting loss in amount of 33.78 mil LEI. Thus, the carried forward accounting losses amounts 105.38 mil. LEI. This loss is proposed to be covered from the profits of coming years.

Within the analysed period, the Company performed a change in its share capital structure, on 23rd of March 2016 following its planned capital increases calendar and in the context of the development stage of the company. Thus, a capital increase amounting EUR 8,000,000 (equivalent of mil. LEI, 35.68) has been performed. The amount was split between share capital (14,63 mil LEI) and capital reserve/issue rights (21,05 mil LEI).

The increase was been authorized by the Financial Supervisory Authority and recorded at the Trade Registry on July 26th, 2016.

The capital injection performed in the context of the development stage of the company and in line with Solvency II requirements, namely own projections regarding SCR and MCR. In consequence, during the analysed period, both MCR and SCR ratios comfortably met the minimum criteria.

Already performed capital increases along with the projected ones should be interpreted in the development stage of the company. The capital needs are mainly related to the investments into the company and subsequent planned losses of a start-up business, covering initial investments and the efforts of the company for building a sustainable portfolio. **The company's activity and its capacity for covering its liabilities were not affected in any moment.** According to the company's business plan, the minimum business volume which is expected to assure breakeven is of 200 mil LEI, estimated to be reached in 2019.

APPENDIX:
Annual Quantitative Reporting Templates

(figures reflecting monetary amounts are disclosed in thousands of units)

Application	Solvency II Pillar III Pan European
Application version	Final Report Taxonomy 2.1.0B
Category	SoloAnnual
Template	S.02.01.01: Balance sheet
Entity	RO: GOTHAER ASIGURARI REASIGURARI S.A.
Reporting Cycle	RC-65: Annual 2016 - Using single xls of all reports
Status	InProgress

		Solvency II value	Statutory accounts value
		C0010	C0020
Assets			
Goodwill	R0010		
Deferred acquisition costs	R0020		16.822
Intangible assets	R0030		2.266
Deferred tax assets	R0040	6.044	
Pension benefit surplus	R0050		
Property, plant & equipment held for own use	R0060	1.662	1.820
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	74.308	73.689
Property (other than for own use)	R0080		
Holdings in related undertakings, including participations	R0090	2.901	2.901
Equities	R0100		
Equities - listed	R0110		
Equities - unlisted	R0120		
Bonds	R0130	69.105	65.485
Government Bonds	R0140	69.105	65.485
Corporate Bonds	R0150		
Structured notes	R0160		
Collateralised securities	R0170		
Collective Investments Undertakings	R0180		
Derivatives	R0190		
Deposits other than cash equivalents	R0200	1.792	4.792
Other investments	R0210	510	510
Assets held for index-linked and unit-linked contracts	R0220		
Loans and mortgages	R0230		
Loans on policies	R0240		
Loans and mortgages to individuals	R0250		
Other loans and mortgages	R0260		
Reinsurance recoverables from:	R0270	44.103	62.417
Non-life and health similar to non-life	R0280	44.103	62.417
Non-life excluding health	R0290	44.109	62.417
Health similar to non-life	R0300	-6	

Life and health similar to life, excluding health and index-linked and unit-linked	R0310		
Health similar to life	R0320		
Life excluding health and index-linked and unit-linked	R0330		
Life index-linked and unit-linked	R0340		
Deposits to cedants	R0350		
Insurance and intermediaries receivables	R0360	26.417	26.417
Reinsurance receivables	R0370	3.374	3.374
Receivables (trade, not insurance)	R0380	20.023	20.023
Own shares (held directly)	R0390		
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400		
Cash and cash equivalents	R0410	23.102	20.102
Any other assets, not elsewhere shown	R0420	998	998
Total assets	**R0500**	**200.031**	**227.928**

		Solvency II value C0010	Statutory accounts value C0020
Liabilities			
Technical provisions – non-life	R0510	90.769	113.208
Technical provisions – non-life (excluding health)	R0520	90.553	113.208
Technical provisions calculated as a whole	R0530		
Best Estimate	R0540	88.891	
Risk margin	R0550	1.662	
Technical provisions - health (similar to non-life)	R0560	216	
Technical provisions calculated as a whole	R0570		
Best Estimate	R0580	181	
Risk margin	R0590	35	
Technical provisions - life (excluding index-linked and unit-linked)	R0600		
Technical provisions - health (similar to life)	R0610		
Technical provisions calculated as a whole	R0620		
Best Estimate	R0630		
Risk margin	R0640		
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650		
Technical provisions calculated as a whole	R0660		
Best Estimate	R0670		
Risk margin	R0680		
Technical provisions – index-linked and unit-linked	R0690		
Technical provisions calculated as a whole	R0700		
Best Estimate	R0710		
Risk margin	R0720		

Other technical provisions	R0730		
Contingent liabilities	R0740		
Provisions other than technical provisions	R0750	6.758	6.758
Pension benefit obligations	R0760		
Deposits from reinsurers	R0770		
Deferred tax liabilities	R0780	6.044	
Derivatives	R0790		
Debts owed to credit institutions	R0800		
Financial liabilities other than debts owed to credit institutions	R0810	179	179
Insurance & intermediaries payables	R0820	7.368	7.368
Reinsurance payables	R0830	36.068	36.068
Payables (trade, not insurance)	R0840	5.770	5.770
Subordinated liabilities	R0850		
Subordinated liabilities not in Basic Own Funds	R0860		
Subordinated liabilities in Basic Own Funds	R0870		
Any other liabilities, not elsewhere shown	R0880	4.467	4.467
Total liabilities	**R0900**	**157.424**	**173.818**
Excess of assets over liabilities	**R1000**	**42.607**	**54.110**

Application	Solvency II Pillar III Pan European
Application version	Final Report Taxonomy 2.1.0B
Category	SoloAnnual
Template	S.23.01.01: Own funds
Entity	RO: GOTHAER ASIGURARI REASIGURARI S.A.
Reporting Cycle	RC-65: Annual 2016 - Using single xls of all reports
Status	InProgress

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	56.243	56.243			
Share premium account related to ordinary share capital	R0030	103.233	103.233			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	-116.869	-116.869			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
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						
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	R0220					
Deductions						

Deductions for participations in financial and credit institutions	R0230						
Total basic own funds after deductions	R0290	42.607	42.607				
Ancillary own funds							
Unpaid and uncalled ordinary share capital callable on demand	R0300						
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310						
Unpaid and uncalled preference shares callable on demand	R0320						
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330						
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340						
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350						
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360						
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370						
Other ancillary own funds	R0390						
Total ancillary own funds	R0400						
Available and eligible own funds							
Total available own funds to meet the SCR	R0500	42.607	42.607				
Total available own funds to meet the MCR	R0510	42.607	42.607				
Total eligible own funds to meet the SCR	R0540	42.607	42.607				
Total eligible own funds to meet the MCR	R0550	42.607	42.607				
SCR	R0580	27.036					
MCR	R0600	16.642					
Ratio of Eligible own funds to SCR	R0620	158%					
Ratio of Eligible own funds to MCR	R0640	256%					
		C0060					
Reconciliation reserve							
Excess of assets over liabilities	R0700	42.607					
Own shares (held directly and indirectly)	R0710						
Foreseeable dividends, distributions and charges	R0720						
Other basic own fund items	R0730	159.476					

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740					
Reconciliation reserve	R0760	-116.869				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	R0770					
Expected profits included in future premiums (EPIFP) - Non- life business	R0780					
Total Expected profits included in future premiums (EPIFP)	**R0790**					

Application	Solvency II Pillar III Pan European
Application version	Final Report Taxonomy 2.1.0B
Category	SoloAnnual
Template	S.25.01.21: Solvency Capital Requirement - for undertakings on Standard Formula
Entity	RO: GOTHAER ASIGURARI REASIGURARI S.A.
Reporting Cycle	RC-65: Annual 2016 - Using single xls of all reports
Status	InProgress

Article 112 **Z0010** 2 - Regular reporting

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	C0040	C0050
Market risk	R0010	4.829	4.829	0
Counterparty default risk	R0020	8.793	8.793	0
Life underwriting risk	R0030	0	0	0
Health underwriting risk	R0040	308	308	0
Non-life underwriting risk	R0050	16.337	16.337	0
Diversification	R0060	-6.308	-6.308	
Intangible asset risk	R0070	0	0	
Basic Solvency Capital Requirement	*R0100*	23.959	23.959	
		C0100		
Calculation of Solvency Capital Requirement				
Adjustment due to RFF/MAP nSCR aggregation	R0120	0		
Operational risk	R0130	3.076		
Loss-absorbing capacity of technical provisions	R0140	0		
Loss-absorbing capacity of deferred taxes	R0150	0		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0		
Solvency Capital Requirement excluding capital add-on	*R0200*	27.036		
Capital add-on already set	R0210	0		
Solvency capital requirement	*R0220*	27.036		

Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400	0		
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0		
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0		
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	4 - No adjustment		
Net future discretionary benefits	R0460	0		

Application	Solvency II Pillar III Pan European
Application version	Final Report Taxonomy 2.1.0B
Category	SoloAnnual
Template	S.28.01.01: Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity
Entity	RO: GOTHAER ASIGURARI REASIGURARI S.A.
Reporting Cycle	RC-65: Annual 2016 - Using single xls of all reports
Status	InProgress

		C0010	
Linear formula component for non-life insurance and reinsurance obligations			
MCRNL Result	*R0010*	**8.303**	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0020	Net (of reinsurance) written premiums in the last 12 months C0030
Medical expense insurance and proportional reinsurance	R0020	38	360
Income protection insurance and proportional reinsurance	R0030	15	86
Workers' compensation insurance and proportional reinsurance	R0040	133	571
Motor vehicle liability insurance and proportional reinsurance	R0050	1.748	2.645
Other motor insurance and proportional reinsurance	R0060	12.284	7.765
Marine, aviation and transport insurance and proportional reinsurance	R0070	3.335	598
Fire and other damage to property insurance and proportional reinsurance	R0080	18.310	20.762
General liability insurance and proportional reinsurance	R0090	3.185	4.269
Credit and suretyship insurance and proportional reinsurance	R0100	4.363	2.057
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	1.508	4.337
Miscellaneous financial loss insurance and proportional reinsurance	R0130	50	505
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

		C0040	
Linear formula component for life insurance and reinsurance obligations			
MCRL Result	*R0200*	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	R0210	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	0	
Total capital at risk for all life (re)insurance obligations	*R0250*		0
		C0070	
Overall MCR calculation			
Linear MCR	*R0300*	8.303	
SCR	R0310	27.036	
MCR cap	R0320	12.166	
MCR floor	R0330	6.759	
Combined MCR	*R0340*	8.303	
Absolute floor of the MCR	R0350	16.642	
		C0070	
Minimum Capital Requirement	*R0400*	16.642	

EXPLANATORY NOTE TO THE
GOTHAER ASIGURĂRI REASIGURĂRI 2016 SFCR REPORT

Relevant events in connection with FSA Rule 2/2016

The undersigned **Gothaer Asigurări Reasigurări S.A.**, headquartered in Bucharest, 1st District, no. 6° Barbu Delavrancea Street, Building A2, 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 Klaus Christoph Reichert, in his capacity of Vice-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."
- 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 which has been submitted to the Authority on January 30, 2017, registered to FSA under no. 2838 and within the company with no. 1890;

2. In the financial year ending December 2016, 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 2016 is described.

4. Rule no. 2/2016 was published in the Official Gazette no. 216 on March 23rd, 2016 and entered into force starting with January 1, 2017. Although the rule entered into force starting January 1st, 2017, the principles set by were previously implemented and applied by the company as a result of the implementation of Solvency II regime.

EXPLANATORY NOTE

as per article 49, 2nd paragraph of Rule 2/2016

No.	Rules of application of corporate governance principles	Compliance Yes	Compliance No	Compliance in Gothaer Asigurări Reasigurări SA
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 has mentioned in the Article of Association (chapter VI) the core responsibilities' of the Board of Directors on the implementation and compliance with corporate governance principles, as per the applicable legal requirements and as per 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 that develop the principles of corporate governance. More than that, all the internal policies/ procedures include responsibilities of the Board of Directors and of Executive, as well as other functions responsibilities. We mention in this sense the following: • Company's Article of Association - chapter VI • Companies Organizational and Functioning Regulation - Section I, subsection I.3. Management Bodies of Gothaer Asigurari Reasigurari 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 legal requirement to provide the company's annual report with an explanatory note describing the relevant events related to the application of the corporate governance principles, recorded during the financial year, is in force starting January 1st, 2017. Even though it hasn't been a legal requirement, during 2016, the company prepared the following (in which are included information related to corporate governance principles): • Notes to financial statements (RAS) - chapter 27 "Risk management" (details on transition to Solvency II described); • The content of the Administrator's report which details risk management aspects, Board and Management Team structure is detailed in the Annual report, external auditor opinion on financial statement.
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 is an important requirement for successfully delivering business objectives and managing reputation risk. Starting January 2017, the company has in place a communication strategy which is developed within the following policies which are approved by the Board of Directors: • Guideline for managing risks relating to internal and external communication; • Communication Strategy 2017.

5	The structure of the Board ensures, where appropriate, a balance of executive and non-executive directors, so that no person or small group of persons may influence decision-making.	X		The componence of the Board of Directors assures a balance of executive and non-executive directors, as it can be observed in the Company's article of Association and it consists of: • 4 non-executives members and • 1 executive member (which is not part of any committee at the Board level).
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 2016, there were 8 Board of Directors meetings.
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		The Board of Directors regularly (annual revisions) examines policies on financial reporting, internal control and risk management system. Board of Directors has approved Solvency II related policies in December 2015, but their review was necessary in Q1 2016 following changes in the legal framework, so the Board of Directors reviewed and approved the revised versions, as well in March 2016. The Solvency II related policies were reviewed part on January 2017 and part on March 2017. Solvency II related policies include, among other topics, provisions on financial reporting, internal control and risk management system.
8	In its work, the Board has the support of advisory committees issuing recommendations on various topics subject to decision-making.	X		The Board of Directors has the support of the following committees: Audit Committee, Remuneration Committee, SII Steering Committee and Risk Management Committee. The committees' structure, composition and responsibilities are mentioned in the Company's Companies Organizational and Functioning Regulation and also detailed in each committee Rule of organization.
9	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.
10	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 has been adopted and fist approved by the Board of Directors on January 2016.As a consequence of the Rule entrance into force and in order with other applicable provisions, the Fit & Proper Board Management Policy has been updated in 2017. The updated version has been approved by the Company's Board of Directors in March 2017.

11	The regulated entity shall ensure that Management Team receives training in order for them to perform their duties efficiently.	X		For 2017 the company has set a training plan for the Management Team which includes taking part of specialized conferences and specific trainings.
12	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		Organizational structure and reporting lines are established so that they allow an adequate functioning and control of the Company. Key positions have been identified and established, as follows: 4 mandatory key positions (Actuarial, Risk Management, Compliance and Internal Audit). All the key functions mentioned above have the appropriate functional reporting as to avoid impairment of objectivity and independence, as well as for avoidance of potential conflict of interests. Other critical functions have been defined at the Company level through internal procedures " Procedure on other key functions" as follows: ▪ Economic Director; ▪ Legal Manager; ▪ Chief of Internal Control; ▪ Head of IT; ▪ Claims Manager; ▪ Reinsurance Manager; ▪ Chief Underwriter; ▪ Sales Director. In order to assure that the persons appointed in critical or key functions fulfil the internal and legal fit and proper requirements 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. After a person is appointed in a critical or key function, annually the company performs an evaluation of the criteria taken into account at the date of the appointment and a rating note is issued in this sense to each person. Supplementary, as far as the key functions are concerned, the legal requirements laid down in Regulation 14/2015 will be verified and the Company will document the outcome of this verification.
13	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 2016 Internal Audit Report has a dedicated chapter in which is reviewed the adequacy of the company's internal control system. For 2017 the annual audit plan also includes missions related to the review of the effectiveness of the internal control system. The conclusions are going to be stipulated in a dedicated section of the Annual Internal Audit Report.

14	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 analyzed the activity of the statutory auditor and it has a yearly meeting with the statutory auditor. The Board of Directors are provided with the Audit Committee minutes, for information purposes. The appointment of a new auditor or the renewal of the existing one is analyzed during the Audit Committee meetings. The Audit Committee Charter updated on March 2017 has clearly mentioned this attribute of the Audit Committee related to advising the Board on the selection, appointment and replacement of the financial auditor, and the terms and conditions of the external auditor's remuneration.
15	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 March 2016 and in March 2017).
16	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 the implementation and observance of corporate governance principles according to the provisions of the FSA Norm no. 35/2015. The policy in place is approved by Board members and is subject to annual revision.
17	The Board adopted a procedure to identify and settle any conflict of interest.	X		The company has in place a Conflict of Interest Policy, approved by the Board of Directors on December 2016, policy which clearly identifies potential conflict of interest situations and the approach that needs to be taken so that these potential conflict are managed properly.
18	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 2016 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.
19	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. In the same sense, we mention that the 2016 Internal Audit Report has a clear reference in respect to adequacy of the internal control system and for 2017, the internal audit plan is derived to secure and audit the effectiveness of the internal control system.

20	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, Underwriting Risk Policy)
21	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. Tests have been performed in 2016 for both DRP, as well as for BCP: • DRP tests performed in January and February 2016; • BCP test performed end September 2016. 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.

Cologne, May 2017

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

Klaus Christoph Reichert

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

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