EUROINS
INSURANCE GROUP

GROUP SOLVENCY AND FINANCIAL CONDITION REPORT OF EUROINS INSURANCE GROUP AD

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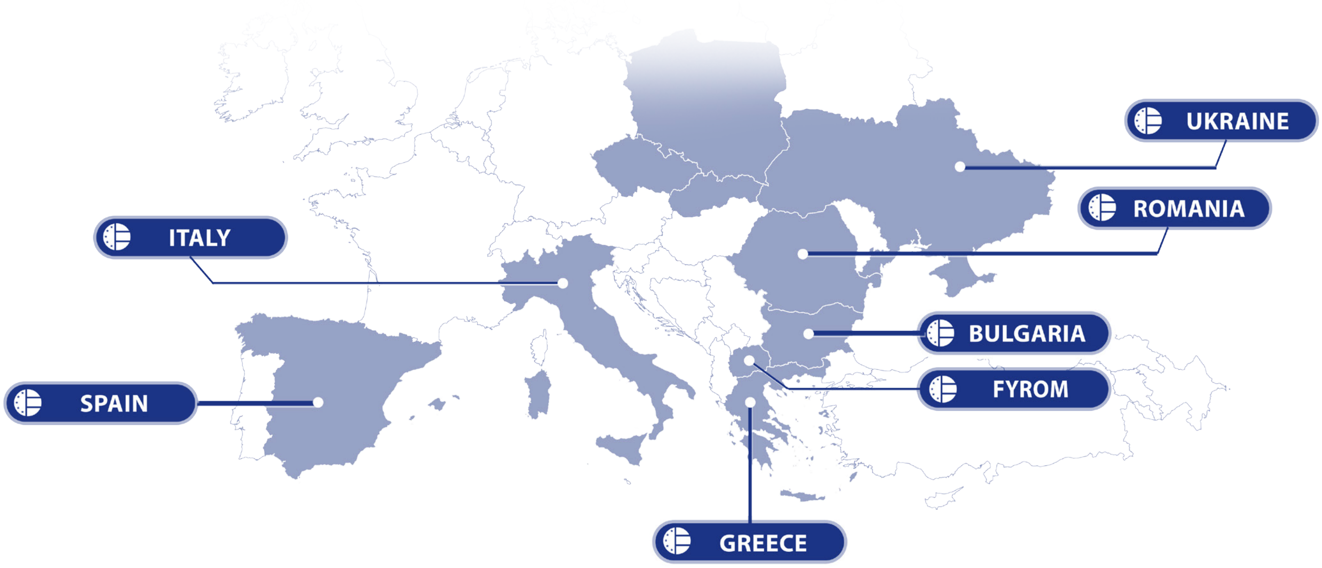

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GROUP SOLVENCY AND FINANCIAL CONDITION REPORT OF EUROINS INSURANCE GROUP AD

Summary

Euroins Insurance Group AD (the Group, EIG) is one of the largest independent groups active in the insurance markets of Central, Eastern and Southeastern Europe. The focus of the Group is on providing a full range of insurance products in the non-life, health and life insurance. The Group, based in Sofia, is operating in seven European states and has reached over 7% market share in Bulgaria, Romania and FYROM. In 2014, EIG started operating in Greece according to the Freedom of Services (FoS) Directive on services in the internal market of European Union (EU) and since 2016 it is also operating on the Ukrainian market following the acquisition of HDI Strakhuvannya from the Hanover-based Talanx International AG. By the end of 2016, the Group was running more than 200 regional offices with 1,600 employees, offering services to 2.5 million customers, while the gross amount of the insurance premiums exceeded 270 million euros.

Changes in the business of the Group:

By 31 December 2016, EIG achieved:

- Gross premium income of BGN 528 million, which represents a growth of 17% compared to 2015;
- The loss ratio declined by 24.8 percentage points down to 65.8% on a year-on-year basis;
- The profit after taxes at the amount of BGN 9 million;
- The administrative expenses decreased by 7% year-on-year, resulting in a 16.6 percentage point decline in the change in the administrative expenditure quota to 8.4%.

Capital management

As of 31 December 2016, the Group has the following status, concerning the Solvency Capital Requirements:

- The coverage of the Solvency Capital Requirement was 123.10%.
- The coverage of the Minimum Capital Requirement was 262.51%.

A core policy of the Group is to maintain stable levels of the indicators concerning both the Solvency Capital Requirement and the Minimum Capital Requirement.

System of Governance

The EIG's System of Governance has been erected in accordance with and in compliance with the provisions of the European legislation.

- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009;
- Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council;
- The Insurance Code (IC);
- EIOPA-BoS-14/253 EN - Guidelines on system of governance;
- Other documents relevant to the company's activity.

The system of governance of the insurance Group is in line with the nature and complexity of the volume of activity. It is applied in a harmonized and consistent manner in the Group, subject to periodic review by the Management Body.

Risk profile

One of the main objectives of the EIG's Risk Management System is to support the management and other stakeholders in achieving the strategic objectives, the efficiency and effectiveness of operations, the application of statutory and regulatory requirements, the reliability of the Group's financial statements.

As an integral part of its business strategy, EIG conducts its own risk and solvency assessment.

The risk assessment includes:

- The calculation of the Solvency Capital Requirement as well as the Minimum Capital Requirement;
- Control over the compliance with the Solvency Capital Requirement, the Minimum Capital Requirement and the technical provisions;
- Level of risk deviation - Deviation of the Solvency Capital Requirement from the Value-at-Risk of the Basic Own Funds, subject to a confidence level of 99.5% over a one-year period.

The principal objectives of EIG are:

- Expanding its market presence on the markets currently represented;
- Increasing the market share of each of its subsidiaries;
- Reducing the combined expenditures quota;
- Increasing sales volume and maintaining the positive public image of the company.

A

Business and performance

A.1 Business

Name and legal form of the company - “Euroins Insurance Group” AD
Euroins Insurance Group AD was established in late 2007 as a 100% subsidiary of EuroHold Bulgaria AD, in which the entire insurance business of the holding is concentrated. The company is registered at the Commercial Register with UIC: 175394058.

Seat and registered address:

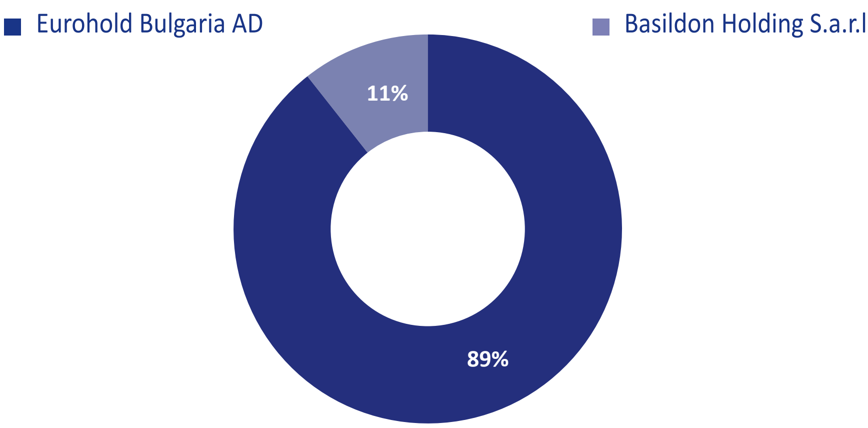
Business address:	43, Christopher Columbus Blvd.; 1592 Sofia, Bulgaria
Phone:	+35929651500
Fax:	+35929651652
E-mail:	eig@euroins.bg
Website:	www.eig.bg

Group supervision
A Group supervisor in accordance with Chapter 25 of the Insurance Code is the Financial Supervision Commission (FSC) / www.fsc.bg
Address: 16, Budapest Street; Sofia, Republic of Bulgaria
Phone: +35929404999
Email: bg_fsc@fsc.bg

External auditor
External auditor of the company: BDO Bulgaria OOD, UIC 831255576
Registered address: 51B, Bulgaria Blvd.; Sofia, 4th Floor
Phone: 02/421 06 57
E-mail: bdo@bdo.bg
Website: www.bdo.bg
The external auditor, elected by the General Meeting of Shareholders is registered in accordance with the Independent Financial Audit Act with registration number 016/1998 at the Institute of Certified Public Accountants.

Shareholding structure
The majority owner of the share capital of Euroins Insurance Group AD is the publicly listed company “EuroHold Bulgaria” AD, holding 89.36% of the share capital.
The qualifying holdings within the shareholding structure of Euroins Insurance Group AD are as follows:

Shareholding structure of Euroins Insurance Group AD



Subsidiaries, business and core geographic areas of the Group

Euroins Insurance Group AD is a holding joint-stock company. The scope of activity of the parent company is:

- acquisition, management, evaluation and sale of participation in Bulgarian and foreign companies;
- acquisition, management and sale of bonds;
- acquiring, evaluating and sale of patents, granting licences for using patent rights to companies in which the entity has a shareholding in ;
- financing of companies in which the entity participates.

Since its inception and as of today, EIG has been expanding its business constantly by acquiring insurance undertakings in Bulgaria, as well as in Romania, FYROM and Ukraine. The insurance companies in the Group are running over 200 regional offices and servicing nearly 2.5 million customers by the end of the period. EIG does not possess a license to conduct insurance business, respectively does not have the status of an insurance undertaking. Within the meaning of Art. 233, Para. 8 of the Insurance Code, Euroins Insurance Group AD is an insurance holding company.

Euroins Insurance Group AD owns investments in several subsidiaries, operating in the field of insurance and offering the following services:

- Insurance services;
- Health insurance services;
- Life insurance.

Investments in subsidiaries	Country	Share in capital	
		As at 31.12.2016 г.	As at 31.12.2015 г.
Euroins Romania Asigurare-Reasigurare S.A. (Euroins Romania)	Romania	98.15%	96.54%
Insurance Company Euroins AD (Euroins Bulgaria)	Bulgaria	80.92%	79.82%
Euroins Osiguruvanje AD, Skopje (Euroins FYROM)	FYROM	93.36%	93.36%
Insurance Company Euroins Health ZEAD EAD (Euroins Health)	Bulgaria	100.00%	100.00%
Insurance Company Euroins Life EAD (Euroins Life)	Bulgaria	100.00%	100.00%
Insurance Company EIG Re EAD (formerly HDI Insurance AD) (EIG Re)	Bulgaria	100.00%	94.00%
Insurance Company Euroins Ukraine PJSC, Ukraine (Euroins Ukraine)	Ukraine	99.316658%	-

Significant events in the Insurance Group

A resolution was adopted by the Board of Directors of EIG, entered in the Minutes, dated 28 October, 2016, pursuant to which Insurance Company Eurons Health ZEAD EAD (Euroins Health) shall be merged into Insurance Company EIG Re EAD (EIG Re). On 31 January 2017, the required notification for obtaining an approval of the merger was submitted to the FSC as the competent supervisory authority of the two insurance undertakings. The supervisory authority approval of the transaction was obtained prior to the date of the present report.

In the reporting year 2016, EIG provided a contribution to an increase of the share capital of Euroins Romania at the amount of BGN 43,251 thousand. The increase was approved on 20 February, 2017 by the Romanian Regulatory Authority and the amount was registered in the Commercial Register in March 2017. At the beginning of the next year, 2017, the General Meeting of Shareholders approved execution of an agreement for the purchase of the insurance policy portfolio of ATE Insurance Romania. The transfer was submitted for approval to the Romanian Regulatory Authority.

Pursuant to Decision No 359 / 14.03.2017 of Romanian Insurance Supervision, Euroins Romania received approval of the successfully completed Financial Recovery Plan procedure.

Another significant business event for the insurance Group was the concluded contract and the annex, which followed, for providing cash in the form of subordinated term debt by Rossgaz Engineering EOOD. The contract was signed on 27 June, 2016.

According to the Annex, dated 16 January, 2017, Rossgaz Engineering EOOD will provide a supplementary amount in the form of subordinated term debt amounting to BGN 6 million. By the date of preparation of the statements of one of the subsidiaries - Euroins Bulgaria, have been submitted BGN 2.5 million and according to the annex, the remaining BGN 3.5 million should be transferred upon request by Euroins Bulgaria.
Among the rest of significant events for the insurance Group during the reporting period was the change in the legal framework, specifically the entry into force as of 1 January, 2016 of the new insurance regulation regime for the European Economic Area - the Solvency II regulation, as set out in Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

It is applicable mutatis mutandis to the supervision at the level of an insurance Group (the level of the Group), given that the parent company's registered office is in an EU member state - the Republic of Bulgaria.
The new requirements introduce a number of changes in the structure and organization of the processes; higher requirements are provided and a new method for calculating and reporting of the financial positions, as well as new obligations, related to reporting to the regulatory body is introduced. With regard to the powers delegated to the European Commission under Directive 2009/138/EC, as of 1 January, 2016, a number of directly applicable European Union acts - regulations, related to the new provisions - are applied. The main acts are: Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) and Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities, according to Directive 2009/138/EC of the European Parliament and of the Council.

During the year, the changes in the legal environment for insurers at European level have been taken into account when the following acts were adopted:
• Commission Implementing Regulation (EU) 2016/1376 of 8 August 2016 laying down technical information for the calculation of technical provisions and Basic Own Funds for reporting with reference dates from 30 June until 29 September 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
• Commission Implementing Regulation (EU) 2016/1868 of 20 October 2016, amending and correcting Implementing Regulation (EU) 2015/2450, laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council (Text with EEA relevance);
• Commission Implementing Regulation (EU) 2016/1800 of 11 October 2016 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Text with EEA relevance);
• Commission Implementing Regulation (EU) 2016/1976 of 10 November 2016 laying down technical information for the calculation of technical provisions and Basic Own Funds for reporting with reference dates from 30 September until 30 December 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
• Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC;
• The new Regulation (EC) 2016/679 of 27.04.2016 on the protection of personal data, promulgated on 4 May, 2017, entry into force after 25 May, 2018 - introducing changes to the current legal framework on the protection of natural persons with regard to the processing of personal data by imposing higher requirements on data controllers.
In terms of the head office of the parent company - Euroins Insurance Group AD, at the local level, besides the new Insurance Code, transposing the provisions of Directive 2009/138/EC, the following relevant changes in the legal framework were introduced in 2016:
• Adopted Ordinance of the Financial Supervision Commission - Ordinance No. 51 of 28 April, 2016 on the own funds and the solvency capital requirements of insurers, re-insurers and groups of insurers and re-insurers, repealing Ordinance No. 21 of 16 March, 2005 concerning the own funds and the solvency margin of insurers and reinsurers;

• The new Independent Financial Audit Act, which completely repealed the preceding law, was promulgated on 29 November, 2016. It introduced provisions, relevant to the activity of insurers in respect of the requirements to the audit committees in public-interest entities and the procedure for the selection of an auditor to carry out the statutory annual financial statements procedure of those entities.

In the reporting year 2016, among the significant events having effect on the Group's activities, shall be noted the Insurers' Balance Sheet Review by independent external experts organized by the Financial Supervision Commission (FSC) pursuant to § 10 of the Transitional and Final Provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act.

By the Decision of the FSC to carry out the Insurers' Balance Sheet Review of the Bulgarian insurance companies (the Review), for Euroins Insurance Group AD were appointed RSM Bulgaria OOD in the quality of approved external experts, designated to the Regulatory Agency List to perform the Review. During the Review was conducted, the Regulatory Agency canceled the decision to appoint RSM Bulgaria OOD and replaced the independent external expert for all the companies in the Group with the France-based Mazars SA. Within the framework of the project, a comprehensive review and analysis of the activity of the insurance companies headquartered in the Republic of Bulgaria was carried out at an individual level as well as at the level of the Group. The Review was successfully completed in early 2017 with a report on all aspects of the business, corporate governance and capital requirements, based on the new regulatory framework, applicable as of 1 January, 2016.

In the reporting year 2016, the companies in the Group operating in the European Union had to pass also a stress test, organized by the supervisory authorities.

A.2 Underwriting performance

The insurance companies of Euroins Insurance Group AD achieved good financial results in the reporting year 2016, in the conditions of strong competition, price dumping, unstable political and economic environment, along with the newly introduced Solvency II rules.
For the year 2016, premiums were written at the consolidated level amounting to BGN 527,733 thousand, with a reported profit of BGN 8,356 thousand.

KEY FIGURES	2016 Thousand BGN	2015 Thousand BGN
Gross written premiums	527,733	452,815
Premiums ceded to reinsurers	(231,937)	(184,741)
Net written premiums	295,796	268,074
Change in the gross unearned premium reserve and unexpired risk reserve	(15,729)	(29,70)
Reinsurers' share in changes in the unearned premium reserve	12,883	20,721
Net earned premiums	292,950	259,625
Fees and commission income	66,142	5,614
Finance income	17,023	18,507
Other operating income	37,793	2,735
Net income	413,908	286,481
Claims incurred, net of reinsurance	(167,932)	(200,759)
Acquisition costs	(128,143)	(112,857)
Administrative expenses	(21,474)	(23,123)
Finance costs	(14,642)	(16,263)
Other operating expenses	(75,391)	(32,911)
Operating profit/loss	6,326	(99,432)
Other net income	5,424	338
Profit/loss for the year	11,750	(99,094)
Income tax expense	(2,806)	16,424
Total comprehensive income for the year	8,356	(82,601)

The following table shows the key indicators of the underwriting activity:

KEY FIGURES	2016 Thousand BGN	2015 Thousand BGN
Gross written premiums	527,733	452,815
Gross earned premiums	512,004	423,645
Net earned premiums	292,950	259,625
Damages incurred, net of reinsurance	(167,932)	(200,759)
Administrative expenses	(21,474)	(23,123)
Acquisition costs, net of Fees and commission income	(62,001)	(107,243)
Technical profit (loss)	3,945	(101,676)

Loss ratio	65.76%	87.50%
Administrative expenses ratio	8.41%	10.08%
Acquisition costs ratio	24.28%	46.74%
Net combined operating ratio	98.46%	144.31%

The premium income of Euroins Insurance Group AD on a consolidated basis in 2016 amounts to BGN 527.7 million as compared to BGN 452.8 million in 2015. The impressive growth of 16.5% is mainly down to the growth generated by Euroins Romania and the newly acquired Euroins Ukraine. Euroins Romania grows by 21.8%, while the new business coming from Ukraine amounts to BGN 5.8 million contributing app. 2% to the total growth. Euroins Bulgaria and Euroins Macedonia keep their written premiums at the levels from last year. It is important to note that Euroins Bulgaria has grown its own direct insurance business at the expense of the active inward reinsurance business. This would be a serious precondition for a future growth.

The main share of the premium income of the Group comes from Euroins Romania, Euroins Bulgaria, Euroins Macedonia and Euroins Ukraine, which account for 73.4%, 21.3%, 3.2% and 1.1% of the total premium income of the Group respectively, i.e. more than 99% of total written business. With regards to Euroins Ukraine it needs to be explained that the acquisition was finalized in August 2016, i.e. the abovementioned gross premiums of BGN 5.8 million were written in the period from August to December 2016.

Total consolidated assets of the Group at the end of 2016 amount to BGN 930.2 million compared to BGN 771.8 million at the end of 2015. Gross technical reserves on a consolidated basis as part of Total liabilities increased from BGN 494.8 million in 2015 to BGN 510.4 million in 2016.

In addition to the obvious growth of the business written by the Group there is also the profit after tax of BGN 8.9 million. In 2015 EIG has reported a loss after taxes of BGN 82.6 million. On one hand this extraordinary improvement is down to the very good technical result, which in turn confirms the correct underwriting approach of the Group subsidiaries. On the other hand there are also the events from last year. As a result of several reasons the Group and Euroins Romania in particular have increased their technical reserves quite significant. This was the main reason for the reported loss in 2015. But this has also put both companies in a very good starting position for 2016.

After the increase of the reserves in 2015 Euroins Romania became one of the most sufficiently reserved companies on the Romanian market. This has allowed for the company to start 2016 with a well structured balance, which contributed to the positive results in 2016. This along with the excellent technical result in the current year are the two main reasons for Euroins Romania and subsequently EIG to close 2016 reporting such improved performance.

Important to note here is that in 2016 all of the operating companies in the registered in Bulgaria as well as the Group itself were subject to a Balance Sheet Review (BSR) process. The main consequence of the review was the decision of the management of the Group to change its accounting and reserving policies. A new reserving method has been applied on Group level. It is a method that is based on specific assumptions and accounting assessments.

Its introduction is related to Solvency II, the new regime for calculating the capital requirements for the insurance business. It is also result of recommendations made by the Independent External Reviewers involved in the BSR of the Group and its subsidiaries conducted with reference date 30 June 2016. The change in the reserving policy aims at a unified approach in the calculation of the Incurred but not reported reserves (IBNR) across all lines of business and all subsidiaries in the Group.

The change in the reserving policy triggered also restatements of both 2015 and 2014. This was due to the fact that in previous reporting periods the Group has calculated its consolidated technical reserves based on the specific regulatory requirements, which in turn were dependent on the jurisdiction, where the companies operated.
Ultimately the consequence from the restatement as well as the overall performance in 2016 is precondition for even better results in 2017.

A.3 Performance of the investments

The investment policy within the insurance group of Euroins Insurance Group AD is applied in an optimal proportion between the prudent person principle and the maintenance of a balanced relationship between profitability/risk profile, directed to the strategic and business objectives of the Group. The Group's investment policy requires strict application of the diversification rules concerning the exposure limits for each type of instrument and for different counterparties, as provide for each national insurance legislation. The Group does not use out derivative instruments. The Group invests insurance reserves and own funds mainly in bank deposits, securities, issued by Member States of the European Union, bonds issued by financial institutions or other companies. The Portfolio management is based on determination, measurement, monitor, control and reporting of risks, associated with the investment activity, taking into account the availability of the assets, in view of their significance as funds, eligible to cover the solvency capital requirements. The analyzes are based on observations and data on the status of the market environment, taking into account the results on a historical basis. Measures are implemented for mitigation of risk of financial losses in the event of adverse changes in the capital market.

Each insurance undertaking within the Group actively manages its assets, using an approach that balances quality, diversification, adequacy between assets and liabilities, liquidity and return on investment. The purpose of the investment process is to optimize risk-adjusted investment income by ensuring that assets and liabilities are managed on a cash flow and duration basis. Each company manages its cash flow and investments by determining approximately the amounts and timing of revenues from insured / health insured persons and payments of insurance / health insurance obligations.

In order to implement its investment policy, the Group deployed professional services of investment intermediaries, authorized to carry out transactions in the country and abroad.

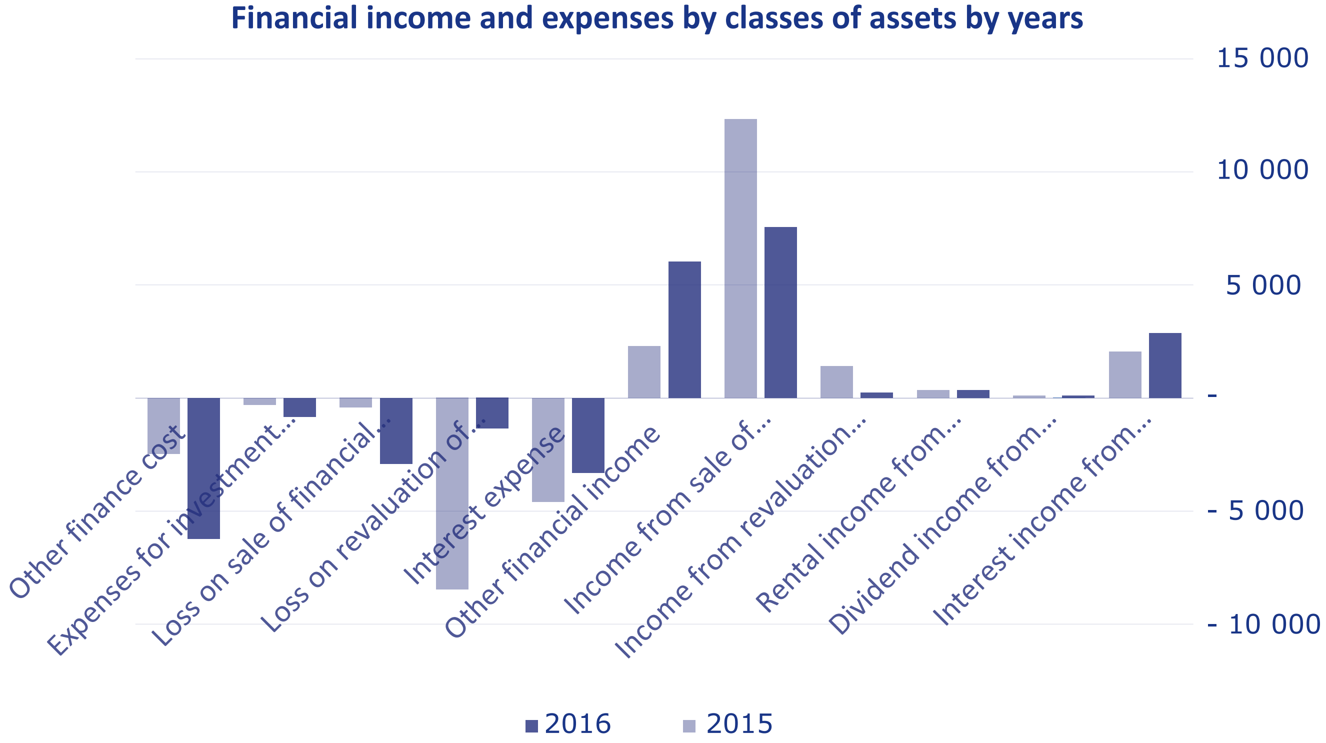
In 2016, the company reduced the share of capital investment, while the share of debt securities grew. The total financial assets increased by 101.87%.

Financial income and expenses in the Company's accounts include investment and other financial income and expenses. Investment income and expenses include gains or costs from trading with financial assets, unrealized gains and losses from for revaluation of financial assets, incomes from leasing of investment property, incomes from interest on debt securities investments, term deposits and dividend income.

Interests on deposits and financial instruments are accumulated on a pro-rata basis on a time basis and on the basis of the effective interest rate.

Financial income	2016 Thousand BGN	2015 Thousand BGN
Interest income from investments in securities and deposits	2,857	2,041
Dividend income from investments in equities	9	89
Rental income from investments in properties	334	340
Income from revaluation of assets at fair value	238	1,409
Income from sale of financial assets	7,553	12,329
Other financial income	6,032	2,299
Total financial income	17,023	18,507

Financial expenses	2016 Thousand BGN	2015 Thousand BGN
Interest expense	(3,315)	(4,598)
Loss on revaluation of financial assets	(1,354)	(8,471)
Loss on sale of financial assets	(2,916)	(427)
Expenses for investment management	(831)	(294)
Other finance cost	(6,226)	(2,473)
Total finance expenses	(14,642)	(16,263)



The Company does not account gains and losses, recognized directly in the equity

B

SYSTEM OF GOVERNANCE

B.1 General information on the System of governance

The present Group Solvency and Financial Condition Report of the Group, describes the System of governance (SoG) of Euroins Insurance Group AD, erected in accordance with and in compliance with the provisions of the following documents:

- The Insurance Code;
- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the Business of Insurance and Reinsurance (Solvency II);
- Commission Delegation Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Guidelines on reporting and public disclosure (EIOPA-BoS-15/109);
- Guidelines on system of governance (EIOPA - BoS-14/253);
- Other relevant documents.

The Company, as an insurance holding company, registered in a Member State of the European Union - the Republic of Bulgaria, is under Group supervision, applied by the Bulgarian Regulatory Authority - the Financial Supervision Commission (FSC) (www.fsc.bg), as group supervisor.

The SoG of EIG is built up in accordance with the provisions of Art. 76 - 79 and Art. 86-100 of the Insurance Code and the relevant texts in Delegated Regulation No. 2015/35. The SoG of the insurance holding company is applied consistently to the undertakings within the Group as control mechanisms are applied at group level. It is in line with the nature, scale and complexity of the Group itself and is subject to periodic review, primarily as a duty on an individual level, carried out by the management and supervisory bodies of the undertakings, part of the Group and subsequently at groupe level through the application of Group policies and rules with the assistance of the EIG Compliance Function. The periodic review of the SoG is at least once a year.

The SoG for insurers, part of the Group and registered outside the EU Member States which fall outside the scope of Solvency II, applies and introduces good practices to ensure the harmonious and consistent functioning of the whole system at EIG level.

In 2016, in order to comply, EIG and the companies within the Group:

1. Establish an adequate and transparent organizational structure with a clear and appropriate allocation of responsibilities as a guarantor for the timely, reliable and lawful transmission of information inside and outside undertakings within the Group.
2. Identify and build internal capacity to undertake practical tasks related to Key Functions - Risk Management Function, Compliance Function, Internal Audit Function and Actuarial Function as a part of the SoG.
3. Step by step implementation of a comprehensive management review project, carried out by:

- External review and evaluation of the SoG with the assistance of independent external reviewer;
- In-house, step-by-step review of policies and rules in the various areas of the SoG, initiated by the Group, such as quantitative and qualitative analysis of the companies within the insurance Group;
- Gradual adaptation of policies and rules applied in accordance with the new requirements and recommendations, found with the implementation of the above items.

4. A set of policies, rules and procedures is set up in key areas of governance to ensure compliance and achievement of the Group's objectives.

In this section of the Group Solvency and Financial Condition Report basic information is provided on the structures, rules and processes to support the effective and efficient management by the members of the company's administrative, management and supervisory bodies in synergy with the Key Functions and the senior management staff, in order to ensure reliable, reasonable and transparent management of the Group, adequate and timely provision of information for the Group purposes and consistent and harmonious implementation of the policies in the SoG. The disclosed information complies with national and European requirements, taking into account only binding follow-up measures that have been under implementation since early 2017.

EIG is a joint-stock company registered under the Bulgarian law, entered in the Commercial Register with a one-tier management structure. The management of the company is carried out by its management bodies - the General

Meeting of Shareholders and the Board of Directors, according to the law, the Articles of Association and all relevant entity's bay-laws. The established Committees and Key Functions, as well as the staff at managerial positions are crucial for the management and the activities of the insurance holding.
The parent company is managed by the Board of Directors and is represented by Kiril Ivanov Boshov - the Executive Member of the Board of Directors.

Summary of the structure and composition of the administrative, management and supervisory Body (AMSB):

EIG is applying a one-tier governance structure, i.e. the role of the management and supervisory body is reconciled and executed by the Board of Directors.

The Board of Directors is managing the company, being responsible for creating of an efficient and effective SoG that provides stable, reliable and prudent management, as well as a harmonized and consistent application throughout the Group.
The current Board of Directors consists of three members, elected by the General Meeting of Shareholders.

The nomination and election of a new member should ensure that the members of the Board of Directors possess jointly appropriate qualifications, experience and knowledge at least for:
- Insurance and financial markets;
- Business strategies and business models;
- SoG;
- Financial and actuarial analyzes;
- Legal and regulatory framework.

The nominees should qualify under the provisions of the Company's Articles of Association, avail of sufficient professional qualifications and experience, required to participate efficiently and effectively in the management and to meet the requirements of the "Policy on the fit and proper requirements for the persons who manage and effectively run Euroins Insurance Group AD, hold key managerial positions or perform key functions".

The activity of the company is operationally segregated between the members of the Board of Directors, while the Board may at any time suggest amendments to the company's organigram in order to bring the activity in compliance with amendments of legal provisions or the strategic objectives of the Group.

The undertakings within the EIG Insurance Group are organized with a different structure of governance, depending on the scale, nature and complexity of their businesses. Under the two-tier management model, the management functions are performed by Management Board, and the control functions in the company are performed by the Supervisory Board. All undertakings follow the main principles of reasonable composion of the administrative, management and supervisory bodies to ensure appropriate qualifications, experience and knowledge.

In addition to the Fit and Proper Policies, the group undertakings ensure segregation of responsibilities within members of their AMSB through established rules / policies for segregation of responsibilities among members of the management body, executive members and key functions personnel.

Main tasks and responsibilities of the Board of Directors

Members of the Board of Directors have equal responsibilities and rights, regardless of the internal segregation of functions between them.
Members of the Board of Directors are elected to perform their responsibilities in the interest of the company.
The competence of the Board of Directors shall be determined in accordance with the Articles of Association of the Company.

The BD elects a Chairman from among its members.

The Chairman of the BD organizes the work of the Board in accordance with the requirements of the law, the Articles of Association and the resolutions of the General Meeting of Shareholders.

Board of Directors:
- The Board of Directors (BD) consists of 3 to 7 members.
- The mandate of the members of the BD is 5 years.
- The BD empowers a person of his / her composition as his / her executive member (executive director), representing the company in its relations with third parties.
- BD manages and represents the company.
- The Board of Directors resolves all issues related to the company's activities, except those which by law or according to this Articles of Association are the exclusive competence of the General Meeting of Shareholders.
- The BD may take decisions under Art. 236, para. 2 of the Commercial Act without the prior consent of the General Meeting of Shareholders of the Company.

The Board of Directors manages and supervises the Company by conducting its activity under the control of the General Meeting of Shareholders. They decide on all issues, related to the implementation of the company's subject matter, except on issues, which, by law or by the provisions of the Articles of Association, are exclusively assigned to the General Meeting of Shareholders.

Interaction between the Board of Directors of the company and organizational/operational structures

The Board of Directors of the Company may at any time request information from each of the structural units related to the implementation of the strategy or/and objectives, such as:
- Information on a particular task assigned and the output after its implementation;
- Information on the results of the ongoing activity of the structural unit.

The Board of Directors discuss with the structural departments issues, arising in the course of performance of their functions and tasks, take decisions and provide guidance on how to be resolved, including by whom and within what time limit. They make cross-checks to verify the compliance of information, submitted by different structural units.

The Board of Directors, as the management and supervisory body, receives periodic information from the insurance subsidiaries in the Group on specific indicators and results, related to the strategic and business objectives, as well as information on the functioning, efficiency and effectiveness of their SoG. Through the direct reporting lines and organized Key Functions at group level, the members of the Board of Directors receive specific information on the different areas of activity and management of the companies within the Group.

Committees

In order to ensure the adequate functioning of the systems at group level as well as timely monitoring of the information horizontally and vertically, the following Committees are organized to assist Board of Directors:.

Committees acting at Euroins Insurance Group AD

COMMITTEE ON ASSET AND LIABILITIES MANAGEMENT

RISK COMMITTEE

CAPITAL ADEQUACY COMMITTEE

Assets and Liabilities Management Committee

The Asset and Liabilities Management Policies are applied at group level on behalf of the Assets and Liabilities Management Committee, which is in charge for the design and supply of information for the purposes of measuring, monitoring, managing and reporting the risks inherent to the Group.

The Committee is assisted by the Chief Financial Officer of the Group, who:

1. Prepares on a regular basis a Consolidated Balance Sheet, according to IFRS-norms by recalculating and transmitting it into a "Solvency II Balance Sheet" in accordance with the Assets and Liabilities Management Policies and regulatory provisions;
2. Classifies the own funds in one of the three tiers, in compliance with the requirements of the relevant regulatory documents;
3. Prepares the final edition of the Solvency and Financial Condition Report, defines and proposes to the Board of Directors information to be disclosed in accordance with the Public Disclosure Policy;
4. Prepares fact sheets or reports, assigned to him/her for the purposes of performing the tasks of the Assets and Liabilities Management Committee and the Risk Management Committee.

Risk Management Committee

The Risk Management Committee is a collegiate body at group level, supporting the activity of a harmonized and consistent application of the Risk Management Policy across the insurance Group. The Committee:

- Identifies, assesses, manages, monitors and reports risks at group level;
- Monitors, evaluates and reports on the results of risk assessment at group level;
- Makes recommendations, reports, opinions and proposals to the Board of Directors of the EIG and the management bodies of the subsidiaries in relation to risk mitigation measures in various areas;
- Recalculates and reports on changes in risk and capital requirements in the event of a change in the structure or balance sheet figures of EIG and/or its subsidiaries;
- Takes account of consistency and sequence and ensure a harmonized approach to the functioning of the Risk Management System at group level.

The Risk Management Committee analyzes the reports and data, obtained from the Assets and Liabilities Management Committee and, after assessing the relevance / significance of the information, develop scenarios relating to the measurement and management of the Group's risk profile..

Committee on Capital Adequacy

The composition of the Capital Adequacy Committee overlaps with the composition of the Board of Directors. The role of the Committee is based on the information provided by the Risk Management Committee and the Assets and Liabilities Management Committee to monitor the prudential indicators, the sufficiency of the own funds and the measures that the Group should take in order to guarantee sufficient eligible own funds to meet the prudential requirements.

The new Independent Financial Audit Act, issued at the end of the reporting period, sets out certain requirements for members, functions and provisions to be met by the Audit Committee's Rules.

In 2017, following the amendment, the Board of Directors' Management will review the internal documentation and present a draft to the General Meeting of Shareholders.

Key Functions

The Key Functions within the EIG, in compliance with the regulatory requirements, are differentiated under the framework of the SoG. They represent the internal capacity to undertake practical tasks at group level. The Key Functions of the company are:

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

The Key Functions defined by the Insurance Code are identified and organized as independent structures in the organizational framework structure of the company by a decision of the Board of Directors as early as 2016. With exception of the Actuarial Function, the company focused in 2016 its efforts on the selection, recruitment of staff, managers / governors for the Key Functions who had to have not only the necessary qualifications and experience but also the necessary personal qualities, competence to cope with a key function position, to generate added value to the insurance Group as a whole.

Direct reporting lines have been introduced to ensure independence and the ability to effectively and efficiently execute the responsibilities in applying a consistent and harmonized approach towards the SoG at group level. The existence of direct reporting lines of control functions ensures their independence, objectivity and impartiality.

Requirements to persons appointed to perform Key Functions.

The persons, appointed for execution of Key Functions are nominated and elected by the Board of Directors of the company. Those nominated for Key Functions are subject to an assessment in accordance with the "Policy on the fit and proper requirements for the persons who manage and effectively run Euroins Insurance Group AD, hold key managerial positions or perform key functions ." They are duly approved by the Regulatory Authority when required by law.

The organization of the Key Functions in the subsidiaries of the insurance Group is the responsibility of the managerial body of the particular entity. In view of the specificity of the Group, insurers falling under the Solvency II rules organize the Key Functions in their organizational structures while respecting the basic requirements, laid down in the legislation, the Group policies and internal by-laws. Companies falling outside the scope of European legislation / companies, registered outside the European Union, organize their operations in line with the local regulations by building up the necessary mechanisms for the effective execution of Key Functions at the level of the Group.

By the nomination of persons for performing Key Functions in the insurance Group the decisions should be tracked for appropriateness in view of the scale, nature, volume and complexity of the activity of the particular insurer.

The executive members of the managing bodies of the insurers are responsible for the smooth functioning and provision of information for the purposes of the consistent application of the Group's SoG.

The Key Functions of the Group are organized with a view to the principles of harmonized and consistent implementation and carrying out the following main tasks:

Actuarial Function

- The main tasks of the actuarial function are to comply with current legislation, coordinate and calculate technical provisions, monitor all risk mitigation measures and report on established lines according to the scope of the activity

Compliance Function

- The main tasks are related to the compliance with the existing legislation and the compliance with the internal legal framework, including identification, control, monitoring of all measures for mitigation of risks of inconsistency and reporting on the established lines according to the scope of the activity

Internal Audit Function

- The internal audit performs audits to assess the proper implementation of all internal control procedures as well as independent process monitoring and control measures to identify weaknesses, errors, frauds and inefficient management

Risk Management Function

- The Risk Management functions are related to identifying, describing and managing business processes that affect the risk profile, including operational risk

Actuarial Function

Functional range:

- Responsibility for the technical provisions, including the design, application and control of technical provisions' policies, including expression of opinion on the general underwriting policy and the adequacy of reinsurance contracts and on the relationship between the reinsurance program and the underwriting policy and the process of providing reserves;
- Responsibility for the calculation of technical provisions, adjustments in actuarial models and assumptions, the suitability of methodologies, base models and assumptions, as well as assessment of market information and assessment of the sufficiency, quality, suitability, completeness and accuracy of data, used in the calculation of technical provisions;
- Drawing up and validation of reports and statements of the Company in relation to actuarial work and actuarial reports, comparing best estimates with practical results, actual data and estimates, and identification of possible discrepancies, assessment and design of recommendations;
- Informing the management or the supervisory body about the reliability and adequacy of the calculation of the technical reserves;
- Supporting the effective implementation of the Risk Management System, including by taking part in the risk modeling, underpinning the calculation of the Solvency Capital Requirement and the Minimum Capital Requirement and in its own risk and solvency assessment, and taking into account the risks in particular segments and the sufficiency of premiums.

Compliance Function

Functional range:

- Advising the Management and Supervisory Bodies, concerning the enforcement of the regulations on the application of the Solvency II rules, including tracing, coordination and design of recommendations and proposals for updating and amending internal documents and also possible participation in the development of documents, related to the activity under that function;

- Develops and proposes for approval and control over the implementation of the “Compliance Policy”;
- Assessment, control and reporting on the legal environment, including the risk of non-compliance and the effect of amendments of laws and the extensive regulations’, directly applicable acts of the competent authorities of the European Union and the by-laws of the holding;
- Applying acts and measures relating to the system of governance within the meaning of the relevant legislation, as well as those for prevention and disclosure of conflicts of interest and assurance of trust;
- Performing related responsibilities, imputed by decision and at the request of the management of the company.

Internal Audit Function

Functional range:
- Drawing up specific rules and procedures for execution of the internal audit activity as well as the annual audit plan;
- Performing audits, planning, executing, document and issue a report upon completion of an audit, as well as periodically preparing reports on findings, conclusions and recommendations as a result of audit activities, carried out and performing follow-up procedures in relation to their implementation;
- Conducting wrap-up meetings to discuss and effectively address difficulties and weaknesses, identified in control procedures, and preparing motivated proposals for emerging issues and improving effective, efficient and cost-effective implementation;
- Maintaining effective communication with the Board of Directors and management of audited structures;
- Preparing an annual report on the internal audit activity;
- Performing other position-related tasks in order to support the activity as well as by order of the management in accordance with the approved structure.

Risk Management Function

Functional range:
- Analyzing the indicators of the companies in relation with the reporting templates under the Solvency II provisions;
- Drawing up periodic reports of these indicators, including reports for the purposes of the company’s supervision and management;
- Participating in work groups, connected to the execution of the function;
- Performing also other tasks, assigned by the management of the company.

Significant events in 2016 cover both changes, essentially related to the SoG review. During the reporting year, Key Functions have been organized at group level; Key Group policies related to the new Solvency II provisions have been developed and an analysis of the SoG in each subsidiary has been made.

All persons nominated for the execution of Key Functions have been duly approved by the Financial Supervision Commission in accordance with the legal framework and when required.

Key changes to the SoG in 2016.

Changes in the management and supervisory body	Changes in key functions	Review and changes in the system of internal documents
• There were no changes in the Board of Directors in the reporting year 2016.	• Selection and appointing a Chief risk officer at group level; • Selection and appointment a Chief compliance officer at group level; • Selecting a person performing the “Internal Audit” function	• Reviewing and approving a new organizational structure; • Approval of a new Fit and Proper policy, risk management policy and asset and liability management policy; • Building a group policy for public disclosure and disclosure of information for supervisory purposes; • A review of the SoG in the group and guidelines to improve its performance; • Others.

Remuneration Policy

The remuneration policy of the company is applied in accordance with the Articles of Association and other company's internal regulations by applying the relevant legislation - the Commerce Act, the Insurance Code, the Commission Delegated Regulation (EU) 2015/35, the EIOPA Guidelines and others, on the ground of which a remuneration policy document has been developed. As an element of the SoG, it is subject to periodic review, including at group level. In order to ensure transparency and compliance of remuneration policy with management strategies, its implementation is reported annually.

The main principles for the establishment of the Remuneration Policy of the companies in the Group are:

- Promotion of prudent and effective risk management and no incentives for risk-taking beyond the acceptable level;
- Correspondence with the company's business strategy (business programs, rules and policies), objectives, values and long-term objectives;
- Providing measures to avoid conflicts of interests;
- Consistency with the principles and good practice of protecting the interests of insurance services consumers.

A process to update the Company's Remuneration Policy will take place in 2017.

The remuneration received by the members of the Board of Directors for the reporting year 2016 is consistent with the increased liabilities and commitments, the economic performance and the stable status of the insurance Group during the reporting period.

The General Meeting of Shareholders determines and changes the remuneration of the members of the Board of Directors of the Company.

The specific remuneration amounts, adopted by the General Meeting of Shareholders are reflected in the individual management contracts or annexes thereto. The members of the Board of Directors receive only a fixed remuneration, approved by the General Meeting of Shareholders that is reflected in their management contracts.

No provision is made for the members of the Board of Directors of the company to options concerning shares, company shares or other periodically variable remuneration and no criteria therefore have been developed and related and no information is available for a period in which shares cannot be transferred and options can not be exercised.

The Company does not provide for additional voluntary pension insurance for the Board of Directors' members, as well as for the rest of the employees.

The Company does not provide an additional pension for the members of the Administrative, Management and Supervisory Body (AMSB), including the Key Functions. The labor category of persons occupying positions in the Administrative, Management and Supervisory Body or performing key functions does not fall within early retirement schemes, according to the provisions of the Social Insurance Code and no such schemes are applied to them.

In the year ended on 31 December, 2016, there were no significant transactions in the shares of the insurance company.

B.2 Fit and Proper Requirements

A gradual review of the SoG, including policies with the assistance of the governing bodies of the subsidiaries, was organized in the reporting year 2016. A new policy project was drawn up at the level of the Group, which was approved by a decision of the Management Board, dated 11 January, 2016.

In accordance with the provisions of the policy, in the scope of the same fall:

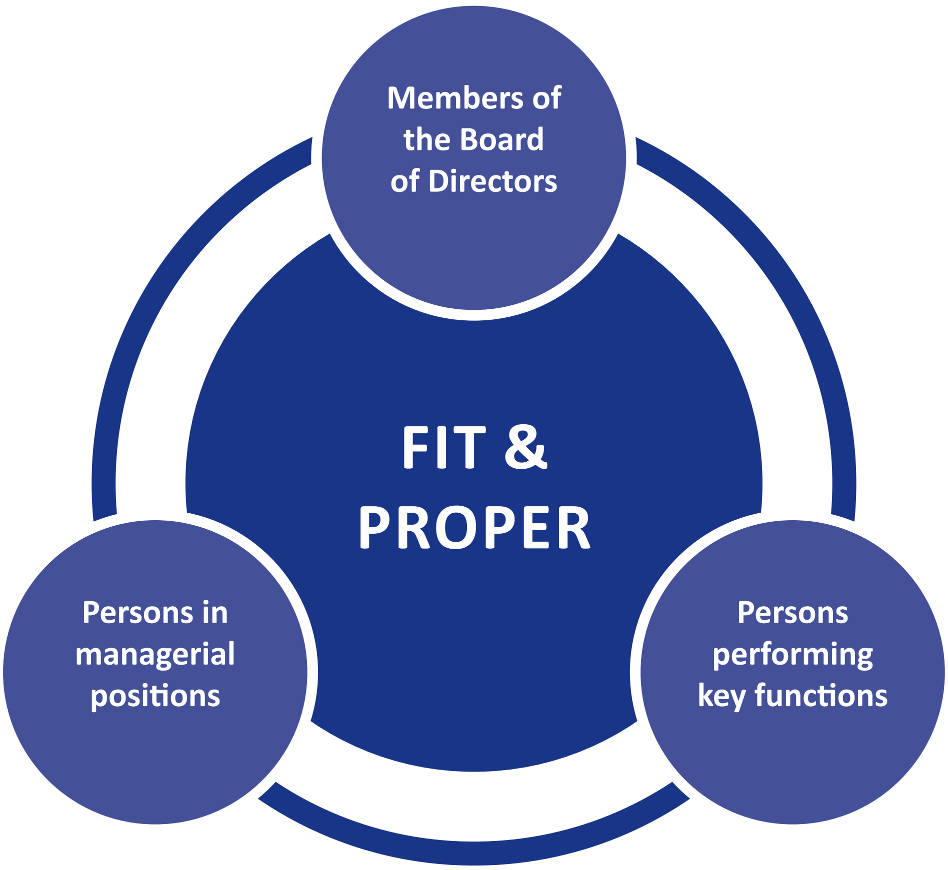
- Persons, who actually run the EIG;
- Persons, performing Key Functions;
- Persons, holding managerial positions.

The conditions for the persons appointed to managerial positions are laid down in the relevant job requirements, respectively in the job descriptions.

The companies of the EIG insurance Group consistently apply the core principles and requirements of the policy of the Group concerning the Fit and Proper Requirements. Companies subject to the provision of Solvency II strictly adhere to the requirements set by developing own company policies, based on the standards of the Group. In the case of additional regulations at local level, the respective management body of the subsidiary is responsible for including them in its own policy, informing the Group about significant additional requirements.

In applying the requirements of the Group on behalf of the insurers, registered in third states, within the scope of company policy fall at least the representatives of the management and supervisory body, including those who are actually managing and/or representing the company. They should avail of sufficient qualifications and experience, necessary for effective participation in the management of the undertaking. Where there is a regulatory regime for the admission of such persons by the local supervisory authority and obtaining a required approval, it is considered for the purposes of the Group that the requirements are met.

Persons falling within the scope of Fit and Proper Requirements.



The Fit and Proper Requirements define a number of requirements to be met by the persons falling within its scope. All requirements are respected for the nominations concerned and are subject to evaluation. The present Report reviews mainly the terms and procedure for nomination, selection and appointment of members of the management or supervisory body of the company or persons, performing Key Functions.
During the reporting year, assessments were made and compliance was declared in front of the regulatory body, with a view to obtaining approval of nominations, where this was legally required. Individuals must meet the Fit and Proper Requirements at any time - from their selection and/or appointment to the termination of their employment.

The criteria and conditions to be met by individuals are basically divided into:
- Minimum / general requirements;
- Additional requirements.

Minimum / general requirements for the persons subject to this report

Minimum / general requirements in accordance with the Fit and Proper Requirements apply in full to all members of the Board of Directors and those performing Key Functions with the exception of the Actuarial Function. The minimum requirements are applied consistently through the individual policies of the subsidiaries that are in line with the policies of the Group. They should ensure that the qualifications, experience and knowledge of nominees are sufficient. The minimum requirements for the persons are:

- University degree and appropriate professional qualifications, required to manage the activity;
- Professional experience in the sphere of economics, finance, insurance or any other sphere, directly related to the performance of the functions, assigned to them;
- Not being convicted for of any criminal offense;
- Not being a member of a management or supervisory body or a general partner in a company to which insolvency proceedings have been initiated or a company, dissolved due to bankruptcy in the last three years prior to the commencement date of insolvency by the court if unsatisfied creditors have remained, or which has been discontinued by a court decision for the purposes of carrying out an activity that is contrary to the law or pursues unlawful objectives;
- Not being a spouse or relative in a straight or a collateral line up to the fourth degree or by marriage to a third degree of another member of a management or supervisory body;
- Not being deprived of the right to occupy a position with material liability;
- Not being a member of a management or supervisory body or unlimited liability partner during the last one year before the act of the respective competent authority in a company, the license of which to perform an activity, subject to licensing regime, has been withdrawn, except where the license has been withdrawn at the request of the company as well as if the act of revoking the license was repealed in due order;
- Not being dismissed from a management or supervisory body of a commercial undertaking company on the basis of a coercive administrative measure applied, except where the competent authority's decision has been duly revoked;
- Have a good reputation, be honest and financially sound;
- Have professional experience in accordance with Articles of association and/or intra-company requirements.

Additional requirements for members of management and supervisory bodies and those performing Key Functions

The Fit and Proper Requirements also specify some particular requirements that are applied differentially and relate to the requirements that should be applied to individual objects, falling within the scope of the report.

The members of the Board of Directors of EIG, as well as the members of the management and supervisory bodies of the undertakings within the insurance Group, should as a whole possess appropriate qualifications, experience and knowledge at least about:

- Insurance and financial markets;
- Business strategy and business models;
- SoG;
- Financial and actuarial analyzes;
- Regulations and legal provisions.

Each member, in addition to the stated minimum / general requirements, should have sufficient professional qualifications and experience, required to be effectively involved in management, and also meet the following additional requirements:

- Have an acquired university master's degree;
- Have a professional experience of at least three (3) years in another managerial position by an insurer, an insurance or financial holding company, a mixed-activity insurance holding company, a mixed financial holding company, a re-insurer, a pension insurance company, a bank, a state institution in the sphere of economics and finance or representing an insurance broker, who is directly involved in the activity of insurance inter-mediation, when the activity of the broker in insurance transactions is commensurate with the activity of the insurer and if the person is with economic or legal education - not less than two (2) years;
- Be reliable - have a good reputation.

The persons performing the Key Functions should have sufficient experience in the field, while for the Internal Audit Function and the Compliance Function, a nominee should, in applying the general criteria for the availability of education, prove the acquisition of a master's degree.

The Actuarial Function in the subsidiaries - insurers, is to be performed by the responsible actuary who organizes, manages and is responsible for the actuarial servicing of the particular insurer. This section of the report only addresses the requirements, applicable and relevant to the qualification and reliability requirements of the person to be elected as responsible actuary. The description of the Actuarial Function is subject of consideration in the present Report.

Persons performing an Actuarial Function should not have be declared insolvent and should not be in bankruptcy proceedings. They must meet the following minimum / general requirements:

- Not being convicted of an intentional crime of a general nature;
- Not being members of a management or supervisory body or an unlimited liability partner in a company for which insolvency proceedings have been opened in the last three years prior to the date of commencement of insolvency by the court or in an insolvent company if there are unsatisfied creditors, or which has been discontinued by a court order for the purpose of carrying out an activity, contrary to the law or pursuing unlawful objectives;
- Not being a spouse or a relative in a straight or a collateral line up to the fourth degree or by marriage to a third degree of another member of a management or supervisory body in the company;
- Not being deprived of the right to occupy a position with material responsibility;
- Not being a member of a management or supervisory body or unlimited liability partner in a company to which a license to engage in an activity subject to a licensing regime has been withdrawn during the last one year prior to the act of the relevant competent authority unless it was withdrawn at the request of the company as well as if the act of revoking the license was repealed in due order.

The specific requirements for the Actuarial Function, according to the Fit and Proper Requirements are:

- Have a masters degree or an educational and academic degree "Ph.D." after passing the respective credit hours in Higher Mathematics, according to requirements set forth in the regulation of the FSC;
- Have at least three years of working record as an actuary with an insurer, a re-insurer, a pension insurance company, a body supervising the activities of such professionals, or as a holder of an academic degree in insurance mathematics - in the calculation of the cumulative experience of this requirement the accumulated experience as an actuary in a health insurance company is to be recognized;
- To be recognized as a responsible actuary by the FSC, following a successful examination or being a recognized responsible actuary in another Member State;
- Not being deprived of his or her legal capacity on the grounds and/or the meaning of Art. 98, Para. 1, Items 1 - 3 and 5 of the Insurance Code and not being deprived of the capacity as an actuary by a state or public organization in the Republic of Bulgaria or in another Member State on grounds of bad faith in the performance of his duties as an actuary;
- Not being a member of a management or supervisory body of another insurer or re-insurer, respectively.

All circumstances, set out in the description of the specific requirements for persons who actually direct the company or perform other Key Functions, mentioned above, are subject to certification. The way of authentication is provided in the Fit and Proper Requirements.

Following the documents, submitted and their completeness, the nominee shall be assessed concerning the fit and proper. Individuals should meet the relevant requirements of the law, the Articles of Association and the Fit and Proper Requirements.

An officer performs the assessment of the qualifications and reliability of the persons in the following sequence:

1. The analysis and assessment of the candidates' professional qualifications and experience shall be based on the CVs, diplomas, deeds and certificates, issued by recognized educational institutions, offices or organizations, both - domestic or foreign, as well as on the basis of data and officer documents, gathered ex-officio in the appropriate order from formal sources.
2. The analysis and assessment of the candidates' professional skills, knowledge and reputation shall be based on recommendations from previous employers, provided by the applicant or third parties, deeds and certificates of courses, trainings and others, evidencing acquired knowledge and skills by the applicant.
3. The analysis and assessment of the proper of the candidates shall be made on the basis of own-filled and signed declarations (a template) proving the financial reliability of the applicant, a non-conviction certificate and self-filled

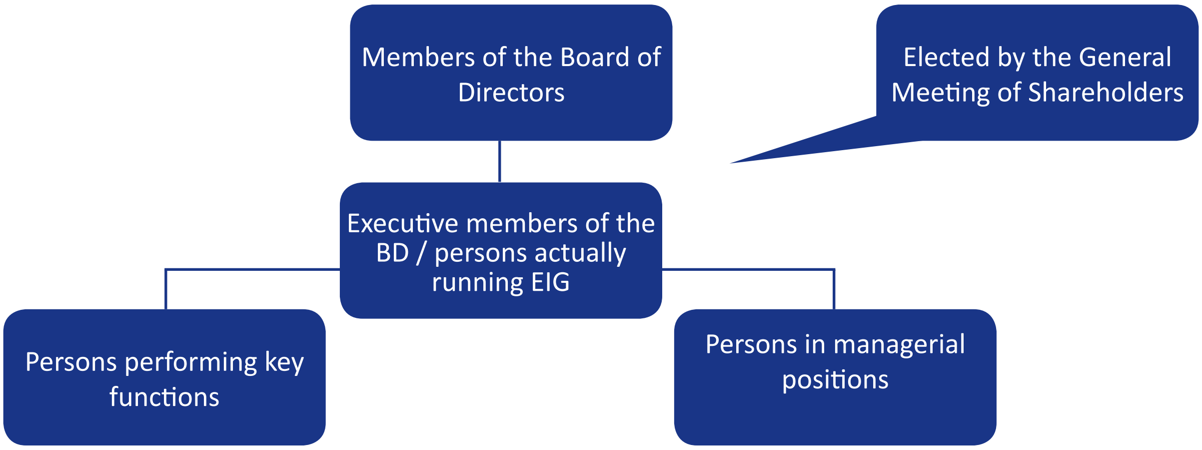
and signed declarations (a template), proving the reliability and the judicial record of the person.

When assessing the circumstances, the officer shall take into account the following:
- Availability of all necessary documents and their compliance with the Fit and Proper Requirements;
- The compliance of the documents with the regulatory requirements, the Insurance Code, the Commerce Act, as well as any other statutory requirements;
- For the members of the management and supervisory bodies, their compliance with the requirements under the Articles of Association.

On the basis of the assessment made, the officer shall report by submitting a completed and signed declaration (in a template) for verification of the reliability of the circumstances verified, for the assessment to be carried out in accordance with the law and the Fit and Proper Requirements and that the person meets the requirements for occupying the position. After approval of the submitted application, two of the members of the Board of Directors of EIG, respectively two of the members of the management body of the undertaking, also sign the declaration, submitted and signed by the officer.

Selection and approval procedure
The members of the Board of Directors of EIG are subject to approval by the FSC Deputy Chairperson prior to their election or appointment to the respective position. They are to be elected by the General Meeting of Shareholders of the Company.
The persons, who perform Key Functions in the company, are elected and appointed by the Board of Directors, after discussing the evidence, presented on their behalf, that they possess the necessary qualities, qualifications and experience. The persons who hold executive positions in the company shall be elected in the manner and procedure provided by the company's internal rules. The documents and the assessment of the persons to be approved by the FSC are duly submitted to the Regulatory Authority. Persons already approved are not subject to further approval.

Hierarchy of the election and appointment of persons of the Administrative, Management and Supervisory Bodies of the EIG.



B.3 Risk Management System, including own risk and solvency assessment. Internal control system.

A functioning SoG is in place within the EIG insurance group, which includes system for risk management and internal control. The SoG is designated to ensure stable and prudent management of the activity, including efficiency and the establishment of an adequate and transparent structure with a clear and appropriate allocation of responsibilities, ensuring the transmission of information, including in relation to the functioning of the systems for accounting and finance accountability and disclosure of information.

A major goal of the internal control and risk management systems is to assist the management and other stakeholders in assessing the reliability of the company's financial statements, for the achievement of the major objectives, efficiency and effectiveness of operations and implementation of relevant legal and regulatory provisions.

The internal control and risk management are well integrated into the organizational structure, both at the level of the insurance holding company and in the undertakings, belonging to the insurance Group. They are an integral part of the decision-making processes at group level, being implemented by employees at all levels of governance as an integral part of the company's business. The direct and immediate implementation is performed by the Board of Directors, as well as by the officers of the structural units, performing Key Functions.

The EIG risk management system is a permanently functioning set-up, ensuring the timely and adequate management of the different types of risks to which the insurance holding company is or could be exposed, taking into account the nature, scale and complexity of activities of the undertakings within the insurance Group.

The risk management system is a tool for effective and efficient management at insurance group level, consistently applied, harmonized and integrated into all undertakings. EIG's risk management system is comprising the risk management systems at the subsidiaries' level. Subsidiaries are building-up on the risk management system by adopting and implementing risk management policies in line with and following the basic guidelines of the EIG risk management policy.

All risks, according to the risk management system at group level shall be identified, measured, monitored, managed and reported on the basis of a periodic consolidated report, adapted to Solvency II provisions, in accordance with the regulatory requirements and within the principles and methods set out in the EIG policy, concerning the management of assets and liabilities.

The EIG's risk management system is governed and administered by the EIG Chief risk officer and covers risks falling within the following areas:
- Underwriting and reserving;
- Asset-liability management;
- Investment risk management and, in particular, derivatives and other similar commitments;
- Risk management in the field of liquidity and concentration;
- Operational risk management;
- Reinsurance and other risk mitigation techniques.

Risk categories inherent to the EIG, as an insurance holding company, are identified and classified in accordance with the identified risk categories at the level of its subsidiaries. Following the particular Lines of business of the undertaking, in accordance with the possessed license for performing insurance activity, those certain categories of risk are identified:

Underwriting risk - the risk of loss or of adverse change in the value of insurance liabilities, in respect of the covered insurance risks and the processes, used in the performance of the undertaking activities.The Underwriting risk includes the following sub-risks:
- Risk associated with premiums and reserves;
- Lapse risk;
- Catastrophic risks.

Market risk - risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and volatility of market prices of the assets, liabilities and financial instruments of the undertakings. The Market risk includes the following sub-risks:
- Interest rate risk;
- Spread risk;
- Equity risk;
- Property risk;
- Concentration risk;
- Currency risk.

Operational risk - risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events in undertakings.

Counterparty default risk – reflects possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of the insurance undertakings over the following 12 months.

Risk, associated with intangible assets

The Group organizes its risk management activities by creating and effectively implementing a system of internal documents, both at solo level and group level. Taking into account the Solvency Capital Requirement (SCR), the analysis of the ratio possibilities vs risk is a main control tool to avoid and mitigate risk. Risk identification, measurement, monitoring and reporting is performed at present and on a regular basis in accordance with the applicable regulatory framework and internal documents in the Group.

Risk-related activities are reported quarterly or more frequent, if proper, to the Board of Directors.

The main activity of identifying, measuring and controlling the general risks in the EIG Group, as an insurance holding company, is carried out by the EIG Chief risk officer and the entity's Risk Management Committee.

The Risk Management Committee is a collegiate body at the level of the insurance holding company that supports the activity of harmonizing and consistently implementing risk management policies across the entire insurance Group.
The internal control system includes arrangements for internal control, administrative and accounting procedures, appropriate reporting lines at all levels, and the Compliance Function.

Established systems of internal control and risk management ensure the effective and efficient implementation of internal control in the design and management of all corporate documents, including financial statements and other regulated information that the company is required to disclose in accordance with legal provisions.
Within the insurance Group parent company, the risk management system, the internal control system and the reporting procedures are applied consistently and in line with the Group policies so that these systems and procedures can be controlled at the level of the Group as well.

The Annual Consolidated Financial Report of EIG is subject to an independent financial audit, delivering an unbiased impartial opinion on how it is prepared and presented with the purpose to increase the level of confidence of its users. The Company prepares and maintains its accounting records in accordance with International Financial Reporting Standards.

The Compliance Function includes consultation of the administrative, management and supervisory Body (AMSB) on the compliance with the laws, regulations and administrative provisions, adopted pursuant to the Insurance Code. It also includes an assessment of the possible impact of any change in the legal status quo on the operations of the undertaking concerned, as well as the identification and assessment of compliance risk.

The EIG Compliance Function was organized as an independent unit, subordinated to the Board of Directors. The Function is performed at the level of the Group by the Chief compliance officer (CCO), appointed after a due fit and proper screening. The CCO has got the approval of the Deputy Chairperson of FSC in charge of "Insurance Supervision". According to the policy of the Group, the build-up of the Compliance Function in undertakings, which are categorized as small-scaled in terms of the volumes of business and market position, should be cost-effective and organized and run following the principles of proportionality and shared responsibility at group level .

The CCO reports by deploying the direct reporting lines at group level and interacts with both the Board of Directors of EIG and the representatives of the AMSB at solo level of the subsidiaries.

Due to the mechanisms introduced since the beginning of the reporting year, the Compliance Function does periodically review and notify the management of the company about changes in the legal environment, both at national and European level. Together with the mechanism for tracking changes in the legal environment, the Function also informs the AMSB about significant news, decisions and/or documents, published by the Group Regulatory Authority (FSC) or the relevant sectoral body of the European Supervisory Mechanism - EIOPA. The Compliance Function Manager also actively participates in the drafting of internal documents, ensuring coordination with policies of the Group at the subsidiaries' level. The Compliance Policy in 2016 was implemented through the application of the "Compliance Plan 2016", approved by the Board of Directors. The implementation of the plan is reported to the General Meeting of Shareholders.

During the reporting year 2016, the following Compliance Function tasks were brought in:
- A mechanism for periodic and timely notification of changes in the legal environment was designed and embedded;
- A system has been set in place to ensure compliance with the Fit and Proper Requirements and the policy updating in this area;
- A mechanism for managing and administering internal documents was introduced as an element of the SoG;
- An assessment of the SoG in the subsidiaries was carried out as a project for an Assessment System on the compliance of the SoG is on-going at group level carrying out the potential for its implementation.

In the reporting year 2016, the Compliance Function carried out a primary review at the level of the Group and at solo level of the subsidiaries under the scope of Solvency II. It materialized in the development and submission of a report on the assessment of the adequacy of the system in accordance with the adopted Methodology for Insurance Sector Balance Sheet Review. In consequence of the assessment, applying a risk based approach and on the basis of consultations with the management concerning the major objectives, the areas and elements of the SoG, which are to be included as a matter of priority in the 2017 compliance plan at group level and in particular for specific undertakings were highlighted.
During the Insurers' Balance Sheet Review over the time-span from July 2016 through February 2017, the CCO took part as a Project Coordinator in order to follow and ensure an adequate and appropriate process of preparing the evaluation and the compliance of the procedures with the instruction, issued for this purpose. In particular, during the review, the CCO was responsible for its carrying-out concerning the SoG.

B.4 Internal Audit Function

The Internal Audit Function is performed by an employee, designated as an Internal Auditor. the Internal Auditor adopts and implements a risk-based audit plan. He identifies which processes and procedures to be reviewed in accordance with generally accepted internal audit standards and company management priorities and principles. The activities and tasks of the Internal Audit Function are performed consistently as described in this section in the undertakings within the EIG insurance Group. All persons acting as internal auditors obtaine direct reporting lines at group level, which should be ensured by the management and supervisory body of the insurer.

In the context of the internal audit, the Internal Auditor is acting to verify the reliability of the procedures, methods and measures that serve to influence the risk and increase the probability that certain objectives (of the process) are reliably and efficiently achieved. The audit should reduce the likelihood of errors and fraud within the processes' frameworks, identify errors and/or weaknesses already committed and provide recommendations for their elimination.
After each audit, the Internal Auditor draws up and delivers an audit report to be submitted to the managers of the audited activity for profound consideration. Where necessary, an additional report shall be prepared. The management body by a decision assigns taking action to address discrepancies in accordance with the findings and recommendations made by the Internal Auditor. The Internal Auditor also performs follow-up procedures until the full implementation of corrective actions and recommendations. In cases where the actions taken do not suffice to remedy the faults, the Internal Auditor shall report this to the management body. If in the course of the audit are identified facts and/or actions and/or inaction of officers that impose findings and recommendations regarding activities outside the scope and purpose of the audit, the Internal Auditor shall report further. The Internal Auditor prepares an annual activity report for the Internal Audit Function.

In order to ensure the necessary degree of independence of the internal audit, the Internal Auditor is directly subordinate to the management and/or supervisory body of the company, depending on the way in which the authorities is organized, and is not subordinate in the organizational hierarchy to any person, managing an operational activity.
Guarantees for the independence of the Internal Auditor are also:
- The right of own-initiative entitlement;
- The right of free access to information;
- The right of direct communication with all employees of the company;
- The freedom of expression of position.

B.5 Actuary function

The Actuary Function is set up and operates in the Group by a responsible actuary, who organizes, manages and is responsible for actuarial servicing of the particular undertaking. Following the judgment for appropriateness, in view of the scale, volume and nature of the business of the particular undertaking and the complexity of the risks exposure, it is affordable the Actuarial Function and the Risk Management Function to be reconciled by one employee. An individual approach is applied for the judgment.

The main activities and tasks performed by the Actuarial Function of the EIG Group's undertakings are:

- Coordination of the calculation of technical provisions. Participation in the development and control of compliance with the Group Policy for Assessment of Technical Provisions.
- Ensuring the suitability of the methodologies and base models used, as well as the assumptions, made when calculating the technical provisions. Analyzing the effect of changes in data, methodologies, and assumptions for the amount of technical provisions.
- Evaluating the sufficiency and quality of internal data, used to calculate technical provisions and their compliance with data quality standards, including assessing the need to use market information.
- Comparison of best estimates against practical results, actual data and estimates. Where a systematic deviation between the practical results and the best estimates is established as a result of the comparison, appropriate adjustments shall be made to the actuarial methods used and/or assumptions made.
- Informing the management or the supervisory body about the reliability and adequacy of the calculation of the technical provisions.
- Presenting at least once a year a report on the Actuarial Function of the Group, containing all the significant tasks that have been undertaken during the reporting period and the results thereof. Possible discrepancies are identified, they are evaluated and recommendations are made, describing the measures to overcome them. The report shall describe the methods and data used in the calculation of technical provisions, reliability and variations in the results, the conclusions reached by back testing. The inclusion of parts of the company report in the Report of the Group depends on their importance and relevance to the Group.
- Controlling the calculation of technical provisions by means of approximations and individualized approaches in individual cases, where there is insufficient data to apply reliable actuarial methods.
- Expressing an opinion on the routine underwriting policy. It takes into account the risks in the individual segments, the sufficiency of premiums and compliance with risk appetite.
- Expressing an opinion on the adequacy of reinsurance contracts and the relationship of the reinsurance program with underwriting policy and the process of arranging reserves.
- Support for the effective implementation of the risk management system, including by taking part in the risk modeling, underpinning the calculation of the Solvency Capital Requirement and the Minimum Capital Requirement and in its Own Risk and Solvency Assessment.
- Preparation and verification of reports and statements of the company in relation to actuarial activity and the actuary report.

B.6 Outsourcing

Undertakings with the EIG insurance Group have adopted and implemented specific outsourcing policies. The policies' objectives are to define the conditions and requirements for outsourcing of particular activities, services, processes or functions, as well as to define the the responsibilities and the stages of the procurement process, taking into account the regulatory requirements for carrying out this process and ensuring that the proper performance of the outsourced activities, the control and monitoring capacities of the management bodies of the particular undertaking and the possibilities for auditing and monitoring the supervisory body are not at risk. The process of outsourcing should be defined and duly documented.

The outsourcing of activities is done through the conclusion of a contract in writing, in compliance with the requirements, established for the undertaking, so that the activities themselves and the persons to whom they are assigned are covered by the management and internal control systems of the company. Outsourcing contracts shall be terminated or amended with the collaboration of a jurist.

The decision for outsourcing is taken by the management body of the undertaking. The conditions for admission to outsourcing are:

- Not exposing the company's activities to substantial risk;
- No responsibility transfer of the company's management and supervisory body members to external contractors;
- No authorities and functions transfer from the company's management and supervisory body members, including reconciliation and monitoring functions, to an external contractor.

No outsourcing of functions within the Group shall be admissible when:
- The quality of its SoG is substantially deteriorated;
- Unjustifiably is raising the operational risk;
- The insurance supervision is blocked;
- Interests of the users of insurance services become vulnerable.

Officers performing control functions with the undertakings report upon request at the level of the Group on the monitoring and control of the outsourced activities, including in the event of material risk changes at group level.

B.7 Related information

The EIG System of governance is adequate and built up in accordance with the nature, scale and complexity of the risks associated with its activities. It is harmonized and consistent for the companies throughout the Group for which an internal mechanism for coordination, interaction and governance has been established.

For the adequacy assessment, a method should be applied that include specific criteria to be imposed concerning the characteristics of the undertaking. The review criteria are guided by the principles:
- Lawfulness;
- Appropriateness;
- Efficiency.

For the development of a comprehensive evaluation model is to be analyzed not only the surface on which the system is built as a set of internal documents, but also evaluation models for qualitative analysis, based on the practical importance of policies, their knowledge, sharing and observation are applied as proof for efficiency.
In view of the above, the criteria, applied in the adequacy assessment model are subdivided into main and complementary.

Main criteria:
- Compliance of the SoG with the regulatory requirements;
- Existence of an adequate and transparent organizational structure;
- Clear allocation and appropriate division of responsibilities;
- Efficient system for supply of information.

Complementary criteria:
- The SoG meets the requirements of the EIOPA system of governance Guidelines;
- The system is subject to periodic review;
- The management of the company understands and shares the principles of good corporate governance by pursuing a policy of achieving optimal correlations between the company's practices and its internal regulations.

Taking into account the information, set out in the current section of this Solvency Report, the assessment methodology, and taking under consideration the information reported and disclosed by the insurance Group undertakings, it could be concluded that in general, the EIG SoG meets the requirements and is adequate to the nature, scale and complexity of the risks associated with its operations.

Last but not least, the Insurers' Balance Sheets Review in 2016 confirmed the assessment as the independent external reviewer's report does not have any significant findings with regard to the adequacy of the Group SoG.

C

RISK PROFILE

One of the main objectives of the EIG's Risk Management System is to support the Management and other stakeholders in achieving the strategic objectives, the efficiency and effectiveness of operations, the application of regulatory and legal provisions, the reliability of the financial statements of the Group.

As an integral part of its business strategy, EIG carries out its risk and solvency assessment. The risk assessment includes:
1. Calculation of the Solvency Capital Requirement (SCR) as well as the Minimum Capital Requirement (MCR).
2. Control over compliance with the Solvency Capital Requirement, the Minimum Capital Requirement and the technical provisions.
3. Risk profile deviation - Deviation of the Solvency Capital Requirement from the value-at-risk of the Basic Own Funds, subject to a confidence interval of 99.5% over a one-year period.

Selection of a calculation method.
EIG calculates its Group solvency, according to Method 1 (Accounting Consolidation Method). Consolidated data according to Method 1 include full consolidation of the data of the insurance companies:
- Euroins Bulgaria (Bulgaria);
- Euroins Romania (Romania);
- Euroins-Life AD (Bulgaria);
- Euroins - Health (Bulgaria);
- EIG RE (Bulgaria);
- Euroins FYROM (third country, outside the EU - FYROM);
- Euroins Ukraine (third country, outside the EU - Ukraine).

The Process of Design of Solvency II Balance Sheet.
The Solvency II Balance Sheet is prepared on the basis of consolidated IFRS data, the difference being solely in the share of the re-insurer and in the technical provisions.

The consolidated best estimate is the sum of the best estimates of the insurance companies within the scope of the Group.

The best estimate of the undertaking, which is taking risks does not include the cash flows arising from the obligations under reinsurance contracts entered into within the Group.

The risk transferring company does not recognize the amounts, recoverable under reinsurance contracts entered into within the Group.

The consolidated risk margin for risk of technical provisions, based on consolidated data is equal to the sum of the risk margin of the undertakings within the scope of the Group.

Calculation of consolidated Group solvency requirement.
The Solvency Capital Requirement of insurance companies within the scope of the Group shall be calculated on the basis of consolidated data under Method 1, according to the rules, laid down in Section 4 of Chapter VI under Title I of Directive 2009/138/EC (standard SCR calculation formula). The aggregate amount of the consolidated Group solvency requirement is subject to an assessment by the Group supervisor.

Calculation of minimum Group Solvency Capital Requirement.
- Where Method 1 is used, the Minimum Solvency Capital Requirement (MCR) shall be calculated in accordance with Art. 230, Para. (2) of Directive 2009/138/EC

The minimum Group Solvency Capital Requirement.

The Minimum Capital Requirements for EEA - licensed insurance companies included in the consolidation under EIG Method 1:
Euroins Bulgaria (Bulgaria) - BGN 7,400,000;
Euroins Romania (Romania) - BGN 7,400,000;
Euroins-Life (Bulgaria) - BGN 7,400,000;

Euroins - Health (Bulgaria) - BGN 5,000,000;
EIG RE (Bulgaria) - BGN 7,400,000

Local capital requirements under which the authorization will be withdrawn for third-country undertakings in the consolidation under EIG Method 1 are:

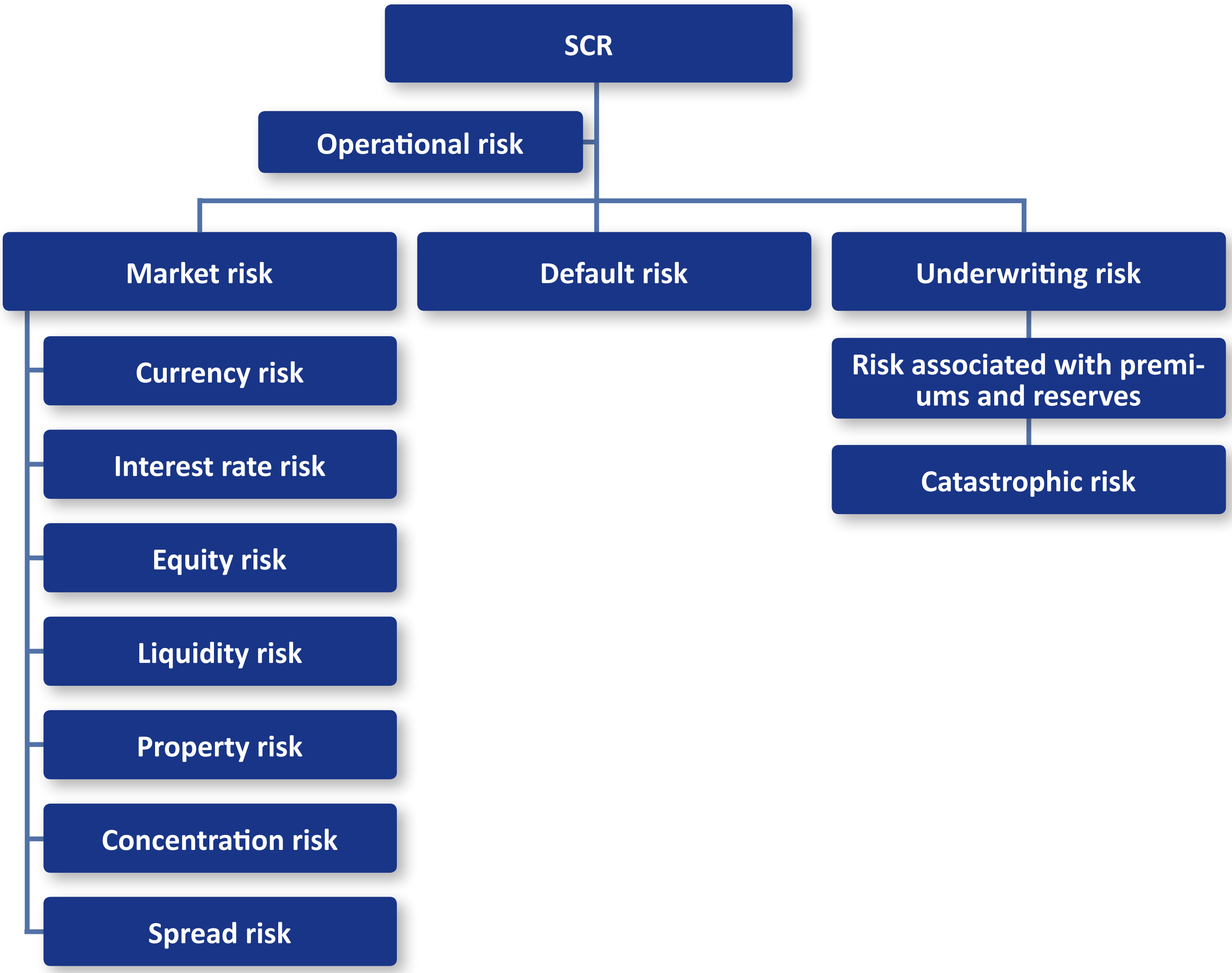
- Euroins FYROM (third country, outside the EU - FYROM) - BGN 6,000,000;
- Insurance company Euroins Ukraine (third country, outside the EU - Ukraine) -1,955,830 BGN.

The risk profile is monitored continuously, taking into account any changes thereto.

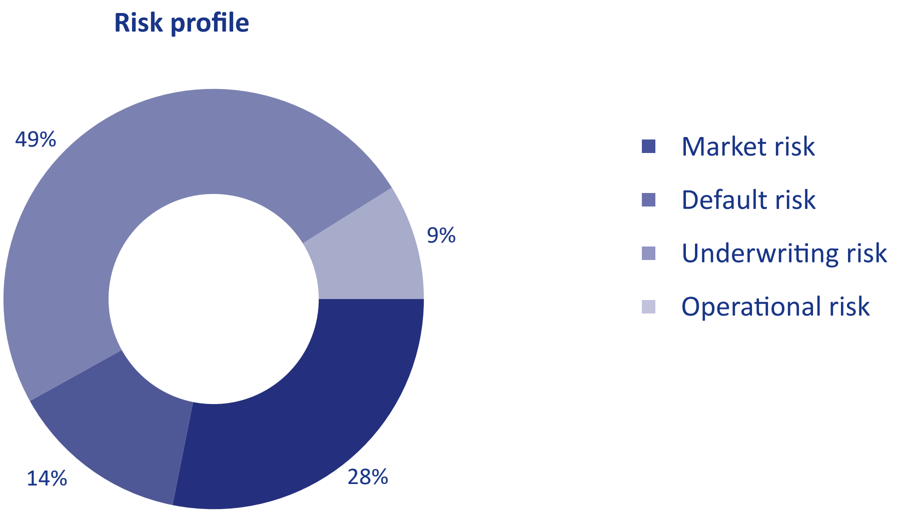
In order to promote sound risk management and to reconcile regulatory capital requirements and practices in companies within the Group, the Solvency Capital Requirement is defined as the economic capital available to the EIG as at 31 December, 2016. It is thus ensured that bankruptcy can occur only once in two hundred cases and that EIG is able, with a probability of at least 99.5%, to meet its obligations to policy holders and beneficiaries over the next twelve (12) months. The Economic capital is calculated based on the true risk profile of the Group, taking into account the impact of risk mitigation techniques as well as the effects of diversification.

As of 31 December, 2016, the capital adequacy requirement is 123.10% and the minimum capital adequacy requirement is 262.51%.

The risk categories inherent to the EIG, as an insurance holding company, are identified and classified according to the identified risk categories at the level of the subsidiaries. In accordance with the lines of business issued in the license for performing insurance activity of the undertakings, subsidiaries identify the following categories of risk:



The risk profile of the group is based on the calculations made according to the standard formula as of 31.12.2016 and is presented in the following graph:



C.1 Underwriting risk

The underwriting risk reflects the risk of loss or of adverse change in the value of insurance liabilities, in respect of the covered insurance risks and the processes, used in the performance of the undertaking activities. Underwriting risk includes the following sub-risks:

- Risk associated with premiums and reserves;
- Lapse risks;
- Catastrophic risks.

The identification of the underwriting risk and the risk of formation of technical provisions at the level of the Group applies an individual approach to reporting the results provided by the subsidiaries in view of their activity, scale and nature of the intrinsic risk, taking into account the following factors:

- Share of the company in relation to the total volume of activity in the Group;
- The subsidiary's local legislation and requirements for the application of the Solvency II rules;
- Other factors, approved by the Risk Management Committee.

In the Underwriting and reserving Risk Management System at group level, results are reported by the risk managers of the participating subsidiaries to the Risk Management Committee at EIG. The measurement and tracking of underwriting risk at an EIG level shall be monitored for and reported to the Risk Management Committee, taking into account the views of the Actuary Function staff involved. In calculating the technical provisions, each insurance company, despite its policies, adheres to the following basic principles:

- Technical provisions are calculated in a reasonable, reliable and objective manner;
- The data for calculating the technical provisions are appropriate, complete and accurate and meet the requirements of Art. 19 of Regulation (EC) 2015/35 on completeness and quality.

The calculation of technical provisions is subject to the principles of market coherence, i.e. the calculation is based on and consistent with the information, received from the financial markets and from the publicly available underwriting risk data.

C.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the levels and volatility of market prices of the assets, liabilities and financial instruments of the subsidiaries.

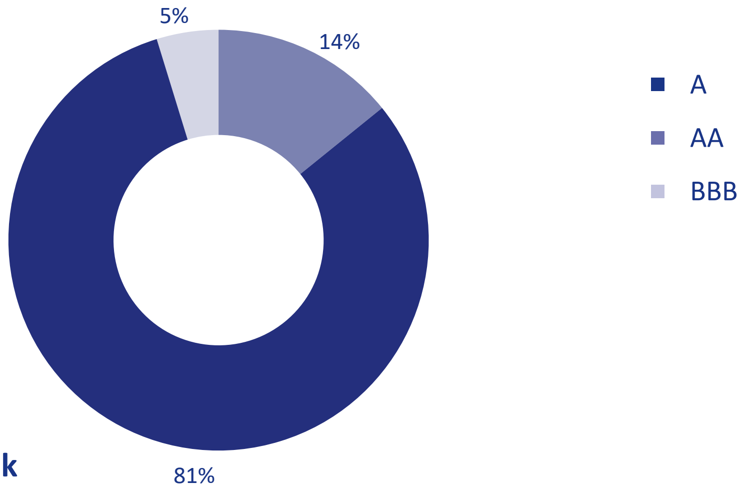
Market risk includes the following sub-risks:
- Interest rate risk;
- Spread risk;
- Equity risk;
- Property risk;
- Concentration risk;
- Currency risk.

All marketable financial instruments in the Group are exposed to market risk, which represents the risk of increasing or decreasing their market value as a result of future changes in market conditions. Financial instruments are measured at fair value and any changes in market conditions are reflected directly in the financial statements. To avoid the risk of concentration, EIG strive to maintain optimal diversification of investments and to take place in highly rated financial institutions. The company adheres to the prudent person principle.

C.3 Counterparty default risk

Counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors of the subsidiaries over the next twelve (12) months. The Group maintains its established relationship with leading reinsurance companies in the high credit rating industry, which minimizes the risk of non-fulfillment of Type 1 counter-party. The re-insurers' share of the Group's technical provisions for 2016 amounts to a total of BGN 266,588,644,75. The re-insurer's share is calculated according to the Solvency II methods.

Credit Rating of Reinsurers



C.4 Liquidity risk

Liquidity risk means a risk resulting from the uncertainty for the undertakings within the Group's scope arising from the unability to realise investments and other assets in order to settle their financial obligations when they fall due. This risk is minimized given the existence of a well-developed policy of managing the insurance reserves and the current cash flows and maintaining a high degree of solvency and liquidity of the subsidiaries.

C.5 Operational risk

Operational risk means the risk of loss due to inadequate or failed internal processes, personnel or systems, or from external events.

In connection with the Operational Risk, the Chief Executive Officers of the undertakings within the Group:

- Allocate the powers and responsibilities for managing the operational risk as they organize and approve a list of employees, in charge for identifying and reporting operational events;
- Exercise operational control over the periodicity and completeness of risk management reports and assessments, prepared by the Risk Management Function.

The main sources of operational risk at the level of the Group are personnel, processes, systems, internal events.

Losses from operational events that result from the different combination of factors are classified into several major categories:
- Internal frauds;
- External frauds;
- Customers, product and business practices;
- Damages to tangible assets;
- Interruption of activity and/or failure of the information system;
- Performance management, delivery and processing.

Operational risk identification is achieved through constant monitoring, reporting and archiving of operational events. Operational risk minimization is achieved through a set of measures, aimed at reducing the probability of occurrence of an operational event and/or reducing the potential loss from an operational event.

C.6 Other significant risks

EIG does not have exposures, arising from off-balance sheet positions and the transfer of risk to special purpose schemes for alternative transfer of insurance risk.

Depending on the type of risk, the Group applies a risk management strategy by utilizing all appropriate behavioral techniques to maintain a good risk profile such as avoidance, minimization, transfer and acceptance of risk as long as the core business of EIG insurance undertakings can sustain a risk from the manifestation of different events.

No significant risks to the Group have been observed during the reporting period.

In managing the investment risk, the EIG follows the principles of prudent person, which are:
- Investing in assets and instruments, the risks of which can be properly identified, measured, monitored, controlled and reported, appropriately taking into account in the assessment of its overall aggregate solvency needs;
- Investing in assets to cover the Solvency Capital Requirement and all other assets in such a manner as to ensure the security, quality, liquidity and profitability of the aggregate portfolio as a whole (localization of those assets is such as to ensure their availability);
- Investing in assets to cover technical provisions in a manner appropriate to the nature and duration of insurance and reinsurance liabilities;
- Diversifying assets in a way that avoids excessive reliance on a particular asset, issuer and/or a group of enterprises and/or a market;
- Investing in assets issued by the same issuer or issuers, belonging to the same group in a way that avoids excessive risk concentration;
- Investing in derivatives to a degree that contributes to reducing the risks or facilitates the efficient management of the investment portfolio;
- Investing in assets, not admitted to trading on a regulated financial market, limited to prudent levels.

During the reporting period, the EIG was not exposed to significant risk concentrations.

A key technique for risk reduction in the Group is reinsurance arrangements. With them, certain portions of the risks posed by subsidiaries that exceed the risk appetite of the EIG are transferred to reinsurance undertakings.

The Group's conservative risk management takes place at the level of the Group and optimizes company reinsurance programs as a method of transferring risk. Reinsurance programs are adapted to Solvency II requirements. In cases where there are insured objects with an insured sum exceeding its capacity, the undertakings within the Group proceed to purchase additional reinsurance cover on the basis of Facultativ. The same procedure applies also in the case of insurance coverage provided by companies for risk that is or is excluded from its reinsurance coverage or is not actively available on the market. Then there is no possibility of equalizing the risk in the aggregate and accordingly, there is a probability of a single loss against which no portfolio exists that would generate a premium to cover the damage.

Euroins Bulgaria is acting as a re-insurer within the Group. Re-insured companies, namely Euroins Romania and Euroins FYROM, are related and the risk of not receiving the premiums due from them is minimized.

No expected earnings are included in future Group bonuses within the Group.

EIG has introduced a set of stress tests and scenario analyzes to test its solvency condition and sustainability in adverse market conditions or shocks. These are unexpected and potentially severe events, but are likely to materialize. So the company is ready to react with timely measures at any moment and to keep its financial and capital position stable.
Once a year or when a significant event occurs within the Group, stress tests and sensitivity analysis are carried out in relation to significant risks and events. Assets and liabilities are stressed with the risk factors, used in the standard formula.

C.7 Other Information

There is no other material information about the company's risk profile.

D

ASSESSMENT OF SOLVENCY RATIOS

The assessment of assets and liabilities for the purpose of solvency and the preparation of the Solvency II Balance Sheet of EIG is based on the application of Method 1, performed over the data of the consolidated financial statement of the company.
In the evaluation of assets and liabilities other than the technical provisions, for the purposes of solvency, the Group applies the EIG asset and liability policy consistently in the whole Group.

Assets and liabilities other than the technical provisions are valued separately, with the exception of some special cases, the EIG applies IFRS valuation methods that are consistent with the valuation approach provided for in the Delegated Regulation No. 2015/35 in relation to Directive 2009/138/EC. In some specific cases only, they are not applicable. Recognizing that for accounting purposes the terms and conditions for determining fair value are applied in accordance with the principles of IFRS 13, defined as: "The cost that would have arisen on the sale of an asset or paid on the transfer of an obligation under ordinary transaction between market participants at the valuation date" is consistent with the Solvency II valuation approach, it is applied by the company for assessment for the purposes of solvency.

The method of valuation prioritized for assets and liabilities other than the technical provisions for solvency purposes is the default method according to Delegated Regulation No. 2015/35 where "quoted market prices in active markets for the same assets or liabilities" are used. Where the application of this valuation approach is not possible, "quoted market prices in active markets for similar assets or liabilities with adjustment to reflect differences" shall be used. The company does not need and does not apply alternative valuation methods.

EIG and the undertakings within the Group apply the definitions in IAS 38, including the definitions of active markets and intangible assets. Intangible assets, in accordance with Delegated Regulation No. 2015/35, are valued at zero, unless they can be sold separately and if there is a quoted market price in an active market for the same or similar assets.

The Group forms the types of technical provisions set out in the Insurance Code, Directive 2009/138/EC of the European Parliament and of the Council (Solvency II) and the Regulations thereto.

The consolidated best estimate is the sum of the best estimate of the insurance companies within the Group, such as:
- The best estimate of the undertaking, taking risks, does not include the cash flows, arising from liabilities of the reinsurance contracts, concluded in the Group;
- The risk transferring company does not recognize the amounts, recoverable under the reinsurance contracts entered into within the Group.

The consolidated add-on for risk of technical provisions, based on consolidated data is equal to the sum of the risk add-on of insurance companies within the scope of the Group.

D.1 Assets

The Company does not recognize gains and losses recognized directly in equity.

Reputation and intangible assets
According to Art. 12 of Delegated Regulation No. 2015/35, insurance undertakings shall set as zero the value of the following assets:
- Goodwill;
- Intangible assets other than positive reputation, while intangible assets are being valued at zero, unless they can be sold separately and if there is a quoted market price in an active market for the same or similar assets.

Assets		C0010	C0020
Goodwill	R0010		164,664,000.00
Deferred acquisition costs	R0020		

Deferred tax assets
For Solvency II purposes, deferred tax assets, other than the transfer of unused tax credits and the carry forward

of unused tax losses are calculated on the basis of the difference between the amounts, attributed to assets and liabilities in accordance with Directive 2009/138/EC (Solvency II Framework Directive) and the values attributed to the same assets and liabilities for tax purposes. The transfer of unused tax credits and the transfer of unused tax losses are calculated in accordance with the IAS approved by the European Commission.

Under IFRS, deferred tax assets and liabilities are measured on the basis of the tax rates that are expected to apply for the period in which the asset is realized or the liability is settled, based on the tax rates and tax laws in force at the reporting date about the financial situation. The measurement of deferred tax assets and liabilities reflects the tax consequences that would arise from the statement of financial standing date from the expected pattern of reversal manifestation of temporary differences. As of 31 December, 2016, the current corporate tax rate is 10%.

Assets		C0010	C0020
Deferred tax assets	R0040	36,435,939.42	14,353,000.00

Property, plant and equipment held for own use.

In this item, the balance sheet includes office equipment, furniture, furnishings and vehicles used for own purposes. Property, machinery and equipment that is measured at purchasing cost in the financial statements are remeasured at fair value for the purposes of Solvency II. Under Solvency II, property is measured at fair value using the method specified in Directive 2009/138 - Art. 75, regardless of how it is used or how it is reported under IFRS.

In the Solvency II Balance Sheet, the valuation of property, plant and equipment is subject to the requirement to comply with the market value standard, hence: the estimated amount against which an asset or liability may change its owner at the measurement date through a transaction at market conditions between willing buyer and willing seller, after appropriate marketing, where each party acted in an informed, prudent and unconditional manner.

The value of the respective Group of assets as at 31 December, 2016 is equal to:

Assets		C0010	C0020
Property, plant & equipment held for own use	R0060	6,691,953.62	5,546,000.00

Investments in:
Shares – this item includes all investments made by the enterprise in shares. Under Solvency II, the quoted market prices in the current markets for the same assets and liabilities are used as the primary method for valuing assets and liabilities. The assessment method is indicated in a model in accordance with Regulation 2015/2450. As of the date of the statement, investments in shares are measured at their market value.

Assets		C0010	C0020
Equities	R0100	94,900,360.15	94,900,360.15
Equities - listed	R0110	94,900,360.15	94,900,360.15

Bonds– the value of both government and corporate bonds indicated in the report is measured by applying a basic valuation method for assets and liabilities using quoted market prices in the current markets for the same assets and liabilities. The assessment method is indicated in a model in accordance with Regulation 2015/2450. As at the reporting date, investments in bonds are valued at their market value, with the relative share of government to corporative equivalent to 5.65%.

Assets		C0010	C0020
Bonds	R0130	93,715,747.61	93,715,747.61
Government bonds	R0140	5,298,802.42	5,298,802.42
Corporate bonds	R0150	88,416,945.19	88,416,945.19

Collective investment schemes - this item includes investments in collective investment schemes (enterprises,which main purpose is collective investment in transferable securities). The valuation of investments in investment funds is at fair value in accordance with the Solvency II principles. The “Inside View” - Approach is applied when evaluating at the level of the fund. The related measurement is at fair value in accordance with the Solvency II requirement. The amount stated in the Solvency II Balance Sheet and IFRS is the same. As at the reporting date investments in collective investment schemes are equal to:

Assets		C0010	C0020
Collective Investments Undertakings	R0180	423,886.54	423,886.54

Deposits other than cash equivalents - this category of assets includes all deposits other than cash and cash equivalents shown in a separate lot in the balance sheet. They are a highly liquid investment and closely related to cash that is easily reversible. Various methods were used to assess the deposits.

The assessment methods are indicated in a template in accordance with the Commission Implementing Regulation (EU) 2015/2450. An IFRS revaluation is required only if there is no fair value in accordance with IFRS

Assets		C0010	C0020
Deposits, other than cash equivalents	R0200	29,609,049.66	29,609,049.66

Reinsurance reimbursements. Repayable amounts from re-insurers are presented in both Solvency II and IFRS Balance Sheet. The difference between Solvency II and the financial statements is the result of differences in the calculation of gross technical reserves.

Assets		C0010	C0020
Reinsurance recoverables from:	R0270	266,588,644.75	294,865,000.00
Non-life and health similar to non-life	R0280	262,230,012.82	294,865,000.00
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	4,358,631.93	

Insurance receivables and receivables from intermediaries. Receivables are measured at their full nominal value under IFRS. For the purposes of preparing the Solvency II Balance Sheet, future receivables amounting to BGN 14,412,973.63 were eliminated.

Assets		C0010	C0020
Insurance and intermediaries receivables	R0360	45,359,026.37	59,772,000.00

Receivables - reinsurance and commercial. Amounts owed by re-insurers and related to reinsurance, which are not included in recoverable amounts under reinsurance contracts. This includes amounts, receivable from re-insurers that relate to settled claims of policy holders or beneficiaries; Receivables from re-insurers that are not related to insurance events or settled claims, such as commissions. Receivables from re-insurers are non-technical items. In addition, the risk of default by the re-insurer is reflected in the Solvency II financial statement, taking into account the default on the re-insurer’s rating downgrade. Therefore, the future uncertainties for the re-insurers are adequately reflected.

Assets		C0010	C0020
Reinsurance receivables	R0370	8,129,000.00	8,129,000.00
Receivables (trade, not insurance)	R0380	40,941,000.00	40,941,000.00

Cash and cash equivalents. This item includes cash on overnight deposits, deposits with a maturity of up to 90 (ninety) days, current accounts and cash funds of the company. The value of cash is measured using the basic method set out in a model in accordance with Regulation 2015/2450, while the amounts acc. to Solvency II Balance Sheet and the financial statement are equal.

Assets		C0010	C0020
Cash and cash equivalents	R0410	94,261,143.47	94,261,143.47

Any other assets, not elsewhere shown. The value of those assets is the amount of all assets, which do not correspond to any of the above asset-specific items. At the reporting date, the Solvency II Balance Sheet and financial statement amounts are equal.

Assets		C0010	C0020
Any other assets, not elsewhere shown	R0420	6,987,882.31	6,987,882.31

Other information

Other material information in relation to asset valuation. There is no other material information.

D.2 Technical provisions

The following table shows the values of the technical provisions of the undertakings within the Group.

	Euroins - Health	Euroins Bulgaria	Euroins Romania	Euroins FYROM	Euroins Ukraine	EIG Re	Euroins-Life	Eliminations	Consolidation EIG
Best estimate	322,572.40	133,798,091.10	315,405,825.98	15,451,550.72	4,030,140.79	10,974,645.95	4,676,488.52	(10,401,000.00)	474,258,315.45
Risk margin	2,221.17	4,318,621.00	11,747,235.66	0.00	0.00	879,262.01	615,305.91	0.00	17,562,645.75
Reisnsurance share	0.00	89,256,628.31	174,502,937.92	1,204,300.77	785,012.82	10,954,808.70	285,956.23	(10,401,000.00)	266,588,644.75

The following table shows the values of the technical provisions of the companies within the scope of the Group by lines of business:

Line of business	Net best estimate of technical provisions
Medical expense insurance and proportional reinsurance	3,363,235.88
Income protection insurance and proportional reinsurance	271,311.63
Workers' compensation insurance and proportional reinsurance	0.00
Motor vehicle liability insurance and proportional reinsurance	178,055,310.72
Other motor insurance and proportional reinsurance	11,352,278.41
Marine, aviation and transport insurance and proportional reinsurance	625,815.07
Fire and other damage to property insurance and proportional reinsurance	5,925,659.84
General liability insurance and proportional reinsurance	2,696,942.53
Credit and suretyship insurance and proportional reinsurance	402,664.99
Legal expenses insurance and proportional reinsurance	0.00
Assistance and proportional reinsurance	775,974.41
Miscellaneous financial loss insurance and proportional reinsurance	22,284.58
Non-proportional casualty reinsurance	0.00
Non-proportional marine, aviation and transport reinsurance	0.00
Non-proportional property reinsurance	0.00
Non-proportional health reinsurance	0.00
Index-linked and unit-linked insurance obligations	38,831.69
Other life (re)insurance and health (re)insurance obligations	4,139,360.93

For the purposes of verifying the results, a comparison of the best estimates and assumptions on which the calculation is based with the historical results is made. With a view to verifying the value of accumulated technical provisions of subsidiaries, a Liability adequacy test (LAT) of the accumulated reserve, a run-off analysis and a comparison of the results for the amount of the reserves, calculated on the basis of different valuation methods is currently performed. The value of expected future cash flows, when performing the test, is determined on the basis of: the weighted average of the loss ratio for a period of not less than five years; the frequency and average size of claims and their development over time. In case of representative market data, the value of the above parameters is compared with market statistical information.

The calculation of the company's best estimate of the Group's range is based on up-to-date and reliable information and realistic assumptions, using appropriate actuarial and statistical methods. For the calculation of the best estimate, deterministic methods, based on observed past data, against which simulations have not been applied, which is suggesting the use of stochastic (probabilistic) methods. By applying further inflation adjustments and periods not included in the calculations, some of the limitations of the methods applied are avoided. Data, used to calculate reserves for all types of activities cover a sufficiently long observation period.

Undertakings within the scope of the Group have internal processes and procedures, ensuring that the data used to calculate their technical provisions are appropriate, complete and reliable and meet the requirements of Art. 19 of Regulation (EC) 2015/35.

The following table presents a comparison of the assessment of the technical provisions for solvency purposes and their assessment in the financial statements.

	Reserve value according to the financial statements	Reserve value under Solvency II
Gross reserves	510,367,000	491,820,961
Share of the re-insurer	294,865,000	266,588,645

All reinsurance contracts of the Group's undertakings were disposed of by reinsurance companies holding Standard & Poor's or AM Best rating and prepared and sold with the assistance of some of the largest reinsurance brokers - AON Benfield, WillisRe, Guy Carpenter, JLT Re London and more.

Under these contracts, which are obligatory, re-insurers are obliged to follow the decisions of the insurance company they have re-insured, which means that when an insured event occurs and there is a need to pay an insurance indemnity, they must automatically take over for their own account part of the compensation corresponding to the share / percentage assumed under the terms of the signed reinsurance contract.

The only exception, where the re-insurer is not obliged to comply with the insurance company's decision, is in the case of ex gratia payments.
In the case of ex gratia payments, all information / file on the case is sent to the re-insurer and only upon his express written consent may a refund be credited at his expense and a corresponding indemnity may be obtained.

Under proportionate contracts, estimates of compensations / reimbursements, paid to re-insurers are usually made quarterly, but there are cases where they are made once a year. The re-insured has the right to resort to a cash-call option in cases, where the compensation to be paid is above a certain amount, preliminary specified in the contract.

For the benefits, paid under the Proportional Agreements, there is no practice to provide evidence, this is done only at the express request of the re-insurer.

In the case of disproportionate contracts, the case-by-case system is operating on the ground of a contractual basis for requiring re-insurers to pay. In such cases, after establishing the fact that the benefit is or has already exceeded a certain amount, the re-insured shall claim a refund. In the case of disproportionate contracts, the reimbursement is based on proof of payment made by the re-insured (a copy of bank statement / SWIFT).

In cases where the reinsurer's has already been committed in the past and any subsequent payments of the damage would be recoverable in full by the re-insurers as well as, in case of necessity of payment of significant sums with a high share of involvement of the re-insurer in them, the re-insured might require also a prepayment on behalf of the re-insurers, in which cases the ground, on which the amount of the requested advance is calculated and, accordingly, the proportion of the re-insurers share therein. Any additional costs incurred in the liquidation process (for loss adjusters, lawyers, medical staff, transfers, additional expertise, travel, etc.) are considered part of the insurance indemnity that is due for reimbursement by the re-insurers. No recovery is due of costs incurred by the re-insured person for wages of staff and usual administrative overheads of the re-insured company, such as copying and document administration.

In litigation, reinsurer's must also reimburse part of the court fees, paid by the re-insured during the process, including due from reinsurance interests, unless otherwise expressly provided in the reinsurance contract.

Information about amounts, recoverable under the reinsurance contracts is submitted either through the bill or through Loss Advices. They are sent to the broker, serving the contract, who, in turn, is committed to notify re-insurers and subsequently collect the sums, specified in the documents and transfer them to the accounts of the subsidiaries. Brokers, serving the contracts, have specialized IT systems for collecting receivables by line of business, underwriting years and more and are strictly watching cash flows and regularity of payments.

The Group does not have special purpose schemes for alternative transfer of insurance risk.

D.3 Other liabilities

This section considers the assessment of liabilities for Solvency II purposes, with the exception of technical provisions, like the value of those liabilities and a description of reasoning, methods and underlying assumptions used for their solvency assessment in the relevant liability group.

D.4 Valuation of other liabilities

Contingent liabilities
As at 31 December 2016, the Company has no contingent liability.

Pension benefit obligations.
As of 31 December, 2016, the Company has no obligation to benefit pensions.

Provisions other than technical provisions.
As of December 31, 2016, the Company has no provision other than the technical provisions.

Deposits from reinsurers.
As of 31 December, 2016, the company has no deposits from reinsurers.

Deferred tax liabilities.
Deferred tax liabilities are the amounts of income tax payable in future periods in respect of taxable temporary differences. Deferred taxes other than the transfer of unused tax credits and the transfer of unused tax losses, are calculated on the basis of the difference between the amounts, attributable to the assets and liabilities in accordance with Art. 75 of the Framework Directive and the values, attributed to the same assets and liabilities for tax purposes. The transfer of unused tax credits and the transfer of unused tax losses are calculated in accordance with the international accounting standards, adopted by the European Commission.

As of 31 December, 2016 the value of deferred tax liabilities is equal to:

Liabilities		C0010	C0020
Deferred tax liabilities	R0780	4,159,649.06	

Derivatives.
As of 31 December, 2016, the Company does not have such exposures.

Debts owed to credit institutions.
As of 31 December, 2016, the Company has no debts owed to credit institutions.

Financial liabilities other than liabilities owed to credit institutions.
Financial liabilities are measured in accordance with international accounting standards adopted by the European Commission at initial recognition for the purpose of solvency. The ex-post evaluation shall be in accordance with the requirements of Art. 75 of the Framework Directive, therefore no consequent adjustments can be made to account for the change in the own credit rating.

Liabilities		C0010
Financial liabilities other than liabilities owed to credit institutions.	R0810	10,610,000.00

Insurance and intermediaries payables.
This item includes amounts due to (re)insurance companies (e.g. commissions due to intermediaries, but not yet paid by the company). The carrying amount of these liabilities in financial statements coincides with the Solvency II value.

Liabilities		C0010	C0020
Insurance and intermediaries payables.	R0820	5,736,000.00	5,736,000.00

Reinsurance payables.
This item includes amounts owed to reinsurers, other than deposits and related to reinsurance business but such that are not included in the reinsurance cover. The carrying amount of these Solvency II liabilities is reduced on the basis of writing-off of future receivables.

Liabilities		C0010	C0020
Reinsurance payables	R0830	54,688,567.14	64,057,000.00

Payables.
This is the total value of trade liabilities, including amounts due to employees, suppliers, etc., not related to the insurance. The carrying amount of other liabilities under IFRS is the same as the Solvency II value.

Liabilities		C0010	C0020
Payables (trade, not insurance)	R0840	26,448,700.00	26,448,700.00

Subordinated liabilities.
Subordinated liabilities are liabilities that are classified after other defined liabilities when the entity is liquidated. This is the total value of subordinated liabilities, classified as basic own funds.

On 18 December, 2014, EIG emitted a bond loan in the form of 100 available, subordinated, unsecured bonds at the date of issuance with a par value of 100,000 euro each. The agreed amount is 10,000 thousand euro (BGN 19,558 thousand).

In addition, in 2016, EIG received from Eurohold Bulgaria JSC a subordinated debt of BGN 19.5 million, as well as a subordinated term debt of BGN 4 million from an external investor - Rossgaz Engineering Ltd. As a result, the total amount of subordinated debt amounted to BGN 43,058,300 million.

Liabilities		C0010	C0020
Subordinated liabilities	R0850	43,058,300.00	43,058,300.00
Subordinated liabilities in basic own funds	R0870	43,058,300.00	43,058,300.00

Other information.
Other material information in relation to liability valuation. There is no other material information.

D.5 Alternative valuation methods

The Company does not apply alternative valuation methods.

E

CAPITAL MANAGEMENT

E.1 Own funds

Additional info about groups.
The EIG calculates its Group solvency according to method 1: (Method of accounting consolidation).

There are no significant restrictions on the substitutability and transferability of own funds, eligible to cover the Group Solvency Capital Requirement.

According to Art. 336 of Regulation 35/2015, the consolidated Group Solvency Capital Requirement shall be calculated as the sum of:

- A Solvency Capital Requirement, calculated on the basis of the consolidated data, referred to in Art. 335 §1 (a), (b) and (c) of the above Regulation, according to the rules, laid down in Title I, Chapter VI, Section 4 of Directive 2009/138/EC;
- The proportional share of the Solvency Capital Requirement of each of the undertakings, referred to in Art. 335, §1 (d) of the above mentioned Regulation for a connected insurance or reinsurance non-member-state enterprise (the Solvency Capital Requirement is calculated by assuming that the headquarters of that enterprise is within the Union);
- For the companies referred to in Art. 335, §1 (e) of the above mentioned Regulation - the proportional share of the capital requirements for credit institutions, investment intermediaries, financial institutions, persons, managing alternative investment funds, managing Undertakings for the Collective Investment of Transferable Securities (UCITS), institutions for occupational retirement provision within the meaning of Directive 2003/41/EC, calculated in accordance with the applicable sectoral rules, and the proportional share of the abstract capital requirements of undertakings, performing financial activities that are not subject of supervision;
- For the companies referred to in Art. 335, §1 (f) of the above Regulation - the amount, determined in accordance with Art. 13, Art. 168-171, Art. 182 - 187 and Art. 188 of the Regulation.

All companies within the scope of the Group fall under sub-paragraph (a) of Art. 336 and the consolidated Group Solvency Capital Requirement is BGN 123,256,158.37.

The sources of diversification effects at the level of the Group are:

- Diversification of the Group's investment portfolio. The concentration risk reflects the lack of diversification of the issuers, to which the insurance companies in the Group have exposures. As of 31 December, 2016, the risk of concentration is in the amount of BGN 21,587,727.45. The sum of the capital requirements of the individual exposures is BGN 58,436,059.04. The diversification effect, related to the investment portfolio of the Group is in the amount of BGN 36,848,331.59. On the basis of the calculations made, according to the standard formula, it can be concluded that the investments of the Group are well diversified and there are no significant concentrations of risk.
- Diversification by geographic areas and types of activity of the insurance activities of the Group. The underwriting of the Group undertakings takes place in different geographic areas during the reporting period, which leads to diversification and reduction of underwriting risk. The following table shows the percentage of geographical diversification by lines of business and the amount of underwriting risk calculated on this basis.

Line of business	The volume measure for premium risk	The volume measure for reserve risk	Geographical diversification	Total volume of premiums and reserves
Motor vehicle liability insurance and proportional reinsurance	232,608,815	130,016,134	79%	**362 624 949.09**
Other motor insurance and proportional reinsurance	25,184,879	5,819,940	89%	**31 004 818.95**
Marine, aviation and transport insurance and proportional reinsurance	1,272,657	659,118	83%	**1 931 774.91**
Fire and other damage to property insurance and proportional reinsurance	13,706,781	4,071,484	86%	**17 778 265.61**
General liability insurance and proportional reinsurance	5,193,100	1,892,630	86%	**7 085 729.68**
Credit and suretyship insurance and proportional reinsurance	3,831,433	246,553	100%	**4 077 986.13**
Legal expenses insurance and proportional reinsurance	0	0	100%	**0.00**
Assistance and its proportional reinsurance	3,250,238	530,431	79%	**3 780 669.24**
Miscellaneous financial loss insurance and proportional reinsurance	300,530	2,525	83%	**303 055.09**

The risk, related to the determination of premiums and reserves amounts to BGN 81,945,901.16. Diversification by geographical areas and types of activity led to a reduction of the underwriting risk by BGN 1,612,741.01.

Where Method 1 is used, the Solvency Minimum Capital Requirement (MCR) shall be calculated in accordance with Art. 230, §2, Para. (2) of Directive 2009/138/EC.

The minimum Group Solvency Capital Requirement is the sum of:

- The minimum capital requirements for EEA - licensed insurance companies, included in the consolidation under EIG Method 1:
    - Euroins Bulgaria (Bulgaria) - BGN 7,400,000;
    - Euroins Romania (Romania) - BGN 7,400,000;
    - Euroins-Life (Bulgaria) - BGN 7,400,000;
    - Euroins - Health (Bulgaria) - BGN 5 000 000;
    - EIG Re (Bulgaria) - BGN 7,400,000.
- Local capital requirements under which the authorization will be withdrawn for third-country insurance undertakings in the consolidation under EIG method 1 are:
    - Euroins FYROM (third country outside the EU - FYROM) - BGN 6,000,000;
    - Insurance company Euroins Ukraine (third country, outside the EU - Ukraine) - BGN 1,955,830.

The consolidated Solvency Group Capital Requirement of the EIG shall be calculated as the sum of the Solvency Capital Requirement of the insurance undertakings within the Group, calculated on the basis of consolidated data under Method 1 along with the rules, laid down in Section 4 of Chapter VI of Title I of Directive 2009/138/EC (standard SCR calculation formula)

The Group does not use an internal model for calculating the Group Solvency Capital Requirement.

Subsidiaries within the scope of the Group carry out their investment activities with goals as follows:

- Ensuring the security of all liabilities arising from all insurance commitments (the Group's investment portfolio is based on the prudent person principle to minimize risk, with particular emphasis on long-term income growth);

- Ensuring liquidity and solvency to enable the Group's undertakings to fulfill all their obligations in a timely manner;
- Ensuring profitability, which is one of the sources of revenue for the companies in the Group.

Assets of the Group companies should be invested in order to obtain additional income while maintaining the necessary short- and long-term liquidity.

The investment portfolio is well diversified to ensure the required level of security and minimize the risk of financial loss in the event of adverse changes to an investment or category of investment.

The structure, size and quality of the own funds at the end of the reporting period and the end of the previous reporting period, including analysis of significant changes in each tier during the reporting period. According to Annex 1 - reference S.23.01.04.01 of the annual Solvency II quantitative information.

The eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers. According to Annex 1 - reference S.23.01.04.01 of the annual Solvency II quantitative information.

The eligible amount of the Basic Own Funds to cover the Solvency Capital Requirement classified by tiers. According to Annex 1 - reference S.23.01.04.01 of the annual Solvency II quantitative summaries.

Quantified and qualitative explanation of all material differences between equity, included in the company's financial statements and the excess of the assets over the liabilities, calculated for solvency purposes. The equity in the Group's financial statements amounts to BGN 269,973,999.77. The excess of the assets over the liabilities, calculated for solvency purposes amounts to BGN 108,664, 386.54. The material differences between the two statements are presented in the table below.

	Solvency II Value	Financial report value	Explanations
Reputation		164,664,000.00	Positive reputation is reported as 0 on P2
Intangible assets		940,000.00	
Share of the re-insurer in the reserves	266,588,644.75	294,865,000.00	Different calculation method
Liabilities			
Technical provisions	491,820,961.19	510,367,000.00	Different calculation method

In EIG there is no position of basic own funds which is subject to the provisions of Art. 308b, §9 and §10 of Directive 2009/138/EC.

The Group has no additional own funds.

The amount deducted from the own funds and a brief description of all material constraints, affecting the availability and transferability of the own funds within the company. The Group has no item deducted from its own funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Standard Capital Requirement (SCR) under the provisions of the Insurance Code is calculated once a year. Therefore, the EIG has calculated the Solvency Capital Requirement on the basis of a consolidated audited balance sheet as at 31 December, 2016. The Minimum Capital Requirement (MCR) as of 31 December, 2016 amounted to BGN

45,458,148.17. The Solvency Capital Requirement as of 31 December, 2016 was BGN 123,256,158.37.

The size of the EIG solvency capital requirement, broken down by risk modules is in accordance with Annex 2 - a part of the annual reports at Solvency II level.
The Group does not use simplified calculations.

Parameters, specific to the Group, are not used.

	Net (reinsurance) best estimate of reserves	Net (reinsurance) premiums written in the last 12 months
Medical expense insurance and proportional reinsurance		9,131,107.49
Income protection insurance and proportional reinsurance	271,311.63	717,922.87
Workers' compensation insurance and proportional reinsurance	-	-
Motor vehicle liability insurance and proportional reinsurance	180,197,270.76	241,837,964.32
Other motor insurance and proportional reinsurance	11,352,278.84	22,490,212.16
Marine, aviation and transport insurance and proportional reinsurance	625,814.64	1,313,618.58
Fire and other damage to property insurance and proportional reinsurance	5,925,660.70	14,990,291.06
General liability insurance and proportional reinsurance	2,696,941.67	5,471,781.59
Credit and suretyship insurance and proportional reinsurance	402,664.99	3,772,627.80
Legal expenses insurance and proportional reinsurance	-	-
Assistance and proportional reinsurance	775,974.84	3,218,476.02
Miscellaneous financial loss insurance and proportional reinsurance	22,284.58	248,912.02
Non-proportional casualty reinsurance	-	-
Non-proportional marine, aviation and transport reinsurance	-	-
Non-proportional property reinsurance	-	-
Non-proportional health reinsurance	-	-

	Net (reinsurance) best estimate of reserves	Risk capital
Obligations with profit participation — guaranteed benefits		
Obligations with profit participation — future discretionary benefits		
Index-linked and unit-linked insurance obligations	38,831.69	
Other life (re)insurance and health (re)insurance obligations	4,139,360.93	
Total capital at risk for all life (re)insurance obligations		372,104,997.86

Total MCR calculation	
Linear MCR	45,458,148.17
SCR	123,256,158.37
MCR cap	55,465,271.27
MCR floor	30,814,039.59
Combined MCR	45,458,148.17
Absolute floor of the MCR	42,423,320.00

Significant change in the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) during the reporting period and the reasons for any such change. There is no significant change in the Solvency Capital Requirement and the Minimum Capital Requirement during the reporting period.

E.3 Use of time-based risk sub-module, associated with the stock, for calculation of the Solvency Capital Requirement

The Group does not use an internal model (only for companies that use an internal model, i.e. it is not applicable for companies in the EIG Group).

E.4 Violations of the Minimum Capital Requirement and Violations of the Solvency Capital Requirement

There is no breach of the Minimum Capital Requirement by the end of the reporting period.

The Group and its subsidiaries have passed a review of the balance sheets with a reference date of 30 June, 2016, and the audit found a capital shortage, compared to the Solvency Capital Requirement at the amount of BGN 68,591,820 at the level of the Group. In the second half of 2016, the EIG took a number of measures with a view to strengthening the capital position of its subsidiaries. As a result, the EIG's own funds were increased by BGN 63,528,260 which are as follows:

- The paid-in capital was BGN 44,028,260, representing Tier 1 capital (Unrestricted own funds). The amount of BGN 44,028,206 represents addition to the capital in the framework of the procedure for increase of the capital of EIG, pursuant to a decision of the General Meeting of 19 May, 2015 for an increase in the capital of the company by

195, 583,000 new registered shares with nominal value of BGN 1.00 each. The paid-in capital, within the procedure of the increase, was BGN 146,119,833 by 31 December, 2016.

- The amount of BGN 19,500,000 is subordinated debt of Tier 1 capital (Restricted own funds), provided by Euro-Hold Bulgaria AD.

These funds were used further to strengthen the capital positions of the EIG subsidiaries.

All amounts presented above were effectively paid by 31 December, 2016.

By 31 December, 2016, all insurance undertakings in the Group availed of sufficient own funds to cover their Solvency Capital Requirements, ensuring that the own funds are properly allocated within the EIG and, when necessary, could be used to Protection of policy holders and beneficiaries.

E.5 Miscellaneous information

Essential information on the management of the company's capital. There is no other essential information.

This Group solvency and financial condition report is adopted by the Board of directors of Euroins Insurance Group AD, as of date 14/07/2017

Kiril Boshov
Chief executive officer

DECLARATIONS

The following Declarations are enclosed:

Item B.3.4 Declaration, stating how often the own risk and solvency assessment was reviewed and approved by the company's Administrative, Management and Supervisory Body.

Item B.3.5 Declaration, stating how the company has identified its own solvency needs in taking into account its risk profile and how its capital management activities and its Risk Management System interacted.

Item D.2.4 After the equalization adjustment, referred to in Article 77b of Directive 2009/138/EC is applied - a description of the equalization adjustment and of the portfolio of liabilities and target assets to which the adjustment is applied, as well as the quantification of the impact of the reduction of the equalization adjustment to zero on the financial standing of the company, including on the amount of the technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amount of own funds, eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement was made.

Item D.2.5 Declaration, stating whether the company has used the volatility adjustment under Article 77d of Directive 2009/138/EC, as well as the quantification of the impact of the reduction of the equalization adjustment to zero on the financial standing of the company, including on the amount of the technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the Basic Own Funds and the amount of the own funds, eligible to cover the Minimum Capital Requirement and Solvency Capital Requirement was made.

Item D.2.6 Declaration, indicating whether the timed transitional structure of the risk-free interest rate, according to Article 308c of Directive 2009/138/EC has been used, as well as the quantification of the impact of the non-application of the transitional measures on the financial position of the enterprise, including on the amount of the technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the Basic Own Funds and the amount of the own funds, eligible to cover the Minimum Capital Requirement and Solvency Capital Requirement was made.

Item D.2.7. Declaration, indicating whether the transitional deduction, referred to in Article 308d of Directive 2009/138/EC has been used as well as the quantification of the impact of the non-application of the deduction measure on the company's financial standing, including on the amount of the technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the Basic Own Funds and the amount of the own funds, eligible to cover the Minimum Capital Requirement and Solvency Capital Requirement was made.

DECLARATION

Pursuant to item B.3.4. of the Solvency and Financial Condition Report
of Euroins Insurance Group AD for 2016.

I, the undersigned, Kiril Ivanov Boshov, in the capacity of Chief Executive Officer of Euroins Insurance Group AD, UIC 175394058, seat and registered address at 43, Christopher Columbus Blvd., Sofia, Bulgaria, hereby

DECLARE:

The Own Risk and Solvency Assessment is reviewed and approved by the Board of directors of the entity once per year. Upon emergence of material circumstances, relevant to the risk and solvency status, the assessment may be subject of a supplementary revision, more than once in a year.

Declaring Official:
Kiril Boshov
Chief Executive Officer

DECLARATION

Pursuant to item B.3.5. of the Solvency and Financial Condition Report
of Euroins Insurance Group AD for 2016.

I, the undersigned, Kiril Ivanov Boshov, in the capacity of Chief Executive Officer of Euroins Insurance Group AD, UIC 175394058, seat and registered address at 43, Christopher Columbus Blvd., Sofia, Bulgaria, hereby

DECLARE:

Euroins Insurance Group AD is determining its own solvency needs taking into account the risk profile by periodically conducting its Own Risk and Solvency Assessment, assessing the overall solvency needs, compliance, on a continuous basis, with the capital requirements, the significance with which the risk profile concerned deviates, thus revealing the interaction between the capital management activities and the risk management system. The assessment output is deemed an integral part of the business strategy, which is an important tool for decision-making.

The assessments are made on a regular basis, at least once per year, but also whenever significant events occur or a significant change in the risk profile of Euroins Insurance Group AD is reported.

Declaring Official:
Kiril Boshov
Chief Executive Officer
Signature not legible

DECLARATION

Pursuant to item D.2.4. of the Solvency and Financial Condition Report
of Euroins Insurance Group AD for 2016.

I, the undersigned, Kiril Ivanov Boshov, in the capacity of Chief Executive Officer of Euroins Insurance Group AD, UIC 175394058, seat and registered address at 43, Christopher Columbus Blvd., Sofia, Bulgaria, hereby

DECLARE:

In 2016, Euroins Insurance Group AD did not apply the matching adjustment to the relevant risk-free interest rate term structure referred to in Article 77b of Directive 2009/138/EC.

Declaring Official:
Kiril Boshov
Chief Executive Officer
Signature not legible

DECLARATION

Pursuant to item D.2.5. of the Solvency and Financial Condition Report
of Euroins Insurance Group AD for 2016.

I, the undersigned, Kiril Ivanov Boshov, in the capacity of Chief Executive Officer of Euroins Insurance Group AD, UIC 175394058, seat and registered address at 43, Christopher Columbus Blvd., Sofia, Bulgaria, hereby

DECLARE:

In 2016, Euroins Insurance Group AD did not apply the volatility adjustment to the relevant risk-free interest rate term structure referred to in Article 77d of Directive 2009/138/EC.

Declaring Official:
Kiril Boshov
Chief Executive Officer
Signature not legible

DECLARATION

Pursuant to item D.2.6. of the Solvency and Financial Condition Report
of Euroins Insurance Group AD for 2016.

I, the undersigned, Kiril Ivanov Boshov, in the capacity of Chief Executive Officer of Euroins Insurance Group AD, UIC 175394058, seat and registered address at 43, Christopher Columbus Blvd., Sofia, Bulgaria, hereby

DECLARE:

In 2016, Euroins Insurance Group AD did not apply the transitional measures on the risk-free interest rates referred to Article 308c of Directive 2009/138/EC.

Declaring Official:
Kiril Boshov
Chief Executive Officer
Signature not legible

DECLARATION

Pursuant to item D.2.7. of the Solvency and Financial Condition Report
of Euroins Insurance Group AD for 2016.

I, the undersigned, Kiril Ivanov Boshov, in the capacity of Chief Executive Officer of Euroins Insurance Group AD, UIC 175394058, seat and registered address at 43, Christopher Columbus Blvd., Sofia, Bulgaria, hereby

DECLARE:

IIn 2016, Euroins Insurance Group AD did not use the transitional measure on technical provisions under Article 308d of Directive 2009/138/EC.

Declaring Official:
Kiril Boshov
Chief Executive Officer
Signature not legible

Own funds		Total C0010	Tier 1 - unrestricted C0020	Tier 1 - restricted C0030	Tier 2 C0040	Tier 3 C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	390954000,00	390954000,00			
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070	(120980000,23)	(120980000,23)			
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	(179232903,59)	(179232903,59)			
Subordinated liabilities	R0140	43058300,00		19500000,00	23558300,00	
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160	17923290,36				17923290,36
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic own funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
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 other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230					
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	R0270					
Total deductions	R0280					
Total basic own funds after deductions	R0290	151722686,54	90741096,18	19500000,00	23558300,00	17923290,36
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					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Own funds of other financial sectors						
Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	R0410					

Own funds		Total C0010	Tier 1 - unre-stricted C0020	Tier 1 - re-stricted C0030	Tier 2 C0040	Tier 3 C0050
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430					
Total own funds of other financial sectors	R0440					
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450					
Own funds aggregated when using the D&A and combination of method net of IGT	R0460					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	151722686,54	90741096,18	19500000,00	23558300,00	17923290,36
Total available own funds to meet the minimum consolidated group SCR	R0530	133799396,18	90741096,18	19500000,00	23558300,00	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	151722686,54	90741096,18	19500000,00	23558300,00	17923290,36
Total eligible own funds to meet the minimum consolidated group SCR	R0570	119332725,81	90741096,18	19500000,00	9091629,63	
Consolidated Group SCR	R0590	123256158,37				
Minimum consolidated Group SCR	R0610	45458148,17				
Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)	R0630	123,10%				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	262,51%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	151722686,54	90741096,18	19500000,00	23558300,00	17923290,36
SCR for entities included with D&A method	R0670					
Group SCR	R0680	123256158,37				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	123,10%				

Basic Solvency Capital Requirement		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	C0040	C0050
Market risk	R0010	49045686,18	49045686,18	
Counterparty default risk	R0020	24054532,57	24054532,57	
Life underwriting risk	R0030	1086147,38	1086147,38	
Health underwriting risk	R0040	1542632,55	1542632,55	
Non-life underwriting risk	R0050	83703206,55	83703206,55	
Diversification	R0060	(37995910,48)	(37995910,48)	
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	121436294,74	121436294,74	

Calculation of Solvency Capital Requirement		Value
		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	15514992,34
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	(13695128,71)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	123256158,37
Capital add-ons already set	R0210	
Solvency capital requirement for undertakings under consolidated method	R0220	123256158,37
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	No adjustment {s2c_AP:x38}
Net future discretionary benefits	R0460	
Minimum consolidated group solvency capital requirement	R0470	45458148,17
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	R0520	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non- regulated entities carrying out financial activities	R0530	
Capital requirement for non-controlled participation requirements	R0540	
Capital requirement for residual undertakings	R0550	
Overall SCR		
SCR for undertakings included via D and A	R0560	
Solvency capital requirement	R0570	123256158,37