Solvency and Financial Condition Report 2016

SOVAG
Schwarzmeer- und Ostsee
Versicherungs-Aktiengesellschaft
Hohe Bleichen 11
20354 Hamburg

Registered under HRB 3560
District Court of Hamburg

Solvency and Financial Condition Report 2016

For reporting period ending 31 December 2016

Contents

Executive summary

The purpose of this Solvency and Financial Condition Report (SFCR) is to provide the public with qualitative and quantitative information on the Company in order to gain an idea of the quality of the Insurer's business and the Company's solvency situation.

The year ended 31 December 2016 was characterised by the reappraisal of the SOVAG strategy and business activity. The restructuring measures implemented in 2015 also led to a continued portfolio reduction in 2016. In terms of trade, the Insurer ended the year with a loss of €14.903 million.

The year was characterised by measures taken to strategically realign the Company due to its performance, which in December led to the decision to not take on any new business. During the financial year there was a change to the Management Board.

Given the entry into force of the new Solvency II supervisory regime, the system of governance was further developed to ensure complete regulatory compliance.

The Company's risk profile changed as a result of the strict risk mitigation carried out across its capital investments in order to improve the solvency situation over the short term.

Valuations for solvency purposes were carried out during the financial year, with the first taking place as part of the 'day 1' BaFin reporting in light of the introduction of Solvency II on 1 January 2016, and the second on 31 December 2016. Accordingly, the own funds available for covering the solvency capital requirements (SCR) at year's end amounted to €41.5336, representing an increase of €4.6368 million compared to the start of the year. Included in this is a payment of €14.8 million into the capital reserve by the shareholders in June 2016.

The SCR was also calculated for the first time as part of 'day 1' reporting as well as at the end of the financial year. The SCR at year's end amounted to €38.1992 million, which represents a decrease of €10.956 at year's end. This in turn results in a coverage ratio of 108.7 per cent at year's end after a ratio of 75.1 per cent at the beginning of the year. On account of this shortfall at the start of the financial year, a restructuring plan was presented to BaFin while the above mentioned shareholder payment restored sufficient coverage.

A. Business and performance

In accordance with supervisory requirements, business performance will be reported in paragraphs A.2–A.4 based on the Company's statutory financial statements.

A.1 BUSINESS

Schwarzmeer und Ostsee Versicherungs-Aktiengesellschaft (Black and Baltic Sea Insurance AG, SOVAG) is an insurance company with a long heritage located in Hamburg, under German supervision. It was founded in 1927 by the former USSR and maintains a diverse range of contacts on German and international insurance markets.

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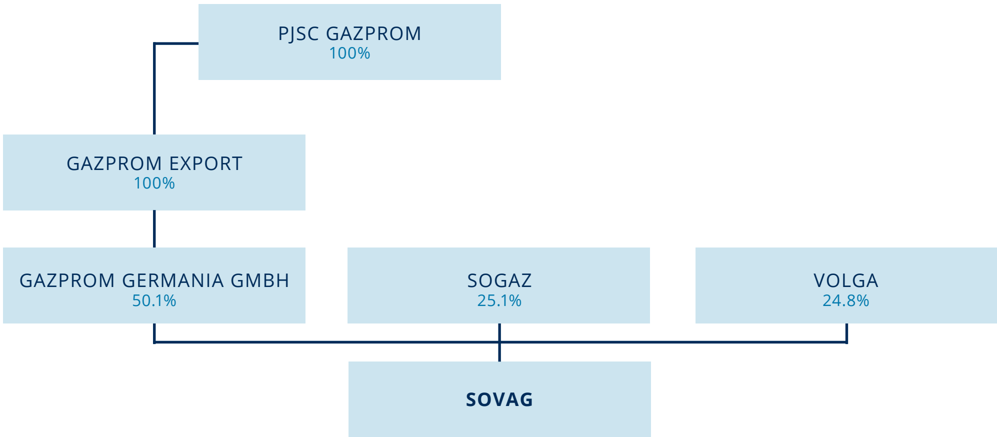
In December 2015, GAZPROM Germania GmbH, located in Berlin, acquired 9,770 shares in SOVAG from the two former shareholders. Since then, 50.1 per cent of shares have been held by GAZPROM Germania GmbH (GPG), Berlin; 25.1 per cent by INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ (SOGAZ INSURANCE, SOGAZ for short), Moscow; and 24.8 per cent by VOLGA Resources Investments S.A. (VOLGA), Luxembourg. The majority shareholder, GPG, is in turn a fully-owned subsidiary of Gazprom Export, located in St Petersburg, and, indirectly, PJSC Gazprom, Moscow.

SOVAG maintains a subordinate role in the group shareholder structure. Owing to the way the company shareholdings are structured, the SOVAG parent company is GAZPROM Germania GmbH, Berlin, and, further removed, PJSC Gazprom, Moscow. In this respect, SOVAG plays a special role as an insurance company within a larger industrial group.

After a merger with Schwarzmeer und Ostsee Beteiligungsgesellschaft mbH (Black and Baltic Sea Holding Company) on 24 May 2016, SOVAG no longer possesses any subsidiary companies. The former company acted as an investment vehicle.

SOVAG SHAREHOLDER STRUCTURE



SOVAG business activity spans both primary insurance and reinsurance. The Company's insurance programme includes all significant composite insurer lines of business such as motor, liability, accident and transport insurance and all significant property lines. The SOVAG direct underwriting is carried out principally in Germany, though also extends to Spain, the Netherlands, Belgium and Malta. Reinsurance policies are generally offered on a worldwide scale, with the exception of North America.

The direct underwriting business is conducted exclusively from the Company's main office in Hamburg, while reinsurance business is conducted from the SOVAG office in London. Sales are made primarily through national and international brokers.

The year ended 31 December 2016 is characterised by the reappraisal of the SOVAG strategy and business activity. The restructuring measures implemented in 2015 also led to a continued portfolio reduction in 2016. In addition, the active reinsurance business in the London market became subject to a more stringent underwriting practice in Q4.

Although the measures implemented in previous years did lead to an improvement in the Company's risk exposure over 2016, the predicted performance improvement and increased profitability did not materialise. For this reason, the 'SOVAG 2020' strategy was fundamentally reassessed in 2016 with a view to significantly increasing income from premiums in order to make up for a cost burden which, given the size of the Company, was too large.

In August 2016, Michel Schade and Alexander Jeßnitzer were appointed new members of the SOVAG Management Board, replacing the previous members. The new Board has consulted closely with the shareholders on the reorientation and appraisal of the SOVAG strategy and business plan. To realise the urgently needed turnaround with a course of growth and to carry out the required investments in technology and service, the Management Board, in coordination with the Supervisory Board, made a proposal to increase capital. Accordingly, the shareholders passed a resolution at the AGM on 16 December 2016 to issue new shares worth up to €24.96 million. The final subscription period expired on 30 May 2017.

At the same meeting on 16 December 2016, the SOVAG Management Board, again in coordination with the Supervisory Board, also passed a resolution for SOVAG to not take on any new business until further notice. The reasoning behind this is that the strategic reorientation process associated with the placement of the shares cannot be allowed to be endangered by an interim increase in risk exposure.

A.2 UNDERWRITING PERFORMANCE

Measured by gross written premiums of €52.988 million (previous year: €63.966 million), the Company's insurance portfolio is made up as follows:

in %	2016	2015
Direct underwriting business (without fronting)	**81.7**	**67.0**
Liability insurance	7.7	6.8
Motor vehicle liability insurance	17.6	13.3
Other motor insurance	3.9	2.7
Fire and damage to property insurance	31.0	25.7
comprising:		
fire insurance		
comprehensive home insurance		
other damage to property insurance		
transport insurance		
Fronting	**–4.0**	**4.8**
Reinsurance business (without fronting)	**22.3**	**28.2**

The direct underwriting contract portfolio increased by 22,670 to 274,062 contracts during the financial year.

PERFORMANCE OF DIRECT UNDERWRITING BUSINESS

Liability insurance

The gross premiums earned in the liability insurance line of business decreased by 5.1 per cent to €4.286 million. Of this amount, €0.029 million (previous year: €0.046 million) is related to fronting business. Supplementary premiums worth €0.306 million will be brought to account in subsequent underwriting years after writing.

The line of business closed with an underwriting loss of €0.908 million (previous year: €0.994 million loss) on own account.

Motor vehicle liability insurance

In the motor vehicle liability insurance line, gross premiums earned increased by €1.242 million/14.9 per cent to €9.586 million, principally as a result of tariff changes.

The line closed with a net underwriting loss of €1.265 million (previous year: €1.093 million loss).

Other motor insurance

The gross premiums earned on comprehensive products managed under this line increased by €0.372 million/25.3 per cent to €1.844 million, principally as a result of rate changes.

The line of business closed with an underwriting loss of €0.407 million (previous year: €0.491 million profit) on own account.

Transport insurance

The gross premiums earned in transport insurance decreased in 2016 by 6.6 per cent, from €5.919 million to €5.53 million. The line of business closed with a loss of €0.649 million (previous year: €0.596 million loss) on own account.

Fire insurance

As a result of the consistent restructuring of badly performing client relationships, gross premiums earned in fire insurance decreased another 16.2 per cent to €3.3 million.

The line closed with a net underwriting loss of €1.182 million (previous year: €2.243 million loss).

Comprehensive home insurance

The gross premiums earned in comprehensive home insurance increased by 5.3 per cent to €8.03 million.

This produced a net underwriting loss of €3.542 million (previous year: €4.069 million loss) at the end of the financial year.

Other damage to property insurance and other insurance
The lines of business summarised here incorporate policies for travel health, accident, comprehensive contents, burglary/robbery, water damage, glass, storms, technical insurance, extended coverage, business interruption and aviation as well as other types of insurance and travel assistance.

The gross premiums earned decreased by 62.3 per cent in total, from €15.356 million to €5.794 million. The fronting business experienced negative premiums of €5.071 million (previous year: +€3.086 million) in the financial year ended. Premiums earned outside of the fronting business amounted to €10.864 million, 11.5 per cent below the previous year's figures.

Collectively, these lines closed with a net underwriting loss of €3.123 million (previous year: €5.323 million loss).

PERFORMANCE OF REINSURANCE BUSINESS
Reinsurance represents the third strategic area of core business for SOVAG. This area focusses primarily on the facultative assumption of insurance company risk. Of total premium earnings, approximately 24.1 per cent can be attributed to business in Central and Eastern Europe (previous year: 43.2 per cent) and 75.9 per cent to international business (previous year: 56.8 per cent). These premiums are written on the London market.

The largest share of indirect business, at 47.2 per cent of gross written premiums, is in miscellaneous property insurance, followed by miscellaneous indemnity insurance at 20.1 per cent and fire insurance at 17.9 per cent.

Gross premiums earned across all lines of business came to €17.411 million, 0.1 per cent below the previous year's results (previous year: €17.43 million). This makes a net underwriting loss of €0.668 million (previous year: €1.441 million profit).

SUMMARY APPRAISAL OF BUSINESS PERFORMANCE
With gross premiums written of €53.0 million in total, premium income in the 2016 financial year was 17.2 per cent lower than the previous year's figure of €64.0 million. SOVAG had reckoned with a further decline in premiums for financial year 2016 as a result of the implementation of restructuring measures, though it turned out to be stronger than predicted on account of additional adjustment postings related to the rescission of a fronting contract as well as increased portfolio erosion. On top of this, reinsurance agreements had not yet been finalised at the time of planning, which meant that actual net premiums earned came in at 3.5 per cent below expectations.

Owing to an increase in the equalisation provision, the financial year closed with a net underwriting loss of €11.5 million (previous year: €12.0 million loss).

A.3 INVESTMENT PERFORMANCE

The capital investment portfolio excluding deposits to cedants increased by €5.8 million/6.4 per cent to €96.5 million during the reporting period. Deposits to cedants decreased by €5.3 million over the same period to €2.4 million. The total capital investment portfolio thus increased by 0.5 per cent to €98.9 million. Gross income from new investments excluding deposits to cedants reached a total level of €31.8 million (previous year: €13.4 million).

The portfolio of properties, leasehold rights and buildings, including buildings on external properties, reduced by €0.4 million to €0.4 million during the reporting period, factoring in write-ups and write-downs of €0.8 million. The share of capital investments excluding deposits to cedants measures 0.4 per cent (previous year: 0.9 per cent).

Through the merger with Schwarzmeer und Ostsee Beteiligungsgesellschaft mbH ('SBG'), a fully-owned subsidiary, the portfolio of affiliated companies and participations decreased from €3.8 million to the present €0.3 million. As part of the merger, all SBG assets were transferred to SOVAG. This accounts for a share of 0.3 per cent (previous year: 4.2 per cent) in capital investments excluding deposits to cedants.

The portfolio of equities, holdings and shares in investment funds and other non-fixed income securities decreased to €33.8 million in the reporting period, factoring in write-ups and write-downs of €39.1 million. That equates to 35.0 per cent (previous year: 43.1 per cent) of capital investments excluding deposits to cedants. The portfolio of equities held directly decreased by €3.6 million against the previous year, and investment shares by €1.7 million.

The portfolio of bearer bonds and other fixed income securities increased by €18.5 million to €46.8 million in the reporting period, factoring in write-ups and write-downs of €28.3 million. This accounts for a share of 48.5 per cent (previous year: 31.2 per cent) in capital investments excluding deposits to cedants.

The portfolio of miscellaneous borrowings decreased by €2.4 million to €15.1 million in the reporting period, factoring in write-ups, write-downs and reclassifications of €17.5 million in total. This accounts for a share of 15.6 per cent (previous year: 19.3 per cent) in capital investments excluding deposits to cedants.

The valuation of guarantee and restricted assets as of 31 December 2016 indicates surplus asset coverage.

The ongoing, regular income from capital investments amounted to €1.9 million in the ended financial year. Less ordinary expenses of €0.7 million (including planned property amortisation), an ordinary result of €1.2 million was attained (previous year: €3.7 million including a special dividend from the special investment fund, €2.2 million when adjusted for this one-off effect). The income decline is principally a result of the reduction of consistently average-performing securities in the investment portfolio, low reinvestment income and increased expenses for portfolio management.

On the balance sheet reporting date, SOVAG's capital investments required amortisation of €0.8 million, though thanks to value recovery from earlier depreciation a write-up of €0.4 million was possible. Thus on balance a result of €0.4 million was attained. By selling assets, gains on disposal of €2.6 million were achieved on one hand, however, on the other, losses on disposal of €0.1 million were recorded. When accounting for write-ups, write-downs and the effect of capital investment disposal, an extraordinary result of €2.1 million (previous year: €5.2 million) was recorded. Making a significant impact on this result at €1.4 million is the disposal of property (previous year: €4.0 million).

The net income from capital investments thereby decreased from €8.9 million in total to €3.3 million. The ongoing gross interest return on capital investments excluding deposits to cedants amounted to 2.0 per cent in 2016 (previous year: 4.3 per cent, 2.7 per cent when adjusted for one-off effects). Net interest return decreased from 9.1 per cent to 3.5 per cent. Adjusted for one-off effects, it was – at 2.0 per cent – 1.5 percentage points below the comparable value from the previous year and 1 percentage point below our budgeted value.

As SOVAG prepares its statements using the HGB method, income and expenses are not shown under equity directly.

The capital investment strategy does not provide for any investments in securitisations.

A.4 PERFORMANCE OF OTHER ACTIVITIES

Income from other activities comprised in particular income from exchange rate differences (€0.715 million) and income from the reversal of individual and general value adjustments (€0.52 million). Additional integral elements of the other income streams included income from the reversal of miscellaneous provisions (€0.443 million) as well as service revenue through the Green Card System from the London Agreement (€0.111 million).

A total of €0.123 million can be attributed to earlier financial years. This mainly relates to ongoing income from the Company's closed office in Vienna.

Other expenses were primarily related to expenditure for the Company as a whole (€6.933 million). Furthermore, they essentially include expenses due to exchange rate differences (€0.441 million), interest expenses through the compounding of provisions (€0.376 million) and service expenses (€0.129 million).

The Company has obligations from rental and lease agreements that are of reasonable scale.

A.5 ANY OTHER INFORMATION

There are no other material matters to report.

B. System of governance

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

Information regarding members of the Management and Supervisory Boards pertains to the 2016 reporting period.

MANAGEMENT BOARD

Dr Harald Gerd Meyer Keitum, until 31 August 2016 (reappointed as of 1 May 2017)	Chairman of the Management Board, member of Management Board from 1 May 2017
Franz A. Gänßler Murnau am Staffelsee, until 30 June 2016	Member of the Management Board
Michel Schade Hamburg, as of 3 August 2016	Chairman of the Management Board (as of 17 November 2016)
Alexander Jeßnitzer Hamburg, as of 24 August 2016	Member of the Management Board
Arndt Gossmann Hamburg, as of 1 May 2017	Chairman of the Management Board

The division of responsibilities across the Management Board on the reporting date was as follows:

Michel Schade (Chairman)	Internal Audit, actuarial function, Independent Risk Management function, passive and active reinsurance, underwriting, transport, invoicing, finances, IT, capital investment and HR
Alexander Jeßnitzer	Compliance, law, sales, marketing, claims, operations, management accounting, process management, central services, risk management (capital investments and passive reinsurance) and Management Board secretary

SUPERVISORY BOARD

Chlodwig Reuter Luxembourg	Chairman Chairman of the Board, VOLGA Resources Investments S. A., Luxembourg
Dmitry Talaev Moscow, as of 31 August 2016	Deputy Chairman Member of the Board of SOGAZ Insurance, Moscow
Thomas Scheibel Geneva	Vice President, VOLGA Resources Investments S. A., Luxembourg
Nikolay Galushin Moscow, until 31 August 2016	Deputy Chairman of the Board of SOGAZ Insurance, Moscow
Olga Krymova Moscow, until 31 August 2016	Deputy Chairwoman of the Board of SOGAZ Insurance, Moscow
Tatyana Pereyma St Petersburg, as of 1 June 2016	Advisor to General Director, OOO Gazprom Export, St Petersburg
Alexander Lukin Berlin, from 1 June 2016 to 13 October 2016	Deputy Chief Executive Officer, GAZPROM Germania GmbH, Berlin
Oleg Tarasov Berlin, as of 14 November 2016	Deputy Head of Directorate, Legal Department at PJSC GAZPROM, Moscow
Alexey Leonenko Moscow, as of 31 August 2016	Deputy Chairman of the Board of SOGAZ Insurance, Moscow
Heidemarie Küch Dohren, employee representative	Secretary, SOVAG, Hamburg
Christian Illgner Müssen, employee representative	Invoicing Manager, SOVAG, Hamburg
Stefan Gerlach Wentorf bei Hamburg, as of 1 June 2016, employee representative	Underwriting Manager, SOVAG, Hamburg

The Supervisory Board has two committees, the Audit Committee and the Human Resources Committee.

KEY FUNCTIONS

SOVAG has established four key functions:

- Independent Risk Management function (IRMF, *uRCF* in German law)
- Actuarial function (AF)
- Compliance function (CF)
- Internal Audit (IA)

The implementation of the key functions followed the standard three lines of defence approach. Under this approach, risk owners have responsibility and accountability for the daily, operational risks existing in their area. Throughout this they receive professional assistance from the IRMF and AF. The compliance function ensures that there is regulatory compliance at all times and acts as an early warning system for the timely implementation of legal changes, particularly supervisory ones. Internal Audit assesses the subsequent efficiency of the implemented internal audit system based on business processes.

During the past financial year the actuarial function and Internal Audit were outsourced, as is discussed later in this report.

In addition to the changes to the Management and Supervisory Boards as shown in the member lists above, the main hallmark of the continued development of the system of governance was the implementation and development of the key functions, which involved establishing the actuarial function and developing the compliance function.

The key functions have been defined as an 'internal capacity within the system of governance with responsibility for practical matters'. To fulfil their monitoring and coordination duties, the functions possess corresponding information rights and, where necessary, also auditing rights. The functions include the staffing and materials required to fulfil the given duties and report directly to the Management Board.

The SOVAG remuneration policy for Management Board members in the 2016 financial year was designed such that members receive a bonus on top of a basic salary commensurate with the size of the Company. This bonus is calculated based on performance against quantitative and qualitative targets set in line with Company strategy and planning. When defining quantitative targets, focus is put on profitability and its sustainability in accordance with Company risk policy. The qualitative targets are focussed primarily on the optimisation of business processes and compliance with new regulatory requirements. There are no indications that the bonus system does not act in accordance with the applicable risk management system or promotes taking excessive or inappropriate risk. The Management Board bonuses are approved by the Supervisory Board, where all SOVAG shareholders are suitably represented.

Of the Company Supervisory Board, only the members elected by employees receive set remuneration, which is of an appropriate amount and does not allow for bonuses.

There were no pension benefits payable to members of the Management and Supervisory Boards on the reporting date.

INSURANCE AGREEMENTS WITH GPG

GPG, as well as other companies within the GAZPROM group or affiliated with it, have concluded insurance agreements with SOVAG in the accident, liability, property, business interruption and all risk lines of business.

SERVICE AGREEMENTS WITH GPG

As of 1 August 2016, GPG has taken over operation of a data centre for SOVAG as part of a service agreement. Furthermore, services related to tax advice and translation were also utilised.

REINSURANCE AGREEMENTS WITH SOGAZ

Active and passive reinsurance agreements have been made with SOGAZ, with the active ones including non-proportional agreements and also facultative reinsurance while the passive reinsurance agreements provide coverage for direct underwriting and include facultative agreements.

Significant passive reinsurance agreements with SOGAZ include:

- a quota share treaty for SOVAG's direct underwriting business in the motor vehicle liability insurance line
- a quota share treaty to reinsure SOVAG's direct underwriting business in the fire and property insurance lines
- additional, proportional retrocession agreements with SOGAZ to protect retention – these agreements provide assurance for business underwritten in London as well as a quota share treaty with SOGAZ to protect SOVAG UK underwriting in ex-Soviet and EEC countries
- various falcultative reinsurance covers by SOGAZ, principally in the property line

AGREEMENTS WITH NATURAL PERSONS

As of 31 December 2016 there were outstanding personal loans with former Management Board member Mr Gänßler and Supervisory Board member Mr Illgner.

B.2 FIT AND PROPER REQUIREMENTS

In its internal directive 'Fit and Proper', SOVAG has listed clear standards so that its Management Board members, key functions and Supervisory Board can meet fit and proper requirements. The directive calls for theoretical and practical knowledge of financial and insurance markets, comprehension of the business model and strategy, financial and actuarial analysis skills, knowledge of regulatory requirements and framework conditions and good written and spoken English language skills.

Members of the Management Board must also have sound leadership experience under their command. The basic requirements for being 'fit and proper' also involve personal responsibility and honesty as well as financial solidity, even in private matters. Special, function-related knowledge and experience are also demanded of owners of key functions.

When appointing new members to the Management Board, the Supervisory Board assesses suitability and reliability using as a basis the documentation required by BaFin (CV, reliability questionnaire, police check, commercial history check and evidence of training) as well as additional information pertaining to availability, connections to SOVAG and a candidate self-appraisal of his/her professional qualification for the position. Only when such an assessment is successful is BaFin notified of the Company's intention to appoint the candidate, and only after a successful BaFin evaluation can the candidate commence work.

When appointing Supervisory Board members (excluding employee representatives), the same process is applicable, using the Supervisory Board as a whole.

A similar process also applies when appointing key function owners, with responsibility for its carrying-out resting with the Management Board.

All function holders are bound to improve their qualification through relevant further training. If the occasion arises, function owners and Board members will have their appraisal revisited to ensure its continued relevance. This will generally occur when contracts are extended, Board members reappointed or when there are indications that the appraisal must be revised.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE ORSA

The basis of the SOVAG risk management system is the risk strategy derived by the Management Board from the business strategy. It describes the significant risks to which SOVAG is exposed through its business model, the extent to which SOVAG is willing to take on risk (risk appetite) and desired risk capital on an aggregate level.

The risk strategy is implemented via the risk management system with the following integral components:

- risk control process (risk identification, measurement, monitoring, management and reporting)
- own risk and solvency assessment (ORSA)
- internal control system
- Internal Audit

In order to sufficiently measure and manage risks, it is also necessary to identify them completely and comprehensively on an ongoing basis. Identified risks are proactively reported to Risk Management by risk officers. Risk Management analyse these risks systematically and comprehensively, and together with the risk officers carry out an assessment of their significance. Risks classified as 'significant' are then listed in the risk catalogue. This in turn obliges Risk Management to provide ongoing monitoring of the risks and obliges the individual risk officers to manage them. Measurement actions in turn have their effectiveness continuously analysed and monitored by Risk Management. The current risk situation at SOVAG is regularly discussed and evaluated by both Risk Management and risk officers. Matters and results that have potential to affect risk are regularly reported to both the Management and Supervisory Boards in risk reports.

The risk catalogue is regularly revised and re-evaluated by the risk officers based on the provisions of the risk management guidelines. Additionally, risks are categorised based on their assignment in the standard Solvency II tree model. Risks outside of the standard tree model are quantified in an expert evaluation by the risk officers – before and after taking risk-mitigating measures. Risks outside the quantification approach are individually evaluated for quality after taking into account the effect of risk-mitigating measures.

To ensure the efficiency and effectivity of the risk management system, Internal Audit regularly carries out checks as a superior, process-independent authority. SOVAG has outsourced this function to an external service provider.

Internal directives and work instructions form the basis for the implementation of the risk management system for individual business processes associated with significant risks as well as for carrying out risk management. These directives and instructions generally regulate the objectives, structures and procedures as well as delegated authorities for the corresponding processes. Consistency with the risk strategy is ensured through the annual auditing process.

The risk control process is carried out jointly by the respective risk owners and Risk Management function, who all have responsibility for the process, while the Risk Management function also has responsibility for the organisation of risk management. An institution for this cooperation is provided by way of the Risk Committee.

The Independent Risk Management Function (IRMF) ensures implementation of risk management at SOVAG. The owner of the IRMF for supervisory purposes is the SOVAG Risk Manager.

The function ensures that the risk management system sufficiently connects the people in the organisational structure and decision-making processes who actually lead the company or connects other key functions.

Risk Management generally keeps track of all risks. An evaluation in regards to further management is only carried out after an evaluation by risk owners and Risk Management.

Risk Management covers the following areas:

- risk-taking and provisions
- active/passive management
- investments (incl. derivatives etc.)
- liquidity and concentration management
- management of operational risks
- reinsurance and other risk mitigation techniques

The IRMF ensures that the ORSA is carried out with a forward-looking evaluation of risks.

In addition, a task force has been set up for carrying out the ORSA, in which the Management Board, management accounting, invoicing and the AF all have a stake alongside the IRMF. Lasting integration of the ORSA results and the implementation of the business strategy is ensured by involving the Management Board.

Further elements of the risk management system are described in detail below in paragraphs B.4–B.7.

SOVAG carries out the ORSA parallel to the business planning process. Using target figures and the current results from the solvency statement and SCR calculation as a basis, the predicted solvency situation for the planning years is projected in both a base scenario and under more extreme conditions. Based on these ORSA results and in conjunction with planning data, the Management and Supervisory Boards then adjust the strategic targets as needed and, where required, contact the shareholders regarding any required capital.

SOVAG carries out the ORSA at least once annually and when the occasion calls for it, i.e. before strategic decisions with a significant impact on the risk profile or when events that have a significant influence on the risk profile take place.

The objective of SOVAG when determining its solvency needs (overall solvency needs) is to illustrate all risks quantitatively and to be able to cover the supervisory solvency capital requirement (SCR), even in times of stress. For this reason, the starting point is the SCR, which is increased by a given amount for the risks that are not part of the Solvency II standard formula. A second increase is applied to account for predicted losses incurred in stress scenarios considered significant.

B.4 INTERNAL CONTROL SYSTEM

To prevent errors and irregularities, SOVAG has implemented an internal control system to manage and monitor important processes. The point of departure for this system is the assessment of business processes in terms of their significance, using as a basis a catalogue of criteria pertaining to the scope of any affected amounts, the role of third parties or supervisory requirements.

As soon as a process meets at least one of the significance criteria, it is classified as a significant process and is recorded in the internal control system documentation.

Upon suggestion of the responsible area, Business Organisation, acting in coordination with audit and risk management teams as needed, assesses and approves additions of new, significant processes to the internal control system within the limits of the classification criteria.

Central elements of the internal control system are the explicit illustration and modelling of business processes in order to identify interfaces and activities and decisions associated with risk as well as the formulation and implementation of corresponding control measures to mitigate those risks.

The owner of the compliance function on the reporting date was Management Board member Alexander Jeßnitzer. The compliance function monitors the consistent compliance with statutory provisions, assesses external contracts, internal directives and work instructions before they are concluded or approved and informs affected areas about legal or supervisory changes before they happen. The compliance function is assisted in its duties by the Business Organisation division and maintains close communication with the other key functions.

B.5 INTERNAL AUDIT FUNCTION

SOVAG has outsourced Internal Audit to Warth & Klein Grant Thornton AG, an auditing firm based in Düsseldorf. Reporting is delivered directly to the Chairman of the Management Board.

An annual audit plan is also developed in coordination with the Chairman of the Management Board. During the reporting period, audits were carried out for the following:

- risk management
- capital investments
- planning process

Reports are prepared for the audits carried out, which are then forwarded to the Management Board. In addition to results, these reports also contain proposals for resolving any possible weak spots.

In order for Internal Audit to carry out its duties, complete, unrestricted information and audit rights have been granted. As part of multi-year planning, all significant activities, processes, IT systems and the risk management framework are checked for compliance with risk strategy requirements and to make sure the risk management process is functioning. The Management Board and the Audit Committee on the Supervisory Board receive written reports on the results of the audits performed. The audit reports include an evaluation of the audit results as well as suggested actions for eliminating any observed defects and a binding schedule for the concrete implementation of those actions.

Relevant clauses are included in the outsourcing agreement and in the internal directive for Internal Audit to ensure that the function remains objective and independent. Notably, these documents stipulate that Internal Audit is not bound by Management Board orders, except for audit engagements, and may not itself contribute operatively to business processes.

B.6 ACTUARIAL FUNCTION

The actuarial function assures the reliability and quality of technical provisions in the Company's solvency statement. In this context, it coordinates the calculations for the best estimates and monitors the quality of data used for calculations. In addition, it provides advice when putting together suitable reinsurance programmes and assistance with the general underwriting policy and evaluation of individual risks with high exposure. The actuarial function reports directly to the Management Board and works together closely with the Independent Risk Management function.

As of 1 January 2017 Mr Helge Heino is responsible for the actuarial function, receiving advice from Meyerthole-Siems-Kohlruss, an actuarial advisory firm to which the function was outsourced in financial year 2016.

B.7 OUTSOURCING POLICY

On account of its smaller size and business model, SOVAG is reliant on contracting out some of its operative and monitoring functions to third-party service providers.

The Company's sales strategy, which focusses on brokers and underwriting agents, necessarily involves the transfer of parts of the Company's policy-issuing and claim-processing duties to sales partners who are remunerated through increased brokerages. The quality of policy issuance and claims processing – up to a certain claim amount – is assured through the use of framework agreements. Existing or new framework agreements are checked by Company solicitors and adapted to new requirements, especially supervisory ones. The framework agreements provide for regular portfolio reviews and, for claims, open/closed file reviews, which are also performed in line with the agreement.

SOVAG has outsourced the following significant processes and activities to affiliated or external companies:

No.	Object of outsourcing agreement
1	Data centre operation
2	Internal Audit
3	Actuarial function
4	Asset investment and management
5	Appointment of an internal privacy officer
6	Support for implementation of risk and capital investment reporting
7	Software support agreement
8	Service agreement for the introduction of a new document management system and for software support
9	Framework agreement for IT services
10	Software maintenance agreement
11	Sales, policy issuance and claims processing

The outsourcing partners selected for the processes numbered 1–10 above are based in Germany. For no. 11, arrangements that involve outsourcing to underwriting agents have been made with partners in Germany, Spain, Belgium, the Netherlands and Malta, while services provided by brokers in Germany, the UK and Russia are used for reinsurance-related matters.

B.8 ADEQUACY OF THE SYSTEM OF GOVERNANCE

Overall, the SOVAG system of governance meets the requirements that follow from the nature, scope and complexity of the business model.

Element of the system of governance	Adequacy for SOVAG	Explanation
Fit and proper requirements	adequate	The requirements ensure that Management and Supervisory Board members and key function owners possess the necessary qualifications for their role, both individually and collectively.
Risk management system	adequate	The risk management system ensures that significant risks are sufficiently identified, analysed and managed.
ORSA	adequate	The ORSA makes it possible to predict the future development of the Company's solvency situation with a sufficient level of confidence.
Internal control system	adequate	The implemented controls in risky business processes provide, to the greatest possible extent, a sufficient reduction of risks and sources of error.
Compliance function	adequate	The implementation is sufficient for ensuring that overall Company behaviour is compliant and that changes to external requirements are acted upon in a timely manner.
Internal Audit	adequate	The implementation is sufficient for identifying undesirable developments in the implementation of business processes.
Actuarial function	adequate	The implementation of the actuarial function enables an informed assessment of reserve accumulation, pricing and insurance conditions.
Outsourcing	adequate	The outsourcing procedures allow for an informed selection of providers and ongoing quality assurance for outsourced processes.

B.9 ANY OTHER INFORMATION

There are no other significant matters to report.

C. Risk profile

C.1 UNDERWRITING RISK

RISK IDENTIFICATION AND RISK TRANSFER

Risks are generally classified and evaluated using underwriting guidelines. Risks that fall outside of the set boundaries are subject to an individual evaluation process and possibly subsequent actions such as an increase of reinsurance coverage.

RISK CONCENTRATION, MITIGATION AND SENSITIVITY

Strong exposure developed in the home line at the beginning of the 2016 financial year due to successful sales activity. The portfolio growth was analysed using natural catastrophe models and was subject to additional, geographic accumulation control. Reinsurance coverage was therefore modified accordingly while at the same time certain parts of the portfolio were restructured. The motorcycle line in Spain was affected by the new Baremo indemnification table and the Convenio agreement on claims settlement. The effects of the Baremo table in particular were countered with a corresponding adjustment of premiums.

C.2 MARKET RISK

RISK IDENTIFICATION AND RISK TRANSFER

Market risks are evaluated as part of active/passive management using the Solvency II market risk module calculation. For risks arising from capital investment directly, an additional evaluation is performed by Ampega as part of the regular reporting of interest, equity and currency risks.

In terms of market risks, SOVAG faces the following:

- **Interest rate risk**. In accordance with Solvency II, this is the risk that the Company's net asset values decrease as the result of a shift of the risk-free yield curve. Currently the risk of increased interest rates is relevant for SOVAG.

- **Equity risk**. The risk that asset values decrease due to negative performance on equity markets.

- **Currency risk**. The risk that net asset values decrease as a result of appreciation or devaluation of assets and liabilities that have exposure to foreign currencies.

- **Property risk**. The risk that asset values decrease due to negative performance of property markets.

- **Spread risk**. The risk that interest-bearing capital investments lose value through a widening of the spread between the yield observed on the market for the bond and the risk-free interest rate term structure. The causes of this spread are generally deteriorations of the bond credit rating or a general increase in the risk margin expected by the market.

- **Concentration risk**. The risk that a badly diversified capital investment portfolio suffers losses that are higher than those predicted by the standard formula due to tense market conditions.

During the reporting period, the capital investment strategy was modified with the effect that equity risk was significantly reduced. Property risk was also reduced by disposing of part of the portfolio.

The 'prudent person' principle as defined in Solvency II requires that insurers only partake in capital investments where the risks can be sufficiently identified, measured, monitored, managed and reported. Capital must be invested such that the security, quality, liquidity and profitability of the portfolio are guaranteed without entering into excessive risk concentration.

SOVAG has defined capital investment objectives that were used as a basis for deriving a consistent limit system. The outsourcing arrangement with Ampega ensures that both the investment objectives as well as the risk management framework are implemented in line with this principle.

The individual capital investment objectives at SOVAG are as follows:

- **Risk**. Generally, it is SOVAG's goal to minimise the tying-up of risk capital through capital investment.

- **Profits**. Given current financial market conditions as well as conditions at SOVAG, the profit result plays a subordinate role compared to the objectives of maintaining asset value and minimising risk.

- **Liquidity**. Sufficient liquidity must be ensured, firstly in order to fulfil portfolio payment obligations and, secondly, to meet payment demands from SOVAG's operating business. Cash flows from capital investments are generally kept within the capital investment cycle, i.e. they are reinvested.

- **Diversification**. Sufficient diversification of the portfolio in terms of investment types and debtor must be ensured.

- **Maturity matching**. Cash inflows are coordinated with outflows by matching the maturities of capital investments as well as technical and other long-term obligations. A mismatch within the risk limits is acceptable in this scenario if it is beneficial in terms of returns.

- **Currency matching**. Currency mismatches initially arise as part of the SOVAG insurance business. It is generally in the interests of SOVAG to balance out these mismatches. However, due to practical barriers in implementation, mismatches are currently not being accepted and not being balanced out through capital investment.

RISK CONCENTRATION

When it comes to capital investment, SOVAG is currently exposed to two risk concentrations:

- **EU government bond risk**. Currently, 7.2 per cent of capital investment is in government bonds in Italy and Spain.

- **US dollar**. Against the backdrop of the difficulties described in paragraph C.4 regarding transactions in the US dollar, an open currency position has been created, worth €9.8 million according to market values. This essentially consists of the net position between receivables and expected reinsurance premiums on the active side and technical provisions on the passive side.

RISK MITIGATION

A significant component of risk mitigation in capital investment is a system of limits for existing risks in order to manage investments in individual asset classes.

The usage of derivatives is generally permitted as part of fine control. They were used practically in the reporting period principally to manage equity exposure and duration. The derivatives in question were futures traded on stock exchanges, thereby avoiding any valuation problems.

RISK SENSITIVITY

Ampega's risk management includes monthly reporting on stress tests performed on capital investments.

Distinction is drawn between the following risk factors during stress testing:

- **Interest**. Changes in portfolio value stemming from interest level changes within one day.

- **Equity**. Changes in portfolio value stemming from same-day changes to equity prices based on equity price indices.

Due to the dependency between assets and liabilities with regard to interest rate risk, stress test results have only limited benefit for the management of the interest rate risk of the company as a whole.

Furthermore, the value at risk calculation is performed monthly based on capital investment credit and default risk (as distinct from the credit and default risk observed in paragraph C.3). In contrast to the standard Solvency II approach, risk from European government bonds is also included in the calculation.

The ORSA generally encompasses the following stress scenarios:

- **Spread risk** for European government bonds. Using a comparative calculation based on the standard formula where government bonds are treated like corporate bonds and by taking the current CVaR calculation from Ampega.

- **Equity risk**. Comparison of risk with and without transitional measures.

- **Currency risk**. Plausibility check of a stress factor of 25 per cent for significant foreign currency exposures.

C.3 CREDIT RISK

RISK IDENTIFICATION AND RISK TRANSFER

The term credit risk refers to two risks: default risk and credit risk in a narrower sense.

Default risks arise when debtors cannot fulfil their payment obligations to SOVAG. In addition to the default risks in capital investments already mentioned, there are additional default risks with receivables from insurance companies, brokers and reinsurance companies both in the direct underwriting business and reinsurance business. SOVAG counters these risks by regularly monitoring its receivables as well as the credit rating of its debtors. For receivables that are doubtful or irrecoverable, SOVAG makes provisions in the form of general and individual value adjustments as well as write-downs.

When selecting reinsurers, SOVAG considers credit rating an important criterion. It is subject to ongoing monitoring by SOVAG in accordance with supervisory requirements. This allows SOVAG to limit default risks that could negatively impact its liquidity. At this point in time SOVAG does not see any acute risks.

Credit risk in a narrower sense describes the risk that results from a potential downgrade of counterparty credit ratings, though without there being a direct default. This would have two negative effects on the Company's solvency in its Solvency II evaluation: firstly, the expected loss would have to be increased as a result of the increased probability of default and, secondly, the downgrade would lead to an increased supervisory capital requirement. The risk management framework provides for ongoing monitoring of this risk.

Default risk is evaluated based on the Solvency II standard formula for the counterparty default risk module.

RISK CONCENTRATION

Due to business connections with the shareholder SOGAZ, there is a considerable risk concentration in terms of default risk from reinsurance agreements. SOVAG is endeavouring to successively reduce this concentration by changing the reinsurance structure and taking other action.

RISK MITIGATION

With the exception of the already described risk concentrations presented by the relationship with a particular shareholder, risk is mitigated primarily through the selection of reinsurance partners based on credit rating and through diversification of the involved parties within the reinsurance programmes. The Company makes use of regular monitoring of credit ratings and of the spread of reinsurance program renewals, which generally take place once yearly.

RISK SENSITIVITY

Due to the significance of the risk from SOGAZ, the ORSA included a measurement of the sensitivity of the coverage ratio to a downgrade of SOGAZ's rating. Currently SOGAZ has been assessed by two recognised credit rating agencies as BBB, with a downgrade to BB meaning that reinsurance agreements with SOGAZ would no longer be able to be considered mitigating for catastrophe risk and that the calculated default risk for existing exposure from receivables and ceded reserves would increase as a result of the higher risk factor. As a result, the downgrade would lead to significantly increased risk capital needs after additional risk mitigation measures. This result has been factored into the calculation of the overall solvency needs.

C.4 LIQUIDITY RISK

RISK IDENTIFICATION AND RISK TRANSFER

The liquidity risk describes the risk that present and future payment obligations are not fulfilled punctually or in full.

In order to monitor the liquidity risk, the existing, proven liquidity planning has been further developed. All significant cash flows from underwriting business, capital investments and general administration are recorded, forecasted and monitored across a rolling three-month period.

Due to the withdrawal from individual customer business as of the 2015 financial year and the associated settlement of existing claims, the SOVAG capital investment portfolios will reduce in size in order to secure Company liquidity. This risk will become more pronounced through the pause on new business until further notice. Thanks to the high fungibility of its securities portfolios, SOVAG is able to ensure that it can fulfil its payment obligations at all times.

While neither SOVAG, SOGAZ nor GAZPROM are subject to US sanctions, compliance officers working for long-standing business partners have interpreted them broadly and acted cautiously, which has led to indirect consequences for SOVAG. Transactions in US dollars are no longer possible. Business relations with a number of banks operating internationally (particularly on the London market) are also not possible.

SOVAG identified these risks early on and passed a comprehensive suite of measures in response. An important component of this suite is the transition from the US dollar to the euro as the currency for contracts and payments.

RISK CONCENTRATION

Due to the importance of the business relationship with reinsurer SOGAZ, already described in paragraph C.3, a risk concentration also exists in this regard.

RISK MITIGATION

The main risk mitigation technique employed is placing the requirement on capital investment to, within the confines of the limit system, have securities that can be traded daily form at least 30 per cent of managed assets. This technique means that the Company can even compensate for large liquidity outflows over the short term.

SOVAG does not perform separate calculations for expected profit from future premiums. For the sake of simplicity, such amounts are set to zero.

RISK SENSITIVITY

With regards to the liquidity risk, SOVAG values this risk by performing an assessment of the effects of increased costs as part of the ORSA. The risk calculated is factored in when determining overall solvency needs.

C.5 OPERATIONAL RISK

RISK IDENTIFICATION AND RISK TRANSFER

The identification and evaluation of operational risks is carried out as part of the annual risk inventory. The risk officers then add to and maintain this inventory together with the Risk Manager. The Risk Committee analyses this risk inventory based on significance and completeness.

The significant operational risks are those that arise as a result of human fault, Company IT system failure or error or force majeure. Due to the significant reliance that business processes have on IT systems, SOVAG is primarily exposed to IT risks such as operational failures and interruptions, data loss as well as external attacks on SOVAG systems. SOVAG counters these risks with extensive protective measures, emergency planning, backup solutions, access controls and other measures.

Operational risks at SOVAG also include risks arising from insufficient planning and performance, e.g. when actions associated with plans are not implemented sufficiently.

RISK CONCENTRATION

In the context of operational risk, IT risks in particular, primarily operational interruptions as a result of data centre failures, are to be viewed as risk concentrations.

RISK MITIGATION

For the purposes of mitigating risks associated with human failure, SOVAG possesses an internal control system. This system includes, for example, the four-eyes principle and automatic quality and plausibility controls. Risks arising from force majeure are catered for through emergency plans and natural disaster insurance policies. These are checked annually and adjusted as needed.

RISK SENSITIVITY

With regard to the sensitivity of IT risks, a business impact analysis was carried out in 2015, the results of which were worked into the Company emergency response framework. For the 2016 financial year, the analysis was adapted during ongoing operations to the altered framework conditions resulting from the new data centre.

On the matter of planning risks associated with the pause on new business until further notice, a detailed examination was carried out at the start of 2017 as part of an ad hoc ORSA, with corresponding stress scenarios and long-term projections. The results were factored into business planning and capital management accordingly.

C.6 OTHER MATERIAL RISKS

RISK IDENTIFICATION AND RISK TRANSFER

Analogue to the operational risks, other significant risks were identified as part of the risk inventory process.

The other significant risks to which SOVAG is exposed include reputational risk, e.g. through a downgrade of the A.M. Best rating with knock-on effects for reinsurance business, strategic risks through changed market conditions and political risks arising from the Company's relationship to its Russian shareholders and business partners, which can be disrupted through sanctions against Russian companies or individuals.

RISK CONCENTRATION

There are extensive reinsurance arrangements with SOGAZ, see paragraph C.3.

RISK MITIGATION

The Company intends to reduce the exposure resulting from reinsurance business with SOGAZ.

RISK SENSITIVITY

A detailed examination was carried out at the start of 2017 as part of an ad hoc ORSA, with corresponding stress scenarios and long-term projections.

C.7 ANY OTHER INFORMATION

There is not any other information with relevance for the SOVAG risk profile.

D. Valuation for solvency purposes

D.1 VALUATION OF ASSETS

The following overview illustrates asset values by valuation for solvency purposes in accordance with the structure of the solvency statement, and also includes the valuations provided in the annual statutory financial statement along with the resulting valuation difference.

in EUR thousands (TEUR)	Solvency statement	Statutory (HGB) statement	Valuation difference
Goodwill	0.0	0.0	0.0
Deferred acquisition costs	0.0	0.0	0.0
Intangible assets	0.0	3,113.4	–3,113.4
Deferred tax assets	0.0	0.0	0.0
Pension benefit surplus	0.0	0.0	0.0
Property, plant and equipment held for own use	**598.6**	**598.6**	**0.0**
Investments	100,972.9	96,143.9	4,829.0
Property (other than for own use)	1,150.4	407.0	743.4
Holdings in related undertakings, including participations	0.0	0.0	0.0
Equities	5,358.5	4,754.9	603.6
Equities – listed	4,890.0	4,451.7	438.3
Equities – unlisted	468.4	303.2	165.3
Bonds	64,853.7	61,544.8	3,308.9
Government bonds	12,387.0	11,794.2	592.8
Corporate bonds	52,466.7	49,750.6	2,716.1
Structured notes	0.0	0.0	0.0
Collateralised securities	0.0	0.0	0.0
Collective investment undertakings	29,509.9	29,336.8	173.1
Derivatives	0.0	0.0	0.0
Deposits other than cash equivalents	100.3	100.3	0.0
Other investments	0.0	0.0	0.0
Loans and mortgages	383.4	383.4	0.0
Loans and mortgages to individuals	383.4	383.4	0.0
Other loans and mortgages	0.0	0.0	0.0
Policy loans	0.0	0.0	0.0
Reinsurance recoverables	79,457.3	92,021.2	–12,563.9
Non-life excluding health	79,156.0	92,016.0	–12,860.0
Non-life and health similar to non-life	301.3	5.2	296.1
Deposits to cedants	2,352.3	2,352.3	0.0
Insurance and intermediaries receivables	3,884.9	3,884.9	0.0
Reinsurance receivables	18,382.3	18,382.3	0.0

in EUR thousands (TEUR)	Solvency statement	Statutory (HGB) statement	Valuation difference
Receivables (trade, not insurance)	2,690.9	2,690.9	0.0
Own shares (held directly)	0.0	0.0	0.0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.0	0.0	0.0
Cash and cash equivalents	6,581.1	6,581.1	0.0
Any other assets not shown elsewhere	117.9	777.2	–659.3
Total assets	**215,421.7**	**226,929.2**	**–11,507.5**

The following paragraphs describe the basic principles, methods and assumptions of the valuation for solvency purposes for the individual asset classes as well as the significant differences to the statutory financial statement that are observed.

GOODWILL, DEFERRED ACQUISITION COSTS AND INTANGIBLE ASSETS

The valuation amounts for the stated items are zero as a rule. Solvency II only allows intangible assets to be listed if evidence can be provided of the existence of an active market for them. SOVAG is not providing such evidence for the assets concerned.

In contrast to the solvency statement, the statutory financial statement lists purchased concessions, industrial property rights and similar rights and values as well as licences to such rights and values. Even down payments made on such items, classified as acquisition costs less the standard straight-line depreciation permitted by tax law, are included on the balance sheet in the statutory statement. However, goodwill as well as deferred acquisition costs are also not included on the statutory statement's balance sheet.

ACTIVE DEFERRED TAX

Deferred taxes are shown in net terms, for which reason their value in the solvency statement is zero. The non-offset deferred taxes for active deferred taxes and passive deferred taxes respectively are calculated based on the following sources:

1. Timing differences between solvency balance sheet valuation and tax balance sheet valuation (active and passive)
2. Tax-eligible losses carried forward (active)

The timing differences between the solvency balance sheet and tax balance sheet valuations are multiplied by the expected tax rate at the time when the valuation difference is reversed. The underlying rate for deferred taxes was 32.275 per cent on 31 December 2016. The deferred tax assets rely on lower reporting of asset values and higher reporting of obligations on the solvency balance sheet as compared to the tax balance sheet, and the same applies analogously to passive deferred taxes.

Losses carried forward can be claimed on tax for an unlimited period of time, though BaFin will generally only recognise them for five years.

The assessment of the realisability of deferred tax assets follows the principle that sources of active deferred taxes are compared with sources of passive deferred taxes with a comparable cash flow pattern. According to current planning there is no positive, taxable income expected for the coming years, and for this reason no positive balances have been reported.

In its annual accounts, SOVAG elected to not report its deferred tax assets. As a result, deferred tax assets are shown as zero on the Company's statutory (HGB) balance sheet.

The values thus correspond according to amount, though come from different calculations.

PROPERTY, PLANT AND EQUIPMENT HELD FOR OWN USE

This item currently only includes tangible assets. Tangible assets are valued in the solvency balance sheet using the value from the statutory financial statement. This is in line with the cost-based approach.

PROPERTY (OTHER THAN FOR OWN USE)

Currently there is only a single property in SOVAG's portfolio, a space in Moscow formerly used as an office. The property received an expert valuation using the sales comparison approach and 1 March 2017 as a reference point. The valuation was given in roubles and converted to euros using the exchange rate for the reporting date, 31 December 2016.

In the statutory financial statement, on the other hand, the valuation was performed based on amortised acquisition costs, thereby creating a valuation difference.

EQUITIES

Equities listed on active markets are valued using the year-end rate, i.e. on 31 December 2016. A participation in Zinshaus Berlin GmbH & Co. KG, Berlin, is reported amongst the non-listed equities. The valuation was carried out using the adjusted equity method in accordance with Solvency II Directive & Delegated Regulation art. 13(3) and (4).

In contrast to the solvency balance sheet, the HGB method of valuation for listed equities uses the moderated lowest value principle, while non-listed equities are valued based on amortised acquisition costs.

INVESTMENT FUNDS

This item includes open, marketable investment funds on one hand, and on the other the SSF special fund. The valuation of the investment funds was carried out based on the redemption price on the balance sheet date as published by the issuer. The SSF is valued based on the net asset value method, where the asset values and liabilities are reported as market values.

Unlike the solvency balance sheet, the HGB method of valuation of investment funds uses the moderated lowest value principle.

BONDS

Fixed-income securities are valued using as a basis alternative valuation models as defined by Solvency II Directive & Delegated Regulation art. 10(5) in conjunction with art. 10(6). Listed securities for which there is no active market are valued using price quotations for identical or similar asset values on markets that are not active. As regards the alternative valuation applied in accordance with Solvency II Directive & Delegated Regulation art. 10 paras. 5 et seq., the valuation is carried out using the discounted cash flow method in line with IAS 39. This takes into account assumed creditworthiness and interest rate term structures, including risk premiums. Reporting includes accrued interest.

Use of the HGB method means that valuation is made using the moderated lowest value principle.

DEPOSITS OTHER THAN CASH EQUIVALENTS

Deposits are reported with their statutory value based on the materiality principle.

LOANS AND MORTGAGES

This item reports loans due from employees. Loans are reported with their statutory value based on the materiality principle.

REINSURANCE RECOVERABLES

Amounts recoverable from reinsurance agreements are reduced by the predicted loss through default of the counterparty, in accordance with German Insurance Supervision Act (VAG) sec. 86(3). In accordance with Solvency II Directive & Delegated Regulation art. 199, probability of default is reported based on the credit rating of the respective reinsurer. Reinsurers for which there is no available credit rating are assigned credit quality step 6 in line with Solvency II Directive & Regulated Directive art. 199. This adjustment reflects the assessment of the counterparty's probability of default and the average expected loss resulting from that default.

To calculate the reinsurance recoverables for premium provisions, the Company applies the simplification in Technical Annex III (EIOPA-BoS-14/166 EN) with corresponding net parameters.

To calculate recoverables from proportional reinsurance, SOVAG uses the proportional reinsurance quota shares for cash outflows from reinsurance (claims and costs) per accident year and homogeneous risk group on the gross components of the claims provision.

To calculate reinsurance recoverables for the direct underwriting claims provision, SOVAG differentiates between proportional and non-proportional reinsurance. To calculate non-proportional reinsurance recoverables, the recoverable amounts given in the annual statutory statement are used.

SOVAG uses the provisions from the annual statutory statement for reinsurance business.

DEPOSITS TO CEDANTS

Deposits to cedants are reported using the statutory values in accordance with the materiality principle, as such funds are only short-term (less than one year) in nature.

INSURANCE AND INTERMEDIARIES RECEIVABLES

Insurance and intermediaries receivables are reported using the statutory values in accordance with the materiality principle, as such funds are only short-term (less than one year) in nature.

REINSURANCE RECEIVABLES

Reinsurance receivables are reported using the statutory values in accordance with the materiality principle, as such funds are only short-term (less than one year) in nature.

RECEIVABLES (TRADE, NOT INSURANCE)

Such receivables are reported using the statutory values in accordance with the materiality principle, as such funds are only short-term (less than one year) in nature.

CASH AND CASH EQUIVALENTS

The Company’s cash balance was valued at its nominal amount, with balances in foreign currencies being converted to euros based on the mean spot rate on the reporting date, 31 December 2016.

ANY OTHER ASSETS NOT SHOWN ELSEWHERE

Any other assets are valued at face value, as these assets are of a short-term nature. The discrepancies in reporting between the statutory balance sheet and here are due to the fact that accrued interest is considered a miscellaneous asset under the HGB statutory reporting method, while it is a component of capital investment market value for the purposes of solvency reporting.

D.2 TECHNICAL PROVISIONS

The valuations for technical provisions can be found in the Appendix on Template S.17.01.02.

The valuations are based on the principles and assumptions of the Mack chain-ladder model while the provision is estimated separately for large claims. The risk margin is calculated depending on the SCR and the development of technical provisions.

The SOVAG portfolio spans various lines of business which to some extent vary considerably in terms of historical portfolio volume and naturally cause greater uncertainty the less they are represented. The standard deviation arising from the run-off triangles that form the basis for calculations serves as an indicator of uncertainty, as described by Mack.

The valuation for the statutory statement shows a claims provision that is 15 per cent higher, the difference for which can largely be traced back to the usual, statute-prescribed duty of prudence. Additionally, the effects of the current restructuring measures cannot yet be evaluated with certainty, with the result that this additional uncertainty in the affected areas of business is accounted for with a corresponding reserve. The valuation for solvency purposes is reliant on gathering patterns from historical data in order to calculate and use the best estimate.

Information about matching adjustments is not relevant for SOVAG as they are not used.

Information about volatility adjustments is not relevant for SOVAG as they are not used.

Information about transitional risk-free interest rate term structures is not relevant for SOVAG as they are not used.

Information about transitional deductions in accordance with Directive 2009/138/EC art. 308d is not relevant for SOVAG as they are not used.

The reinsurance recoverables are derived directly from gross estimates using the respective, applicable reinsurance programmes for each reported risk group and accident year, less the expected default for each counterparty.

There are no significant changes to the relevant assumptions underlying the calculation of the technical provisions as compared to the previous reporting period.

D.3 OTHER LIABILITIES

PROVISIONS OTHER THAN TECHNICAL PROVISIONS AND CONTINGENT LIABILITIES

The essential elements of this item have been created for received services not yet invoiced (outsourcing partners, consultants, auditing), employee payments and risks arising from legal disputes. With the exception of the provisions for legal disputes and the anniversary provisions (see below), it is generally presumed that there is an outflow of funds within any year.

There are no contingent liabilities.

With two exceptions, other liabilities are valued using values calculated through HGB methods, as in the IFRS statement too: 1. provision for anniversary expenses and 2. provisions for termination benefits.

To calculate the value of the provision for anniversary expenses, the deviating value of a Mercer appraisal is used as a basis. This appraisal itself used the projected unit credit method (cf. pension provisions paragraph).

For the provisions for termination benefits, the value reported in the IFRS statement is adjusted to account for the more conservative approach that German statutory method takes compared to the IFRS.

A conservative valuation is generally carried out to represent the uncertainty regarding the extent of the expected liability, with there being, for example, no adjustment for the expected probability of when it arises.

In the category of employee payments, substantial provisions were formed for the following items:

- termination benefits (€1.289 million)
- variable remuneration (€0.49 million)
- anniversary expenses (€0.101 million)
- leave entitlements (€0.052 million)
- Supervisory Board remuneration (€0.022 million)

PENSION PROVISIONS

Pension provisions are valued in accordance with IAS 19 based on the projected unit credit method. The discount rate is determined based on the returns achieved for first-class corporate bonds and amounts to 1.81 per cent for a duration of approximately 17 years. Expected income increases (2.5 per cent), pension trend (2.0 per cent) and internal fluctuation probabilities (2.0 per cent) were all taken into account.

The pension provisions are maintained using the total pool of SOVAG assets and the terms of expected pension payments are incorporated into Company investment strategy and duration management. There are no separate plan assets.

The valuation differences that are seen when compared with statutory reporting are primarily the result of the higher assumed discount factors.

DEPOSITS FROM REINSURERS

Deposits from reinsurers are reported using the statutory values in accordance with the materiality principle, as such funds are only short-term (less than one year) in nature.

DEFERRED TAX LIABILITIES

The calculation of deferred tax liabilities was illustrated in the remarks on active deferred taxes in paragraph D.1. These values were then balanced accordingly. The difference to the valuation in the statutory report is due to the surplus active deferred taxes as seen under the HGB method, which is however not reported in line with the Company's option in this regard (see above).

INSURANCE AND INTERMEDIARIES PAYABLES

Insurance and intermediaries payables are reported with their statutory value in accordance with the materiality principle. As such payables are of a short-term nature, the Company has opted to not discount them.

REINSURANCE PAYABLES

Reinsurance payables, including to brokers who process transactions on behalf of reinsurance companies, are reported with their statutory value in accordance with the materiality principle, as such payables are of a short-term nature.

ANY OTHER LIABILITIES

Valuation amounts are settlement amounts. The Company has opted to not apply discounting in accordance with the materiality principle.

There are rental and leasing obligations of a reasonable extent.

D.4 ALTERNATIVE METHODS OF VALUATION

The use of alternative methods of valuation, e.g. for bonds and pension and other provisions, is described in detail in paragraphs D.1 and D.3. Further information is not relevant.

D.5 ANY OTHER INFORMATION

Additional information regarding the valuation for solvency purposes is not relevant.

E. Capital management

E.1 OWN FUNDS

Planning of own funds is an integral component of the company planning associated with the projection of Company solvency. This planning normally spans a timescale of three years, though, for the purposes of examining the effects of the pause on new business until further notice, the planning has been extended to cover ten years.

The SOVAG has used a traffic-light system to define three tiers for the solvency ratio, which must be complied with in planning. If the lower limit is not met, actions must be defined in Company planning to restore target coverage. This usually involves a combination of risk reduction and an increase of own funds. Due to the structure of SOVAG, increases in own funds are usually realised as payments into the capital reserve in coordination with the shareholders.

The available own funds of €41.534 million for covering the solvency and minimum capital requirements are completely within Tier 1 'unrestricted', i.e. the highest quality for the purposes of Solvency II. The funds are composed of statutory share capital of €15.141 million and a reconciliation reserve of €26.12 million for valuation differences between valuation reporting for solvency purposes and statutory valuation reporting. A significant difference between the statutory share capital and own funds is therefore the reconciliation reserve that results from the differing reported valuations and which is described in the subsections of chapter D for individual types of assets and liabilities.

There are no transitional arrangements as described in Directive 2009/138/EC art. 308b for own funds.

The elements of the reconciliation reserve are a result of the valuation differences between the solvency and statutory statements described in detail in chapter D of this report.

E.2 SOLVENCY CAPITAL REQUIREMENT (SCR) AND MINIMUM CAPITAL REQUIREMENT (MCR)

SOLVENCY CAPITAL REQUIREMENT

The solvency capital requirement (SCR) amounted to €38.1992 million on the reporting date. As the SFCR was submitted at the same time as the obligatory BaFin reporting, the final amount is still subject to supervisory assessment.

in EUR thousands (TEUR)	**31/12/2016**
SCR	38,199.2
Risk margin for taxes	–3,127.9
Operational risk	3,908.8
BSCR	37,418.3
Market risk	7,931.4
Default risk	13,628.8
Underwriting risk – health	3,396.8
Underwriting risk – property	24,768.6
Diversification	–12,307.3

When calculating the solvency capital requirement, SOVAG uses the simplified calculation of the risk-mitigating effect for reinsurance agreements in the default risk module, as described in Delegated Regulation 2015/35 art. 107. The article 107 simplification entails calculating the size of the risk-mitigating effect per reinsurer according to its portion of the total underwriting reserves given to reinsurers. A comparison calculation with an exact determination showed that this approach is conservative and the risks somewhat overestimated.

SOVAG does not use any company-specific parameters.

In accordance with VAG sec. 341, the Federal Republic of Germany makes use of the option provided in Directive 2009/138/EC art. 51(2)(3). This means that insurance companies will have to provide separate reports on any capital add-on applicable after 31 December 2020 or the quantitative effects of company-specific parameters only beginning with the SFCR for financial year 2020.

On 1 January 2016, the BaFin reporting date for the entry into force of Solvency II, the SCR was €49.1552 million and has since then decreased by €10.956 million. The main causes of this decrease were a reduction of risk in the capital investment portfolio, a reduction of insurance portfolio exposures and changes to the method of evaluating default risk.

The coverage ratio was 108.7 per cent on the reporting date. The role of each individual source of own funds within the total eligible own funds is described below:

Own funds	**Absolute** (€ million)	**Relative** (in %)
Share capital	15.4	37.1
Reconciliation reserve	26.1	62.9

MINIMUM CAPITAL REQUIREMENT

The minimum capital requirement (MCR) amounted to €9,549,803 on the reporting date.

When calculating the SOVAG MCR, the absolute floor of 25 per cent of the SCR is relevant as the MCR, calculated using the factor-based approach to premiums and provisions applicable for non-life insurers, falls below this floor.

On the reporting date, the MCR was €2.7 million below the value on 1 January 2016. As the SOVAG MCR is derived directly from the application of the absolute floor and therefore develops strictly proportionally to the SCR, the causes for the decrease are the same as those for the SCR.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SCR

Usage of this module is not permitted in Germany.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

As SOVAG uses the standard formula for calculating its solvency capital requirement, this paragraph is not relevant.

E.5 NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

As of 1 January 2016, SOVAG was not in compliance with its solvency capital requirement (SCR). On 30 June 2016, compliance with the SCR was restored through a shareholder payment of €14.8 million into the capital reserve. At the beginning of the year, the coverage ratio was 75.1 per cent with a shortfall of €12.3 million. The shortfall reached a peak on 31 March 2016 at €17.5 million with a ratio of 64.3 per cent. The Company was compliant with its minimum capital requirement and Solvency I capital requirement at all times.

The cause of the shortfall was the course of business performance over the last few years, which led to a decrease in own funds. A first step was taken to manage the situation, which involved making an application as per VAG sec. 348(1) to SOVAG to extend the deadline for compliance with the SCR to 31 December 2017. The basis for the application was a restructuring plan which contained a number of measures to increase profitability, reduce costs and reduce risk. The application was approved in a letter from BaFin dated 29 March 2016.

The key measures taken to restore coverage were:

- increasing own funds through a payment from shareholders
- reducing number of equities in capital investment portfolio
- reinvestment in low-risk interest-bearing securities (government and covered bonds)

E.6 ANY OTHER INFORMATION

There is no other relevant information concerning capital management.

Appendix: Quantitative reporting templates

TEMPLATE S.02.01.02 – BALANCE SHEET

		Solvency II value
Assets		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	
Property, plant and equipment held for own use	R0060	599
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	100,973
Property (other than for own use)	R0080	1,150
Holdings in related undertakings, including participations	R0090	
Equities	R0100	5,358
Equities – listed	R0110	4,890
Equities – unlisted	R0120	468
Bonds	R0130	64,854
Government bonds	R0140	12,387
Corporate bonds	R0150	52,467
Structured notes	R0160	
Collateralised securities	R0170	
Collective investment undertakings	R0180	29,510
Derivatives	R0190	
Deposits other than cash equivalents	R0200	100
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	383
Policy loans	R0240	
Loans and mortgages to individuals	R0250	383
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	79,457
Non-life and health similar to non-life	R0280	79,457
Non-life excluding health	R0290	79,156
Health similar to non-life	R0300	301
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	2,352
Insurance and intermediaries receivables	R0360	3,885
Reinsurance receivables	R0370	18,382
Receivables (trade, not insurance)	R0380	2,691
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	6,581
Any other assets not shown elsewhere	R0420	118
Total assets	R0500	215,422

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	136,784
Technical provisions – non-life (excluding health)	R0520	136,522
TP calculated as a whole	R0530	
Best estimate	R0540	130,063
Risk margin	R0550	6,459
Technical provisions – health (similar to non-life)	R0560	262
TP calculated as a whole	R0570	
Best estimate	R0580	231
Risk margin	R0590	31
Technical provisions – life (excluding index-linked and unit-linked)	R0600	
Technical provisions – health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	3,739
Pension benefit obligations	R0760	13,397
Deposits from reinsurers	R0770	4,205
Deferred tax liabilities	R0780	3,128
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance and intermediaries payables	R0820	8,464
Reinsurance payables	R0830	3,035
Payables (trade, not insurance)	R0840	1,136
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	173,888
Excess of assets over liabilities	R1000	41,534

TEMPLATE S.05.01.02 – PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Premiums written										
Gross – direct business	R0110	249			9,307	3,247	6,417	14,206	3,177	
Gross – proportional reinsurance accepted	R0120				0	0	91	6,141	59	
Gross – non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	47			4,157	975	1,481	12,085	240	
Net	R0200	203			5,150	2,273	5,027	8,262	2,996	
Premiums earned										
Gross – direct business	R0210	223			9,586	2,686	6,418	16,054	3,389	
Gross – proportional reinsurance accepted	R0220				0	0	74	6,603	83	
Gross – non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	47			3,094	700	1,481	13,526	276	
Net	R0300	176			6,493	1,986	5,010	9,132	3,196	
Claims incurred										
Gross – direct business	R0310	147			10,602	1,855	4,518	22,929	1,081	
Gross – proportional reinsurance accepted	R0320				34	98	2	3,046	2	
Gross – non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	0			3,508	298	290	13,120	33	
Net	R0400	147			7,127	1,656	4,230	12,854	1,050	
Changes in other technical provisions										
Gross – direct business	R0410	–189			–3,947	1,463	–831	–7	464	
Gross – proportional reinsurance accepted	R0420				–56	–94	7	8,635	0	
Gross – non-proportional reinsurance accepted	R0430									
Reinsurers' share	R0440	0			1,311	310	281	11,797	32	
Net	R0500	–189			–5,315	1,060	–1,106	–3,168	432	
Expenses incurred	R0550	137			3,250	1,094	2,916	12,817	2,250	
Other expenses	R1200									
Total expenses	R1300									

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0100	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written									
Gross – direct business	**R0110**			5,108					41,712
Gross – proportional reinsurance accepted	**R0120**			3,283					9,574
Gross – non-proportional reinsurance accepted	**R0130**						274	8,260	8,534
Reinsurers' share	**R0140**			6,845			261	5,899	31,989
Net	**R0200**			1,546			13	2,360	27,830
Premiums earned									
Gross – direct business	**R0210**			6,433					44,789
Gross – proportional reinsurance accepted	**R0220**			2,930					9,690
Gross – non-proportional reinsurance accepted	**R0230**						222	8,882	9,104
Reinsurers' share	**R0240**			7,565			261	6,673	33,621
Net	**R0300**			1,798			–38	2,209	29,962
Claims incurred									
Gross – direct business	**R0310**			5,029					46,160
Gross – proportional reinsurance accepted	**R0320**			27					3,209
Gross – non-proportional reinsurance accepted	**R0330**						6	4,096	4,102
Reinsurers' share	**R0340**			2,277			0	3,293	22,820
Net	**R0400**			2,779			6	803	30,652
Changes in other technical provisions									
Gross – direct business	**R0410**			–1,249					–4,297
Gross – proportional reinsurance accepted	**R0420**			488					8,980
Gross – non-proportional reinsurance accepted	**R0430**						20	11,615	11,634
Reinsurers' share	**R0440**			479			33	10,459	24,702
Net	**R0500**			–1,240			–13	1,156	–8,384
Expenses incurred	**R0550**			2,639			91	2,992	28,185
Other expenses	**R1200**								101
Total expenses	**R1300**								28,286

TEMPLATE S.05.02.01 – PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY

		Home country	Top five countries (by amount of gross premiums written) – non-life obligations					Total top five and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross – direct business	**R0110**	41,712						41,712
Gross – proportional reinsurance accepted	**R0120**	9,574						9,574
Gross – non-proportional reinsurance accepted	**R0130**	8,534						8,534
Reinsurers' share	**R0140**	31,989						31,989
Net	**R0200**	27,830						27,830
Premiums earned								
Gross – direct business	**R0210**	44,789						44,789
Gross – proportional reinsurance accepted	**R0220**	9,690						9,690
Gross – non-proportional reinsurance accepted	**R0230**	9,104						9,104
Reinsurers' share	**R0240**	33,621						33,621
Net	**R0300**	29,962						29,962
Claims incurred								
Gross – direct business	**R0310**	46,160						46,160
Gross – proportional reinsurance accepted	**R0320**	3,209						3,209
Gross – non-proportional reinsurance accepted	**R0330**	4,102						4,102
Reinsurers' share	**R0340**	22,820						22,820
Net	**R0400**	30,652						30,652
Changes in other technical provisions								
Gross – direct business	**R0410**	–4,297						–4,297
Gross – proportional reinsurance accepted	**R0420**	8,980						8,980
Gross – non-proportional reinsurance accepted	**R0430**	11,634						11,634
Reinsurers' share	**R0440**	24,702						24,702
Net	**R0500**	–8,384						–8,384
Expenses incurred	**R0550**	28,185						28,185
Other expenses	**R1200**							
Total expenses	**R1300**							28,185

TEMPLATE S.17.01.02 – NON-LIFE TECHNICAL PROVISIONS

		Direct business and accepted proportional reinsurance								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**
Technical provisions calculated as a whole	**R0010**									
Total recoverables from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**									
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross	**R0060**	–80			2,438	828	284	2,498	–343	
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	**R0140**	301			1,074	438	–74	1,029	–155	
Net best estimate of premium provisions	**R0150**	–381			1,364	390	358	1,468	–189	
Claims provisions										
Gross	**R0160**	310			43,445	578	12,335	34,259	2,661	
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	**R0240**	0			20,663	153	5,432	24,234	543	
Net best estimate of claims provisions	**R0250**	310			22,782	425	6,903	10,025	2,117	
Total best estimate – gross	**R0260**	231			45,883	1,405	12,619	36,757	2,318	
Total best estimate – net	**R0270**	–71			24,146	814	7,260	11,493	1,929	
Risk margin	**R0280**	31			4,454	25	698	680	254	
Amount of the transitional on technical provisions										
Technical provisions calculated as a whole	**R0290**									
Best estimate	**R0300**	0			0	0	0	0	0	
Risk margin	**R0310**	0			0	0	0	0	0	
Technical provisions – total										
Technical provisions – total	**R0320**	262			50,337	1,430	13,317	37,437	2,572	
Recoverable from reinsurance contract/SPV and finite re after the adjustment for expected losses due to counterparty default – total	**R0330**	301			21,737	591	5,359	25,263	389	
Technical provisions minus recoverables from reinsurance/SPV and finite re – total	**R0340**	–40			28,600	839	7,958	12,174	2,183	

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total non-life obligation
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0110	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0170**	**C0180**
Technical provisions calculated as a whole	**R0010**								
Total recoverables from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**								
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	**R0060**			–1,540		10	38	1,692	5,824
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	**R0140**			–1,138		8	–6	1,070	2,549
Net best estimate of premium provisions	**R0150**			–402		2	43	621	3,275
Claims provisions									
Gross	**R0160**			194		0	290	30,397	124,469
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	**R0240**			50			43	25,789	76,908

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total non-life obligation
		Legal expenses insurance	Assis-tance	Miscellane-ous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportion-al marine, avia-tion and trans-port reinsurance	Non-proportional property reinsurance	
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Net best estimate of claims provisions	**R0250**			144		0	247	4,608	47,561
Total best estimate – gross	**R0260**			–1,346		10	328	32,089	130,293
Total best estimate – net	**R0270**			–258		2	290	5,230	50,836
Risk margin	**R0280**			15			25	309	6,491
Amount of the transitional on technical provisions									
Technical provisions calculated as a whole	**R0290**								
Best estimate	**R0300**			0			0	0	0
Risk margin	**R0310**			0			0	0	0
Technical provisions – total	**R0320**			–1,331		10	353	32,397	136,784
Recoverable from reinsurance contract/SPV and finite re after the adjustment for expected losses due to counterparty default – total	**R0330**			–1,087		8	38	26,859	79,457
Technical provisions minus recoverables from reinsurance/SPV and finite re – total	**R0340**			–243		2	315	5,538	57,326

TEMPLATE S.19.01.21 – NON-LIFE INSURANCE CLAIMS BASED ON RUN-OFF TRIANGLES

Total non-life business

Accident year/underwriting year	Z0010	Accident year [AY]

Gross claims paid (non-cumulative) (absolute amount)

		Development year												In current year	Sum of years (cumulative)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	**R0100**												**R0100**		
N-9	**R0160**	14,441	13,656	6,062	2,689	1,608	787	363	656	125	347		**R0160**	347	40,732
N-8	**R0170**	20,151	22,325	8,045	4,695	1,519	967	1,107	208	394			**R0170**	394	59,409
N-7	**R0180**	24,517	21,470	4,405	2,055	766	598	423	150				**R0180**	150	54,384
N-6	**R0190**	27,166	22,478	6,494	2,675	1,210	562	849					**R0190**	849	61,434
N-5	**R0200**	29,130	23,473	6,050	1,947	1,165	281						**R0200**	281	62,047
N-4	**R0210**	31,037	21,836	3,868	1,366	658							**R0210**	658	58,766
N-3	**R0220**	33,953	22,892	4,326	2,263								**R0220**	2,263	63,434
N-2	**R0230**	24,908	15,483	3,362									**R0230**	3,362	43,753
N-1	**R0240**	12,020	12,908										**R0240**	12,908	24,928
N	**R0250**	15,325											**R0250**	15,325	15,325
Total													**R0260**	36,536	484,212

TEMPLATE S.23.01.01 – OWN FUNDS

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	15,414	15,414			
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**					
Surplus funds	**R0070**					
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	26,120	26,120			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**					
Total basic own funds after deductions	**R0290**	41,534	41,534			0
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**					

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Letters of credit and guarantees under art. 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under art. 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of art. 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls – other than under first subparagraph of art. 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	41,534	41,534			0
Total available own funds to meet the MCR	**R0510**	41,534	41,534			
Total eligible own funds to meet the SCR	**R0540**	41,534	41,534	0	0	0
Total eligible own funds to meet the MCR	**R0550**	41,534	41,534	0	0	
SCR	**R0580**	38,199				
MCR	**R0600**	9,550				
Ratio of eligible own funds to SCR	**R0620**	108.7%				
Ratio of eligible own funds to MCR	**R0640**	434.9%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	41,534
Own shares (held directly and indirectly)	**R0710**	
Foreseeable dividends, distributions and charges	**R0720**	
Other basic own fund items	**R0730**	15,414
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	
Reconciliation reserve	**R0760**	26,120
Expected profits		
Expected profits included in future premiums (EPIFP) – life business	**R0770**	
Expected profits included in future premiums (EPIFP) – non-life business	**R0780**	
Total expected profits included in future premiums (EPIFP)	**R0790**	

TEMPLATE S.25.01.21 – SOLVENCY CAPITAL REQUIREMENT

		Gross solvency capital requirement	USP	Simplifications
		C0110	**C0080**	**C0090**
Market risk	**R0010**	7,931		–
Counterparty default risk	**R0020**	13,629		
Life underwriting risk	**R0030**			
Health underwriting risk	**R0040**	3,397		–
Non-life underwriting risk	**R0050**	24,769		–
Diversification	**R0060**	–12,307		
Intangible asset risk	**R0070**	0		
Basic solvency capital requirement	**R0100**	37,418		

Calculation of solvency capital requirement		C0100		
Operational risk	**R0130**	3,909		
Loss-absorbing capacity of technical provisions	**R0140**	0		
Loss-absorbing capacity of deferred taxes	**R0150**	–3,128		
Capital requirement for business operated in accordance with art. 4 of Directive 2003/41/EC	**R0160**			
Solvency capital requirement excluding capital add-on	**R0200**	38,199		
Capital add-on already set	**R0210**			
Solvency capital requirement	**R0220**	38,199		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	**R0400**			
Total amount of notional solvency capital requirement 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 art. 304	**R0440**			

TEMPLATE S.28.01.01 – MINIMUM CAPITAL REQUIREMENT

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} result	**R0010**	**8,050**

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Medical expense insurance and proportional reinsurance	**R0020**	0	1,365
Income protection insurance and proportional reinsurance	**R0030**		
Workers' compensation insurance and proportional reinsurance	**R0040**		
Motor vehicle liability insurance and proportional reinsurance	**R0050**	24,146	5,150
Other motor insurance and proportional reinsurance	**R0060**	814	1,109
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	7,260	4,264
Fire and other damage to property insurance and proportional reinsurance	**R0080**	11,493	5,521
General liability insurance and proportional reinsurance	**R0090**	1,929	3,792
Credit and suretyship insurance and proportional reinsurance	**R0100**		
Legal expenses insurance and proportional reinsurance	**R0110**		
Assistance and proportional reinsurance	**R0120**		
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	0	1,591
Non-proportional health reinsurance	**R0140**		
Non-proportional casualty reinsurance	**R0150**	2	
Non-proportional marine, aviation and transport reinsurance	**R0160**	290	18
Non-proportional property reinsurance	**R0170**	5,230	3,438

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L result	R0200	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210		
Obligations with profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation

		C0070
Linear MCR	R0300	8,050
SCR	R0310	38,199
MCR cap	R0320	17,190
MCR floor	R0330	9,550
Combined MCR	R0340	9,550
Absolute floor of the MCR	R0350	3,700
		C0070
Minimum capital requirement	R0400	9,550

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