Appendix 4b

Individual Results – Life Companies

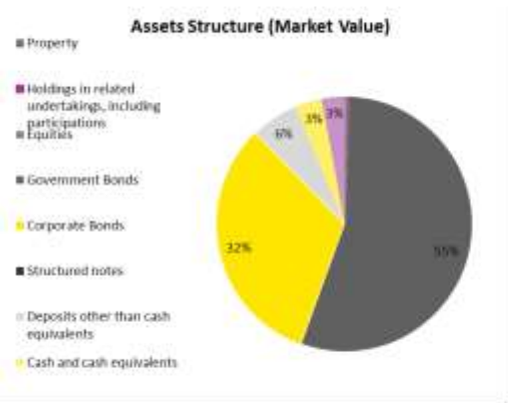
1. UNIQA LIFE INSURANCE - SII

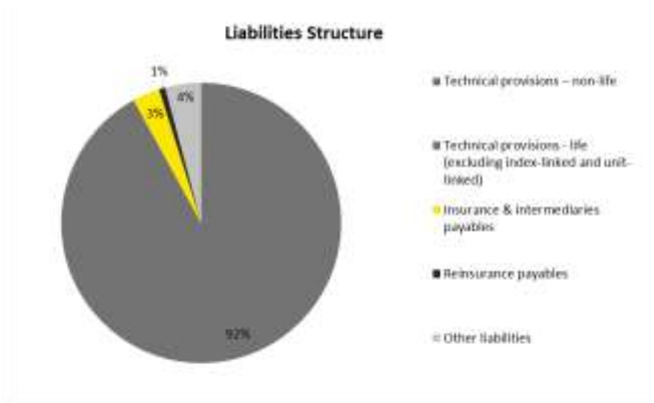
The Company's Balance Sheet is composed of BGN 81m assets and BGN 65m liabilities leading to excess of assets over liabilities in amount of BGN 16m.

The Company's Own funds are comprised of Tier I and Tier III components. The Tier I Own funds consist entirely of the excess of assets over liabilities of BGN 16m. Tier III Own funds include deferred tax assets.

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

The structure of the balance sheet is presented below:





As analyzed below, total assets decreased by BGN 8.7m and total liabilities decreased by 7.4m.

Assets

On the assets side, the main adjustments refer to a decrease of BGN 7.3m in insurance receivables, a reclassification of a deposit amount of BGN 4.4m from Cash and cash equivalents to Deposits other than cash equivalents and a decrease of BGN 1.4m in deferred tax assets representing setting of IFRS amounts with corresponding impact on liabilities side (BGN 1.5m) net of accrual of deferred tax asset and liability over difference between SII base and IFRS base. The adjustment in insurance receivables is partly due to the adjustment related to premiums which are not due for payment as at HY2016 (BGN 7m) and additional impairment proposed (BGN 290k).

A decrease of BGN 119k has been performed in Reinsurance Recoverables as a result of technical provision adjustments and recalculations.

Liabilities

Total liabilities decreased by BGN 7.4m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

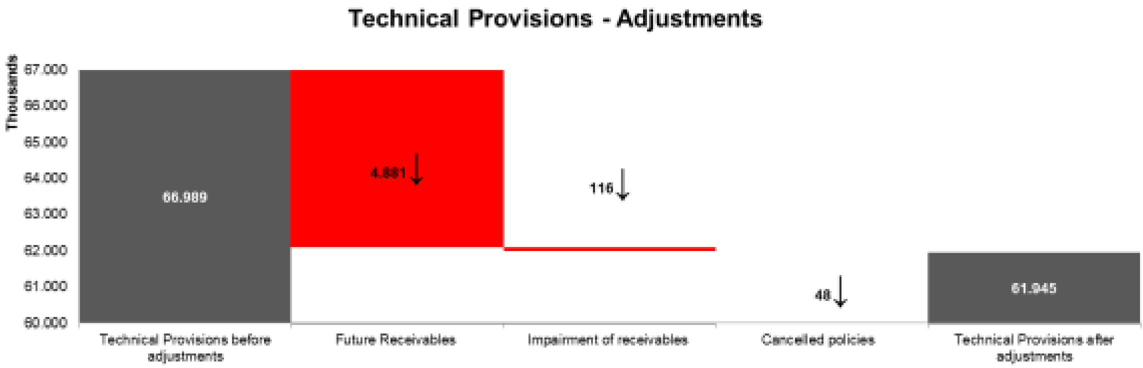
Liabilities were impacted by deferred tax already described above, a decrease of BGN 857k in insurance and intermediaries payables representing commissions due to intermediaries payables related to premiums not due and a reclassification of BGN 646k of all payables other than insurance payables e.g. trade, tax, employee obligations and others liabilities with a corresponding impact in other liabilities.

A reclassification between liabilities and assets in amount of BGN 46k was reflected in Other payables and respectively Insurance receivables.

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

Adjustments in Technical provisions

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



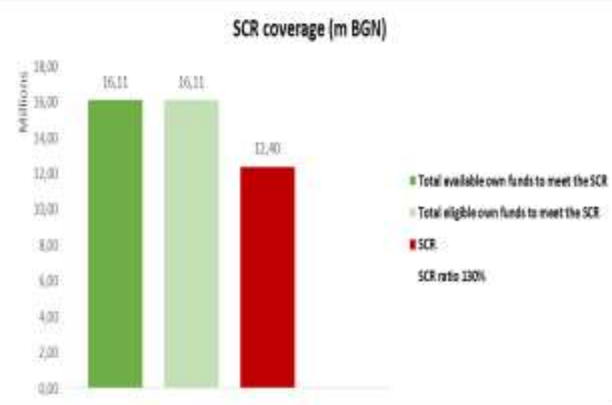
- The significant downward adjustment of BGN 4.9m refers to future receivables and in particular premiums which are not due for payment as at HY2016.
- The downward adjustment of BGN 116k refers to impairment of insurance receivables.
- The downward adjustment of 48k refers to cancellation of receivables due from policyholders during the period July - August 2016.

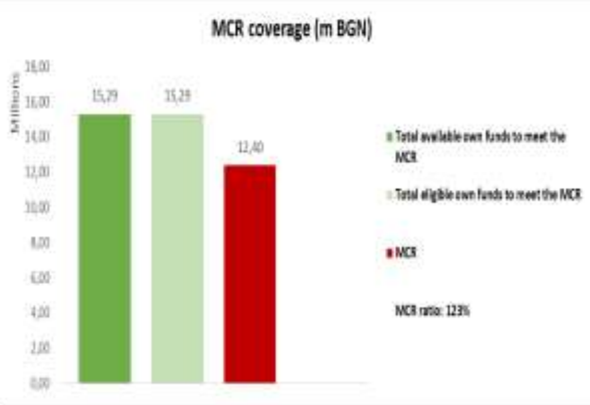
Other issues identified

The Company does not produce BEL valuation on a policy level for the savings portfolio, instead the calculations are based on model point approach.

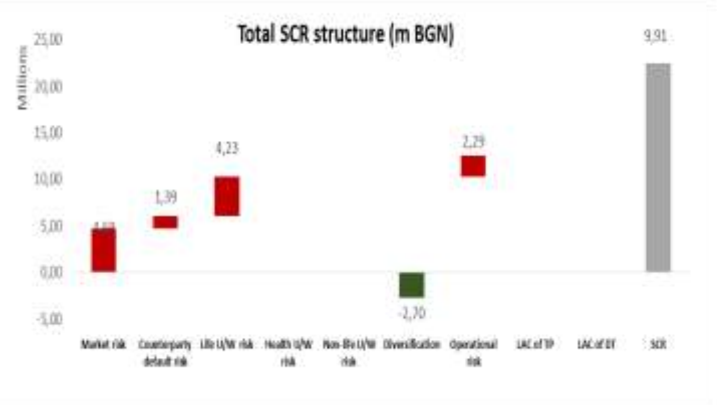
Capital Requirements Compliance

The initial solvency position of Uniqa Life was 140% SCR and 134% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 123%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. Therefore the company is compliant.

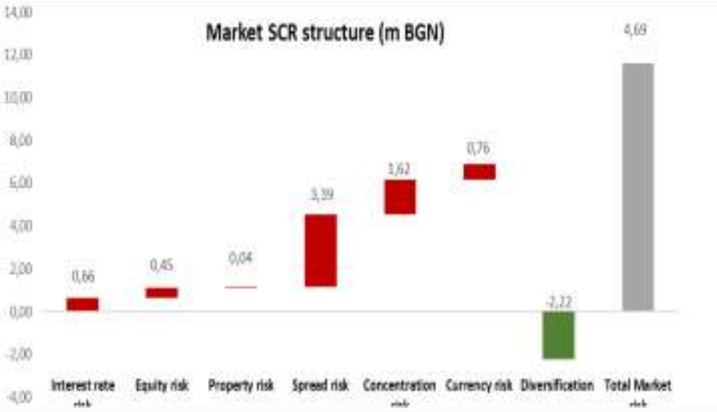




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.

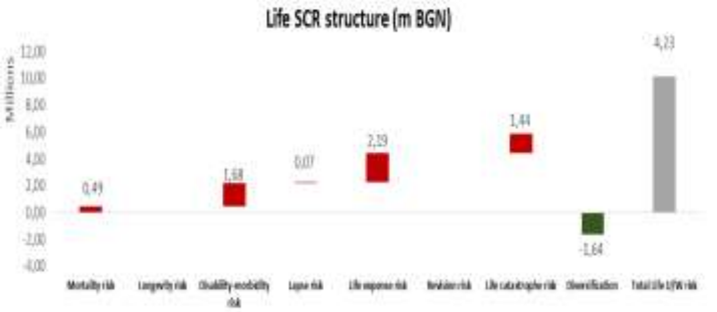


As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Market Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 4.2m, whereas exposure to Market Risk is equal to approximately BGN 4.7m as at HY2016.



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

1. Spread risk (BGN 3.39 m)
2. Market risk concentrations (BGN 1.62 m)
3. Currency risk (BGN 0.76 m)



The Life expense risk (BGN 2.19 m) and Disability-morbidity risk (BGN 1.68 m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

Based on the procedures performed the IER concluded that the reinsurance program, designed to lead to conservative levels of retention, is effective and appropriate for the Company's portfolio, provide adequate protection and it is in line with the requirements of Title I, Chapter V, section 10 of the Delegated Regulation 2015/35.

Corporate Governance, processes and internal control framework, accounting policies

The Company’s Corporate Governance and Internal control framework was considered as developed in relevance with the size, nature and complexity of the operations. It was recommended that the undertaking’s management to supplement the accounting policy in relation to the assumptions and judgements used for subsequent measurement of insurance receivables, including specifically impairment indicators and their impact, in order to estimate the loss allowance at each reporting date.

Limitations

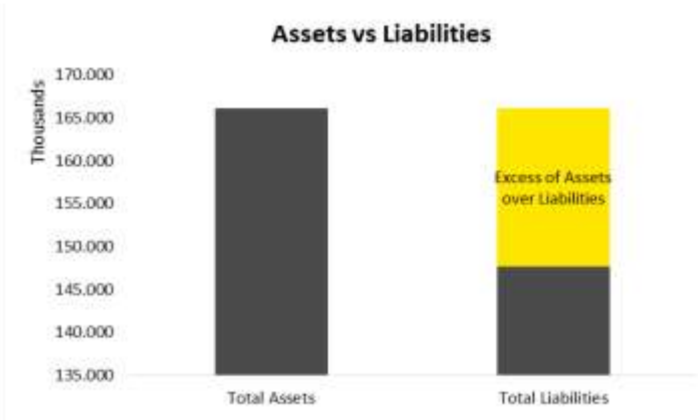
The Company classifies as Life category all of the LoBs it operates in and no HSLT or HNSLT allocation exists. However, products classified under LoB (32) have different nature of the underlying risks. Within “Other life insurance” health, accident and bank-assurance products are classified. As stated by the IER, based on the awareness that the Company is still not prepared to recalculate and respectively reclassify Technical provisions for health and other life insurance products, no further adjustments are feasible. Hence, a recommendation for this has been included in the conclusion report.

Other areas for improvement

As also indicated by the IER in the conclusion report, the Company shall consider further improvement on valuation models based on the usage of more model points or calculation per policy basis, including adaption and usage of individual commission schedule.

2. GRAWE Bulgaria Jivotozastrahovane – SII

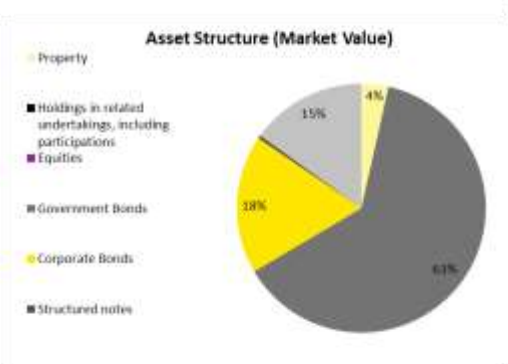
The Company’s Balance Sheet is composed of BGN 166m assets and BGN 148m liabilities leading to Own funds amount of BGN 18.4m.

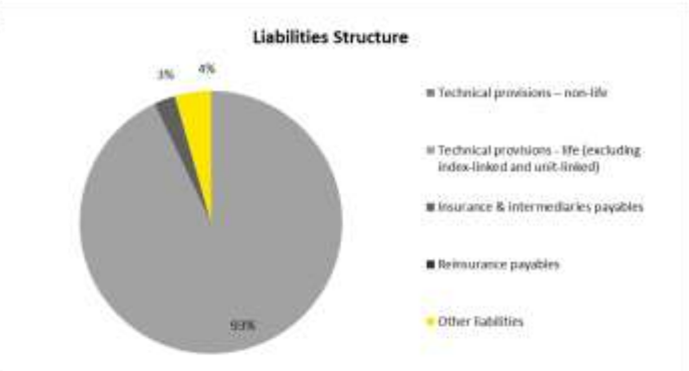


Basic own funds comprise of only Tier I items and are equal to the excess of assets over liabilities of BGN 18.4m.

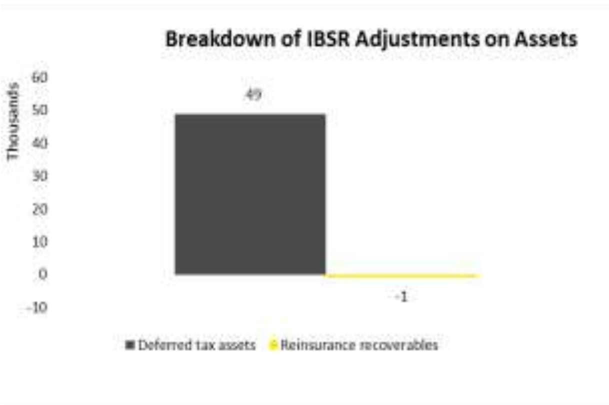
As a result of the IBSR exercise, the Own funds decreased by BGN 1m.

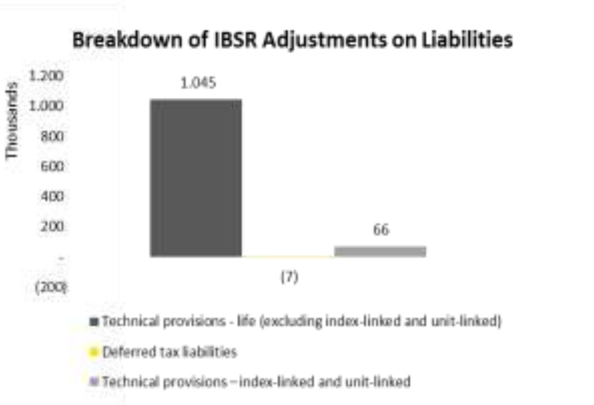
The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 48k and the total liabilities increased by BGN 1.1m.





Assets

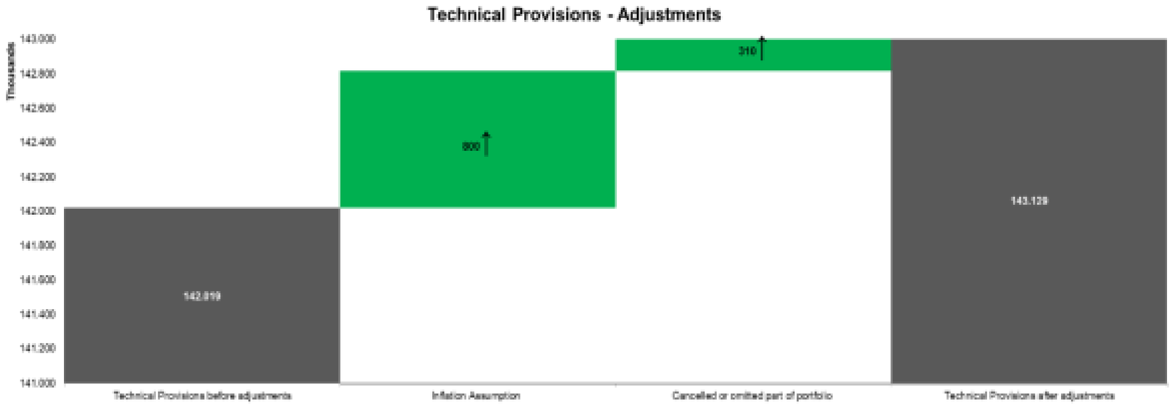
The main adjustment on the assets side refers to the effect on deferred tax of the adjustments on technical provisions.

With regards to reinsurance recoverables, a decrease of BGN 904 has been performed as a result of a correction to a rating assigned to the reinsurer. However, the impact is insignificant.

Liabilities

Adjustments in Technical provisions

The total amount of the adjustments is BGN 1.1m and further breakdown is presented below:



- The main adjustment performed is an increase in BEL equal to BGN 800k. This is due to the fact that initially, the Company has set the inflation assumption equal 0%. However, given the long term nature of cash-flow projections the applied 0% inflation rate may not be fully appropriate. Hence, following recommendation, the Company recalculated Technical provisions applying 0.8% annual inflation.
- The upward adjustment equal to BGN 310k is attributed to the separate calculation of the annuity portfolio, which is modelled outside of the cash-flow model of the Company. Results of this standalone process have been left out from the Solvency II reports, hence an adjustment has been performed due to this manual failure.

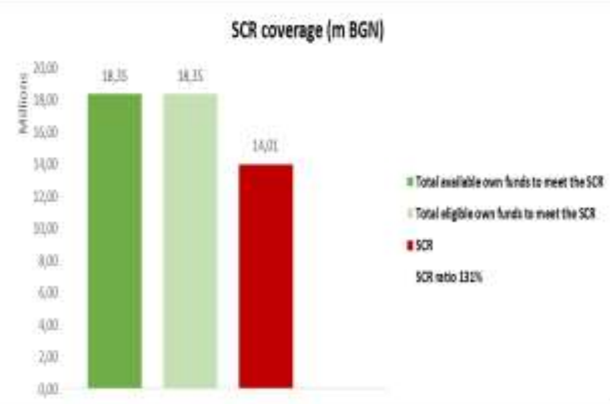
Other issues identified

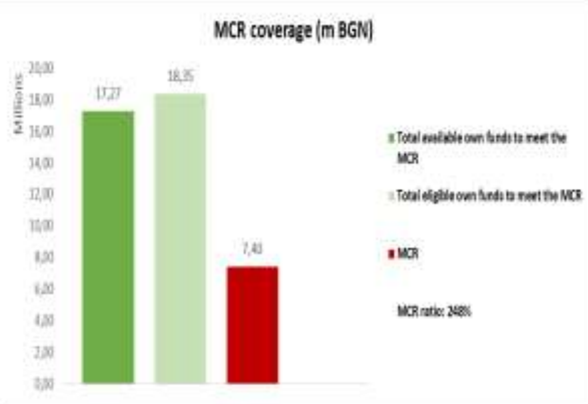
Future discretionary benefits are calculated stochastically by the Group. However, the local entity Grawe does not have full oversight, control, challenge and local documentation over the process.

In respect of options and guarantees, the actuarial model of the Company does not include potential premium increases (indexation). However, the estimated impact is immaterial due to the low historical number of increases.

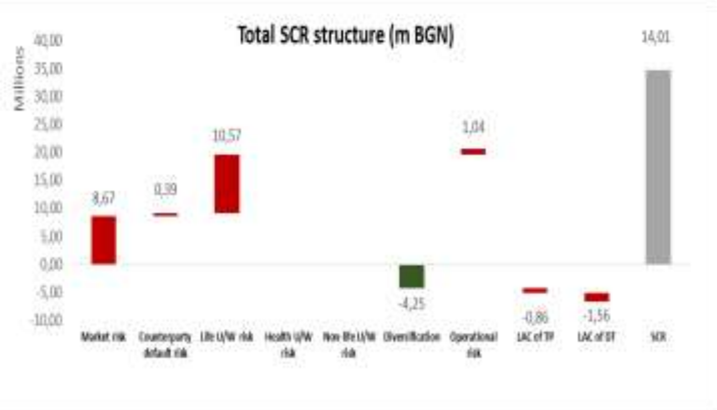
Capital Requirements Compliance

The initial solvency position of Grawe was 140% SCR and 262% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 131% and MCR equal to 248%. Therefore the Company is compliant.

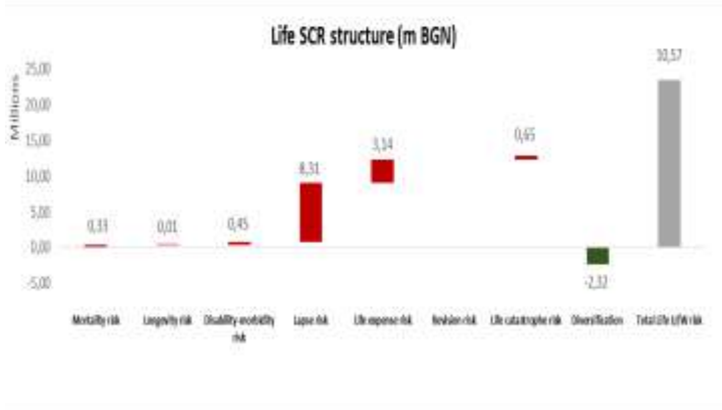




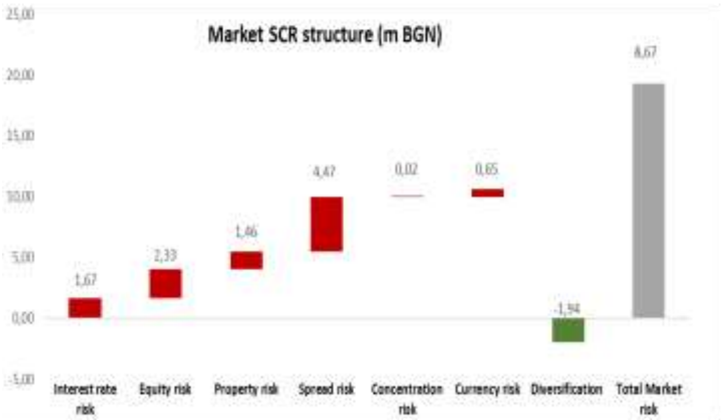
The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Market Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 10.6m, whereas exposure to Market Risk is equal to approximately BGN 8.7m as at HY2016.



The Lapse risk (BGN 8.31 m) and Life expense risk (BGN 3.14 m) are the key components contributing to the Life U/W risk.



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

1. Spread risk (BGN 4.47 m)
2. Equity risk (BGN 2.33 m)
3. Interest rate risk (BGN 1.67 m)

Reinsurance – Effectiveness of Risk Transfer

The IER concluded that no issues were identified with respect to effectiveness of risk transfer.

Corporate Governance, processes and internal control framework, accounting policies

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

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

Limitations

As regards Reliability, quality, sufficiency and relevance of data, the Undertaking has no overarching data quality framework regarding data quality assessments (including materiality thresholds) and data profiling to ensure the data used in the Solvency II calculations is accurate and appropriate for the purpose.

Other areas for improvement

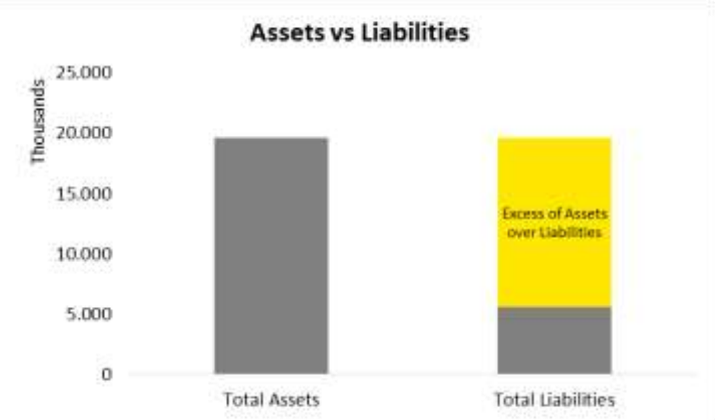
The IER has recommended the local entity to establish a control process to challenge and ensure that the assumptions and results derived by the Group with regards to the calculation of future discretionary benefits are appropriate. This finding has no direct financial impact on the Solvency II Balance Sheet.

As far as it concerns the modelling of indexation, the IER has recommended to include them in the future in the calculation of best estimate liability.

Other improvements are recommended in the area of establishing a materiality framework to justify simplifications and expert judgements made on proportionality basis, documenting model limitations, simplifications and expert judgements.

3. SOGELIFE BULGARIA IJSC (SogeLife) - SII

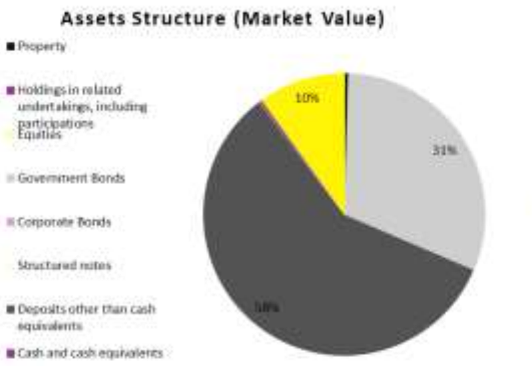
The Company's Balance Sheet is composed of BGN 19.6m assets and BGN 5.6m liabilities leading to Own funds amount of BGN 14m.

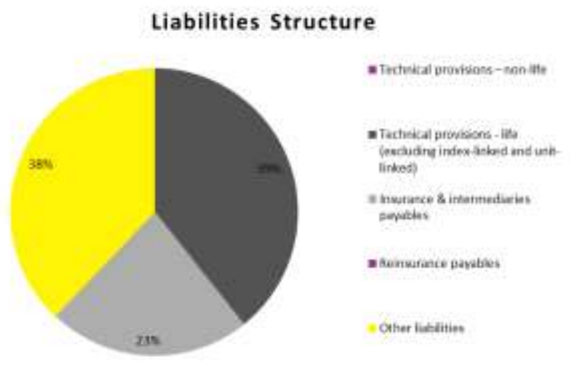


Basic own funds comprise only Tier 1 items and are equal to the excess of assets over liabilities of BGN 14m.

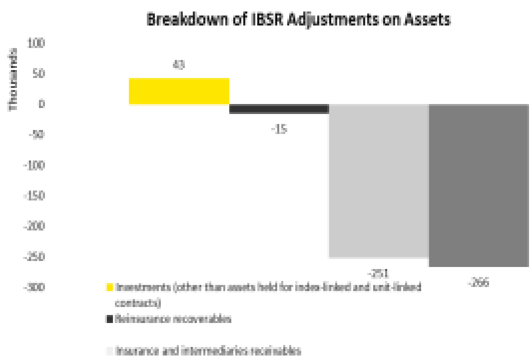
Adjustments proposed in assets and liabilities, including Technical provisions influenced both the SCR and the MCR and the Own funds. Moreover, due to certain simplification used by the undertaking, additional adjustments impacted SCR. As a result of the IBSR exercise, the Own funds increased by BGN 73k.

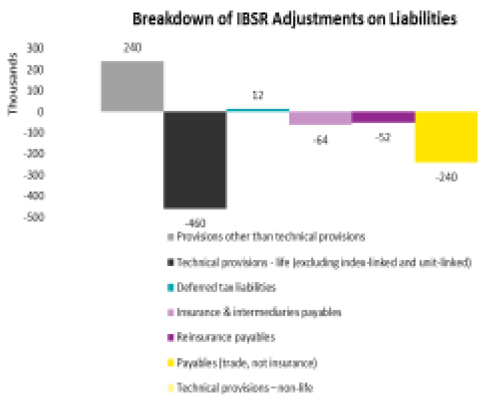
The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 491k and the total liabilities decreased by BGN 563k.





Assets

Total assets decreased by BGN 491k due mainly to the following adjustments proposed:

- Decrease of BGN 251k in insurance receivables (including BGN 337k from de-recognition under SII of insurance receivables not due, as they are already deducted from technical provisions best estimates as future premiums, decrease of BGN 45k as additional impairment, and increase by BGN 130k representing reclassification of analytical sub-accounts from insurance payables to insurance receivables and vice-versa, based on the nature)
- Decrease by BGN 266k (as profit sharing payables pertaining to active reinsurance treaties should be recognized as reinsurance balances instead of insurance payables).
- Reinsurance recoverables decreased by BGN 15k due to adjustments in Gross Best estimate liability

Liabilities

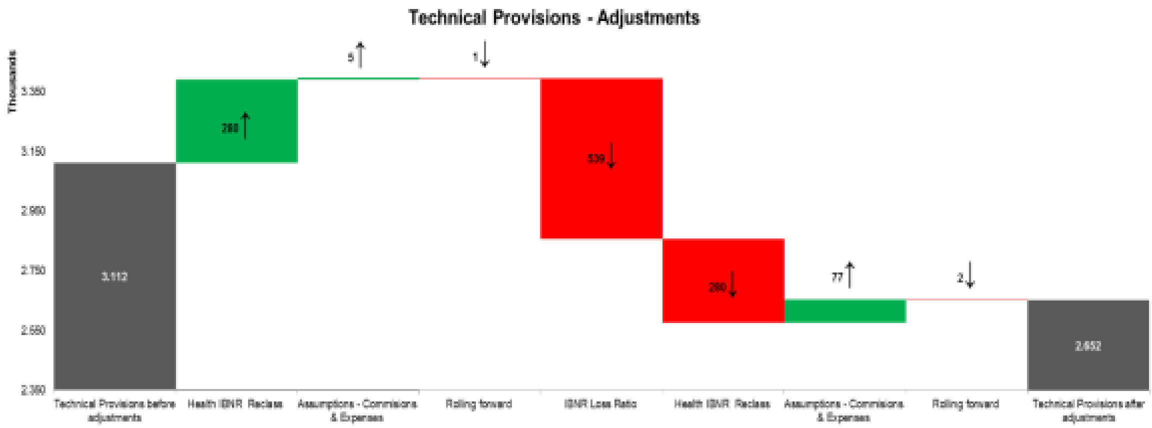
Total liabilities decreased by BGN 563k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Liabilities were impacted by reclassifications between liabilities categories
- Reclassification of analytical sub-accounts from insurance payables to insurance receivables in amount of 130k
- Deferred tax impact of adjustments proposed

Adjustments in Technical provisions

The total amount of the adjustments is BGN 460k and further breakdown is presented below:



- The downward adjustment on Life Technical provisions is mainly due to the following issues:

  With regards to Clipri product the claims reserve is assumed to be equal to the Solvency I Technical provisions. However, according to the IER, the loss ratio used is not in line with the best estimate. The Company will correct this issue by the end of 2016.

  As Technical provisions for policies after claims is assumed to be equal to Solvency I Technical provisions, no discount factors are applied by the Company. The application of the Bulgarian SII discount curve resulted to an adjustment equal to BGN 3k.

- As the adjustments identified on BEL and SCR impact the calculation of the Risk margin as at 31 December 2015, the IER estimated an adjustment on the Risk margin as at HY2016 amounting to BGN 3k (HSLT BGN 796 and Life BGN 1.84k).
- An issue has been identified regarding the split between Life and Health SLT segments. Indeed, for the modelled part of the Best Estimate, death guarantee is recognized into the Life sub-

module, meanwhile the disability guarantees are classified into the Health SLT sub-module. However, for the unmodelled part of the best estimate that is assumed to be equal to statutory Technical provisions, the split between both guarantees is not available. In particular, the total amount is recognized into the Life line of business. A split of the technical provision has been estimated and an amount of BGN 280k gross of reinsurance is then reclassified from Life Insurance to Health SLT.

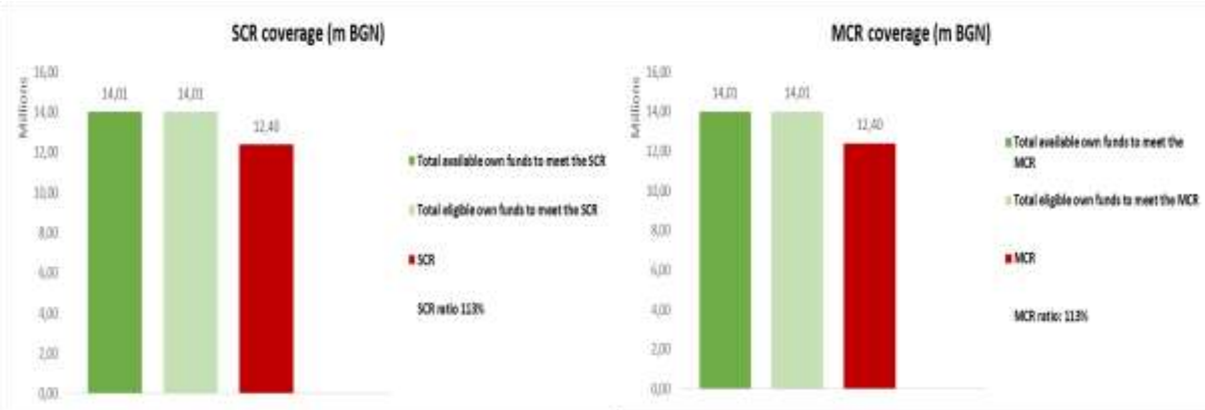
- An adjustment for expenses has been applied on SII claims reserve amounting to BGN 81k (HSLT BGN 4k and Life 77k) as they are not included into statutory Technical provisions. An estimation of expenses over claims has been performed on the accounting year 2015 and then applied to the claims reserves amount.

Other issues identified

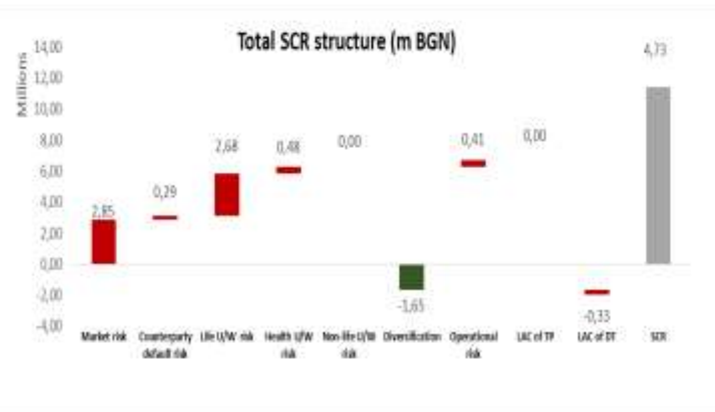
Financial options and guarantees can be identified only on Savings contracts and in particular endowment contracts whose guaranteed rate is contractually 0%. The Company assumes that proportionality principle can be applied to justify the reason that this financial guarantee is not covered by the Technical provision.

Capital Requirements Compliance

The initial solvency position of SogeLife was 112% SCR and 112% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 113%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. Therefore the Company is compliant.



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



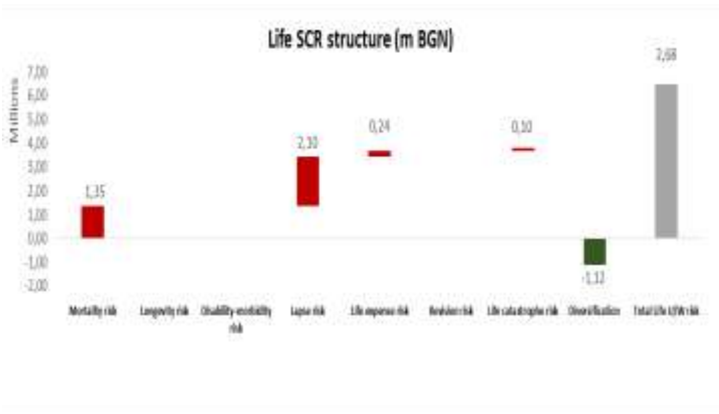
As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Market Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 2.7m, whereas exposure to Market Risk is equal to approximately BGN 2.9m as at HY2016.

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

1. Market risk concentrations (BGN 2.77 m)

2. Currency risk (BGN 0.46 m)

3. Spread risk (BGN 0.31 m)



The Lapse risk (BGN 2.1 m) and Mortality risk (BGN 1.35 m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

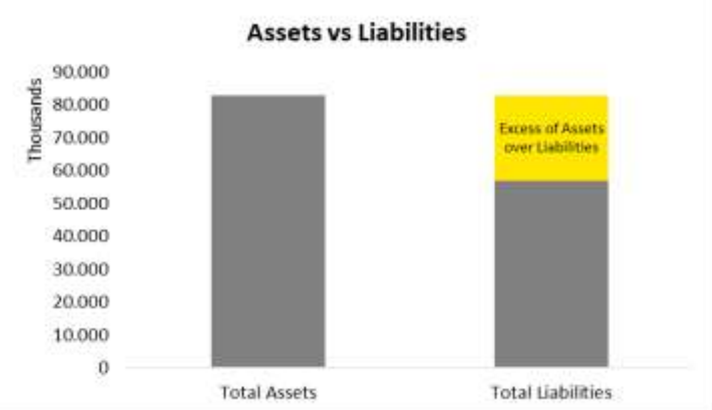
The IER concluded that the reinsurance program allows a proper reinsurance recovery in case of a loss and a proper risk transfer.

Corporate Governance, processes and internal control framework, accounting policies

The system of governance, including the internal controls in place, have been assessed as in line with SII minimum requirements with some improvements recommended in the area of investments, IT controls environment and outsourcing.

4. UBB-METLIFE ZHIVOTOZASTRAHOVATELNO DRUJESTVO AD - SII

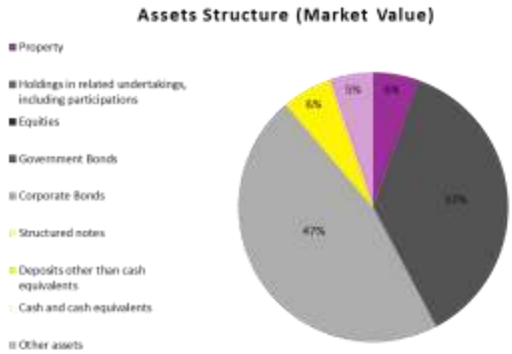
The Company's Balance Sheet is composed of BGN 83m assets and BGN 57m liabilities leading to Own funds amount of BGN 26m.

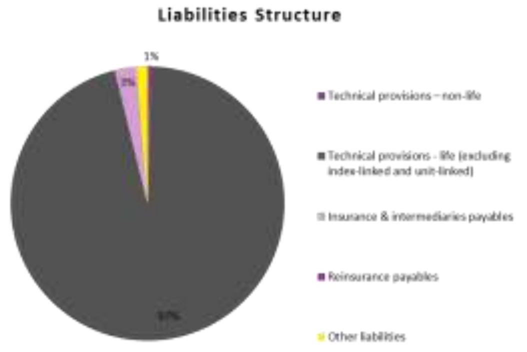


Basic own funds comprise only Tier 1 items and are equal to the excess of assets over liabilities of BGN 26m.

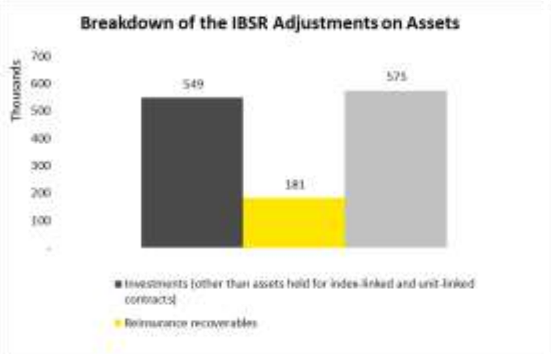
As a result of the IBSR exercise, the Own funds increased by BGN 2.2m.

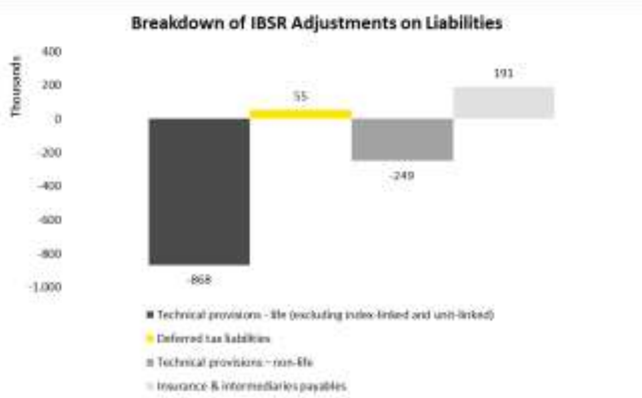
The structure of the balance sheet is presented below:





As analyzed below, the total assets increased by BGN 1.3m and total liabilities decreased by BGN 871k.





Assets

Total assets increased by BGN 1.3m due to the following adjustments proposed:

- Increase of BGN 549k representing increase in value of the property.
- Increase in insurance receivables of BGN 575k due to expanding the receivables to cover the full amount of all due premiums at the valuation date net of recoverability assessment.
- Reinsurance recoverables have been adjusted equal to BGN 181k stemming from the Group Personal Accident LoB (+BGN 203k) and Credit Life LoB (BGN -21k). The main reason behind the adjustment in Group Personal Accident LoB is an overstated claims projection, whereas the downwardly adjustment in Credit Life LoB has been performed due to an underestimation of claims and missing modelling of reinsurance profit-sharing.

Liabilities

Total liabilities decreased by BGN 871k due to the following adjustments proposed:

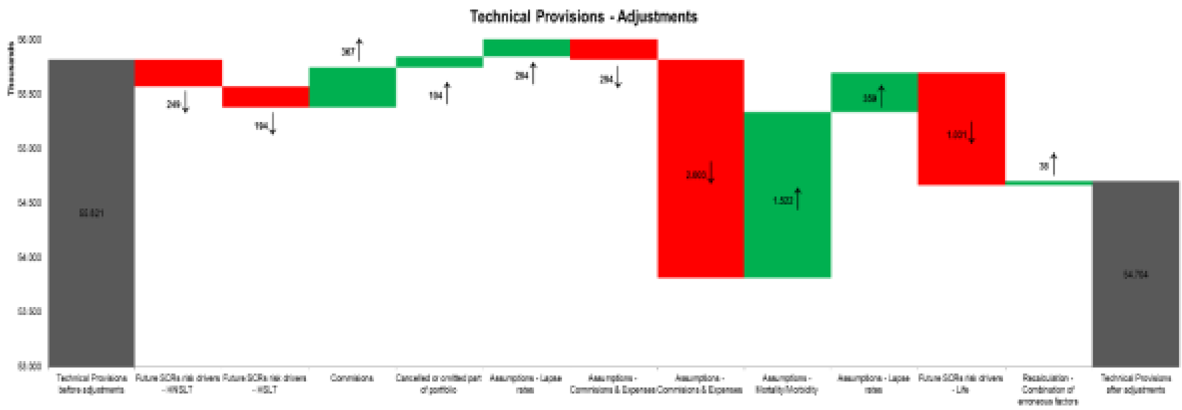
Adjustments in liabilities other than technical provisions

An adjustment of BGN 191k was proposed in line with the one for receivables to increase the nominal amount of intermediaries' payables.

Another adjustment in amount BGN 55k was proposed to DTL as a result of the impact of the adjustments in deferred tax.

Adjustments in Technical provisions

The total amount of the adjustments is BGN 1.1m and further breakdown is presented below:

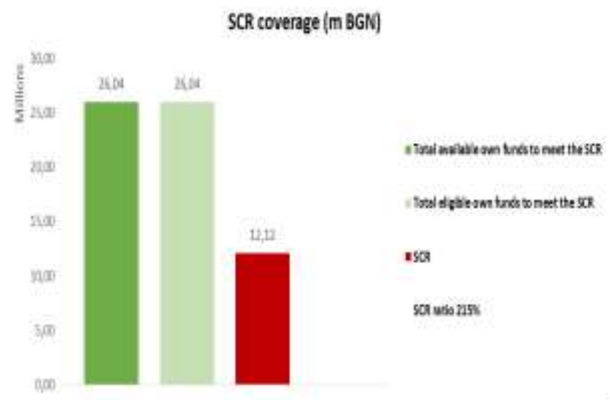


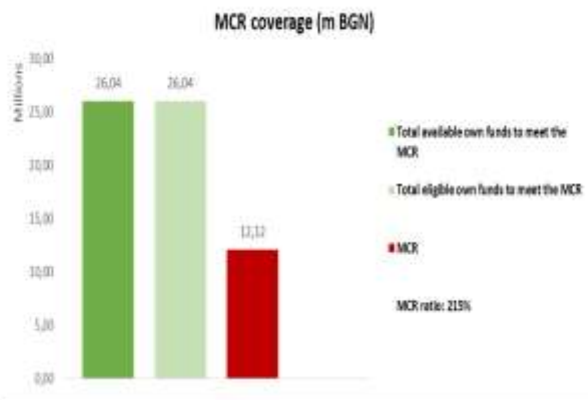
- The total Risk margin adjustment is equal to approximately BGN 1.5m which consists of the negative adjustments made in Life (BGN 1m), HNSLT (BGN 249k) and HSLT (BGN 193k) business. The value of Risk margin as calculated by the IER is significantly lower than those of MetLife. The difference arises from an erroneous application of a risk driver for catastrophic mortality risk for risk products in the calculation of the Company.
- A negative adjustment of BGN 2.3m has been performed due to erroneous assumptions in commissions and expenses , such as the application of outdated assumptions in the endowment portfolio which led to an overstatement of the projected expenses and consequently overstatement of the BEL position. In addition, issues have arisen during the reconciliation of the expenses with the 2015 financial statement figures and the assessment of the split between acquisition and maintenance expenses.
- The increase of Technical provisions of BGN 1.5m refers to risk business products whose loss rates were not in line with the actual experience.
- The positive adjustment of BGN 367k concerns wrong commission tables and rates for endowment products.

- Inappropriate lapse rates resulted to an increase of BGN 623k. as for two products of the endowment portfolio the actual lapse rates differ significantly from the currently modeled and for risk business products no lapse rates have been modeled before Q3 2016.
- The increase in Best estimate liability of BGN 104k refers to the absence of several endowment policies in the database, whereas for the rest of the adjustment no further spit has been provided.

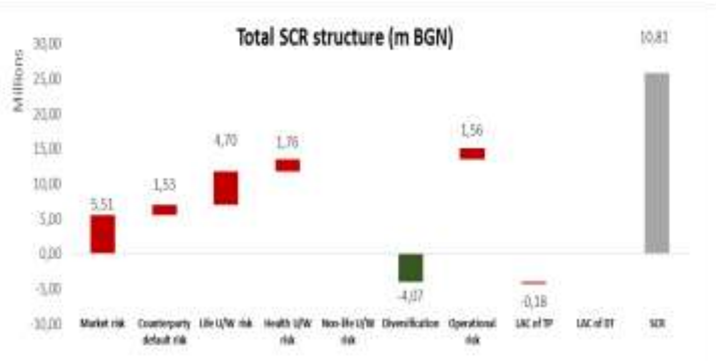
Capital Requirements Compliance

The initial solvency position of MetLife Life was 197% SCR and 197% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 215%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. Therefore the company is compliant.





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



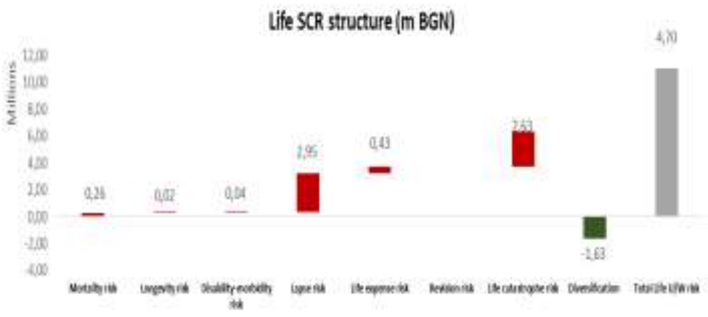
As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Market Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 4.7m, whereas exposure to Market Risk is equal to approximately BGN 5.5m as at HY2016.

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

1. Spread risk (BGN 4.02 m)

2. Market risk concentrations (BGN 2.76 m)

3. Property risk (BGN 1.08 m)



The Lapse risk (BGN 2.95 m) and Life catastrophe risk (BGN 2.63 m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

The IER considered the reinsurance program to be adequate and providing effective risk transfer framework.

Corporate Governance, processes and internal control framework, accounting policies

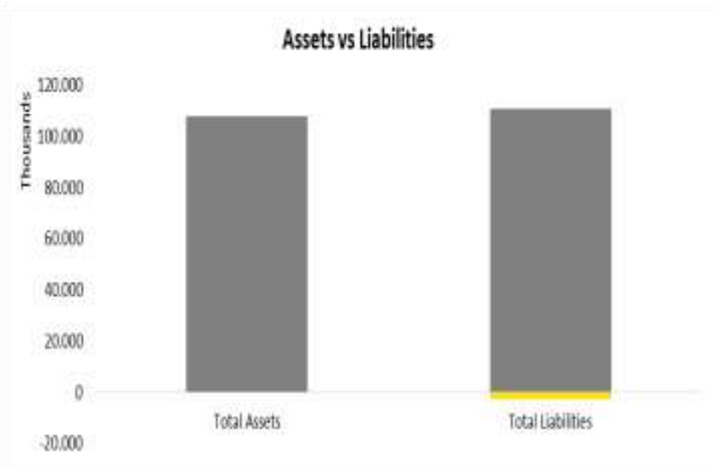
The overall Solvency II framework is considered well designed and makes a very good use of the expert resources and collaboration within the Group. Existing data and systems were considered adequate.

Other areas for improvement

The underlying assumptions in the calculation of Best estimate liability, such as those indicated above, shall be updated in order to be closer to the actual experience of the Company.

5. SiVZK (Tumico) - SII

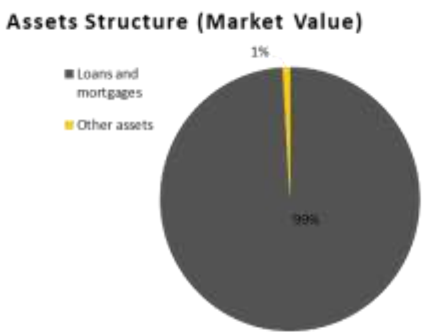
The Company's Balance Sheet is composed of BGN 108m assets and BGN 111m liabilities leading to negative excess of assets over liabilities in amount of BGN (2.7m). Eligible Own funds to cover MCR and SCR after IER's adjustments are BGN (2.7m).

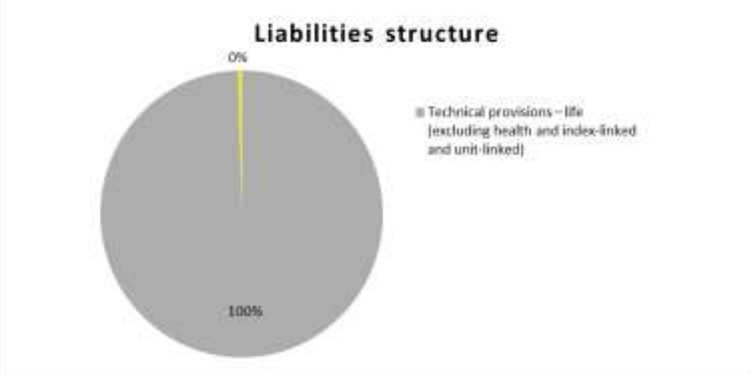


The main part of the assets of SiVZK is represented by Loans and mortgages. On the liabilities side the main part is represented by the technical provisions.

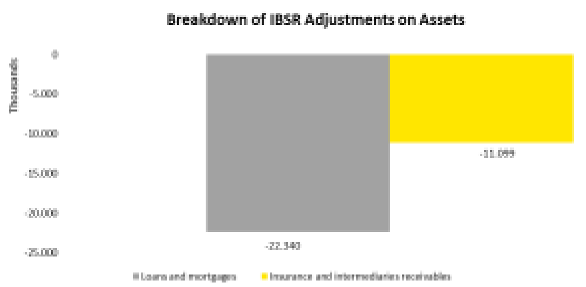
As a result of the IBSR exercise, the Own funds decreased by BGN 20.3m. As at HY2016 the Company is in breach of the capital requirements following the adjustments proposed by IER and thus is falling under special cases as defined in 1.5.2 of the Methodology.

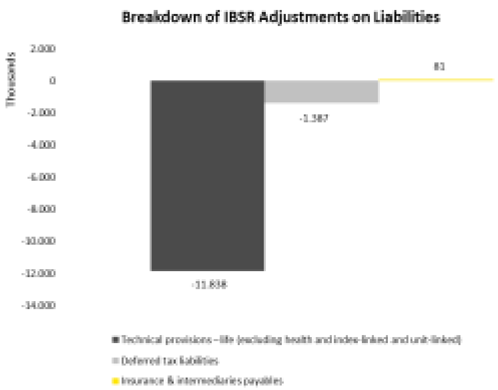
The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 33m and the total liabilities decreased by BGN 13m.





Assets

As a result of the IBSR exercise, the total assets decreased by BGN 33m due to one adjustment proposed for the loans to policyholders in amount of BGN 22.3m and adjustment proposed for the insurance receivables in amount of BGN 11m.

The Company's loans to policyholders were booked at principal plus accrued interest. The IER recalculated the asset value with a prospective view, timing the asset cash-flows at each insurance event (death or survival) and additionally capped them at the corresponding liability cash-flow because the IER has not seen any evidence that the Company has been able to collect loans in excess of the policy values, against which they are secured. The resulting value was BGN 22.3m lower than the amount booked by the Company.

The insurance receivables contained both the uncollected premiums due at the valuation date and the premiums due after the valuation date until the next policy anniversary. The latter part is already recognized in the BEL cash inflows and was removed resulting in BGN 11m downward adjustment.

Liabilities

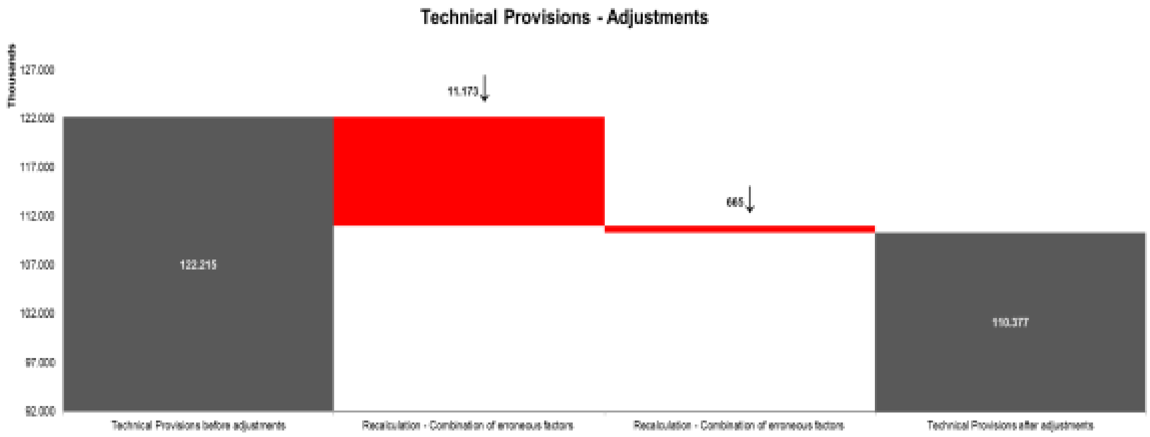
Total liabilities decreased by BGN 13m due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

Decrease by BGN 1.4m of deferred tax liabilities and increase by BGN 81k of Insurance and intermediaries payables.

Adjustments in Technical provisions

The total amount of the adjustments is BGN 11.8m and further breakdown is presented below:



- The most significant adjustment was equal to BGN 11m due to the recalculation of the technical reserves on a policy by policy basis. This is a combined decrease in best estimate liability stemming from various errors in the calculations performed by the Company. Indicatively:
    - Erroneous discounting of the maturity benefit in pension products.
    - Omission of the mortality payouts of the accumulated policy values in pension products.
    - Inappropriate application of the EIOPA yield curve treating it as a forward rather than spot curve.
    - Lack of allowance for the paid up conversion rates.
- As far as it concerns Risk margin, the downward adjustment of BGN 665k has been implemented because of the Risk margin recalculation performed by the IER. The IER has not been provided with the detailed calculation of the Risk margin as performed by the Company, but the resulting

figure lower than reported by the Company, The main reason for this is the new underlying assumption for paid up rates combined with the selection of the present value of future expenses as the driver for the SCR projections.

Other issues identified

While the proposed adjustments to the SII balance sheet and SCR of the Company are significant changing the outlook on its solvency, the main problems uncovered are specific to Tumico's business model relying on loaning almost full policy values to policyholders and backing the reserves with the loans.

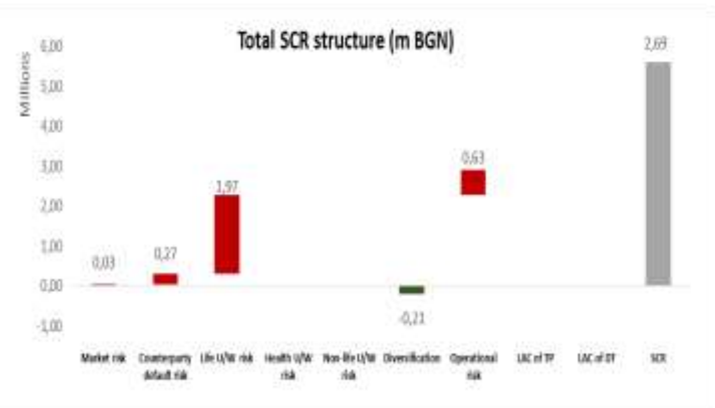
With regards to financial options and guarantees, not all financial options and guarantees have been modelled for the calculation of BEL and SCR for Life Underwriting Risk, including TVOG.

In addition, future profit sharing is not included in the actuarial model of the Company.

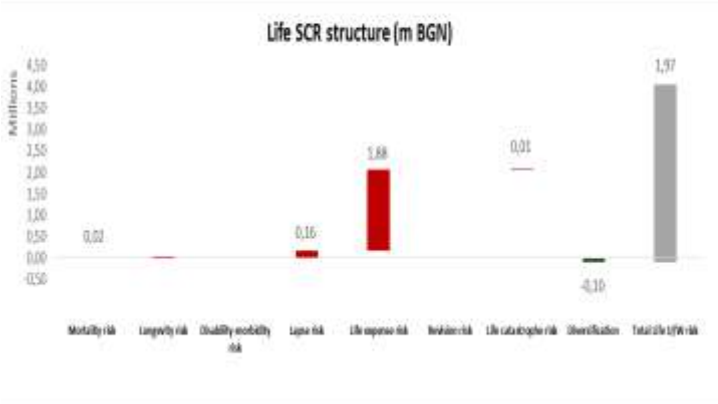
Capital Requirements Compliance:

The initial solvency position of Sivzk was 243% SCR and 243% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to -38%, which means the company is in breach of SCR and MCR as of HY2016. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. Therefore, the company is not compliant.

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



As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Operational Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 2m, whereas exposure to Operational Risk is equal to approximately BGN 0.6m as at HY2016.



The Life expense risk (BGN 1.88m) and Lapse risk (BGN 0.16m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

No significant issued found.

Corporate Governance, processes and internal control framework, accounting policies

The basic functions and policies are in place and the overall setup is adequate for a small company like Tumico. The governance framework was found appropriate except for the control system over technical provisions which in IER's view requires strengthening.

Other areas for improvement

Regular checking of the cash flows underlying BEL calculations produced within the IT framework with another (e.g. Excel based) model for the overall actuarial rationale and consistency.

Carrying out and documenting the reconciliation between the accounting regimes and reporting periods including detailed explanations of the rationale behind the movements

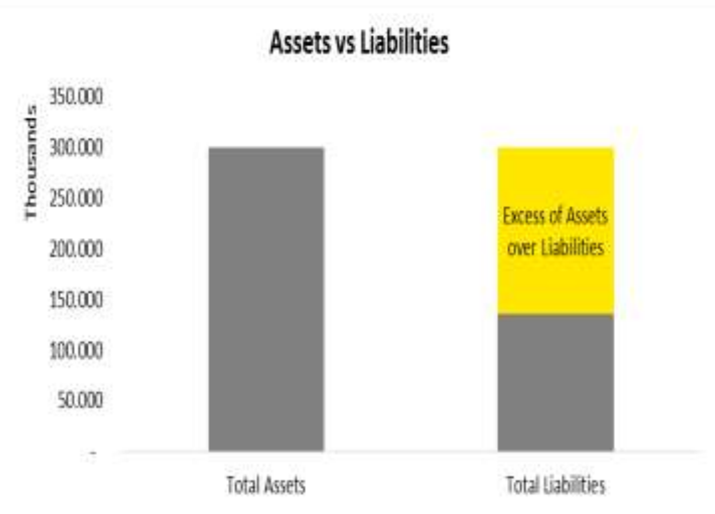
Drafting a dedicated accounting policy covering SII bookings.

The underlying assumptions in the calculation of best estimate liability, such as those indicated above, shall be updated in order to be closer to the actual experience of the Company.

The most important recommendations made for the Company is the conduction of experience studies for the demographic assumptions in the calculation of BEL, especially for paid-up rates. Moreover, the Company shall revise the underlying actuarial model in order to ensure compliance with the Solvency II framework.

6. DZI - LIFE INSURANCE JSC (DZI Life) - SII

The Company's Balance Sheet is composed of BGN 300.4m assets and BGN 136m liabilities leading to excess of assets over liabilities amount of BGN 164.4m.



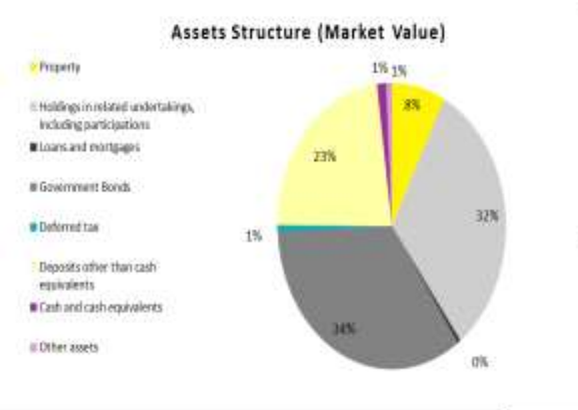
Basic own funds comprise of Tier I and Tier III items:

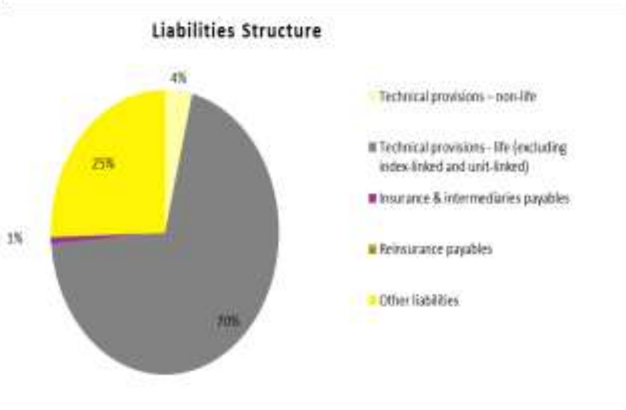
- Ordinary Share Capital – BGN 38,600k
- Reconciliation Reserve –BGN 104,320k
- Deferred tax assets – BGN 2,157k

Out of which foreseeable dividends are in amount of BGN 19,350k

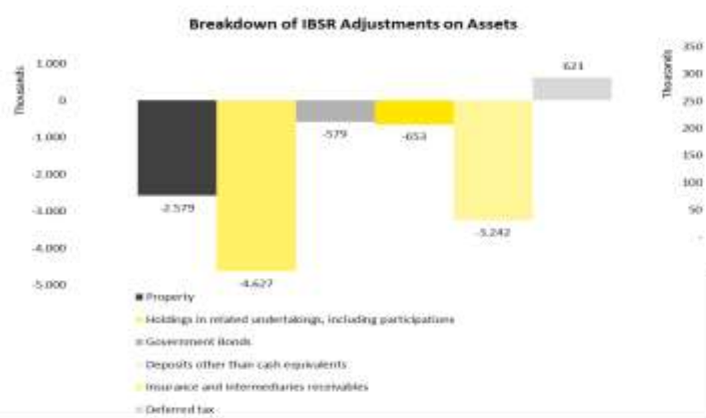
The total own funds are in amount of BGN 145,077k and BGN 142,920k are Tier 1. As a result of the IBSR exercise, the excess of assets over liabilities decreased by BGN 11.4m.

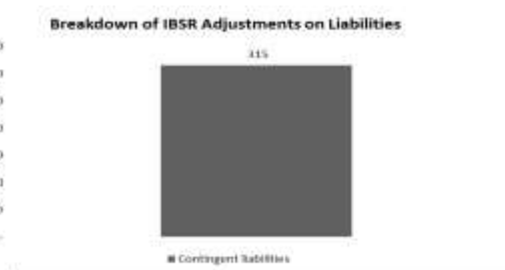
The structure of the balance sheet is presented below:





As analyzed below, total assets decreased by BGN 11m and total liabilities increased by BGN 315k.





Assets

Total assets decreased by BGN 11m due to the following adjustments proposed:

- Decrease in the values of the property in amount of BGN 2.6m as considering the conditions of these properties as assessed by the IER.
- Decrease in holdings in related undertakings, including participations in amount of BGN 4.6m as a result of the adjustments recorded on DZI Non-life Company.
- Decrease in the fair values of the government bonds in amount of BGN 579k as a result of the use of Bloomberg prices by the reviewer compared to BASPSC used by the company.
- Decrease in the values of the insurance and intermediaries receivables in amount of BGN 3.2m as the result of computation of the provision in accordance with the methodology.
- Decrease in the values of the deposits other than cash equivalents in amount of BGN 653k following the application of the different discount rates. The reviewer used the discount rates as communicated by the BNB while the company had used the discount rates communicated by the group.
- Increase in deferred tax asset of BGN 621k following the impact of the other adjustments.

Liabilities

Total liabilities increased by BGN 315k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

The adjustments refer to an increase in the contingent liabilities of BGN 315k as a result of the reviewer's assessment of ongoing litigation.

Adjustments in Technical provisions

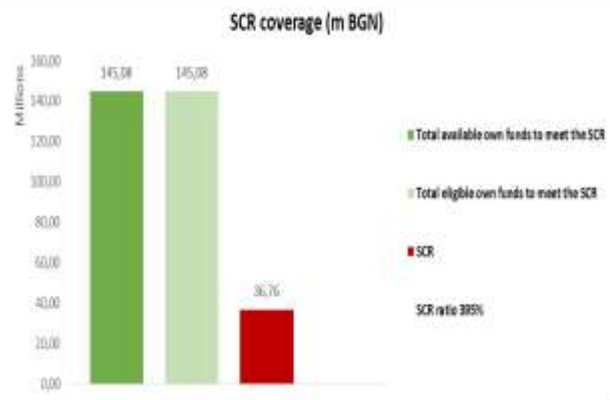
No adjustments have been performed affecting Technical provisions.

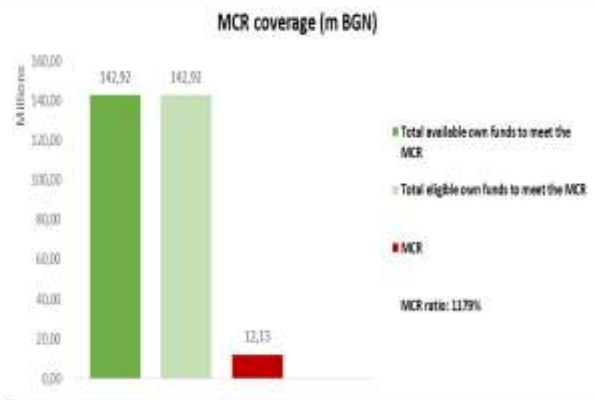
Other issues identified

The Company does not project stochastic scenarios for the valuation of options and guarantees embedded in the life policies, but the options and guarantees are estimated at intrinsic value which is obtained as a consequence of a base deterministic scenario.

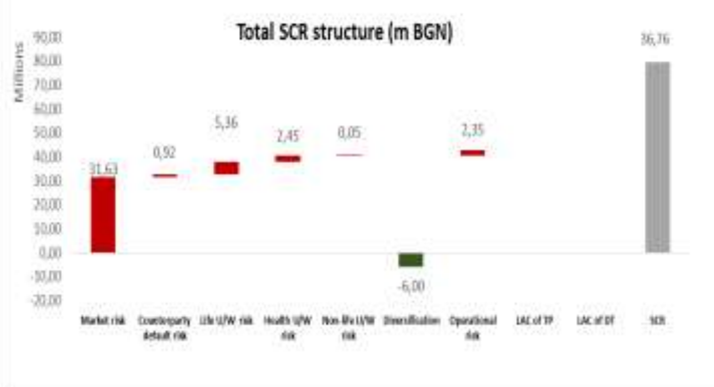
Capital Requirements Compliance

The initial solvency position of DZI Life was 403% SCR and 1278% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 395% and MCR equal to 1179%, therefore it is compliant.





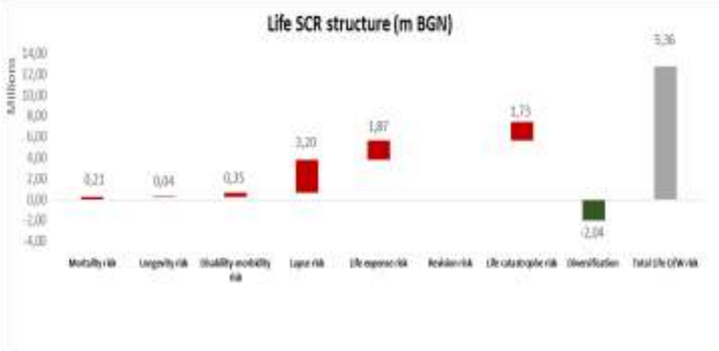
The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Market Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 5.4m, whereas exposure to Market Risk is equal to approximately BGN 31.6m as at HY2016.

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

1. Equity risk (BGN 21.02m)
2. Market risk concentrations (BGN 14.99m)
3. Property risk (BGN 5.43m)



The Lapse risk (BGN 3.2m) and Life expense risk (BGN 1.87m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

Although the reviewer had not received from the Company its own qualitative and quantitative assessment of the effectiveness of risk transfer, following the review of the reinsurance treaty (qualitative assessment), it did not identify unusual or nontraditional provisions.

Corporate Governance, processes and internal control framework, accounting policies

The entity implements the Group standards for Solvency II requirements. As such, the internal framework covers all main components of the System of governance Guidelines, nevertheless, certain specific processes have not yet been documented or formalized to the entity level.

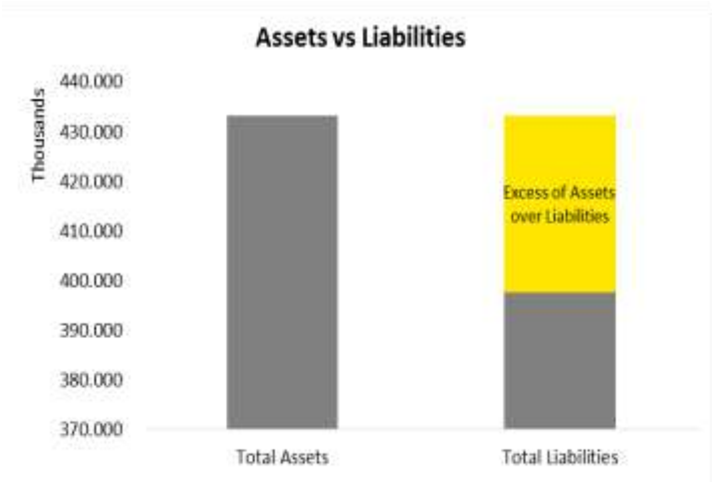
Other areas for improvement

An important recommendation for DZI Life is modelling of the portfolio in an actuarial software.

The IER has proposed the Company to calculate the future profit sharing stochastically using Monte Carlo method using 1000 risk neutral scenarios for the determination of the investment return.

7. Allianz Bulgaria Life (Allianz Life) - SII

The Company's Balance Sheet is composed of BGN 433.2m assets and BGN 397.6m liabilities leading to Own funds amount of BGN 35.6m.

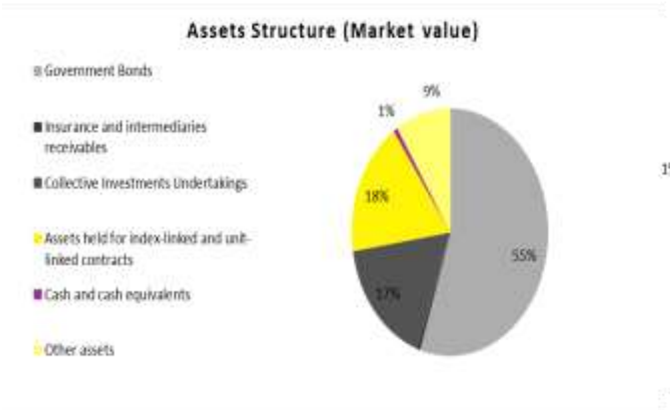


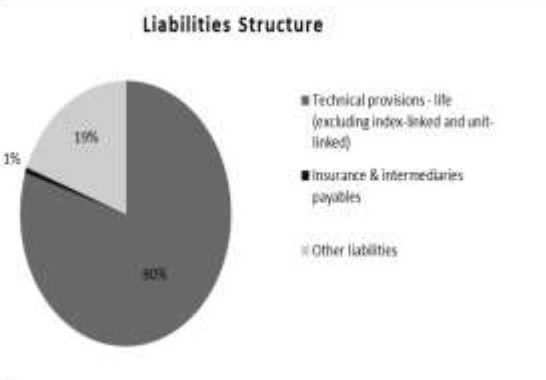
Basic own funds comprise of:

- Ordinary share capital (gross of own shares) at the amount of BGN 18.6m – classified as Tier I;
- Reconciliation reserve – classified as Tier I at the amount of BGN 15.6m;
- An amount equal to the value of net deferred tax assets at the amount of BGN 1.4m – classified as Tier III.

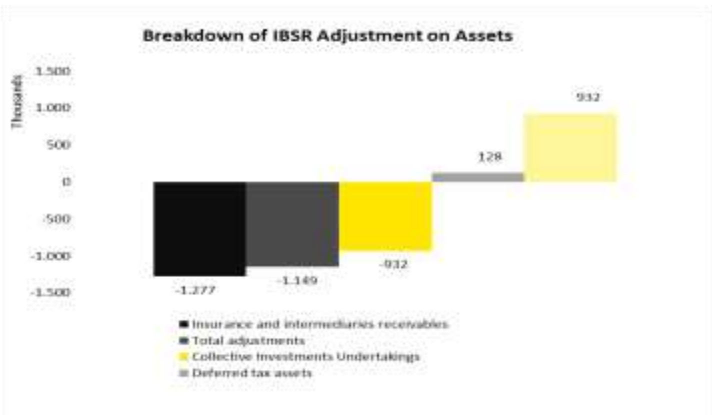
As a result of the IBSR exercise, the Own funds decreased by BGN 1.2m.

The structure of the balance sheet is presented below:





As analyzed below, total assets decreased by BGN 1,2m while no movement arose to total liabilities.



Assets

Total assets decreased by BGN 1.2m and the adjustments represents mainly the effect of adjusting the Insurance receivables that are not due.

Other adjustments include increase in deferred tax asset of BGN 128k following the impact of the above adjustment and reclassifications between assets categories, without impact in Own funds.

Liabilities

No adjustments have been performed affecting Liabilities.

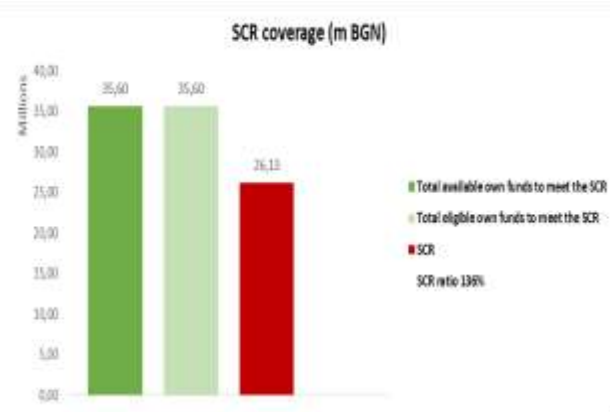
Other issues identified

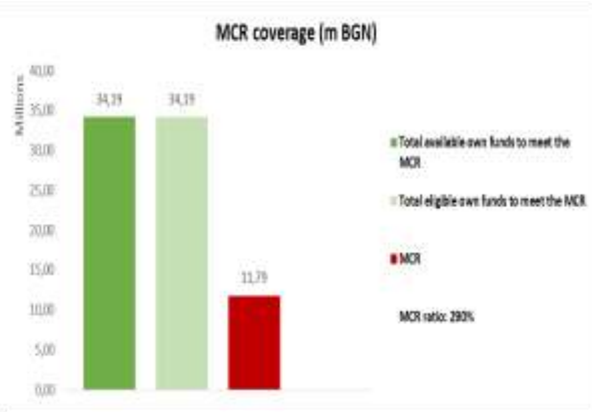
Allianz Life did not adequately and transparently documented the following:

- Treatment of unmodelled businesses / reserves left on accounting value basis.
- Treatment of products modelled outside of MoSes.
- Expert judgement applied for the unit-linked mortality scaling factor (equal to 85%).
- Simplifications that actually applied and allowed by the Technical provision framework such as lapse.
- Premium waiver modelled using deterministic approach, whilst dynamic policyholder behavior is not modelled.

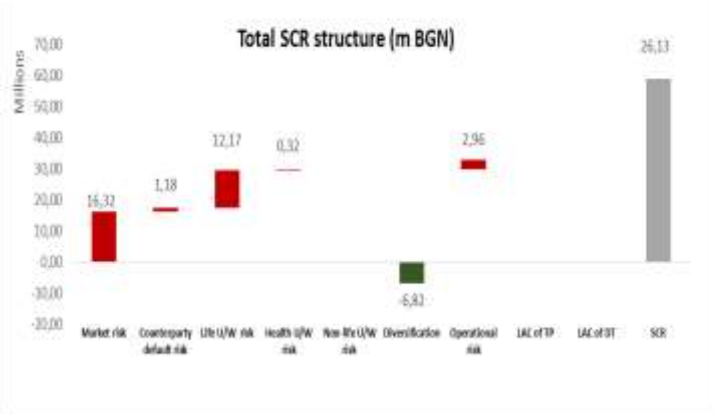
Capital Requirements Compliance

The initial solvency position of Allianz Life was 140% SCR and 301% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 136% and MCR equal to 290%, therefore it is compliant.

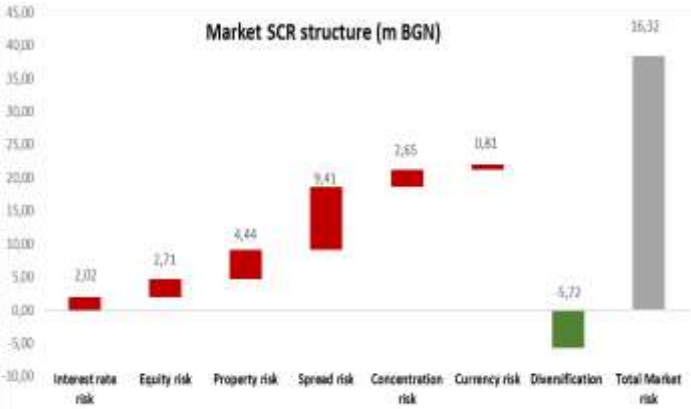




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.

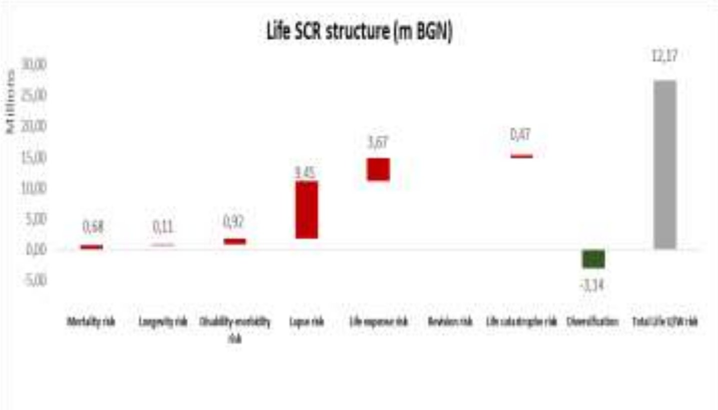


As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Market Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 12.2m, whereas exposure to Market Risk is equal to approximately BGN 16.3m as at HY2016.



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

1. Spread risk (BGN 9.41m)
2. Property risk (BGN 4.44m)
3. Equity risk (BGN 2.71m)



The Lapse risk (BGN 9.45m) and Life expense risk (BGN 3.67m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

No significant issues mentioned.

Corporate Governance, processes and internal control framework, accounting policies

The Company has several Group Policies, guidelines and user manuals in place related to Solvency II procedures and methodologies but certain improvements were recommended in respect of documenting the undertaking review of product terms and conditions (including all products) for determining the contract boundaries and unbundling of riders, documentation of Technical provision methodology applied locally (in contrast to the generic framework described by the Policy), un-modelled businesses.

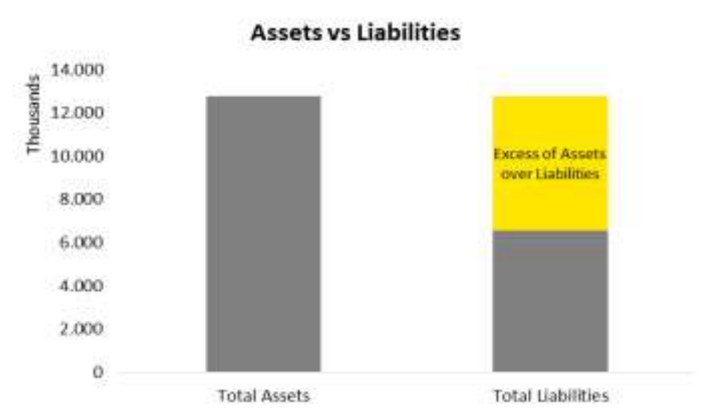
The Technical provision Methodology is in line with SII framework requirements.

Other areas for improvement

The IER has recommended the Company to summarize the choice of assumptions, model limitations, simplifications and all expert judgments applied in an expert judgement document.

8. INSURANCE COMPANY EUROINS LIFE - SII

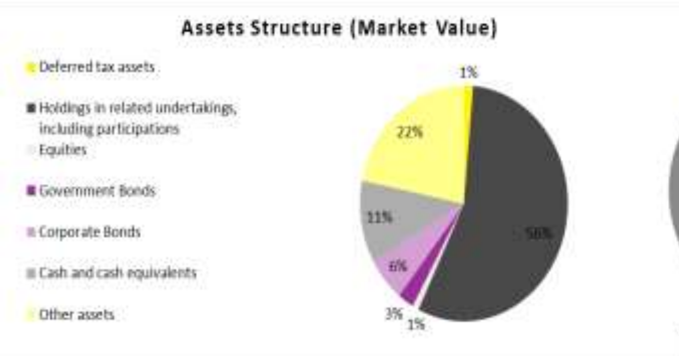
The Company's Balance Sheet is composed of BGN 12.8m Assets and BGN 6.6m Liabilities leading to Own funds amount of BGN 6.2m.

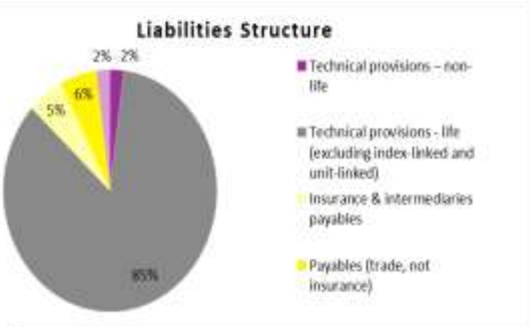


Basic Own funds comprise of Tier I items representing ordinary share capital of BGN 10m and reconciliation reserve of BGN (4)m and also Tier III items representing net deferred tax assets of BGN 83k.

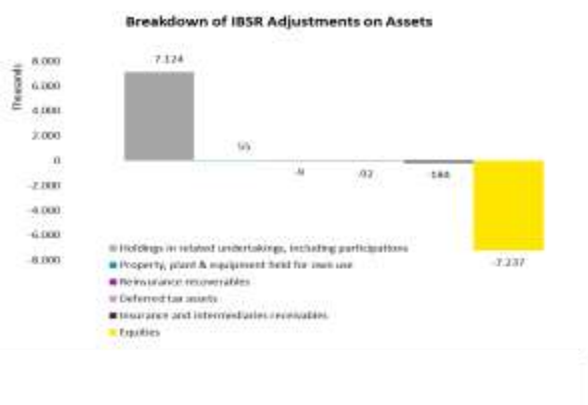
As a result of the IBSR exercise, the Own funds decreased by BGN 1.3m.

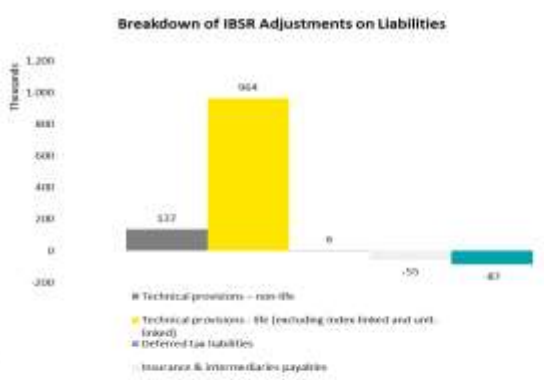
The structure of the balance sheet is presented below:





As analyzed below, total assets decreased by BGN 343k and the total liabilities increased by BGN 964k.





Assets

Total assets decreased by BGN 343k due to the following adjustments proposed:

- Increase in fair value of Property, plant and equipment of BGN 55k: For SII purposes, the Company valued PPE based on cost less amortization. The management decided to retain a conservative amount in the balance sheet. Based on the independent valuation report prepared by an independent appraiser, the IER proposed to adjust the SII Balance Sheet of PPE to its fair value.
- Adjustment of holdings in related undertakings, including participations – decrease in assets of BGN 113k. All differences are due to the company's use of prices different than the Bid price as at HY2016.
- Future installments of the gross written premiums were taken into account in both the UPR and receivables leading to a double counting. The IER adjusted the volume of receivables with the amount of BGN 184k.
- Decrease in the deferred tax asset with BGN 92k BGN as the result of the other adjustments determined by the reviewer.
- Other adjustments include reclassifications between assets categories, without impact in Own funds

Liabilities

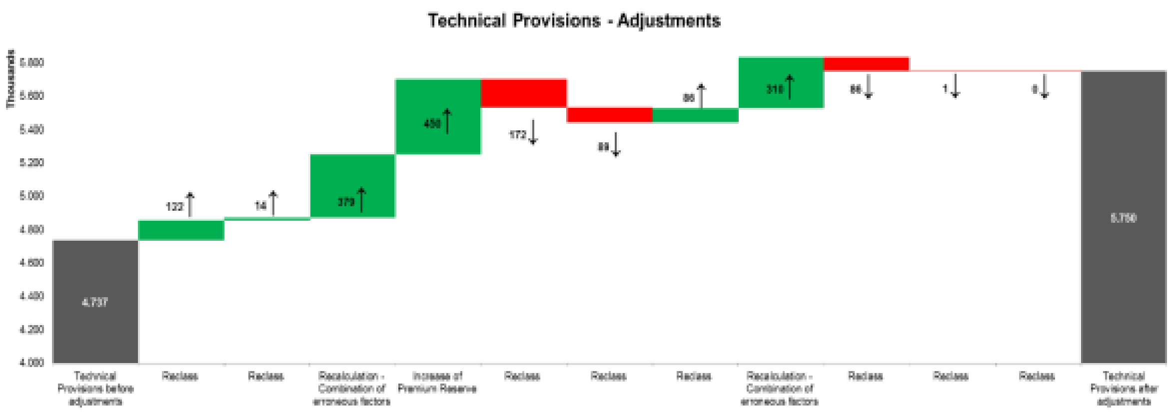
Total liabilities increased by BGN 964k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease due to an adjustment on Insurance & intermediaries payables by amount of BGN 55k for commissions payables balance related to future premium instalments in order to avoid double counting of future commissions which are also included under BEL estimation.
- Reinsurance Recoverables have been decreased by BGN 9k, as gross Best estimate liability have been adjusted. Moreover, Euroins integrated by mistake expenses ceded to the reinsurer in the Best estimate liability. The adjustment relates to the economic valuation of reinsurance recoverables and relates to adjustment to outstanding claims reserve and premium reserve.

Adjustments in Technical provisions

The total amount of the adjustments is BGN 1m and further breakdown is presented below:



- The rest of the adjustments result in a decrease of Technical provisions equal to BGN 135k and derives from reclassifications due to the following reasons:
- The upward adjustment on long term products which is equal to BGN 380k is composed of:

- ► Impact of mortality and discounting : + BGN 0.34m
- ► Impact of surrender modelling : - BGN 1.256m
- ► Impact of expense assumption (without financial costs) : + BGN 0.755m
- ► Impact of expense assumption (financial costs only) : + BGN 0.409m
- ► Impact on inflation: + BGN 0.133m

- Increase of premium reserve regarding short term products (BGN 450k) includes adjustments due to contract boundaries (BGN 245k) and the remaining part of adjustment relates to financial costs and administrative costs.
- The Risk margin has been positively adjusted equaling to BGN 310k.

Other issues identified

In respect of HNSLT business and short term contracts, the calculation is made contract by contract except from group contracts, where all policies are aggregated.

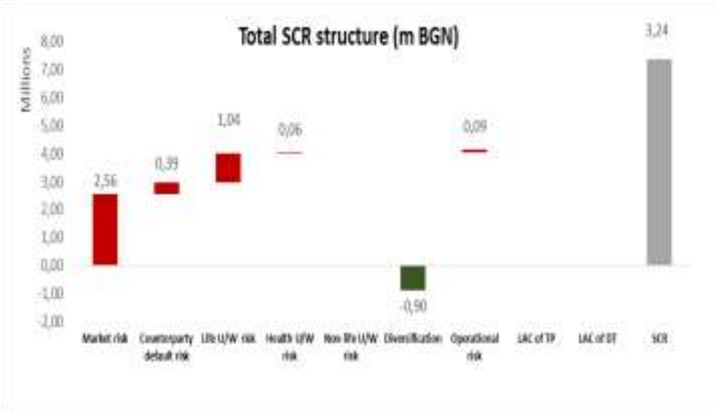
Not all financial options and guarantees have been modelled for the calculation of BEL and SCR for Life Underwriting Risk, including TVOG.

As regards the related parties' transactions, the IER noted that as at HY2016 the company had the majority of investments placed in equities issued by related parties leading to a high concentration of investment portfolio at HY2016.

Capital Requirements Compliance

The initial solvency position of Euroins Life was 101% SCR and 101% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 83% which is not compliant. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR.

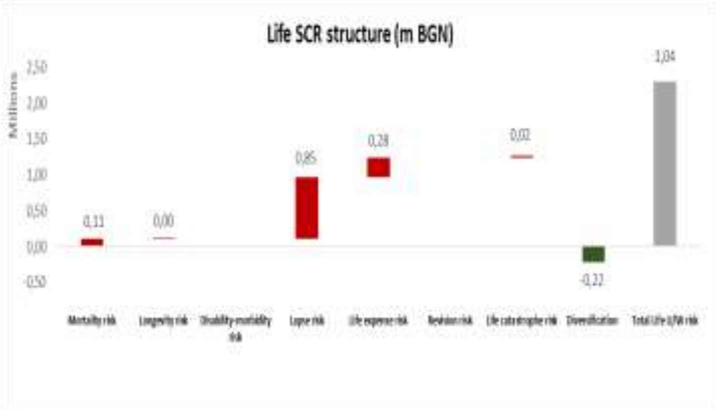
The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Life U/W Risk and Market Risk. Specifically, exposure to Life U/W Risk is equal to approximately BGN 1m, whereas exposure to Market Risk is equal to approximately BGN 2.6m as at HY2016.

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

1. Equity risk (BGN 2.1m)
2. Concentration risk (BGN 1.25m)
3. Property risk (BGN 0.06m)



The Lapse risk (BGN 0.85 m) and Life expense risk (BGN 0.28 m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

As the result of the work performed the reviewer recommends the undertaking to include risk transfer effectiveness analysis in the Risk Management Policy or other internal policies concerning reinsurance risk.

Corporate Governance, processes and internal control framework, accounting policies

Main deficiencies identified by the IER in relation with Corporate Governance, internal control framework and accounting policies are presented below.
The IER had findings and recommendations in respect to the following areas:

- IT security
- Financial Statements closing process
- Technical provision valuation process

- Internal Audit Function
- Investments management process

Other areas for improvement

The company shall calculate BEL per line of business (or even more granular level) for the short term business in the future.

The IER has recommended the company to proceed into the valuation of financial options and guarantees, including TVOG and also to acquire the documentation for the appropriateness of the model.

Subsequent events:

In the second half of 2016 the company received subordinated debts amounting to BGN 1,250 thousand. The amount has been effectively transferred on 23 December 2016. The amount of BGN 38 thousand remains uncovered.

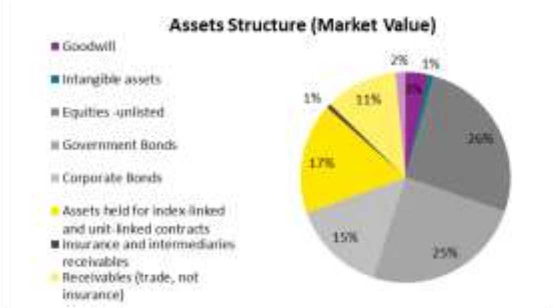
9. Life Insurance Company Saglasie EAD (Saglasie Life) - SI

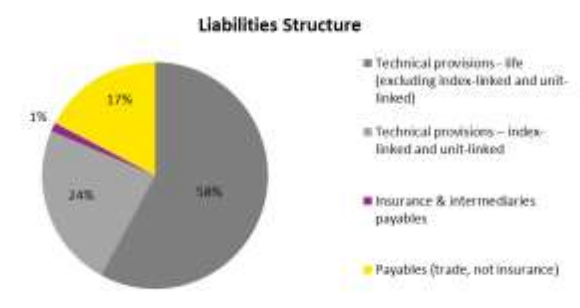
The Company's Balance Sheet is composed of BGN 27.9m assets and BGN 20.7m liabilities leading to Own funds amount of BGN 7.2m.

As a result of the IBSR exercise, the own funds decreased by BGN 972k.

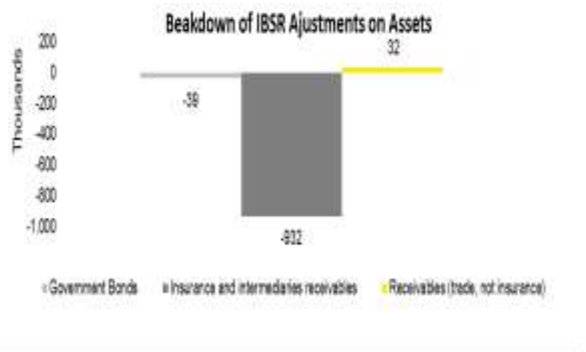
The Company has an adjusted Solvency I Ratio of 52.4% as of HY2016. As at HY2016, the Solvency margin computed by the reviewer is BGN 726k and available Own funds are BGN 6m, which is lower than the required guaranteed capital of BGN 11.6m. Therefore, as at HY2016 Saglasie Life does not have sufficient capital in accordance with the applicable legislation.

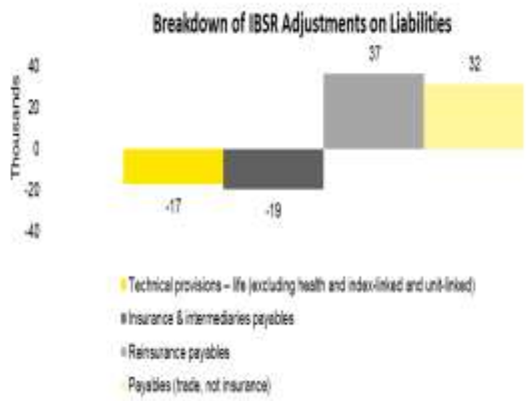
The structure of the balance sheet is presented below:





As analyzed below, total assets decreased by BGN 939k and total liabilities increased by BGN 32k.





Assets

On the assets side, main adjustment refers to:

- Decrease in the values of the government bonds by the amount of BGN 39k resulted as difference between the bid market price as at HY2016 from Bloomberg platform and Price center of Bulgarian Association of Additional Pension Assurance Companies (BADPO) used by the Company.
- Decrease in the values of the insurance and intermediaries receivables by the amount of BGN 932k mainly as a result of:
    - Difference between the value of the provision computed by the reviewer and value recorded by the Company of amount of BGN 39k (the Company has not booked any allowance for impairment of insurance receivables as at HY2016);
    - Analysis of the balance of receivables at policy level as at HY2016, receivables of the amount of BGN 647k are written-off by the Company by the end of December, 2016. Therefore, the amount was propose as adjustment by the reviewer.

The Company has presented in the Balance Sheet corporate bonds in total value of BGN 4m representing 15% of the total assets. These include 2 bonds that have passed through an extension of maturity and for one of them, a decrease in interest. The IER assessed that the information regarding the change in the credit risk of these issuers is correctly incorporated in the undertaking valuations.

Liabilities

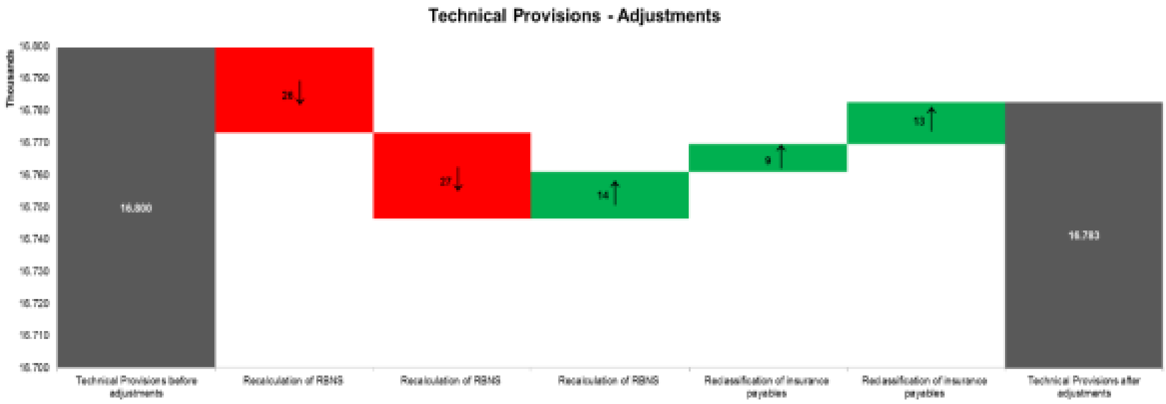
Total liabilities decreased by BGN 32k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Adjustment on payable balance from the purchase of financial instruments which was recorded by the Company as accounts receivable with credit balance of BGN 32k as at HY2016. The payable balance from the purchase of financial instruments should be recorded as payable (trade, not reinsurance).
- Increase in reinsurance payables in amount BGN 37k as the Company did not accounted for reinsurance amounts (balance and P&L) for Q2-2016 as at 30.06.2016.

Adjustments in Technical provisions

The total amount of the adjustments is BGN 17k and further breakdown is presented below:



- A combined negative adjustment amounting to BGN 39k due to the recalculation of RBNS.
- A combined positive BGN 22k due to reclassification of insurance payables.

- It has been identified that claims of the amount of BGN 9k have been approved and still outstanding (not paid) as of HY2016, are classified as insurance payables. This amount should be classified as RBNS, hence the respective adjustment has been performed.

- We have identified an outstanding amount of BGN 13k, which is incorrectly recorder as payable as at HY2016 and should be booked as reserves.

Other issues identified

The Company has not provided LAT results as at HY2016 in order to conclude whether an additional reserve shall be kept.

New paid ups are not modelled separately, instead they are included in the lapse assumptions. Based on the policies' database, the paid-ups account for less than 20% of all active policies.

The Company has not provided experience analysis and justification for the applied lapse rates.

Reinsurance – Effectiveness of Risk Transfer

The reviewer had obtained the reinsurance program and reviewed the main characteristics of the treaty, assessed the existence and the need for risk transfer of the reinsurance treaty.

The IER concluded that there is no significant risk transfer issue.

Corporate Governance, processes and internal control framework, accounting policies

In relation to the Corporate Governance, processes and internal control framework, the reviewer had concluded that the organizational structure of the Company is appropriately designed to promote a sound control environment, but it is not fully implemented at the date of the report.

Other areas for improvement

It is proposed that the Company should implement functionality for explicit modelling of new paid-ups.

It is strongly recommended that the Company performs appropriate analysis of the expense assumptions.

The IER has stated that the inflation assumption of 2.3% and no premium indexation resulted to a very significant share of expenses in the overall best estimate liability, which shall be also considered when setting up the LAT assumptions for YE2016 calculations.

Furthermore, as indicated by the IER the following recommendations are proposed:

- The Company shall implement LAT calculations for all the products.
- The model shall be set up to enable calculations of LAT also for half yearly reporting.
- The Company shall prepare appropriate documentation of the LAT model and assumptions.
- It is recommended to perform experience studies in order to verify the models results and appropriateness of the assumptions against the actual experience.

It is strongly recommended to perform regularly mortality and lapse experience studies.

Subsequent events:

Sagalasie EAD has increased its registered capital by BGN 4600 thousand. The capital increase is fully paid in according to the Commercial register and the current capital of the company is BGN 11 800 thousand.

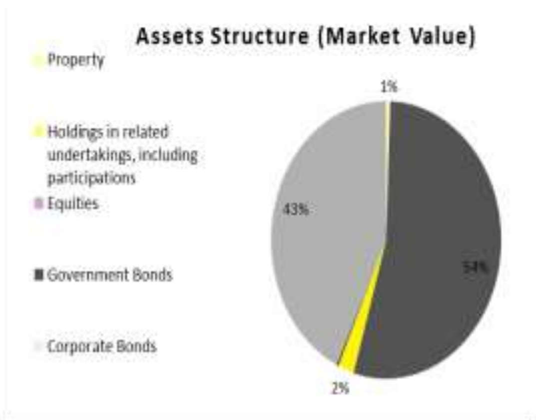
10. GROUPAMA ZHIVOTOZASTRAHOVANE EAD (Groupama Life) - SII

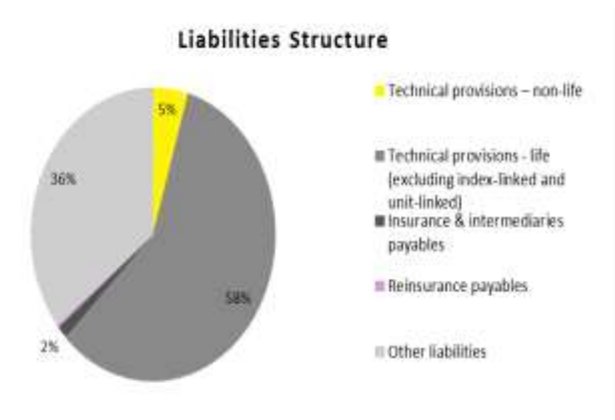
The Company's Balance Sheet is composed of BGN 39.6m Assets and BGN 22.6m Liabilities leading to Own funds amount of BGN 17m.

Basic own funds comprise only Tier I items and are equal to the excess of assets over liabilities of BGN 17m.

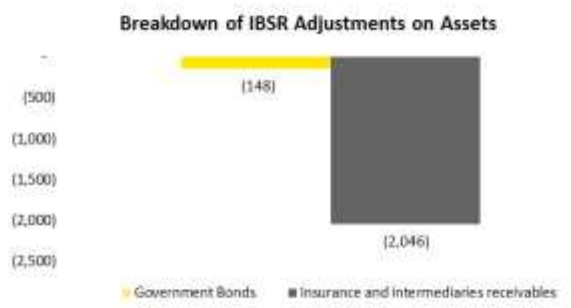
As a result of the IBSR exercise, the Own funds were increased by BGN 408k.

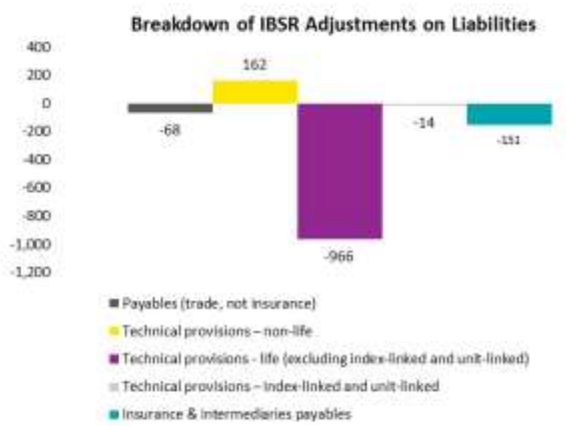
The structure of the balance sheet is presented below:





As analyzed below, total assets decreased by BGN 2.2m, while total liabilities were decreased by BGN 2.6m.





Assets

Total assets decreased by BGN 2.2m due to the following adjustments proposed:

- Correction of insurance receivables (decrease of BGN 2m)

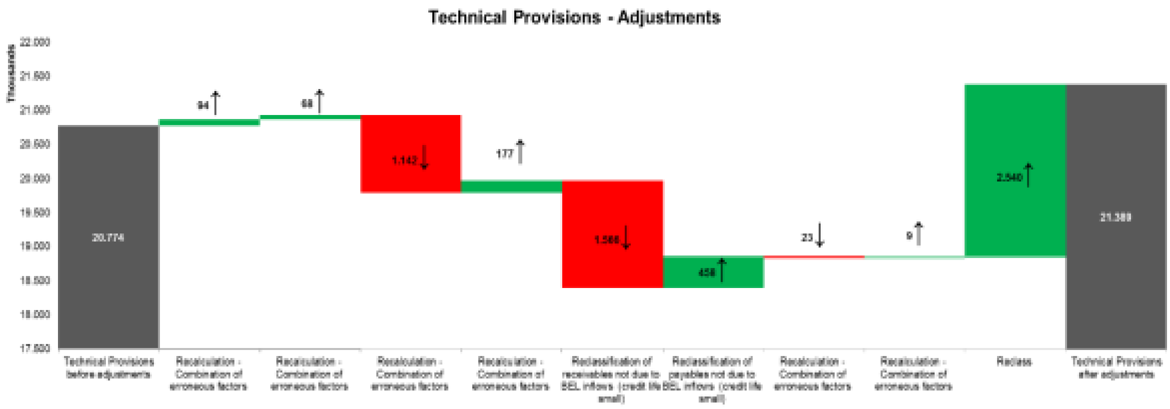
    - Total adjustment for impairment and derecognition of insurance receivables amounting BGN 514k (decrease in assets). The derecognition was proposed by the IER as the Company has recorded receivables in relation with a portfolio for which cash inflows were included in BEL estimates.
    - Additionally BGN 34k (increase in assets) refers to cut-off adjustment for POS products.
    - The rest of the adjustment (BGN 1,566k) refers to reclassification receivables not due to BEL inflows (credit life small).

- Adjustment on valuation of government bonds of BGN 148k decrease in own funds. The adjustment was proposed following the IER's obtaining the evidence from external sources (Reuters) for the valuation of the fixed income securities as compared with the Company's policy of valuating these investments using the 6 banks average price as provided by the Price Information Center.

Liabilities

Adjustments in Technical provisions

The total amount of the adjustments is BGN 614k and further breakdown is presented below:



- The combined downward adjustment on BEL is equal to BGN 1,072 k (BGN 94k for HNSLT, BGN 1,142k for Life and BGN 23 k for UL business). The main differences in the BEL calculation stem from the following issues:

    - Overestimation of best estimate liability due to the driver approach of the Group for the reporting of QRTs, where new data per policy are not taken into account.
    - Deficiencies of the model and differences in assumptions. Groupama Life performs BEL estimation on the level of grouped policy data. Eight model points are created for the entire portfolio, each of the model points represents one product group. The IER noted that the number of model points used for BEL calculation respects the minimum condition from Article 80 of the Directive 2009/138/EC; however the limited number of model points based on which the future contractual cash-flows are projected might not lead to a best estimate value of technical provision.
    - A more detailed overview of the most significant deviations in the assumptions of the model as documented by the IER are the following:

        - Lapse rate assumptions do not reflect the age of the portfolio.

- Acquisition expense assumptions do not reflect the real cash flows for the acquisitions costs
- Paid ups are not modelled.
- The BEL is not calculated separately for each currency.
- No separate discount rate applied for the products denominated in EUR.
- Maturities are modelled as lapses.
- Expense assumptions are applied as expense/reserve ratio.
- Death benefits are dependent on the value of the reserves instead of sum insured.
- Model points are estimated as simple average. At least weighted average would be more appropriate.

- ► The total adjustment on Risk margin is equal to BGN 254k (BGN 68k for HNSLT, BGN 177k for Life and BGN 9k for UL) and results in decrease in own funds. Although the methodology followed for the calculation of the Risk margin is reasonable, the adjustments already performed due to the recalculation of BEL and the SCR findings impact the calculation of the Risk margin.
- ► For Credit life portfolio, the future premiums and payables related to the in force contracts are recognized under Receivables from policyholders and Payables to intermediaries. An adjustment was proposed to reclassify the Receivables and Payables which are not due to the best estimates of liabilities.
- ► The rest of the adjustments (BGN 2,5m) refers to reclassification of reserve for maturities (not paid to clients) from Insurance & intermediaries payables to the best estimate of liabilities.

Other issues identified

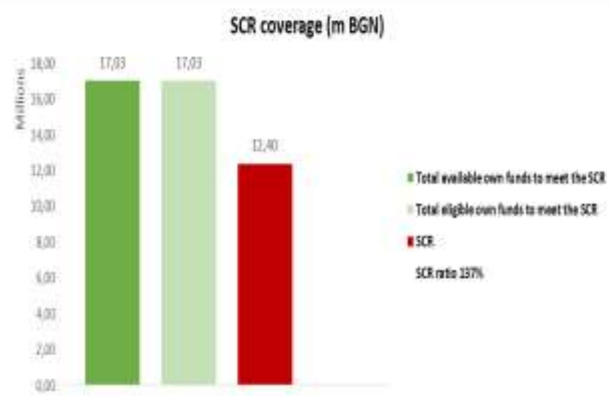
The Company does not use experience studies for the reasonableness and appropriateness of the mortality adjustments. All the adjusted assumptions are based on expert judgment which is not properly documented.

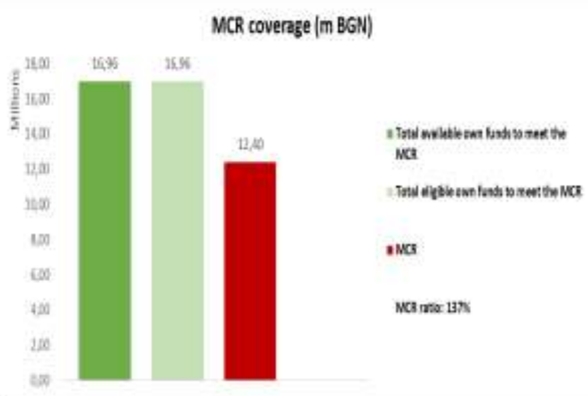
Also, the description on recognition and derecognition principles regarding insurance obligations is limited. Contract boundaries are explained in the context of lapse rates. Lapse is a contract option, which shall be taken into account in projection of future cash flows rather than contract boundary. Additionally the IER noted, that the undertaking explained contract boundaries from a premium projection perspective, although in Article 18 of Delegated Act states that it should be defined as an insurance obligation.

TVOG and future profit sharing are not included in the actuarial model of the Company.

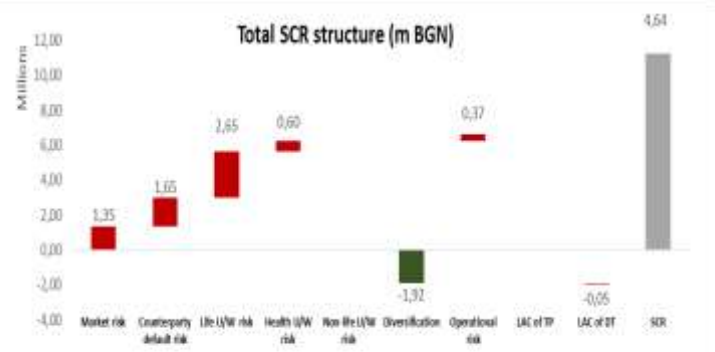
Capital Requirements Compliance

The initial solvency position of Groupama Life was 134% SCR and 134% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 137%, therefore the Company is compliant. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR.

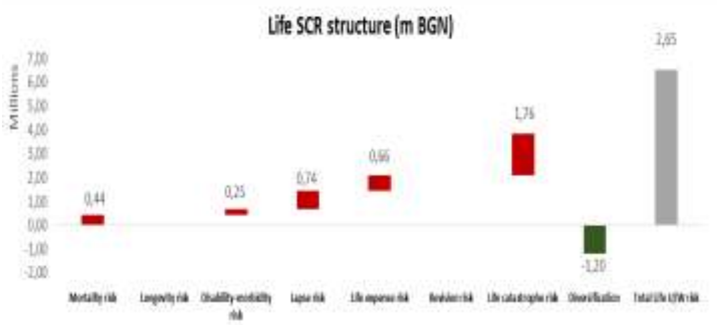




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.



As presented in the table on the side the majority of the capital requirements comes from Life Underwriting Risk and Counterparty Risk. Specifically, exposure to Life Underwriting Risk is equal to approximately BGN 2.7m, whereas exposure to Market Risk is equal to approximately BGN 1.7m as at HY2016.



The Life catastrophe risk (BGN 1.76m) and Lapse risk (BGN 0.74m) are the key components contributing to the Life U/W risk.

Reinsurance – Effectiveness of Risk Transfer

The Company has only surplus treaty for the group life contracts.

No significant issues identified related to effectiveness of risk transfer.

Corporate Governance, processes and internal control framework, accounting policies

The main findings and recommendations of the IER cover the following areas:

- Provisioning of insurance receivables
- Claims payment process
- Contract boundaries

Subsequent events

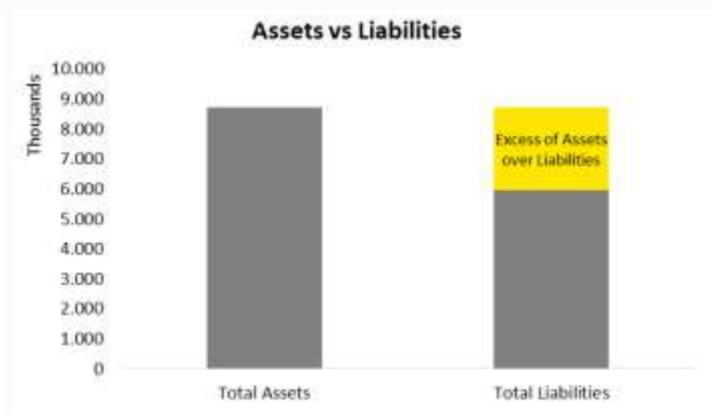
The Company increased the share capital in June 2016 by BGN 7,400,000, through issuing of 40,000 new ordinary shares with nominal value of 10 BGN/share. The shares are subscribed and paid up at all by the Sole Owner on 22 June 2016. The increase in share capital was approved by the Trade Registry in July 2016. The increase in share capital is considered in own funds, tier 1, as of HY2016.

Other areas for improvement

There is a necessity for the construction of a new actuarial model taking into account all cash inflows and cash outflows per policy basis or a at least a more granular approach.

11. CCB Life - SII

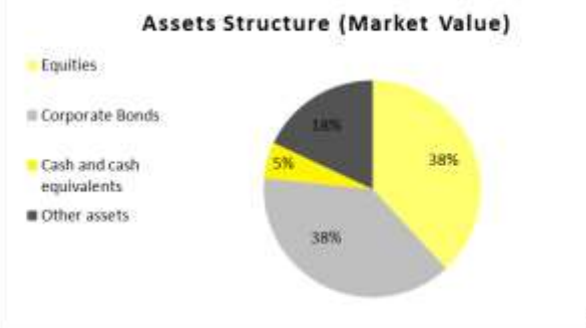
The Company's Balance Sheet is composed of BGN 8.7m Assets and BGN 2.7m Liabilities leading to excess of assets over liabilities in amount of BGN 6m.

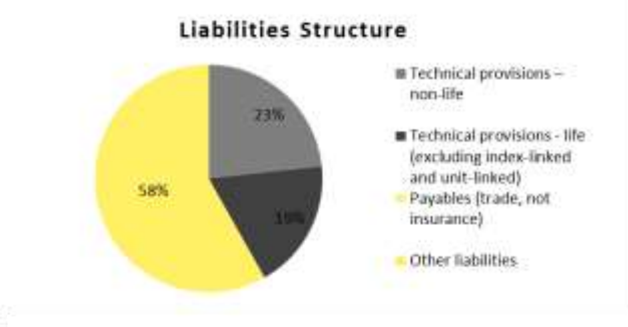


Basic own funds comprise Tier I items representing ordinary share capital of BGN 7.4m and reconciliation reserve of BGN (1.5)m and also Tier III items representing net deferred tax assets of BGN 46k.

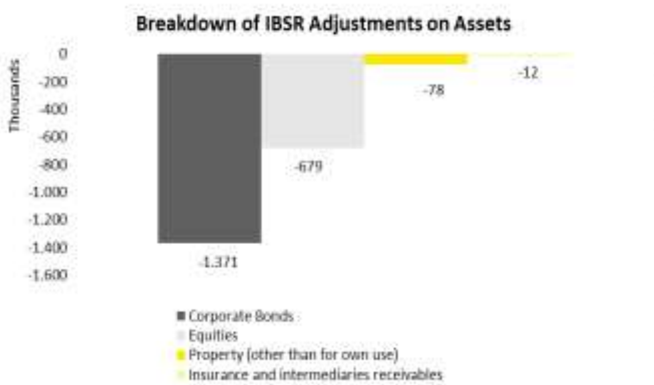
Total excess of assets over liabilities decreased as a result of the adjustments proposed by the IER from BGN 8.1m to BGN 6m.

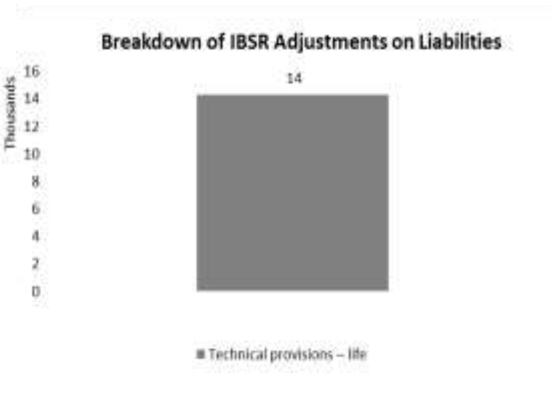
The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 2.1m and the total liabilities increased by BGN 14k.





Assets

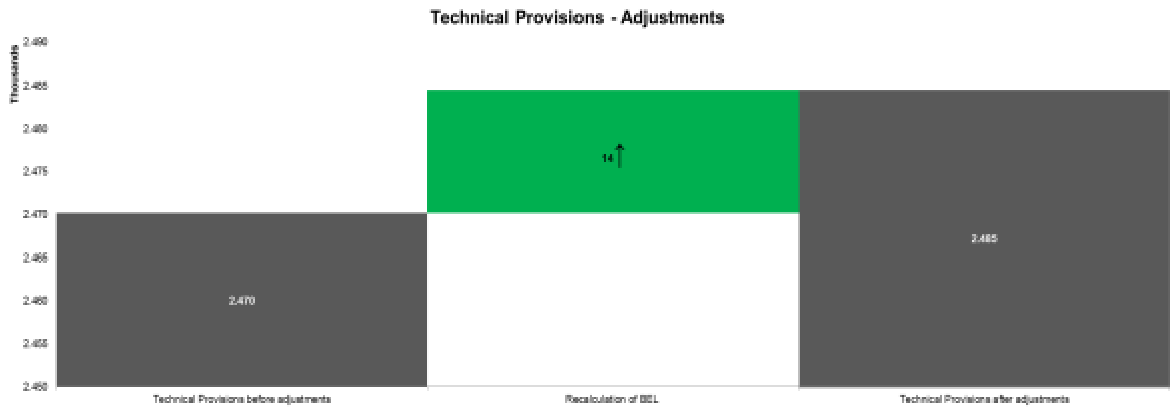
- Adjustment of fair value of the property (other than for own use) – decrease in own funds of BGN 78k.
- Adjustment of BGN 679k (decrease in own funds) in the value of equites: the Company does not have in place a procedure for assessment of the liquidity of the market from which it derives prices for valuation of investments held. Thus, part of the investments analyzed by the IER were assessed as having an inactive market. Their valuation was done by the Company based on trading prices (as that was the Company's assessment regarding active/inactive market); additionally, part of the equities are real estate funds with price to book value of share which does not seem reasonable in the view of the IER given the line of business of these companies. The alternative valuation method used by the IER maximizes the use of market inputs, while placing less weight on the stock exchange price of the investees for which no evidence to conclude that the stock exchange and OTC transactions (which determine the market price) are orderly exists.
- Adjustment of BGN 1,4m (decrease in own funds) of the corporate bonds: The Company is determining the discount factor used in the DCF method without considering specific information of the issuer of the bond (i.e. issuer industry, the capacity of the borrower to make its debt payments on time, the quality and value of the assets collateralizing the issue, the terms and conditions of the debt agreement, the quality of management). Also the risk premium contains an additional premium of approximate 1% for illiquidity, however without properly documenting how the additional premium is related to specific information of the bond issuer.

Liabilities

Total liabilities increased by BGN 14k due to the following adjustments proposed:

Adjustments in Technical provisions

The total amount of the adjustments is BGN 14k and further explained below:



For the products classified as Life assurances the Company approximate BEL with the Zillmer mathematical reserve. The Company does not have a cash-flows projection model for the endowment policies in order to project all contractual cash-flows for these policies.

The difference in the BEL calculation stems from the following issue:

- The adjustment proposed for Life Technical provisions (BGN 14k) represents the difference obtained between the BEL calculations as performed by the IER and Company's Zillmer mathematical reserve booked.

Capital Requirements Compliance

The initial solvency position of CCB Life was 110% SCR and 109% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 80%. Hence, as at HY2016 the Company is not compliance with Solvency II regarding capital requirements, the own funds balance exceeding with more than 150% the solvency capital requirement balance, but the minimum capital requirement is not met. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR.

Should own funds be computed by using the quotation from the Bulgarian Stock Exchange of all listed securities the prudential ratios would be SCR: 173% and MCR 89%; should own funds be computed by using the quotation from the Bulgarian Stock Exchange for a corporate bond, the prudential ratios would be SCR: 164% and MCR 98%

We note that not all the required QRTs have been submitted to the PM. A specific answer on the pending items has been received via email by the IER on Monday 16/1/2017.

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

Reinsurance – Effectiveness of Risk Transfer

As at HY2016 no reinsurance contracts are in force.

Other issues identified

Absence of ULAE methodology for the business classified as HNSLT.

Corporate Governance, processes and internal control framework, accounting policies

The information provided by the Company was assessed as limited by the IER and in some cases it did not allow a specific review and it was considered to be a gap.

Main deficiencies identified by the IER in relation with the control framework refer to Underwriting process, claims management process, financial statements closing process, IT controls environment, related parties identification.

Regarding accounting policies developed, the main findings and recommendations of the IER refer to:

- Valuation of receivables and impairment of receivables
- Technical provisions

The Company's outsourcing policy does not cover all the required aspects.

Limitations

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

- valuation of the investments – financial statements of Global Invest
- related parties’ complete transactions review etc.

Other areas for improvement

There is a necessity for the Company to calculate BEL on per policy basis for the whole life portfolio in line with SII regulation instead of approximating BEL with the Zillmer mathematical reserve.

The IER has recommended to build a detailed procedure for the calculation of TPs, including at least the following details:

- Detailed theoretical description of the BEL models with a split between Traditional Life business and HNSLT business.
- Data reconciliations and check of data inputs.
- Development of a cash-flow projection model for the endowment portfolio, including which/how future cash flows (inflows and outflows) are produced and check if cash flows are produced at least per LOB and per currency.
- How future cash flows are discounted.
- If/how expert judgement is applied.
- Back-testing procedures in order to validate the validity of the BEL models.
- Reasons for the changes in the methodology and audit trails.
- Detailed theoretical description of the best estimate assumptions models with a split between Traditional Life business and HNSLT business along with the performance of experience studies for the demographic assumptions and the use of up to date information for economic assumptions.

Subsequent events

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

12. LIFE INSURANCE INSTITUTE (JZI) - SII

The Company's Balance Sheet is composed of BGN 6.8m Assets and BGN 1.7m Liabilities leading to Own funds amount of BGN 5.2m.

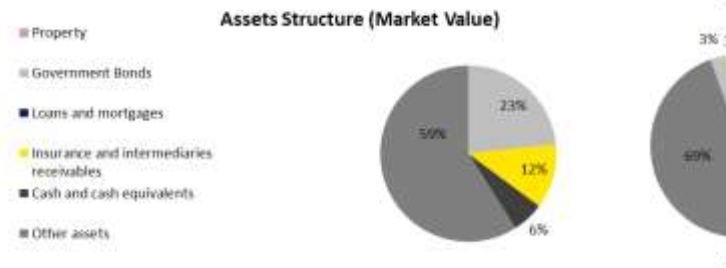
Based on the outcome of the IBSR exercise, JZI has the MCR 39% (63% before adjustments) and SCR 42%. As a result of the limited procedures performed as regards the SI Balance sheet the resulted solvency ratio is 70%.

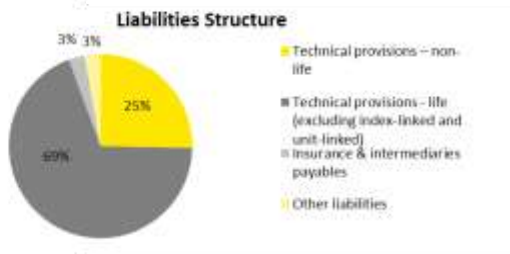
As a result of the IBSR, total assets decreased by BGN 2.4m and total liabilities increased by BGN 256k, the own funds being lower by BGN 2.7m.

Basic own funds include Tier I funds equal to excess of assets over liabilities and Tier II deferred tax assets of BGN 297k. The structure of the balance sheet and the impact of the main adjustments is presented below.

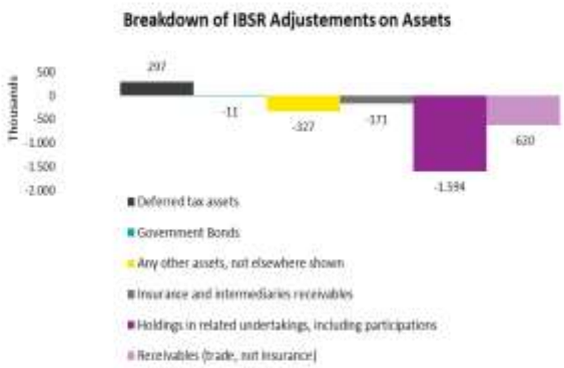
As at HY2016 the Company is in breach of the capital requirements following the adjustments proposed by IER and thus is falling under special cases as defined in 1.5.2 in the methodology.

The structure of the balance sheet is presented below:





As analyzed below, the total assets decreased by BGN 2.4m and the total liabilities increased by BGN 256k.



Assets

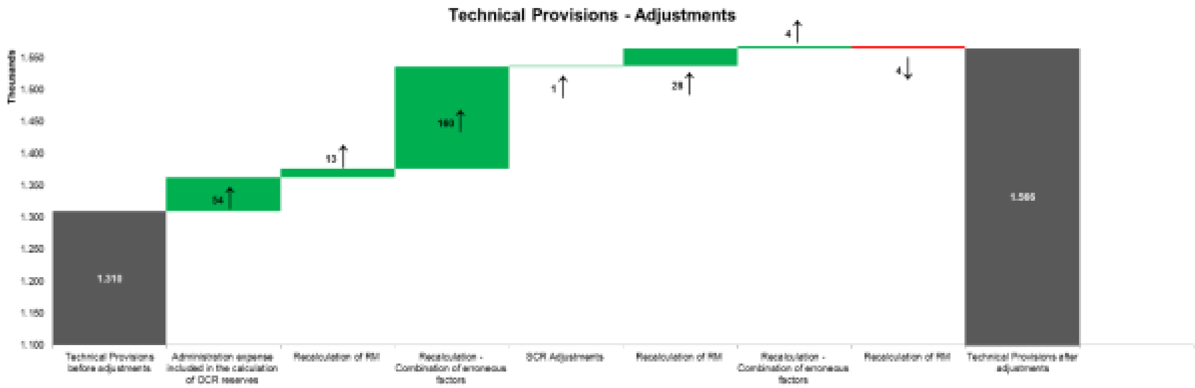
The main adjustments on the assets side refer to a decrease of BGN 1.6m in "Holdings in related undertakings, including participations" due to due to inaccurate application of the equity method, a decrease in receivables of BGN 620k including BGN 300k referring to overstatement due to recognition of voted capital increase which is not registered with the Trade Register and is still not paid in (the classification of these funds as ancillary own funds is not approved by the Regulator FSC) and BGN 320k referring the loans on policies, with released mathematical reserve (not included in BE of Technical provisions). Additionally, it was noted an overstatement of BGN 327k of the position "Any other assets, not elsewhere shown" due to recognition of an intangible asset and there were identified future receivables of BGN 171k in the closing balance of insurance receivables that were deducted from the calculation of the reserves but not from the balance of receivables. Deferred tax effect on adjustments proposed amounts to BGN 297k.

Liabilities

Total liabilities increased by BGN 256k due to the following adjustments proposed:

Adjustments in Technical provisions

The total amount of the adjustments is BGN 256k and further breakdown is presented below:



The main differences in the BEL calculation stem from the following issues:

- The upward adjustment of BGN 54k is attributed to administration expense loading introduced in the calculation of OCR reserves calculated based on claims paid triangles, since neither ULAE nor administration expenses were included in the claims triangles.
- The Company computation of best estimate liability for endowment portfolio was based on a single policy run. Therefore, the IER proceeded into the calculation of Technical provisions on a policy by policy basis for the entire database, excluding 17 policies that have been included in the calculations due to cancellations.
- Apart from that, the IER introduced changes to the Company's methodology and assumptions which in conjunction with the aforementioned issue resulted to an increase in BEL by 20%.
- The combined upward adjustment of Risk margin by BGN 42k refers to the following issues:
    - Risk margin calculation as provided by the Company does not take into account projection of SCR and assumes that SCR is released after the first year. This was a significant misstatement in the risk margin calculation approach, especially taking into account long term nature of the endowment products. Hence, the IER adjusted upwardly the Risk margin by BGN 41k (BGN 13k for HNSLT portfolio and BGN 28k for Life business).

- The recalculation of the endowment portfolio had an impact on Life Underwriting Risk which further increased Risk margin by BGN 542k.
- According to the Solvency II Technical Specification, only the reinsurance agreements should be included in the calculation of Risk margin. Due to the fact that the Company has not signed any reinsurance contracts, the IER proceeded into the exclusion of Counterparty Default Risk module from risk margin calculation (-BGN 4k).
- The rest of the adjustment refers to the change of BEL methodology and assumptions.

Other issues identified

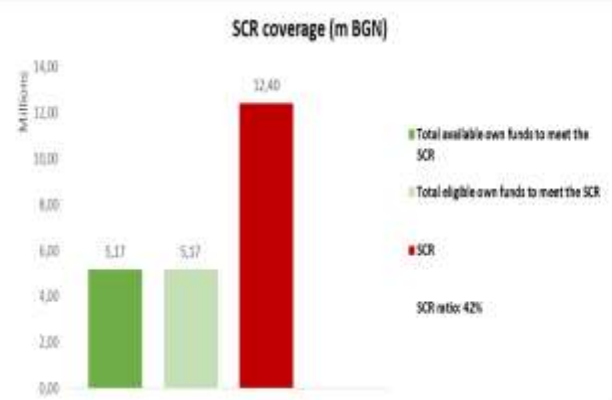
The Company has not taken into account investment return in the calculation of best estimate liability, which is composed of benefit outgoes, expenses, claim payments and premiums.

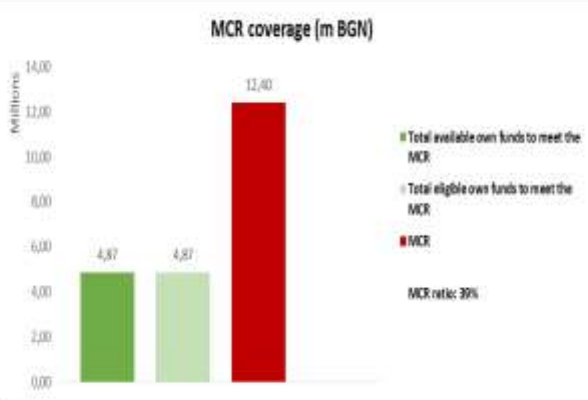
Moreover, the Company does not estimate profit sharing due to the current economic environment.

The company has not modelled financial options and guarantees for the calculation of BEL and SCR for Life Underwriting Risk, including TVOG.

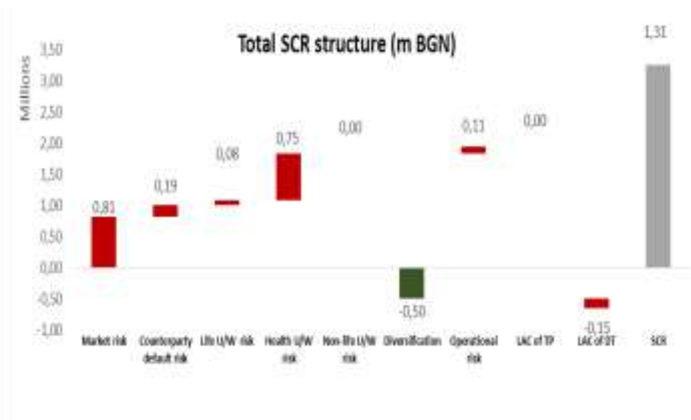
Capital Requirements Compliance

The initial solvency position of JZI was 63% SCR and 63% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of MCR equal to 39%. Due to the fact that the amount of SCR is lower than the amount of MCR, the required capital is set as the maximum amount between SCR and MCR. Therefore is not compliant.





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



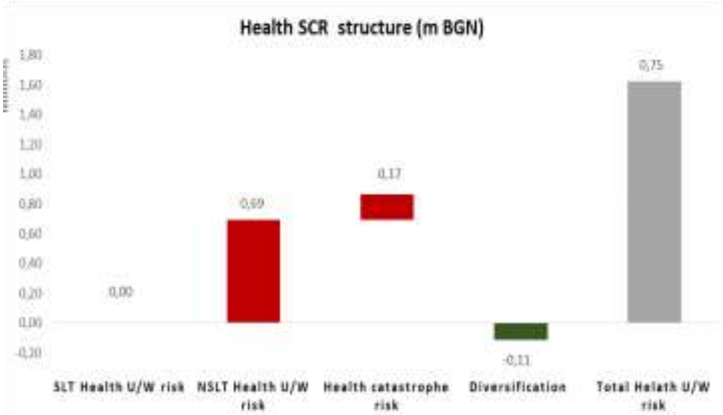
As presented in the table on the side the majority of the capital requirements comes from Health Underwriting Risk and Market Risk. Specifically, exposure to Health Underwriting Risk is equal to approximately BGN 0.75m, whereas exposure to Market Risk is equal to approximately BGN 0.8m as at HY2016.

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

1. Equity risk (BGN 0.8m)

2. Market risk concentrations (BGN 0.06m)

3. Interest rate risk (BGN 0.02m)



HNSLT U/W Risk (BGN 0.7m) is the key component contributing to the Health Risk.

Reinsurance – Effectiveness of Risk Transfer

The Company has no specific accounting policy, procedure or methodology related to reinsurance contracts, other than the general IFRS requirements. The IER noted that the Company decided not to buy reinsurance due to the small size of the portfolio and very favorable solvency ratios.

Corporate Governance, processes and internal control framework, accounting policies

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

Other areas for improvement

The IER has recommended the inclusion of investment return in the actuarial model in the future as well as the evaluation of financial options and guarantees, including TVOG.

The impact of paid-up rates is considered immaterial up to the date of the report. However, it is recommended to include such a functionality in the actuarial model, as this might become more significant for BEL and SCR calculations, while the portfolio of endowment policies increases.

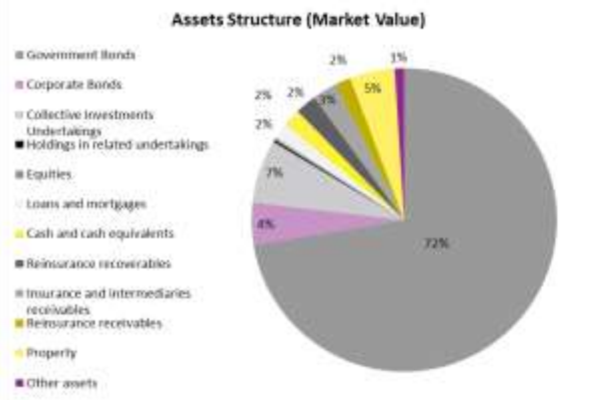
13. BULSTRAD LIFE VIENNA INSURANCE GROUP JOINT STOCK COMPANY - SII

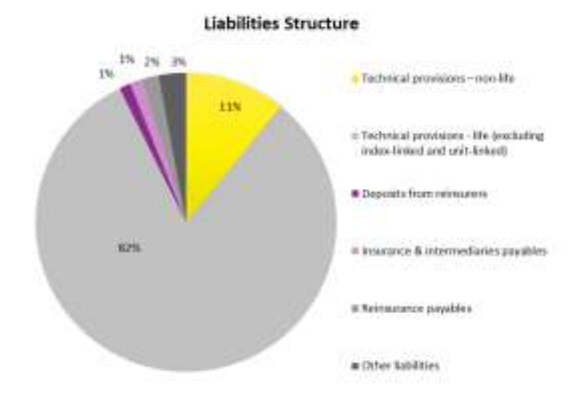
The Company's Balance Sheet is composed of BGN 108m Assets and BGN 87m Liabilities leading to excess of assets over liabilities amount of BGN 21m.

Basic Own funds comprise of only Tier 1 items and are equal to the excess of assets over liabilities of BGN 21m adjusted with BGN 1.2m representing foreseeable dividends.

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

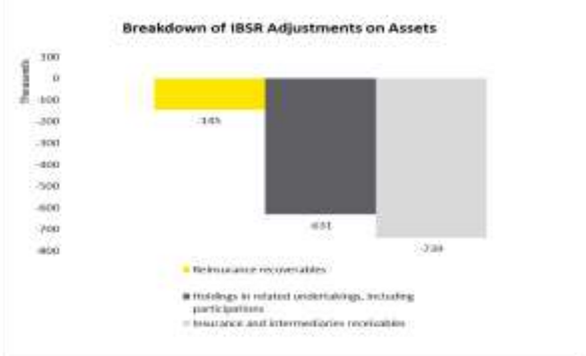
The structure of the balance sheet is presented below:

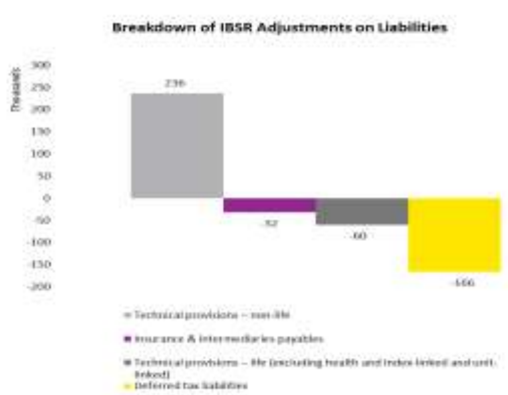




The Other Assets include also Receivables from securities which are resulting from former investments in bonds which are matured. The respective companies have suffered financial difficulties and were not able to repay the original sum loaned at the bond's maturity date which led to insolvency proceedings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

As analyzed below, the total assets decreased by BGN 1.5m and the total liabilities decreased by BGN 22k.





Assets

Total assets decreased by BGN 1.5m due to the following adjustments proposed:

- Investments decrease by BGN 631k – adjustment proposed for the valuation of holdings in related undertakings using adjusted equity method.
- Insurance and intermediaries receivables decrease by BGN 739k – adjustment proposed for the allowance of receivables and subsequent cancellations offset by receivables not identified properly.
- A decrease of BGN 145k has been performed in Reinsurance Recoverables for HNSLT business stemming from the recalculation of the combined ratio used for reinsurance share.

Liabilities

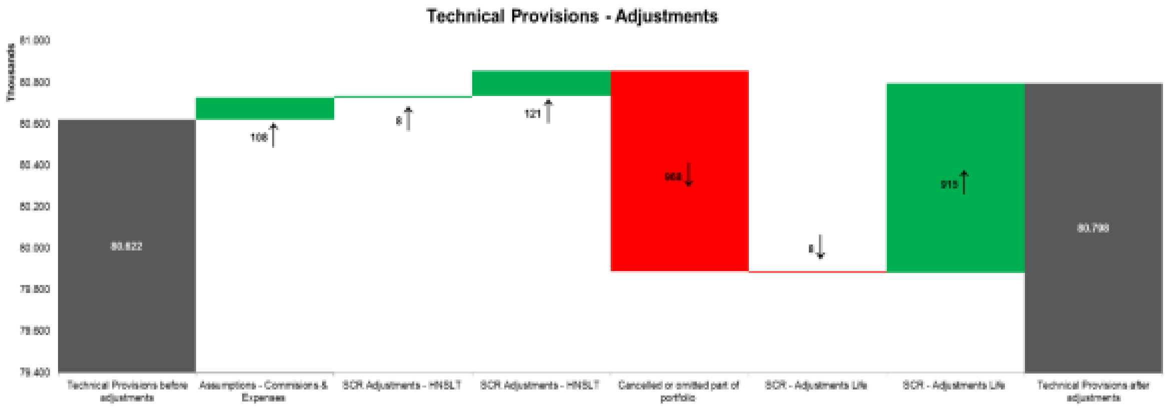
Total liabilities decreased by BGN 22k due to the following adjustments proposed:

Adjustments in liabilities other than technical provisions

- Decrease of BGN 166k in DTL, reflecting the deferred tax impact of the adjustments proposed.
- Decrease of BGN 32k in Insurance and intermediaries' payables corresponding to subsequent cancellation of policies.

Adjustments in Technical provisions

The total amount of the adjustments is BGN 176k and further breakdown is presented below:



- Subsequent cancellations of policies related to the receivables as at HY2016 have been identified. Hence, an appropriate adjustment in receivables was proposed as well as in the value of Life Best estimate liability which has been decreased by BGN 968k.
- The adjustments equal to BGN 907k in Life Technical provisions and BGN 121k in HNSLT business, have been performed due to the following deficiencies:

  Increase of BGN 915k: SCR results as at 01.01.2016 have been used as starting points for the SCR projections resulting to a quantified impact of BGN 497k. In addition, Risk margin has been discounted applying the risk-free yield curve with volatility adjustment, which is inconsistent with SII regulation. The exact quantified impact of this error is BGN 418k.

  A decrease of BGN 8k of the Risk margin value has been also performed due to the change in the projected cash-flows used as risk driver in the SCR future projections and a different proportion between HNSLT LoBs and Insurance with profit participation product category (An upward adjustment of BGN 8k has been performed to HNSLT business for the same reason).
- The rest of the adjustments (BGN 108k) refer to HNSLT business, due to a discrepancy identified during the reconciliation of the future commissions.

Other issues identified

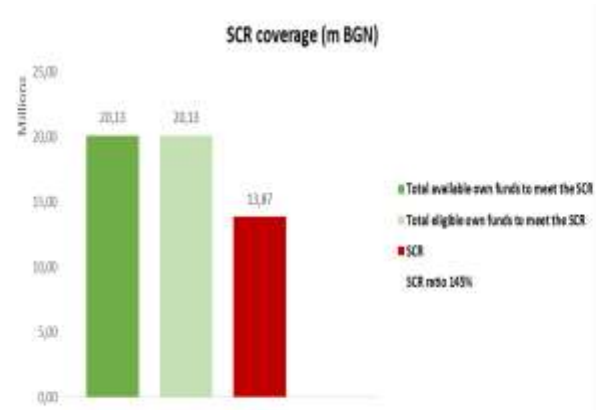
The Company has not implemented stochastic model in order to capture TVOG, but financial options and guarantees are evaluated through deterministic approach.

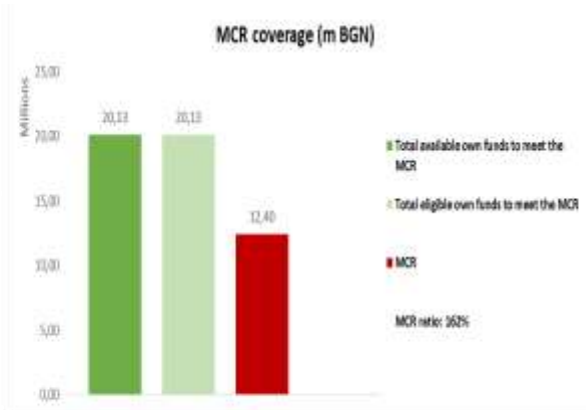
The Company presents significant difference between Solvency II and IFRS Technical provisions, which according to the IER is due to premium and DAC recognition.

The model assumes zero inflation parameter as Best Estimate assumption for the long term and short term portfolio. This is true for the short term, but over the long term, the inflation assumption should be consistent with the target inflation rate of Bulgaria. In this case the model shall use an inflation rate curve, with zero inflation rates for the short term (two – three years) and then increase over time, producing an average inflation equal with the target inflation rate of Bulgaria.

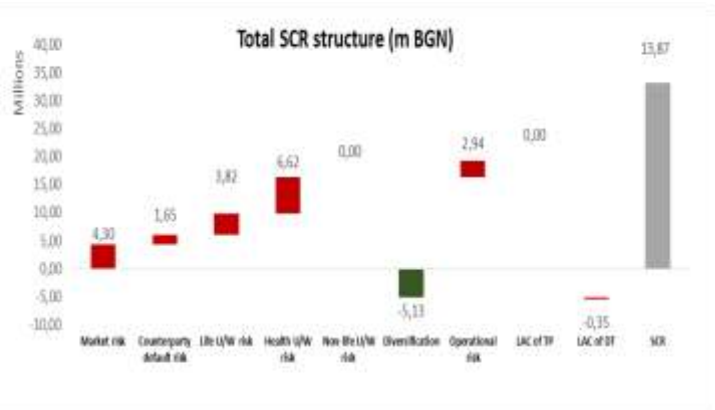
Capital Requirements Compliance

The initial solvency position of Bulstrad Life was 155% SCR and 174% MCR. Following the recalculation of the prudential parameters in accordance with Solvency II regulation, the Company achieved a level of SCR equal to 145% and MCR equal to 162%. Therefore the company is compliant.

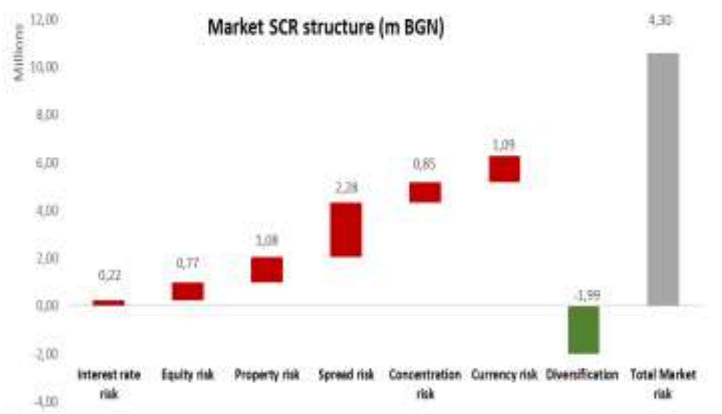




The results as at HY2016 after the adjustments performed by the IER are illustrated in the graph below presenting the breakdown of the SCR per risk category.

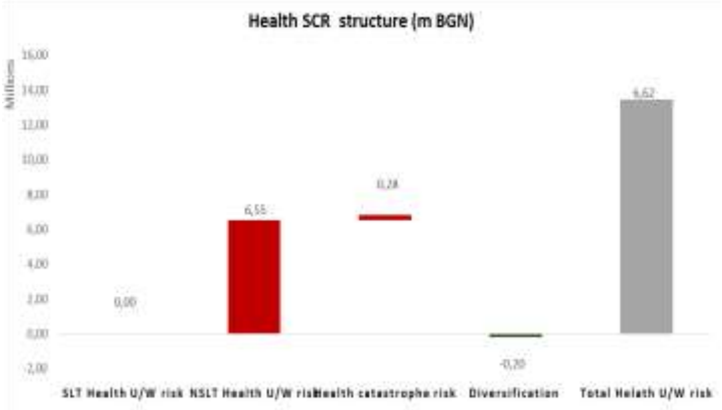


As presented in the table on the side the majority of the capital requirements comes from Health Underwriting Risk and Market Risk. Specifically, exposure to Health Underwriting Risk is equal to approximately BGN 6.6m, whereas exposure to Market Risk is equal to approximately BGN 4.3m as at HY2016.



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

1. Spread risk (BGN 2.28m)
2. Currency risk (BGN 1.09m)
3. Property risk (BGN 1.08m)



The HNSLT U/W Risk (BGN 6.6m) is the key component contributing to the Health Risk.

Reinsurance – Effectiveness of Risk Transfer

Based on the procedures performed the IER concluded that the reinsurance program, designed to lead to conservative levels of retention, and to be effective and appropriate for the Company's portfolio, is in line with the requirements of Title I, Chapter V, section 10 of the Delegated Regulation 2015/35.

Corporate Governance, processes and internal control framework, accounting policies

The Company's Corporate Governance and Internal control framework is was considered as being developed in relevance with the size, nature and complexity of the operations. Main findings and recommendations refer to IT Controls update and Underwriting process controls for insurance subtype "pension or rent policies".

Other areas for improvement

Adoption of a stochastic approach in order to calculate TVOG.

Model documentation to be created by the company along with underlying methodology, including simplifications.

Inflation rate curve to be set as an economic assumption for the valuation of Best estimate liability.