BALANCE SHEET REVIEW and STRESS TEST
OF THE ROMANIAN INSURANCE SECTOR

REPORT

July 2015
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Acronyms and Abbreviations

AP – Appreciation
ASF – Romanian Financial Supervisory Authority
BOF – Basic own funds
BSR – Balance sheet review
DA – Delegated Act
DAC – Deferred acquisition costs
DEP – Depreciation
DTA – Deferred tax assets
DTL – Deferred tax liabilities
EBRD – European Bank for Reconstruction and Development
EC – European Commission
EIOPA – European Insurance and Occupational Pensions Authority
EOF – Eligible Own Funds
EQ – Earthquakes
EU – European Union
EUR – Euro
FL – Floods
GWP – Gross written premiums
IBNR – Incurred but not reported provision
IMF – International Monetary Fund
LoB – Line of business
MCR – Minimum capital requirement
MTPL – Motor third party liability
OF – Own Funds
PML – Possible maximum loss
RBNS – Reported but not settled provision
RON – Romanian Lei
SCR – Solvency capital requirement
SII – Solvency II
TS – Technical specifications
UPR – Unearned premium reserve
URR – Unexpired risk reserve
USD – US Dollar
1. Introduction

The Romanian insurance sector has been faced with various vulnerabilities over the last years. Insurance penetration and insurance density, which provide a good indication regarding the level of development of the insurance sector, have been on a declining trend since 2009. The insurance sector has continued to be highly dependent on motor insurance, in particular on motor third party liability (MTPL). Motor insurance accounted for 69.6% of the total gross written premiums (GWP) in 2014, whereas the share of MTPL in GWP stood at 43.4%. The heightened competition on MTPL with the direct consequence of under-pricing coupled with the increased claims compensation for bodily injuries and moral damages as well as the shortcomings of the road infrastructure have put a strain on profitability of this line of business. Furthermore, in order to enhance consumer protection, strengthen market conduct and avert further adverse developments, the Romanian Financial Supervisory Authority (ASF) had to take firm supervisory measures in relation to several market players including the largest insurance company operating on the market, which was put under special administration at the beginning of 2014.

In light of the persistence of several internal and external pockets of vulnerability, the Romanian authorities requested in July 2013 a third EU medium-term financial assistance programme, albeit of precautionary nature, jointly with a Stand-by Arrangement with the International Monetary Fund (IMF). In the framework of the third Balance of Payments program between Romania and the European Union (EU) and of the current Stand-by agreement between Romania and the IMF, the Romanian authorities have agreed in June 2014 to perform a comprehensive Balance Sheet Review (BSR) and a stress test of the Romanian insurance sector with third party involvement in order to strengthen the soundness of and confidence in this sector. This exercise was the first comprehensive BSR and stress test with third party involvement in the insurance sector performed in an EU Member State.

The comprehensive BSR and stress test was overseen by a Steering Committee with international participation. The Steering Committee included five representatives of the Romanian Financial Supervisory Authority (ASF), two representatives of the European Commission (EC) and two representatives of the European Insurance and Occupational Pensions Authority (EIOPA). The Steering Committee developed the terms of reference for the BSR and stress test, the methodological guidance for the BSR, the main assumptions and scenarios for the stress test as well as the guidelines for the follow up actions to be implemented by the participating insurance undertakings based on the results of BSR and stress test. In close liaison with the Steering Committee, a Project Management team ensured the harmonized application of the BSR methodology and a similar treatment of participating undertakings by the external auditors and stress test consultant. The Project Management team included four ASF representatives, two EC representatives and one EIOPA representative.

The comprehensive BSR and stress test with third party involvement was carried out with the support of five external auditing firms and of an external consultancy firm, which were selected according to the criteria included in the terms of reference for the BSR and stress test. For the selection of the external auditors and of the stress test consultant, the ASF organized an on-line public procurement procedure (through SEAP –
Electronic System for Public Procurement), which was launched on 14 November 2014. Following the assessment of the offers submitted by the external auditors participating at this public tender, the ASF selected five auditing firms (Deloitte, Ernst & Young, KPMG, Mazars and PricewaterhouseCoopers) for the auditing services necessary to perform the BSR. Milliman was selected as the provider of the consultancy services for performing the stress test and for calculating the prudential indicators.

In terms of timeline, the BSR and stress test included four main phases:

i) the preparatory phase during which the Steering Committee elaborated *inter alia* the terms of reference for the BSR and stress test as well as the terms of reference for the selection of external auditors and stress test consultant (July – mid November 2014);

ii) the public procurement phase for the selection of external auditors and stress test consultant (mid-November 2014 – end-February 2015);

iii) the *de facto* BSR phase, which included the auditing and reviewing work performed by auditors (March – May 2015);

iv) the stress test performed by the stress consultant and the re-calculation of prudential indicators (May – June 2015).

This report was prepared by the Project Management team based on the reports of external auditors and of the stress test consultant. It was subsequently endorsed by the Steering Committee and approved by the ASF Board. The report is structured as follows: An executive summary (Chapter 2) provides the main conclusions of the exercise and an overview of the results of both the BSR and the stress test including the classification of insurance undertakings in five groups depending on their solvency position post BSR and stress test. Chapter 3 (Purpose and scope of the Balance Sheet Review and Stress Test) presents the main objectives of the exercise, its main components and provides information of the participating insurance undertakings included in the scope of the BSR and stress test. Chapter 4 (Methodological overview) provides a summary of the methodological guidance for both the BSR and the stress test, whereas Chapters 5 and 6 include the main results of the BSR and the stress test both at aggregated level and undertaking-by-undertaking. Last, but not least, Chapter 7 of the report is dedicated to the follow up actions to be considered by the ASF based on the outcome of the exercise. The annexes include *inter alia* several overview tables with aggregated and undertaking-by-undertaking data.
2. Executive summary

The BSR resulted in significant adjustments to the balance sheets of the participating insurance undertakings at the reference date for this exercise (i.e. June 30, 2014), which were reflected in the adjusted Solvency I balance sheets of these undertakings. Furthermore, these adjustments also impacted the main prudential indicators of the respective undertakings. The Solvency II balance sheets prepared by the auditors in liaison with the insurance undertakings constituted the basis for the calculation of the capital requirements under Solvency II (i.e. Minimum Capital Requirement - MCR and Solvency Capital Requirement - SCR) both pre stress and post stress.

Solvency I results

The BSR impacted both the total assets and liabilities of insurance undertakings as of June 30, 2014. The total aggregated downward adjustments applied by the auditors to total assets amounted to RON 817 million (roughly 6% of total assets of participating undertakings before BSR). The asset classes with the highest downward adjustments were receivables (RON 325 million or 40% of the total adjustment applied to assets) and the share of technical provisions ceded in reinsurance (RON 299 million or 37% of total adjustments on the assets side). Auditors also adjusted the paid-up expenses (by roughly RON 90 million or 11% of total adjustments on assets) and applied some smaller adjustments to land and buildings, financial investments and other assets.

Regarding liabilities, the auditors identified cases of under-provisioning of insurance liabilities which resulted in an upward adjustment of technical provisions mainly for non-life insurance. Total liabilities were adjusted upward by roughly RON 593 million (5% of total liabilities of the participating undertakings before BSR), with the adjustment applied to technical provisions amounting to RON 517 million. For technical provisions, the largest upward correction of roughly RON 332 million was made to the RBNS (reported but not settled provision) followed by the IBNR (incurred but not reported), which was adjusted by RON 225 million. The unexpired risk reserve increased by RON 100 million, whereas the catastrophe reserve was reduced by RON 135 million (this reduction was due to only one insurance company).

The BSR also determined an aggregated downward adjustment of RON 1.4 billion in the aggregated total equity of the participating undertakings (100.4% of total equity of the participating undertakings before BSR). Four out of the 13 participating insurance undertakings (i.e. Astra, Carpatica, Euroins and EXIM) have negative equity after adjustments (Figure 1).

In most cases, the adjustments made to the balance sheets of insurance undertakings following the BSR had a substantial impact on the Solvency I prudential indicators of the respective undertakings. In aggregate terms, following the BSR, the available solvency margin for all the participating undertakings was negative (RON 417 million) as compared to their aggregated solvency requirements of RON 1.1 billion. On individual level, Astra, Carpatica, EXIM and Euroins had negative solvency ratios after the BSR, whereas Groupama and ASIROM had solvency ratios below 100% for the non-life business, but above 100% at composite level. All the other insurance undertakings have solvency ratios exceeding 100%.
Based on the Solvency I balance sheet, the participating insurance undertakings were classified in the following groups:

1) **Group 1 insurers**: insurance undertakings with negative equity: ASTRA, CARPATICA, EUROINS and EXIM;

2) **Group 2 insurers**: insurance undertakings breaching the minimum guarantee fund: ASTRA, CARPATICA, EUROINS and EXIM;

3) **Group 3 insurers**: insurance undertakings breaching the solvency margin: ASTRA, CARPATICA, EUROINS, EXIM, GROUPAMA and ASIROM;

4) **Group 4 insurers**: insurance undertakings not complying with the rules applicable to the coverage of technical provisions by admissible assets: ASTRA, CARPATICA and EUROINS;

5) **Group 5 insurers**: insurance undertakings which meet the solvency requirements following the Balance sheet exercise (i.e. solvency ratio above 100% and no breaching of the minimum guarantee fund): ALLIANZ, AXA, GENERALI, ING, OMNIASIG, UNIQA and PAID.

**Solvency II results**

Although Solvency II will be applied as of January 1, 2016, the assessment of assets and liabilities in line with this new supervisory framework represented a main component of the BSR. The aim of the exercise was to evaluate the preparedness of participating undertakings for the introduction of Solvency II.

The total value of assets under the Solvency II balance sheet amounted to RON 10.8 billion at June 30, 2014. The aggregate excess of assets over liabilities of the 13 participating insurance undertakings stood at roughly
RON 37 million, being significantly impacted by the total deficit of assets over liabilities of RON 2.10 billion registered by five insurance undertakings (ASTRA, AXA, CARPATICA, EUROINS and EXIM). The total excess of assets over liabilities of the other eight insurance undertakings stood at RON 2.14 billion.

The total available own funds to cover the MCR for the 13 participating insurance undertakings amounted to RON 84 million as of June 30, 2014, whereas the total eligible own funds to cover the MCR stood at roughly RON 49 million. As the MCR at the reference date amounted to RON 1.5 billion, the MCR coverage ratio was only 3.3%. If three out of the five undertakings with negative own funds are excluded from the sample (i.e. ASTRA, CARPATICA and EUROINS), the MCR coverage ratio would increase significantly to a comfortable 335%.

The total available own funds to cover the SCR for the 13 insurance undertakings amounted to RON 180 million on June 30, 2014, whereas the total eligible own funds to cover the SCR reached RON 174 million. Since the SCR at the reference date amounted to RON 5.4 billion, the SCR coverage ratio stood at 3.2%. Similar to the calculation of the MCR coverage ratio, in case three out of the total five undertakings with negative own funds are excluded from the sample, the SCR ratio would increase to just below 100% (i.e. 99.98%).

At individual level, as already mentioned above, five out of the 13 participating insurance undertakings (i.e. ASTRA, AXA, CARPATICA, EUROINS and EXIM) had negative own funds as of June 30, 2014. However, out of the total own funds deficit of these five insurance undertakings amounting to RON 2.10 billion at the reference date, 99% of the shortfall was due to the deficit of own funds registered by ASTRA, CARPATICA and EUROINS. Only four insurance undertakings would have a SCR ratio exceeding 100% (ALLIANZ, GENERALI, ING and OMNIASIG). In a nutshell, ASTRA, AXA, CARPATICA, EUROINS and EXIM would have SCR ratios below 0%, GROUPAMA and UNIQA SCR ratios ranging between 0%-50%, ASIROM and PAID SCR ratios between 50%-100%, ALLIANZ and OMNIASIG SCR ratios between 100%-150% and last, but not least, GENERALI and ING SCR ratios exceeding 150%.

Eight out of the 13 insurance companies would have a MCR ratio higher than 100% (ALLIANZ, ASIROM, GENERALI, GROUPAMA, ING, OMNIASIG, PAID and UNIQA). ASTRA, AXA, CARPATICA, EUROINS and EXIM would have MCR ratios of below 0%, ASIROM and UNIQA MCR ratios ranging between 100%-150%, whereas the MCR ratios of ALLIANZ, GENERALI, GROUPAMA, ING, OMNIASIG and PAID would exceed 150%.

Based on the pre-stress Solvency II balance sheet, the participating insurance undertakings were classified in the following groups:

1) **Group 1 insurers**: insurance undertakings with negative own funds: ASTRA, AXA, CARPATICA, EUROINS and EXIM;

2) **Group 2 insurers**: insurance undertakings that based on the outcome of the BSR and without prejudice of any adjustment following measures taken after the date of the exercise, do not achieve the Minimum Capital Requirement (MCR) - ASTRA, AXA, CARPATICA, EUROINS and EXIM;
3) **Group 3 insurers:** insurance undertakings that based on the outcome of the BSR without prejudice of any adjustment following measures taken after the date of the exercise, do not achieve the Solvency Capital Requirement (SCR) - ASTRA, AXA, CARPATICA, EUROINS, EXIM, ASIROM, GROUPAMA, PAID and UNIQA;

4) **Group 4 insurers:** insurance undertakings that based on the outcome of the BSR without prejudice of any adjustment following measures taken after the date of the exercise, achieve the MCR and SCR: ALLIANZ, GENERALI, ING and OMNIASIG.

The BSR results show that under stress conditions, namely under adverse financial market and insurance specific scenarios, the majority of the participating insurance undertakings would not be sufficiently capitalised. The insurance specific stress scenarios (i.e. natural catastrophes stress scenarios for earthquake and floods) have the largest impact on the Solvency II position of the participating insurance undertakings. Under the earthquake natural catastrophe scenario, the aggregated SCR increases from RON 5.4 billion in the base case scenario to RON 6.4 billion. However, the total eligible own funds to cover the SCR decreased from RON 174 million to RON -3.6 billion. On an individual level, only ING, a life insurance company, has a post-earthquake stress SCR ratio exceeding 100%, whereas ALLIANZ has a positive SCR ratio but below 100%. All the other insurance undertakings participating in the exercise have SCR ratio below 0% under this scenario.

The flood natural catastrophe scenario has a similar, albeit less drastic, impact on the participating undertakings, as this scenario is less severe than the earthquake scenario. Three insurance undertakings (ALLIANZ, GENERALI and ING) have SCR ratios surpassing 100%, whereas all the other insurance undertakings are not complying with the SCR. GROUPAMA and OMNIASIG have positive SCR ratios but below 100%, whereas the other eight insurers have negative SCR ratios.

The participating insurance undertakings are less sensitive to financial markets stress scenarios, notwithstanding the fact that the level of undercapitalisation would still remain significant. Under economic and financial market stress scenarios (including RON appreciation and depreciation), the median SCR ratio goes down from 48% in the base case scenario to 40% for the RON appreciation scenario and to 42% for the RON depreciation scenario. Under the stress scenario with RON appreciation, four insurance undertakings (ALLIANZ, GENERALI, ING, OMNIASIG) have SCR ratios above 100%, whereas the other nine insurance undertakings do not meet capital requirements. ASIROM, GROUPAMA, UNIQA and PAID have positive but below 100% SCR ratios, whereas the other five insurers have negative own funds. With minor differences, the stress scenario with RON appreciation leads to a similar outcome in terms of compliance with capital requirements.

The participating insurance undertakings have to prepare action plans including measures aimed to correct any issues identified as a result of the BSR and stress test. These action plans will be reviewed by ASF and will include any further measures adopted by the respective undertakings after end-June 2014 and which are likely to also address the deficiencies identified during the BSR.
3. **Purpose and scope of the Balance Sheet Review and Stress Test**

**Purpose of the exercise**

In order to ensure an in-depth screening of the balance sheets of the participating insurance undertakings and to assess their capacity to withstand stress conditions, this comprehensive exercise included two main pillars, namely a Balance Sheet Review (BSR) and a stress test:

1) **the BSR** aimed to assess the accuracy of the balance sheets of the participating insurance undertakings, including the adequacy of technical provisions and the re-calculation of prudential indicators (i.e. minimum guarantee fund, solvency margin and coverage of technical provisions with admissible assets) following the adjustments applied to the pre BSR balance sheets. The BSR and the re-computation of the prudential indicators were based on the current prudential requirements, namely on Solvency I standards. The adjustments made by the external auditors to the pre BSR balance sheets of insurance undertakings based on the identified no-compliances with the current prudential provisions were reflected into a post BSR adjusted balance sheet (i.e. Adjusted Solvency I Balance Sheet).

2) **the stress test** aimed to assess the resilience of insurance undertakings to stress scenarios. In this respect, the stress test provided a forward-looking examination of the resilience of the solvency of insurance undertakings to both market and insurance specific scenarios. In contrast with the BSR, which was based on the current prudential requirements, the starting point for the stress test was the Solvency II balance sheet prepared, by the auditors in liaison with the insurance undertakings, in line with the Solvency II requirements which will enter into force in 2016. The elaboration of the Solvency II balance sheets provided both the ASF and the participating undertakings with valuable information on the preparation of the latter for the introduction of the Solvency II prudential requirements.

In a nutshell, the main objectives of the BSR performed by the external auditors were:

- to analyse the insurance portfolio of participating undertakings in order to establish the obligations under the insurance contracts, to assess the adequacy of technical provisions and to have a reasoned estimate of the economic value of the respective technical provisions;

- to assess the effectiveness of risk transfers to third parties, namely of risks stemming from (re)insurance contracts written by the insurance undertakings including finite reinsurance contracts;

- to assess the appropriateness of the recognition and valuation principles applied to all liabilities including liabilities other than technical provisions and all assets including assets other than those covering technical provisions with a special focus on the impact of operations and transactions with natural or legal persons with close links to the respective insurance undertakings;

- to assess the coverage degree of technical provisions with admitted assets for all participating undertakings and the degree of adequacy of own funds of participating undertakings to solvency requirements, including in adverse scenarios conditions.
In order to fulfil the objectives of the BSR, the above mentioned analyses and assessments implied a thorough check by auditors of the completeness and accuracy of the general ledger of participating insurance undertakings and the analysis of the balance sheet items in line with the methodological guidance for the BSR as well as the analysis of insurance portfolios and the assessment of appropriateness of technical provisions.

The auditors performed a detailed analysis of the accounting policies and methodologies used in the assessment process of all material balance sheet items of the participating undertakings. Furthermore, auditors assessed the adequacy of the level of obligations under the insurance contracts, represented by the technical provisions recognised by the insurance undertakings in their financial statements at the cut-off date for the exercise. In this respect, an analysis of the insurance portfolio, an analysis of the internal methodologies for calculating the technical provisions and an analysis of the data used for the calculation of technical provisions were carried out.

The auditors also performed a detailed analysis of the assets of the participating undertakings. This analysis focused on the categories of assets admitted to cover technical provisions, namely on the specific assets for the insurance business (receivables from policyholders and intermediaries, receivables from reinsurance, part of technical provisions ceded in reinsurance, deferred acquisition costs), on investments in land and buildings, investments in securities, bonds, shares, deposits and current accounts with banks, and on all other assets which were material in terms of total assets. Special focus was also given to the assets related to intra-group transactions. Likewise material liabilities other than technical provisions were also revalued including the insurance business specific payables.

The assessment of assets and liabilities of the participating undertakings was based on the accounting regulations in force (Adjusted Solvency I Balance Sheet) and the standards provided by the Solvency II Directive (Solvency II Balance Sheet). Based on current prudential requirements, auditors performed an analysis of the coverage degree of technical provisions with admitted assets and of the degree of adequacy of own funds of the participating undertakings to solvency requirements. Moreover, the auditors performed an assessment of the system of governance of the participating undertakings, including their internal control mechanisms.

Regarding the stress test, and as mentioned above, its purpose was to assess the resilience of the balance sheets of the participating insurance undertakings to stress scenarios, to identify major vulnerabilities and to evaluate their preparedness for the introduction of Solvency II. The stress test was performed by the stress test consultant and used input data gathered from the participating insurance undertakings with the support of external auditors. The stress test was based on the most updated knowledge of the Solvency II framework. The stress test consultant assessed the compliance of insurance undertakings with the Solvency II capital requirements (i.e. Minimum Capital Requirement and Solvency Capital Requirement) both pre-stress and after stress.
Scope

Table 1: Total gross written premiums and market share of insurance undertakings participating in the BSR and stress test at 2013

<table>
<thead>
<tr>
<th>No.</th>
<th>Insurance undertaking</th>
<th>Referred to as</th>
<th>Total gross written premiums in 2013 (RON, in thousand)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Societatea Asigurare – Reasigurare Astra SA</td>
<td>ASTRA</td>
<td>921,494</td>
<td>11.34%</td>
</tr>
<tr>
<td>2</td>
<td>Allianz - Tiriac Asigurari SA</td>
<td>ALLIANZ</td>
<td>918,776</td>
<td>11.31%</td>
</tr>
<tr>
<td>3</td>
<td>Omnia Sig Vienna Insurance Group SA</td>
<td>OMNIA SIG</td>
<td>881,104</td>
<td>10.84%</td>
</tr>
<tr>
<td>4</td>
<td>Groupama Asigurari SA</td>
<td>GROUPAMA</td>
<td>717,602</td>
<td>8.83%</td>
</tr>
<tr>
<td>5</td>
<td>Unica Asigurari SA</td>
<td>UNIQA</td>
<td>570,150</td>
<td>7.02%</td>
</tr>
<tr>
<td>6</td>
<td>ING Asigurari de Vlata SA</td>
<td>ING</td>
<td>559,594</td>
<td>6.89%</td>
</tr>
<tr>
<td>7</td>
<td>Asigurarea Romaneasca - Asirom Vienna Insurance Reasigurare SA</td>
<td>ASIROM</td>
<td>544,099</td>
<td>6.70%</td>
</tr>
<tr>
<td>8</td>
<td>Euroins Romania Asigurare Reasigurare SA</td>
<td>EUROINS</td>
<td>504,777</td>
<td>6.21%</td>
</tr>
<tr>
<td>9</td>
<td>Carpatica Asig SA</td>
<td>CARPATICA</td>
<td>483,069</td>
<td>5.95%</td>
</tr>
<tr>
<td>10</td>
<td>Generali Romania Asigurare Reasigurare SA</td>
<td>GENERALI</td>
<td>438,707</td>
<td>5.40%</td>
</tr>
<tr>
<td>11</td>
<td>Poil-ul de Asigurare Impotriva Dezastrelor</td>
<td>PAID</td>
<td>60,254</td>
<td>0.74%</td>
</tr>
<tr>
<td>12</td>
<td>AXA Life Insurance SA</td>
<td>AXA</td>
<td>33,757</td>
<td>0.42%</td>
</tr>
<tr>
<td>13</td>
<td>Compania de Asigurari Reasigurari EXIM Romania</td>
<td>EXIM</td>
<td>31,976</td>
<td>0.39%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>6,665,358</td>
<td>82.04%</td>
</tr>
</tbody>
</table>

The BSR and stress test included 13 insurance undertakings out of which five composite insurers, ensuring a large coverage of the Romanian insurance sector (Table 1). The insurance undertakings participating in the BSR and stress test were selected by the Steering Committee based on three criteria:

(i) market share based on the gross written premium at the end of 2013;
(ii) specificity of their insurance portfolio;
(iii) ownership structure.

With the exception of EXIM, which is a state-owned insurance company, all the other insurance undertakings included in the scope of the exercise are privately owned. The participant insurance undertakings had a combined market share in terms of gross written premiums of 82.04% at the end of 2013. The Steering Committee decided that the cut-off date for the balance sheet data used for the BSR and stress test should be June 30, 2014.
4. Methodological overview

The methodological guidance for both the BSR and the stress test was developed by the Steering Committee before the start of the auditing work. This methodological guidance provided the reference frameworks for the Adjusted Solvency I Balance Sheet, the Solvency II Balance Sheet, the calculation of prudential indicators, and additional guidelines and clarifications regarding technical and operational methodologies. Furthermore, additional methodological clarifications regarding the BSR and stress test were provided to the auditors and stress test consultant through a Q&A tool developed by the Project Management team.

Balance sheet review and elaboration of Solvency II balance sheets

To identify non-compliances with the current prudential requirements and elaborate the adjusted Solvency I balance sheets which constituted the basis for the re-computation of the prudential indicators at the cut-off date, the methodological guidance included the following reviews:

- Processes, accounting policies and accounting review: The methodological guidance requested auditors to verify whether the insurance undertakings have a robust set of clearly defined policies and processes for the correct interpretation of accounting rules in areas where shortcomings would likely result in balance sheet misstatements and/or have a material impact on the BSR results. In order to ensure a thorough check of the specific insurance business’ processes and accounting policies the following main topics were covered: (i) the manner of recording the underwriting/cancellation of insurance contracts and the setting up and release of technical provisions by using the IT system and supporting documents; (ii) the procedures for the recording of payment of claim files, for the setting up/adjustment of premium receivables as well as for recoveries/regresses; iii) the setting up of gross written premiums and the procedures for the release of each type of technical provisions, for the cancellation/surrender of insurance policies, for the setting up and preservation of the technical provisions, and for the handling and liquidation of claims; iv) the methodology for the calculation of technical provisions ceded in reinsurance and for the calculation of deferred acquisition costs (DAC);

- Assessment of technical provisions: The methodological guidance established the principles auditors had to consider for the valuation of technical provisions. Furthermore, auditors were requested to perform a thorough review of the adequacy of technical provisions including whether the methodologies used for the calculation of technical provision consider all risks covered by insurance products. The review entailed: i) an inventory of insured risks for each insurance product; ii) the analysis of the reliability, quality, sufficiency and relevance of data; iii) the assessment of the effectiveness of internal controls; iv) the assessment of reinsurance contracts including in terms of catastrophe risk and its consequences for the claims management and claims outstanding provisioning; v) the assessment of the adequacy of technical provisions which included assessing the appropriateness of assumptions and methodologies, performing a case-by-case verification of files and providing an estimation of the adequate level of these provisions. Auditors were requested to perform specific checks on claims outstanding provisions and other technical provisions (i.e. life insurance provisions, provisions for unearned premiums, unexpired risk provisions, catastrophe reserve and equalisation provisions).
- Review of assets and liabilities other than technical provisions: The methodology for the BSR included guidance on the review of assets and liabilities other than technical provisions, in particular on investments, reinsurance items, operations and transactions with natural or legal persons with close links to the participating undertakings as well as on other assets and liabilities. The review of investments entailed a thorough review of the values recognized in the balance sheets of the insurance undertakings including for financial instruments and real estate (i.e. lands and buildings). For land and buildings, the prescribed valuation method was the fair value of real estate at the cut-off date for the exercise (June 30, 2014). The review of the reinsurance items included the assessment of the reinsurance policies of the participating undertakings, in particular: i) the identification of the level of risk transfer appropriate to the defined risk tolerance limits of undertakings and of the most appropriate type of reinsurance arrangements considering the risk profile of undertakings; ii) the principles for the selection of such risk mitigation counterparties and procedures for assessing and monitoring the creditworthiness and diversification of reinsurance counterparties; iii) the procedures for assessing the effective risk transfer of reinsurance contracts; iv) the procedures for liquidity management to deal with any timing mismatch between the payments of claims and reinsurance recoverable. Particular attention was given to financial reinsurance to identify whether it was focused more on capital management rather than on risk transfer for the purpose of solvency relief. The review of operations and transactions with natural or legal persons with close ties to the participating undertakings aimed at identifying the existence of such close links including in cases in which it were not formally recognized by the respective undertakings. The assessment of assets and liabilities required impairment tests for all items including receivables from policyholders, reinsurers and intermediaries by assessing the probability of receiving the cash flows on those items.

The selection of the balance sheet items was subject to materiality thresholds which were established by using as reference solvency requirements. Technical provisions and several insurance specific asset classes were subject to the review regardless of their materiality (i.e. technical reserves ceded in reinsurance, premium receivables from policyholders, receivables and payables from reinsurers, receivables and payables from intermediaries and DAC). The materiality threshold set for all the other balance sheet items was one tenth (1/10) of the solvency ratio exceeding the minimum legal requirement at the cut-off date. A ceiling of 5% in terms of materiality threshold was defined for insurance undertakings with a solvency ratio exceeding 150%, whereas for insurance undertakings with a solvency ratio below 100% all balance sheet items were considered material and as such excluded from the application of any materiality threshold.1

Considering the extensive analysis and effort entailed in reviewing all insurance exposures of participating undertakings, the methodological guidance provided auditors with guidelines concerning sampling. Risk-based sampling was conducted in a manner which allowed the sample chosen to be large enough and sufficiently representative for a robust analysis. Due to the significance and complexity of the claims outstanding provision, the methodological guidance indicated the approach to be used to select the claims outstanding provision sample. Auditors were requested to analyse the claims occurred on the first year of the development triangle in order to assess the ultimate, to perform a case-by-case analysis on files covering different situations (i.e. different years of occurrence, large/medium/small claims, bodily injury/property

1 For composite insurance undertakings, the lowest solvency ratio between life and non-life was taken into consideration when determining the reference solvency ratio for the materiality threshold.
damage, MTPL/other coverage, claims in litigation, files with significant readjustments etc.). An analysis of outliers was also required due to the fact that the use of statistic methodologies may justify the exclusion of outliers from triangles. In such cases the assessment of these was made casuistically.

For the purpose of the BSR and the elaboration of the adjusted Solvency I balance sheets, the review of the methodologies for the calculation of technical provisions was based on the ASF Order 3109/2003 for the implementation of rules concerning the calculation and accounting methodology of minimal technical reserves for general insurance activity, with subsequent modifications, and on the ASF Order 8/2011 for the implementation of rules on technical reserves for life insurance, assets admitted to cover them and the dispersion of assets admitted to cover the gross technical reserves, with subsequent modifications. The valuation of assets and liabilities other than the technical reserves was based on the provisions of the ASF Order 3129/2005 for the implementation of rules concerning the calculation and accounting methodology of minimal technical reserves for life insurance, assets admitted to cover them and the dispersion of assets admitted to cover the gross technical reserves, with subsequent modifications. The assessment of governance issues, which although not being the main focus of the exercise entailed walkthroughs of the controls in place aiming to have an overall overview of their effectiveness, was based on the ASF Decision 47/2013 on the application of the preparatory guidelines for the implementation of Solvency II.

For the elaboration of the Solvency II balance sheets, the methodological guidance required the use of the most advanced knowledge on Solvency II and of prudential provisions included in: i) the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) as published on 23.05.2014 (SII Directive), namely Title 1, Chapter VI, Sections 1 and 2; ii) the Delegated Acts published by the EC on 10 October 2014 (DA) namely Title I, Chapters II and III; iii) the technical specifications published by EIOPA on 30 April 2014 for the preparatory phase (TS) without prejudice for the changes introduced by the DA. The methodological guidance also included the risk free interest rates for RON, EUR and USD at the cut-off date necessary for the elaboration of the Solvency II balance sheets.

Re-computation of prudential indicators based on the adjusted Solvency I balance sheets

The calculation of the Solvency I prudential indicators (i.e. minimum guarantee fund, solvency margin and coverage of technical provisions with admissible assets) following the adjustments applied by the auditors to the pre BSR balance sheets was performed by the stress test consultant. For the purpose of the re-calculation of the prudential indicators, the methodological guidance prescribed the observance of the following ASF prudential norms and regulations: i) Order 8/2011 for the implementation of rules on technical reserves for life insurance, assets permitted to cover them and the dispersion of assets permitted to cover the gross technical reserves, with subsequent modifications; ii) Order 9/2011 for the implementation of rules on technical reserves for non-life insurance activity, the dispersion of assets admitted to cover the gross technical reserves and liquidity coefficient, with subsequent modifications; iii) Order 3/2008 for the implementation of rules on methodology for calculating available solvency margin, required solvency margin and guarantee fund for non-life insurers, with subsequent modifications; iv) Order 4/2008 for the implementation of rules on methodology for calculating available solvency margin, required solvency margin and guarantee fund for non-life insurers, with subsequent modifications.
Stress test methodology based on the Solvency II framework

As compared to the BSR which was based on the current prudential requirements, the stress test was based on the Solvency II framework and the specifications of the 2014 EIOPA EU-wide stress test. The stress test exercise aimed at testing the financial resilience of the participating insurance undertakings based on both adverse financial market stress scenarios (simultaneous shocks to six variables) and single factor insurance stresses (five independent risks, one stress level for each).

The adverse financial market stress test scenarios include risk factors focusing on government and corporate bond markets, commercial and residential estate market, equity markets as well as the exchange rates for RON vis-à-vis two main currencies. The stress test exercise consists of one adverse market stress scenario, which includes shocks to several market variables, namely to sovereign bond prices, financial and non-financial corporate bond prices, loans, commercial and residential real estate prices, equity prices and the EUR/RON and USD/RON exchange rates. For the exchange rate risk, the scenarios with the worst outcome between appreciation and depreciation of RON were taken into consideration.

The insurance specific stresses included risk factors focusing on natural catastrophic events (i.e. earthquake and floods), provisions deficiency stress and reinsurance stress. The insurance specific risks included in the stress test exercise as single factor insurance stresses were: floods and earthquake, claims inflation/pricing combined with an increase in expenses and litigation cost, litigation risk, technical provisions ceded in reinsurance. The insurance stresses were carried out in isolation from the market stresses. Life and non-life stresses were covered separately in the form of a set of single risk factor tests. The stress test focused on the impact of stresses and not on a pass/fail relative to a pre-established threshold. Only one stress level was specified for each stress factor.

The adverse financial market stress test scenarios used the following parameters: a) for commercial and residential real estate prices: -10%; b) for loans: -15% (-25% for intra-group loans); c) for the exchange rate: (i) appreciation of the RON versus the EUR (4% appreciation) and USD (2% appreciation); (ii) depreciation of the RON versus the EUR and USD: 15% depreciation of the RON against foreign currencies; d) for equity prices: a decline of 40%; e) for Romanian government bonds: a shock of 125 basis points, as spread applied to the yield curves for government bonds; f) for government bonds issued by other countries and for corporate bonds: shocks in line with the specifications for the 2014 EIOPA EU-wide stress test. The stress levels were calibrated on the basis of historical experience and on hypothetical stresses designed to impact the exposed lines of business.

The insurance specific stress test scenarios were based on the following parameters: a) for technical provisions ceded in reinsurance: -15% (-25% for reinsurers which are part of the same group); b) for non-life claims reserves: +2% (claims in litigations were excluded); c) for non-life claims reserves for claims in litigations: +10%; d) for natural catastrophes scenarios (earthquake and floods): +15% applied to the possible maximum loss (PML) calculated in line with the methodology provided by the ASF Order 12/2012 for the implementation of the norms for the authorisation of the activity for the underwriting and ceding in reinsurance of natural catastrophe risks.
In line with the specification of the methodological guidance and the additional guidance provided by the Project Management team, two non-life stress scenarios were developed: a) a floods natural catastrophe scenario (+15% applied to PML) combined with counterparty default (technical provisions ceded in reinsurance: -15% and -25% for intra-group reinsurance contracts), non-life claim reserve stress of: +2% per annum (excluding claims in litigation), and 10% stress for claims in litigation; b) an earthquake natural catastrophe scenario (+15% applied to PML) combined with counterparty default (technical provisions ceded in reinsurance: -15% and -25% for intra-group reinsurance contracts), non-life claim reserve stress of: +2% per annum (excluding claims in litigation), and 10% stress for claims in litigation. These scenarios have been considered the most appropriate given the relevance of earthquakes and flood for the Romanian insurance sector.
5. Solvency I

5.1 Balance Sheet Review

The BSR has impacted both the assets and liabilities of the balance sheets of the participating undertakings. The total aggregate downward adjustments applied by auditors to total assets amounted to RON 817 million while the total liabilities increased by RON 593 million, out of which RON 517 million was the upward adjustment to technical provisions. Following the adjustments applied by auditors, the aggregated equity of the 13 participating undertakings went down significantly, as it decreased by RON 1.41 billion.

Table 2: BSR adjustments and equity after the BSR by participating undertaking (RON, in thousand)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Adjustments</th>
<th>Equity after BSR adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASTRA</td>
<td>-245,918</td>
<td>-1,002,859</td>
</tr>
<tr>
<td>EUROINS</td>
<td>-682,528</td>
<td>-553,48</td>
</tr>
<tr>
<td>CARPATICA</td>
<td>-290,669</td>
<td>-410,293</td>
</tr>
<tr>
<td>EXIM</td>
<td>-21,373</td>
<td>-2,67</td>
</tr>
<tr>
<td>AXA</td>
<td>-3,717</td>
<td>25,594</td>
</tr>
<tr>
<td>PAID</td>
<td>3,033</td>
<td>27,686</td>
</tr>
<tr>
<td>UNIQA</td>
<td>-29,205</td>
<td>77,778</td>
</tr>
<tr>
<td>ASIROM</td>
<td>-69,361</td>
<td>109,253</td>
</tr>
<tr>
<td>ING</td>
<td>-103</td>
<td>138,34</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>-12,145</td>
<td>160,285</td>
</tr>
<tr>
<td>GENERALI</td>
<td>-971</td>
<td>167,211</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>-56,88</td>
<td>593,415</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>0</td>
<td>664,546</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-1,409,837</td>
<td>-5,194</td>
</tr>
</tbody>
</table>

All participating undertakings, with the exception of ALLIANZ and PAID, had their equity eroded following the adjustments applied by the external auditors. As compared to the Solvency I balance sheets as of June 30, 2014 reported to the ASF, correction of differences and misstatements were necessary for the majority of undertakings in order to determine the correct balance sheet basis for the BSR exercise (i.e. Adjusted Solvency I balance sheet). In case of four participating undertakings, namely ASTRA, CARPATICA, EUROINS and EXIM, the resulting equity is negative. These insurance undertakings had an aggregated negative equity post BSR of RON 1.9 billion. Two of these undertakings were already under recovery procedures (i.e. special administration or financial recovery plan implemented by the management) before the beginning of the BSR.
EUROINS and ASTRA were the participating undertakings with the largest identified deficiencies representing 52% and respectively 29% of the total adjustments applied on assets. These two undertakings had downward adjustments on all assets, except for intangibles and other assets. GROUPAMA, PAID and GENERALI had adjustments only on one asset class (i.e. on receivables for GROUPAMA and PAID and on land and buildings for GENERALI), whereas no further corrections were applied on the total assets of ALLIANZ.

On liabilities, the total adjustments amounted to RON 593 million. CARPATICA and EUROINS’ adjustments represented 45% and respectively 43% of the total corrections on liabilities. EUROINS had adjustments on all technical provisions except for the catastrophe reserve, whereas auditors corrected upwards all technical provisions of CARPATICA except for the Unearned Premium Reserve (UPR) and the catastrophe reserve. No corrections were applied on the technical provisions of ALLIANZ, AXA, GENERALI and ING.

**Assets**

Receivables and the reinsurance share of technical provisions were the items with the highest adjustments made, representing 40% and respectively 37% of the overall assets’ adjustment. Adjustments on the paid-up expenses position represented 11% of the total assets’ adjustment, while subscribed and not paid-up capital represented 7%, land and buildings 2%, financial investments 2% and other assets 1%. 

![Diagram showing the impact of BSR net adjustments and equity after the BSR by participating undertaking (RON, in thousand)](image-url)
The adjustments on receivables derived mostly from corrections on the debts recognized on June 30, 2014 as owed to the undertakings from direct insurance and reinsurance transactions, sub-rogations and intermediaries’ commissions. The undertakings with the most significant adjustments on receivables were ASTRA and EUROINS although corrections on receivables were also made for ASIROM, OMNIA SIG, UNIQA, GROUPAMA, CARPATICA and EXIM.

The main sources of corrections derived from reconciliation differences including originated by business outside Romania for two undertakings (EXIM, ASTRA) not properly recognized in the accounts, cancellation of insurance policies with overdue expiry date and impairments following assessments based on the ageing and recoverability of the outstanding receivables. The review also revealed that aging information available in some participating undertakings lacked reliability and accuracy or showed IT system limitations, namely for EUROINS, CARPATICA, PAID and EXIM.

Regarding the reinsurance share of technical provisions, EUROINS was the participating undertaking with the most significant correction (i.e. RON 259 million). This adjustment reflected the nature of the MPTL reinsurance treaties coverage as of June 30, 2014, which did not entail an effective risk transfer. The participating undertaking signed a new reinsurance contract on 31 December 2014, after the reference date for this exercise (namely June 30, 2014). EUROINS further concluded another reinsurance treaty on 15 May 2015, which, however, was outside the scope of the BSR.
EUROINS was the only participating undertaking with an adjustment on subscribed but not paid-up capital (receivable against the undertaking’s shareholders) resulting from an amount subscribed and paid by the shareholders before the cut-off date for the BSR, but not approved by ASF and registered with the Trade Register Office as of June 30, 2014.

The BSR also brought to the fore potential inappropriate practices in terms of the deferred acquisition costs (DAC) recognized in the non-life balance sheets. DAC comprises the costs arising from the conclusion of insurance contracts. It covers both direct costs (i.e. acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio), and indirect costs (i.e. advertising costs or the administrative expenses for the processing of proposals and the issuing of policies).

Auditors detected in some undertakings a large range of expenses such as rent expenses, professional bodies’ fees, and amortization of tangible and intangible assets that cannot easily be linked with the processing of proposals and the issuing of policies. Further significant adjustments resulted from the calculation of the Unexpired Risk Reserve (URR) taking into account the DAC recoverability. In some cases, the URR and DAC recoverability analysis was done on the total of all lines of business (LoBs) allowing, therefore, inappropriate netting.
Liabilities

Insurance technical provisions were the item with the highest adjustment (RON 517 million or 87% of the aggregated liabilities’ adjustment). The second major adjustment was performed on other provisions, albeit for only one undertaking (i.e. ASTRA). The item "other provisions" for ASTRA increased by RON 95 million as result of a reclassification from Reported RBNS related to a court case. The adjustments on the other payables were mainly the consequence of the corrections made on reinsurance receivables and technical provisions of the different participating undertakings.

Figure 5: Breakdown of the BSR adjustments on liabilities by participating undertaking (RON, in thousand)

Before analyzing the adjustments on the insurance technical provisions, it is important to underline that the review entailed expert judgment in areas such as the nature of liabilities, data quality, assumptions, adequacy of methodologies and risks which materially affect the underlying cash-flows.

On data quality, the conclusion arising from the BSR was that the available data was in some cases incomplete and inaccurate. Main shortcomings concerning the quality of data included: material mistakes, errors and omissions; lack of time consistency of data to a large degree; lack of comprehensive information for all LoBs; insufficient granularity of data to allow the use of adequate actuarial and statistical techniques.

As a result, auditors were required in some cases to use expert judgment to compensate for data inadequacies making transparent the uncertainty surrounding their expert judgment by including in their reports details on the context of their judgment, its scope, basis and limitations. This was particular true for the assessment of the adequacy of non-life RBNS and IBNR which entailed the most significant adjustments.
The high adjustment of the non-life technical provisions (RON 517 million) points to a potential significant under-provisioning in some participating undertakings namely in EUROINS and CARPATICA.

Figure 6: Breakdown of the non-life technical provisions’ adjustments by participating undertaking (RON, in thousand)

RBNS was the technical provision with the highest adjustment (RON 332 million or 64% of the total adjustment in technical provisions). EUROINS and CARPATICA were the undertakings with the most significant adjustments stemming from the underlying data quality, availability, completeness and accuracy as well as the review of the appropriateness of the methodologies used for the calculation of technical provisions.

In the case of EUROINS, the auditor identified a pattern of missing (non-recorded) claims files, especially MTPL both for material damage and bodily injury claims, for which subsequent payments were detected without proper provisioning as of June 30, 2014. The identified delays in payment from notification date range between 24 and 30 months. The impact of the identified pattern on the claims reserve was estimated to RON 239 million and booked in the Solvency I balance sheet as an adjustment.

For CARPATICA, data quality, availability, completeness and accuracy was also an issue namely regarding the system’s information on the amounts of initially set-up claims reserves, payments, RBNS increases/decreases, RBNS updates and status of claims files, which potentially impairs the adequate use of actuarial and statistical techniques. Based on an inventory process performed by the undertaking rolled backwards to June 30, 2014, the most likely deficiency amounted to RON 80 million. Given the data quality shortcomings and the fact that IBNR was calculated on a best estimate basis using a ten years history, the external auditor assumed that the
IBNR’s estimate would cover further deficiencies in RBNS not identified at claims file level. However, the assessment of claims in litigation (where claims files in litigation were missing from the reserving and the amount of the reserves was in average lower by 10% compared to the amount in litigation) and a back testing per insurance class indicated that the RBNS deficiency can potentially reach RON 104 million. Out of this amount, RON 99 million relates to MTPL.

Besides the above concrete under-provisioning cases, in terms of general market practices on RBNS, the BSR identified deficiencies regarding the RBNS’ assumptions used for claims files for which the benefit is paid under the form of an annuity. For example, the discounting rates taken into consideration were too high compared to the actual yields on the financial market.

The BSR further indicated that there were also under-provisioning cases for IBNR (aggregated adjustment of RON 225 million or 19% of the total adjustment in technical provisions). The BSR revealed that some undertakings’ approach is solely to fulfill minimal local requirements regardless of the provisions of the Law the 32/2000 on insurance activities and insurance supervision, which also transposed the European Directives that require the sufficiency of estimates. This approach potentially leads to under-provisioning namely for IBNR in MTPL where: five years history without any tail factor does not reflect properly the development of bodily injury. The calculations are only based on incurred claims triangles and the large claims above 97.5% percentile are excluded. Furthermore, there is no explicit calculation for large claims and for annuities and there are aggregated annuities and non-annuities claim triangles which may potentially skew the development pattern.

The participating undertaking with the highest IBNR adjustment was CARPATICA. The external auditor re-projected the IBNR reserve level leveraging on SII but excluding discounting and including unallocated loss adjusted expenses and allowance for subrogation and salvages. The total adjustment was an IBNR increase of RON 161 million. The second highest adjustment was performed on the balance sheet of ASIROM, namely RON 40 million. The rationale for the adjustment— also applicable to other participating undertakings - was mainly supported by the placing, as previously explained, of the IBNR’s threshold on the sufficiency of technical provisions instead of on the sole compliance with the minimal local requirements.

On catastrophe reserve, the only participating undertaking which had an adjustment was ASTRA. This adjustment was a release of RON 135 million due to the reduction in retention limit as well as a review of the calculation method.

The Unexpired Risk Reserve (URR) aggregated adjustment was of RON 100 million mainly driven by the incorrect application by the undertakings of the local regulation namely that for the computation of the URR where DAC should be taken into account and calculated at the level of each line of business. In case of a deficit, the resulting URR should be booked. The participating undertaking with the higher adjustment (88% of the total adjustment) was ASTRA.

The Unearned Premium Reserve (UPR) adjustment was a decrease of RON 5 million. This downward adjustment reflected a netting of the different adjustments performed in the participating undertakings mainly resulting from computation errors.
5.2 System of Governance

Due to the very strong link between the financial and solvency position of undertakings and their system of governance, the BSR also entailed a walkthrough of the controls in place aiming an overall overview of their effectiveness. Auditors identified a significant number of deficiencies in terms of the undertakings’ system of governance mainly regarding risk management. The more relevant deficiencies reflected in the findings refer to the lack of appropriate internal controls to maintain sufficient technical provisions and capital commensurate with the undertaking’s risk position and profile.

In general, the conclusion was that several undertakings need to revisit their risk framework and strategy to manage risks and support effective decision making.

5.3 Prudential indicators

The significant adjustments carried out and the consequently capital depletion of the participating undertakings had a direct impact in terms of the coverage of the solvency margin and guarantee fund.\(^2\)

Table 3: Coverage of the adjusted Life and Non-Life Solvency Margin and Minimum Guarantee Fund after the BSR, by participating undertaking (RON, in thousand)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Available Solvency margin</th>
<th>Required Solvency Margin</th>
<th>Minimum Guarantee Fund</th>
<th>% Solvency ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Life</td>
<td>Non-Life</td>
<td>Life</td>
<td>Non-Life</td>
</tr>
<tr>
<td>ASTRA</td>
<td>23.778</td>
<td>-1.029.082</td>
<td>3.316</td>
<td>144.771</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>62.351</td>
<td>598.81</td>
<td>14.953</td>
<td>149.657</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>194.128</td>
<td>153.176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>78.524</td>
<td>108.624</td>
<td>23.74</td>
<td>127.343</td>
</tr>
<tr>
<td>UNIQA</td>
<td>69.734</td>
<td>55.577</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ING</td>
<td>132.889</td>
<td>95.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASIROM</td>
<td>68.671</td>
<td>32.203</td>
<td></td>
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</tr>
<tr>
<td>EURGINS</td>
<td>-554.284</td>
<td>65.735</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CARPatica</td>
<td>-410.769</td>
<td>64.92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GENERALI</td>
<td>43.927</td>
<td>120.335</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAID</td>
<td>26.564</td>
<td>20.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AXA</td>
<td>20.517</td>
<td>6.179</td>
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</tr>
<tr>
<td>EXIM</td>
<td>-3.837</td>
<td>3.797</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>430.656</td>
<td>-847.57</td>
<td>171.447</td>
<td>929.613</td>
</tr>
</tbody>
</table>

\(^2\) The solvency ratio is calculated considering as capital requirement the higher between the solvency margin requirement and the minimum guarantee fund requirement.
Following the BSR, the aggregated (life and non-life) available solvency margin is negative (RON 417 million) as compared to the aggregated solvency requirements of RON 1.1 billion. The negative solvency margin stems from the non-life business deficit. The required minimum solvency margin for the life business is above the regulatory minimum requirement (aggregated surplus of RON 229 million) for all participating undertakings. The insurance undertakings with the lowest buffers are ASTRA and AXA, with surpluses amounting to RON 7 and respectively 4 million.

The aggregated available solvency margin for the non-life business is negative (a deficit of RON 848 million) as compared to an aggregated solvency requirement of RON 942 million. This significant deficit results from the combined shortfall of six participating undertakings (i.e. ASTRA, GROUPAMA, ASIROM, EUROINS, CARPATICA and EXIM) amounting to RON 2.4 billion. Both GROUPAMA and ASIROM have a solvency ratio higher than 100% at composite level. ASTRA, EUROINS and CARPATICA’s shortfalls correspond to 96% of the total shortfall.

Table 4: Coverage of technical provisions by admissible assets, by participating undertaking (RON, in thousand)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Coverage of technical provisions by admissible assets</th>
<th>% Coverage of technical provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Admissible assets</td>
<td>Technical provisions</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>Non-Life</td>
</tr>
<tr>
<td>ASTRA</td>
<td>28.947</td>
<td>237.958</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>424.673</td>
<td>1,189.843</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>1,216.779</td>
<td>91.869</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>174.384</td>
<td>794.713</td>
</tr>
<tr>
<td>UNIQA</td>
<td>685.998</td>
<td>584.147</td>
</tr>
<tr>
<td>ING</td>
<td>2,676.910</td>
<td>2,630.641</td>
</tr>
<tr>
<td>ASIROM</td>
<td>262.413</td>
<td>717.532</td>
</tr>
<tr>
<td>EUROINS</td>
<td>290.533</td>
<td>711.912</td>
</tr>
<tr>
<td>CARPATICA</td>
<td>251.782</td>
<td>640.895</td>
</tr>
<tr>
<td>GENERALI</td>
<td>242.784</td>
<td>814.399</td>
</tr>
<tr>
<td>PAID</td>
<td>78.959</td>
<td>66.096</td>
</tr>
<tr>
<td>AXA</td>
<td>120.423</td>
<td>92.482</td>
</tr>
<tr>
<td>EXIM</td>
<td>79.515</td>
<td>68.236</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,930.536</strong></td>
<td><strong>6,358.012</strong></td>
</tr>
</tbody>
</table>

Following the BSR, the aggregated (life and non-life) admissible assets (RON 10.3 billion) are insufficient to cover the adjusted technical provisions (RON 10.7 billion) leading to a net aggregated shortfall of RON 436 million. ASTRA is the undertaking with the highest deficit (i.e. RON 914 million), showing insufficient admissible assets to cover both the life and non-life insurance commitments. The remaining undertakings
with insufficient admissible assets to cover the adjusted technical provisions, namely EUROINS and CARPATICA, recorded a combined deficit of RON 811 million.
6. Solvency II and Stress Test

6.1 SII Balance sheet (pre-stress)

In order to provide both the ASF and the participating undertakings with information on the level of preparedness for the introduction of the Solvency II regime which will enter into force in January 2016, auditors prepared in liaison with the participating undertakings a Solvency II Balance Sheet.

As a result of the Solvency II valuation framework, the total assets and liabilities in aggregated terms decreased by around 16% and respectively, 17%. The Solvency II total assets of the 13 participating insurance undertakings amounted to RON 10.8 billion by approximately RON 2.1 billion lower than the total assets under the Adjusted Solvency I balance sheets.

At individual level, twelve out of the 13 participating insurance undertakings (with exception of ING) had the total assets diminished under Solvency II as compared to the adjusted values of assets under Solvency I. ING has an increase of 1% in the value of assets. The highest shortfall of total assets under Solvency II are observed for OMNIASIG (-41%), ASTRA (-33%), ASIROM (-26%), GROUPAMA (-22%) and CARPATICA (-19%).

**Figure 7**: Net asset value in the Adjusted Solvency I and Solvency II Balance Sheets, by participating undertaking (RON, in thousand)

[Chart showing net asset value comparison]

The total liabilities of the 13 insurance undertakings amounted to RON 10.8 billion and decreased by roughly RON 2.1 billion, mainly due to the reduction by 24% of the non-life aggregated technical provisions. Twelve out of the 13 participating insurance undertakings (with exception of AXA) had the total liabilities diminished under Solvency II as compared to the adjusted values of liabilities under Solvency I. AXA has an increase of 17% in the liabilities value. The highest shortfall of total liabilities under Solvency II are observed for OMNIASIG (-33%), GROUPAMA (-33%), ALLIANZ (-31%), ASIROM (-25%) and GENERALI (-22%).

The aggregated net asset value amounted to approximately RON 37 million which is an improvement as compared to the negative Solvency I adjusted equity of RON 5 million. ING, GENERALI, ALLIANZ, and
GROUPAMA were the participating undertakings with a more significant increase in the net asset value. These four insurance undertakings had a combined surplus of RON 1.7 billion. The participating undertakings with the highest decreases in the net asset value were OMNIA SIG and ASTRA.

Under the Solvency II regime, ASTRA, EUROINS, CARPATICA, AXA and EXIM would have an aggregated deficit of assets over liabilities of RON 2.1 billion. The remaining eight undertakings registered an excess of assets over liabilities of RON 2.14 billion. As a total, the excess of assets over liabilities is of 0.3% for all 13 participant undertakings.

**Figure 8:** Breakdown of assets and liabilities in the adjusted Solvency I and Solvency II Balance Sheets by participating undertaking (RON, thousand)

![Breakdown of assets and liabilities](image)

**Assets**

In terms of assets, the participating undertakings with the most significant decreases as compared to their total assets under Solvency I were OMNIA SIG, ASIROM, GROUPAMA, ALLIANZ and ASTRA (90% of the total decrease). The main drivers of this reduction were the valuation at zero of goodwill and other intangibles in line with the Solvency II valuation standards, de-recognition of DAC, recalculation of the reinsurance recoverables with the best estimate (BE) of technical provisions and the fair value valuation of investments. The valuation at zero of goodwill had a significant impact for OMNIA SIG.

**Liabilities**

The aggregated net decrease of liabilities (RON 2.14 billion) was driven by the reduction of the amount of technical provisions. In aggregated terms, technical provisions have declined by RON 1.96 billion.
The non-life business had the major impact with a reduction of approximately RON 1.7 billion. In all undertakings, with the exception of ASTRA which showed a slight increase, the non-life technical provisions decreased. The main drivers reflected the Solvency II economic valuation that in comparison with Solvency I uses discounting (impact namely on the long-tail lines of business), absence of implicit margins of prudence, recognition of anticipated profits on unearned premiums and removal of the equalization provision.

The impact in terms of the life technical provisions was a decrease of RON 235 million. In contrast with the non-life business, discounting had the more significant impact. A detailed analysis of the risk profile and situation of the different participating undertakings pre and post stress follows below.

6.2 Stress test scenarios results

The stress test was the second main component of the exercise which aimed to assess the financial vulnerability of the participating undertakings and the individual exposure to failure. As described in the methodological overview, the stress test included two different insurance and economic scenarios. The insurance specific scenarios were an earthquake scenario (scenario EQ) and a flood scenario (scenario FL), triggered by the seismic risk for Romania and the extreme weather event that struck Romania in late June 2010, combined with simultaneous shocks to three variables, namely reinsurance default, future claim inflation (excluding claims in litigations) and claims in litigation.

The insurance stresses were carried out in isolation from the economic stresses. Life and non-life stresses were covered separately in the form of a set of single risk factor tests. The baseline starting point was the Solvency II balance sheet at June 30, 2014. The SCR calculations were performed in accordance with the most recent state of knowledge / parameterizations as described by the DA supplementing the SII Directive and EIOPA TS. For most life insurance companies, the loss absorbing effect of technical provisions was taken into account except for GENERALI for which, however, it was considered that it would not have had a material effect on the results. The loss absorbing effect of deferred tax assets (DTA) was not considered. Some approximations were used especially due to the exercise’s time constraints and due to the lack or incompleteness of data in some cases. The use of these simplifications is not considered to have a material impact on the results.

Each scenario is dealt with in the following sections. The starting point (pre-stress situation) is also presented and an evaluation of the pre-stress balance sheets, available assets and liabilities, eligible own funds and SCR and MCR cover is provided. Appendix 6 includes financial and solvency data by participating undertaking.

6.2.1 Pre-stress situation

6.2.1.1 Asset profile

The analysis of the participating undertakings’ total assets shows that a significant part of investments fall into the categories of fixed income (46% of the total assets excluding DTA and reinsurance receivables). The government bonds (i.e. RON 3.9 billion) and corporate bonds (i.e. RON 552 million) were subject to interest and spread sensitive stresses.
The amount of other assets including receivables is RON 1.3 billion. Participating undertakings with significant weight in other assets including receivables include ASTRA (52% of total assets), UNIQA (38%), EUROINS (31%), ASIROM (17%), CARPATICA (12%, but no fixed income assets), GROUPAMA (9%) and OMNIASIG (5%). In the case of ASTRA, the high weight of receivables coupled with property investments indicates that the largest proportion of assets is not in liquid investments meaning that the undertaking has an extremely low liquidity buffer.

Investment funds are another example of a potential target for further review especially considering that sufficient information was not available in all cases to do a look-through approach. In such cases simplifications for the purpose of the stress test were used.

Strategic participations are less relevant in aggregate terms, but they have a significant impact for one participating undertaking (ALLIANZ) representing 37% of total assets with a significant impact in terms of own funds and SCR ratio (concentration and equity risk).

**Figure 9: Aggregated asset structure**

![Asset structure (market value)](image)

The figure below shows the core sample corporate bonds exposures across credit quality classes for the total participating undertakings.
For the participating insurance undertakings, 61% of corporate bonds exposures are concentrated in the area of lower ratings of investment grades (BBB and A) and 32% of corporate bond exposures have rating BB considered as a speculative grade.

6.2.1.2 Liability profile

The major part of the technical provisions is represented by the non-life technical provisions. For non-life insurance, about 62% of technical provisions are in MPTL. The second and third highest exposures are for the classes Other Motor Insurance (around 21% of technical provisions) and Fire/ Property (around 9%). Although not having a significant weight overall, credit and suretyship is the most significant line of business for EXIM (68% exposure) followed by general liability insurance (18%) and workers’ compensation (12%).
For life insurance, 59% of the overall life business consists of unit linked exposure. Traditional business has also a significant weight in particular for ASTRA, ASIROM, AXA, GENERALI and GROUPAMA.

### Figure 11: Aggregated liability structure non-life (Solvency II technical provisions)

![Liability structure Non-Life (market value)](image)

### Figure 12: Aggregated liability structure Life (Solvency II technical provisions)

![Liability structure Life (market value)](image)

#### 6.2.1.3 Own Funds

Overall, the capitalisation is not high quality and hence indicates an insufficient loss absorbing capacity. Unrestricted Tier 1 own funds are negative in around RON 42 million, restricted Tier 1 own funds amount to RON 67 million, Tier 2 own funds amount to RON 59 million and Tier 3 own funds to RON 90 million.
The DTA position of RON 91 million resulted in RON 79 million of Tier 3 own funds (after netting with deferred tax liabilities - DTL). The participating undertakings recognising DTA positions were CARPATICA (RON 43 million), UNIQA (RON 35.5 million resulting in RON 24 million of Tier 3 own funds), ASIROM (RON 10.3 million) and EXIM (RON 1.6 million).

Subordinated debt positions classified after the application of the transitional measures ("grandfathering") corresponded to RON 67 million in restricted Tier 1 own funds, RON 59 millions in Tier 2 and RON 17 million in Tier 3 own funds. The undertakings with subordinated debt classified on the basis of transitional measures were OMNIASIG (RON 55 million of Tier 3 with RON 38.3 million classified as Tier 2 and the remaining RON 16.7 million as Tier 3), GROUPAMA (RON 53 million of Tier 2 nature classified in Tier 1 restricted) and ASIROM (RON 35.5 million of Tier 2 nature classified RON 14.9 million in restricted Tier 1 and RON 20.6 million in Tier 2). No Ancillary Own Funds were considered.

**Figure 13: Aggregated structure of Own Funds (RON million)**

6.2.1.4 SCR and MCR

In addition to the analysis of the possible exposure of the participating undertakings based on their asset profile, the exercise aimed to examine the participating undertakings’ loss absorbing capacity. Therefore, to measure and compare the impact of the different stresses changes in solvency and capital positions serve as benchmark.
On June 30, 2014, the aggregated SCR ratio was only 3.2% and the aggregated MCR ratio was 3.3%. ASTRA, CARPATICA and EUROINS, AXA and EXIM have negative own funds.

The total available own funds eligible to cover the SCR for the 13 participating insurance undertakings amounted to RON 174 million as of June 30, 2014, whereas the aggregated SCR stood at RON 5.4 billion. ASTRA, AXA, CARPATICA, EUROINS and EXIM would have SCR ratios below 0%, GROUPAMA and UNIQA SCR ratios ranging between 0%-50%, ASIROM and PAID SCR ratios between 50%-100%, ALLIANZ and OMNIA SIG SCR ratios between 100% -150% and last, but not least, GENERALI and ING SCR ratios exceeding 150%. ASTRA, EUROINS and CARPATICA had the highest shortfalls amounting to RON 5.26 billion. Only ALLIANZ, ING, GENERALI AND OMNIA SIG would have sufficient own funds to cover the SCR.

### Table 5: SCR and MCR coverage, by participating undertaking (RON million)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Excess of assets over liabilities</th>
<th>Total OF</th>
<th>Eligible OF to meet the SCR</th>
<th>Eligible OF to meet the MCR</th>
<th>SCR</th>
<th>MCR</th>
<th>SCR coverage</th>
<th>MCR coverage</th>
<th>SCR ratio</th>
<th>MCR ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASTRA</td>
<td>-1,131</td>
<td>-1,131</td>
<td>-1,131</td>
<td>-1,131</td>
<td>2,640</td>
<td>673</td>
<td>-3,771</td>
<td>-1,805</td>
<td>-43%</td>
<td>-168%</td>
</tr>
<tr>
<td>EUROINS</td>
<td>-574</td>
<td>-574</td>
<td>-574</td>
<td>-574</td>
<td>290</td>
<td>84</td>
<td>-864</td>
<td>-658</td>
<td>-198%</td>
<td>-684%</td>
</tr>
<tr>
<td>CARPATICA</td>
<td>-378</td>
<td>-378</td>
<td>-383</td>
<td>-421</td>
<td>251</td>
<td>93</td>
<td>-634</td>
<td>-514</td>
<td>-153%</td>
<td>-451%</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>236</td>
<td>288</td>
<td>288</td>
<td>288</td>
<td>671</td>
<td>172</td>
<td>-383</td>
<td>116</td>
<td>43%</td>
<td>167%</td>
</tr>
<tr>
<td>UNIQA</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>66</td>
<td>188</td>
<td>47</td>
<td>-98</td>
<td>19</td>
<td>48%</td>
<td>140%</td>
</tr>
<tr>
<td>EXIM</td>
<td>-8</td>
<td>-8</td>
<td>-8</td>
<td>-10</td>
<td>61</td>
<td>16</td>
<td>-70</td>
<td>-26</td>
<td>-14%</td>
<td>-62%</td>
</tr>
<tr>
<td>ASIROM</td>
<td>70</td>
<td>105</td>
<td>105</td>
<td>87</td>
<td>147</td>
<td>62</td>
<td>-42</td>
<td>24</td>
<td>71%</td>
<td>139%</td>
</tr>
<tr>
<td>AXA</td>
<td>-13</td>
<td>-13</td>
<td>-13</td>
<td>-13</td>
<td>19</td>
<td>16</td>
<td>-32</td>
<td>-29</td>
<td>-68%</td>
<td>-79%</td>
</tr>
<tr>
<td>PAID</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>49</td>
<td>12</td>
<td>-3</td>
<td>33</td>
<td>93%</td>
<td>374%</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>223</td>
<td>278</td>
<td>278</td>
<td>235</td>
<td>206</td>
<td>60</td>
<td>71</td>
<td>175</td>
<td>134%</td>
<td>392%</td>
</tr>
<tr>
<td>GENERALI</td>
<td>315</td>
<td>315</td>
<td>315</td>
<td>315</td>
<td>194</td>
<td>64</td>
<td>121</td>
<td>250</td>
<td>162%</td>
<td>491%</td>
</tr>
<tr>
<td>ING</td>
<td>312</td>
<td>312</td>
<td>312</td>
<td>312</td>
<td>132</td>
<td>46</td>
<td>180</td>
<td>266</td>
<td>237%</td>
<td>682%</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>850</td>
<td>850</td>
<td>850</td>
<td>850</td>
<td>595</td>
<td>154</td>
<td>256</td>
<td>696</td>
<td>143%</td>
<td>552%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>37</strong></td>
<td><strong>180</strong></td>
<td><strong>174</strong></td>
<td><strong>49</strong></td>
<td><strong>5,444</strong></td>
<td><strong>1,500</strong></td>
<td><strong>-5,270</strong></td>
<td><strong>-1,451</strong></td>
<td><strong>153%</strong></td>
<td><strong>552%</strong></td>
</tr>
</tbody>
</table>
The total eligible own funds to cover the MCR stood at RON 49 million and the aggregated MCR at the reference date amounted to RON 1.5 billion. ASTRA, AXA, CARPATICA, EUROINS and EXIM would have MCR ratios of below 0%, ASIROM and UNIQA MCR ratios ranging between 100%-150%, whereas the MCR ratios of ALLIANZ, GENERALI, GROUPAMA, ING, OMNIA SIG and PAID would exceed 150%. The aggregated shortfall alone of ASTRA, EUROINS and CARPATICA amounted to RON 2.98 billion.

The graph below shows the distribution of the SCR and MCR coverage ratios in five different groups: below %, between 0%-50%, between 50%-100%, between 100%-150% and above 100%.

Figure 15: Distribution of SCR and MCR ratios

If ASTRA, CARPATICA and EUROINS were excluded from the sample, the SCR and MCR coverage ratios would increase significantly to 100% and respectively 335%, a comfortable range for the MCR coverage ratio.

6.2.1.5 Risk profile

As technical provisions are dominated by the non-life business, the non-life module is the main driver (exposure of RON 4.3 billion) followed by market risk (RON 880 million) and counterparty default (RON 506 million). Hence, the insurance-specific stresses are expected to drive the biggest impact. More than 50% of the non-life exposure can be explained by a single exposure of ASTRA that is not reinsured against a catastrophic loss. The premium/reserve risk would be the highest, if ASTRA’s exposure were to be excluded.

As regards ASTRA’s liabilities, there is significant under-reinsurance resulting from an exposure to man-made risk of at least RON 2.5 billion and insufficient reinsurance for natural catastrophe risk. The latter resulting from an earthquake gross exposure of RON 1.5 billion and a reinsurance capacity of EUR 265 million as well as flood exposure with reinsurance capacity limited to EUR 20 million. ASTRA also shows a substantial exposure to aviation risk of RON 4.1 billion.
A potential insufficient level of reinsurance for earthquake was also identified in GROUPAMA. EXIM has also a significant exposure to catastrophic risk in related to unmitigated risk in the credit and suretyship line of business, for which it is considered that the reinsurance program is inefficient. For the remaining participating undertakings, the reinsurance coverage for catastrophic risk was in general considered appropriate.
Within the market risk module, the concentration risk (RON 484 million), the equity risk (RON 234 million) and the currency risk (RON 197 million) have the biggest impact on the SCR.

Both the equity risk and concentration risk were strongly driven by the strategic participations of ALLIANZ. ALLIANZ has a very high exposure amounting to RON 528 million (about 60% of own funds), in the pension company Allianz-Tiriac Pensii Private (strategic participation), a business related to the 2nd pillar of the Romanian pension system, potentially exposed to legislative risk. The exclusion of this participation would significantly deteriorate the undertaking’s solvency position compared to the current calculation as the impact on own funds would be much higher than on SCR.

Life underwriting risks have a relatively low contribution to the overall aggregated SCR. The highest exposures within this module are lapse and expenses risks.
6.2.2 Post stress situation

6.2.2.1 Scenario EQ: Evolution under a possible earthquake

The magnitude of the scenarios is described in section 6.2. The earthquake scenario leads to a decrease in the value of eligible own funds from RON 174 million to RON -3.7 billion, with an increase in SCR from RON 5.4 billion to RON 6.4 billion. Due to its geography, the high exposure to earth-quake risk is a particularity for Romania, and it was expected that the stress test results would confirm this. As a result, the quality of the reinsurance coverage is very important for the Romanian insurance undertakings.

ASTRA and GROUPAMA have the most severe losses (an aggregated amount of RON 5.64 billion or 57% of the total shortfall due to under-reinsurance. However, this scenario is severe for all undertakings and none
(except for ING which has no non-life business) remain solvent. Most participating undertakings (ASTRA, GROUPAMA, EUROINS, OMNIA SIG, CARPATICA, ASIROM, PAID, UNIQA, GENERALI, EXIM, and AXA) have negative own funds.

**Figure 21:** Scenario EQ - Aggregated Eligible Own Funds vs SCR (RON million)

![Insurance scenario EQ: EOF vs SCR (RON million)](image)

**Table 6:** Scenario EQ - Aggregated Eligible Own Funds vs SCR by participating undertaking (RON million)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Scenario EQ - with earthquake</th>
<th>Eligible OF to meet the SCR</th>
<th>SCR</th>
<th>Surplus/Shortfall</th>
<th>SCR ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASTRA</td>
<td></td>
<td>-1,683,766</td>
<td>2,728,239</td>
<td>-4,412,005</td>
<td>-62%</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td></td>
<td>-430,632</td>
<td>801,496</td>
<td>-1,232,128</td>
<td>-54%</td>
</tr>
<tr>
<td>EUROINS</td>
<td></td>
<td>-622,681</td>
<td>303,378</td>
<td>-926,059</td>
<td>-205%</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td></td>
<td>-437,578</td>
<td>443,903</td>
<td>-881,481</td>
<td>-99%</td>
</tr>
<tr>
<td>CARPATICA</td>
<td></td>
<td>-429,548</td>
<td>257,541</td>
<td>-687,090</td>
<td>-167%</td>
</tr>
<tr>
<td>ASIROM</td>
<td></td>
<td>-235,544</td>
<td>236,785</td>
<td>-472,330</td>
<td>-99%</td>
</tr>
<tr>
<td>PAID</td>
<td></td>
<td>-241,522</td>
<td>157,166</td>
<td>-398,688</td>
<td>-154%</td>
</tr>
<tr>
<td>UNIQA</td>
<td></td>
<td>-131,107</td>
<td>238,444</td>
<td>-369,552</td>
<td>-55%</td>
</tr>
<tr>
<td>GENERALI</td>
<td></td>
<td>-43,074</td>
<td>315,997</td>
<td>-359,071</td>
<td>-14%</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td></td>
<td>411,627</td>
<td>709,445</td>
<td>-297,818</td>
<td>58%</td>
</tr>
<tr>
<td>EXIM</td>
<td></td>
<td>-17,072</td>
<td>62,942</td>
<td>-80,014</td>
<td>-27%</td>
</tr>
<tr>
<td>AXA</td>
<td></td>
<td>-12,822</td>
<td>18,866</td>
<td>-31,688</td>
<td>-68%</td>
</tr>
<tr>
<td>ING</td>
<td></td>
<td>312,120</td>
<td>131,962</td>
<td>180,159</td>
<td>237%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>-3,561,600</strong></td>
<td><strong>6,406,164</strong></td>
<td><strong>-9,967,764</strong></td>
<td></td>
</tr>
</tbody>
</table>
The highest impact factor apart from the above mentioned under-reinsurance of ASTRA and GROUPAMA was the reduction in ceded claim reserves due to assumed defaults of reinsurers as defined in the stress test. Even the participating undertakings that had full reinsurance protection against earthquake suffered significant losses related to a decrease in ceded claim reserves due to the interaction between natural catastrophe risk and reinsurance default risk. The scenario penalized the subsidiaries of international groups with significant “intragroup reinsurance” (for instance, ASIROM). Having a reinsurance default factor in the methodology is something common for insurance stress tests. *Per se*, the impact calculated under the reinsurers default component of the stress test does not necessarily imply that reinsurance contracts would not be adequate or that the reinsurers of the participating undertakings would not be reliable. Instead, the role of this stress test component is to allow for a better understanding of the dependence of each undertaking on reinsurance in case of a seismic event.

The impact of litigation and inflation stress was in general limited with some exceptions as, for example, for EUROINS as the inflation stress was the main driver.

**Figure 22**: Scenario EQ - Aggregated evolution of the Eligible Own Funds by stress parameter (RON million)

![Insurance scenario EQ: evolution of EOF (RON million)]

### 6.2.2.2 Scenario FL: Evolution under a possible flood

The insurance flood scenario leads to a decrease in the value of eligible own funds from RON 174 million to RON -909 million, with an increase in SCR from 5.4 billion to RON 5.6 billion.

The flood scenario is less severe as compared to the earthquake scenario. However, still only three insurance undertakings (ING, ALLIANZ and GENERALI) have a SCR ratio above 100%. Eight participating undertakings (ASTRA, EUROINS, CARPATICA, UNIQA, ASIROM, PAID, EXIM and AXA) have negative own funds.
The main factors remain the default of reinsurers for all participating undertakings and inadequate reinsurance cover for ASTRA as its shortfall represents 63% of the aggregated shortfall. As for the scenario EQ, the impact of litigation and inflation stress was in general limited.
6.2.2.3 Insurance scenarios: overall comparison between scenario EQ and scenario FL

The insurance scenario EQ produces the most significant increase in the number of participating undertakings which have negative own funds, from nine (pre-stress) to 12 (under scenario EQ), with the median solvency ratio below -50%. For the scenario FL, the solvency is also significantly lower than in the base case with only the three above mentioned participating undertakings fulfilling the SCR.
The impact of the insurance scenarios on gross technical reserves is observed via an increase in the gross claims reserve in Fire/Property line of business where the claims related to natural catastrophe are allocated. In these scenarios, gross reserves increase more than ceded reserves in these scenarios which is an effect of assumed reinsurance default.

Figure 27: Insurance scenarios: Change in Non-Life technical provisions (RON million)
6.2.2.4 Economic scenarios: Evolution under a RON appreciation (Scenario AP) and a RON depreciation (Scenario DEP)

Both economic scenarios have similar effect on the Solvency II position. The aggregated value of own funds declines from RON 174 million to RON -392 million in the scenario AP and to RON -304 million in the scenario DEP. Furthermore, the SCR decreases from RON 5.4 billion to RON 5.35 billion in the scenario AP and to RON 5.2 billion in the scenario DEP. As a result of the economic stress scenarios, the SCR ratio would decline to -7.3% in the scenario AP and -5.9% in the scenario DEP.

The participating insurance undertakings are, however, less sensitive to financial markets stress scenarios, in comparison with the insurance scenarios. For both the stress scenario with RON appreciation (scenario AP) and RON depreciation (scenario DEP), eight insurance undertakings (ALLIANZ, GENERALI, ING, OMNIASIG, PAID, ASIROM, UNIQA and GROUPAMA) have SCR ratios above 100%. The other five participating undertakings (ASTRA, EUROINS, CARPATICA, EXIM and AXA) do not meet capital requirements, as they have...
negative own funds. Both in the scenario AP and scenario DEP, ASTRA is the undertaking with the highest shortfall representing respectively 69% and 66% of the aggregated shortfall.

**Table 8:** Economic scenarios - Aggregated Eligible Own Funds vs SCR by participating undertaking (RON million)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Scenario AP - with RON appreciation</th>
<th>SCR</th>
<th>Surplus/Shortfall</th>
<th>SCR ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible OF to meet the SCR</td>
<td>2,616,491</td>
<td>2,616,491</td>
<td>-3,772,807</td>
<td>-44%</td>
</tr>
<tr>
<td>ASTRA</td>
<td>1,156,316</td>
<td>1,156,316</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>EUROINS</td>
<td>595,316</td>
<td>595,316</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>CARPATICA</td>
<td>392,304</td>
<td>392,304</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>74,839</td>
<td>74,839</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>UNIQA</td>
<td>68,820</td>
<td>68,820</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>ASIROM</td>
<td>8,751</td>
<td>8,751</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>EXIM</td>
<td>44,706</td>
<td>44,706</td>
<td>-886,636</td>
<td>-204%</td>
</tr>
<tr>
<td>AXA</td>
<td>249,646</td>
<td>249,646</td>
<td>40,351</td>
<td>119%</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>232,777</td>
<td>232,777</td>
<td>99,298</td>
<td>174%</td>
</tr>
<tr>
<td>GENERALI</td>
<td>310,677</td>
<td>310,677</td>
<td>110,994</td>
<td>156%</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>604,604</td>
<td>604,604</td>
<td>148,418</td>
<td>133%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-304,097</td>
<td>5,176,947</td>
<td>-5,481,043</td>
<td>-100%</td>
</tr>
</tbody>
</table>
The economic stress scenarios do not produce any changes in the number of participating undertakings which fail to meet the SCR in the pre-stress. However, the median SCR ratio decreases from 48% under the base scenario to 44% under the RON depreciation scenario.

**Figure 30:** Statistics of aggregated SCR ratios for economic scenarios

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Scenario DEP - with RON depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Eligible OF to meet the SCR</td>
</tr>
<tr>
<td>Astra</td>
<td>-1,146,842</td>
</tr>
<tr>
<td>Euroins</td>
<td>-619,942</td>
</tr>
<tr>
<td>Carpatica</td>
<td>-392,398</td>
</tr>
<tr>
<td>Groupama</td>
<td>260,329</td>
</tr>
<tr>
<td>Uniqa</td>
<td>83,551</td>
</tr>
<tr>
<td>Asirom</td>
<td>65,929</td>
</tr>
<tr>
<td>EXIM</td>
<td>-8,444</td>
</tr>
<tr>
<td>AXA</td>
<td>-23,198</td>
</tr>
<tr>
<td>Paid</td>
<td>41,993</td>
</tr>
<tr>
<td>Omniasig</td>
<td>252,256</td>
</tr>
<tr>
<td>Generali</td>
<td>264,797</td>
</tr>
<tr>
<td>ING</td>
<td>232,135</td>
</tr>
<tr>
<td>Allianz</td>
<td>597,679</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-392,156</td>
</tr>
</tbody>
</table>

(million RON)
The stress test revealed a relative immunity of the participating undertakings to the economic stresses, which can be explained by a high share of non-life business with limited equity and loan exposures which are penalized most in the economic stress.

**Figure 31:** Economic scenarios: Distribution of SCR ratios

**Figure 32:** Economic scenarios: Change in Non-Life technical provisions (RON million)
Figure 33: Economic scenarios: Change in Life technical provisions by LoB (RON million)

Figure 34: Economic scenarios: Change in Assets by asset type (RON million)
7. Follow-up Actions

7.1 Solvency I

The results of the BSR have revealed several shortcomings which need to be addressed by the participating insurance undertakings through the implementation of follow-up measures aimed to restore a sound solvency position or remedy other deficiencies identified by the external auditors. As previously mentioned, following the re-computation of prudential indicators based on the Adjusted Solvency I Balance Sheet by end-June 2014, the participating insurance undertakings were classified in the following groups:

1) *Group 1 insurers*: insurance undertakings with negative equity: ASTRA, CARPATICA, EUROINS and EXIM;

2) *Group 2 insurers*: insurance undertakings breaching the minimum guarantee fund: ASTRA, CARPATICA, EUROINS and EXIM;

3) *Group 3 insurers*: insurance undertakings breaching the solvency margin: ASTRA, CARPATICA, EUROINS, EXIM, GROUPAMA and ASIROM;

4) *Group 4 insurers*: insurance undertakings not complying with the rules applicable to the coverage of technical provisions by admissible assets: ASTRA, CARPATICA and EUROINS;

5) *Group 5 insurers*: insurance undertakings which meet the solvency requirements following the balance sheet exercise (i.e. solvency ratio above 100% and no breaching of the minimum guarantee fund): ALLIANZ, AXA, GENERALI, ING, OMNIAISIG, UNIQA and PAID.

Four insurance undertakings (i.e. ASTRA, CARPATICA, EUROINS and EXIM) have negative equity based on the re-calculated prudential indicators by end-June 2014.

Two insurance undertakings (ASTRA and CARPATICA) have already been subject to financial recovery procedure in line with the provisions of the Law 503/2004 on the financial recovery and insolvency of insurance undertakings before the beginning of the BSR and stress test and continue to be currently subject to this procedure. In line with the provisions of the law, the ASF placed ASTRA under special administration in February 2014, suspended its management and designated KPMG Advisory SRL as special administrator. CARPATICA is subject to financial recovery procedure based on recovery plan since May 2014.

Following the results of the BSR and stress test, ASTRA and CARPATICA will further implement the measures set out in their financial recovery plans. However, the respective undertakings are advised to consider during the period in which they remain subject to financial recovery procedures measures necessary to restore solvency requirements and address the shortcomings identified by the external auditors during the BSR exercise. At the same time, ASF advises the undertakings to consider the measures necessary to correct any additional deficiencies identified following the BSR Exercise. Within 20 calendar days after the closure of the financial recovery procedures, ASTRA and CARPATICA will have to submit to the ASF a report which details the measures taken in order to correct the deficiencies identified during the BSR. In case the assessment made by the ASF would conclude that the respective shortcomings were not corrected, it will take further measures necessary to safeguard the interests of policyholders (Appendix 4). The assessment will also take into consideration any further measures adopted by the respective undertakings after end-June 2014 and which are likely to also address the deficiencies identified during the BSR. For instance, as regards ASTRA, an
amount of RON 65.1 million of share capital subscribed and paid by the shareholders was registered in the Trade Registry on 25 February 2015. For CARPATICA, an amount of RON 1 million was registered in the Trade Registry on 26 March 2015.

Based on the BSR results, EUROINS and EXIM will have to comply with the follow-up measures applicable to companies with negative equity after the re-calculation of prudential indicators by end-June 2014. In order to eliminate the equity shortfall and remedy other deficiencies identified by the external auditor, EUROINS and EXIM will have to present action plans setting out the detailed measures envisaged (including a capital increase, if necessary) to restore compliance with solvency requirements until 15 October 2015 (i.e. three months after the publication of the BSR results). EUROINS and EXIM shall submit the action plans by 4 August 2015, whereas the ASF will review them and make the necessary recommendations to complement or modify them by 19 August 2015. This assessment will also take into account any further measures adopted by the respective undertakings, including capital increases, after end-June 2014 aimed to address capital shortfalls and deficiencies. For instance, as regards EUROINS, an amount of RON 93 million of share capital subscribed and paid by the shareholders was registered in the Trade Registry on 18 May 2015.

EUROINS and EXIM will have to submit monthly reports to the ASF describing the progress made with the implementation of measures aimed to restore compliance with solvency requirements. These monthly reports shall include the calculation of the available solvency margin, the minimum solvency margin and the minimum guarantee fund as well as the statement of assets admitted to cover technical reserves in line with the current prudential requirements. In case the monthly reports would not show sufficient progress towards re-establishing solvency requirements or the two undertakings would fail to meet solvency requirements on 15 October 2015, the ASF shall take by 15 November 2015 all measures necessary to safeguard the interests of policyholders. These measures may include: (i) measures designed to reduce the risk profile of the insurance undertaking; (ii) measures aimed at limiting or preventing a reduction in the financial resources; (iii) imposing additional reporting requirements to enable better monitoring, together with other measures; (iv) withdrawal of approval of significant persons; (v) withdrawal of authorization 3 (Appendix 4).

Following the BSR, GROUPAMA and ASIROM were classified in the group of insurance undertakings (i.e. Group 3), which breached the solvency margin by-end June 2014. Both undertakings did not meet the solvency margin as regards their non-life insurance business. The two undertakings will have to present an action plan by 4 August 2015, which will include the measures envisaged to restore compliance with the solvency margin and the measures aimed to address the deficiencies identified by the external auditors. The ASF will review them and make the necessary recommendations to complement or modify them by 19 August 2015. The assessment made by the ASF will also take into account further measures implemented by the respective two undertakings after the cut-off date for the BSR and stress test. For instance, GROUPAMA requested a transfer of capital from life to non-life insurance, which was subsequently approved by the ASF. ASIROM had an increase of share capital in amount of RON 19.8 million, subscribed and paid by the shareholders, that was registered in the Trade Registry on 16 April 2015.

3 The measures aimed to reduce the risk profile of undertakings may include: the limitation of operations, the temporary or permanent prohibition of practicing entirely or partially the insurance and reinsurance activity, for one or several insurance classes.
GROUPAMA and ASIROM will have to remedy the identified shortfalls and deficiencies until 15 January 2016. Furthermore, they will submit monthly reports to the ASF, which will detail the progress made with the implementation of the measures included in their action plans. In case the ASF would assess, based on the monthly reports or at the end of the implementation period for these action plans, that the respective action plan(s) did not yield the expected results, it will take further measures (similar to those mentioned above for the Group 1 insurers) by 15 February 2016.

Following the recalculation of the prudential indicators after the BSR, ALLIANZ, AXA, GENERALI, ING, OMNIASIG, UNIQA and PAID have solvency ratios exceeding 100%. Whereas these undertakings have comfortable solvency ratios, the auditors have identified several shortcomings in areas such as corporate governance, accounting policies, IT, computation of the DAC or reliability, quality, sufficiency and relevance of data. To address the recommendations of auditors, these seven insurance undertakings will submit to the ASF action plans detailing the measures envisaged to address the deficiencies identified by the auditors. The action plans will have to be submitted to the ASF by 4 August 2015 and the correction of deficiencies will have to be done within six months (i.e. by 15 January 2016).

7.2 Solvency II

The assessment of the participating insurance undertakings based on the Solvency II prudential framework revealed different degrees of preparedness and the need to significantly step up preparations for the entry into force of Solvency II. Based on the pre-stress Solvency II balance sheet, the participating insurance undertakings were classified in the following groups:

1) **Group 1 insurers**: insurance undertakings with negative own funds: ASTRA, AXA, CARPATICA, EUROINS and EXIM;

2) **Group 2 insurers**: insurance undertakings that, based on the outcome of the BSR and without prejudice of any adjustment following measures taken after the date of the exercise, do not achieve the Minimum Capital Requirement (MCR) - ASTRA, AXA, CARPATICA, EUROINS and EXIM;

3) **Group 3 insurers**: insurance undertakings that, based on the outcome of the BSR without prejudice of any adjustment following measures taken after the date of the exercise, do not achieve Solvency Capital Requirement (SCR) - ASTRA, AXA, CARPATICA, EUROINS, EXIM, ASIROM, GROUPAMA, PAID and UNIQA;

4) **Group 4 insurers**: insurance undertakings that, based on the outcome of the BSR without prejudice of any adjustment following measures taken after the date of the exercise, achieve the MCR and SCR: ALLIANZ, GENERALI, ING and OMNIASIG.

Four undertakings with negative equity under the current prudential requirements (ASTRA, CARPATICA, EUROINS, EXIM) and AXA have negative own funds based on the press stress Solvency II capital requirements. These five undertakings will have to submit to the ASF by 4 August 2015 plausible plans, including detailed measures aimed to ensure compliance with capital requirements as laid down in the Solvency II Directive. If the ASF assesses by 19 August 2015 that the submitted plans are not realistic or insufficient to ensure compliance with capital requirements under the new prudential framework, it shall request, by 19 September 2015, the respective undertakings to implement further measures. Moreover, these undertakings will have to submit to the ASF monthly progress reports, describing the measures taken and the progress made to comply
with the MCR ratio as of January 2016. In case the assessment of these monthly reports would reveal that no significant progress was made in order to ensure compliance with capital requirements, the ASF shall request the implementation of further measures.

The nine entities which do not comply with the SCR ratio (ASTRA, AXA, CARPATICA, EUROINS, EXIM, ASIROM, GROUPAMA, PAID and UNIQA) must submit to the ASF plans detailing the measures envisaged to restore the level of own funds covering the SCR or to reduce their risk profile in order to ensure compliance with capital requirements as of January 2016. These plans which will have to be submitted to the ASF by 4 August 2015 will be assessed by the latter by 19 August 2015 in order to determine if they are realistic and sufficient to ensure compliance with capital requirements as of January 2016. In case of insufficient or implausible measures included in these plans, the ASF shall take additional measures by 19 September 2015. Similar to the Group 1 insurers, these undertakings will be subject to enhanced reporting, as they have to submit quarterly progress reports to the ASF. These reports will detail the measures taken and progress made to meet capital requirements and will be subject to a thorough review by the ASF. If the ASF concluded that the progress made was not enough in order to comply with solvency capital requirements, it would take further measures within one month in order to protect the interests of policyholders. The ASF’s assessment will also take into account any further measures adopted by the respective undertakings, including capital increases, after end-June 2014 aimed to address capital shortfalls and deficiencies. For instance, as regards AXA, an amount of RON 30.7 million of share capital subscribed and paid by the shareholders in three tranches were registered in the Trade Registry between August 2014 – April 2015 and for UNIQA an amount of RON 111.6 million.

The insurance undertakings included in Group 4 (ALLIANZ, GENERALI, ING and OMNIASIG) are prepared best for the new prudential framework, as they meet both the MCR and the SCR ratios. However, these undertakings also need to make further efforts to be well prepared for the introduction of Solvency II. ALLIANZ, GENERALI, ING and OMNIASIG will submit to the ASF by 4 August 2015 plans detailing the measures envisaged to address the deficiencies identified by the external auditors based on the Solvency II balance framework. The ASF will determine by 19 August 2015 whether the proposed measures are likely to lead to the correction of deficiencies prior to the introduction of the Solvency II prudential framework.

For undertakings included in several groups following the results of the BSR and stress, the ASF will request the submission of a single action plan of general measures to address all deficiencies.
### Appendix 1: Overall results of the Balance Sheet Review and Stress Test

#### RESULTS OF BALANCE SHEET REVIEW (BSR) ASSESSMENT

<table>
<thead>
<tr>
<th>HIGH LEVEL INFORMATION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of insurance undertakings operating in Romania</td>
<td>37</td>
</tr>
<tr>
<td>Number of insurance undertakings participating in the BSR</td>
<td>13</td>
</tr>
<tr>
<td>Aggregated market share of the participating undertakings (taking into consideration GWP reported in P/L at 30.06.2014)</td>
<td>81.35%</td>
</tr>
<tr>
<td>Balance sheet data for both Solvency I and II</td>
<td>30-iun-14</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HIGH LEVEL SOLVENCY I RESULTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating undertakings with negative equity</td>
<td>4</td>
</tr>
<tr>
<td>Participating undertakings breaching the prudential guarantee fund</td>
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</tr>
<tr>
<td>Participating undertakings breaching the solvency margin</td>
<td>6</td>
</tr>
<tr>
<td>Participating undertakings not complying with the rules applicable to the coverage of technical provisions by admissible assets</td>
<td>3</td>
</tr>
<tr>
<td>Participating undertakings which meet the solvency requirements</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HIGH LEVEL SOLVENCY II RESULTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-stress</td>
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</tr>
<tr>
<td>Participating undertakings with negative own funds</td>
<td>5</td>
</tr>
<tr>
<td>Participating undertakings breaching the MCR</td>
<td>5</td>
</tr>
<tr>
<td>Participating undertakings breaching the SCR</td>
<td>9</td>
</tr>
<tr>
<td>Participating undertakings which meet the MCR and SCR</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Post-stress (Scenario 1 - insurance stress with earthquake)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating undertakings with negative own funds</td>
<td>11</td>
</tr>
<tr>
<td>Participating undertakings breaching the MCR</td>
<td>11</td>
</tr>
<tr>
<td>Participating undertakings breaching the SCR</td>
<td>12</td>
</tr>
<tr>
<td>Participating undertakings which meet the MCR and SCR</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Post-stress (Scenario 2 - insurance stress with floods)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating undertakings with negative own funds</td>
<td>6</td>
</tr>
<tr>
<td>Participating undertakings breaching the MCR</td>
<td>10</td>
</tr>
<tr>
<td>Participating undertakings breaching the SCR</td>
<td>10</td>
</tr>
<tr>
<td>Participating undertakings which meet the MCR and SCR</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Post-stress (Scenario 3 - economic stress with RON depreciation)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating undertakings with negative own funds</td>
<td>5</td>
</tr>
<tr>
<td>Particulars</td>
<td>Number</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Participating undertakings breaching the MCR</td>
<td>6</td>
</tr>
<tr>
<td>Participating undertakings breaching the SCR</td>
<td>9</td>
</tr>
<tr>
<td>Participating undertakings which meet the MCR and SCR</td>
<td>4</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-stress (Scenario 4 - economic stress with RON appreciation)</td>
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</tr>
<tr>
<td>Participating undertakings with negative own funds</td>
<td>5</td>
</tr>
<tr>
<td>Participating undertakings breaching the MCR</td>
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<td>Participating undertakings breaching the SCR</td>
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<tr>
<td>Participating undertakings which meet the MCR and SCR</td>
<td>4</td>
</tr>
</tbody>
</table>
## Appendix 2: Solvency I – Results of the Balance Sheet Review

### A. Main Financial Information and Solvency after the BSR

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Total assets (RON, thousand)</th>
<th>Technical Provisions (RON, thousand)</th>
<th>Equity (RON, thousand)</th>
<th>% Guarantee fund Ratio</th>
<th>% Solvency Ratio</th>
<th>% Coverage technical provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Life</td>
<td>Non-Life</td>
<td>Life</td>
<td>Non-Life</td>
<td>Life</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Life</td>
<td>Non-Life</td>
<td>Life</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Life</td>
</tr>
<tr>
<td>ASTRA</td>
<td>419.162</td>
<td>32.514</td>
<td>1.148.819</td>
<td>-1.002.859</td>
<td>144%</td>
<td>-2133%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>717%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-71%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>89%</td>
</tr>
<tr>
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<td></td>
<td></td>
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<td></td>
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<td>21%</td>
</tr>
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<td>ALLIANZ</td>
<td>2.164.638</td>
<td>356.797</td>
<td>894.401</td>
<td>664.546</td>
<td>378%</td>
<td>1200%</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>417%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>400%</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
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<td>119%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>133%</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>2.220.193</td>
<td>1.073.691</td>
<td>593.415</td>
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<td>380%</td>
<td>127%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>113%</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>1.154.925</td>
<td>91.869</td>
<td>747.938</td>
<td>160.285</td>
<td>476%</td>
<td>256%</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td>331%</td>
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<td></td>
<td></td>
<td>85%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<td>UNIQA</td>
<td>884.723</td>
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<td>376%</td>
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</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>117%</td>
</tr>
<tr>
<td>ING</td>
<td>2.819.507</td>
<td>2.630.641</td>
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<td>417%</td>
<td>139%</td>
</tr>
<tr>
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</tr>
<tr>
<td>ASIROM</td>
<td>1.221.880</td>
<td>220.340</td>
<td>547.641</td>
<td>109.253</td>
<td>416%</td>
<td>124%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>571%</td>
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<td></td>
<td>41%</td>
</tr>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>131%</td>
</tr>
<tr>
<td>EURO INS</td>
<td>326.999</td>
<td>711.912</td>
<td>-553.480</td>
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<td>-2530%</td>
<td>-843%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>41%</td>
</tr>
<tr>
<td>CARPATICA</td>
<td>271.706</td>
<td>640.895</td>
<td>-410.293</td>
<td>-1898%</td>
<td>-1898%</td>
<td>-633%</td>
</tr>
<tr>
<td>GENERALI</td>
<td>1.098.925</td>
<td>232.676</td>
<td>583.266</td>
<td>167.211</td>
<td>266%</td>
<td>544%</td>
</tr>
<tr>
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<td></td>
<td></td>
<td>283%</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
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<td>181%</td>
</tr>
<tr>
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<td></td>
<td></td>
<td>140%</td>
</tr>
<tr>
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<td>113.727</td>
<td>66.096</td>
<td>27.686</td>
<td>238%</td>
<td>238%</td>
<td>131%</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>119%</td>
</tr>
<tr>
<td>AXA</td>
<td>130.129</td>
<td>92.482</td>
<td>25.594</td>
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<td>124%</td>
<td>332%</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>130%</td>
</tr>
<tr>
<td>EXIM</td>
<td>88.457</td>
<td>68.236</td>
<td>-2.670</td>
<td>-23%</td>
<td>-23%</td>
<td>-101%</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>117%</td>
</tr>
</tbody>
</table>
### B. Main BSR induced adjustments to the Financial Information and Solvency

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Total assets (RON, thousand)</th>
<th>Technical Provisions (RON, thousand)</th>
<th>Equity (RON, thousand)</th>
<th>% Guarantee fund Ratio</th>
<th>% Solvency Ratio</th>
<th>% Coverage technical provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Life</td>
<td>Non-Life</td>
<td>Life</td>
<td>Non-Life</td>
<td>Life</td>
<td>Non-Life</td>
</tr>
<tr>
<td>ASTRA</td>
<td>238,547</td>
<td>-342</td>
<td>48,811</td>
<td>245,918</td>
<td>71%</td>
<td>488%</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>OMNIASIG</td>
<td>50,629</td>
<td>0</td>
<td>-4,390</td>
<td>56,880</td>
<td>68%</td>
<td>22%</td>
</tr>
<tr>
<td>GROUPAMA</td>
<td>12,145</td>
<td>0</td>
<td>12,145</td>
<td>25%</td>
<td>28%</td>
<td>17%</td>
</tr>
<tr>
<td>UNIQA</td>
<td>15,960</td>
<td>0</td>
<td>-12,368</td>
<td>29,205</td>
<td>161%</td>
<td>54%</td>
</tr>
<tr>
<td>ING</td>
<td>-615</td>
<td>0</td>
<td>103</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>ASIROM</td>
<td>35,437</td>
<td>0</td>
<td>-42,227</td>
<td>69,361</td>
<td>169%</td>
<td>322%</td>
</tr>
<tr>
<td>EUROINS</td>
<td>428,401</td>
<td>0</td>
<td>-245,667</td>
<td>682,528</td>
<td>2851%</td>
<td>950%</td>
</tr>
<tr>
<td>CARPATICA</td>
<td>21,209</td>
<td>0</td>
<td>-244,427</td>
<td>290,669</td>
<td>1343%</td>
<td>448%</td>
</tr>
<tr>
<td>GENERALI</td>
<td>971</td>
<td>0</td>
<td>0</td>
<td>971</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>PAID</td>
<td>950</td>
<td>0</td>
<td>-255</td>
<td>-3,033</td>
<td>-27%</td>
<td>-15%</td>
</tr>
<tr>
<td>AXA</td>
<td>3,717</td>
<td>0</td>
<td>0</td>
<td>3,717</td>
<td>20%</td>
<td>53%</td>
</tr>
<tr>
<td>EXIM</td>
<td>9,134</td>
<td>0</td>
<td>-16,384</td>
<td>21,373</td>
<td>129%</td>
<td>628%</td>
</tr>
</tbody>
</table>

30 June 2014
### Appendix 3: Solvency II – Results of the Balance Sheet Review and Stress Test

#### C. Pre-stress Balance-Sheet information and Capital requirements

(RON, in thousand – 30 June 2014)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Total Assets</th>
<th>Technical Provisions</th>
<th>Own Funds</th>
<th>Capital requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total Own Funds</td>
<td>Excess of assets over liabilities</td>
</tr>
<tr>
<td>GENERALI</td>
<td>1.039.661</td>
<td>580.810</td>
<td>314.623</td>
<td>314.623</td>
</tr>
<tr>
<td>Astra</td>
<td>279.193</td>
<td>1.171.166</td>
<td>-1.131.186</td>
<td>-1.131.186</td>
</tr>
<tr>
<td>Euroins</td>
<td>299.998</td>
<td>701.021</td>
<td>-573.876</td>
<td>-573.876</td>
</tr>
<tr>
<td>Ing</td>
<td>2.848.467</td>
<td>2.397.077</td>
<td>312.120</td>
<td>312.120</td>
</tr>
<tr>
<td>Asrom</td>
<td>906.377</td>
<td>599.513</td>
<td>105.266</td>
<td>69.731</td>
</tr>
<tr>
<td>Uniax</td>
<td>818.633</td>
<td>537.618</td>
<td>89.935</td>
<td>89.935</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>10.815.924</strong></td>
<td><strong>8.768.222</strong></td>
<td><strong>179.778</strong></td>
<td><strong>36.744</strong></td>
</tr>
</tbody>
</table>
## D. Post-stress Balance-Sheet information and Capital requirements

### Scenario 1 (Insurance stress 1 - with earthquake)

(RON, in thousand – 30 June 2014)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Own Funds</th>
<th>Capital requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Own Funds</td>
<td>Excess of assets over liabilities</td>
</tr>
<tr>
<td>GENERALI</td>
<td>-43.074</td>
<td>-43.074</td>
</tr>
<tr>
<td>OMNIASIG</td>
<td>-366.862</td>
<td>-421.831</td>
</tr>
<tr>
<td>ASTRA</td>
<td>-1.683.766</td>
<td>-1.683.766</td>
</tr>
<tr>
<td>ING</td>
<td>312.120</td>
<td>312.120</td>
</tr>
<tr>
<td>UNIQA</td>
<td>-105.577</td>
<td>-105.577</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-3.326.047</strong></td>
<td><strong>-3.469.081</strong></td>
</tr>
</tbody>
</table>
### D. Post-stress Balance-Sheet information and Capital requirements

**Scenario 2 (Insurance stress 2 - with flood)**

(RON, in thousand – 30 June 2014)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Own Funds</th>
<th>Capital requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Own</td>
<td>SCR</td>
</tr>
<tr>
<td></td>
<td>Funds</td>
<td></td>
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<tr>
<td>GENERALI</td>
<td>285.825</td>
<td>197.926</td>
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<td>OMNIA SIG</td>
<td>84.294</td>
<td>252.873</td>
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<tr>
<td>EUROINS</td>
<td>-617.778</td>
<td>302.307</td>
</tr>
<tr>
<td>ING</td>
<td>312.120</td>
<td>312.120</td>
</tr>
<tr>
<td>ALLIANZ</td>
<td>741.840</td>
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<td>677.608</td>
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<td>70.592</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-839.201</strong></td>
<td><strong>-1.169.229</strong></td>
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</table>
### D. Post-stress Balance-Sheet information and Capital requirements

#### Scenario 3 (Economic stress 1 - including RON depreciation)

(RON, in thousand – 30 June 2014)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Total Own Funds</th>
<th>Excess of assets over liabilities</th>
<th>Eligible Own Funds to meet the SCR</th>
<th>Eligible Own Funds to meet the MCR</th>
<th>SCR</th>
<th>Excess of Own Funds over SCR</th>
<th>MCR</th>
<th>Excess of Own Funds over MCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERALI</td>
<td>264.797</td>
<td>264.797</td>
<td>264.797</td>
<td>264.797</td>
<td>189.966</td>
<td>74.831</td>
<td>63.585</td>
<td>201.213</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>252.256</td>
<td>197.287</td>
<td>252.256</td>
<td>206.560</td>
<td>203.741</td>
<td>48.516</td>
<td>59.859</td>
<td>146.701</td>
</tr>
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<td>Astra</td>
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<td>-1.146.842</td>
<td>-1.146.842</td>
<td>-1.149.824</td>
<td>2.646.376</td>
<td>-3.793.218</td>
<td>674.205</td>
<td>-1.824.029</td>
</tr>
<tr>
<td>ING</td>
<td>232.135</td>
<td>232.135</td>
<td>232.135</td>
<td>232.135</td>
<td>133.440</td>
<td>98.694</td>
<td>49.348</td>
<td>182.786</td>
</tr>
<tr>
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<td>597.679</td>
<td>597.679</td>
<td>560.693</td>
<td>454.203</td>
<td>143.476</td>
<td>121.106</td>
<td>439.586</td>
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<td>258.638</td>
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<td>178.251</td>
<td>80.387</td>
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<td>83.551</td>
<td>83.551</td>
<td>58.278</td>
<td>188.654</td>
<td>-105.103</td>
<td>47.163</td>
<td>11.115</td>
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<td>41.993</td>
<td>41.993</td>
<td>41.307</td>
<td>78.598</td>
<td>-36.605</td>
<td>19.650</td>
<td>21.657</td>
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<td><strong>-518.319</strong></td>
<td><strong>-392.156</strong></td>
<td><strong>-579.680</strong></td>
<td><strong>5.353.060</strong></td>
<td><strong>-5.745.216</strong></td>
<td><strong>1.485.701</strong></td>
<td><strong>-2.065.381</strong></td>
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</table>
### D. Post-stress Balance-Sheet information and Capital requirements

#### Scenario 4 (Economic stress 2 – including RON appreciation)

(RON, in thousand – 30 June 2014)

<table>
<thead>
<tr>
<th>Participating undertakings</th>
<th>Total Own Funds</th>
<th>Excess of assets over liabilities</th>
<th>Eligible Own Funds to meet the SCR</th>
<th>Eligible Own Funds to meet the MCR</th>
<th>SCR</th>
<th>Excess of Own Funds over SCR</th>
<th>MCR</th>
<th>Excess of Own Funds over MCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERALI</td>
<td>310.677</td>
<td>310.677</td>
<td>310.677</td>
<td>310.677</td>
<td>199.683</td>
<td>110.994</td>
<td>66.644</td>
<td>244.034</td>
</tr>
<tr>
<td>OMNIA SIG</td>
<td>249.646</td>
<td>194.677</td>
<td>249.646</td>
<td>204.074</td>
<td>209.295</td>
<td>40.351</td>
<td>62.969</td>
<td>141.105</td>
</tr>
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<td>-1.156.316</td>
<td>-1.156.316</td>
<td>-1.156.316</td>
<td>-1.161.102</td>
<td>2.616.491</td>
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<td>669.853</td>
<td>-1.830.955</td>
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<td>-23.072</td>
<td>-23.072</td>
<td>-25.024</td>
<td>18.374</td>
<td>-41.446</td>
<td>18.667</td>
<td>-43.691</td>
</tr>
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<td>41.644</td>
<td>68.820</td>
<td>45.564</td>
<td>145.370</td>
<td>-76.550</td>
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<td>-19.634</td>
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<td>233.063</td>
<td>285.593</td>
<td>285.593</td>
<td>551.685</td>
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<td>146.812</td>
<td>138.781</td>
</tr>
<tr>
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<td>74.839</td>
<td>74.839</td>
<td>47.907</td>
<td>193.566</td>
<td>-118.727</td>
<td>48.392</td>
<td>-485</td>
</tr>
<tr>
<td>PAID</td>
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<td>44.706</td>
<td>44.706</td>
<td>44.537</td>
<td>50.684</td>
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<td>12.671</td>
<td>31.866</td>
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<td><strong>-431.772</strong></td>
<td><strong>-304.097</strong></td>
<td><strong>-485.839</strong></td>
<td><strong>5.176.947</strong></td>
<td><strong>-5.481.043</strong></td>
<td><strong>1.462.499</strong></td>
<td><strong>-1.948.338</strong></td>
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</tbody>
</table>
Supervisory measures based on the results of the Balance Sheet Review and Stress Test

The independent evaluation project of the insurance undertakings of Romania is aimed at strengthening the stability of the insurance system and increasing confidence in insurance products.

This exercise shall include:

- the valuation of the insurance portfolio of the insurance undertakings participating in such exercise;
- the valuation of all assets of the participating insurance undertakings, with reference to the assets admitted to cover the obligations arising out of the insurance contracts;
- a bottom-up stress test, aimed at assessing the resilience of the insurance sector in Romania to various shocks, identifying the main vulnerabilities and issues which may require additional supervisory measures.

The main objectives of the Valuation of Assets and Liabilities and of the Stress Test are:

- analysis of each participant’s insurance portfolio to determine the obligations arising from insurance contracts, assessment of the adequacy of technical reserves (TR) and provision of a reasoned estimate of the economic value of TR;
- assessment of the effectiveness of the instruments used for the transfer of risks to third parties with regard to the risks associated with the (re)insurance contracts underwritten by the undertaking, including the finite reinsurance contracts;
- assessment of the suitability of the recognition and valuation principles for all liabilities, not only for TR, and all assets, not only for those admitted to cover TR, with particular emphasis on the impact of operations and transactions with natural or legal persons with close ties with the undertaking;
- assessment of the degree of coverage of TR with assets admitted for all participating undertakings;
- analysis of the adequacy of the participating undertakings’ own funds to solvency requirements;
- assessment of the resilience of the insurance sector in Romania to various shocks; identification of the main vulnerabilities and issues which require additional supervisory measures.

The valuation of the assets and liabilities described above shall be carried out both in accordance with the regulations in force and with the standards laid down in the Solvency II Directive. Moreover, the solvency requirements shall be assessed in accordance with the prudential regulations in force and with the provisions of the Solvency II Directive. The reference date for such exercise is 30 June 2014.
I. Supervisory Measures based on the results of the BSR Exercise – in line with the prudential provisions in force – Solvency I

Based on the results of the BSR exercise and of the recalculation/analysis of prudential indicators, which include a reassessment of the adequacy of technical reserves and assets, the participating insurance undertakings will be classified into five groups and will be subject to differentiated corrective measures. The corrective measures requested by ASF to the participating insurance undertakings depend on the scale of the capital shortfall resulting from the exercise. Insurance undertakings will be grouped as follows:

1) **Group 1**: Insurance undertakings holding negative equity;

2) **Group 2**: Insurance undertakings that do not have an available solvency margin larger than the security fund;

3) **Group 3**: Insurance undertakings that do not have an available solvency margin larger than the minimum solvency margin;

4) **Group 4**: Insurance undertakings that do not have assets admitted to cover the gross technical reserves larger than gross technical reserves;

5) **Group 5**: Insurance undertakings that meet the solvency requirements (for example, the available solvency margin is larger than the minimum solvency margin and the security fund).

The participating insurance undertakings must send ASF an action plan to correct any issues identified as a result of carrying out the BSR Exercise within 20 calendar days after the publication date of the results of the BSR Exercise on ASF’s website. All of the measures already implemented by the participating undertakings after the reference date of the BSR Exercise will be considered. The action plan will be prepared by the executive management of the undertaking, approved by the administrative management, and will contain concrete deadlines and the persons responsible for performing all of the measures imposed on the undertaking.

During this period, ASF and the participating insurance undertakings will discuss, on an individual basis, the results of the BSR Exercise, and the insurance undertakings shall provide ASF with any detailed explanations required.

ASF shall review the action plans received within 15 calendar days after the date of their transmission and shall make recommendations, where appropriate, in order to complement and/or modify the same.

Where, on the publication date of the results of the BSR Exercise, a participating insurance undertaking is in a financial recovery procedure, it will continue to comply with the measures set out in the recovery plan entered into before the publication date of the results of the BSR Exercise. At the same time, ASF advises the undertaking in the situation above to consider the measures necessary to correct any additional deficiencies identified following the BSR Exercise. Within 20 calendar days after the finalization date of the financial recovery procedure according to the provisions of Law 503/2004 on the financial recovery and bankruptcy of insurance undertakings, as subsequently amended and supplemented, the undertaking concerned must submit a report to ASF describing the manner in which it corrected the deficiencies identified as result of the BSR Exercise. Where, from the analysis of the report, ASF believes that these deficiencies were not corrected,
ASF shall take all measures necessary to safeguard the interests of policyholders, including those referred to in the sections below.

Where a participating insurance undertaking is in the process of implementation of an action plan, other than that referred to above, sent to ASF before the publication of the results of the BSR Exercise, and the results indicate the need for additional own funds, the participating undertaking shall assess the sufficiency of the measures and shall update the action plan if it considers that the measures are insufficient.

*Insurance undertakings of Group 1* shall present an action plan, including an increase in the share capital, leading to the re-establishment of compliance with the solvency requirements over a period of 3 months following the publication of the results of the BSR Exercise.

*Insurance undertakings of Group 2* shall present an action plan, including an increase in the share capital, leading to the re-establishment of compliance with the solvency requirements over a period of 4 months following the publication of the results the BSR Exercise.

Similarly with the insurance undertakings of Groups 1 and 2, the insurance undertakings of Groups 3 and 4 shall submit to ASF an action plan, including measures to increase the available solvency margin (for example: increase in the share capital) for the undertakings of Group 3, but they will have 6 months to re-establish compliance with the solvency requirements and/or with the rules applicable to assets admitted to cover the technical reserves

Also, the action plans (Groups 1, 2, 3 and 4) will include proposals for measures to remedy the deficiencies identified by the auditors, in particular those, the purpose of which is to establish appropriate procedures for assessing technical reserves, strengthening risk management and administering loss files.

If the auditors identify deficiencies, *insurance undertakings of Group 5* must submit to ASF an action plan leading to the correction of such deficiencies, within 6 months after the publication of the results of the BSR Exercise.

Insurance undertakings of Groups 1, 2, 3, 4 must monthly submit to ASF progress reports detailing the measures taken and progress made. Insurance undertakings of Group 5 must quarterly submit to ASF progress reports. Progress reports shall be submitted within 2 weeks after the end of the reference period and shall include the available solvency margin calculation, the minimum solvency margin and security fund, as well as the statement of the assets admitted to cover the gross technical reserves, in accordance with the provisions of the regulations in force.

If:

1) ASF considers that the action plan is not realizable or sufficient; or

2) as a result of the assessment of the monthly progress reports, ASF considers that no significant progress was made in re-establishing the financial situation or solvency; or

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4 If the insurance undertakings are required to submit action plans to re-establish the financial situation and solvency and compliance with the rules applicable to assets covering technical reserves, ASF may allow the submission of a single plan of general measures (for example, insurance undertakings may be included in several groups, but the submission of a single action plan of general measures to address all deficiencies may be allowed).
3) the participating insurance undertaking fails to restore the financial situation or solvency at the end of the 3/4/6 months,

ASF shall take, within four weeks, all measures necessary to safeguard the interests of policy holders, including:

- measures designed to reduce the risk profile of the insurance undertaking, such as limiting the operations, temporary or definitive prohibition on practicing the partial or entire insurance and/or reinsurance activity, for one or several insurance categories;
- measures aimed at limiting or preventing a reduction in the financial resources, such as prohibition to freely hold assets, prohibition on the free allocation of assets in Romania;
- imposing, together with other measures, additional reporting requirements to enable better monitoring;
- withdrawal of approval of significant persons;
- withdrawal of authorization;
- imposing certain resolution measures (the legal framework is currently under development), where the insurance undertaking’s viability may be restored by applying resolution tools, and such tools are considered less costly than liquidation.

II. Supervisory Measures based on the results of the BSR Exercise (in line with the provisions of Solvency II Directive) and stress test

Given the provisions of Solvency II Directive and based on the results of the stress test, insurance undertakings will be grouped as follows:

1) **Group 1**: Insurance undertakings holding negative own funds;

2) **Group 2**: Insurance undertakings which, based on the results of the BSR Exercise and of the stress test, and given the measures taken after the date of the BSR Exercise, fail to fulfil the provisions on the minimum capital requirement (MCR);

3) **Group 3**: Insurance undertakings which, based on the results of the BSR Exercise and of the stress test, and given the measures taken after the date of the BSR Exercise, fail to fulfil the provisions on the solvency capital requirement (SCR);

4) **Group 4**: Insurance undertakings which, based on the results of the BSR Exercise and of the stress test, and given the measures taken after the date of the exercise, fulfil the provisions on MCR and SCR.

*Insurance undertakings of Groups 1, 2 and 3 must submit to ASF within 20 calendar days after the publication date of the results of the BSR Exercise on ASF’s website a plausible plan that will set out the measures to be taken to ensure compliance, as of 1 January 2016, with the capital requirements laid down in the Solvency II Directive, without prejudice to the provisions referred to in Articles 131, 138, 139 and 308b of the Solvency II Directive.*
Insurance undertakings of Group 1 must monthly submit to ASF a progress report within three weeks after the end of the reference month, until the financial situation and solvency are restored, detailing the measures taken and progress made to comply with the provisions on MCR at 1 January 2016.

Insurance undertakings of Group 2 and 3 must quarterly submit to ASF a progress report within three weeks after the end of the reference period, until the financial situation and solvency are restored, detailing the measures taken and progress made to restore the level of eligible own funds covering the MCR and SCR at 1 January 2016, or reducing the risk profile to ensure compliance with capital requirements.

Such progress reports (Groups 1, 2 and 3) shall include a presentation of quantitative reporting laid down in the preparatory Guidelines for the implementation of the Solvency II supervisory regime issued by the European Insurance and Occupational Pensions Authority (EIOPA), subject to the compliance with the terms above.

If the auditors identify vulnerabilities further to stress scenarios and/or other deficiencies, insurance undertakings of Group 4 must submit to ASF within 20 calendar days after the publication date of the results of the BSR Exercise on ASF’s website a plan leading to the correction of such deficiencies prior to 1 January 2016.

If:

1) ASF considers that the plan is not realizable or sufficient within 15 days as of the submission of the plan, or

2) further to the assessment of the monthly/quarterly reports, ASF establishes that no significant progress was made to restore the financial situation and solvency,

ASF shall take, within four weeks, all measures necessary to safeguard the interests of policyholders, inclusively those referred to in Item I, without prejudice to the provisions of the Solvency II Directive.
Appendix 5: Overview of Stress Test parameters

Stressed yield curve

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Base RON</th>
<th>Base EUR</th>
<th>Base USD</th>
<th>SCR up RON</th>
<th>SCR up EUR</th>
<th>SCR up USD</th>
<th>SCR down RON</th>
<th>SCR down EUR</th>
<th>SCR down USD</th>
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Post-stress values

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<tr>
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<th>Base EUR</th>
<th>Base USD</th>
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<th>SCR up USD</th>
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Spreads sensitivities in economic scenarios

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<td>SE</td>
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Spread sensitivities for corporate bonds (bps)

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<th>Financials - covered</th>
<th>Non - financials</th>
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<td>AAA</td>
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<td>5</td>
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<tr>
<td>AA</td>
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<td>A</td>
<td>101</td>
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</tr>
<tr>
<td>BBB</td>
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<td>69</td>
<td>48</td>
</tr>
<tr>
<td>BB</td>
<td>365</td>
<td>84</td>
<td>69</td>
</tr>
<tr>
<td>B and lower</td>
<td>420</td>
<td>93</td>
<td>98</td>
</tr>
<tr>
<td>Unrated</td>
<td>455</td>
<td>99</td>
<td>108</td>
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Appendix 6: Stress Test scenarios results per undertaking

ASTRA

- Solvency II value of assets: RON 279m;
- Excess of assets over liabilities: RON -1,131m

- The most important asset classes:
  - Receivables (included in other assets): RON 135m;
  - Property: RON 78m
- Less than 20% of the assets are in liquid instruments;
- The asset structure excludes DTA and reinsurance assets

- Life business consists of 100% traditional exposures;
- In Non-Life more than 60% of technical provisions are in MTPL;
- The second highest exposure is Other Motor Insurance—more than 20% of the TPs—followed by Property (11%) and General Liability (3.6%)
- There is marginal exposure to other lines of business.
All OF items are Tier 1 unrestricted

On June 30, 2014, Astra had negative own funds amounting to RON -1,131m, with negative coverage ratios both for SCR and MCR.

The highest SCR exposures:
- Non-Life module (RON 2,550m);
- Counterparty Default module (RON 86m)

Market risk contributions:
- Property risk (RON 20m);
- Interest rate risk (RON 17m);
- Currency risk (RON 10m);
- Equity risk (RON 9m)

Life underwriting SCR:
- Life underwriting risks have marginal contribution to the entire SCR of Astra.
Non-Life underwriting SCR:
- Catastrophe risk is the main driver;
- The largest net exposure is Otopeni airport (RON 2.5bn), which has only a very small reinsurance cover against the risk of terrorism;
- The Nat Cat is also substantially under-reinsured;
- RON 4.1bn exposure is in aviation risk.

- The insurance scenario EQ leads to a decrease in the value of EOF from RON -1,131m to RON -1,684m, with an increase in SCR from RON 2,640m to RON 2,728m;
- The impact is mostly caused by inadequate reinsurance cover under catastrophe stress scenario.
-The insurance scenario FL leads to a decrease in the value of EOF from RON -1,131m to RON -1,422m, with an increase in SCR from RON 2,640m to RON 2,666m.
-The flood scenario is less severe than the earthquake scenario; nevertheless, the effect of insufficient reinsurance exhibits a similar pattern.

-Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on solvency;
-The value of own funds is reduced from RON -1,131m to RON -1,147m / -1,156m, while the SCR increases to RON 2,646m and decreases to RON 2,616m respectively;
-As a result of the economic stress scenarios, the SCR ratio will not change significantly in the RON appreciation scenario, falling just marginally, while in the RON depreciation scenario the SCR ratio would fall to about -44%.
ALLIANZ

-Solvency II value of assets: RON 1,883m;
-Excess of assets over liabilities: RON 850m

The most important asset classes:
- Government bonds: RON 688m;
- Strategic participations: RON 669m;
- Investment funds UL: RON 251m;
- Corporate bonds: RON 79m;

The asset structure excludes DTA and reinsurance assets.

-Life business is dominated by unit linked exposure;
-In Non-Life almost 50% of technical provisions are in MTPL;
-The second higher exposure is Other Motor Insurance –more than 30% of TPs;
-Other material lines of business are Fire/Property and General Liability.

The corporate bond portfolio consists of bonds with ratings of A, BBB and BB (also some unrated.)
The highest SCR exposures:
- Market risk module (RON 417m);
- Non-life module (RON 246m);
- Counterparty default module (RON 57m).

Market risk contributions:
- Concentration risk (RON 382m);
- Equity risk (RON 153m);
These exposures are driven by the holdings in strategic participations of RON 669m.

Life underwriting SCR:
- Life underwriting risks have a relatively low contribution to the entire Allianz SCR;
- The highest exposures within this module are lapse and expenses risks.

All OF items are Tier 1 unrestricted.

On June 30, 2014, Allianz would have fulfilled the SCR and MCR requirements, with coverage ratio of 143.0% and 552.3% respectively.
Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is premium and reserve risk submodule;
- There is very limited exposure to catastrophic risk due to a comprehensive reinsurance program;
- The gross vs mitigated exposures to catastrophic risks demonstrate efficiency of the reinsurance program.

- The insurance scenario EQ leads to a decrease in the value of EOF from RON 850m to RON 412m, with an increase in SCR from RON 595m to RON 709m;
- Allianz has extensive reinsurance cover for the natural catastrophe risk, and the highest impact factor is the default of reinsurers.
- The insurance scenario FL leads to a decrease in the value of EOF from RON 850m to RON 742m, with an increase in SCR from RON 595m to RON 608m; 
- The flood scenario is less severe than the earthquake scenario; nevertheless, the effect of reinsurance defaults exhibits a similar pattern.

- Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on solvency; 
- The value of own funds is reduced from RON 850m to RON 598m / 605m, while the SCR changes from RON 595m to RON 454m / 456m; 
- As a result of the economic stress scenarios, the SCR ratio would fall to 132% / 133%; 
- Regarding the impact of the economic stresses on assets and liabilities, the most severe impact is on strategic participations and unit linked funds.
OMNIASIG

- Solvency II value of assets: RON 1,317m;
- Excess of assets over liabilities: RON 278m;
- Includes value of subordinated liabilities of RON 55m.

The most important asset classes:
- Government bonds: RON 489m;
- Other assets (including receivables): RON 306m
- Property: RON 71m;

The asset structure excludes DTA and reinsurance assets and reinsurance assets

- Almost 50% of all corporate bonds are AAA bonds of EBRD;
- The remaining bonds are BBB and BB bonds, with a very small proportion of unrated bonds.

- More than 60% of the technical provisions are in MTPL;
- About 22% is represented by Property and 10% by Own Motor Damage.
–Subordinated debt of RON 55m of Tier 3 nature (5 years maturity); it has been classified as follows on the basis of transitional measures:
  • RON 38.3m (25% of Solvency I Solvency Margin) as Tier 2;
  • The remaining RON 16.7m as Tier 3;
–The remaining OF items are Tier 1 unrestricted.

- On June 30, 2014, Omniasig would have fulfilled the SCR requirements, with a coverage ratio of 134%;
- Omniasig would also have fulfilled the MCR requirement, with coverage ratio of 392%.

Market risk contributions:
– Property risk (RON 18m);
– Currency risk (RON 18m);
– Interest rate risk (RON 17m).

The highest SCR exposures:
– Non-Life module (RON 120m);
– Counterparty default (RON 65m);
– Market risk (RON 44m).
Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is premium and reserve risk submodule;
- There is very limited exposure to catastrophic risk due to almost full reinsurance;
- Gross vs mitigated exposures to catastrophic risks demonstrate efficiency of the reinsurance program.

- The insurance scenario EQ leads to a decrease in the value of EOF from RON 278m to RON -438m, with an increase in SCR from RON 206m to RON 444m;
- Omniaasig has extensive reinsurance cover for the natural catastrophe risk, and the highest impact factor is the default of reinsurers.
- The insurance scenario FL leads to a decrease in the value of EOF from RON 278m to RON 71m, with an increase in SCR from RON 206m to RON 253m.
- The flood scenario is less severe than the earthquake scenario; nevertheless, the effect of reinsurance defaults exhibits a similar pattern.

- Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on solvency;
- The value of own funds is reduced from RON 278m to RON 252m / 250m, while the SCR changes from RON 206m to RON 204m / 209m;
- As a result of this scenario, the SCR ratio would fall to about 124% / 119%;
- The main drivers of this fact is interest rate stress and currency stress on assets and liabilities and property on asset side only.
GROUPAMA

- Solvency II value of assets: RON 903m;
- Excess of assets over liabilities: RON 288m;
- Includes value of subordinated liabilities of RON 53m.

- The most important asset classes:
  - Government bonds: RON 463m;
  - Other assets (including receivables): RON 175m;
  - Property: RON 79m;
  - Corporate bonds: RON 73m;

The asset structure excludes DTA and reinsurance assets.

- The corporate bond portfolio consists of bonds with ratings of A, BBB and BB;
- The majority of corporate bonds have speculative grade (BB).

- Life business is dominated by the traditional exposures;
- In Non-Life more than 48% of technical provisions are in Other Motor Insurance;
- The second highest exposure is MTPL–more than 30% of TPs;
- There is marginal exposure to other lines of business (except for Property which is 15%).
- Subordinated debt of RON 53m classified in Tier 1 restricted (Tier 2 items classified in Tier 1 restricted because of transitional measures);
- The remaining OF items are Tier 1 unrestricted.

- On June 30, 2014, Groupama would not have fulfilled the SCR requirements, with coverage ratio of 43%;
- Groupama would have fulfilled the MCR requirement, with coverage ratio of 167%.

**Market risk contributions:**
- Currency risk (RON 25m);
- Property risk (RON 20m);
- Equity risk (RON 12m).

**Life underwriting risks make a relatively low contribution to the entire Groupama SCR;**
- The largest exposures within this module are mortality (both normal mortality and catastrophe mortality) and expenses risk.

The highest SCR exposures:
- Non-Life module (RON 622m);
- Market risk module (RON 52m).
Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is Non-Life catastrophe:
- The reason for this is an insufficient level of reinsurance for the earthquake risk:
- The gross vs mitigated exposures to catastrophic risks demonstrate inefficiency within the reinsurance program.

- The insurance scenario EQ leads to a decrease in the value of EOF from RON 288m to RON -431m, with an increase in SCR from RON 671m to RON 801m;
- Groupama has insufficient reinsurance cover for the natural catastrophe risk while default of reinsurers is also a significant factor.
-The insurance scenario FL leads to a decrease in the value of EOF from RON 288m to RON 187m, with an increase in SCR from RON 671m to RON 678m;  
-The flood scenario is less severe than the earthquake scenario.

-In the “scenario AP”, the value of own funds is reduced from RON 288m to RON 260m, while the value of the SCR increases from RON 671m to RON 700m, with solvency ratio of 37%;

-In the “scenario DEP”, the value of own funds falls from RON 288m to RON 286m, while there is a significant reduction in the SCR from RON 671m to RON 552m, leading to increase of solvency ratio to 52% 

-The unusual behaviour of the SCR is explained by the fact that RON depreciation increases the reinsurance capacity in “scenario DEP”, as the reinsurance parameters are set up in EUR.
UNIQA

- Solvency II value of assets: RON 819m;
- Excess of assets over liabilities: RON 90m.

The most important asset classes:
- Government bonds: RON 294m;
- Other assets (including receivables): RON 219m

The asset structure excludes DTA and reinsurance assets.

All corporate bonds of Uniqa have rating A.

-about 50% of technical provisions are in Other Motor Insurance;
-about 43% of technical provisions are in MTPL;
-other exposures include Property, Marine, Aviation and Transport and other immaterial lines of business.
–DTA position of RON 35.5m results in RON 24m Tier 3 own funds (netting with DTL);
–The remaining OF items are Tier 1 unrestricted.

- On June 30, 2014, Uniqa would not have fulfilled the SCR requirements, with coverage ratio of 48%;
- Uniqa would have fulfilled the MCR requirement, with coverage ratio of 140%.

Market risk contributions:
– Currency risk (RON 6m);
– Property risk (RON 5m);
– Interest rate risk (RON 5m);
The company is naturally exposed to FX risk. FX risk was up to a large extent mitigated by using mitigation with currency forwards.

The highest SCR exposures:
– Non-Life module (RON 146m);
– Counterparty default (RON 37m).
Non-Life underwriting SCR:
- The highest Non-Life SCR risks are premium and reserve risk submodule and catastrophe risk;
- For natural catastrophe the mitigation effect is limited due to significant retention and reinstatements; the reinsurance capacity is, however, sufficient.

The insurance scenario EQ leads to a decrease in the value of EOF from RON 90m to RON -131m, with an increase in SCR from RON 188m to RON 238 m;
- The impact is mostly caused by the default of reinsurers, but also, at a lower extent, due to high retention and reinstatements.
-The insurance scenario FL leads to a decrease in the value of EOF from RON 90m to RON -3m, with an increase in SCR from RON 188m to RON 202 m;
- The flood scenario is less severe than the earthquake scenario; nevertheless the effect of reinsurance defaults exhibits a similar pattern.

- In the “scenario AP”, the value of own funds is reduced from RON 90m to RON 84m, while the SCR increases from RON 188m to RON 189m, reducing the solvency ratio to 44%;
- In the “scenario DEP”, the value of own funds is reduced from RON 90m to RON 75m, while the SCR increases from RON 188m to RON 194m, reducing the solvency ratio to 39%.
- Solvency II value of assets: RON 2,848m;
- Excess of assets over liabilities: RON 312m;

The most important asset classes:
- Investment funds UL: RON 1,595m;
- Government Bonds: RON 928m;
- Corporate Bonds: RON 174m;

The asset structure excludes DTA and reinsurance assets.

The technical provisions consist of 70% of unit linked provisions and 30% of provisions for traditional products.

The corporate bond portfolio includes mainly bonds with investment grade A, with only limited exposures in speculative grade BB.
For ING all OF items are Tier 1 unrestricted.

- On June 30, 2014, ING would have fulfilled the SCR requirements, with coverage ratio of 237%.
- ING would have also fulfilled the MCR requirement, with coverage ratio of 682%.
- The unit linked products of ING are not covered in the SCR calculation due to the immediate contract boundaries treatment.

The highest SCR exposures:
- Life module (RON 79m);
- Market risk module (RON 49m);
- Operational risk (RON 27m).

Market risk contributions:
- Interest rate risk (RON 34m);
- Concentration risk (RON 25m);
- Spread risk (RON 15m).

- The highest Life SCR contributors are expenses and lapse risks;
- The main driver of lapse risk are renewal products with risk covers;
- This calculation took into account the auditor’s adjustment reducing contract boundaries of significant share of risk products to one year contract boundaries;
- Mortality risk (including catastrophe mortality) and disability risk contribute to a lower extent.
Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on solvency; the value of own funds is reduced from RON 312m to RON 232m/233m, while the SCR increases from RON 132m to RON 133m; as a result of the economic stress scenarios, the SCR ratio would fall to 174%; the main driver is the interest rate impact on the liability side – assets are practically unaffected.

ASIROM

-Solvency II value of assets: RON 906m;
-Excess of assets over liabilities: RON 105m (includes value of subordinated liabilities of RON 35.5m)

The most important asset classes:
-Government bonds: RON 356m;
-Property: RON 142m;
-Other assets (including receivables): RON 123m;
-Corporate bonds: RON 87m;

The asset structure excludes DTA and reinsurance assets and reinsurance assets.

-The corporate bond portfolio consists of bonds with ratings of BBB and BB;
-In reality, the majority of bonds are of speculative grade (BB).
- Life business is dominated by the traditional exposures;
- In Non-Life more than 80% of technical provisions are in MTPL;
- The second highest exposure is Other Motor Insurance – more than 10% of TPs;
- There is marginal exposure to other lines of business.

-DTA position of RON 10.3m results in RON 10.3m Tier 3 own funds (DTL are zero);
- Subordinated debt of RON 35.5m of Tier 2 nature, classified as follows:
  • RON 14.9m in restricted Tier 1 funds (25% of unrestricted Tier 1) due to transitional rules ("grandfathering");
  • RON 20.6m in Tier 2 (the amount exceeding Restricted Tier 1);
- The remaining OF items are Tier 1 unrestricted.

-On June 30, 2014, Asirom would not have fulfilled the SCR requirements, with coverage ratio of 71.4%; have fulfilled the MCR requirement, with coverage ratio of 139.2%
Market risk contributions:
– Property risk (RON 36m);
– Spread risk (RON 13m);
Interest rate risk is almost perfectly offset on assets and liability side.

Life underwriting risks have low contribution to the SCR of Asirom;
- The highest exposures within this module are disability risk (via exposure in riders) and expenses risk;
- Longevity and revision risks are related to the annuities stemming from MTPL (Non-Life activity).

Non-Life underwriting SCR
- The highest Non-Life SCR contributor is premium and reserve risk submodule;
- There is very limited exposure to catastrophic risk;
  – Limited exposure;
  – Comprehensive reinsurance;
- Gross vs mitigated exposures to catastrophic risks demonstrate the efficiency of the reinsurance program.
-The “scenario EQ” leads to a decrease in EOF from 105m to -236m, with an increase in SCR from 147m to 237m (all figures in RON);
-Asirom has extensive reinsurance cover for the natural catastrophe risk; the highest impact factor in this scenario is default of reinsurers;
-Additionally, there is high exposure of intragroup reinsurance provided by VIG, which is penalized by the stress test.

-The “scenario FL” leads to a decrease in the value of EOF from RON 105m to RON -7m, with an increase in SCR from RON 147m to RON 165m;
-The flood scenario is less severe than the earthquake scenario; nevertheless the effect of reinsurance defaults exhibits a similar pattern.
-Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on solvency;
-The value of own funds is reduced from RON 105m to RON 66m/ 69m, while the SCR remains almost unchanged;
-As a result of this scenario, the SCR ratio would fall to about 45% / 47%;
-The main drivers of this are property stress on the asset side and the impact of the interest rate stress on the liability side;
-Contrary to the SCR calculations, the company is not immune to the interest rate shock, if combined with adverse spread movement on the asset side (government bonds and corporate bonds).

**EUROINS**

- Solvency II value of assets: RON 300m;
- Excess of assets over liabilities: RON -574m;

The most important asset classes:
- Other assets (including receivables): RON 82m;
- Equity: RON 81m;
- Cash: RON 72m;

The asset structure excludes DTA and reinsurance assets.

All of the company’s bonds are unrated corporate bonds.
- More than 95% of technical provisions are in MTPL;
- There is marginal exposure to other lines of business.

For Euroins, all OF items are Tier 1 unrestricted.

Having negative own funds, Euroins has negative coverage ratios both for SCR and MCR.
Market risk contributions:
– Currency exchange (RON 47m);
– Equity risk (RON 38m);
– Concentration risk (RON 33m);
– Interest rate risk (RON 24m).

The highest SCR exposures:
– Non-Life module (RON 193m);
– Market risk (RON 91m);
– Counterparty default (RON 62m).

Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is premium and reserve risk submodule;
- There is very limited exposure to catastrophic risk:
  – Limited exposure;
  – Significant mitigation;
- Gross vs mitigated exposures to catastrophic risks demonstrate the efficiency of the reinsurance program.
-The insurance scenario EQ leads to a decrease in the value of EOF from RON -574m to RON -623m, with an increase in SCR from RON 290m to RON 303m;
-The highest impact factor is inflation stress;
-Euroins has a small property exposure leading to a small effect of EQ stress.

-The insurance scenario FL leads to a decrease in the value of EOF from RON -574m to RON -618m, with an increase in SCR from RON 290m to RON 302m;
-The highest impact factor is inflation stress;
-Euroins has a small property exposure leading to a small effect of EQ stress.
Both scenarios, i.e. AP and DEP, have slightly different effects on the Solvency II position because of the important FX exposure;
- In the “scenario AP”, the value of own funds is reduced from RON -574m to RON -620m, while the SCR drops from RON 290m to RON 281m, leading to -221% coverage ratio;
- In the “scenario DEP”, the impact is less severe – a reduction in own funds from RON -574m to RON -595m and an increase in SCR from RON 290m to RON 291m, leading to -204% coverage ratio;
- The main drivers of this are equity stress on the assets side and impact of the interest rate stress on the liability side;
- In the “scenario DEP” there is the mitigating effect of FX stress.

The most important asset classes:
- Cash and cash equivalents: RON 102m;
- Property: RON 24m;
- Receivables (included in the assets): RON 17m;
The asset structure excludes DTA and reinsurance assets.

-Solvency II value of assets: RON 220m;
-Excess of assets over liabilities: RON -378m;
-Exactly 97% of technical provisions are in MTPL;
-There is marginal exposure to other lines of business.

-the DTA position of RON 43m results in RON 43m Tier 3 own funds (with DTL at zero);
-The remaining OF items with a value of RON -421m are Tier 1 unrestricted.

-On June 30, 2014, Carpatica would not have fulfilled the SCR requirements, with coverage ratio of -153%;
-Carpatica would also not have fulfilled the MCR requirement, with coverage ratio of -451%.
Market risk contributions:
- Interest rate risk (RON 13m);
- Property risk (RON 6m).

The highest SCR exposures:
- Non-Life module (RON 188m);
- Counterparty Default risk module (RON 62m);
- Operational risk (RON 21m);
- Market risk (RON 17m).

Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is premium and reserve risk submodule;
- There is very limited exposure to Nat Cat risk:
  - Limited exposure;
  - Comprehensive reinsurance;
- The man-made catastrophic risk is almost fully covered by reinsurance.
- The insurance scenario EQ leads to a decrease in the value of EOF from RON -383m to RON -430m, with an increase in SCR from RON 251m to RON 258m.
- Carpatica has reinsurance cover for the natural catastrophe, and the highest impact factor is the default of reinsurers;
- In general, the exposure of Carpatica to Nat Cat risk is limited due to a small size of property portfolio.

- The insurance scenario FL leads to a decrease in the value of EOF from RON -383m to RON -414m, with an increase in SCR from RON 251m to RON 256m;
- The flood scenario is less severe than the earthquake scenario; nevertheless, the effect of reinsurance defaults exhibits a similar pattern;
- In general, the exposure of Carpatica to Nat Cat risk is limited due to the small size of property portfolio.
- Both economic scenarios, i.e., the one with appreciation of RON and the one with depreciation of RON, have similar effect on Solvency II position;
- The value of own funds is reduced from RON -383m to RON -392m, while the SCR remains practically unchanged;
- As a result of the economic stress scenarios, the SCR ratio would fall to -157%;
- The main drivers of this fact are property stress on the assets side and impact of the interest rate stress on the liability side.

**GENERALI**

- Solvency II value of assets: RON 1,040m;
- Excess of assets over liabilities: RON 315m;
- The most important asset classes:
  - Government bonds: RON 619m;
  - Corporate bonds: RON 74m;
  - Property: RON 48m
- The asset structure excludes DTA and reinsurance assets.
- The corporate bond portfolio consists of bonds with ratings of BBB, BB and A more or less equally spread.
- Life business is dominated by the traditional exposures;
- In Non-Life, 36% of the exposures are in MTPL, 25% in other motor damage, 20% in MAT and 16% in property;
- There is marginal exposure to other lines of business.

All OF items are Tier 1 unrestricted.

- On June 30, 2014, Generali would have fulfilled the SCR requirements, with coverage ratio of 162%;
- Generali would have fulfilled the MCR requirement, with coverage ratio of 491%.
The highest SCR exposures:
- Market risk module (RON 88m);
- Non-Life module (RON 85m);
- Counterparty default (RON 52m).

Market risk contributions:
- Currency risk (RON 74m);
- Equity risk (RON 13m);
- Property risk (RON 12m);

The currency exposure is related to substantial holding in foreign assets, mainly (but not exclusively) government bonds, receivables, deposits and cash.

Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is premium and reserve risk submodule;
- There is very limited exposure to catastrophic risk thanks to a comprehensive reinsurance program;
- Gross vs mitigated exposures to catastrophic risks demonstrate the efficiency of the reinsurance program.
- The insurance scenario EQ leads to a decrease in the value of EOF from RON 315m to RON -43m, with an increase in SCR from RON 194m to RON 316m;
- Generali has extensive reinsurance cover for the natural catastrophe risk, the high stress test is a result of assumed defaults of reinsurers.

- The insurance scenario FL leads to a decrease in the value of EOF from RON 315m to RON 286m, with an increase in SCR from RON 194m to RON 198m;
- The flood scenario is less severe than the earthquake scenario, but here the impact is caused mostly by non-catastrophe reinsurance default.
- In the “scenario AP”, the value of own funds is reduced from RON 315m to RON 265m while the SCR falls from RON 194m to RON 190m, and solvency ratio to 139%.
- In the “scenario DEP”, the value of own funds is reduced from RON 315m to RON 311m while the SCR increases from RON 194m to RON 200m, with a resulting solvency ratio of 156%.
- In the “scenario DEP” there is a high mitigating effect of RON depreciation.

**PAID**

- Solvency II value of assets: RON 117m
- Excess of assets over liabilities: RON 46m

The most important asset classes:
- Deposits: RON 90m;
- Other assets (including receivables) RON 10m;
- Government bonds: RON 5m;

The asset structure excludes DTA and reinsurance assets.
The total exposure of the undertaking is in the Fire/Property line of business.

All Funds are in Tier 1 unrestricted.

- On June 30, 2014, PAID would not have fulfilled the SCR requirements, with a coverage ratio of 93%.
- PAID would have fulfilled the MCR requirement, with a coverage ratio of 374%.
Market risk contributions:
– Spread risk (about RON 1m).

The highest SCR exposures:
– Non-Life module (RON 32m);
– Counterparty default (RON 20m).

Non-Life underwriting SCR:
- The highest Non-Life SCR contributors are premium and reserve risk submodule and catastrophe risk;
- There is significant exposure to flood risk which is RON 15m (reinstatement premium counting for half of the flood risk SCR).
The insurance scenario EQ leads to a decrease in the value of EOF from RON 46m to RON -242m, with an increase in SCR from RON 49m to RON 157m; PAID has extensive reinsurance cover for the natural catastrophe risk, and the highest impact factor is the default of reinsurers.

The insurance scenario FL leads to a decrease in the value of EOF from RON 46m to RON -14m, with an increase in SCR from RON 49m to RON 71m; The flood scenario is less severe than the earthquake scenario; nevertheless, the effect of reinsurance defaults exhibits a similar pattern.
In the “scenario AP”, the value of own funds is reduced from RON 46m to RON 42m, while SCR increases from RON 49m to RON 79m;
The significant increase of SCR results from the fact that, in the base case, the reinsurance capacity in the Nat Cat reinsurance cover almost coincides with the gross SCR. In consequence, merely 4% appreciation of RON implies that the SCR earthquake loss would exceed reinsurance capacity by roughly RON 40m;
In the “scenario DEP”, the value of own funds stays at almost the same level of RON 46m, while SCR increases from RON 49m to RON 51m;
Also in the second case, the increase in SCR is an effect of interaction between FX risk and earthquake cover – in case of depreciation reinsurance capacity increases, but also reinsurance retention, increasing the share of the company.

AXA

- Solvency II value of assets: RON 110m;
- Excess of assets over liabilities: RON -13m.

The most important asset classes:
- Government bonds: RON 71m;
- Property: RON 18m;
- Deposits: RON 18m;
The asset structure excludes DTA and reinsurance assets
Life business consists of 100% traditional exposures, as reported in the balance sheet.

For AXA all OF items are Tier 1 unrestricted.

On June 30, 2014, AXA had negative own funds in the Solvency II balance sheet, resulting in negative coverage ratios both for SCR and MCR.
Market risk contributions:
- Interest rate risk (RON 7m);
- Property risk (RON 5m);
- Concentration risk (RON 1m).

The highest SCR exposures:
- Life module (RON 11m);
- Market risk module (RON 10m).

- Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on Solvency II position;
- The value of own funds is reduced from RON -13m to RON -23m, while the SCR drops from RON 19m to RON 18m;
- As a result of the economic stress scenarios, the SCR ratio would fall to -126%;
- The main driver of the result is the fall of swap rates and resulting increase of the technical provisions for life obligations.
EXIM

- Solvency II value of assets: RON 75m;
- Excess of assets over liabilities: RON -8m.

The most important asset classes:
- Deposits: RON 31m;
- Government bonds: RON 6m;

The asset structure excludes DTA and reinsurance assets.

The most significant lines of business in terms of technical provisions are:
- Credit and Suretyship with 68.4% exposure;
- General Liability Insurance with 18% exposure;
- Workers’ compensation with 11.7% exposure.

There is marginal exposure to other lines of business.
The DTA position of RON 1.6m results in RON 1.6m Tier 3 own funds; 
The remaining OF items are Tier 1 unrestricted.

- On June 30, 2014, Exim would not have fulfilled the SCR requirements, with a coverage ratio of -14%; 
- Exim would also not have fulfilled the MCR requirement, with a coverage ratio of -62%.

The highest SCR exposures: 
- Non-Life module (RON 55m); 
- Market risk (RON 9m).

Market risk contributions: 
- Concentration risk (RON 9m); 
The concentration risk results from the large deposit holdings in banks.
Non-Life underwriting SCR:
- The highest Non-Life SCR contributor is catastrophic risk;
- The significant exposure to catastrophic risk is related to unmitigated risk in C&S line of business;
- The gross vs mitigated exposures to catastrophic risks, demonstrate inefficiency within the reinsurance program.

- The insurance scenario EQ leads to a decrease in the value of EOF from RON -8m to RON -17m, with an increase in SCR from RON 61m to RON 63m;
- The impact of the EQ scenario is small due to specific exposures.
The insurance scenario FL leads to a decrease in the value of EOF from RON -8m to RON -16m, with an increase in SCR from RON 61m to RON 63m; The impact of the EQ scenario is small due to specific exposures.

Both economic scenarios, i.e. the one with appreciation of RON and the one with depreciation of RON, have similar effect on solvency; The value of own funds is unchanged and SCR changes slightly by +/- RON 1m; As a result of the economic stress scenarios, the SCR ratio would remain almost unchanged, around the value of -14%.