ETHNIKI
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Solvency & Financial Condition Report Group – Executive Summary

2017

Executive Summary

Set out below is the executive summary of the Solvency and Financial Condition Report of the "ETHNIKI" Hellenic General Insurance Company Group ("the Group"), which includes key figures and information on the Group's business and performance, system of Governance, risk profile, valuation for solvency purposes, capital management and its future prospects:

Key Figures

The following table depicts the Group key figures for the financial years 2017 and 2016.

Solvency II Balance sheet	31.12.2017	31.12.2016
(€ in thousands)		
Group eligible own funds		
Tier 1	621.460	502.141
Tier 2	-	-
Tier 3	50.501	48.856
Total Group eligible own funds	**671.961**	**550.997**
Capital Requirement		
Group Solvency Capital Requirement (SCR)	353.489	342.291
Group Solvency Ratio	190%	161%

As indicated in the above Table, at 31.12.2017, the Group's eligible own funds for SCR coverage exceed the Group Solvency Capital Requirement (SCR).

For 2017, no dividend will be distributed by any of the Group's Companies.

Business and Performance

The Group is present in Greece through "ETHNIKI" Hellenic General Insurance Company ("the Participant"), Romania and Cyprus through Garanta Asigurari S.A., Ethniki Insurance (Cyprus) Ltd, Ethniki General Insurance (Cyprus) Ltd (collectively: "the related undertakings"), and Ethniki Insurance Agents and Consultants Ltd.

In 2017, the Group maintained robust levels of profitability, remaining a financially sound and robust beacon of stability and reliability for its policyholders.

Financial year 2017 was another milestone for the Group, as regards its financial performance. More specifically, profitability increased by an impressive 24.7% compared to 2016, with Profit before Tax ("PBT") amounting to €72.1m compared to €57.8m in 2016. Gross Written Premiums ("GWP") for 2017 increased by 2.0% compared to 2016, reaching €623.1m (2016: €611.0m), out of which Life GWP amounted to €436.5 m (2016: €410.5 m.) and Non-Life GWP to €186.6m (2016: €200.5m).

While remaining loyal in its values and its people centered approach, the Group is continually improving its infrastructure, aiming at the creation of innovative insurance programs and the provision of outstanding services which are constantly improving, and modernizing, in order to meet current requirements of its policyholders.

System of Corporate Governance

The Group has an effective Corporate Governance System which ensures sound and prudent management and promotes the Group's continuity, consistency and proper operation.

The BoD of the Participant and its related undertakings (supported by Committees) is responsible for the strategic direction of the Group, the supervision and oversight of management, the adequate control of the Group, aiming at the maximization of its long term value, and the advancement of Group corporate interests within the current legal and regulatory framework.

The System of Corporate Governance of the Group includes:

1. Policies and procedures, authorized by the BoD of the Participant (and all related undertakings), such as Corporate Governance Code, Fit and proper Policy, Remuneration and Outsourcing policy.
2. Internal Financial Control system which secures (as a good as possible) that Internal controls operate properly as designed, are adequate and promote consistent implementation of business strategy and policies/ procedures, that risks undertaken are recognized and effectively managed, and that financial information provided is reliable. Herein, the Internal Financial Control System contains– inter alia- allocation of responsibilities to personnel, establishment and documentation of procedures and safety mechanisms, and the conduct of regular and extraordinary audits by the competent Corporate Units.
3. Risk management, which aims at the timely identification, adequate assessment and effective monitoring, management and reporting of risks, existing and emerging, throughout the range of business activities. For the effective operation of the risk management system, Risk Management Strategies and Policies are developed for the Group and the Own Risks & Solvency Assessment is undertaken.
4. Four key functions: Internal Audit, Actuarial, Risk Management and Regulatory Compliance Function, which operate on the basis of approved Group-wide Regulations. Their independence and effectiveness are ensured by the BoD.

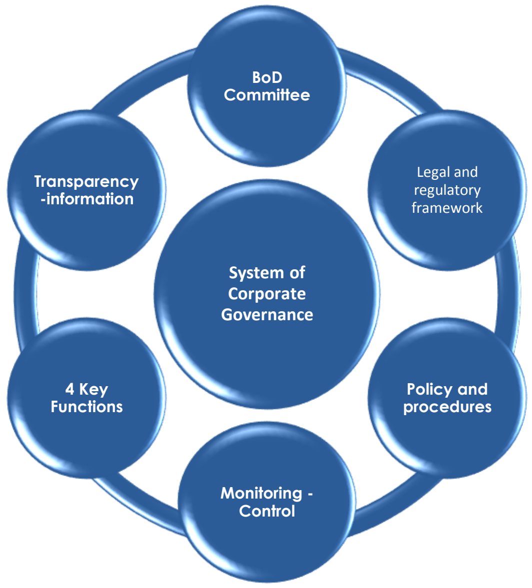

Diagram: Illustration of a System of Governance

During 2017 there was a reinforcement of the policies and procedures of the system of governance as well as additional roles, in order to comply with the Solvency II requirements.

Risk Profile

The Participant and its related undertakings monitor their risk profile through coordinated procedures for the identification, evaluation, management and reporting of the undertaken risks and with the participation of all business units.

In this framework, the following risks have been identified and managed through the development of policies and respective procedures:

Financial year 2017 was characterized by an increased level of uncertainty geopolitically as well as financially. At the same time, the adoption, as well as the expected import of new regulations, that affect the operation of the insurance market, render compliance risk one of the major risks that the Group faces. Due to the current macroeconomic conditions in Greece, as well as globally, the main strategic risks that affected the Group in 2017 and are still affecting its activities, are those stemming from the unstable financial and operating business environment in general.

For the calculation of Group Solvency, the alternative method referred to in the article 233 of Directive 2009/138/EC of the European Parliament and of the Council is followed ("deduction and aggregation method").

The quantitative assessment of the Solvency Capital Requirement that stems from the undertaken risks is performed with the use of the standard approach. The suitability of this method, in relation to the Group's risk profile, has been evaluated within the framework of the annual own risks and solvency assessment (ORSA) of the Group.

The solvency capital requirement at 31.12.2017, with the use of the volatility adjustment to the relevant risk free interest rate term structure ("adjusted curve") and the transitional measures for technical provisions and for the subcategory of equity risk ("transitional measures"), amounts to €353.5m as opposed to €342.3m as at 31.12.2016 at Group level.

The solvency capital requirements of the Participant as well as of its affiliated companies, as calculated for 31.12.2017 and 31.12.2016 are presented in the following tables:

Solvency Capital Requirements (amounts in € thousands) 31.12.2017	Participant	Ethniki Cyprus Life	Ethniki Cyprus Non - Life	Garanta
Market risk	169.835	3.698	2.185	3.175
Credit risk	38.174	1.075	2.860	2.023
Insurance risk Life	125.105	3.162	0	811
Insurance risk Health	75.126	411	1.819	548
Insurance risk Non - Life	88.067	0	2.485	2.803
Diversification	(181.731)	(2.332)	(3.027)	(3.030)
BSCR	**314.577**	**6.014**	**6.323**	**6.331**
Operational risk	*21.910*	*320*	*567*	*251*
LAC	*0*	*0*	*(136)*	*(955)*
Solvency Capital Requirement	**336.486**	**6.333**	**6.754**	**5.626**

Solvency Capital Requirements (amounts in € thousands) 31.12.2016	Participant	Ethniki Cyprus Life	Ethniki Cyprus Non -Life	Garanta
Market risk	164.388	3.483	2.247	3.931
Credit risk	37.103	1.649	2.843	1.913
Insurance risk Life	100.016	2.956	0	1.199
Insurance risk Health	81.859	0	1.721	588
Insurance risk Non - Life	97.520	0	2.349	2.583
Diversification	*(178.042)*	*(2.252)*	*(2.955)*	*(3.364)*
BSCR	**302.844**	**5.836**	**6.205**	**6.850**
Operational risk	*22.585*	*287*	*544*	*262*
LAC	*0*	*(52)*	*(261)*	*(1.138)*
Solvency Capital Requirement	**325.429**	**6.071**	**6.488**	**5.974**

The solvency capital requirement without the use of the transitional measure for technical provisions, amounts to €353.7m as at 31.12.2017 as opposed to € 343.4m as at 31.12.2016. Without the use of the volatility adjustment to the relevant risk free interest rate term structure and the use of transitional measures and also without the use of transitional measures for technical provisions and for the subcategory of equity risk, the amount of solvency capital requirement is €364.8 m as at 31.12.2017 as opposed to €360.0 m as at 31.12.2016 at Group level.

There was no material change in the Group's total risk profile, compared to the previous reporting period. In 2017, as in the prior year, Market and Life insurance risks were the risks with the highest solvency capital requirements in the Group. However, we note that the solvency capital requirement for Life insurance risk increased significantly in aggregate in 2017. This increase actually due to the change of the lapse risk calculation method of the Participant.

The Group has assessed the spread risk on sovereign bonds as a major risk that cannot be covered by the standard formula. For optimum risk control, the Group's companies have developed processes that include measurement ratios as well as monitoring and reporting procedures.

The Group has performed a sensitivity analysis for the above risk and other risks, in order to estimate the effect of changes to risk factors on its own funds and on its solvency capital requirement as at 31.12.2017. The sensitivity analysis was performed with:

a. The use of transitional measures and volatility adjustment to the relevant risk free interest rate term structure for the Participant.
b. The use of volatility adjustment to the relevant risk free rate term structure for Ethniki Insurance (Cyprus) Ltd.
c. The use of risk free curve of the part of Ethniki General Insurance (Cyprus) Ltd.
d. The use of risk free curve of the part of Garanta Asigurari S.A.

The results of the sensitivity analysis are summarized in the table below:

Scenarios	Change (amounts in € thousands):		
	Own capital	Solvency capital Requirement	Capital Adequacy ratio
Increase of interest rates	50.141	2.129	203%
Decrease of interest rates	(72.455)	(5.859)	172%
Decrease of equity prices	(56.108)	(7.798)	178%
Decrease in property value	(13.266)	(2.070)	187%
Decrease of spreads (scen. 1)	(214.703)	666	129%
Increase of spreads (scen. 2)	(169.996)	(339)	142%

Valuation for Solvency Purposes

Group undertakings evaluate assets and liabilities and calculate technical provisions in accordance with Chapter VI, section 1 and 2 of Directive 2009/138/EC of the European Parliament and of the Council.

For assets and liabilities which are valued at fair value in accordance with International Accounting Reporting Standards ("IFRS"), no further adjustments are performed. The remaining assets and liabilities, are adjusted to fair value. Technical provisions are valued in accordance with the valuation rules of the existing legislative and regulatory framework.

For the calculation of Group eligible own funds, Method 2 (alternative method) is applied, in accordance with article 233 of Directive 2009/138/EC of the European Parliament and of the Council (article 191 of Greek Law 4364/2016) and as a result a balance sheet is not prepared for the Group. The Bank of Greece, with the decision No. 184/4/25-04-2016 of its Committee of Credit and Insurance Issues, approved the use of method 2 for the calculation of the Group's Solvency, effective from 01.01.2016.

Capital Management

Through capital management, the Group aims to optimize the balance between risk and return, ensuring that its funds are adequate to cover capital requirements. In order to achieve this task, a Capital Management Policy has been developed, which is in line with the Group's risk appetite and strategy.

To effectively monitor the capital position of the Group, capital adequacy limits are set on the capital adequacy ratio of the Group.

The Participant, with decision No 184/25.04.2016 of the Committee of Credit and Insurance issues of the Bank of Greece, has received an approval for using the transitional measure on technical provisions amounting to €238.3 m., on which it applies a linear amortization for 16 years.

According to the above, the transitional measure as at 1.12.2017 was calculated at 15/16 of €238.3m i.e. €223.4m. As at 31.12.2017 the Participant re-estimated the transitional measure of the technical provisions at €205.8 m. The amount of the new transitional adjustment on technical provisions as at 01.01.2018, has been calculated to the amount of €180.1m, i.e. at 14/16 of the €205.8 m.

The Participant, according to the decision No. 184/6/2016-25-04-2016 of the Supervisor, applied for the calculation of its technical provisions a transitional reduction based on article 308d of Directive 2009/138/EC of the European Parliament and of the Council (article 275 of Greek Law 4364/2016). Furthermore, the Participant uses the transitional measure for the subcategory of equity risk for type 1 equity holdings that were in in its portfolio on January 1st 2016. It also uses the volatility adjustment to the relevant risk free interest rate term structure. Application of the volatility adjustment to the relevant risk free interest rate term structure is also performed by Ethniki Insurance (Cyprus) Ltd.

The consistently robust profitability for the past years, coupled by the intense effort to contain the solvency capital requirement, have contributed to the reinforcement of the Group's own funds and to a Solvency II ratio of 190.1% at 31.12.2017 as opposed to 161.0% as at 31.12.2016, with the use of the volatility adjustment to the relevant risk free interest rate term structure and transitional measures. Without the use of the transitional measure for technical provisions the Solvency II ratio is 126.8% as opposed to 91.1% as at 31.12.2016. Without the use of the volatility adjustment to the relevant risk free interest rate term structure and the transitional measures, the Solvency II ratio is 121.5% as opposed to 81.7% as at 31.12.2016.

The Group as at 31.12.2017 covers the solvency capital requirement target set in its Policy. Specifically, total eligible own funds at Group level with the aggregation and deduction method amount to €672.0 m. as at 31.12.2017, while the total of solvency capital requirement is €353.5 m.

Taking into account the above, the Group Solvency II ratio reached 190.1%, improved by 29 percentage units compared with last year's ratio.

This improvement is mainly due to the following:

1. The Group's profitability, with after tax profit reaching €69.4 m. for 2017,
2. The increase of eligible own funds, beyond the Group's profitability, of about €51.5 m.,

This improvement was partially offset due to the increase of solvency capital requirements of €11.2 m. approximately.

The Participant is the main contributor to the above movements.

Prospects for the Future

The main objectives of the Group for 2018 are to maintain its leading position in the Greek insurance market, to sustain consistently high levels of profitability and to strengthen its capital adequacy while at the same time offering innovative solutions for its policyholders in line with their requirements, providing high quality services, advancing further operational development and effectively utilizing its human resources.

During 2018, the Group is also actively preparing for its alignment with the new regulatory framework "GDPR" for the protection of individuals with regard to the processing of their personal data and the IDD Directive on the underwriting and pursuit of the distribution of insurance products, adapting its culture, structures and processes, as well as the IT systems, while always maintaining a customer oriented focus.

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