DZI – LIFE INSURANCE JSC
INDEPENDENT AUDITORS' REPORT
CONSOLIDATED ANNUAL ACTIVITY REPORT
CONSOLIDATED NON FINANCIAL DECLARATION
CONSOLIDATED STATEMENT OF CORPORATE GOVERNANCE
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

Independent Auditors' Report

To the Sole owner of DZI-Life Insurance EAD

Report on the audit of the consolidated financial statements

Our opinion

We have audited the consolidated financial statements of DZI - Life Insurance EAD and its subsidiary (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the consolidated financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

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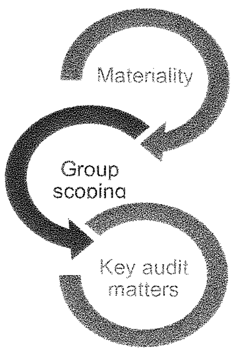
Our audit approach

Overview



- Overall materiality of consolidated financial statements: BGN 3,228 thousand, which represents 1% of gross written premium.

- We have audited the financial statements of the both companies in Bulgaria
- The scope of our audit represents 100% of the Group's gross written premium and 100% of the Group's profit before tax.

- Estimates used in calculation of life and general insurance contract liabilities and liability adequacy test (LAT)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements. Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall materiality	BGN 3,228 thousand
How we determined it	Overall materiality represents approximately 1% of the Group's gross written premium (GWP)
Rationale for the materiality benchmark applied	We have chosen gross written premium as the benchmark because it is the benchmark against which the performance of the Group is measured. We considered that the Group focuses on revenue growth and have chosen an amount close to 1% of GWP as we applied our judgement about the needs of the users of the accompanying consolidated financial statements and concluded that revenue was a meaningful measure for users of the consolidated financial statements. We selected the above threshold based on our professional judgement, noting that it is within the range of commonly acceptable quantitative materiality thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimates used in calculation of insurance contract liabilities and liability adequacy test (LAT) As at 31 December 2019, the Group's payables for insurance contract liabilities (before reinsurance) amount to BGN 489,444 thousand, including liabilities on life insurance contracts at the amount of BGN 174,107 thousand and liabilities on general insurance contracts at the amount of BGN 315,337 thousand, as disclosed in note 29 to the consolidated financial statements. Insurance contract liabilities, also referred as technical insurance provisions, represent the most significant liability of the Group. Their assessment is a complex area that requires application of a set of statistical and mathematical methods and models as required by the Group's accounting policies and regulatory requirements. The valuation of technical insurance provisions requires professional judgment over uncertain future outcomes, including primarily the timing and ultimate settlement of long-term policyholder liabilities. Relevant accounting policies and critical judgements used by the management to determine assumptions that have the greatest effect on the measurement of insurance contracts are disclosed in Note 2.4 (a) to the accompanying consolidated financial statements.	We obtained an understanding and evaluated the design and operating effectiveness of selected key controls over the actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting and governance processes used by management related to the valuation of life and general insurance provisions. Our approach focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions used in the calculation of technical provisions or performing liability adequacy test. In relation to the particular matters set out above, our substantive testing procedures included, but were not limited to, the following: • Review and analysis of the accounting policy in respect of the Group's technical insurance provisions valuation and presentation, as prescribed by the applicable IFRS; • Obtaining an understanding of the internal actuarial process, including management's determination and approval process for setting economic and actuarial assumptions. We used our actuarial specialists to assist us in performing our audit procedures. • Our assessments also included challenging, as necessary, specified economic and actuarial assumptions, considering management's rationale for the actuarial judgements applied, along with comparison to applicable industry experiences. We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with applicable accounting standards. • We also evaluated the completeness, relevance and adequacy of the consolidated financial statement disclosures.

With regards to life technical provisions we focused our procedures on the mathematical provision and the liability adequacy test (LAT) due to their significance and presence of estimates in their calculation. Consistent with the insurance industry, the Group uses valuation models to support the calculations of mathematical reserve. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design application of the models. Economic assumptions such as investment return and interest rates and actuarial assumptions such as mortality, morbidity and customer behaviour are key inputs used to estimate there mainly long-term liabilities. Significant judgement is applied in these assumptions. The Group's IFRS liability adequacy test was performed in order to confirm that life technical provisions, net of deferred acquisition cost, were adequate in the context of expected future cash outflows.	In relation to the particular matters related with life technical provisions set out, our substantive testing procedures included, but were not limited to the following: • Performing recalculations through which we determined whether the models reflect the technical provisions fully and correctly. • Checking the reliability of the liability adequacy test performed by management, which is a basic test confirming that the liabilities are sufficient to cover future payments • Reconciliation of the data used in the model with the accounting registers and accompanying documentation.

With regards to general technical provisions we focused our procedures on the part of the technical provisions, which are provisions for incurred but unclaimed claims (IBNR), assessment of the future development of the provision for future payments, the adequacy of technical provisions, including the provision for unexpired risks. The evaluation of general insurance loss reserves involves a high degree of subjectivity and complexity in applying the key assumptions and methodology. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date. Specifically, long-tail lines of business are generally more difficult to project and subject to greater uncertainties than short-tail ones. Relevant accounting policies and critical judgements used by the management to determine assumptions that have the greatest effect on the measurement of insurance contracts are disclosed in Note 2.4 (a) to the accompanying consolidated financial statements.	In relation to the particular matters related with general technical provisions set out, our substantive testing procedures included, but were not limited to the following: • Involvement of our actuarial specialists to independently and critically test management's general insurance loss reserve estimates, and evaluate the reasonableness of the methodology and assumptions used against recognized actuarial practices and industry standards; • Testing the completeness and accuracy of underlying claims data utilized by the Group's actuaries in estimating general insurance loss reserves; • Performing an independent calculation of the claims development patterns on selected product lines, particularly focusing on the largest and most uncertain general insurance reserves, and assessment for adequacy of unexpired risk reserve and incurred but not reported reserve (IBNR), including run-off of the outstanding claims reserve;

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How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have audited the Company and its subsidiary, which represents the entire Group. These and other procedures performed at the group level, including tests of consolidated accounts and intergroup eliminations, provided us with the necessary evidence to express an opinion on the consolidated financial statements as a whole.

Information other than the consolidated financial statements and auditors' report thereon

Management is responsible for the other information. The other information comprises the Consolidated Annual Activity Report, the Consolidated Statement of Corporate Governance and the Consolidated Non-financial Declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Consolidated Annual Activity Report, the Consolidated Corporate Governance Statement and the Consolidated Non-financial Declaration we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines Regarding the New and Enhanced Auditor Reporting and Communication by the Auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

a) The information included in the Consolidated Annual Activity Report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The Consolidated Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

c) The Consolidated Statement of Corporate Governance for the financial year, for which the consolidated financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8 of the Public Offering of Securities Act.
d) The Consolidated Non-Financial Declaration referring to the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Accounting Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the Implementation of Joint Audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

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Report on other legal and regulatory requirements

Additional reporting on the audit of the consolidated financial statements in connection with art. 10 of Regulation (EU) 537/2014 in connection with the requirements of art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art.10 of Regulation (EU) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the consolidated financial statements of the Group for the year ended 31 December 2019 by the general meeting of shareholders held on 27 June 2019 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as auditors of the Group on 21 June 2016.
- Grant Thornton OOD was appointed as a statutory auditor of the consolidated financial statements of the Group for the year ended 31 December 2019 by the general meeting of shareholders held on 27 June 2019 for a period of one year. Grant Thornton OOD was first appointed as auditors of the Group on 26 September 2017.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents forth of total uninterrupted statutory audit engagements for that Group carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents third of total uninterrupted statutory audit engagements for that Group carried out by Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Group's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that during 2019 we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory audit refers, we have provided other services to the Group, in addition to the audit, which have been disclosed in Note12 of the consolidated financial statements.

For PricewaterhouseCoopers Audit Ltd:

Jock Nunan

Procurator

Boryana Dimova

Registered Auditor responsible for the audit:

For Grant Thornton Ltd:

Mariy Apostolov

Managing partner

Emilia Marinova

Registered Auditor responsible for the audit:

14 July 2020

Sofia, Bulgaria

Одиторско дружество София Рег. № 085 Прайсуотърхаускупърс Одит ООД

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

DZI - Life Insurance JSC – General information

This version of the consolidated financial statements is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

Management Board

Kosta Cholakov – Chairman of the Management Board and Chief Executive Officer
Evgeni Benbasat - Member of the Management Board and Executive Director
Bistra Vasileva - Member of the Management Board and Executive Director
Boris Palichev - Member of the Management Board and Executive Director

Secretary

Simona- Yovcheva Hadzhieva

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Lawyers
Internal Corporate Law Directorate

Auditors
PricewaterhouseCoopers Audit OOD
1000 Sofia
9-11 Maria Luiza blvd.

Grant Thornton OOD
1421 Sofia
26 Cherni vrah blvd.

CONSOLIDATED ANNUAL ACTIVITY REPORT OF DZI LIFE INSURANCE JSC

2019

DZI GROUP

DZI Life Insurance Group ("DZI Group", "the Group") carries out life and general insurance and reinsurance activities.

The parent DZI – Life Insurance JSC ("the Parent", "DZI – Life Insurance JSC") is the successor of the State Insurance Institute established in 1946 through the merger of all national insurance companies and branches of foreign companies carrying out insurance activities in Bulgaria. The State Insurance Institute – DZI JSC was privatised on 21 August 2002 through the sale of 80 % of the capital to Contract – Sofia OOD.

DZI - Life Insurance JSC is a commercial entity in accordance with the Commercial Act, registered in the Republic of Bulgaria, having its seat and address of management in Sofia, Triaditsa Municipality, 89B, Vitosha blvd. and it is the parent of DZI Group.

In 2007 KBC acquired 70% of the capital of DZI - Life Insurance JSC through the purchase of 2,702,000 shares from Contract – Sofia OOD. The transaction was finalised on 3 August 2007, after which KBC has launched public auction to acquire the remaining 30% of the shares of „DZI – Life Insurance" JSC.

By virtue of Minutes from the meeting of the Management Board of DZI IJSC of 11 October 2011, on the grounds of art. 149, para 8. in relation to art. 149b of the Law on Public Offering of Securities and under the terms and conditions of Ordinance No 13 on commercial offering to buy and sell shares, a decision was made to bid to acquire 256 839 ordinary, dematerialised, registered, freely transferable shares from the capital of DZI IJSC. In April 2012 KBC Insurance NV, Belgium has acquired all voting shares of DZI IJSC. By virtue of Minutes No 69 of 24 July 2012 of the extraordinary meeting of the Executive Committee of KBC Insurance NV, exercising the rights of sole owner of the capital of DZI IJSC, a decision was made to delist DZI IJSC from the Register of Listed Companies at FSC and to withdraw the shares of the Company from trade at the Bulgarian Stock Exchange, as well as for a change in the name of the Company. By virtue of Decision No 967 – PD of 26 September 2012 the FSC delisted DZI IJSC from the register of listed companies and other issuers of securities. The change in the legal form and name of the Company were entered in the batch of DZI IJSC in the Commercial Register at the Registry Agency on 16 October 2012. The name of the Company was changed from DZI IJSC to DZI – Life Insurance JSC.

As at 31 December 2019 KBC Insurance NV, Belgium is sole owner of DZI – Life Insurance JSC.

DZI Life Insurance JSC, as a parent company, prepares consolidated financial statements with those of its subsidiaries, where it owns, directly or indirectly, more than 50% of their capital.

As at 31 December 2019 the consolidated financial statements of DZI Group include the financial statements of the parent DZI - Life Insurance JSC and its subsidiaries where DZI holds, directly or indirectly, through subsidiaries more than 50% of the shares. These entities are listed below:

Company	Country of incorporation	Main activity	% of interest held in equity	
			2019	2018
DZI General Insurance JSC	Bulgaria	General insurance	100	100

All of DZI Group companies are commercial entities in the meaning of the Commercial Act and they operate on the territory of the Republic of Bulgaria. The Group companies have no registered branches in accordance with art. 17 of the Commercial Act.

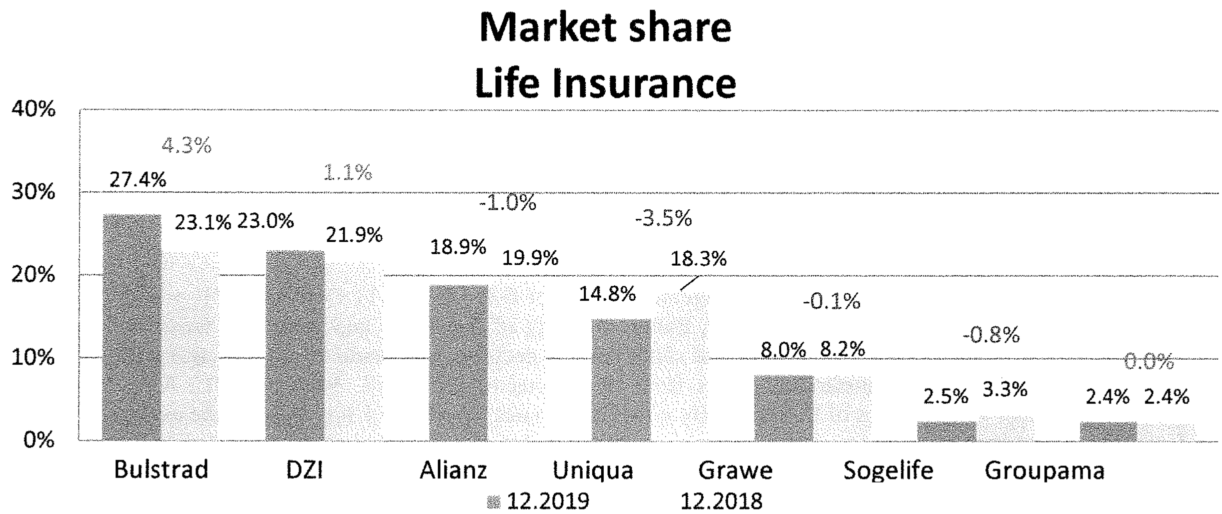
The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Group and continue to be consolidated until the date such control is lost.

The remunerations of the management personnel in 2019 are at KBGN 1,044. More information regarding these remunerations is provided in Note 39 of the Consolidated financial report.

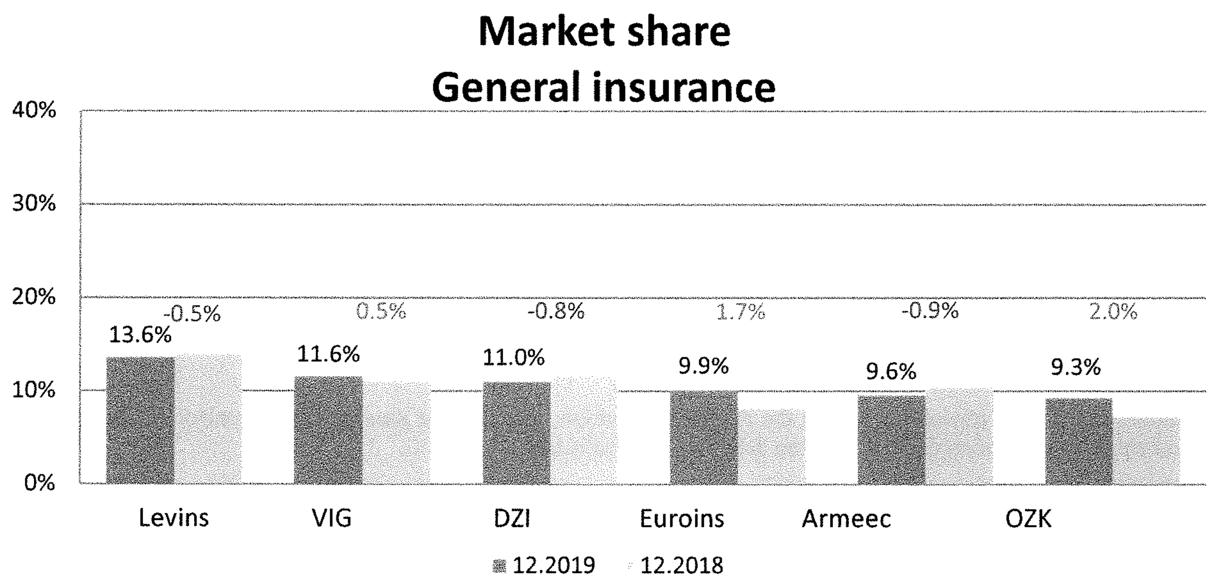
ACTIVITIES OF THE GROUP COMPANIES

Gross Domestic Product (GDP) in the fourth quarter of 2019 increased by 0.1% in the EU-27 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.7% Compared to the same quarter of the previous year, seasonally adjusted data showed an increase of GDP in the EU-27 by 1.2% and in Bulgaria - by 3.5%.The annual inflation in December 2019 compared to December 2018 was 3.8%.

In 2019 the insurance market (direct insurance) reported an increase of 15.9% as per most recent data of the FSC as at the end of December. The life insurance market data published indicate growth of 11.1% on an annual basis. Growth was reported in the volume of life insurance related to investment fund 18.5% (BGN 14 mln) and Sickness 59.5% (BGN 41 mln).). In all other lines except of Additional insurance there is a decrease compared to the previous year. 'DZI Life Insurance' ranks second by market share and keeps the same position as 2018.



In 2019, the insurance market (direct insurance) has reported growth of 15.9% as per data of the FSC as of December. The published data on the General Insurance market showed growth of 16.8% , mainly due to the growth in sales of „Casco of road vehicles" (+6.2%) and „MTPL" (+17.4%). "DZI - General Insurance" ranks third in volume of sales in General Insurance which is 1 places lower compared with the previous period.



ACTIVITIES OF THE GROUP COMPANIES (CONTINUED)

DZI - Life Insurance JSC holds a license to carry out insurance and reinsurance activities on all types of insurances in Section 1, Appendix No 1 to the Insurance Code in effect as at 31 December 2019, except for Insurance for acquisition of capital. In 2012 the Company obtained a license for the Accident and Disease insurances from Section 2 of the above-mentioned Appendix.

According to the Articles of Association of DZI - Life Insurance JSC the members of the management bodies have no preferences and restrictions in respect of acquiring shares of the Company.

Insurance premiums accrued in 2019 amount to BGN 76,569 thousand. Premiums earned, net of reinsurance, amount to BGN 73,299 thousand. Insurance premiums decreased by 81% as compared to 2018 due to purchase of new business.

Payments on life insurance amount to BGN 37,223 thousand, which increase with 35.84% compare to the prior year.

The investment income realised amounts to BGN 4,631 thousand.

The operating financial result of DZI - Life Insurance JSC in 2019 is a profit amounting to BGN 6,562 thousand.

"DZI – General Insurance" AD was established in 1998, and since then it carries out general insurance activities on behalf of DZI. The company was entered in the Commercial Register of Sofia City Court – Company Division under No 5215 in 1998.

"DZI – General Insurance" AD holds permit No 3 issued by the National Insurance Board of 13 May 1998 to carry out insurance and reinsurance activities on all types of insurances in Section II of the Appendix to art. 6, para 2 to the Law on Insurance (revoked) and additional license on the insurance under Section II, item "A", point 10 of Appendix No 1 to the Insurance Code in effect as at 31 December 2017 for the insurance of "Any liability for damages arising from the use of road motor vehicles", according to Decision No 1175-O3 of 06 December 2006 of the Financial Supervision Commission.

Gross written premium in 2019 amount to BGN 256,649 thousand or they are 9.3% higher than 2018. Net premiums earned on reinsurance amount to BGN 235,908 thousand, which represents an increase of 19.9 % on annual basis.

Insurance compensations amounting to BGN 111,209 thousand have been paid. The net amount of incurred claims, including reinsurance, recourses and changes in the outstanding payments reserve amounts to BGN 114,720 thousand. Compared to the period of 2018 this amount of claims 18% higher.

The net investment income amounts to BGN 6,658 thousand.

The operating financial result of DZI - General Insurance JSC in 2019 is a profit amounting to BGN 26,932 thousand.

FINANCIAL RESULTS OF DZI GROUP

The subsidiaries are included in the consolidated financial statements under the full consolidation method. All material intragroup balances and intragroup transactions, as well as the resulting gains and losses are eliminated in consolidation procedures.

The consolidated financial statements have been prepared on the basis of the historical cost convention except investment properties and such financial instruments and financial liabilities that are measured at fair value. The carrying amounts of recognised assets and liabilities which are hedged positions in fair value hedges and which are otherwise carried at cost, are adjusted to reflect fair value changes due to the hedged risks.

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Gross premiums on general insurance amount to BGN 256,588 thousand in the Group's consolidated statement of profit or loss. Premiums written, net of reinsurance and movements in unearned premiums reserve, amount to BGN 235,891 thousand. Accrued compensations and payments, net of reinsurance, recourses and the movements in the upcoming payments reserve amount to BGN 114,720 thousand.

FINANCIAL RESULTS OF DZI GROUP (CONTINUED)

Administrative expenses and other operating expenses amount to a total of BGN 100,263 thousand. They include administrative expenses amounting to BGN 30,692 thousand, other operating expenses amounting to BGN 67,614 thousand, and impairment of insurance receivables - BGN 1,186 thousand.

The gross life insurance premiums reported in the consolidated statement of profit or loss of the Group amount to BGN 76,365 thousand. The realised premiums, net of reinsurance and the movements in the unearned premiums reserve amount to BGN 73,095 thousand. Accrued compensations and payments, net of reinsurance and the movements in the upcoming payments reserve, amount to BGN 39,294 thousand.

Administrative expenses and other operating expenses amount to a total of BGN 33,493 thousand. They include administrative expenses amounting to BGN 14,912 thousand, other operating expenses amounting to BGN - 14,086 thousand, impairment of insurance receivables - BGN 4,364 thousand and financial expenses- BGN 151 thousand.

The consolidated financial result of DZI Group in 2019 is a profit amounting to BGN 33,494 thousand.

The total assets of DZI Group as at 31 December 2019 amount to BGN 818,751 thousand, with an increase of 14.35% compared to the prior reporting period.

Investments comprising investment properties, deposits with financial institutions, financial assets held at fair value through profit or loss, financial assets held to maturity, available-for-sale financial assets and loans granted amount to BGN 596,633 thousand compared to BGN 451,838 thousand in 2018 or an increase of 32%.

Investments represent 72.93 % of DZI Group assets.

Non-current operating assets amount to BGN 47,088 thousand with a relative share in the Group assets of 5.8%.

Receivables on insurance transactions amount to BGN 82,833 thousand or 10.12% relative share in the Group's assets. Other assets reported in the consolidated financial statements comprise: deferred acquisition costs – BGN 4,530 thousand, cash – BGN 60,646 thousand, reinsurers share – BGN 20,649 thousand, trade and other receivables – BGN 2,745 thousand, right of use assets – BGN 2,424 thousand and other assets – BGN 1,193 thousand.

As at 31 December 2019 DZI Group liabilities amount to BGN 615,452 thousand. The major portion – 79.60% - represent liabilities on insurance contracts amounting to BGN 489,444 thousand, of which BGN 174,371 thousand – on life insurance, BGN 315,337 thousand – general insurance liabilities. Liabilities under investment contracts amount to BGN 80,879 thousand Payables to other insurers and insurance intermediaries amount to BGN 28,187 thousand, retirement employee benefits - BGN 1,168 thousand, trade and other payables - BGN 10,612 thousand, derivative financial instruments - BGN 0 thousand, liabilities under leasing contracts - 2,431 and deferred tax payable - BGN 1,142 thousand.

The net assets of DZI Group amount to BGN 203,299 thousand. DZI Group equity comprises share capital amounting to BGN 38,600 thousand, revaluation, capital reserves, retained earnings and actuarial gains and losses – BGN 131,205 thousand, as well as current year profit amounting to BGN 33,494 thousand. In 2019, there were no acquisition or transfer of shares.

The insurance companies in the Group comply with the requirements of Solvency II according to the current legislation. As of December 31, 2019, the Companies have sufficient own funds to cover the Minimum Solvency Capital Requirement (MIPR) and the Solvency Capital Requirement (SCI), in accordance with the regulatory and criteria of the KBC Group for sufficient capitalization.

Financial indicators

The table below shows the financial ratios, that the Group monitors:

	2019	**2018**
Combined ratio	87.6%	90.8%
-Net cost ratio	34.1%	33.3%
-Net claims ratio	53.5%	57.5%
Cost/Income ratio	55%	73.9%

RISK MANAGEMENT

The main objective of the risk management and financial governance framework of the Group is to protect the shareholders of events, which are an obstacle for the consistent attainment of the financial performance goals, including the failure to seize opportunities arising. The main objective of the risk policy is to set clearly defined parameters for the Group operations, so that to limit to a maximum the potential negative impact of the risks on the Group's financial results.

As a member of the KBC Group DZI Group has established its risk management procedures in line with the standards and requirements of KBC Group. These standards include the following elements:

- Internal risk monitoring committee - Risk and Capital Control and Management Committee;
- Development of risk identification procedures and systems, their measurement and the reporting of their development;
- Development of a system of limits and procedures that determine the risk tolerance of the Group and limit its risk exposure.

As part of the risk management system and the system for internal control, DZI Group has established the following key functions:

- Actuarial function;
- Risk management function;
- Compliance function;
- Internal audit function.

The risk management and control rules and procedures are adopted by the Management Board and are approved by the Supervisory Board.

The risk management function is divided into two main directions:

- Insurance risk;
- Asset and liability management risk, which includes the components of financial risk:
- Market risk;
- Interest rate risk;
- Currency risk;
- Interest change risk;
- Shares price change risk;
- Real estate price change risk;
- Credit risk;
- Liquidity risk.

Non-Financial Risk, in which they fall:

- Operational risk;
- Business continuity.

Insurance risk in life insurance

The main risk the Group faces on insurance contracts is the risk that the actual claims may differ from the expectations. This is influenced by the frequency and the amount of the claims. The objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The Group manages insurance risk through restrictions over the insurance limits, improvements in the contract closing procedures, development of new products and pricing methods, centralised management of reinsurance and monitoring of the claims incurred. Insurance risk is measured separately for each insurance contract based on the effective underwriting policy of the Group.

The Group uses insurance risk valuation and control methods, including various analyses and sensitivity tests. The theory of probability is applied in the pricing of insurance policies portfolio and setting aside insurance reserves. The main risk is related to the fact that the frequency and amount of damages and claims may be higher than the expected ones.

The reinsurance strategy of the Group aims at achieving diversification of the risks, in order to ensure balance portfolio of similar risks, which would decrease the volatility of the results. The Group management defines the level of retention and amounts above this level are reinsured. Premiums in excess of the retention level, for which there is liability under the insurance contract concluded are ceded to the reinsurer, such as the case with Life.

RISK MANAGEMENT (CONTINUED)

Insurance risk in general insurance (continued)

The main risk the Group faces on insurance contracts is the risk that the actual claims may differ from the expectations. This is influenced by the frequency and the amount of the claims. The objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The Group mitigates the above-mentioned risk exposure through diversification a large insurance portfolio, the application of limitations in its underwriting procedures, appropriate methods for assessment of the required premiums and assessment of the future liabilities, as well as monitoring of the operating costs incurred.

The Group signs reinsurance contracts as part of its risk mitigation programme. Transfers to reinsurance are made on non-proportionate and proportionate basis. Non-proportionate reinsurance is mainly excess reinsurance aimed at mitigating the Group's net exposure to catastrophic disaster losses. The retention levels in excess reinsurance vary depending on the product lines and territory of occurrence of the event.

Despite the reinsurance arrangements the Group is not relieved by its direct liability to the insured persons and therefore credit exposure exists with respect to the transferred risks on insurances to the extent any reinsurer would fail to discharge its liabilities undertaken under such reinsurance arrangements.

The Company underwrites mainly the following general insurance contracts: motor insurance, property insurance, general third party liability insurance, etc. The risks under these general insurance policies usually cover a period of twelve months.

With respect to general insurance contracts most significant risks arise due to traffic accidents, natural disasters and changes in the legislative practice that lead to increase of the number and/or the size of the insurance compensations. For court claims that take several years to settle, there is also inflation risk. This risk is reduced by taking into account the expected penalty interest when estimating approximately the liabilities under insurance contracts.

The Group underwrites mainly the following general insurance contracts: motor, household property insurance, general third party liability insurance, etc. The risks under these general insurance policies usually cover a period of twelve months.

With respect to general insurance contracts most significant risks arise due to traffic accidents, natural disasters and changes in the legislative practice. Inflation risk also exists in relation to claims filed with the court, which take several years to settle. This risk is mitigated by taking into account the expected default interest, when making an estimate as to the insurance contract liabilities.

Financial risk

In its operating activities the Group is exposed to financial risks which arise from the Group's financial assets and liabilities, reinsurance assets and liabilities and technical reserves. The Group has developed and introduced risk management and control rules and procedures aimed at determining, managing and controlling financial risk.

The most important components of financial risk are market risk, credit risk, liquidity risk and operational risk.

Market risk

Market risk is the risk that the fair value of the future cash flows on the financial instrument will vary due to changes in market prices. Market risk comprises three major factors which determine its effect: exchange rate risk (currency risk), market interest rate risk (interest rate risk) and market price risk (price risk).

- Market risk is outside the control of the Group and cannot be diversified as a whole. The main method to minimise market risk and its components is to collect and process information on the macroeconomic environment and thereon – forecast and adapt the investment policy to the expected changes in the environment.
- The Group has a market risk policy which presents the assessment and definition of what market risk is to the Group. Compliance is monitored and any violation is reported to the Group's Risk Committee. The policy is reviewed regularly to confirm its appropriateness and to reflect the changes in the risk environment.
- A structure of limits set exists for the allocation of the assets and the portfolios aimed to ensure that the Group invests in certain assets which guarantee specific insurance liabilities and which are held in order to ensure income and gains to the insured persons that meet their expectations.

RISK MANAGEMENT (CONTINUED)

Additional information about the exposure of the Group towards the market risk is presented in note 37(c) from the consolidated Annual financial report.

Interest rate risk

Interest rate risk is the risk that the future cash flows on a financial instrument will vary due to changes in market interest rates.

Floating rate instruments expose the Group to cash flow risk, while fixed rate instruments expose the Group to fair value risk.

The Group's policy on interest rate risk requires the Group to manage this risk by maintaining a suitable mix of fixed- and floating-rate instruments. The policy also requires the Group to manage the maturities of its interest-bearing assets and interest-bearing liabilities. Any mismatch between fixed- and floating-rate instruments and their maturities is managed effectively by the Group through derivative financial instruments. Interests on floating rate instruments are repriced at least once a year. Interests on fixed rate instruments are set at the inception of the financial instrument and are fixed until its maturity.

Currency risk

Currency risk is the risk that the fair value of the future cash flows on the financial instrument will vary due to changes in the foreign exchange rates.

The main portion of the Group's transactions is denominated in EUR and BGN and the exposure to currency risk arises mainly in relation to the US dollar exposures. As at 31 December 2019 the financial assets and liabilities of the Group denominated in EUR do not give rise to currency risk as the exchange rate of the Bulgarian lev is pegged to the EURO in an environment of a Currency Board operating in Bulgaria. Since the Group presents its financial statements in Bulgarian levs the latter may be influenced by movements in the foreign currency rates of currencies other that the EUR and the Bulgarian lev. The Group's financial assets are denominated mainly in the same currencies as the liabilities on insurance contracts, which mitigates the currency risk for the Group. Therefore, the main currency risk arises from the recognised assets and liabilities denominated in currencies other than these, in which it is expected to settle the liabilities on the insurance contracts.

Price risk

The risk, related to the price of equity instruments, is the risk that the fair value of the future cash flows on a financial instrument will vary due to changes in the market prices (other than those arising as a result of interest rate or currency risk), regardless of whether such movements are caused by factors, specific to the individual financial instrument or its issuer, or factors influencing all similar financial instruments traded at the market.

The Group's exposure to the risk of equity instrument price is related to financial assets and financial liabilities the values of which vary as a result of changes in the market prices, mainly securities, which are not acquired for investment unit-linked insurances.

The Group has no material concentration of price risk.

Additional information about the exposure of the Group towards the price risk is presented in note 37(c) from the consolidated Annual financial report.

Credit risk

Credit risk is the risk that a counterparty under the financial instrument may cause financial losses to the other counterparty by failing to perform its obligations.

To mitigate its exposure to credit risk the Group has introduced the following policies and procedures:

- Group's policy on credit risk that sets out the assessment and definition as to what is credit risk to the Group. Compliance with the policy is monitored and breaches are reported to the Group's Risk and Capital Control and Management Committee. The policy is reviewed regularly to assess its appropriateness and to reflect the changes in the risk environment;
- The Group sets aside provisions for impairment losses as at the date of the statement of financial position;

RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

- The concentration of credit risk is allocated between the portfolio of investments in financial assets at fair value thoruh profit or loss, available for sale financial assets, financial assets held to maturity, loans granted, trade and bank receivables, and short-term and other investments to a lesser degree;
- The limits on the Group's counterparty exposures are set in accordance with the credit policy of KBC Group;
- Net exposure limits are determined for each counterparty or group of counterparties, geographic and industry segment (i.e. limits are determined for investments and monetary deposits, exposures in foreign currency trade and the minimum credit ratings of investments which may be held);

- Reinsurance contracts are signed with counterparties with high credit ratings and risk concentration is avoided by following the guidelines on policies in respect of counterparty limits set at Group level every year;
- Because of the current financial situation the number of counterparties and the maturity of investments are strongly limited;
- Credit risk related to client balances arises from the non-payment of the premiums or contributions during the grace period set out in the general terms and conditions of the policy and exists until its expiry, whereupon the policy is either paid or terminated. The commission payable to the intermediaries is offset against any amounts receivable therefrom in order to reduce the risk of doubtful receivables;
- The Group issues investment unit-linked policies for a number of its operations. In the case of the investment unit-linked business the insured person bears the investment risk on the assets held by the investment funds, as the income on the policy is directly linked to the value of the assets in the fund. Therefore, the Group does not bear significant credit risk arising from unit-linked financial assets.

Additional information about the exposure of the Group towards the credit risk is presented in note 37(c) from the consolidated Annual financial report.

Liquidity risk

Liquidity risk is the risk that the entity may face difficulties in discharging its liabilities related to the financial instruments. Liquidity risk also exists in respect of catastrophic events, which is related to the timing differences between the gross cash payments and the expected reimbursements from reinsurance.

The following policies and procedures to limit the Group's exposure to liquidity risk have been introduced:

- Group pays claims and liabilities arising in the ordinary course of business on a daily basis;
- It monitors and controls daily its liquidity needs by managing the cash inflows and outflows;
- A number of rules for allocation of the assets, portfolio limit structures and asset maturity profiles have been established in order to ensure that sufficient financing is available to cover the insurance contract liabilities;
- Sufficient cash are made available in order to finance the operations and to mitigate the fluctuations in the cash flows.

Trends or risks which may influence the Group's liquidity for 2020

In the light of recent events in March 2020 (COVID-19 pandemic) the expectations are for preserving the stability of the financial parameters, keeping the quality of the insurance portfolio and achieving adequate for the current situation profit from the activity preserving sustainable liquid and capital buffers.

Additional measures have been taken for daily monitoring and management of liquid assets, as well as monitoring of the market value of the securities / bond portfolio.

The developments at the start of 2020 (such as the COVID-19 pandemic) will likely outdate the current APC scenarios. Although they put a serious stress on the market, so far they have not affected Group's liquidity and funding adequacy. Our stress tests currently indicate that the Group can withstand such adverse evolutions.

Additional information about the exposure of the Group towards the liquidity risk is presented in note 37(c) from the consolidated Annual financial report.

RISK MANAGEMENT (CONTINUED)

Operational risk

Operational risk is the deviation from the expected results arising from inadequate or inoperative internal processes, people and systems or from external events.

The following measures for operational risk management are realized:

- Monthly meetings of the Local Risk and Capital Control Committee and the decisions and minutes are presented for verification by the Management Board;
- New Products Acceptance Committee has been established (including review of effective products, changes in effective products). It comprises representatives of the product directorates, Sales channels development directorate, Brokerage business, actuaries, Finance, control units, information technologies (IT) and other units. The Committee has adopted functions to revise all effective products where the key principle is for each product to be revised at least once every 3 years.
- A procedure for identification and reporting of operational errors/omissions/issues has been introduced;
- Monthly meetings of the Commercial Network Control Committee. Its operations are related to the establishment of a transparent and efficient monitoring and control process over the activity of the insurance intermediaries – agents and brokers (including protection of the interests of DZI Group against fraud and violations, as well as prevention of serious incidents related to the intermediaries).

As at 31 December 2019 for the purpose of managing operational risk rules and procedures have been adopted and implemented in the various units within the DZI structure in fulfilment of the KBC Group Standards in effect for:

- Client complaint management;
- IT application access management;
- Internal rules on control and prevention of money laundering and financing of terrorism;
- Internal rules on protection of employees providing information on abuse and corruption within the Company;
- Financial flows management in products of investment nature;
- Accounting control;
- Classification of information;
- Underwriting process management;
- Liquidation process management;
- Human resources management.

In accordance with the KBC standards for non-financial risk management, DZI Group prepares an evaluation and analysis of the Group Key Controls requirements for the following processes:

- Life Insurance;
- General Insurance;
- Legal risk managment;
- Tax risk managment;
- Business continuity risk management;
- Risk and Capital management;
- Accounting and Financial reporting;
- Human resource management;
- Corporate communication;
- Clients administration;
- New and existing products;
- Marketing;
- E-channels for communication with the clients;
- Intermediaries management;
- Property management;
- Supply chain management;
- Information technologies;
- IT security managment;
- Corporate government.

Based on the analyses and assessments made a report on the internal control environment of DZI was prepared and plans were adopted for the implementation of the requirements under the Group Key Controls which are not yet fully introduced.

RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

As part of the responsibilities of the Operational Risk Management is the ensuring of the "continuity of business" which aims at supporting the critical business functions, processes and services, their organisation, management or recovery/restoration within reasonable periods of time in case of unforeseen, full or partial business interruption. Crisis committee has been appointed chaired by the Chief Executive Director. The meetings of the Crisis committee are conducted as a part of Local Risk and Capital Control Committee.
In 2019 the Group DZI launched and implemented a number of initiatives aimed at increase of awareness as regards to the operational risk management in the Company.

ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT

DZI Group is not engaged in any activities in the field of Research and Development.

CONSOLIDATED NON-FINANCIAL DECLARATION

Corporate sustainability and responsibility

As part of the Belgian financial-insurance group KBC, DZI defines corporate social responsibility as corporate sustainability and responsibility. We share the understanding that social responsibility is not only one of the activities within the Group but also a philosophy for doing business. Our mission is doing business in responsible and ethic manner, focusing on the clients, get acquainted with their needs and offering the best and most convenient for them decisions in the appropriate moment. All of our communication is based on sense of responsibility for both the clients and the society.

DZI has an old tradition in the realization of projects in the field of corporate sustainability. To ensure the philosophy of sustainable development is inseparable part of the different aspects of our activity, we created mutual for DZI and UBB Sustainability Committee, comprised by members of MB of DZI and UBB, as well as managers of departments with straight attitude to the social responsibility.

In 2019 we analysed on KBC group level our strengths and weaknesses with regards to social responsibility. As a result KBC (as well as DZI) updated the strategy of corporate sustainability, which is based on three main ladders:

- Strengthening our positive influence on society;
- Reduction of our negative influence on society;
- Encouraging responsible behaviour in our employees.

In the light of the strengthening of our positive influence, we continue to realize initiatives in four main areas we have sustained in the previous years:

- Financial literacy increase;
- Encouraging entrepreneurship;
- Health;
- Environment.
-

The focus of each of our activities is the responsible attitude towards customers and society.

DZI implements a number of initiatives in the four priority areas of the Group, following previously prepared Annual Plan, approved by the Sustainability Committee. In 2017 DZI organized for a fourth consecutive year contest for children drawing "My DZI" on topic "Road safety". The project promotes sustainable lifestyle among adolescents, educating them on responsibility and culture of safety on the road. The competition also contributes to raising the children's insurance culture. So far more than 7 thousand young artists have participated in the four-years of the competition.

In 2019 the Group plans development of electronic health file with SOS application to accompany any issued policy. Personal health information, available in the application, might be used in case of accident.

In 2019, DZI implemented a project for greater transparency and awareness of the terms of life insurance. Therefore, the Group included additional information about the formula used in the calculations of the earnings acquired on Life insurances. Thus, our clients' trust significantly increased.

DZI perceives its employees as the most valuable capital, so it constantly invests in their training and professional development.

CONSOLIDATED NON-FINANCIAL DECLARATION (CONTINUED)

Corporate sustainability and responsibility (continued)

Recognizing the fact that a company's success depends on the satisfaction and commitment of its employees, DZI is working on human resources development and engagement programs. An example of a company's social policy and employer responsibility is the Solidarity Fund for Fundraising for Seriously Sick Employees, which was introduced in 2014. It sets out the rules for providing financial assistance to employees with severe illness / injuries and creates a charity fund.

External environment policy

The management of the Group has declared and engaged with the responsibility to execute the following general goals of the policy:

- Overall adoption and following the principles embedded in the Policy of KBC regarding climate changes;
- Incessant improvement of the results in the system of management of the environment through preservation of the environment during the process of development, offering and realization of insurance products within the scope of application and defined context by the Group;
- Contemporary initiatives adoption, which are based on latter scientific evidence of maintenance of economy founded on low CO_2 emissions which is more sustainable, more effective and less vulnerable to global concussions;
- Where possible we support and foster our business and corporate clients to operate in a manner that contributes with sustainability for the environment, as we provide appropriate products and services in the area of insurance and risk management;
- Establishment of conditions to monitor the impact of climate changes on insurance and reinsurance businesses;
- Achievement of the strategic goals of the policy, which sets the general framework of the particular measurable purposes related to the environment;
- Ultimate satisfaction of interested parties' needs and expectations;
- Proceeding of environment protection activities including prevention of negative impact on the environment, caused by insurance products and services of the Group and by operating activities;
- Compliance with all applicable to the Group Bulgarian laws, acts and international standards, related to external environment prevention, as well as liabilities on contracts with clients and interested parties;
- Enhancement of qualifications and human resources development aimed at achievement of the goals related to external environment prevention.

The high management is responsible to require by all managers and employees and certain suppliers (if necessary) to be well acquainted with the goals of the current policy.

Opportunities for improvements will be continuously searched by use of indicators for measurable environmental objectives. The environmental policy is subject to an annual review by the management of its suitability and is published on the Group's website in order to be accessible to interested parties.

Measures against money laundering

The Program with measures against Money laundering is based on the requirements of the Measures against Money Laundering Act, the Regulations for Application of the Measures against Money Laundering Act, the Measures Against the Financing of Terrorism Act, all FATF recommendations and procedures provided in the current Bulgarian legislation, The Directives of the European Parliament and the Council of the European Union, as well as the instructions and instructions of the Minister of Finance of the Republic of Bulgaria and the Chairman of the State Agency for National Security (SANS). The program is also based on the policies of KBC Group to combat money laundering and terrorism financing, and for this purpose policies have been developed and approved in the Group that set out a common framework for combating money laundering and terrorist financing - Policy on Measures against money laundering and the Counter-Terrorism Policy.

Diversity policy of the management bodies

The members of the Managing bodies of the Group (the Management Board and the Supervisory Board) should meet the imperative requirements of qualification and reliability set out in Insurance Code and they are approved by the Financial Supervision Commission. Each member must be a person who has a good reputation, and who does not endanger the management of the Group and the interests of the customers and does not hinder any insurance supervision. When compiling the councils a principle of diversity is followed and a balanced composition is provided to ensure that their members possess the necessary knowledge, professional experience in finance, economics, law, management skills, a capability to independent judgment and broad social experience. Further information on the diversity of the Group's management bodies is contained in the Group's Statement of Corporate Governance.

CONSOLIDATED NON-FINANCIAL DECLARATION (CONTINUED)

Organizational structure

The Group's organization is headed by the Chief Executive Officer, who controls the managers (executive officers) of the main business units. The main business units and their adjacent directorates are as follows:

- Life Insurance and Bank Insurance: includes Medical and Life Insurance Products, Medical and Life Insurance Claims Management and Bank Insurance;
- General and Corporate Insurance: includes Corporate and Specialized Insurance, Motor Products Management in General Insurance, Non-Motor Products Management in General Insurance, General Insurance Claims Management;
- Commercial Direction: includes Sales and Network Development, Brokerage Business, Customer Service Management, Customer Contact Center and Network - Captive channels;
- Finance and Risk: includes Finance, Data Management and Management Information System, General Services and Risk;
- • Structural units directly below the Chief Executive Officer: Legal, Information Technologies, Network Control, Internal Inspections and Compliance, Human Resources Management and Security.

FUTURE DEVELOPMENT STRATEGY

In 2018 a 5-year strategy for the development of DZI "Speed" was established, which the Group continue to follow in 2019. DZI's strategic goals include consolidating its position as the market in terms of market share and turning it into a benchmark for quality of service on the insurance market. The group strives to achieve perfection in sales, coupled with continued improvement in technical performance and profitability. As part of the Belgian financial group KBC in the coming years DZI Group will move to a higher level in the pyramid of bank-insurance integration.
A key factor in delivering this strategy is focusing the customer and its needs through the combination of employee talent, the level of digital solutions and the management and quality of data available to the company and its placement.
To achieve these goals DZI group has undertaken the following initiatives:

- Constant improvement of the quality of the products and services – offered by the Group - review of the quality, speed and availability of the processes and services provided since acquisition to liquidation;
- Implementation of information technologies facilitating the service digitalisation processes, aimed at higher quality and speed of the services;
- Reduction of insurance risk through improvement of the underwriting process;
- Cost quota reduction through continued centralisation and automation of non-commercial activities (reporting, claims handling, administration of contracts, and payments);
- Conservative investment policy aimed at achieving the highest level of financial stability at the Bulgarian market;
- Recruitment and retention of competent and highly motivated personnel;
- Active social commitment to society with a focus on natural resources and the young generation.

The Group does not own branches in the territory of Republic of Bulgaria, as well as outside of it.

Under act.40 of the Accounting act, the Group prepares a corporate governance statement and publishes together with the Annual Financial Statements.

The members of the Boards or any related to them parties have not signed any contracts, which are outside of the scope of activities or significantly deviate from the market conditions.

According to the Statute of DZI - Life Insurance JSC and DZI - General Insurance JSC, the members of the management bodies do not have preferences and restrictions regarding the acquisition of shares of the Company. The members of the management bodies do not own shares of the Company and have not acquired or transferred such during the year.

The information under art. 247, para 2, item 4 of the Commercial Act regarding participation of the members of the Supervisory and Management Board of DZI – Life Insurance JSC in other commercial entities is presented in an appendix to this report.

Information about subsequent events after the date of preparation of the consolidated financial statements

The existence of a new coronavirus (Covid-19) was confirmed in early 2020 and has spread worldwide, causing disruptions to business and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event.. The outbreak and global spread of the coronavirus will exert downward pressure on our results in 2020 (but not have any impact on our financial position at year-end 2019).

FUTURE DEVELOPMENT STRATEGY (CONTINUED)

Information about subsequent events after the date of preparation of the financial statements (continued)

Given the new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequence swill be for the global economy and, more specifically, for the bank-insurance group, which DZI Group is a part. Management of the Group is closely monitoring the situation. Also the Group has adopted a cautious and conservative approach, even though the solid capital and liquidity positions are such that we are able to withstand extreme scenarios.

The European economy was gradually recovering in 2019, which made the prospects for 2020 a little brighter. Unfortunately, the outbreak and spread of the coronavirus in 2020 worldwide changed this perspective. Currently, there is expected to be a serious slowdown in global economic growth in 2020 and recovery to begin in the second half of the year at the earliest. As an open economy, Europe is quite vulnerable to the direct and indirect economic consequences of the coronavirus crisis. The political response to this crisis has been stable. However, the extent to which the measures taken will counteract the economic slowdown is still largely uncertain.

Our forecasts are based on the assumption that the coronavirus and the measures taken to limit its spread will have a significant – but temporary – negative economic impact. Under current assumptions, the European economy will contract in the first and second quarters of 2020 before gradually recovering in the second half of the year. The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments made during at the time of the preparation of this report.

In February 2020, a Company of the Group finalized a purchase of a large building in Varna with a total built-up area of approximately 27,000 square meters - the MALL VARNA business centre. The company plans to use the property, both for investment and for the needs of KBC Group companies with offices in Varna.

No other significant events have occurred between the date of the consolidated financial statements and the date of its approval that may require disclosure or may cause changes in the Group's financial position.

Management responsibilities

According to the Bulgarian legislation, the management should prepare an annual consolidated financial statements for each financial year, which should give a true and fair view of the condition of the Group at the end of the year and its financial results. Management confirms that it has consistently applied an adequate accounting policy that is in line with International Financial Reporting Standards (IFRS) adopted by the EU. Management also confirms that the consolidated financial statements have been prepared on a going concern basis.

Management is responsible for the proper keeping of accounting records, for the sound management of assets and for taking the necessary measures to avoid and detect possible abuses and other irregularities.

This report was approved by the Management Board of DZI - Life Insurance JSC by virtue of Minutes on 18 June 2020.

DZI - LIFE INSURANCE JSC HEADQUARTERS ДЗИ

Kosta Cholakov Chairman of the Management Board and Chief Executive Officer	Evgeni Benbasat Member of the Management Board and Executive Officer

CONSOLIDATED ANNUAL ACTIVITY REPORT OF DZI LIFE INSURANCE JSC

2019

DZI GROUP

DZI Life Insurance Group ("DZI Group", "the Group") carries out life and g

The parent DZI – Life Insurance JSC ("the Parent", "DZI – Life Insuran Institute established in 1946 through the merger of all national insuranc carrying out insurance activities in Bulgaria. The State Insurance Institut through the sale of 80 % of the capital to Contract – Sofia OOD.

DZI - Life Insurance JSC is a commercial entity in accordance with the Bulgaria, having its seat and address of management in Sofia, Triaditsa Mu of DZI Group.

In 2007 KBC acquired 70% of the capital of DZI - Life Insurance JSC Contract – Sofia OOD. The transaction was finalised on 3 August 2007, acquire the remaining 30% of the shares of „DZI – Life Insurance" JSC.

By virtue of Minutes from the meeting of the Management Board of DZI 149, para 8. in relation to art. 149b of the Law on Public Offering of S Ordinance No 13 on commercial offering to buy and sell shares, a decisi dematerialised, registered, freely transferable shares from the capital of Belgium has acquired all voting shares of DZI IJSC. By virtue of Minutes N of the Executive Committee of KBC Insurance NV, exercising the rights of was made to delist DZI IJSC from the Register of Listed Companies at FSC trade at the Bulgarian Stock Exchange, as well as for a change in the name PD of 26 September 2012 the FSC delisted DZI IJSC from the register of li change in the legal form and name of the Company were entered in the bat Registry Agency on 16 October 2012. The name of the Company was chang

As at 31 December 2019 KBC Insurance NV, Belgium is sole owner of DZ

DZI Life Insurance JSC, as a parent company, prepares consolidated fi where it owns, directly or indirectly, more than 50% of their capital.

As at 31 December 2019 the consolidated financial statements of DZI Gr DZI - Life Insurance JSC and its subsidiaries where DZI holds, directly or the shares. These entities are listed below:

Company	Country of incorporation	N
DZI General Insurance JSC	Bulgaria	Gene

All of DZI Group companies are commercial entities in the meaning of the of the Republic of Bulgaria. The Group companies have no registered bran Act.

The subsidiaries are fully consolidated from the date of acquisition, which Group and continue to be consolidated until the date such control is lost.

The remunerations of the management personnel in 2019 are at KI remunerations is provided in Note 39 of the Consolidated financial report.

APPENDIX

DZI - Life Insurance JSC

Information under art. 247, para 2, item 4 of the Commercial Act on the participation of the members of the Supervisory and Management Boards of DZI - Life Insurance JSC in commercial entities.

1. SUPERVISORY BOARD

Name	Interests held in commercial entities as non-liable partner	Interests exceeding 25% held in the equity of commercial entities	Participation in the management of commercial entities / cooperatives
Johan Daemen	No	No	„CSOB Poistovna" „CSOB Pojistovna"„CSOB Pojistovna" „NLB Vita" "DZI - General Insurance" JSC "DZI - Life Insurance" JSC „KBC Group Re"
Luc Popelier	No	No	„„,KBC Group NV" "KBC Bank NV" "KBC Verzekeringen NV" "KBC Securities NV" "KBC Asset Management NV" "KBC Bank Ireland plc" "K&H Bank" "K&H Insurance" "CSOB Banka Slovakia" ‚UBB Bank JSC'„UBB"JSC DZI - Life Insurance JSC DZI General Insurance JSC
Grigoriy Vazov	No	"Vazov Institute" LTD	"DZI - General Insurance" JSC "DZI - Life Insurance" JSC "Vazov Institute" LTD Project company 1 AD Rubikon project EOOD "Vazov Institute" SP LTD

2. MANAGEMENT BOARD

Name	Interests held in commercial entities as non-liable partner	Interests exceeding 25% held in the equity of commercial entities	Participation in the management of commercial entities / cooperatives
Kosta Cholakov	No	No	DZI - General Insurance JSC DZI - Life Insurance JSC
Evgeni Benbasat	No	No	DZI - General Insurance JSC DZI - Life Insurance JSC
Bistra Vasileva	No	No	DZI - General Insurance JSC DZI - Life Insurance JSC
Boris Palichev	No	No	DZI - General Insurance JSC DZI - Life Insurance JSC

CONSOLIDATED STATEMENT OF CORPORATE GOVERNANCE

OF DZI LIFE INSURANCE JSC

2019

Introduction

The basic principles of corporate governance policy of DZI - Life Insurance are governed by the Code of Corporate Governance approved by the Board of the Group. The information related to the Code of Corporate Governance adopted by the DZI - Life Insurance is publicly available on the official website of the insurer (www.dzi.bg). The Corporate Governance Code has been prepared in accordance with current legislation, and also in accordance with the Charter of Corporate Governance of KBC Group NV. (published on www.kbc.com).

More detailed information on Corporate Governance and compliance with the legal framework is contained in this Corporate Governance Statement of DZI –Group.

The Management Board of DZI – Life Insurance makes reviews on a regular basis, whether corporate governance practices are in accordance with existing legislation and the adopted Code of Corporate Governance.
There is no identification for such cases in 2019.

Structure of management

DZI Life Insurance Group ("DZI Group", "the Group") has a two-tier system - Supervisory Board and Management Board. Composition and functions of management and supervisory bodies and their committees are presented below:

Supervisory Board (SB)

Currently the Supervisory Board of DZI - Group has 3 (three) members elected by the sole shareholder. At the end of 2019 the composition of the Supervisory Board is as follows:

- Luc Popelier - Chairman - Belgian citizen, born in 1964, holds a Master's degree in "Business economy" from the University of Antwerp, Belgium. Mr. Popelier is also a Chief Financial Director in KBC Group NV;
- Johan Daemen- Belgian citizen, born in 1956, holds a Master's degree in "Mathematics" and in "Actuarial" from the Catholic University of Leuven, Belgium. Mr. Daemen also holds the position of Senior Director "Insurance" business unit "International markets" in KBC Group NV;
- Grigoriy Vazov - independent member - Bulgarian citizen born in 1951. He holds a Master's degree in "Finance and Credit" from the VFSI "D. A. Tsenov "Svishtov, Bulgaria. Mr. Vazov is also rector and president of the Higher School of Insurance and Finance, Sofia.

The Supervisory Board performs only control functions, without taking part in the management of the Group. The Supervisory Board meets at least once on every three months but not less than 4 /four/ times a year. Members of Management Board could participated in meetings of Supervisory Board but only if they were invited and without right to vote.

Supervisory Board Chairman shall convene meetings at its own discretion or as an request from the rest members of the Supervisory Board or Management Board.

The meeting of the Supervisory Board is valid if attended by more than half of the board members personally or represented by another member of the council. Attending member cannot represent more than one absent member.
The Supervisory Board could take decisions also without a presence but only if there is a written approval from all board members. The Supervisory Board can make decisions by direct distance communication, but they must be in written form. In such cases, the decision enters in force when all board members are informed about the meeting and his agenda. On matters within its competence, the Supervisory Board takes decisions with ordinary majority.

For each meeting of the Supervisory Board minutes are recorded and signed by all present members of the board, noting the vote each one of them.

Functions and tasks of the Supervisory Board:
✓ The Supervisory Board determines the main guidelines in the activity of the Group;
✓ Propose to the sole shareholder whether to increase or decrease the capital;
✓ Appoints members of Management Board and conclude contracts with them about management;
✓ Verifies the Annual Financial Statements; The ACTIVITY REPORT of Activities and the proposal of the Management Board for distribution of profit distribution generated by the group.

Structure of management (continued)

Management Board for distribution of profit distribution generated by the group.

Gives its approval for:
- ✓ Participation or disposition of participation in other commercial companies or partnerships without legal personality;
- ✓ Acquisition and administration of real estate over BGN 1 000 000;
- ✓ Transfer and acquisition of insurance portfolio;
- ✓ Acquisition or disposition of businesses or parts thereof;
- ✓ Significant change in activities and organizational structure of the Group.

The Supervisory Board may establish special committees whose composition and operations are determined by members. Committees of the Supervisory Board:

- Audit, risk and compliance committee;
- Remuneration Committee.

Audit, risk and compliance committee

The Committee is an advisory body to the Supervisory Board of „DZI - Life Insurance“ JSC and cannot take individual decisions. In this sense, all of its decisions are subject to confirmation by the Supervisory Board.

Chairman:	Johan Daemen
Members:	Teodor Sedlarski (independent member)
	Snezhana Kaloyanova (independent member)

The members of the DZI – Group Audit, risk and compliance committee are chosen by the Supervisory Board and approved by the sole shareholder. The Committee meets at least four times a year. The JSC of "Internal Audit" Department has the status of "permanent guest" of committee meetings and on each meeting shall report his activities. The external auditors are invited to participate in all sessions and must attend at least two of them within a year.
The committee has a permanent secretary appointed by the Chairman.

Audit, risk and compliance committee has the following main responsibilities:
- ✓ Monitoring whether Management Board has established and maintained an adequate level of internal control over processes and systems. This includes mainly (but not only) ensuring compliance with current legislation, observing for the implementation of the internal rules and procedures, existence of effective and efficient operational process;
- ✓ To ensure the integrity and the objectivity of reporting process related to financial statements;
- ✓ Monitoring over the performance of the internal audit department as ensuring his independence, professionalism and expertise;
- ✓ Monitoring over the external audit activities, particularly it's independences and effectiveness;
- ✓ Provides guidance regarding the current and future risk appetite, risk management strategy and risk profile;
- ✓ Controls whether the value of assets and liabilities are in accordance with the business model and strategy of risk management ;
- ✓ Observe the quality of risk management systems, compliance and legality. It's also responsible for ensuring independence, professionalism and expertise of the units involved;
- ✓ Controls whether the incentives provided by the Committee for remuneration consider the impact of risk, capital and liquidity.

The Chairman of Audit, Risk and Compliance Committee must report to Supervisory Board after every meeting of the Committee. Minutes of meetings of the Audit Committee, Risk and Compliance must be submitted to the members of the Supervisory Board.

Remuneration Committee:

Remuneration Committee makes decisions related to policies and remuneration practices and with the associated incentives for managing risk, capital and liquidity.

Chairman:	Luc Popelier
Members:	Johan Daemen
Secretary:	Kremena Kraleva
Guests:	Petar Andronov
	Kosta Cholakov

Structure of management (continued)

Remuneration Committee (continued)

The Remuneration Committee may propose to the Supervisory Board decisions on remuneration, taking into account the impact on risk and its management, long-term interests of shareholders, investors and other persons concerned. The remuneration committee meets at least once a year to discuss and approve remuneration policies. For conducting committee meeting are required to attend at least half of its members.

The Remuneration Committee has the following powers:

- ✓ Make proposals to the Supervisory Board concerning the remuneration of the members of the Management Board;
- ✓ ratify additional remuneration determined under group policies for senior management

For the held meetings of the Committee for Remuneration a protocol is issued by a permanent appointed Secretary, Director of "Human Resources", that protocol must be submitted to the members of the Committee.

Management Board (MB)

The Management Board of DZI – Group consists of 3 (three) members elected by the Supervisory Board. At the end of 2019, the composition of the Board is as follows:

- Kosta Cholakov - Chairman of MB and CEO - Bulgarian citizen born in 1972. He holds a master's degree in "Banking & Finance" from the University of "Queen Mary", London, England.
- Evgeny Benbasat - Member of the Board and Executive Director – Bulgarian citizen, born in 1975. He holds a master's degree in "Business Administration" from the City University of Seattle, state of Washington, USA.
- Bistra Vasileva - Member of the Board and Executive Director - Bulgarian citizen born in 1972. She holds a master's degree in "Industrial Business" from the University of National and World Economy, Sofia, Bulgaria.
- Boris Palichev - Member of the Board and Executive Director - Bulgarian citizen born in 1982. He holds a master's degree in "Accounting and Control" from the University of National and World Economy, Sofia, Bulgaria.

The group is managed and represented by the Management Board, which operates under the control of the Supervisory Board. Management board members are elected for a term of 4 / four / years and may be re-elected without limitation. The Management Board have to meets at least once every two weeks. Decisions of the Management Board shall be taken by a simple majority unless the law or decision of the sole shareholder says otherwise. The Management Board reports its activities to the Supervisory Board at least once every 3 / three / months but not less than 4 / four / times per year.

Functions and tasks of the Management Board:

- ✓ The Management Board organizes the activities of the Group, and also the insurance and financial policy;
- ✓ Approves the annual actuarial reports of the responsible actuary of the Group and also reports issued by the HJSC of "Internal Audit and Control";
- ✓ Determine the type and amount of Group's funds and also the related procedures for collecting and spending money on them;
- ✓ Approves the Program for the activities;
- ✓ Determines management and organizational structure;
- ✓ Appoint and dismiss personnel performing key functions;
- ✓ Adopt policies, rules and terms and conditions under the Insurance Code. Chooses and authorizes CEOs

Management Board can establish special committees whose composition and functioning are defined by it. Currently established are:

- Local committee for capital and risk management;
- Committee for active and new products and processes /CANPP/;
- Investment Committee.

Structure of management (continued)

Local Risk and Capital Oversight Committee (LRCOC):

The LRCOC is a collective body that shall support the Management Board in taking decisions regarding:

- ✓ The local strategy on risk and capital management and Risk Appetite;
- ✓ The local risk profile and capital adequacy vs. Risk Appetite and capital allocation;
- ✓ the allocation of capital to the business units in compliance with their business plans and within the framework defined by the Group;
- ✓ the results from the activity, leading to achievement of goals on local level, etc.

The LRCOC shall consist of Management Board members and Risk and Capital Management representatives. The Chairman of LRCOC is the Chief Financial Risk Officer (CFRO). HJSC of Non-Financial Risk Management shall perform the function of LRCOC Secretary, responsible for meeting protocols.

Employees, representatives of different bodies, which are relevant to the issues, discussed must attended to LRCOC Meetings. The Chairman of LRCOC by the Secretary of the Committee may invite other participants to attend meetings if he considers that their expert opinion is important and necessary for making a particular decision. Observers with permanent invitation for the LRCOC: HJSC of Internal Audit and HJSC of Compliance and Internal Inspections.
The LRCOC meets monthly, each 4th week of the month.

The LRCOC shall take decisions provided by at least two of the members – executive directors are present in person (implying that always the CFRO or his replacement should take part). Decisions of LRCOC shall be made with total majority (unanimously) of the attending members. Each member is entitled to one vote. Other participants in the meeting have an advisory vote.

Committee for active and new products and processes /CANPP/:

The committee was created by the Board of „DZI - Life Insurance“ JSC and perform responsibilities which are expressly assigned by it. CANPP simultaneously fulfills the function of the Committee for the approval of products which entity offers to markets and channel of communication with the branch network (excluding products offered through business partners Cibank). CANPP operates in accordance with the policy of "Risk appetite", corporate strategy and capital policy. Committee's members have the following functions - Chairman, owner of the product, sponsor and coordinator, which must be held by different persons. Chairman of CANPP's is the Executive Director in Department 'Operations'. Coordinator of the committees is the assistant of the executive director. Sponsors of the relevant processes are Director of "Life Insurance Products" and Director "Corporate and specialized insurance" owners of the products are determined depending on the nature of the business proposal.

Minutes from each meeting of the committee shall contain decisions taken and opinions expressed by the attendees.

Investment Committee:

The investment committee is established by Management board and has an advisory role. On a quarterly basis, the Investment Committee discusses the issues related with:

- ✓ Market outlook (information about current interest rates)
- ✓ Maturity fixed income portfolio
- ✓ Investment Objectives and Strategy

All responsibilities of the Supervisory Board and the Management Board are settled in the Corporate governance Code and the Statutes of the Company.

Internal Control System and Risk Management

Internal Control System

The Group applies multi-model of internal control following the requirements of KBC Group; they introduced three lines of defence:

Internal Control System and Risk Management (continued)

Internal Control System (continued)

First line of defence are business departments entirely responsible for all the risks in their area of activity and must ensure that all the necessary checks on the processes are applied timely, effectively and transparently.

Second line of defence are Departments having independent control functions - Risk Management, Finance, Legal and Information Security. Departments engaged with independent control functions express their opinion regarding the risks to which the Group is exposed. They have the following duties:
- Monitoring and verifying the level of implementation of the KBC's Risk Management Framework business and report on the overall risk environment to the Group`s management;
- Control whether field action is respected by business and escalate if necessary;
- Report on risks to the relevant authorities and committees for risk in accordance with the institutions set out in the Risk Management Framework.

Third line of defence: "Internal audit" Department, which report to the Managements Board and the LRCOC. Expresses a reasoned opinion on the functioning of the internal control framework. Evaluate the operation of the first and second line of defence. Verifies whether the risks are managed appropriately by processes in the Group.

As part of the management system and internal control system, three more functions other than the key function “Internal Audit”, were introduced:
- Risk Management Function;
- Actuarial Function;
- Compliance function.

Risk Management

The main objective of the framework for risk management and financial management of the Group is to protect shareholders from events that hinder the consistent achievement of the objectives in terms of financial performance, including the conversion to use potential incomes.

The Group has developed and put in place rules and procedures for managing and controlling risks in order to define manage and control the extent of financial and insurance risk. Management Board adopts policies and procedures, which are approved/rejected by Supervisory Board. The main objective of the risk policy is to define clearly defined parameters and rules for the operations of the Group so as to minimize the potential negative impact of risks on its financial results.

The actuarial function has the following responsibilities:
- Coordinate the assessment of technical reserves as required by the Directive "Solvency II" and the Insurance Code;
- Inform the Management and Supervisory Board for the reliability and adequacy of the calculation of technical provisions;
- Give an opinion regarding the underwriting policy of the group;
- Give an opinion in regard to reinsurance agreements;
- Participate in the validation of the evaluation of the technical provisions in Directive "Solvency II" on a quarterly basis;
- Prepare an annual report to the Management Board on the accuracy of the technical provisions and underwriting and reinsurance agreements;
- Contributes to effective Risk Management;
- Report on the requirements of the regulator.

The function of Risk Management has the following responsibilities:
- Creates and reviews the General Framework for Risk Management, prepared based on laws and regulations that clearly define the responsibilities and tasks of the first and second line of defence.
- Performs a number of activities related to the management of the various risks in the entity;
- Assists first line of defence in the implementation of the Common framework for risk management:
- on a regional level by explaining, consulting, training and supervision;
- on central level through training, seminars, etc.

Compliance Department is an independent function of the Group disclosed in the Charter of compliance. Department’s primary task is to prevent the risk of non-compliance or the realization of losses due to non-compliance with applicable laws, regulations or internal rules, in-scope of the directorate functions.

Information related to merges and acquisitions

DZI - Group has no significant direct or indirect participations in companies whose shares are officially listed on a stock exchange, situated or operating on the territory of one or more Member States of the European Union. The Group has not issued securities with special control rights. According to the Statute of „DZI - Life Insurance" JSC issuing of preference shares conferring a right to more than one vote or additional liquidation share is forbidden.

There are no deadlines or restrictions over holders with certain percentage or number of votes. Introduction of amendments to the Memorandum of the Group / Statute / is regulated by itself and performed under the rules of the Commercial Law. The selection and replacement of members of the Management Board / Supervisory Board are regulated by Statute, also in Operation rules of the Management/Supervisory, in compliance with the Insurance Code and the Commercial Law. Redemption of shares can be made by a decision of the sole owner, under the terms and conditions set out in current legislation.

Diversity policy

DZI - Group implements diversity in the composition of the councils set out in the Charter of corporate governance of KBC Group and the Corporate Governance Code.

Pursuant to the requirements of diversity policies, the group must ensure a balanced composition of boards and members with necessary experience, basic management skills and broad social experience. In 2019 the composition of the Supervisory Board meets the requirements of Diversity policy for board members. Supervisory Board was composed of a Bulgarian member and two Belgian members. The age range of the members is from 53 ty to 65 years old. One member of the Supervisory Board is has a diploma of Business economy, the second has a degree in actuarial mathematics and the third has a qualification in "Finance".

In 2019 the composition of the Management Board meets the requirements of Diversity policy for board members. Supervisory Board was composed of a Belgian member and two Bulgarian members. Management board include member who were born between 1972 and 1982. Each as members have significant experience in different areas and qualification in the following subjects - "Legal", "Accounting and Auditing", "Business Administration" and "Industrial Business".

This Declaration was approved by the Management Board of „DZI - Life Insurance" JSC with Minutes from 18 June, 2020.

DZI - LIFE INSURANCE JSC
HEADQUARTERS
ДЗИ

Kosta Cholakov Chairman of the Management Board and Chief Executive Officer	Evgeni Benbasat Member of the Management Board and Executive Officer

DZI – LIFE INSURANCE JSC
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 BGN'000	2018 BGN'000
Gross premiums	4(a)	322,754	274,211
Premiums ceded to reinsurer	4(b)	(13,812)	(11,821)
Net premiums		**308,942**	**262,390**
Fees and commissions income	5	2,766	2,161
Investment income	6	11,289	10,914
Realised gains	7	5	1,760
Gains/ (losses) on fair value revaluation	8	441	(37)
Other operating income	9	1,739	1,511
Other income		**16,240**	**16,309**
Expenses on claims and annuities paid, gross	10(a)	(140,677)	(127,877)
Claims ceded to reinsurers	10(b)	15,213	9,114
Movement in insurance contracts liabilities except unearned premiums reserve – gross	10(c)	(17,316)	(7,490)
Movement in insurance contracts liabilities except unearned premiums reserve, ceded to reinsurers	10(d)	(11,234)	(10,441)
Claims paid, net		**(154,014)**	**(136,694)**
Financial expenses		(163)	(121)
Impairment of financial asset		(739)	(17)
Impairment of insurance receivables	11	(5,550)	(4,195)
Administrative expenses	12	(45,339)	(39,822)
Other operating expenses	13	(81,700)	(75,573)
Other expenses		**(133,491)**	**(119,728)**
Claims paid and other expenses		**(287,505)**	**(256,422)**
Profit before tax		**37,677**	**22,277**
Income tax (expense)	15	(4,183)	(2,414)
Profit for the year		**33,494**	**19,863**
Profit for the year attributable to:			
Holders of the equity of the parent		33,494	19,863

The consolidated financial statements are prepared on 26 May 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 18 June 2020 and signed on behalf of „DZI – Life Insurance" JSC by:

DZI LIFE INSURANCE
ДЗИ
HEADQUARTERS

Kosta Cholakov
Chief Executive Officer

Evgeni Benbasat
Executive Director

Anton Dechev
Preparer

According to the auditor's report

„PricewaterhouseCoopers Audit OOD
Audit company

Jock Nunan
Procurator

Boryana Dimova
Registered auditor,
responsible for the audit

"Grant Thornton" OOD
Audit company

Mariy Apostolov
Managing partner

Emilia Marinova
Registered auditor,
responsible for the audit

14-07-2020

The notes from page 7 to page 109 are an integral part of the consolidated financial statements.

DZI – LIFE INSURANCE JSC
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 BGN'000	2018 BGN'000
Profit for the year		**33,494**	**19,863**
Other comprehensive income			
Other comprehensive income subject to reclassification to profit or loss in future periods			
Gain/ (loss) from financial assets at fair value through other comprehensive income that occurred during the period		10,591	(5,585)
(Loss) from financial assets at fair value through other comprehensive income reclassified to profit and loss		(43)	(2,419)
Effect from income taxes	16	(1,043)	839
Other comprehensive income subject to reclassification to profit or loss in future periods, net of tax		**9,505**	**(7,165)**
Other comprehensive income not subject to reclassification to profit or loss in future periods			
Actuarial (losses) on defined benefits plans	16	(52)	(24)
Effect from income taxes	16	5	2
Other comprehensive loss not subject to reclassification to profit or loss in future periods, net of tax		**(47)**	**(22)**
Other comprehensive income/(loss) for the year net of tax		**9,458**	**(7,187)**
Total comprehensive income for the year, net of tax		**42,952**	**12,676**
Total comprehensive income attributable to:			
Holders of the equity of the parent		42,952	12,676

The consolidated financial statements are prepared on 26 May 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 18 June 2020 and signed on behalf of „DZI – Life Insurance" JSC by:

Kosta Cholakov
Chief Executive Officer

Evgeni Benbasat
Executive Director

Anton Dechev
Preparer

According to the auditor's report

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responsible for the audit

14-07-2020

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DZI – LIFE INSURANCE JSC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

		Attributable to the holders of the equity of the parent						
	Notes	Share capital	Capital reserves	Remeasurements of defined benefit liability	Retained earnings	Revaluation reserve on tangible assets	Revaluation reserve on financial assets value through other comprehensive income	Total equity
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance on 1 January 2018		38,600	42,631	(142)	48,785	1,729	25,991	157,594
Profit for the year		–	–	–	19,863	–	–	19,863
Other comprehensive income	16	–	–	(22)	–	–	(7,165)	(7,187)
Total comprehensive income		–	–	(22)	19,863	–	(7,165)	12,676
Increase from business combinations		–	–	–	1,018	–	2,166	3,184
Balance on 31 December 2018		38,600	42,631	(164)	69,666	1,729	20,992	173,454
Balance on 01 January 2019		38,600	42,631	(164)	69,666	1,729	20,992	173,454
Profit for the year		–	–	–	33,494	–	–	33,494
Other comprehensive loss	16	–	–	(47)	–	–	9,505	9,458
Total comprehensive income		–	–	(47)	33,494	–	9,505	42,952
Dividends paid during the year		–	–	–	(13,107)	–	–	(13,107)
Total transactions with the parent company		–	–	–	(13,107)	–	–	(13,107)
Balance on 31 December 2019		38,600	42,631	(211)	90,053	1,729	30,497	203,299

The consolidated financial statements are prepared on 26 May 2020 and were authorised for issue by the Managing Board and the Supervisory Board on 18 June 2020 and signed on behalf of „DZI – Life Insurance" JSC by:

Kosta Cholakov
Chief Executive Officer

Evgeni Benbasat
Executive Director

Anton Dechev
Preparer

According to the auditor's report

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Managing partner

Emilia Marinova
Registered auditor, responsible for the audit

14-07-2020

The notes from page 7 to page 109 are an integral part of the consolidated financial statements.

DZI – LIFE INSURANCE JSC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

Assets	Notes	2019	2018
		BGN'000	BGN'000
Intangible assets	17	18,019	18,092
Goodwill	17	2,023	2,023
Deferred acquisition costs	26	4,530	5,097
Deferred tax asset	23	721	539
Tangible assets	18	26,335	27,409
Investment properties	19	27,046	24,114
Right-of-use assets	34	2,424	-
Loans granted	21(b)	10,780	10,780
Deposits with financial institution	21 (b)	615	4,062
Financial assets at amortized cost	21 (e)	29,332	29,494
Financial assets at fair value through other comprehensive income	21(c)	446,162	337,837
Financial assets at fair value through profit or loss	21(d)	82,698	45,551
Reinsurance transaction assets	22	20,649	30,967
Receivables on insurance transactions	24	82,833	76,472
Trade and other receivables	25	2,745	2,699
Income tax receivable		-	265
Prepaid expenses and other assets	28	1,193	1,454
Cash and cash equivalents	27	60,646	99,093
Total assets		**818,751**	**715,948**

Equity and liabilities	Notes	2019	2018
Equity			
Share capital	35(a)	38,600	38,600
Capital reserves	35(b)	42,631	42,631
Retained earnings		90,053	69,666
Revaluation reserve	35(c)	32,226	22,721
Actuarial revaluations reserve		(211)	(164)
Total equity		**203,299**	**173,454**
Liabilities			
Payables on insurance contracts	29	489,444	461,898
Payables on investment contracts	30	80,879	43,757
Retirement benefit liabilities	31	1,168	1,046
Deferred tax liability	23	1,142	722
Derivative financial instruments	22	-	383
Payables to insurers, insurance intermediaries and insured persons	32	28,187	25,313
Trade and other payables	33	10,612	9,375
Income tax liabilities		1,589	-
Lease liabilities	34	2,431	-
Total liabilities		**615,452**	**542,494**
Total equity and liabilities		**818,751**	**715,948**

The consolidated financial statements are prepared on 26 May 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 18 June 2020 and signed on behalf of „DZI – Life Insurance" JSC by:

Kosta Cholakov
Chief Executive Officer

Evgeni Benbasat
Executive Director

Anton Dechev
Preparer

According to the auditor's report
PricewaterhouseCoopers Audit OOD

Grant Thornton OOD

Jock Nunan
Procurator

Mariy Apostolov
Managing partner

Boryana Dimova
Registered auditor,
responsible for the audit

Emilia Marinova
Registered auditor,
responsible for the audit

14-07-2020

The notes from page 7 to page 109 are an integral part of the consolidated financial statements.

	Notes	2019 BGN'000	2018 BGN'000 (restated)
Operating activities			
Premiums received		311,438	269,965
Received/ (paid) amounts from/ (to) reinsurers, net		1,240	(508)
Paid claims		(145,969)	(129,529)
Deposit part received from insurances with investment fund		33,073	21,112
Amounts paid on investment contracts		(3,587)	(549)
Payments to suppliers		(12,035)	(14,487)
Payments to employees and social insurance institutions		(23,250)	(20,531)
Acquisition costs paid		(44,487)	(37,651)
Paid corporate income tax		(3,222)	(1,612)
Paid taxes, different from the corporate income tax		(15,996)	(13,887)
Other cash flows from operating activities		(498)	(1,786)
Net cash flows from operating activities		**96,707**	**70,537**
Investing activities			
Acquisition of subsidiary, net of cash equivalents		-	(32,543)
Proceeds from securities		10,546	60,197
Purchase of shares		-	(2,154)
Proceeds from sale of shares		-	498
Proceeds from sale of fixed tangible and intangible assets and investment properties		1,281	2,160
Purchases of fixed tangible and intangible assets and investment properties		(8,546)	(24,656)
Purchases of securities		(110,059)	(25,791)
Purchase of shares in investment funds		(34,332)	(17,397)
Proceeds of shares in investment funds		3,529	339
Interest received		11,992	10,707
Rents received		1,547	697
Deposits provided		(605)	-
Proceeds from matured deposits		4,000	64,205
Other cash flows used in investing activities		(548)	(302)
Net cash flows (used in)/ from investing activities		**(121,195)**	**35,960**

The consolidated financial statements are prepared on 26 May 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 18 June 2020 and signed on behalf of „DZI – Life Insurance" JSC by:

Kosta Cholakov
Chief Executive Officer

Evgeni Benbasat
Executive Director

Anton Dechev
Preparer

According to the auditor's report
PricewaterhouseCoopers Audit OOD

Grant Thornton OOD

Jock Nunan
Procurator

Mariy Apostolov
Managing partner

Boryana Dimova
Registered auditor, responsible for the audit

Emilia Marinova
Registered auditor, responsible for the audit

ДЗИ LIFE INSURANCE JSC HEADQUARTERS

Одиторско дружество София Рег. № 085 Прайсуотърхаус Купърс Одит ООД

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

14 -07- 2020

The notes from page 7 to page 109 are an integral part of the consolidated financial statements.

	Notes	2019 BGN'000	2018 BGN'000 (restated)
Financing activities			
Loans received, net	21(e)	-	(37,960)
Dividends (paid) to the sole owner of the Group	35(d)	(13,107)	-
Lease payments		(852)	-
Net cash flows (used in) / from financing activities		**(13,959)**	**(37,960)**
Net increase/(decrease) in cash		(38,447)	68,537
Cash and cash equivalents on 1 January		99,093	30,556
Cash and cash equivalents on 31 December	27	**60,646**	**99,093**

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1.1. Corporate information

DZI – Life Insurance JSC ("DZI", "the Parent") is a commercial entity in accordance with the Commercial Act. The Company is registered in the Republic of Bulgaria, having its seat and address of management in Sofia, Triaditsa Municipality, 89B, Vitosha blvd., and it is the Parent of the DZI Group. As at 31 December 2019 the sole owner of DZI - Life Insurance JSC is KBC Insurance NV, Belgium (see note 36). The ultimate parent is KBC Group NV, Belgium.

DZI Group (hereunder referred to as "the Group", "DZI" or "DZI Group") carries out mainly life and general insurance and reinsurance activities.

The financial statements are prepared on 26 May 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 18 June 2020 and signed on behalf of „DZI – Life Insurance" JSC by:

1.2. Business combination

On the 15th of March 2018 the Company acquired "Metlife Life Insurance Company" JSC whereas the acquired company consequently was renamed to "UBB – Life Insurance" JSC. On 22.03.2018 the Company was officially entered in the Commercial register under the appellation "UBB – Life Insurance" JSC with JSC office and registered address at 89B, "Vitosha" Boul., Sofia. The acquisition was performed with the purchase of 100% of the number of shares (12 000 000 shares with par value of 1 BGN), including 60% purchased from the UBB JSC and 40% - from Metlife EU Holding Company Limited (Ireland) thus establishing the factual control onto the acquired company. The acquisition is related to the strategy of the final parent-company of DZI – KBC Group, in order to expand the bank-insurance model within the Bulgarian market. The synergy achieved between the acquired company and United Bulgarian Bank JSC is a key factor for achieving even better positions in banking insurance. The acquisition results in achieving higher market share in life insurance and expectation of higher future profits from this business.

The acquired company is being consolidated in accounting manner by "DZI – Life Insurance" in the period from the 31st of March 2018 to the 31st of December 2018 with the assumption that in the period from the 15th of March to the 31st of March no significant transactions have occurred to have significant impact on the financial condition of the acquired company. In 2018 procedure was initiated for merging the acquired company that finally completed on the 31st of December 2018 – the date of entering the merger (and the deletion of the acquired company) in the Commercial register.

According to the requirements of IFRS 3 Business combinations, operation or other event whereas the acquiring company gets control over one or more businesses, as well as merger operations are being treated as business combinations. The standard requirements are not enforceable for a combination of enterprises under common control. Yet the Company management has the right to choose suitable accounting policy including the method of reporting business combination based on IFRS 3 in the case of combinations between enterprises under common control. The Company management is of the opinion that the most suitable reporting method is the purchase method in conformity with the principles of recognizing insurance contracts regulated in IFRS 4, namely that on the date of acquisition the insurer has measured the undertaken insurance liabilities and insurance assets at fair value. As of the acquisition date UBB Life Insurance JSC assets and liabilities of the acquired company have been measured at their fair value. As a result of the reported business combination an intangible asset was recognized – acquired insurance business (AIB) and occurred goodwill.

As of the merger date the assets and liabilities of the acquired company have been measured at their net book value:

	Fair value as of 31.03.2018
Assets	**BGN'000**
Deferred tax assets	144
Tangible assets	106
Investment property	5,122
Financial assets available for sale	96,364
Financial assets at fair value through profit and loss	8,544
Receivables under insurance operations	1,136
Trade and other receivables	391
Cash and cash equivalents	8,725
Total of assets	**120,532**

1.2. Business combination (continued)

	Fair value as of 31.03.2018
Re-measurement reserve	1,997
Liabilities	
Obligations under insurance contracts	86,640
Obligations to reinsurers	232
Obligations to insurance intermediaries and insureds	1,507
Trade and other obligations	2,072
Total liabilities	**90,451**
Total identifiable net assets	**28,084**

The goodwill that occurs as a result of business combination is defined as follows:

	BGN'000
Transferred consideration settled in cash	41,268
Fair value of the acquired identifiable net assets	(28,084)
Fair value of acquired insurance business	(11,161)
Goodwill	**2,023**
Remuneration transferred, paid in bank	41,268
Amount of cash and cash equivalents acquired on acquisition	(8,725)
Net cash outflow on acquisition	**32,543**
Net cash paid on acquisition	**32,543**

As of the date of UBB Life Insurance's merger in DZI Life Insurance JSC, whereas the acquired enterprise terminates its legal independence, all assets and liabilities have been recognized at their net book value. For the purposes of preparation the consolidated financial statement, the management of the company has chosen the perspective application of the method of "found" balance values (predecessor accounting method) according to which the separate financial statement of the acquiring company DZI Life Insurance includes the assets and liabilities of the acquired UBB Life Insurance as of the merger date, i.e. 31.12.2018. The business results of the acquired company are included in the consolidated financial statement of the acquiring company for the period as of the date of the business combination to the merger date. The goodwill is mainly related to the growth and future return expectations, the significant skills and experience of the personnel of the acquired company, as well as the expected cost decrease. The goodwill is not expected to be deducted for tax purposes.

As a result of the business combination the majority of the business has not been suspended.

No conditional obligations have been recognized in relation to the business combination.

The present financial statement includes the balance sheet of the businesses of the acquired company as of the end of 2018. The comparison period information of the particular notes in the financial statement does not include movements of "UBB – Life Insurance" for the entire year. If necessary, each and every effect brought by the merger with "UBB – Life Insurance" has been presented at the particular line with the appellation "Increase / (decrease) from business combination".

As of the merger date the assets and liabilities of the acquired company have been measured at their net book value.

	Net book value as of 31.12.2018
Assets	
Deferred acquisition costs	1,176
Tangible assets	51
Investment property	5,429
Financial assets available for sale	92,462
Financial assets at fair value through profit and loss	10,787

1.2. Business combination (continued)

	Net book value as of 31.12.2018
Assets under reinsurance operations	116
Receivables under insurance operations	624
Trade and other receivables	496
Receivables from income tax	63
Cash and cash equivalents	22,515
Total of assets	**133,719**
Equity	
Retained earnings	4,220
Re-measurement reserve	1,427
Total equity	**5,647**
Liabilities	
Obligations under insurance contracts	86,406
Obligations under investment contracts	10,765
Deferred tax liability	69
Obligations to re-insurers	258
Obligations to insurance intermediaries and insureds	1,037
Trade and other obligations	616
Total liabilities	**99,151**
Total identifiable net assets	**28,921**

By the end of the current reporting period, the initial bookkeeping of the business combination is considered completed. DZI - Life Insurance EAD did not report provisional amounts. There is no additional information about new information received, about facts and circumstances that existed at the date of acquisition and that require retrospective adjustments.

2.1. Basis of preparation

The accompanying consolidated financial statements have been prepared under the going concern principle using the historical cost convention, except for investment properties and available-for-sale financial assets (government securities, Eurobonds, international bonds, equity investments), financial assets at fair value through profit or loss (government securities, Eurobonds and investment stakes) and financial instruments held for trading (derivative financial instruments), as well as liabilities on investment contracts, which are measured at fair value.

The consolidated financial statements include the financial statements of DZI Life Insurance JSC and its subsidiary DZI General Insurance JSC.

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS), which have been endorsed by the European Union (IFRS, endorsed by EU). The consolidated financial statements have been presented in accordance with IAS 1 "Presentation of Financial Statements". The Group presents the consolidated statement of profit or loss and other comprehensive income in two separate statements: a consolidated statement of profit or loss and a consolidated statement of comprehensive income.

All items in the consolidated financial statements are presented in Bulgarian lev (BGN) and have been rounded to the nearest thousand (BGN'000), unless otherwise stated.

The Group presents its statement of financial position generally by liquidity classification. Analysis as to the recoverability of assets or settlement of liabilities within the twelve months after the date of the statement of financial position (current) and more than 12 months after the date of the statement of financial position (non-current) is presented in the notes to the consolidated financial statement.

2.1. Basis of preparation (continued)

Financial assets and financial liabilities are offset and the net amount is taken to the statement of financial position, if and only if there is a legally enforceable right to offset the recognised amounts and the Group intends to settle the asset and liability on net basis, or to simultaneously realise the assets and settle the liabilities. Income and expenses are not offset in the consolidated statement of profit or loss unless allowed by an accounting standard or interpretation, as explicitly stated in the Group's accounting policies.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.
The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Group and continue to be consolidated until the date such control ceases.

Subsidiaries are all entities over which the Group has control to manage the financial and operating policies it is usually expressed in ownership of more than half the voting rights. Group also assesses existence of control where it doesn't owns more than 50% of the voting rights but has the ability to manage financial and operating policies through de-facto control. De-facto control may exist in circumstances where the amount of the rights for vote of the Group relative to the size and distribution of the ownership of other shareholders, confers the right of the Group to manage financial and operational policies. Subsidiaries are fully consolidated from the date of a transfer of control to the Group. They are deconsolidation from the date that control is suspended.

Group transactions, balances, income and expenses between companies in the Group are eliminated. Gains and losses from intergroup transactions recognized as assets are also eliminated.

The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

The consolidated financial statements comprise the financial statements of DZI – Life Insurance JSC and the following subsidiary:

Company	Country of incorporation	Main activity	% of interest held in equity	
			2019	2018
DZI - General Insurance JSC	Bulgaria	General insurance	100	100

All intragroup balances, transactions, income, expenses, gains and losses, including dividends arising as a result of intragroup transactions are fully eliminated.

2.2. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Company has applied for the first time the following standards and amendments for its annual reporting period started on January 1, 2019:

- **IFRS 16 "Leases"** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Prepayment Features with Negative Compensation - Amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Long-term Interests in Associates and Joint Ventures - Amendments to IAS** 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019
- **Plan Amendment, Curtailment or Settlement - Amendments to IAS 19** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)

The Company has changed its accounting policies following the adoption of IFRS 16.

2.2. Changes in accounting policies and disclosures (continued)

The effect of IFRS 16 on the Financial Statements of the Group

The Group decided to apply the Simplified Transitional Approach as at 1 January 2019 and will not recalculate the comparative figures for a year prior to the initial recognition. All rights of use will be measured at the amount of lease receivables (adjusted for any prepaid or accrued lease expenses). This means that 2018 and 2019 amounts are not comparable as they are based on the different accounting policies described in the notes. The adoption of IFRS 16 did not have an effect on equity (retained earnings) as at 1 January 2019.

As at 1 January 2019, the Group recognized assets with a right of use amounting to BGN 2,281 thousand and lease liabilities amounting to BGN 2,281 thousand (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018.). The effects of initial application of IFRS 16 are presented in note 2.5 (ab) Change in accounting policy.

The Group's activity as a lessor is not significant and the Group does not expect significant impact on the financial statements.

All other changes of the adopted standards listed above have no impact on the amounts recognized in previous periods and it is not expected to have a significant effect on current or future periods.

2.3 New standards and interpretations not yet adopted by the Group

At the date of approval of these financial statements, new standards, amendments and interpretations have been published to existing standards but have not yet entered into force or been adopted by the EU for the financial year beginning 1 January 2019 and have not been applied from an earlier date by the Group. Information on these standards and amendments that have an impact on the Group's financial statements is presented below.

The management expects all standards and amendments to be adopted in the accounting policy of the Group during the first period beginning after the effective date.

IFRS 17 Insurance Contracts effective 1 January 2021, not yet adopted by the EU

IFRS 17 replaces IFRS 4 Insurance Contracts. It requires the use of an ongoing assessment model whereby judgments are reviewed at each reporting period. Contracts are evaluated using:
- discounted cash flows with weighted probabilities;
- an explicit risk adjustment, and
- an allowance for contracted services, representing the unrealized gain on the contract, which is recognized as revenue during the coverage period.

The standard allows for choices in recognizing changes in the discount rate or in profit or loss or other comprehensive income.

IAS 1 and IAS 8 (amended) - Definition of materiality, effective 1 January 2020, not yet adopted by EU

The purpose of the amendments is to use the same materiality definition within the International Financial Reporting Standards and the Conceptual Framework for Financial Reporting. According to the amendments:

• Blurring of material with non-material information has the same effect as omitting important information or misrepresenting it. Businesses decide what information is relevant in the context of the financial statements as a whole; and
•„Major users of general purpose financial statements "are those to whom the financial statements are directed and include" existing and potential investors, lenders and other creditors "who have to rely on the general purpose financial statements for a large portion of the financial information from in need.

The following new standards, amendments and interpretations to existing standards that have been published but have not yet adopted by EU and not have entered into force are not expected to have a material effect on the Group's consolidated financial statements:

2.3 New standards and interpretations not yet adopted by the Group (continued)

• **IFRS 14 Deferred Accounts at Regulated Prices** (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016)

Sale or investment of assets between an investor and its associate or joint venture - amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date determined by the IAS)

- **Definition of Business - Amendments to IFRS 3** (issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020)
- **Amendment to IAS 1 Presentation of Financial Statements: Classification of liabilities as current or non-current (issued on 23 January 2020)**

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires the management to apply judgement, accounting estimates and assumptions, which have effect on the amount of reported income and expenses, assets and liabilities, and the disclosure of the contingent liabilities at the financial statements date. The uncertainties related to the made assumptions and estimates could bring about factual results that necessitate making significant corrections in the balance value of the particular assets or liabilities in the future. These factors could include:

Estimates assumptions and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Assessment of insurance contract liabilities

The assessment of insurance contract liabilities is based on current assumptions or assumptions established upon the entering into force of the contract, representing the best estimate at that time. In assessing the insurance contract liabilities the Group has taken into account the requirements to set aside and maintain insurance reserves under order and methodology set out in Ordinance No 53 of the Financial Supervision Commission. These reserves are an element of the expenses in the financial statements in accordance with the IC in effect as at 31 December 2019.

Liabilities on life insurance contracts

The insurance contract liabilities (mathematical reserve) are based on assumptions made upon the entering into force of the contracts.

Because of the possible deviations from the underlying assumptions and actual results additional reserve is computed and set aside for adverse deviation from the actuarial assumptions used.

Liabilities reported in the statement of financial position are subject to review for the adequacy of the liabilities that reflects the best current assumptions of the future cash flows adjusted for uncertainty and risk margins.

The key assumptions made are related to mortality, discount rates and expenses.

The Group uses mortality tables based on mortality of the population in Bulgaria and in certain cases the mortality of the insured mass has been taken into account.

Discount rates are based on the technical interest rate used in the calculation of insurance premiums, which takes into account the general market practice, regulatory requirements and the long-term investment strategy of the Group.

Cost assumptions reflect forecast costs related to the servicing of effective policies and are based on the current cost levels, adjusted with the expected inflation where deemed necessary.

Redemption rates are not taken into account in calculating the liabilities (mathematical reserve).

2.4 Significant accounting judgements, estimates and assumptions (continued)

(a) Assessment of insurance contract liabilities (continued)

Liabilities on life insurance contracts (continued)

The future payments reserve on insurance contracts is determined on a claim by claim basis for all damages reported. Additional amount is calculated for incurred but not reported claims using statistic methods set out in Ordinance No 53 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund, issued by the Financial Supervision Commission. The definition of the reserve is based on assumptions as to the expected amount of claims and therefore it may differ from actual amounts paid. Further information on life insurance contract liabilities is presented in Note 29.

Liabilities on general insurance contracts

In respect of general insurance contracts assessments are made in respect of reported but not settled claims (RBNS), in respect of incurred but not reported claims (IBNR) and for the amount of acquisition costs used for calculation of Unearned premium reserve.

According to the requirements of Ordinance 53 of the FSC, the acquisition costs that should be deducted from the insurance premiums when calculating the Unearned Premium Reserve are the actual ones.

The ultimate expenses on outstanding claims are assessed individually for each claim and the estimated payments are determined in accordance with the approved Rules on Settlement by Types of Contracts. Claims filed through the court are included in the reserve at the amount of filed partial or full claims and due interest is accrued for them as well.

The assessment of liabilities in relation to incurred but not reported claims as at the date of the statement of financial position is based on the assumption that the experience of the company with the development of claims from prior years may be used for projection of the future development of claims and hence ultimate liabilities on claims. The development of claims is analysed in depth by years of events, and for more significant products by types of claims as well. No explicit assumptions are made in respect of the future level of claim inflation or claims ratio. Assumptions used are those derived from historical data on claim development which forecasts are based on.

Additional qualitative assessment is used to assess the extent to which past trends may not be applicable in the future (for example, exempt one-off events, changes in court decisions and legislation, as well as features of claim handling procedures), to arrive at the estimated ultimate expenses on claims, which represent the most probable outcome of a number of possible outcomes taking into account all related uncertainties.

The Group reviews the estimates and assumptions used in calculating the general insurance contract liabilities on annual basis.

Claim handling expenses (CHE) that are part of the outstanding claims reserve represent the sum of direct (ALAE) and indirect (ULAE) liquidation costs. Claim settlement costs that are part of the pending payment reserve represent the sum of direct (ALAE) and indirect (ULAE) liquidation costs.

In 2019 The Group did not make any changes to the methodology of their calculation. Indirect costs are evaluated on the basis of a ratio derived from the ratio of indirect costs paid to settle preferences to the number of claims paid. Direct costs are estimated on the basis of an average of the direct liquidation costs incurred by the number of claims paid and the direct costs of liquidation to the value of the claims paid.

In accordance with the current legal basis, namely Ordinance 53 Art. 59 p. 2, the provision for outstanding payments is presented after deducting recurrent claims that are assessed with caution. The amount of receivables from recourses on unpaid claims at the end of 2019 amounts to BGN 2,316 thousand.

Based on the Methodology for assessment of recourse claims in connection with the reserve for outstanding payments, the group estimates recourses related to the reserve for incurred but reported claims (IBNR). They are obtained as the difference between the gross and net calculation of the reserve for unreported claims, calculated by applying DFM analysis using RezQ. The amount of expected recourse claims for IBNR as of the end of 2019 for MTPL and Casco insurance is BGN 1,991 thousand.

2.4 Significant accounting judgements, estimates and assumptions (continued)

(a) Assessment of insurance contract liabilities (continued)

Liabilities on general insurance contracts (continued)

Further information regarding the amount and type of liabilities is disclosed in Note 29. Sensitivity analysis from changes in the assumptions for the obligations under insurance contracts is disclosed in Note 37.

The carrying amount of general insurance contract liabilities as at the date of the statement of financial position amounts to BGN 315,337 thousand (2018: BGN 290,021 thousand).

(b) Assessment of liabilities on investment contracts without additional discretionary participation features

Liabilities related to investment contracts are presented at the fair value of the assets linked to the investment contracts. The assessment of the liabilities includes the reassessment of investment fund shares, which is determined by the total value of the assets. The number of investment shares, multiplied by the current value of one share as at the date of the reporting period, represents the reserve on the investment contract which determines the liability. Further information on investment contract liabilities is presented in Note 30.

(c) Assessment of retirement benefit liabilities

The retirement benefit liability is determined through actuarial valuation based on the requirements of IAS 19. The actuarial valuation involves making the best assumptions about discount rates, future salary increases, personnel turnover rates and mortality rates. Due to the long-term nature of retirement employee benefits such assumptions are subject to significant uncertainty.

Actuarial techniques and methods are used – the projected unit credit method, applied on data provided by the Group and including the drawing up of a reliable estimate regarding:

- the expected future retirement compensations due to each individual in accordance with the Labour Code;
- the portion of such compensations that are earned in prior years and in the current year that calculations refer to;
- discounting of the earned portion of compensations due at the date of calculation using the projected unit credit method.

This assessment is made individually for each employee and includes projection of the expected length of service with the Group, expected retirement compensation upon retirement, assessment of the earned portion of the expected retirement benefit and discounting through the use of the best assumptions as to the discount interest rate, salary increases, early termination and death. Further information on the employee retirement benefits is presented in Note 31.

(d) Receivables on insurance contracts and recourse claims

Receivables from insurance contracts (from clients) and from recourse claims (from insurers and non-insurers) - physical, legal persons and financial risks) are recorded as receivables in the assets of the statement of financial position of the Group and for them recognized income from insurance operations / income from regressions, initially up to the amount expected to be received by the Group from future economic benefits.

The estimate of the Group as to the recoverable amount of receivables on recourses from individuals and legal entities – non-insurers and financial risks upon initial recognition is subjected to annual review of the historical information and recoverability percentage. The information gathered serves as a basis for recognizing an impairment loss. The amount of the loss is the difference between the carrying amount of the receivable and the amount of expected future cash flows.

The management of the Group considers that the information presented in this way in the financial statements will be useful for the more accurate presentation of the financial position and financial results of the Group. Additional information on recourse receivables is presented in Note 24.

2.4 Significant accounting judgements, estimates and assumptions (continued)

(e) Deferred tax assets / deferred tax liabilities

Deferred tax assets are recognised for tax losses to the extent it is probable that taxable profit will be available against which such losses may be utilised. Judgement is required in determining the deferred tax assets that may be recognised on the basis of the timing and level of future taxable profits along with the future tax planning strategies. Additional information on the deferred tax assets / liabilities is presented in Note 23.

(f) Extension and termination options and critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

- For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(g) Goodwill impairment test

A cash-generating unit to which goodwill is allocated is tested for impairment annually and whenever there are indications that the unit may have decreased in value by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit. If the recoverable amount of a unit is higher than its carrying amount, the unit and the goodwill allocated to that unit are considered impaired. If the carrying amount of the unit is higher than its recoverable amount, the entity recognizes an impairment loss

(h) Non-financial assets impairment test

An impairment loss is the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. To determine the value in use, the Group's management calculates the expected future cash flows for each cash-generating unit and determines the appropriate discount factor in order to calculate the present value of these cash flows
When calculating the expected future cash flows, management makes assumptions about future gross profits. These assumptions are related to future events and circumstances. Actual results may vary and require significant adjustments to the Group's assets in the next reporting year. In most cases, the determination of the applicable discount factor assesses the appropriate adjustments in relation to market risk and risk factors that are specific to individual assets. The Group has reported impairment losses on non-current assets in the amount of BGN 2,200 thousand in 2019 (2018: BGN 0) in order to reduce the carrying amount of non-current assets to their recoverable amount.

(i) Useful life of depreciable assets

Management reviews the useful lives of depreciable assets at the end of each reporting period.
As of 31 December 2019, management determines the useful life of the assets, which represents the expected useful life of the assets of the Group. The carrying amounts of the assets are analyzed in notes 17 and 18. Actual useful lives may differ from the estimated technical and moral wear and tear, mainly on software products and computer equipment.

2.4 Significant accounting judgements, estimates and assumptions (continued)

(j) Measurement of expected credit losses

Credit losses represent the difference between all contractual cash flows due to the Group and all cash flows that the Group expects to receive. Expected credit losses are a probable weighted estimate of the credit losses that require the assessment of the Group. Expected credit losses are discounted at the original effective interest rate (or the credit-adjusted effective interest rate on purchased or initially created financial assets with credit impairment).

(k) Fair value measurement

The management uses techniques for measuring the fair value of financial instruments (in the absence of quoted prices in an active market) and non-financial assets. In applying valuation techniques, management makes maximum use of market data and assumptions that market participants would make when evaluating an instrument. In the absence of applicable market data, management uses its best estimate of the assumptions that market participants would make. These estimates may differ from the actual prices that would be determined in a fair market transaction between informed and willing parties at the end of the reporting period (Note 21 (a)).

2.5. Summary of significant accounting policies

(a) Product classification

Life insurance contracts are the contracts where the Group takes over significant insurance risk through compensation of the insured person or another beneficiary in case of occurrence of a specific uncertain future event (insured event), which has adverse influence on the insured person. Any risk which is not classified as insurance risk is a financial risk.

Investment contracts are contracts related to financial risk. Financial risk is the risk of potential future change in one or several of the listed: interest rates, security prices, market prices, currency prices, price index, credit rating, credit index or another variable, provided that in case of non-financial variable, the variable is not specific to the parties under the contract.

A contract classified as life insurance contract remains such by the end of its validity regardless of the possibility for a significant decrease in the insurance risk. A contract classified as investment contract may be reclassified as insurance contract at a later stage if the insurance risk becomes material. Investment contracts are classified additionally as such with or without discretionary participation features.

As at 31 December 2019 the Group has concluded investment contracts without discretionary participation features and insurance contracts.

General insurance contracts are the contracts where the Group on one hand takes over significant insurance risk from the other party (the insured persons) through agreeing to compensate the policy holders in case of occurrence of a specific uncertain future event (insured event), which has adverse influence on the insured persons. Insurance contracts may transfer financial risk as well. To be able to classify its contracts the Group considers the features of the contract and determines whether they transfer significant insurance risk.

The Group considers that there is transfer of significant insurance risk when the occurrence of a covered risk is a random event and if the probability of its occurrence is material, or if insurance compensations paid upon occurrence of the covered risk represent material additional compensation. Insurance contracts are split into two major groups: Liability insurance and All other insurances.

DZI Group insurance companies hold licences to underwrite all types of insurances regulated by the legislation with the exception of capital redemption insurance. DZI Life Insurance JSC and DZI General Insurance JSC also hold licenses to carry out reinsurance activities under the above mentioned types of insurance.

(b) Intangible assets

On initial recognition intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is their fair value on the acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. Except development costs capitalized, internally generated intangibles are not recognized as assets and are recognized in the income statement in the period when they are incurred.

2.5. Summary of significant accounting policies (continued)

The useful lives of intangible assets have been determined as limited and unlimited.

Intangible assets with limited useful lives

Intangible assets with finite lives are depreciated over their useful economic life and reviewed for impairment whenever there is an indication that the intangible asset may be impaired. The depreciation period and method for intangible assets with finite useful lives are assessed at least at the end of each financial year. Any changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. Depreciation charges for intangible assets with finite useful lives are recognised in the income statement. Depreciation is accrued on a straight-line basis over the useful life of the asset. In 2019 and 2018, the amortization rate and useful life are as follows:

	ınnual depreciation rate %	Useful lives in years
Software	12% – 20%	5 – 8
Other intangibles assets	11% – 33%	3 - 9
Fair value of acquired insurance business	10%	10

Any gain or loss arising on derecognition of an intangible asset calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in the income statement in the year the asset is derecognized.

Intangible assets with unlimited useful lives

The Group has an intangible asset - a trade mark with an unlimited useful life that is not amortized. Annually, the Group prepares an analysis of the recoverable amount of the asset with an indefinite useful life and, in the event that the recoverable amount is lower than its carrying amount, an impairment loss is recognized.

(c) Tangible assets

Tangible assets are recognised at cost, less the accumulated depreciation, amortisation and accumulated impairment loss. Replacement costs or costs related to major inspection are capitalized as incurred and if it is probable that future economic benefits related to the property will flow to the Group and the cost can be measured reliably.

Depreciation is charged on a straight line basis over the estimated useful life of the assets for the following classes of assets. The depreciation rates in 2019 and 2018 are as follows:

Annual depreciation rate %		Useful lives in years
Buildings	3	33
Equipment	10 to 20	5-10
Fixtures and fittings	10	10
Computers and communications network	20 to 33	3-5
Transport vehicles	25	4
Right of use assets		1 – 18

Depreciation costs are included in the profit or loss statement under "Administrative expenses". At the end of each financial year, the residual values and useful lives of the assets and the depreciation method shall be reviewed and, if appropriate, adjusted. Impairment reviews are made when there are indications that the carrying amount may not be recovered. Impairment losses are recognized as an expense in the profit or loss statement.

2.5. Summary of significant accounting policies (continued)

(c) Tangible assets (continued)

A certain property or equipment is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the write-off of the asset (calculated as the difference between the net receipts from the release and the carrying amount of the asset) is included in the profit or loss statement for the year in which the asset is derecognised.

(d) Business combinations and goodwill

All the business combinations are being accounted according to the purchase method. The transferred remuneration in business combination is being measured at fair value that is calculated as the sum of the fair values as of the date of acquiring the assets transferred by the acquirer, the obligations undertaken by the acquirer towards the former owners of the enterprise being acquired and share interests issued by the Group. The transferred remuneration includes the fair value of assets or liabilities that result from conditional remunerations. The acquisition costs are being reported in the profit or loss in the period of their occurrence.

The purchase method includes the recognition of the distinguishable assets and liabilities of the enterprise being acquired including the conditional obligations, irrespective of whether these have been recognized in the financial statements of the acquiring company before the business combination. At the time of the initial recognition, the assets and liabilities of the acquired subsidiary are included in the statement of financial position at their fair value, being the base for follow-up measurement in conformity with company's accounting policy.

In view of each business combination the Group measures each and every non-controlling interest in the enterprise being acquired that is share of its own equity and gives the right to liquidation share either at fair value or pro rata share of the non-controlling interests in the distinguishable net assets of the enterprise being acquired. The other types of non-controlling interests are measured at fair value or if applicable, at a base defined in another IFRS.

The goodwill is recognized after defining all the distinguishable intangible assets. It is the sum excess of a) the fair value of the transferred remuneration as of the acquisition date and b) the amount of each non-controlling interest in the enterprise being acquired and c) in business combination achieved gradually, the fair value as of the acquisition date as of the previously held interest in the Group in the enterprise being acquired above the fair value of the distinguishable net assets of the company being acquired as of the acquisition date. Each and every excess of the fair value of the distinguishable net assets above the sum calculated above is recognized in the profit or loss right after the acquisition.

In the case of business combination achieved in stages, the Group re-measures the share interest held before that in the enterprise being acquired at fair value as of the acquisition date (i.e. the date of control acquisition) and recognizes the resulting profit or loss if any, in the profit or loss. The sums recognized in the other comprehensive income of share interest in the enterprise being acquired before the date of control acquisition are recognized in the same manner as if the Group has directly released the share interest held before that.

Goodwill is about the future economic benefits that result from other assets acquired in business combination, which have not been individually identified and individually recognized. See the explanation in note 1.3. about the information concerning the initial goodwill definition. For the purposes of the impairment test the goodwill is distributed among each and every unit that generates cash flow to the Group (or a group of units that generate cash flows) that is expected to be benefit from the business combination, irrespective of whether other assets or liabilities of the acquired company have been distributed towards these units. Goodwill is measured at acquisition value, decreased with the accrued impairment losses. See note 17 about information for the impairment texts. In the cases of transactions related to a combination of enterprises under common control the requirements of IFRS 3 are not applicable yet because of the absence of other established accounting rules and principles, the Group has undertaken the implementation of the purchase method.

(e) Investment properties

Investment properties are land and buildings held to generate rental income or for appreciation of value. Investment properties are initially recognised at cost. Costs incurred to acquire the asset are included in the initial measurement. Subsequently investment properties are measured at fair value. The Group reports all changes in the fair value of its investment properties in the statement of profit or loss.

2.5 Summary of Significant Accounting Policies (continued)

(e) Investment properties (continued)

Transfers from or to investment properties are made only in case of change of their use. If an owner occupied property carried in accordance with the requirements of IAS 16 "Property, plant and equipment" is transferred to investment properties, carried at fair value, the Group applies IAS 16 until the date of the change in the asset's use. Any difference between the carrying amount of the property as at the date of the transfer and the asset's fair value is reported as revaluation in accordance with the requirements of IAS 16. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss upon decommissioning or disposal of an investment property is recognised in the statement of profit or loss in the year of retirement or disposal.

(f) Taxes

Current income tax

The 2019 and 2018 taxes due have been calculated in accordance with the Bulgarian tax legislation. The corporate income tax rate in 2019 and 2018 is 10%.

Income tax is based on the taxable profit and the financial result has been transformed for this purpose in accordance with the Bulgarian tax legislation. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of current taxes are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method for all temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences,

- except, where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- for temporary taxable differences related to investments in subsidiaries, associates and joint venture interests, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference would not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses:

- except, where the deferred income tax asset related to a deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- for deductible temporary differences related to investments in subsidiaries, associates and joint venture interests, deferred tax asset is recognised only to the extent it is probable that the temporary difference will reverse within the foreseeable future and taxable profit will be available to utilise the temporary difference.

Current and deferred taxes are recognised as income or expense and are included in the statement of profit or loss in the current period, except when these taxes arise as a result of transactions or events which are recognised in the same or prior reporting period directly in the statement of changes in equity.

Deferred tax assets and liabilities are offset only when the Group has the legal right to offset current tax assets against current tax liabilities or when the deferred tax assets and liabilities are related to one and the same Group company.

2.5. Summary of significant accounting policies (continued)

(g) Retirement employee benefit liabilities

Employee benefits include the present value of the Group's liability to pay benefits to the employees at retirement age. According to the provisions of the Labour Code each employee is entitled to two gross salaries upon retirement, and if the length of service with the same employer exceeds 10 years, the benefits amount to six gross salaries at the time of retirement.

In accordance with the requirements of IAS 19 the Group's contingent employee benefits liabilities are included in the consolidated financial statements based on actuarial calculations. Revaluation of actuarial gains and losses is fully recognised in the other comprehensive income. Net interest expenses and current service costs are presented within note Expenses on employee benefits in the statement of profit or loss.

Short-term employee benefits include salaries, remunerations, interim and annual bonuses, social security contributions and paid annual leave of current employees expected to be settled wholly within twelve months after the end of the reporting period. When the Group receives the service, they are recognised as an employee benefit expense in the profit or loss, or are included in the cost of an asset. Short-term employee benefits are measured at the undiscounted amount of the expected cost of the benefit. Further information is presented in Note 35.

(h) Financial assets other than derivative financial instruments

Initial recognition and subsequent measurement

The company recognizes financial asset or financial liability in its statement of financial position only if the enterprise becomes party to the contractual terms and conditions of this instrument. The ordinary purchases or sales of financial assets are being recognized and written off with the use of accounting based on the transaction date.

Financial assets and liabilities are initially recognized at their fair value, plus, in the case of investments not reported at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Group applies the requirements of IFRS 9 for the classification of financial instruments from the beginning of 2018.

Classification of financial assets

Upon the initial recognition of a financial asset the Company primarily evaluates the contractual terms of the instrument to define it either as equity or as a debt finance instrument.. Capital Financial Instrument is any contract that involves the Company's interest in the net asset value of another company. In addition, the Company examines whether there is a contractual obligation for the issuer under a financial instrument to provide cash flows or to trade financial assets and financial liabilities with a third party under conditions that are potentially unfavorable to the issuer. Financial instruments that do not meet the criteria for designation as equity instruments are classified as debt instruments.

If the Company has designated a financial asset as equity, upon initial recognition, it is classified at fair value through profit or loss.

If the Company has designated a financial asset as a debt, upon initial recognition, based on the business model of instrument management and the contractual cash flow characteristics, it is classified into one of the following categories:

2.5. Summary of significant accounting policies (continued)

h) Financial assets other than derivatives (continued)

- at amortized cost;
- at fair value through other comprehensive income;
- at fair value through profit or loss.

A financial asset is measured at amortized cost if the following two conditions are met:

- the financial asset is held within a business model whose purpose is to hold assets in order to collect the contractual cash flows; and
- according to the contractual terms of the financial asset at specific dates, cash flows arise, which are only principal payments and interest on the outstanding amount of the principal.

A financial asset is measured at fair value through other comprehensive income if the following two conditions:
- the financial asset is held within a business model that seeks both to collect contractual cash flows and sales of financial assets, and
- according to the contractual terms of the financial asset at specific dates, cash flows arise, which are only principal payments and interest on the outstanding amount of the principal.A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

Notwithstanding the above, the Group may, on initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if it would substantially eliminate or reduce the measurement or recognition discrepancy (sometimes referred to as "accounting mismatch"), which would otherwise be the result of valuing assets or liabilities or recognizing profits and losses on different bases.
Purchases or sales of financial assets the terms of which require delivery of assets over a period of time normally established by a regulatory provision or practice in the relevant market (regular purchases) are recognized on the trade date (the transaction). on the date the Company has committed to buy or sell the asset.

Reclassification of financial assets

Reclassification of financial assets should only be made if the Company changes its business model for financial asset management.

Classification of financial liabilities

The Company classifies a financial liability as a liability if there is a contractual obligation:
- to provide cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group.

If the Group has no unconditional right to avoid the payment of the cash or the provision of the other financial asset in order to settle its contractual obligation, this obligation meets the definition of a financial liability.
The Group classifies a finacial liability into one of the following categories:
- at amortised cost
- at fair value through profit or loss

For the purposes of the annual financial report, financial assets at amortized cost are divided into three subcategories:
- Financial assets - government securities at amortized cost;
- Cash and short-term deposits;
- Loans and other receivables at amortized cost.

Financial assets - government securities at amortized cost

Financial assets at amortized cost are non-derivative financial assets and have fixed or determinable payments and fixed maturities and which the Group has a positive intent and ability to hold to maturity. These financial assets are initially recognized at cost, which is the fair value of the consideration paid for the acquisition of the investment. All transaction costs that are directly related to the acquisition are also included in the cost of the investment. After the initial valuation, financial assets at amortized cost are measured at amortized cost using the effective interest method. Profits and losses on financial assets at amortized cost are recognized in the profit or loss statement when the investment is derecognised or impaired, as well as through the amortization process.

2.5 Summary of Significant Accounting Policies (continued)

(h) Financial assets other than derivatives (continued)

Cash and short-term deposits reported at amortized cost

Cash and short-term deposits (with a maturity of up to three months) are rapidly convertible financial assets and carry a negligible risk of a change in value. These financial assets are initially recognized at cost and the subsequent measurement is carried at amortized cost.

Loans and other receivables measured at amortized cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of financial assets remuneration. All transaction costs that are directly related to the acquisition are also included in the cost of acquisition of the financial assets. After initial assessment, loans and receivables are measured at amortized cost using the effective interest method. Profits and losses from loans and receivables are recognized in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are non-derivative financial assets that are designated as at fair value through other comprehensive income and are not classified as financial assets at fair value through profit or loss, loans and receivables and investments at amortized cost. These investments are initially measured at fair value. After initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value.

Unrealized profits and losses on fair value are recognized in a separate component of other comprehensive income until financial assets are derecognised or impaired. On derecognition or impairment, cumulative gains or losses previously recognized in other comprehensive income are recognized in profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value in profit and loss are non-derivative financial assets that are designated as at fair value and are not classified as financial assets at fair value through other comprehensive income, loans and receivables and investments at amortized cost. These investments are initially measured at fair value. After initial recognition, financial assets measured at fair value through profit or loss are measured at fair value.

Repurchase agreements - Repo deals

Securities sold under repo deals in the course of ordinary business are presented in the statement of financial position in the category "available-for-sale assets", and the corresponding liability - on the line item "Short-term loan". The difference between the purchase and selling price of such deals is reported as interest income, interest expense, respectively, and is charged over the term of the transaction based on the effective interest rate, where applicable.

(i) Derivative financial instruments

Derivative financial instruments are classified in a separate item in the statement of financial position. All derivatives are classified as assets when their fair values are positive and as liabilities when their fair values are negative.

Embedded derivatives are treated as separate derivatives and are carried at fair value if their economic features and risks are not closely related to those of the host contract and the host contract itself is not carried at fair value through the profit or loss. Embedded derivatives that meet the insurance contract definition are treated and measured as such.

Derivative financial instruments held for trading are usually concluded with the intention to be settled in the near future. Such instruments are initially measured at fair value. Subsequently these instruments are re-measured at fair value. Adjustments in the fair value and realised gains and losses are recognised in the statement of profit or loss.

2.5 Summary of Significant Accounting Policies (continued)

(j) Impairment of financial assets

The Group applies the requirements of IFRS 9 for impairment of financial assets for the year ended 31 December 2019.

Recognition of expected credit losses (ECL)

The model for impairment of financial assets that the company implements is the model of expected credit losses (ECL). The model covers the following financial asset types:

- Financial assets reported at amortized value;
- Financial assets reported at fair value through other comprehensive income;
- Commercial and other receivables.

The ECL is not being implemented for capital financial instruments. ECL of cash receivables is immaterial and the Company does not charge impairment for these financial assets.

The corrective for financial assets' losses reported at amortized value and of commercial and other receivables is recognized in the statement of profit or loss and decreases the balance value of the financial asset in the statement of financial position.

The corrective for financial assets' losses reported at fair value through other comprehensive income is recognized in the other comprehensive income and does not decrease the balance value of the financial asset in the statement of financial position.

Calculation of the ECL

The expected credit loss under financial assets throughout the useful life of the financial asset is the sum of the expected losses throughout financial asset's life discounted with the initial effective interest rate . The 12-month expected loss is the part of the expected loss throughout the useful credit life as result of default in the 12-month period following the statement date.

The Group uses particular methods under IFRS 9 in terms of the default probability (PD), the forecast default exposition (JSC) and the loss in the case of default (LGD) in order to calculate the expected loss under financial assets.

As much as possible and in order to promote effectiveness, the Group uses modelling techniques that are similar to the ones developed for prudential purposes. Within the models the Group applies forecast macroeconomic information. When it comes to calculating the ECL we reflect the probability weighed values while taking into consideration the money value throughout time, as well as information about past events, current terms, conditions and forecast of the future economic conditions.

In view of the financial assets within the model scope of the expected credit losses we calculate impairments at the amount that corresponds to the whole term until the asset maturity date, should the credit risk increase significantly after the initial recognition. Otherwise, the ECL should be calculated for a period of 12 months.

Significant credit risk increase

The measurement of the significant credit risk increase is a relative measurement defined at the initial recognition. This is a multi-factorial measurement hence a multi-factorial approach has been elaborated.

In view of the main investment portfolio – made up of bonds, the approach has three basic lines:

- expectation of low credit: in view of the bonds we always take into consideration 12-month ECL if they have a low credit risk as of the end of the reporting period. The 12-month ECL are being applied for bonds assessed in the "investment" class;
- elaboration of internal rating (if the terms and conditions in line one have not been satisfied): relative measurement is performed of the probability of occurrence of default under the contractual relations after the initial recognition as of the end of the reporting period. The measurement should be performed at the individual financial asset level;

2.5 Summary of Significant Accounting Policies (continued)

(j) Impairment of financial assets (continued)

Significant credit risk increase (continued)

- management assessment: the management reviews and measures the significant credit risk increase for financial assets, at the level of the individual financial asset, as well as at asset portfolio level.

If neither of the three actions brings about period review for taking the credit losses into consideration, the financial asset should be reported with 12-month ECL. If a change is to be done in the period of credit losses reporting, we recognize depreciation referable to the whole period until the contract end. The reverse consideration is possible as well, if we observe decrease of financial asset's credit risk as of the end of the reporting period.

ECL of financial assets reported at amortized value and of financial assets reported at fair value in the other comprehensive income

As of each reporting date the enterprise measures the corrective for financial instrument losses at the amount equal to the expected credit losses throughout the effective term of the instrument, if the credit risk of this financial instrument has significantly increased after the initial recognition. If as of the reporting date the credit risk of a financial instrument has not significantly increased after the initial recognition, the enterprise measures the loss corrective for this financial instrument at the amount equal to the expected credit losses for 12 months. As of each reporting date the enterprise measures whether the credit risk of a particular financial instrument has significantly increased after the initial recognition. During its measurement the Group takes into account the risk change as of the default occurrence during the expected term of the financial instrument. In order to perform this measurement, the Group compares the risk of default occurrence under the financial instrument as of the reporting date and as of the date of the initial recognition and takes into account the reasonable and argumented information that certifies the significant increase of credit risk after the initial recognition. The Group could accept that the credit risk of a particular financial instrument has not significantly increased after the initial recognition if it was established that the financial instrument is of low credit risk as of the date of the statement of financial position.

ECL of commercial and other receivables

In terms of the commercial and other receivables, the Group recognizes on the grounds of simplified approach the expected credit losses throughout the effective contractual term.

The Group perceives that there are evidence of impairment of commercial and other receivables if some of the following indications is present:
- significant financial troubles of the debtor;
- probability for the debtor to become insolvent;
- becoming overdue after the maturity date for 30 or more days.

The Group measures the expected credit losses under the financial instrument while taking the following into account:
- the sum that has been defined in unbiased manner and weighted on the grounds of probability with the assessment of the possible result scope;
- money value throughout time; and
- reasonable and argumented information that is accessible as of the reporting date, about past events, current conditions and the forecasted future economic conditions.
- The maximum term that is taken into consideration when assessing the expected credit losses is the maximum term of the contracts (including extension options) during which the Group is exposed to credit risk.

Additional numerical information about Group's exposure to the ECL is presented in note 38.

(k) Write-off of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to the cash flows from the asset have expired;
- The Group reserves the right to receive cash flows from the asset, but has entered into a contractual obligation to pay all cash flows collected, without material delay, to a third party in a transfer transaction;

2.5 Summary of Significant Accounting Policies (continued)

(k) Write-off of financial assets (continued)

The Group has transferred its rights to receive cash flows from the asset, whereby:
- The Group has transferred substantially all the risks and rewards of ownership of the financial asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control of it.

When the Group has transferred its rights to receive cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has retained control of it, it continues to recognize the transferred financial asset to the extent of his continued participation in it. The degree of continuing involvement, which is in the form of a guarantee for the transferred asset, is measured at the lower of the initial carrying amount of the asset and the maximum amount of remuneration that may be recovered from the Group.

When the continuing interest is in the form of an option issued and / or purchased for the transferred asset (including an option settled in cash or the like), the extent of the Group's continuing involvement is equal to the value of the transferred asset for which The group can buy it back. However, in the case of a put option issued (including a cash-settled option, etc.) for an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value. of the transferred asset and the exercise price of the option.

A financial liability is written off when it is repaid - ie. when the obligation specified in the contract has been fulfilled, canceled or its term has expired.

An exchange between an existing borrower and a lender of a substantially different debt instrument is accounted for as repayment of the original financial liability and recognition of a new financial liability. Similarly, a significant change in the terms of an existing financial liability or part of it (whether due to the debtor's financial difficulties or not) is accounted for as repayment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) that has been repaid or transferred to another person and the consideration paid, including any transferred non-monetary assets or liabilities, is recognized in profit or loss.

(l) Fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or for which fair value disclosure is required in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

2.5 Summary of Significant Accounting Policies (continued)

(l) Fair value (continued)

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Group reviews their categorisation at the respective fair value hierarchy level (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether transfer(s) should be made between levels. The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and financial assets through other comprehensive income, and financial assets at fair value through profit or loss

Internal valuation experts are involved or direct quotations are used for measurement of the fair values of significant assets, such as available for sale financial assets and financial assets at fair value through profit or loss. External independent valuers are involved in the measurement of the fair value of investment properties, the need for which is decided upon annually by the Group's management. Selection criteria for external valuers include professional experience, qualities and reputation. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Group's accounting policies. This involves verification of the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The fair value of floating rate deposits and overnight deposits with credit institutions is their carrying amount. The carrying amount is the deposit amount and the accrued interest. The fair value of fixed rate deposits is estimated using the discounted cash flows method. If the fair value cannot be measured reliably the financial instruments are stated at cost which is the fair value of the consideration paid to acquire the investment or the amount initially received from the financial liability. All directly attributable transaction costs are included in the cost of the investment.

Analysis of the fair values of investment properties and financial instruments and additional information as to how these were measured are provided in Note 19 and Note 21.

(m) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets.

Impairment losses are recognized in the statement of profit or loss.

An assessment is made by the Group at each reporting date as to whether there is any indication that previously recognised impairment losses, on assets other than goodwill, may no longer exist or may have decreased. Previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount may not exceed the carrying amount of the asset that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognised in the statement of profit or loss.

2.5. Summary of significant accounting policies (continued)

(n) Reinsurance

The Group transfers the insurance risk in the ordinary course of business for certain types of insurance. Reinsurance assets represent balances due from / to reinsurance companies. Amounts that are subject to recovery from reinsurers are measured consistently with the reserve for outstanding or settled claims related to policies ceded to the reinsurer, which are related to the respective reinsurance contract.

Reinsurance assets are receivables on reinsurance transactions to be received as at the date of the statement of financial position, recognised as income based on the premiums due during the reporting period, results sharing arrangements and commissions under the effective reinsurance contracts. These are measured at their value and applying the respective exchange rate as at the date of the statement of financial position. The Group remeasures receivables from reinsurers on a monthly basis by updating the reinsurers' share in the outstanding payments reserve.

Reinsurance liabilities are payables on reinsurance transactions to be made as at the date of the statement of financial position, recognised as an expense based on the premiums due during the reporting period, indemnities, results sharing arrangements and commissions.

Reinsurance gains or losses are recognised in the consolidated statement of profit or loss immediately at the date of the purchase and are not amortised. Ceded reinsurance arrangements do not release the Group of its liabilities to the insured persons.

Premiums and claims are presented gross both for the ceded and for the underwritten reinsurance commitments. Reinsurance assets or liabilities are derecognised when the contractual rights are repaid or expire, or when the contract is transferred to a third party.

Reinsurance contracts that do not transfer significant insurance risk are recognised in the statement of financial position and they represent deposits or financial liabilities recognised on the basis of the consideration paid or received, less any explicitly attributable fees, which will be retained by the reinsured person.

(o) Receivables on insurances and recourse claims

General insurance contracts

Receivables on insurance transactions are recognised as the premiums fall due under the insurance contracts. Upon initial recognition they are measured based on all premiums due and received under insurance contracts during the reporting period.

Following initial recognition receivables on insurances are reviewed for impairment when events or circumstances indicate that their carrying amount may not be recovered. Indications for impairment exist when the insured person has overdue premiums payable to the Group, with the number of overdue payable premium being different for the different products. In case of impairment loss it is recognised in the statement of profit or loss.

Receivables on life insurance contracts

Life insurance contract receivables are initially recognised upon the recognition of premium income. Following initial recognition outstanding receivables on insurances are written down to their recoverable amount on the following maturity date if the insurance is not performing (the premium is overdue over more than two months) or on the date when the validity of the contract has been terminated (death, surrender, etc.). Impairment losses are taken to the statement of profit or loss.

Receivables on recourse claims

The right to recourse in relation to recovery of a claim paid and the expenses related to its determining against persons guilty for the destruction or damage of insured property is exercised by the Group on the grounds of art. 433 of the Insurance Code in effect as at 31 December 2019.

2.5. Summary of significant accounting policies (continued)

(o) Receivables on insurances and recourse claims (continued)

Receivables on recourse claims (continued)

All persons that the Group has liquid and eligible receivables on recourses against are debtors of the Group. In the cases when the guilty party has a valid Third Party Liability insurance the Group takes over the rights of the insured person and claims its receivables against the insurer of the guilty party under the Third Party Liability insurance or the guilty party itself.

Receivable recognition criteria for inclusion in the assets section of the statement of financial position include:
- indemnity paid under property insurance;
- established individual that has guiltily caused the damage;
- existence of proof as to concluded "Third party liability" insurance with another insurer;
- reported claim against the guilty individual or his / her insurer.

Recourse receivables are recognised at their recoverable amounts. The recoverable amount estimates for recourse receivables are reviewed by the Group's management on yearly basis.

Furthermore, in case of indications that the recognised receivable may not be collected, it is measured at its recoverable amount and impairment loss is recognised.

(p) Deferred expenses

Deferred acquisition costs (DAC)

Deferred acquisition costs are acquisition commissions reported in the financial period, related to the closing of the insurance contracts, which are deferred to periods after the date of the statement of financial position.

Acquisition costs are deferred using actuarial methods to the extent the latter are recoverable against future insurance premiums. Following initial recognition deferred acquisition costs are amortised over the expected life of the contract (period of collection of the insurance premiums) using a fixed percentage of the premiums. Deferred acquisition costs are derecognised when the related contracts are terminated – due to occurrence of the insured event, early termination (surrender) or ex-officio liquidation.

Deferred acquisition costs represent assets to cover the insurance - technical reserves in accordance with the Insurance Code in effect as at 31 December 2019. The Group reviews them for impairment at each reporting date or more frequently when indications of impairment exist. Impairment review is carried out through insurance liability adequacy test.

(q) Cash

For the purpose of the statement of financial position cash comprise cash at banks and cash in hand. For the purpose of the statement of cash flows, cash also include short-term deposits with an original maturity of three months or less. The Group prepares its consolidated statement of cash flows under the direct method.

(r) Insurance contract liabilities

Liabilities on general insurance contracts are recognised when the insurance contracts are closed and premiums are accrued. They include outstanding payments reserve, unearned premiums reserve and unexpired risks reserve.

The outstanding payments reserve is an outstanding claims liability which is based on assessment of the total costs on all incurred but not settled claims as at the date of the consolidated statement of financial position, regardless whether reported or not, including the related claim handling costs. In accordance with Art. 59 para. 2 of Ordinance 53 of the FSC the amount of the reserve for outstanding payments is reduced by a fair assessment of the recourse claims according to the Methodology for assessment of the recourse claims. There may be delays in the reporting and settlement of certain types of claims, therefore the total costs on such claims as at the date of the statement of financial position are subject to preliminary assessment. At the reporting date the liability is calculated using certain standard actuarial techniques to project claims, based on empiric data and current assumptions.

2.5. Summary of significant accounting policies (continued)

(r) Insurance contract liabilities (continued)

The reserve for reported but not settled claims is calculated via "claim by claim" method for the expected amount of payments for every reported but not settled claim. Litigation claims are registered at the amount of the court claim without those for which the court claim amount exceeds the insurance amount or is not reasonable. Interest rate is accrued over the litigation claims amount based on art.86 of the Law for liabilities and contracts. The Group books a reserve for incurred but not reported claims based on a "Chain-ladder" method, where the development factors are weighted average for the whole period of the calculation. The liability is not discounted for reflection of time value of money. The liabilities are written-off when the contract expires, is terminated or fulfilled.

The unearned premium reserve represents premiums received for risks that have not yet expired. The reserve calculation method is consistent to the method used for recognition of insurance premiums income. The reserve is usually released over the term of the contract and is recognised as premium income.

All contracts are subject to liability adequacy test (LAT), which reflects the best current estimate of the management as to the future cash flows. The result of LAT test sensitivity is presented in note 37 (a). At each reporting date the Group reviews the need to set aside unexpired risk reserve, in order to determine whether there is general excess of the expected claims and costs over the unearned premiums.

Liabilities on life insurance contracts are recognised when the insurance contracts are closed and initial premiums due are accrued. The reserves represent the estimated liabilities undertaken by the insurer on concluded insurance and reinsurance contracts, costs related to the performance of these liabilities and the potential adverse deviation from the assumptions made.

According to the Insurance Code in effect as at 31 December 2019 the Group forms the following liabilities on life insurance contracts:

- Mathematical reserve;
- Capitalised value of pensions;
- Unearned premium reserve;
- Future payments reserve;
- Reserve for future participation in income;
- Additional reserve for expected adverse deviation from the technical bases used;
- Reserves on Life insurance linked to investment funds with elements of the above listed.

Mathematical reserve and capitalised value of pensions

The mathematical reserve and the capitalised value of pensions are calculated using a prospective net premium method – the difference between the present value of the expected future insurance payments and the present value of the excepted future net premiums. The additionally allocated income on policies, the present value of premiums reported less acquisition costs that are related to periods after the date of the statement of financial position and additional administrative costs are included in the mathematical reserve and the capitalised value of pensions. The calculation is based on the same technical bases used in the calculation of the net premiums, including the discount (technical) interest rate and mortality table.

Mathematical reserve for the universal Life insurance, Capital insurance and Eurogarant is calculated under the retrospective method and is equal to the accumulated savings fund as at the calculation date.

Additional reserve for expected adverse deviation from the technical bases used

Because of the possible deviations between insurance technical plans and actual results the mathematical reserve and the capitalised value of pensions are increased with an additional reserve for adverse deviation from actuarial assumptions.

Unearned premiums reserve

Unearned premium reserve is set aside for risk insurances, medical insurances and additional coverage on life insurance contracts with savings element to cover claims and administrative expenses that are expected to arise after the end of the reporting period.

2.5. Summary of significant accounting policies (continued)

(r) Insurance contract liabilities (continued)

Future payments reserve

The future payments reserve is set aside to cover indemnities and amounts due, as well as the related costs on claims incurred before the end of the reporting period, regardless of whether reported to the Group or not, and which have not been paid at that date.

Reserve for future participation in income

It is set aside on contracts with savings element and discretionary participation features to cover future adverse deviations in the investment yield.

Reserve for bonuses and discounts

Includes amounts intended for policyholders and beneficiaries under insurance contracts in the form of bonuses and discounts resulting from the favorable development of the insurance risk.

Liability adequacy test

The liability adequacy test is a calculation of the present value of the estimated future cash flows and a comparison to the carrying amount of liabilities (mathematical reserve) net of deferred acquisition costs. The cash flows in a certain period include the estimated future premiums, estimated insurance payments (including surrenders), and estimated allocations to annual administrative costs of the Group and commission fees, as well as the allocated additional policy yield. The investment income and the movements in the mathematical reserves at the end of each reporting year is not included in the calculation. The present value of the estimated cash flows is calculated applying a discount rate corresponding to the asset yield, derived for low-risk investments and taking into account the market conditions and the yield of government securities at the end of the financial year.

The liability adequacy test is made on the basis of insurance and economic assumptions. Insurance assumptions are based on the Group's past experience, and economic – on the current analysis and prudent assumptions as to future changes. The result derived, calculated using the methodology of this test, is compared to the mathematical reserve stated in the Group's statement of financial position plus the additional reserve set aside as a safety margin against adverse deviations from the technical bases used and less deferred acquisition costs. The liabilities are considered sufficient when the reserve exceeds the result derived in the test.

The results derived in the liability adequacy test indicate that the mathematical reserve on Life insurances and internal investment fund-linked insurances are sufficient as at 31 December 2019 and 2018.

(s) Liabilities on investment contracts without additional discretionary participation features

Liabilities related to investment contracts arise when the contracts are closed and are carried in the statement of financial position as a deposit component. Initially liabilities are presented at fair value and subsequently they are remeasured based on the current price of the shares of the investment fund, which is determined as the total value of the fund's assets. Fair value adjustments are made as at each reporting date. The movements in the deposit component are taken directly as an adjustment of the liabilities in the statement of financial position. The liability is derecognised when the contract expires, is settled or terminated.

(t) Discretionary participation features

The discretionary participation feature is a contractual right entitling the holders of such contracts to receive significant additional income based on the yield of the assets held in the portfolio of contracts with such features in addition to the guaranteed income. According to the terms and conditions of the contracts the discretionary participation features should be split between the insured persons and the shareholders on a 90/10 basis for contracts signed prior to October 2006. At its own discretion the Group determines the amount and timing of distribution of the discretionary participation features to the policy holders for contracts signed after to October 2006.All liabilities associated with discretionary participation features, including undistributed ones, are reported as part of the liabilities on insurance or investment contracts, as appropriate at the end of the reporting period.

2.5. Summary of significant accounting policies (continued)

(u) Financial liabilities

Initial recognition and evaluation

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as derivatives that are effective hedging instruments, whichever is most appropriate. The Company determines the classification of its financial liabilities upon initial recognition. Financial liabilities are initially recognized at their fair value, together with transaction costs, if any. The financial liabilities of the Company include trade and other payables.

Subsequent assessment

After initial recognition, trade and other payables are measured at amortized cost.

Derecognition

Financial liabilities and insurance liabilities are derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another debt instrument from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts of the original and the new liability is recognised in the statement of profit or loss.

(v) Write-off of financial liabilities

Financial liabilities are derecognised when the liability is discharged, discharged or expires. The replacement of an existing financial liability with another debt instrument by the same lender with significantly different terms, or a significant modification of the terms of an existing financial liability, is reported as a write-off of the original financial liability and recognition of a new financial liability. The difference between the carrying amounts of the original and the new liability is recognized in the income statement.

(w) Liabilities to insurers and brokers

Liabilities to insurers and brokers are recognized when they are due. They are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest method.

(x) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the costs to settle the provision to be recovered, the recovery is recognised as a separate asset but only when the recovery of these costs is virtually certain. Expenses relating to any provision are presented in the statement of profit or loss net of any recovery. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing costs.

(y) Changes in equity

Share capital

Share capital is presented at the nominal amount of the shares issued and paid-in. Proceeds from issued shares in excess of their nominal amount are taken to the share premium.
The reserves in the Group's equity include:

- Capital reserves - formed as deductions from the profit for the year in accordance with the current commercial legislation (legal and additional);
- Re-measurement reserves - includes gains or losses on revaluation of financial and non-financial assets in accordance with applicable accounting standards;

2.5. Summary of significant accounting policies (continued)

(y) Changes in equity (continued)

- Reserve of actuarial re-measurements - includes actuarial gains or losses from changes in demographic or financial assumptions and the return on plan assets.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and are deducted from equity when they are approved by the sole shareholder of the Group. Dividends for the year that are approved after the date of the statement of financial position are considered an non adjusting event after the date of the statement of financial position.

(z) Revenue recognition

Gross premiums

Gross premiums underwritten on general and health insurance contracts include the total premium receivable over the whole period of cover of the contracts closed during the reporting period and are recognised on the inception date of the policy and premium thereunder has been received.

Following expiry of the contractual term, unpaid premiums due in the respective reporting periods are carried as impairment of receivables on uncollected premiums.

Gross premiums on life insurance contracts as well as the insurance portion of premiums on investment contracts are recognised as income:
- on the date the policy becomes effective – the one-off premium due;
- on the date the new premium period on the policy becomes effective - the premium due for this period;
- on the payment date – the prepaid premium.

Unearned premiums are those portions of underwritten premiums which are related to periods of insurance risk after the date of the statement of financial position. The portion related to future periods is deferred as unearned premium reserve.

Premiums ceded to reinsurers

Gross premiums underwritten on general reinsurance include total premiums due for the whole cover under the contract closed during the period and are recognised on the inception date of the policy. Premiums include any adjustments arising during the reporting period in respect of reinsurance contracts closed in prior reporting periods. Gross reinsurance premiums on life insurance contracts are recognised as income when they fall due or on the date the policy becomes effective.

Unearned reinsurance premiums are those portions of premiums underwritten during the year which are related to periods of reinsurance risk after the date of the statement of financial position. Unearned reinsurance premiums are deferred over the term of the underlying insurance policies concluded with insured persons for contracts with related risks and for the term of the reinsurance contract.

Fees and commissions income

Fees related to policy administration, investment management services, surrenders and other fees on contracts are charged to the insured persons under insurance and investment contracts. These fees are recognised as income in the period when the related services are rendered. If fees are related to services rendered in future periods, they are deferred and recognised in such future periods.

2.5. Summary of significant accounting policies (continued)

(z) Revenue recognition (continued)

Investment income

Interest income is recognised in the statement of profit or loss as interest accrues and is calculated using the effective interest rate method. Fees and commissions that are integral part of the effective income on a financial asset or liability are recognised as an adjustment in the effective interest rate of the instrument.

Investment income includes investment property rental income and dividends, when the right of the Group to receive payment is established. For listed securities this is the date when the security price does not include any dividends.

Realised gains and losses

Realised gains and losses on investments reported in the statement of profit or loss include gains and losses on financial assets, investment properties, investment products and currency revaluations. Gains and losses also include the ineffective portion of currency risk management. Gains and losses on disposal of investments are calculated as the difference between the net disposal proceeds and the original or amortised cost and are recognised on the occurrence of the disposal transaction.

Other income

Type	Recognition
In the scope of IFRS 15	
Revenue from trailer fee	Revenues from "trailer fees" represent remuneration received by the Company for choosing to invest funds collected from sold insurance products tied to KBC Group funds. Revenue is recognized in the period in which the services are provided. The Company transfers control of the services over time and therefore satisfies the obligation to perform and recognizes revenue over time. In recognizing revenue from the service provided, the company applies a method of measuring progress that takes into account the resources invested.
Out of the scope of IFRS 15 and in scope of other standards	
Net gain from sale tangibles assets	Gains or losses arising on the derecognition of an item of property, plant and equipment or an intangible asset as a result of a sale are included in profit or loss when the asset is derecognised. The asset is derecognised when control of the asset sold is transferred.
Rental income	Rental income from the providing of investment property of the Company under operating leases is recognized on a straight-line basis over the period of the operating lease in accordance with IFRS 16 Leases.

(aa) Recognition of indemnities and claims and financial expenses as an expense

Life insurance contracts

Gross annuities and claims payable on life insurance contracts and on investment contracts without discretionary participation features include the costs on all claims arising during the year, including internal and external claim handling costs, which are directly related to the handling and settlement of claims and additional annuities to insured persons, approved on contracts with discretionary participation features, as well as changes in the gross measurement of liabilities on insurance and investment contracts without discretionary participation features. Claims in case of death and surrenders are recognised on the basis of reports on the occurrence of the claim by the insured people. Payments on matured and annuity policies are recognised as they fall due.

General insurance contracts

General insurance claims include all claims paid during the year, regardless of whether reported or not, internal and external claim handling costs that are directly related to the handling and settlement of claims, less any salvaged property and other reimbursements, as well as any adjustments in claims outstanding from prior years.

2.5. Summary of significant accounting policies (continued)

(aa) Recognition of indemnities and claims and financial expenses as an expense (continued)

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised in accordance with the terms and conditions of the respective contract.

Financial expenses

Interest paid is recognised in the statement of profit or loss as interest accrues and is calculated using the effective interest rate method. Interests accrued are included in the carrying amount of interest-bearing finance liabilities.

Administrative and other operating expenses

Administrative and other expenses are recognized in profit or loss on the use of the services or on the date of their occurrence.

(ab) Changes in accounting policies

The Group has adopted IFRS16 Leases from 1 January 2019, which has resulted in changes in the accounting policies and adjustments to the amounts recognised in the financial statements.

IFRS 16 Leases was issued in January 2016. It resulted in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

In accordance with the transitional provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

The effect from adoption of IFRS 16 on the Group's financial statements

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate of the Group applied to the lease liabilities on 1 January 2019 was 1.55%.

	1 January 2019 BGN'000
Operating lease commitments disclosed as at 31 December 2018	2,481
Discounted using the Group's incremental borrowing rate of 1.55%.	2,432
Less: Short-term and low-value leases recognized on a straight-line basis	151
Lease liability recognized as at 1 January 2019	**2,281**
Of which are:	
Current lease liabilities	**709**
Non-current lease liabilities	**1,572**

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2.5. Summary of significant accounting policies (continued)

(ab) Changes in accounting policies (continued)

The initial value of the right-of-use assets is determined as follows:

	1 January 2019
	BGN'000
Amount equal to lease liability as at 1 January 2019 under IFRS16	2,281
Right-of-use asset as at 1 January 2019	**2,281**

The effect from adoption of IFRS 16 on the Company's financial statements (continued)

The first-time application of IFRS 16 affected the following balance sheet items as at 1 January 2019:
- Right of use assets – increase by BGN 2,281 thousand
- Lease liabilities – increase by BGN 2,281 thousand
- There was no impact on retained earnings on 1 January 2019.

Detailed information on the financial effect of the application of IFRS 16 on the income statement and cash flow statement for 2019 is presented in Note 34 to these financial statements.

Practical expedients applied:

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Accounting policies applied from 1 January 2019

Until the 2018 financial year payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The right-of-use asset is presented separately on the statement of financial position, except for right-of-use assets that meet the definition of investment property which is presented on the statement of financial position as a separate line item – "investment property".

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

2.5 Summary of significant accounting policies (continued)/

(ab) Changes in accounting policies (continued)

Accounting policies applied from 1 January 2019 (continued)

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.
Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.
The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation periods for the right-of-use assets are as follows:

- right of use for the office buidings 1- 18 years
- right of use for the retail vehicles 4 years

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Accounting policies applied until 31 December 2018

Leases in which substantially all risks and rewards of ownership is not transferred to the Group as a lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The leasing activity of the Group

The company rents various real estate (shops, office buildings). Leasing contracts are concluded on an individual basis and contain a wide range of different conditions (including termination and renewal of rights of use). Leases do not have covenants, but leased assets cannot be used as collateral for loans.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. For critical judgements in determining the lease term, please refer to Note 2.4.

(ac) Foreign currency translation

The financial statements of the Group have been prepared in thousands of BGN. This is the currency of the main economic environment in which the Group operates, and therefore it is the functional currency of the Group.

Transactions in foreign currencies are recorded in BGN using the foreign currency rate ruling of the Bulgarian National Bank (BNB) at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rate of exchange of BNB at the date of the statement of financial position. Foreign exchange differences on transactions and translation of monetary assets and liabilities denominated in foreign currencies are taken to the income statement in the period they are incurred. The key exchange rates at the beginning and at the end of the reporting period were as follows:

2.5 Summary of significant accounting policies (continued)

(ac) Foreign currency translation (continued)

31 December 2019		31 December 2018	
USD 1	BGN 1.74099	USD 1	BGN 1.70815
EUR 1	BGN 1.95583	EUR 1	BGN 1.95583

(ad) Restatement of comparative information

In 2019 the Company changed the presentation of the cash flow statement from the use of the indirect method to the use of the direct method. This change is based on the need to better presentation of the position included in the statement of cash flows from operating and financing activities. As a result of the changed presentation and correction of errors from the previous period, the respective amounts for 2018 were restated. In the comparative information related to 2018, cash flows from operating activities in the amount of BGN 88,628 thousand are reclassified into cash flows from investing activities, in accordance with the classification for the current year and the nature of these cash flows.

The management of the Company considers that this presentation is more reliable and understandable for the users of the financial statements. The adjustment in the presentation for the previous period is presented below:

	For the year ended 31 December 2018	Adjustment	For the year ended 31 December 2018 (restated)
Operating activities			
Net profit for the period	19,863	(19,863)	-
Adjustment for:			
Depreciation and amortisation of non-current assets	3,497	(3,497)	-
Impairment of uncollectible receivables	4,195	(4,195)	-
Interest accrued	(10,100)	10,100	-
Income tax (recovered), net			
Unrealised gain/ (loss) on revaluation of derivative financial instruments and others	80	(80)	-
Revaluation of investment properties to fair value	(43)	43	-
Net effect of adjustments	**(2,371)**	**2,371**	-
Movements in assets related to operating activities			
(Increase)/ decrease in the reinsurers' share in technical reserves	10,028	(10,028)	-
(Increase)/ decrease in deferred acquisition costs	(1,035)	1,035	-
(Increase)/ decrease in receivables on insurance transactions	(20,721)	20,721	-
(Increase)/ decrease in recourse receivables	411	(411)	-
(Increase)/ decrease in other assets	(1,091)	1,091	-
Net movement in assets related to operating activities	**(12,408)**	**12,408**	-
Movements in liabilities			
Increase/ (decrease) in life insurance reserves	86,056	(86,056)	-
Increase/ (decrease) in general insurance reserves	27,122	(27,122)	-
Increase/ (decrease) in retirement benefits liabilities	80	(80)	-
Increase/ (decrease) in trade and other payables	10,982	(10,982)	-
Increase/ (decrease) in investment contract liabilities	30,111	(30,111)	-
(Increase/ (decrease) in derivative financial instruments	(270)	270	-
Net movement in liabilities related to operating activities	**154,081**	**(154,081)**	-

2.5 Summary of significant accounting policies (continued)

(ad) Correction of comparative information (continued)

	For the year ended 31 December 2018	**Adjustment**	**For the year ended 31 December 2018 (restated)**
Premiums received	-	269,965	269,965
Received/ (paid) amounts from/ (to) reinsurers, net	-	(508)	(508)
Paid claims	-	(129,529)	(129,529)
Deposit part received from insurances with investment fund	-	21,112	21,112
Amounts paid on investment contracts	-	(549)	(549)
Payments to suppliers	-	(14,487)	(14,487)
Payments to employees and social insurance institutions	-	(20,531)	(20,531)
Acquisition costs paid	-	(37,651)	(37,651)
Paid corporate income tax	-	(1,612)	(1,612)
Paid taxes, different from the corporate income tax	-	(13,887)	(13,887)
Other cash flows from operating activities	-	(1,786)	(1,786)
Net cash flows from operating activities	**159,165**	**(88,628)**	**70,537**

	For the year ended 31 December 2018	**Adjustment**	**For the year ended 31 December 2018 (restated)**
Investing activities			
Acquisition of non-current assets	(29,869)	29,869	-
(Increase) in financial assets at fair value through profit or loss	(29,270)	29,270	-
(Increase) in financial assets at fair value through other comprehensive income	74,992	(74,992)	-
Decrease in financial assets at fair value through other comprehensive income	(132,812)	132,812	-
Loans granted	471	(471)	-
Decrease in deposits in financial institutions	64,191	(64,191)	-
(Increase)/ decrease in investment properties	(11,259)	11,259	-
Interest received	10,888	(181)	10,707
Acquisition of subsidiary, net of cash equivalents as of acquisition date	-	(32,543)	(32,543)
Proceeds from securities	-	60,197	60,197
Purchases of shares	-	(2,154)	(2,154)
Proceeds from sale of shares	-	498	498

2.5 Summary of significant accounting policies (continued)

(ad) Correction of comparative information (continued)

	For the year ended 31 December 2018	Correction	For the year ended 31 December 2018 (corrected)
Investing activities			
Proceeds from sale of fixed tangible and intangible assets and investment properties	-	2,160	2,160
Purchases of fixed tangible and intangible assets and investment properties	-	(24,656)	(24,656)
Purchase of securities	-	(25,791)	(25,791)
Purchase of shares in investment funds	-	(17,397)	(17,397)
Proceeds of shares in investment funds	-	339	339
Rents received	-	697	697
Proceeds from matured deposits	-	64,205	64,205
Other cash flows used in investing activities	-	(302)	(302)
Net cash flows (used in)/ from investing activities	**(52,668)**	**88,628**	**35,960**

3. Segment information

For management purposes the Group is organised in business units based on the products offered and services rendered and includes two operating segments subject to reporting as follows:

- The life insurance segment offers a wide range of life insurance services, term insurance, pension insurance, health insurance, investment products, where the annuities to the insured persons depend on the amount of the investment share, guaranteed pensions, net guaranteed pensions, which is paid upon maturity of the policy or earlier death, as well as mortgage products, the amount on which is paid upon maturity of the policy or earlier death.

- The general insurance segment offers products in the field of general insurance which include motor insurance, household property insurance, insurance for termination of commercial or business operations, accident insurance, etc.

The segment results are assessed based on the profit or loss.

Inter-segmental transactions have been carried out in 2019 and 2018. In inter-segmental transactions the transfer prices between the operating segments are determined based on the fair value in a manner similar to the one used in third-party transactions. Income, expenses and results of the operating segments include these transfers between them, which are eliminated on consolidation.

The "Adjustments and elimination" column presents inter-segmental transactions resulting in eliminations in the consolidated financial statements of the Group, as well as other adjustments resulting from other activities not material for the Group, which are not related to the insurance activities.

For management purposes certain general insurance contracts which are immaterial in terms of amounts are reported in the life insurance segment as this is the way the information is provided to the management in the ordinary course of business.

3. Segment information (continued)

Consolidated statement of profit or loss by segments for the year ended 31 December 2019:

	Life insurance	General insurance	Adjustments and eliminations	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Gross premiums	75,603	247,416	(265)	(322,754)
Premiums ceded to reinsurer	(2,304)	(11,508)	-	(13,812)
Net premiums	**73,299**	**235,908**	**(265)**	**308,942**
Fees and commissions income	1,831	935	-	2,766
Investment income	4,631	6,658	-	11,289
Realized gains / (losses)	(33)	38	-	5
Gains/ (losses) on fair value revaluation	302	139	-	441
Other operating income	567	1,172	-	1,739
Other income	**7,298**	**8,942**	**-**	**16,240**
Segment income	**80,597**	**244,850**	**(265)**	**325,182**
Expenses on annuities and claims paid – gross	(37,230)	(103,447)	-	(140,677)
Claims ceded to reinsurer	162	15,051	-	15,213
Movements in liabilities on insurance contracts, except unearned premium reserve - gross	(2,207)	(15,109)	-	(17,316)
Movement in liabilities on insurance contracts ceded to reinsurer, except unearned premium reserve	(19)	(11,215)	-	(11,234)
Expenses on annuities and claims, net	**(39,294)**	**(114,720)**	**-**	**(154,014)**
Financial expenses	(151)	(12)	–	(163)
Impairment of Financial assets	20	(759)	-	(739)
Impairment of insurance receivables	(4,364)	(1,186)	-	(5,550)
Depreciation and impairment of tangible and intangibles assets	(4,625)	(2,472)	–	(7,097)
Other administrative and operating expenses	(24,373)	(95,834)	265	(119,942)
Other expenses	**(33,493)**	**(100,263)**	**265**	**(133,491)**
Total expenses on annuities, claims and other segment costs	**(72,787)**	**(214,983)**	**265**	**(287,505)**
Segment profit before tax	**7,810**	**29,867**	**-**	**37,677**

3. Segment information (continued)

Consolidated statement of profit or loss by segments for the year ended 31 December 2018:

	Life insurance	General insurance	Adjustments and eliminations	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Gross premiums	67,327	207,123	(239)	274,211
Premiums ceded to reinsurer	(1,588)	(10,233)	–	(11,821)
Net premiums	**65,739**	**196,890**	**(239)**	**262,390**
Fees and commissions income	1,466	695	–	2,161
Investment income	10,586	6,703	(6,375)	10,914
Gains and (losses) and other operating income	2,669	1,402	(837)	3,234
Other income	**14,721**	**8,800**	**(7,212)**	**16,309**
Segment income	**80,460**	**205,690**	**(7,451)**	**278,699**
Expenses on annuities and claims paid – gross	(31,121)	(96,756)	–	(127,877)
Claims ceded to reinsurer	52	9,062	–	9,114
Movements in liabilities on insurance contracts, except unearned premium reserve - gross	(8,207)	717	–	(7,490)
Movement in liabilities on insurance contracts ceded to reinsurer, except unearned premium reserve	(238)	(10,203)	–	(10,441)
Expenses on annuities and claims, net	**(39,514)**	**(97,180)**	**–**	**(136,694)**
Financial expenses	(121)	–	–	(121)
Impairment of financial assets	16	(33)	-	(17)
Impairment of insurance receivables	(3,830)	(365)	–	(4,195)
Depreciation and amortisation	(1,043)	(2,454)	–	(3,497)
Other administrative and operating expenses	(22,043)	(90,094)	239	(111,898)
Other expenses	**(27,021)**	**(92,946)**	**239**	**(119,728)**
Total expenses on annuities, claims and other segment costs	**(66,535)**	**(190,126)**	**239**	**(256,422)**
Segment profit before tax	**13,925**	**15,564**	**(7,212)**	**22,277**

3. Segment information (continued)

Consolidated statement of financial position by segments as at 31 December 2019:

	Life insurance	General insurance	Adjustments and eliminations	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Intangible assets	11,210	6,809		18,019
Goodwill	2,023	–	–	2,023
Deferred acquisition costs	4,530	–	–	4,530
Deferred tax asset	202	519	–	721
Tangible assets	9,074	17,261	–	26,335
Investment properties	12,768	14,278	–	27,046
Right-of-use assets	876	1,548	–	2,424
Deposits, loans granted, financial assets at fair value though profit or loss, financial assets at fair value though other comprehensive income, financial assets at amortized cost	280,402	289,185	–	569,587
Reinsurance transaction assets	989	19,660	–	20,649
Receivables on insurance transactions	8,663	74,170	–	82,833
Trade and other receivables	1,641	1 306	(202)	2,745
Deferred expenses and other assets	–	1,193	–	1,193
Cash	2,624	58,022	–	60,646
Total assets	**335,002**	**483,951**	**(202)**	**818,751**
Liabilities on insurance contracts	174,371	315,073	–	489,444
Liabilities on investment contracts	80,879	-	–	80,879
Retirement employee benefits liabilities	276	892	–	1,168
Deferred tax liability	735	407	–	1,142
Income tax liability	870	719	–	1,589
Other liabilities	8,180	33,252	(202)	41,230
Total liabilities	**265,311**	**350,343**	**(202)**	**615,452**

3. Segment information (continued)

Consolidated Statement of financial position by segments as at 31 December 2018:

	Life insurance	General insurance	Adjustments and eliminations	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Intangible assets	13,628	4,464	–	18,092
Deferred acquisition costs	2,023	-	-	2,023
Deferred tax asset	5,097	–	–	5,097
Tangible assets	128	411	-	539
Investment properties	9,362	18,047	–	27,409
Deposits, loans granted, financial assets at fair value though profit or loss, to maturity and available for sale financial assets	12,784	11,330	–	24,114
Reinsurance transaction assets	208,622	219,102	–	427,724
Receivables on insurance transactions	528	30,439	–	30,967
Trade and other receivables	8,354	68,118	–	76,472
Income tax receivable	806	1,893	–	2,699
Other assets	265	–		265
Cash	78	1,376	–	1,454
	31,726	67,367	–	99,093
Total assets	**293,401**	**422,547**	–	**715,948**
Liabilities on insurance contracts	170,877	291,021	–	461,898
Liabilities on investment contracts	43,757	–	–	43,757
Retirement employee benefits liabilities	228	818	–	1,046
Deferred tax liability	623	99		722
Derivative financial instruments	383	–	–	383
Other liabilities	5,827	28,861	–	34,688
Total liabilities	**221,695**	**320,799**	–	**542,494**

4. Net premiums

(a) Gross premiums on insurance contracts

	2019	2018
	BGN'000	BGN'000
Life insurance including health insurance	76,365	67,137
General insurance	256,588	234,911
Movement in unearned premium reserve and unexpired risks reserve	(10,199)	(27,837)
	322,754	**274,211**

(b) Premiums ceded to reinsurer

	Notes	2019	2018
		BGN'000	BGN'000
Life insurance	29(b)(2)	(2,784)	(1,812)
General insurance		(11,944)	(10,080)
Movement in unearned premium reserve and unexpired risks reserve		916	71
Total premiums ceded to reinsurers		(13,812)	(11,821)
Net premiums total		**308,942**	**262,390**

5. Fees and commissions income

	2019	2018
	BGN'000	BGN'000
Administration of policies and loans on policies, incl. fees under investment fund contracts (Unit-linked, UL) and redemption fees	1,831	482
Fee income on insurance transactions	699	909
Fee income on reinsurance transactions	236	770
Total fees and commissions income	**2,766**	**2,161**

6. Investment income

	2019	2018
	BGN'000	BGN'000
Rental income from investment properties	1,238	814
Interest revenues from:		
Financial assets at fair value through profit or loss	43	56
Financial assets at fair value through other comprehensive income	8,482	8,387
Financial assets at amortized cost	1,046	1,043
Loans granted	470	470
Interest income from deposits with financial institutions	10	144
Total investment income	**11,289**	**10,914**

7. Realised gains

	2019	2018
	BGN'000	BGN'000
Gains/(losses) from foreign currency revaluation	**15**	**-**
Financial assets carried at fair value in other comprehensive income		
Realized gains from bonds	47	2,598
Realized losses from bonds	(41)	(194)
Total realized gains on financial assets carried at fair value in other comprehensive income, net	**6**	2,404
Tangible assets and investment properties		
Gains from the sale of land , buildings and investment properties	45	239
Realized losses from the sale of land and buildings	(61)	(46)
Profit from business combination	-	(837)
Total realized loss from the sale of tangible assets and investment properties	**(16)**	**(644)**
Total realized gains	**5**	**1,760**

8. Gains and losses from revaluation to fair value

	Notes		2018
		BGN'000	BGN'000
Gains on fair value remeasurement of investment properties	19	426	43
Gains/(losses) on remeasurement to fair value of derivative financial instruments	21(g)	16	(65)
Losses on fair value remeasurement of financial assets at fair value through profit or loss	21(g)	(1)	(15)
Total gain/ (losses) from fair value remeasurement		**441**	**(37)**

9. Other operating income

	2019	2018
	BGN'000	BGN'000
Income from legal cases	919	922
Trailer fee	242	54
Rental income	133	122
Sale of tangible assets	127	111
Income from abandon	70	52
Other	248	250
Total other operating income	**1,739**	**1,511**

10. Expenses on claims paid

(a) Expenses on indemnities - gross

	2019	2018
	BGN'000	BGN'000
Life insurance contracts	37,223	31,113
General insurance contracts	111,216	106,033
Amounts recovered through recourses	(7,762)	(9,269)
Total annuities and claims paid - gross	**140,677**	**127,877**

(b) Claims ceded to reinsurer

	2019	2018
	BGN'000	BGN'000
Life insurance contracts	(162)	(52)
General insurance contracts	(15,051)	(9,062)
Total claims ceded to reinsurer	**(15,213)**	**(9,114)**

(c) Movement in liabilities on insurance contracts, except unearned premiums reserve - gross:

	2019	2018
	BGN'000	BGN'000
Movement in liabilities on life and health insurance contracts, except unearned premiums reserve	2,232	8,215
Movement in liabilities on general insurance contracts, except unearned premiums reserve	15,084	(725)
Total movement in contractual liabilities, except unearned premiums reserve - gross	**17,316**	**7,490**

(d) Movement in liabilities on insurance contracts ceded to reinsurer, except unearned premiums reserve:

	2019	2018
	BGN'000	BGN'000
Movement in liabilities on life insurance contracts, except unearned premiums reserve	19	238
Movement in liabilities on general insurance contracts, except unearned premiums reserve	11,215	10,203
Total movements in liabilities on insurance contracts ceded to reinsurer, except unearned premiums reserve	11,234	10,441
Expenses on annuities and claims paid - net	**154,014**	**136,694**

11. Impairment of insurance receivables

	2019	2018
	BGN'000	BGN'000
Impairment on receivables on life insurance contracts	4,364	3,830
Impairment on receivables on general insurance contracts	1,186	365
Total impairment on receivables from uncollected premiums	5,550	4,195

The Group recognizes earnings and receivables from insurance premiums on an accrual basis, recognizing them on the basis of the amounts due for the entire coverage period under the insurance contracts concluded during the reporting period, as disclosed in Note 2.5 (o) above. These are reflected in the statement of financial position as receivables. Upon the expiration of the term of the contract or upon termination of the contract due to non-payment of due contributions, the outstanding premiums are derecognized. The portion of written-off receivables for which the Group carries insurance risk during the reporting periods is recognized as impairment of receivables on uncollected premiums. These receivables are determined as non-recoverable and are written off directly from the carrying amount. The effect for the reporting period amounts to BGN 6,812 thousand (2018: BGN 5,479 thousand), presented in Premiums repaid, Note 13 Other operating expenses. The Group assesses the receivables from insurance transactions for the existence of indications that would lead to impairment. The aggregate impairment for these receivables at the amount of BGN 5,550 thousand (2018: BGN 4,195 thousand) is presented under "Impairment of insurance receivables" in the consolidated statement of profit or loss, as well as in the "Impairment of receivables due from policyholders' in Note 24.

12. Administrative expenses

	Notes	2019	2018
		BGN'000	BGN'000
Expenses on employee benefits	14	26,414	23,662
Depreciation of intangible assets	17	1,899	989
Depreciation of tangible assets	18,34	2,998	2,330
Impairment of intangible assets	17	2,200	-
Consulting and IT services		7,821	7,766
Expenses on consumables and other materials		1,041	1,180
Expenses on audit fees and other consulting services		620	510
Taxes and fees expense		189	183
Other costs		1,505	3,202
Total administrative expenses		45,339	39,822

The accrued amount for the services provided by the registered auditors for statutory independent audit of the report year ending 31 December 2019 are BGN 314 thousand – respectively BGN 232 thousand for Pricewaterhouse Coopers Audit OOD and BGN 82 thousand for Grant Thornton OOD (2018: BGN 282 thousand- respectively BGN 200 thousand for Pricewaterhouse Coopers Audit OOD and BGN 82 thousand for Grant Thornton OOD).

In 2019, the expenses for services for the audit of annual group reports by the external auditor PricewaterhouseCoopers Audit OOD amount to BGN 21 thousand (2018: BGN 15 thousand).

In 2019, the expenses for services by the external auditor PricewaterhouseCoopers Audit OOD, other than those related to the annual audit, amount to: BGN 21 thousand in connection with the performance of audit agreed procedures regarding the financial information presented in the annual references under Ordinance 53, which are submitted to the FSC (2018: BGN 15 thousand) and BGN 140 thousand for the performance of agreed procedures in connection with the "Balance Sheet Review of the insurers" according to the requirements of the Solvency II Directive (2018: BGN 187 thousand).
In 2019, the expenses for services by the external auditor Grant Thornton OOD, other than those related to the annual audit, amount to: BGN 6 thousand in connection with the performance of audit agreed procedures regarding the financial information presented in the annual references under Ordinance 53, which are submitted to the FSC (2018: BGN 6 thousand) and BGN 14 thousand for the performance of agreed procedures in connection with the "Balance Sheet Review of the insurers" according to the requirements of the Solvency II Directive (2018: BGN 6 thousand).

12. Administrative expenses (continued)

No tax advise or other non-audit services were provided during the year. The present disclosure is in compliance with the requirements of Art. 30 of the Accountancy Act.

13. Other operating expenses

	2019	2018
	BGN'000	BGN'000
Acquisition costs	68,106	60,089
Premiums repaid	6,812	5,479
Legal expenses	1,119	1,379
Prevention initiatives	796	1,121
Movements in deferred acquisition costs	567	539
Reinsurance commissions and profit sharing arrangements	555	449
Contributions to guarantee funds	539	3,509
Costs related to investment properties	384	216
Expenses on operating fees and commissions	178	278
Net (gains)/ losses on foreign exchange revaluation	(9)	(56)
Movements in deferred acquisition costs from business combination	-	(309)
Other expenses	2,653	2,879
Total other operating costs	**81,700**	**75,573**

Contributions to guarantee funds represent payments to special state-controlled mandatory insurance funds.

Costs related to investment properties are expenses on taxes and fees due by the Group in its capacity as owner and repair costs made to recover and maintain the original condition of the respective property.

14. Expenses on employee benefits

	Notes	2019	2018
		BGN'000	BGN'000
Expenses on remuneration, including salaries		18,703	17,618
Expenses on social security		3,503	2,777
Bonus provision		3,225	2,427
Expenses on training and other expenses on personnel		913	762
Expenses related to retirement benefits liability		70	78
Total expenses on employee benefits	12	**26,414**	**23,662**

15. Income tax expense

	2019	2018
	BGN'000	BGN'000
Accounting profit before income tax	**37,677**	**22,277**
Applicable tax rate	10%	10%
Expected tax expense according to the applicable tax rate	(3,768)	(2,228)
Tax effect of costs not recognized for tax purposes	(3,400)	(2,379)
Tax effect from revenues not recognized for tax purposes	2,185	2,768
Current tax expense	**(4,983)**	**(1,839)**
Reversal of temporary difference	(238)	266
Tax effect of components of other comprehensive income	1,038	(841)
Income tax expense for the year	**(4,183)**	**(2,414)**

16. Income tax related to the elements of other comprehensive income

	2019			2018		
	Amount before tax	Tax (expense) / income	Net amount	Amount before tax	Tax (expense) / income	Net amount
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Other comprehensive income subject to reclassification to the profit or loss						
Financial assets at fair value through other comprehensive income	10,548	(1,043)	9,505	(8,004)	839	(7,165)
Other comprehensive income not subject to reclassification to the profit or loss						
Actuarial (losses) on defined benefit plans	(52)	5	(47)	(24)	2	(22)
Total	**10,496**	**(1,038)**	**9,458**	**(8,028)**	**841**	**(7,187)**

17. Intangible assets and goodwill

	Trademark	Software	Acquired insurance business(VBI)	Costs for acquiring intangible assets	Other intangible assets	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Book value						
On the 1st of January 2018	1,980	7,371	-	765	982	11,098
Acquired	–	–	–	3,287	–	3,287
Disposals	–	–	–		(1)	(1)
Increase from business combination	-	15	11,161	-	-	11,176
Transfers	-	354	-	(1,277)	-	-
On the 31st of December 2018	**1,980**	**7,740**	**11,161**	**2,775**	**1,904**	**25,560**
Acquired	–	–	–	4,029	5	4,034
Disposals	–	–	-	(8)	(3)	(11)
Transfers	–	2,391	–	(2,440)	49	-
On the 31st of December 2019	**1,980**	**10,131**	**11,161**	**4,356**	**1,955**	**29,583**
Accumulated amortisation and impairment						
On the 1st of January 2018	–	**5,283**	–	–	**345**	**5,628**
Accrued	–	851	–	–	138	989
Increase from business combination	–	15	837	-	-	852
Disposals	-	-	-	-	(1)	(1)
On the 31st of December 2018	–	**6,149**	**837**	-	**482**	**7,468**
Accrued	–	633	1,113	–	153	1,899
Disposals	–	–	–	–	(3)	(3)
Accrued impairment	-	-	2,200			2,200
On the 31st of December 2019	–	**6,782**	**4,150**	–	**632**	**11,564**
Carrying amount						
On the 31st of December 2018	**1,980**	**1,591**	**10,324**	**2,775**	**1,422**	**18,092**
On the 31st of December 2019	**1,980**	**3,349**	**7,011**	**4,356**	**1,323**	**18,019**

17. Intangible assets and goodwill (continued)

As at 31 December 2019 the Group owns an intangible asset with an indefinite useful life - trademark DZI. Asset is classified as such because management has made the following assumptions: the asset is not expected to stop bringing economic benefits in the foreseeable point in the future; a change in the management team of the group would not affect its effective use; changes in technical, technological and commercial environment would not IJSC to obsolescence of the asset; economic sector, which uses the asset and the demand for insurance products is not expected to undergo any significant negative changes; possible to predict actions by competitors or potential competitors of the Group would not impact negatively on the quality of the asset; expiry of the exclusive patent rights over the assets would not negatively affect its value.

As at 31 December 2019 the DZI brand has been reviewed for impairment. Factors taken into account during the impairment review included: decrease in the market value significantly exceeding the one that might be expected as a result of time past or orderly use; significant movements in market interest rates which may influence the discount rate used to determine the present value; significant changes having adverse impact on the group with respect to the volume or pattern of the present or future use of the asset. Based on the review the management has assessed that no indications exist that might require impairment of the DZI trademarks.

The AIB was initially recognized on consolidated basis as intangible asset with useful life term of 10 years and is being amortized according to the linear amortization method. The term of 10 years reflects the period in which we expect to realize profits that could be referred to the asset being cash flows from the development of the insurance contracts being the base for its calculation. On the date of the initial recognition asset's fair value amounted to 11,161 thousand BGN. During the consolidation period (31.03.2018 – 30.12.2018) amortization was accrued at the amount of 837 thousand BGN. As of the 31st of December 2018 the balance value of the AIB was 10,324 thousand BGN.

The goodwill was initially recognized on consolidated basis as an asset of unlimitedly useful life. The goodwill occurs as the difference between the value of the paid remuneration and the net distinguishable assets and liabilities of the acquired company at the amount of 2,023 thousand BGN. The goodwill is being tested annually for the presence of impairment. A loss is recognized in the consolidated statement for profit or loss if the recoverable amount of the investment is less than its carrying amount. In the end of 2018 test was run on the presence of impairment and no prerequisite for its occurrence was established. In 2019 has been made an impairment test of Goodwill and VBI. The result of the calculations shows that the PV of the expected future cash flows is much higher than the book value of the goodwill asset, therefore, it can be concluded that no sufficient evidences to suggest that impairment must be recognized at the end of the reporting period. VBI- there is sufficient evidences to confirm that the current value of the intangible asset linked to the ex-UBB Life insurance portfolio is lower than the initially recognized amount less the accumulated depreciation. After a full analysis, it was established that there is an impairment in the amount of BGN 2,200 thousand, which is recognized in the consolidated statement for profit or loss statement of the parent company, on the line "Administrative expenses". This assessment is based on key assumptions such as the limitation of the information on the risk insurance portfolio, which constitutes one of the components of the recognized business, the presence of uncertainty for the development of this portfolio, issues related to the quality of portfolio data (termination of policies). and issuance of new ones as a result of changes in the data on loans granted by UBB AD). The book value of fully amortised intangible assets still in use as at 31 December 2019 is BGN 6,393 thousand (2018: BGN 5,327 thousand).At the end of each reporting period the Group estimates the useful lives of intangible assets and if necessary corrects them In 2019 there is no change to expected useful lives of the assets at their acquisition.

The Group has contractual obligations to acquire intangible assets (software) amounting to BGN 2,510 thousand, with no pledged as collateral at the end of the reporting period.

18. Tangible assets

	Notes	Lands	Buildings	Personal computers and other equipment	Motor vehicles	Expenses for acquisition of tangible assets	Other, including fixtures and fittings	Total
Book value		**BGN'000**	**BGN'000**				**BGN'000**	**BGN'000**
1 January 2018		**580**	**19,430**	**8,391**	**2,551**	**70**	**1,707**	**32,729**
Additions		–	4,071	176	–	9,999	–	14,246
Disposals				654	-	-	-	654
Increase of business combination		–	(484)	(515)	(19)	(10)	(25)	(1,053)
Transfers		–	9,367	457	105	(9,982)	53	–
31 December 2018		**580**	**32,384**	**9,163**	**2,637**	**77**	**1,735**	**46,576**
Additions		–	-	2	-	1,103	-	1,105
Disposals		–	(83)	(521)	(26)	-	(28)	(658)
Transfers		–	30	815	-	(865)	20	-
31 December 2019		**580**	**32,331**	**9,459**	**2,611**	**315**	**1,727**	**47,023**
Accumulated depreciation and impairment								
1 January 2018		**10**	**8,231**	**5,896**	**2,100**	**-**	**811**	**17,048**
Accrued	12	–	944	900	342	-	144	2,330
Accrued impairment		(1)	(8)	-	-	-	-	(9)
Increase of business combination		–	(251)	(509)	(18)	–	(26)	(804)
Increase of business combination		-	-	602	-	-	-	602
31 December 2018		**9**	**8,916**	**6,889**	**2,424**	**–**	**929**	**19,167**
Accrued	12	-	1,124	804	95	–	123	2,146
Disposals		-	(50)	(521)	(26)	–	(28)	(625)
31 December 2019		**9**	**9,990**	**7,172**	**2,493**	**–**	**1,024**	**20,688**
Carrying amount								
31 December 2018		**571**	**23,468**	**2,274**	**213**	**77**	**806**	**27,409**
31 December 2019		**571**	**22,341**	**2,287**	**118**	**315**	**703**	**26,335**

The book value of fully depreciated tangible assets still in use as at 31 December 2019 amounts to BGN 8,984 thousand (2018: BGN 7,753 thousand). At the end of each reporting period, the Company estimates the useful lives of tangible assets and adjusts them if necessary. In 2019 there was no change in the useful life of the assets compared to the one originally determined at their acquisition. Depreciation expenses are presented in the individual statement of profit or loss at "Administrative expenses".The Group has no contractual obligation to acquire tangible assets. There are no pledges such as collateral at the end of the reporting period.

19. Investment properties

	Notes	2019 BGN'000	2018 BGN'000
On 1 January		24,114	12,812
Newly acquired		-	12,850
Advance paid for acquisition of investment property		3,274	-
Improvement of investment property		273	-
Sold		(1,041)	(1,591)
Net gain from changes in fair value	8	426	43
On 31 December		**27,046**	**24,114**

Investment properties are carried at fair value which is determined on the basis of valuations made by independent appraisers. The fair value is the amount that would be obtained from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants on the valuation date, in accordance with the standards issued by the International Valuation Standards Committee. Valuations are made annually and gains and losses on revaluation to fair value are taken to the statement of profit or loss.

Accounting for investment properties also meets the regulatory requirements of the Financial Supervision Commission (FSC). The fair value of the Group`s investment properties as at 31 December 2019 has been determined using valuation reports issued by Yavlena-Impact OOD . The assumptions used in the valuation vary depending on the specifics of the property. Valuations were made based on two approaches which are assigned different weights and thus the ultimate fair value of the properties is derived. The approaches used include: (i) the capitalised future cash flows method,(ii) market price method and (iii) cost method.

The market price method (MPM) derives an indicative value by comparing the valued asset to identical or similar assets for which pricing information is available. If no current transactions have been closed for similar properties as at the valuation date, the method relies on assumptions. The information used is taken from ads and information regarding similar properties from real estate agencies and publication of offers on specialised sites. Further adjustments for functionality, size, location, etc. are made. Market benchmarks current in the period of the valuation are also used. Additional adjustment is made on the asking price due to the "limited demand and the difficult closure of such transactions". In defining the ultimate fair value of the property the average unit value is taken from the adjusted benchmarks, which is then multiplied by the total area of the valued property.

The fair value of the property under the capitalised future cash flows method (CFCFM) is based on the nature and ability of the property that allow the owners to receive income from it, currently and in the future, through its renting at market prices current as at the valuation date. The monthly rent is forecast on the basis of market survey of the rental relations for similar properties in the respective region. The operating costs, management costs, taxes and fees required are determined expertly as a percentage of the gross income and represent the normal costs to maintain buildings of the same age and similar size.

The risk of non-renting or vacancy is also determined expertly and is based on surveys of the occupancy rate for similar properties. The capitalisation rate is determined by the market and is an indication of the development and liquidity of the market, as well as the risk of investment in the respective type of properties. It is determined following in-depth study and analysis of the market evidence as to rents of similar properties over a reasonable period of time before the date of the expert valuation.

The capitalisation rate is directly dependent on the rate of return on the investment in similar properties, calculated on the basis of the capital values from comparative market benchmarks. In the existence of comparable and reliable information detailed studies of the yield asked at the market for the respective type of properties are made, through comparison of the offers to rent out and rental prices for the same properties. The fair value is determined on the basis of the net annual rental income and multiplier depending on the capitalisation rate and the remaining useful life of the property.

19. Investment properties (continued)

The cost approach displays indicative value by reference to economic principle that a buyer would not pay for an asset over the cost of acquisition of an asset of equivalent value, whether through purchase or construction. This approach is based on the principle that in the absence of adverse factors associated with time, inconvenience, risk or other circumstances, the price that a buyer in the market would pay for the valued asset would not be higher than the cost of buying or building equivalent asset. To determine the new recoverable amount of the properties in this method are used method of depreciated recoverable amount - for valuation of buildings and market analogues method - for valuation of land.

Description of the valuation methods and the key input data in determining the fair value of investment properties:

Type of investment properties	Valuation method	Significant unobserved input data	Interval (weighted average) 2019	Interval (weighted average) 2018
	MPM	Offer (deal) price sq. m.	1,843 – 1,929 (1,886)	1,164 – 1,793 (1,472)
		Annual growth of market benchmarks (actual deals)	0%	0%
	CFCFM	Estimated monthly rent per sq. m.	8– 8,4 (8,2)	5.27 – 10,1 (7,0)
		Annual increase of rent	0%	0%
Residential properties		Rate of return	5.0% - 5.0%	5,1-7,5%
Commercial properties	MPM	Offer (deal) price sq. m.	267 – 4,314 (1,126)	274 – 4,314 (998)
		Annual growth of market benchmarks (actual deals)	0%	0%
	CFCFM	Estimated monthly rent per sq. m.	2 – 29,46 (9,0)	1,5 – 28,2 (8,2)
		Annual increase of rent	0%	0%
		Rate of return	5% – 10%	6% – 19%
Land plots (land)	CFCFM	Estimated monthly rent per sq. m.	1,843 – 1,929 (1,886)	77 - 95 (87)
		Annual growth of market benchmarks (actual deals)	5% – 10%	6% – 19%

The table below includes information regarding the fair value depending on the intended purpose of the property:

Type of investment property	2019 BGN'000	2018 BGN'000
Residential	342	786
Commercial	25,913	23,328
Lands	791	-
Fair value as at 31 December	**27,046**	**24,114**

Investment properties are disclosed at Level 3 in the fair value hierarchy. Movements in the material non-observable inputs would not result in material differences, higher or lower than the fair value of the investment properties. Non-observable inputs are not directly linked and do not influence each other so as to have material effect in the definition of the fair value of investment properties. The Group concludes rent contracts for all of its investment properties provided for use to third parties. Rental income during the year amounts to BGN 1,238 thousand (2018: BGN 814 thousand). They are included within line "Investment income". Direct operating expenses (included in administrative and operating expenses) arising in relation to these properties during the year amount to BGN 384 thousand (2018: BGN 216 thousand). These costs include taxes, local fees, ongoing repairs and others and are presented in the consolidated statement of profit or loss of the line "Other operating expenses".

The Group has no contingent claims on investment property contracts. The Company does not have investment properties pledged as collateral in respect of liabilities. The Group has contractual obligations to acquire investment property amounting to BGN 24,555 thousand (2018: BGN 0.), related to business center MALL VARNA. The future minimum lease payments are presented as follows:

19. Investment properties (continued)

	Minimum lease income			
	Up to 1 year	From 1 to 5 years	Over 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000
As of 31 December 2019	1,302	3,131	1,197	**5,630**
As of 31 December 2018	978	1,414	-	**2,392**

20. Derivative financial instruments

The Group acquires derivative financial instruments to hedge open foreign currency positions in US dollars.
The table below shows the fair value of derivative financial instruments reported as assets or liabilities and their nominal amounts.
The nominal amount, gross, is the amount of the underlying assets of the derivative, the reference interest rates or indices and it is the basis on which changes in the fair value of derivatives are measured.
The nominal amounts show transactions outstanding at the year end, and are not indicative for either market risk, or credit risk.
The table below shows the fair value of derivative financial instruments reported as assets or liabilities and their nominal amounts.

	Assets 2019	Liabilities 2019	Nominal amount 2019	Assets 2018	Liabilities 2018	Nominal amount 2018
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Derivatives held for trading :						
FX - interest swaps	-	-	-	-	(383)	1,513
	-	-	-	-	(383)	1,513
Total derivatives	-	-	-	-	**(383)**	**1,513**

Derivative financial instruments held for trading
Hedging agreements concluded by the Group, that provide economic hedging but do not meet the criteria for hedge accounting are treated as derivatives held for trading. The Group has entered into currency-interest rate swap agreements EUR / USD related to ZUNK bonds in US dollars.
These derivative instruments do not meet the requirements of IFRS 9 Financial Instruments for hedge accounting and changes in their fair value are reflected in the consolidated income statement.

Currency and interest rate swaps
Swaps are contractual agreements between two parties to exchange movements in interest rates or exchange rates. In the case of currency interest rate swaps, an exchange of both contingent principals denominated in a different currency and fixed or floating, respectively, for fixed or floating interest payments calculated on contingent principals are agreed.

21. Financial instruments other than derivative financial instruments and fair value of financial assets

(a) Financial instruments

The Group's financial instruments other than derivative financial instruments are summarised by category as follows:

	Notes	Assets at fair value through other comprehensive income	Assets at fair value through profit or loss	Assets at amortized cost	Total
		BGN'000	BGN'000	BGN'000	BGN'000
31 December 2019					
Deposits with financial institutions	21 (b)			615	**615**
Trade receivables and prepayments	21 (b)			2,745	**2,745**
Financial assets at fair value through other comprehensive income	21 (c)	446,162			**446,162**
Financial assets at fair value through profit or loss	21 (d)		82,698		**82,698**
Financial assets at amortized cost	21 (f)			29,332	**29,332**

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(a) Financial instruments (continued)

	Notes	Assets at fair value through other comprehensive income BGN'000	Assets at fair value through profit or loss BGN'000	Assets at amortized cost BGN'000	Total BGN'000
31 December 2019					
Loans granted	21 (b)			10,780	**10,780**
Cash and cash equivalents	27			60,646	**60,646**
		446,162	**82,698**	**104,118**	**632,978**
31 December 2018					
Deposits with financial institutions	21 (b)	–	–	4,062	**4,062**
Trade receivables and prepayments	21 (b)	–	–	2,699	**2,699**
Financial assets at fair value through other comprehensive income	21 (c)	337,837	–	–	**337,837**
Financial assets at fair value through profit or loss	21 (d)	–	45,551	–	**45,551**
Financial assets at amortized cost	21 (f)	–	–	29,494	**29,494**
Loans granted	21 (b)	–	–	10,780	**10,780**
Cash and cash equivalents	27	–	–	99,093	**99,093**
		337,837	**45,551**	**146,128**	**529,516**

The table below provides comparison between the fair values of financial instruments and their carrying amounts:

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
Loans granted, deposits placed, trade and other receivables	14,140	17,416	17,541	20,926
Financial assets reported at fair value through other comprehensive income	446,162	446,162	337,837	337,837
Financial assets at amortized cost	29,332	33,337	29,494	34,053
Financial assets at fair value through profit or loss	82,698	82,698	45,551	45,551
Financial assets other than derivatives and cash- total	**572,332**	**579,613**	**430,423**	**438,367**

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(b) Loans granted, deposits, trade and other receivables

	2019	2018
	BGN'000	BGN'000
Fair value		
Deposits placed	615	4,062
Loans granted	14,056	14,165
Life insurance loans granted	881	712
Receivables and advances	1,864	1,987
Total loans granted, deposits, trade and other receivables	**17,416**	**20,926**
Amortised cost		
Deposits placed	615	4,062
Loans granted	10,780	10,780
Life insurance loans granted	881	712
Receivables and advances	1,864	1,987
Total loans granted, deposits, trade and other receivables	**14,140**	**17,541**

The fair values of deposits placed and loans granted are estimated through a comparison between the current market interest rates on deposits and loans with similar maturity and currency instruments and the interest rates offered upon their initial recognition. In 2019, the Group has provided a long-term bank deposit in the amount of USD 350 thousand, at market interest rates and maturity on 16 March 2020.

(c) Financial assets reported at fair value through other comprehensive income

	2019	2018
	BGN'000	BGN'000
Fair value		
Government bonds	373,089	280,798
Corporate bonds	72,885	56,850
Shares	188	189
Total financial assets at fair value through other comprehensive income	**446,162**	**337,837**

The table below provides information on financial assets at fair value through other comprehensive income by type of issuer:

	2019	2018
	BGN'000	BGN'000
Bulgaria	310,609	236,071
France	22,106	16,311
Romania	20,162	19,186
The Netherlands	13,010	7,150
England	11,496	14,592
German	9,543	2,995
Romania	8,748	5,934
Spain	7,406	4,052
Ireland	7,071	7,078
Slovakia	7,104	2,701
USA	6,347	8,142
Slovenia	6,267	2,001
Belgium	5,110	762
Sweden	2,433	2,394

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(c) Financial assets reported at fair value through other comprehensive income (continued)

	2019 BGN'000	2018 BGN'000
Denmark	2,103	2,064
Italy	1,933	1,811
Australia	1,716	1,710
Czech Republic	1,135	1,070
Cayman Island	847	-
Finland	828	812
China	-	812
Total	**445,974**	**337,648**

Bonds carried at fair value in other comprehensive income, with a nominal value of EUR 770,000 and maturing in 2025 are pledged as collateral on a pledge.

(d) Financial assets at fair value through profit or loss

	2019 BGN'000	2018 BGN'000
Fair value		
Collected funds on investment contracts	80,756	43,963
Bonds	1,942	1,588
Total financial assets at fair value through profit or loss	**82,698**	**45,551**

The table below provides information on bonds at fair value through profit or loss by type of issuer:

	2019 BGN'000	2018 BGN'000
Bulgaria	1,212	1,078
Romania	730	510
Total	**1,942**	**1,588**

The funds attracted under investment contracts include investments in collective investment schemes. The company has government securities issued by the Republic of Bulgaria and the Republic of Romania, denominated in euro.

(e) Financial assets at amortized cost

	2019 BGN'000	2018 BGN'000
Amortised cost		
Bonds	29,332	29,494
Total financial assets at amortized cost	**29,332**	**29,494**

	2019 BGN'000	2018 BGN'000
Fair value		
Bonds	33,337	34,053
Total financial assets at amortized cost	**33,337**	**34,053**

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(e) Financial assets at amortized cost (continued)

The Group has government bonds issued by the Republic of Bulgaria, denominated in BGN and EUR. The average effective interest rate on the Group 's interest - bearing financial assets as of 31 December 2019 is 2.30% (2018: 3.12%). The average effective interest rate of the loan issued by the Government of the Republic of Bulgaria as of 31 December 2019 is 4.35% (2018: 4.35%).

In 2018 the Group has active repo- transactions which are presented in the consolidated statement of financial position in the pattern of received short-term loan at the amount of 38 million BGN as of 31 December 2018. The repo-transactions were agreed in EUR, with 1-week term and secured with Bulgarian government bonds. The modification of the amortized value (in the fair value as well) of the short-term loan for the period at the amount of 37,960 thousand BGN results from cash flows related to funding operations. As of the 31st of December 2019 the Group has no exposure to short-term loans. The change on repo agreements during the comparison period is as follow:

	2019	2018
	BGN'000	BGN'000
On 1 January	**-**	**37,960**
(Outflows) on repo agreements during the year	-	(293,814)
Inflows on repo agreements during the year	-	255,854
On 31 December	**-**	**-**
Net increase in the volume of repo agreements reflected in the statement of cash flows	**-**	**(37,960)**

(f) Carrying amount of financial assets, other than other receivables, derivatives and cash and cash equivalents:

	Notes	Loans granted and deposits	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
As of the 1st of January 2018		**98,024**	**284,390**	**16,210**	**29,660**	**428,284**
Newly acquired		183,835	6,440	19,863	287	210,138
Accrued interest	6	614	8,387	56	1,043	10,100
Revaluation effect of investment funds		-	-	(572)	-	(572)
Matured		(267,229)	(7,483)	(339)	(1,250)	(276,301)
Sold		-	(40,503)	-	-	(40,503)
Losses from fair value in other comprehensive income		-	(8,004)	-	-	(8,004)
Losses from fair value	8	-	-	(80)	-	(80)
Realized profits	7	19	2,385	-	-	2,404
Recovered impairments	37	36	16	-	-	52
Accrued impairments	37	(69)	(4)	-	-	(73)

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(f) Carrying amount of financial assets, other than other receivables, derivatives and cash and cash equivalents (continued)

	Notes	Loans granted and deposits BGN'000	Financial assets at fair value through other comprehensive income BGN'000	Financial assets at fair value through profit or loss BGN'000	Financial assets at amortized cost BGN'000	Total BGN'000
As of the 1st of January 2018						
Amortisation restatement			58		(63)	(5)
Re-classification		-	-	(374)	-	(374)
FX translation taken to the statement of comprehensive income		-	116	-	-	116
Increase from business combination		496	92,462	10,787	-	103,745
Premium allocation		-	(423)	-	104	(319)
As of the 31st of December 2018		**15,726**	**337,837**	**45,551**	**29,494**	**428,608**
As of the 1st of January 2019		**15,726**	**337,837**	**45,551**	**29,494**	**428,608**
Newly acquired		58,502	106,556	34,332	-	199,390
Accrued interest	6	480	8 482	43	1,046	10,051
Revaluation effect of investment funds		-	-	6,268		6,268
Matured		(61,572)	(15,678)	(3,529)	(1,044)	(81, 823)
Gains from fair value in other comprehensive income		-	10,548	-	-	10,548
Gains from fair value	8	-	-	15	-	15
Realized profits	7	-	6	-		6
Recovered impairments	37	23	35	-	1	59
Accrued impairments	37	(123)	(46)	-	-	(169)
Amortisation restatement		-	(1,023)	-	(64)	(1,087)
Premium allocation		-	(555)	-	(101)	(656)
As of the 31st of December 2019		**13,036**	**446,162**	**82,698**	**29,332**	**571,228**

Fair value of financial assets and liabilities which are not carried at fair value

The methodologies and assumptions used to determine the fair values of financial instruments not at fair value in the financial statements, i.e. loans granted, deposits, other receivables and financial assets held to maturity and short-term loans received are described below.

Assets and liabilities the fair value of which approximates their carrying amount

For financial assets and financial liabilities of short-term nature (maturing in less than three months) it is assumed that their carrying amounts approximate their fair values. This assumption is used for demand deposits and savings accounts without specified maturities. Other floating interest rate instruments are adjusted to reflect the changes in the required credit spread at the time of the initial recognition of the instrument.

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(f) Carrying amount of financial assets, other than other receivables, derivatives and cash and cash equivalents (continued)

Assets and liabilities the fair value of which approximates their carrying amount (continued)

Assets and liabilities for which the fair value approximates their carrying amount include:
- trade and other payables,
- receivables and advances,
- loans granted on Life insurance,
- minority interests (shares) and
- short-term loan.

(g) Fair value definition and hierarchy

The table below shows an analysis of the financial instruments at fair value and financial instruments, for which the fair value is disclosed, as it is not mandatory to be close to the carried value by hierarchy level of the fair value:

At 31 December 2019	Notes	Level 1	Level 2	Level 3	Total fair value
		BGN'000	BGN'000	BGN'000	BGN'000
Financial assets at fair value through profit or loss:					
Collected funds on investment contracts	21(d)	–	80,756	–	80,756
Corporate bonds	21(d)	1,942	–	–	1,942
Financial assets reported at fair value through other comprehensive income:					
Government bonds	21(c)	373,089	–	–	373,089
Corporate bonds		72,885	-	-	72,885
Financial assets for which fair values are disclosed					
Deposits granted	21(b)	–	–	14,056	14,056
Loans granted				615	615
Financial assets at amortized cost:					
Corporate bonds	21(f)	33,337	–	–	33,337
Total financial assets		**481,253**	**80,756**	**14,671**	**576,680**

Financial liabilities	Notes	Level 2	Total fair value
		BGN'000	BGN'000
Payables under investment contracts	31	80,879	80,879
Total financial liabilities		**80,879**	**80,879**

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(g) Fair value definition and hierarchy (continued)

At 31 December 2018	Notes	Level 1	Level 2	Level 3	Total fair value
		BGN'000	BGN'000	BGN'000	BGN'000
Financial assets at fair value					
Financial assets at fair value through profit or loss:					
Collected funds on investment contracts	21(d)	–	43,963	–	43,963
Bonds	21(d)	1,588	–	–	1,588
Financial assets at fair value through other comprehensive income:					
Government bonds	21(c)	280,798	-	-	280,798
Corporate bonds	21(c)	56,850	–	–	56,850
Financial assets for which fair values are disclosed					
Deposits	21(b)			4,062	4,062
Loans granted	21(b)	–	–	14,165	14,165
Financial assets at amortised cost:					
Government bonds	21(d)	34,053	–	–	34,053
Total financial assets		**373,289**	**43,963**	**18,227**	**435,479**

Financial liabilities	Notes	Level 2	Total fair value
		BGN'000	BGN'000
Payables under investment contracts	31	43,757	43,757
Derivative financial instruments:			
FX-interest swaps	20	383	383
Total financial liabilities		**44,140**	**44,140**

Loans granted represents issued by the Republic of Bulgaria foreign debt under the law of the Federal Republic of Germany. It consists of two loans, of which: the first one is for a period of 15 years, with a date of December 2013 and maturity in December 2028, an interest rate of 4.6%; the second one is for a period of 10 years with a date of provision in December 2013 and maturity in December 2023, an interest rate of 4.1%. The loans are not secured. The fair value of loans is calculated according to the expected interest and principal payments, discounted by the risk-free yield curve of the European Insurance and Occupational Pensions Authority (EIOPA).

Level 1 category includes financial assets and liabilities which are measured fully or partially based on information for quotes published at an active market. A financial instruments is considered quoted at an active market if the quotations are readily accessible and are available regularly at a stock exchange, dealer, broker, industrial group, price service agency or regulatory agency and these prices represent actual and regular arm's length transactions.

Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions supported by observable current market transactions. The pricing for such assets and liabilities is done based on broker quotations, investments in private equity funds with fair values, received through fund managers, and assets that are measured using the Group's own models, most of the assumptions in which are observable at the market .

Financial assets classified within Level 2 fair value hierarchy represent investments in collective investment schemes.

At the end of the Group has classified in Level 2 fair value hierarchy category financial liabilities with a carrying amount of BGN 80,879 thousand, for which no market prices are available (2018: BGN 44,140 thousand). The Group has measured these financial assets and liabilities using valuation technique, based on market data.

21. Financial instruments other than derivative financial instruments and fair value of financial assets (continued)

(g) Fair value definition and hierarchy (continued)

Input data that is not observed at a market is used in determining the fair values of level 3 financial assets. The fair values are determined, fully or partially using a valuation technique (model) based on assumptions that are neither supported by current market transactions with the same instrument, nor are based on available market data. The main asset groups in this category comprise unlisted equity investments and limited liability companies. Valuation techniques are used to the extent there are no available observable input data, therefore it is possible where there is low, if any, market activity in the asset or the liability at the valuation date.

Non-observable input data reflect the Group's own assumptions regarding the assumptions that the market players would use in the pricing of the asset or the liability (including risk assumptions). These input data are developed based on the best available information which may include the Group's own data. The Group does not hold financial assets and liabilities classified in the fair value hierarchy Level 3.

As at 31 December 2019 and 31 December 2018 the Group discloses the fair value of loans granted, deposits and other receivables and financial assets held to maturity and short-term loans received.

As at 31 December 2019 the item "Receivables and advances", as well as "Loans granted on Life insurances" in the consolidated financial statements are presented at amortised cost which equals the carrying amounts, and amount to BGN 1,864 thousand and BGN 881 thousand, respectively (2018 : BGN 1,989 thousand and BGN 712 thousand, respectively).

Investments in shares are presented as part of financial assets at fair value through other comprehensive income in the amount of BGN 188 thousand (2018: BGN 189 thousand). They are presented at acquisition price, which is considered the most a reliable estimate of the fair value of these equity instruments.

No gains have been recognised on day 1 due to the use of valuation techniques in which not all input data are coming from an observable market.

(h) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis the asset and the liability.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements but not offset, as at 31 December 2018:

31 December 2018	**Effect of offsetting on Statement of financial position**			**Related amounts not offset**	
	Gross amount	**Gross amount set off in the balance sheet**	**Net amount presented in the SFP**	**Amounts subject to master netting agreements**	**Net amount**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
31 December					
Derivative financial instruments	1,173	(1,173)	-	-	-
Financial liabilities					
Derivative financial instruments	1,556	(1,173)	383	-	-

22. Reinsurance transaction assets

	Notes	2019 BGN'000	2018 BGN'000
Reinsurance of General Insurance contracts	29	19,660	30,439
Reinsurance of Life Insurance contracts	29	989	528
Total reinsurance transaction assets		**20,649**	**30,967**

Reinsurance of General Insurance contracts	Notes	Share in upcoming payments BGN'000	Share in unearned premiums BGN'000	Total reinsurance assets BGN'000
At 1 January 2018		**40,203**	**592**	**40,795**
Movements in 2018		(10,203)	(153)	(10,356)
At 1 January 2019	29(d)	**30,000**	**439**	**30,439**
Movements in2019		(11,215)	436	(10,779)
At 31 December 2019	29(d)	**18,785**	**875**	**19,660**

Reinsurance of Life Insurance contracts	Notes	2019 BGN'000	2018 BGN'000
Assets under reinsurance operations in the reserve for forthcoming payments		50	69
Reinsurance transaction assets in the unearned premiums reserve		939	459
Total reinsurance transaction assets	29	**989**	**528**

23. Taxes

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2019 BGN'000	2018 BGN'000	2019 BGN'000	2018 BGN'000
Deferred tax liability				
Difference between the depreciation for accounting and for tax purposes	(1,142)	(680)	468	83
Revaluation of available-for-sale financial assets, taken to equity	-	(37)	37	(36)
Regulatory requirements	-	(5)	5	(5)
	(1,142)	**(722)**	**420**	**42**
Deferred tax asset				
Unused paid annual leaves	7	4	3	(22)
Unpaid annuities to individuals	598	430	168	234
Retirement benefits provision	112	102	10	24
Actuarial gain	4	3	(1)	(12)
	721	**539**	**180**	**224**

24. Receivables on insurance transactions

	2019	2018
	BGN'000	BGN'000
Due from Non life policy holders	70,986	63,202
Due from Life and Health insurances policy holders	9,875	8,971
Due to investment contract policy holders	(1,212)	(617)
Impairment of receivables due from policyholders	(357)	(368)
Other receivables from insurers	111	124
Recourses receivables	7,704	9,213
Impairment of recourses receivables	(4,274)	(4,053)
Total receivables on insurance transactions	**82,833**	**76,472**

Receivables from policy holders represent insurance premiums due from insured persons on deferred payment contracts.

Recourse receivables have a gross amount of BGN 3,430 thousand in 2018 (2018: BGN 5,160 thousand). Impairment on recourse receivables is included in the consolidated statement of profit or loss in the line item "Expenses on annuities and claims paid". The Group exercises its rights to recognise a recourse claim on the grounds of art. 213 and 213a of the Insurance Code in effect as at 31 December 2019. Right to recourse arises for reimbursement of claim paid and expenses on determining such claim against individuals guilty of destruction or damage to insured property. During the period the Group has accrued an impairment loss on insurance receivables in the amount of BGN 5,550 thousand (2018: BGN 4,195 thousand). It includes both the accruals related to the management's estimate of the collection of receivables at the end of the reporting period and a proportionate part of the receivables written off during the period for which active insurance coverage was provided.

The movements in the impairment of receivables on recourses in 2019 and 2018 are as follows:

	Impairment
	BGN'000
Carrying amount as of 1 January 2018	5,694
Accrued during the year	2,622
Written off and reintegrated during the year	(3,895)
Carrying amount as of 31 December 2018	**4,421**
Accrued during the year	2,271
Written off and reintegrated during the year	(2,062)
Carrying amount as of 31 December 2019	**4,631**

25. Trade receivables and prepayments

	2019	2018
	BGN'000	BGN'000
Financial guarantees	1,485	1,472
Other receivables and prepayments	2,080	1,287
Impairment	(967)	(197)
Financial assets	**2,598**	**2,562**
Receivables on indirect taxes and fees	147	137
Non-financial assets	**147**	**137**
Total trade receivables and prepayments	**2,745**	**2,699**

Financial guarantees include guarantees to the NBBMI, guarantees in court cases and guarantees under the Public Procurement Act. Trade receivables and advances are inherently short-term and the Management considers that their book value is close to their fair value at the date of the financial statement.

25. Trade receivables and prepayments (continued)

All trade and other financial receivables of the Group have been reviewed for occurrence of default events, and for all trade receivables a simplified approach has been applied to determine the expected credit losses at the end of the period. The impairment of trade and other receivables is presented in the Statement of profit or loss of the line "Impairment of financial assets". During the period the Group has collected impaired receivables in the amount of BGN 11 thousand, which are presented in a reduction of the current impairment expense.

The movement in the allowance for credit losses can be reconciled as follows:

	Impairment BGN'000
Balance as at 31 December 2018	**197**
Impairment loss	855
Written off and reintegrated during the year	(85)
Balance as at 31 December 2019	**967**

26. Deferred acquisition costs

	Notes	Insurance contracts	Investment contracts without discretionary participation features	Total
As of 1 January 2018		**3,997**	**463**	**4,460**
Occurred during the period	13	241	–	241
Depreciation	13	(834)	(14)	(848)
Revaluation		-	68	68
Increase of business combination		–	1,176	1,176
As at 31 December 2018		**3,404**	**1,693**	**5,097**
Occurred during the period	13	69	-	69
Depreciation	13	(1,248)	(109)	(1,357)
Revaluation		-	721	721
As at 31 December 2019		**2,225**	**2,305**	**4,530**

27. Cash and cash equivalents

	2019 BGN'000	2018 BGN'000
Cash at banks	60,589	99,020
Cash in hand	57	73
Total cash	**60,646**	**99,093**

The carrying amounts disclosed above approximate reasonably the fair value of cash at the date of the consolidated statement of financial position. As of the end of 2019 a cash amount of BGN 161 thousand is blocked on current accounts (2018.: BGN 320 thousand). During the presented reporting periods, the Group has not carried out investment and financial transactions in which no cash or cash equivalents have been used and which are not reflected in the cash flow statement.

The Group has assessed the expected credit losses on cash and cash equivalents. The estimated value is less than 0.1% of the gross amount of cash deposited with financial institutions, which is therefore considered to be insignificant and has not been accounted for in the financial statements of the Group.

28. Deferred expenses and other assets

	2019	2018
	BGN'000	BGN'000
Deferred expenses	476	597
Prepayments for stickers on Motor Third Party Liability Insurance	717	857
Total	**1,193**	**1,454**

29. Liabilities on insurance contracts

	2019			2018		
	Liabilities on insurance contracts	Reinsurance of liabilities	Net	Liabilities on insurance contracts	Reinsurance of liabilities	Net
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Life insurance contracts	174,107	(989)	173,118	170,877	(528)	170,349
General insurance contracts	315,337	(19,660)	295,667	291,021	(30,439)	260,582
Total liabilities on insurance contracts	**489,444**	**(20,649)**	**468,795**	**461,898**	**(30,967)**	**430,931**

Liabilities on life insurance contracts (gross) are presented in the table below:

	2019	2018
	BGN'000	BGN'000
Mathematical reserve	145,673	145,019
Outstanding payments reserve	11,155	9,325
Unearned premium reserve	6,454	5,487
Future profit sharing reserve	2,250	2,250
LAT Reserve	7,580	7,580
Additional reserve for expected adverse deviation from the technical bases used	982	1,202
Bonus and discount reserve	13	14
Total liabilities on life insurance contracts	**174,107**	**170,877**

(a) Liabilities on life insurance contracts with savings element

Unearned premiums reserve for additional coverage of life insurance contracts with savings element is presented together with the unearned premiums reserve on risk life insurance contracts.

	Gross	Reinsurance	Net
2019	Liabilities on insurance contracts with savings element	Liabilities on insurance contracts with savings element	Liabilities on insurance contracts with savings element
Mathematical reserve and outstanding payments reserve at 31 December 2019	157,182	-	157,182
Recognised premium income (premiums underwritten)	35,422	-	35,422

29. Liabilities on insurance contracts (continued)

(a) Liabilities on life insurance contracts with savings element

2019	Gross Liabilities on insurance contracts with savings element	Reinsurance Liabilities on insurance contracts with savings element	Net Liabilities on insurance contracts with savings element
Expenses and commissions	(6,515)	-	(6,515)
Liabilities paid for death, expiry, surrenders and annuities	(27,375)	-	(27,375)
Premiums written off	(2,889)	-	(2,889)
Return on investment of mathematical reserve	3,640	-	3,640
Deviation from the expected assumptions	(262)	-	(262)
Mathematical reserve and outstanding payments reserve at 31 December 2019	**159,203**	**-**	**159,203**

2018	Gross Liabilities on insurance contracts with savings element	Reinsurance Liabilities on insurance contracts with savings element	Net Liabilities on insurance contracts with savings element
Mathematical reserve and outstanding payments reserve at 31 December 2018	72,680	-	72,680
Recognised premium income (premiums underwritten)	25,322	-	25,322
Expenses and commissions	(3,516)	-	(3,516)
Liabilities paid for death, expiry, surrenders and annuities	(17,863)	-	(17,863)
Premiums written off	(2,930)	-	(2,930)
Return on investment of mathematical reserve	1,738	-	1,738
Deviation from the expected assumptions	(274)	-	(274)
Increase from business combination	82,025	-	82,025
Mathematical reserve and outstanding payments reserve at 31 December 2018	**157,182**	**-**	**157,182**

(b) Liabilities on risk life insurance contracts

	2019			2018		
	Liabilities on risk insurance contracts	Reinsurance	Net	Liabilities on risk insurance contracts	Reinsurance	Net
Reserve on claims reported by insured persons	2,851	(50)	2,801	675	-	675
Reserve for incurred but not reported claims	2,354	-	2,354	950	-	950

29. Liabilities on insurance contracts (continued)

(b) Liabilities on risk life insurance contracts (continued)

	2019			2018		
	Liabilities on risk insurance contracts	Reinsurance	Net	Liabilities on risk insurance contracts	Reinsurance	Net
Increase from business combinations	-	-	-	3,123	(69)	3,054
Outstanding claims reserve	**5,205**	**(50)**	**5,155**	**4,748**	**(69)**	**4,679**

(1) Outstanding payments reserve on risk life insurance contracts

	2019			2018		
	Liabilities on insurance contracts	Reinsurance	Net	Liabilities on insurance contracts	Reinsurance	Net
At 1 January	**4,748**	**(69)**	**4,679**	**1,208**	**-**	**1,208**
Claims incurred during the current insurance year	10,932	**(143)**	10,789	6,586	-	6,586
Claims paid during the year	(10,475)	**162**	(10,313)	(6,169)	-	(6,169)
Increase from business combinations	-	-	-	3,123	(69)	3,054
At 31 December	**5,205**	**(50)**	**5,155**	**4,748**	**(69)**	**4,679**

(2) Unearned premium reserve on risk and additional coverage of life insurance contracts with savings element

	2019			2018		
	Liabilities on risk insurance contracts	Reinsurance	Net	Liabilities on risk insurance contracts	Reinsurance	Net
At 1 January	**5,487**	**(459)**	**5,028**	**4,170**	**(200)**	**3,970**
Premiums underwritten	76,569	(2,784)	73,786	41,535	(935)	40,600
Premiums earned	(75,603)	2,304	(73,299)	(41,483)	723	(40,760)
At 31 December	-	-	-	1,265	(47)	1,218
At 1 January	**6,453**	**(939)**	**5,515**	**5,487**	**(459)**	**5,028**

(c) Outstanding payments reserve on investment contracts

The outstanding payments reserve includes BGN 103 thousand on investment contracts in 2019 (2018: BGN 103 thousand), which have matured but have not yet been paid to the clients.

29. Liabilities on insurance contracts (continued)

(d) Liabilities on general insurance contracts

	Notes	2019			2018		
		Liabilities on insurance contracts	Reinsurance of liabilities	Net	Liabilities on insurance contracts	Reinsurance of liabilities	Net
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Reserve on claims reported by insured persons		118,545	(11,769)	**106,776**	111,985	(24,158)	**87,827**
Incurred but not reported claims reserve		74,413	(7,016)	**67,397**	65,890	(5,842)	**60,048**
Outstanding claims reserve	22	192,958	(18,785)	**174,173**	177,875	(30,000)	**147,875**
Unearned premium reserve	22	122,379	(875)	**121,504**	113,146	(439)	**112,707**
Total liabilities on general insurance contracts		**315,337**	**(19,660)**	**295,677**	**291,021**	**(30,439)**	**260,582**

(1) Outstanding payments reserve

	Notes	2019			2018		
		Liabilities on insurance contracts	Reinsurance of liabilities	Net	Liabilities on insurance contracts	Reinsurance of liabilities	Net
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January		177,586	(30,000)	**147,586**	178,303	(40,203)	**138,100**
Claims incurred during the current insurance year		144,447	(8,300)	**136,147**	115,708	(4,231)	**111,477**
Other movements in claims incurred in prior insurance years		(25,892)	4,464	**(21,428)**	(19,670)	5,372	**(14,298)**
Claims paid during the year	10 (a), 10 (b)	(103,447)	15,051	**(88,396)**	(96,755)	9,062	**(87,693)**
At 31 December		**192,694**	**(18,785)**	**173,909**	**177,586**	**(30,000)**	**147,586**

In 2019 claims incurred during the year are 144,447 KBGN and this is an increase with 28,739 BGN or 25% compared to 2018. The development of the provision for outstanding claims at the beginning of the period is presented under line "Other movements in claims incurred in prior insurance years".

The value represents the change in the outstanding reserve from 2018 to 2019 for one and the same claims, the difference between the amount paid in 2019 and the respective reserved amount as of 2018, the amount of the claims refused in 2019 from the reserve as of 2018, the claims actually incurred and paid in 2019 from the incurred but not reported reserve as of 2018 and the change in the bonus reserve.

29. Liabilities on insurance contracts (continued)

(d) Liabilities on general insurance contracts (continued)

(2) Unearned premium reserve

	Notes	2019			2018		
		Liabilities on insurance contracts	Reinsurance of liabilities	Net	Liabilities on insurance contracts	Reinsurance of liabilities	Net
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January		113,146	(439)	**112,707**	85,298	(592)	**84,706**
Premiums underwritten during the year	4 (a), 4 (b)	256,649	(11,944)	**244,705**	234,826	(10,080)	**224,746**
Premiums earned during the year		(247,416)	11,508	**(235,908)**	(206,978)	10,233	**(196,745)**
At 31 December		**122,379**	**(875)**	**121,504**	**113,146**	**(439)**	**112,707**

As at 31 December 2019, the Group has allocated a non-technical risk reserve in total amount of BGN 9,431 thousand. It is calculated in accordance with art.85, par.2 of Ordinance 85 for insurance „Motor Third part liability", in connection with the ownership and use of motor vehicles for the amount of BGN 8,270 thousand and with accordance with art.85, par. of Ordinance 53 for all other insurances and in particular this reserve is allocated only for GTPL and is with amount of BGN 1,161 thousand.

30. Liabilities on investment contracts

	2019			2018		
	Liabilities on investment contracts	Reinsurance of liabilities	Net	Liabilities on investment contracts	Reinsurance of liabilities	Net
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Liabilities on investment contracts without discretionary participation features	80,879	-	80,879	43,757	-	43,757

31. Employee retirement benefits liability

Employee retirement benefits include the present value of the Group's liability to pay compensation to employees upon retirement age. According to the Labour Code each employee is entitled to two gross salaries upon retirement, and if he/she has more than 10 years of service with the same employer – the compensation amounts to six gross salaries at the time of retirement.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2019	2018
	BGN'000	BGN'000
Current service cost	67	75
Interest expense on employee benefits liability	3	3
	70	**78**

31. Employee retirement benefits liability (continued)

The movements in the present value of the employee retirement benefits liability are as follows:

	2019	2018
	BGN'000	BGN'000
On 1 January	**1,046**	**944**
Interest expense	3	3
Current service cost	133	151
Employee benefits paid	(66)	(76)
Actuarial (gains) /losses	52	24
On 31 December	**1,168**	**1,046**

The main actuarial assumptions used in determining the liability to pay define employee retirement benefits are as follows:

	2019	2018
	%	%
Future salary increases	2.5	2.5
Personnel turnover rate	10	11.0
Discount rate	0.22	0.75

The discount rate chosen is determined based on the information published by the BNB on the yield of instruments offered at the financial market in Bulgaria on long-term investments (government securities, ZUNK bonds, etc.) at the end of 2019 and 2018, respectively.

The salary increase rate assumption is based on information provided by the Group's management and represents 2.5% increase per annum compared to the prior reporting period

Mortality tables are used based on the general mortality in Bulgaria: B 2015-2017 with additional modifications.

The table below presents quantitative analysis of the sensitivity of the retirement employee benefits liability to the key actuarial assumptions:

Assumptions	**Discount rate**		**Salary increase**		**Mortality**		**Turnover of personnel**	
Sensitivity level	**+ 0.25%**	**- 0.25%**	**+ 0.25%**	**- 0.25%**	**+ 0.1%**	**- 0.1%**	**+ 0.25%**	**- 0.25%**
31 December 2019	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Effect on the retirement benefits liability – increase/(decrease)	(10)	10	(6)	6	(9)	9	(44)	44
31 December 2018								
Effect on the retirement benefits liability – increase/ (decrease)	(8)	8	8	(8)	(8)	8	(37)	37

Sensitivity analysis was made by extrapolating the effect of the reasonably expected changes in the key assumptions on the balance of the retirement benefits liability at the end of the reporting period.

32 . Payables to insurers, insurance intermediaries and insured persons

	2019 BGN'000	2018 BGN'000
Commissions due to brokers	4,282	4,400
Commissions due to agents	3,966	3,465
Commissions accrued on outstanding premiums to agents and brokers	15,639	13,765
Liabilities to insured persons	392	341
Liabilities to insurers	3,908	3,342
Total liabilities to insurers and intermediaries	**28,187**	**25,313**

All amounts are subject to payment within one year. Management considers that the above carrying amounts of payables to insurers, brokers and agents is approximate the fair value because of their short-term nature.

33. Trade and other payables

	2019 BGN'000	2018 BGN'000
Employee benefits liability	3,744	3,214
Expenses on social security and other taxes	2,321	1,808
Liabilities to guarantee and collateral fund	1,685	1,726
Trade payables	2,850	2,498
Other	12	129
	10,612	**9,375**

All amounts are subject to payment within one year. Management considers that the above carrying amounts of payables to insurers, brokers and agents is approximate the fair value because of their short-term nature.

34. Right-of-use assets and lease liabilities

Right-of-use assets (by class of assets)	**31 December 2019** **BGN'000**	**1 January 2019** **BGN'000**
Land and buildings	2,295	2,281
Vehicles	129	-
At the end of the period	**2,424**	**2,281**

Right-of use asset	**Land and buildings** **BGN'000**	**Vehicles** **BGN'000**	**Total** **BGN'000**
Book value:			
As at 1 January 2019	2,281	-	**2,281**
Additions – new lease contracts	877	149	**1,026**
Termination of lease contracts	(40)	-	**(40)**
As at 31 December 2019	**3,118**	**149**	**3,267**
Depreciation:			
As at 1 January 2019	-	-	-
Depreciation for the year	832	20	**852**
Termination of lease contracts	(9)	-	**(9)**
As at 31 December 2019	**823**	**20**	**843**
Net Book Value as at 31 December 2019	**2,295**	**129**	**2,424**

34. Right-of-use assets and lease liabilities (continued)

Lease liabilities

	31 December 2019	1 January 2019
	BGN'000	BGN'000
Short-term lease liabilities	885	368
Long-term lease liabilities	1,546	955
Total lease liabilities	**2,431**	**1,323**

	31 December 2019 Minimum lease payments	31 December 2019 Present value of lease payments
	BGN'000	BGN'000
Up to 1 year	944	526
Between 1 and 5 years	1,567	1,029
Total minimum lease payments	**2,511**	**1,555**
Reduced by the amounts representing financial expenses	(80)	-
Present value of minimum lease payments	**2,431**	**1,555**

The following amounts are recognized in the statement of profit or loss as an effect of IFRS 16 effective from 01 January 2019:

	IFRS16 2019	IAS17 2018
	BGN'000	BGN'000
Depreciation charge for the right-of-use assets by class of assets		
Buildings	823	-
Vehicles	20	-
Total depreciation charge	843	-
Interest expense on lease liabilities (included in finance expenses)	16	-
Expense relating to leases of low-value assets that are not short-term leases (included in administrative and distribution expenses)	127	-
Total expenses related to leases	**143**	-

The following amounts are recognized in the cash flow statement as an effect of IFRS 16 effective from 01 January 2019

	IFRS16 2019	IAS17 2018
	BGN'000	BGN'000
Principal	836	-
Interest	16	-
	852	-
Cash outflow for leases – operating activity	-	891
Cash outflow for leases – financial activity	852	-
Total cash outflows	**852**	**891**

35. Equity and reserves

(a) Share capital

Company's registered capital consists of 3,860,000 fully paid in ordinary shares with par value at the amount of 10 per share. All the shares are with the right of receiving dividend and liquidation share and give the right to one vote at the general meeting of Company's shareholders.

The sole shareholder of the Company's capital is KBC Insurance NV, Belgium. During the reporting periods no change occurred in the compounds and structure of shareholder's capital.

In 2019, the Company made a dividend distribution in the amount of BGN 13,107 thousand or BGN 3.39 per share.

(b) Equity reserves

Capital reserves represent funds set aside by the Company under art. 246 para 2 item 1 and under art. 246 para 2 item 4 of the Commercial Act. The source of the Reserve Fund is 1/10 of the profit.

(c) Revaluation reserve

Revaluation reserve includes the following components:

	2019	2018
	BGN'000	BGN'000
Revaluation reserve of non-financial assets	1,729	1,729
Revaluation reserve of financial assets at fair value through other comprehensive income	32,387	22,352
Current tax	(1,890)	(1,360)
	32,226	**22,721**

The revaluation reserve of non-financial assets is the difference in the fair value of buildings transferred from owner-used buildings to investment properties in 2007 as a result of change in their use.

The revaluation of financial assets at fair value through other comprehensive income is recognized for tax purposes in the year of the booking. The book value of these financial assets is equal to their tax value.

(d) Dividends paid

	2019	2018
	BGN'000	BGN'000
Declared and paid during the year		
Dividends distributed to the shareholders:		
Dividends distributed for 2019: BGN 3.39 (	13,107	-
Total dividends paid during the year	**13,107**	**-**

36. Risk management rules

(a) Governance framework

The main objective of the governance framework is to protect the Group's shareholders of events which are an obstacle for the consistent attainment of the financial performance goals, including impossibility to use opportunities arising. The Group has developed and implemented risk management and control rules and procedures aimed to determine, manage and control the financial and insurance risks. The risk management and control rules and procedures are adopted by the Management Board and are approved by the Supervisory Board. The main objective of the risk policy is to impose clearly defined parameters for the Group's transactions, to minimise the potential adverse impact of the risks on the financial performance of the Group.

The Group has established risk management unit with clear rules set out by the Management Board, its committees and the related committees of the executive management. The Financial Risks and Non-Financial Risks sectors report directly to the Finance and Risk Executive Officer.

36. Risk management rules (continued)

(a) Governance framework (continued)

The following risks fall within the scope of risks managed by the Financial Risks Unit:
- Insurance risk;
- Asset and liability management risk, which includes the components of financial risk:
- Interest rate risk;
- Currency risk;
- Interest spreads change risk;
- Shares price change risk;
- Real estate price change risk;
- Credit risk;
- Liquidity risk.

The following risks fall within the scope of risks managed by the Non-Financial Risks Unit:
- Operational risk;
- Business continuity.

As a member of the KBC Group, the Group executes its risk government procedures in compliance with the standards and requirements of KBC Group. These standards include the following elements:

- Internal risk monitoring committee–Risk and Capital Control and Management Committee;
- Development of risk identification procedures and systems, their measurement and the reporting of their development;
- Development of a system of limits and procedures which determine the risk tolerance of the Group and limit its risk exposure.

(b) Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach, to manage the risks influencing its capital position:
- to maintain the required stability level of the Group and therefore to secure a certain level of security for the insured persons;
- to distribute the capital efficiently and in support of the development of the business while ensuring that the return on the capital used meets the requirements of capital providers and the shareholders;
- to keep the financial flexibility through maintaining strong liquidity and access to a number of capital markets;
- to harmonise the asset and liabilities profile while taking into account the inherent risks to the business;
- to maintain the financial strength in support of the growth of new business and to meet the requirements of insured persons, regulators and shareholders;
- to maintain stable credit ratings and good capital ratios in order to support the objectives of the Group's business and to maximise the return to the shareholders.

In reporting financial stability the capital and solvency are measured using the KBC Group rules. These regulatory capital reviews are based on the required capital and solvency levels and a number of prudent assumptions in respect of the types of underwritten insurance products.

The capital management policy of the Group in respect of its insurance business is to maintain sufficient capital to cover the legal requirements, including any additional amounts required by the regulator.

Capital management approach

The Group is trying to optimise the structure and sources of capital, to ensure that return to the shareholders and policy holders is maximised.

36. Risk management rules (continued)

(b) Capital management objectives, policies and approach (continued)

Capital management approach (continued)

The Group's approach to capital management includes asset, liability and risk management in a coordinated manner, regularly measuring the deficit between the level of the reported and required capital (for each entity controlled) and to undertake appropriate measures to influence the Group's capital position in the light of the changes in the economic conditions and risk characteristics. An important aspect of the overall capital management process of the Group is the definition of target return rates, adjusted for risk, which are aligned to the performance goals and which ensure that the Group remains focused on the better return to the shareholders.

The main source of capital used by the Group are the funds from the equity holders. Where it is efficient to do so, in addition to the more traditional financing sources the Group uses sources of capital such as reinsurance and securitisation.

The capital requirements are forecasted routinely and periodically and are measured depending on the forecast available capital, and the expected internal rate of return, including risk and sensitivity analyses. This process is ultimately subject to approval by the Management Board.

The Group has developed a framework for Individual Capital Assessment (ICA) to identify the risks and to quantify their effect on the economic capital. ICA makes an estimate of the capital required to reduce the risk of insolvency to a low level of probability. ICA is reviewed in the assessment of capital requirements.

	Insurance	Total
	BGN'000	BGN'000
Total shareholder funds as per consolidated financial statements	203,299	203,299
Capital available as at 31 December 2019	**203,299**	**203,299**

	Insurance	Total
	BGN'000	BGN'000
Total shareholder funds as per consolidated financial statements	173,454	173,454
Capital available as at 31 December 2018	**173,454**	**173,454**

(c) Regulatory framework

The regulatory authorities are mainly interested in protecting the rights of the insured people and they monitor strictly to ensure that the Group manages its business in a satisfactory manner to the benefit of the insured persons. At the same time the regulatory authorities are interested in ensuring that the Group maintains an appropriate solvency position allowing it to meet any unforeseen liabilities arising as a result of economic turmoil or natural disasters.

The business activity of the Group is subject to regulatory requirements in the jurisdiction where it operates. These regulatory provisions do not only envisage approval and monitoring of the activities but they impose certain restrictive provisions (such as maintaining minimum levels of own funds to ensure the solvency of the insurer, minimum capital requirements and capital adequacy, minimum guaranteed capital) to minimise the risk of default and insolvency of the insurance companies to meet their unforeseen liabilities as they arise. The Group has met all such requirements throughout the financial year.

Each insurer shall at all times have eligible own funds at least equal to the Solvency Capital Requirement. The insurer's own funds include the main own funds and the additional own funds.

The main own funds of the Company represent the excess of assets over liabilities valued in accordance with Chapter Eleven of the Insurance Code.

36. Risk management rules (continued)

(c) Regulatory framework (continued)

Additional own funds include items other than basic own funds that can be provided to cover losses. (letters of credit and guarantees, other legally binding receivables incurred in favour of the insurer, respectively the reinsurer).

The Solvency Capital Requirement is calculated according to the standard formula based on the presumption that the insurer will operate as a going concern.

In calculating the Solvency Capital Requirement, the insurer shall take into account the impact of risk mitigation techniques, provided that credit risk and other risks arising from the use of such techniques are adequately reflected in the Solvency Capital Requirement. The SCR is calculated at least once a year and presents the results to the supervisory authority - the Financial Supervision Commission.

The insurer is obliged to maintain eligible own funds, covering the last reported solvency capital requirement.

The main indicator characterizing the financial stability of insurers is the availability of own funds covering the solvency capital requirement, according to the Insurance Code. For 2019 the indicators of DZI - Life Insurance EAD are the following:

• Solvency capital requirement - BGN 53,054 thousand.
• Own funds - BGN 208,091 thousand.

The Solvency Capital Requirement (SCR) ratio is 392%

The minimum capital requirement is the minimum amount that must be equal to the eligible fixed own funds of the insurer and is calculated in accordance with the principles set out in the Insurance Code. The absolute minimum amount of MKI for an insurer with the licenses of DZI - Life Insurance EAD is BGN 12,400 thousand. Detailed information is presented in Note 37 c, 2 Liquidity risk.

In addition to the regulatory requirements, the Group has capital requirements for solvency imposed by the KBC Group, which are also taken into account in the process of capital management of the Group.

The Group meets all external requirements throughout the financial year.

(d) Asset and liability management framework (ALM)

Financial risks arise on the open positions on interest, FX and equity products which are exposed to general and specific movements in the market. The Company manages its assets and liabilities within the ALM framework, which is developed to achieve long-term return on investments that exceeds its liabilities on insurance and investment contracts. The main ALM technique of the Company is to match assets and liabilities on insurance and investment contracts by reference to the type of annuities and claims due to the insured persons. A separate asset portfolio is kept for each identifiable category of liabilities.

The Company's ALM frame is integrated with the financial risk management, related to other financial assets and liabilities of the Company, which are not closely linked to the insurance and investment liabilities and it is integral part to the insurance risk management policy to ensure that during each period sufficient cash flows are available to meet the liabilities on insurance and investment contracts.

37. Insurance and financial risk

(a) Insurance risk on life insurance contracts

The main risk the Group is faced with is the risk that the actual payments on claims and insured amounts related to the contracts underwritten may differ from the expectations.

37. Insurance and financial risk (continued)

(a) Insurance risk on life insurance contracts

The objective of the Group is to ensure that sufficient reserves are available to cover these liabilities. Insurance risks undertaken are subject to assessment based on the Group's underwriting policy.

The Group has concluded reinsurance contracts aimed at protection against certain events which may have adverse impact on its financial stability. Self-retention of the insurer is within a certain limit above which all amounts are reinsured automatically. Amounts above the retention level based on signed reinsurance contracts are ceded to the reinsurer as is the case with Life insurances of the Group.

Life insurance contracts

Life insurance is related to insurance coverage for death or survival of the insured person. Long-term policies are usually concluded for a period over 5 years and have surrender value clause. The insurer cannot change the premiums on the policy and should provide coverage for the risk, provided the insured person pays the premiums. Furthermore, life insurance includes short-term, annually renewable risk Life insurances and Medical insurance.

Classification of contracts

The insurance contracts are contracts where the Group undertakes significant insurance risk through compensation to the insured person or another beneficiary if a specific uncertain future event occurs (insured event), which has negative effect on the insured person.

Any risk not classified as insurance risk is a financial risk.

Investment contracts are related to financial risks. Financial risk is the risk related to a potential future change in one or several of the following: interest rate, securities prices, market prices, FX prices, price index, credit rating, or another variable provided that in the case of non-financial variables, the variable is not specific to the parties.

Investment contracts are additionally classified as such with or without discretionary participation features.

A contract classified as "insurance contract" remains such until the end of its period of validity regardless of the possibility for the insurance risk to decrease significantly.

A contract classified as "investment contract" may be reclassified in the future to "insurance contract", provided the insurance risk becomes material.

Insurance contracts are classified as insurances with savings element and risk insurances.

In accordance with the above classification DZI contracts are divided into the following:

Insurance contracts with savings element

These contracts combine payments upon death with a savings element. The discretionary participation feature (profit sharing) is contained in insurance contracts with a savings element. The Group sets aside and maintains mathematical reserve for them:

- Combined Life insurances: The combined Life insurance is the main policy in the Group's portfolio, which offers payment of an insured amount fixed in the contract in case of death or upon survival over the term agreed in the policy. The Group has established a portfolio of insurance contracts with a savings element (combined Life insurances) and profit sharing in targeted investments related to the its internal investment funds;
- Child insurances are contracts of fixed maturities where the beneficiary child receives a guaranteed insured amount on maturity (when becoming 18 years of age or more), which amount is set out in the contract regardless of whether the insured person has survived the expiry of the term or not;
- The universal insurance is a product combining accumulation of a savings fund with minimum guaranteed annuity with additional payment of agreed insured amount upon death;

37. Insurance and financial risk (continued)

(a) Insurance risk on life insurance contracts (continued)

Insurance contracts with savings element (continued)

- Capital: since the end of 2008 and Eurogarant since 2014 and 2015 the Group offers these products - Life insurance with accumulating savings fund, which has an additional guaranteed income over a fixed period. The Group does not separate the guaranteed element from the discretionary participation feature and recognises a liability for future distribution of income over the complete life of the contract. This liability is presented as part of the mathematical reserve in the Group's statement of financial position;
- Group contracts with savings element signed with employers for a term of one year.

Risk insurances

Risk insurances are short-term contracts, usually for a period of one year, and a right to annual renewal. This type of contracts are concluded for the following types of insurance: Life risk insurances, health insurances and Medical insurances, and they ensure payment of the insured amount upon death (death due to an accident) or compensations related to bodily injury. This type of insurance contracts does not offer payments on survival or guaranteed surrender values. Unearned premium reserve is reported in the Group's statement of financial position for the portion of the reported premiums, which is related to the period of agreed coverage of the risk after the date of the statement of financial position. The risk insurances offered by the Group include:
- Risk life insurance;
- Medical insurance;
- Accident insurance

To the risk insurance we could refer the "Life" insurances of credit borrowers.
These are insurance contracts with fixed terms and without additional nonguaranteed income).

This category includes group credit life insurance contracts. The beneficiary under these insurance contracts is United Bulgarian Bank JSC (UBB) which offers its individual clients (credit borrowers) group credit life insurances. The credit life insurances protect the Company clients against the consequences of events (for example, death or disability) that could impact client's ability and his/her dependents to extinguish their obligations towards the financial institution. The paid out guaranteed indemnities in the case of the occurrence of the particular insured event are relate to sum not settled under the contract. There are no indemnities in the case of maturity or refusal to continue the policy. The duration of the insurance cover equals the loan term defined in the loan contract.

The insurance premium is recognized on the grounds of the premium that has been due and collected. Some insurance contracts include lump sum payment that is to be received in advance in the beginning of each insurance period during the cover period.

Other insurance contracts include premium payment scheme that follows the scheme of loan extinguishment for each borrower. All the premiums are recognized as revenue (won premiums) pro rata to the cover period. The part of the received premium under effective contracts related to risk still not expired as of the balance sheet date is reported as debt under not written premiums net of commissions. The premiums are shown before deducting the commissions.

Investment contracts (related to financial risk)

Investment contracts are contracts that transfer immaterial insurance risk from the insured person to the Group. The investment risk is undertaken by the insured person. Since 2007 the Group offers contracts that are classified as investment contracts with an insurance component, as follows:

- With discretionary participation features: DZI does not offer such products;
- Without discretionary participation features (the investment contracts offered have an insurance component).

Only the insurance premium, i.e. the portion of the premium related to the undertaken insurance risk is reported as premium income in the Group's statement of profit or loss. Amounts collected on investment contracts that transfer mainly financial risk, such as long-term savings contracts with an insurance element, are taken to the Group's statement of financial position. The amounts collected thereunder are credited to the Group's statement of financial position as a direct increase in the deposit component of insurances.

37. Insurance and financial risk (continued)

(a) Insurance risk on life insurance contracts (continued)

The major risks that the Group is exposed to are as follows:

The major risk that the Group is facing is the risk that the actual claims or their timing may differ than the expectations. This is influenced by the frequency of claims and severity of the claims. The objective of the Group is to ensure that there are sufficient health insurance reserves to cover these liabilities.

Mortality – risk of losses due to the fact that the mortality rate of insured persons is higher than the expected.

In calculating insurance premiums and mathematical reserve the Group uses mortality tables for the general population in Bulgaria and insurance mortality table. The insurance mortality table is based on the mortality of the general population in Bulgaria with further adjustments reflecting the behaviour of the insurance mass, comprising the Group's insured persons. On annual basis the Group makes an analysis of the mortality of insured persons on individual contracts and compares that with the results derived using the mortality tables. Additional analysis is made of mortality of insured persons by groups of insurance contracts.

Some uncertainty is noticed in respect of the influence of epidemics and changes in life style such as smoking, nutrition habits, and physical activity habits, which may lead to deterioration of the mortality indicators in the future.

Disability (invalidity) – risk of losses due to the fact that invalidity level amongst the insured persons is higher than the expected.

As a compulsory or optional coverage to life insurance contracts the Group offers permanent disability or reduced ability due to an accident and illness. Risk premiums on this type of insurance contracts are determined on the basis of the Group's past experience. Analysis is made every year of the occurred events related to this risk for insured persons on individual contracts and they are compared to the results derived using the risk premiums. Additional analysis is made of the disability of insured persons by group contracts.

Morbidity – risk of losses due to the fact that the morbidity amongst insured persons is higher than the expected.

The Group offers additional package "Particularly heavy diseases" which is concluded to the main coverage of the Life savings insurances.

Surrenders and cancellations

The percentage of surrenders and cancellations is a factor influencing the Group's portfolio. Every year analysis of the number of surrenders and cancellations, as well as amounts paid is made. This analysis is made separately for each

Expenses – risk of losses due to the fact that the Group's actual expenses related to servicing the insured persons' portfolio are higher than the expected ones.

In determining the insurance premiums the Group takes into account the administrative deferred expenses. The actual and estimated administrative expenses of the Group are compared annually. During the past 10 years as a result of the hyperinflation in Bulgaria in the period 1996-1997 and the devaluation of the life insurance portfolio of DZI a significant excess of actual costs compared to the expected ones calculated in the insurance premiums is noted.

The underwriting strategy of the Group is developed in such a way so as to ensure that the risks undertaken for insurance are measured reliably in respect of the type of risk and the insured amount or compensation.

The underwriting rules ensure appropriate criteria for selection and measurement of the risks. This is achieved through the use of health declarations, medical examinations and tests, ensuring on the basis of the current health condition and the family medical history, the assumptions made upon pricing. The Group has the right to aggravate or refuse certain risks.

37. Insurance and financial risk (continued)

(a) Insurance risk on life insurance contracts (continued)

Surrenders and cancellations (continued)

In addition the policy for strict review of the claims in order to assess all new and current claims, regular comprehensive review of the claims handling procedures and frequent investigation of potential fraudulent claims are all policies and procedures which have been implemented in the practice to mitigate the Group's exposure to risk. The Group also introduces a policy for active management and timely investigation of the claims, in order to reduce its exposure to unforeseeable future developments that may have adverse impact on its operations.

For risk Life and Medical insurances the risk is diversified depending on the profession (risk class) within which the insured person or insured persons (in case of group contracts) fall.

In addition, the Group reinsures certain risks for protection against events that may have negative effect on its financial stability.

On the other hand the Group applies a policy of active management and control over the reported claims, which aims to reduce or eliminate the possibility of adverse development of the risk

For insurance contracts with discretionary participation features some of the insured risk is shared with the insured persons.

Insurance risk described above is influenced by the right of the insured person not to pay the future premiums or to early terminate the insurance contract.

The geographical concentration of the Entity's life insurance contract liabilities and investment contract liabilities is concentrated only in Bulgaria. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

The tables presented below show the concentrations of liabilities on life and non-life insurance contracts:

	2019			2018		
	Gross reserve	**Reinsurance**	**Net reserve**	**Gross reserve**	**Reinsurance**	**Net reserve**
Life						
"Life" & annuity insurance	153,136	50	153,086	148,964	69	148,895
a) Insurance "Life"	152,313	50	152,263	148,079	69	148,010
Life Insurance(risk Death and Maturity)	147,448	-	147,448	144,073	-	144,073
Term insurance "Life" - risk Death	4,866	50	4,816	4,006	69	3,937
b) Annuities	823	-	823	885	-	885
Marriage and birth insurance	5,436	-	5,436	6,331	-	6,331
Unit Link and Index-linked life insurance	9,148	-	9,148	9,789	-	9,789
Suplementary insurance	219	-	219	116	-	116
	167,939	**50**	**167,889**	**165,200**	**69**	**165,131**

37. Insurance and financial risk (continued)

(a) Insurance risk on life insurance contracts (continued)

	2019			2018		
	Gross reserve	Reinsurance	Net reserve	Gross reserve	Reinsurance	Net reserve
Non-life						
Insurance Accident	1,260	-	1,260	1,956	-	1,956
Insurance Sickness	4,908	939	3,969	3,721	459	3,262
	6,168	**939**	**5,228**	**5,677**	**459**	**5,218**
	174,107	**989**	**173,118**	**170,877**	**528**	**170,349**

Methods and assumptions used to calculate the liabilities under life insurance contracts (mathematical reserve)

The mathematical reserve for classical savings products is calculated using the net premium prospective method.

The mathematical reserve is the difference between the present value of the expected future insurance payments and the present value of the expected future net premiums without using the Zillmer quota.

For the Universal Life insurance, Capital insurance and Eurogarant the mathematical reserve is calculated using the retrospective method and it is equal to the savings fund accumulated at the date of the calculation.

The gross mathematical reserve, including the capitalised value of pensions, includes any additionally allocated yield on policies and an additional amount for administrative expenses.

The mathematical reserve and the capitalised value of pensions is calculated using the prospective method from the Group's information system, using a methodology set by the actuary in charge. The calculation is based on the same technical bases which are used to calculate net premiums, including technical interest rate and mortality table. The calculation of the mathematical reserve and the capitalised value of pensions corresponds to the basis used to report premium income in the Group's statement of profit or loss.

The mathematical reserve is calculated as the sum of the mathematical reserves for each policy, calculated individually from the automated system for each effective insurance.

Key assumptions

The mathematical reserve on Life insurances, child insurances and insurances with profit sharing in targeted investments linked to the Group's internal investment funds is calculated using the same actuarial assumptions that have been used to calculate the net premiums (including technical interest rate and mortality table) and are included in the approved insurance – technical plan:

- technical interest rate 4%; 3%, 2.5%, 1.8%, 1.75%, 1.3%, 1.1% and 0.8% (for products in force after October 2006); 2.5% for universal and combined Life insurances; 1.8% for long-term risk Life insurance;
- national mortality tables B-1952/1968 (insurance), B-1989/1991 (general population), B-1989/1999 (modified insurance), B-1989/2003 (general population), B-2011/2013 (general population).

Due to the possible deviations between the insurance technical plans and the actual results, the mathematical reserve and the capitalised value of pensions are increased by an additional reserve for adverse deviation from actuarial assumptions – for products in the LIFE system.

Mortality tables

The mortality tables used are based on the mortality levels of the general population in Bulgaria, and in some cases, as deemed appropriate by the actuaries, mortality levels in the insurance mass are taken into account (the Group's experience).

37. Insurance and financial risk (continued)

(a) Insurance risk on life insurance contracts (continued)

Discount rate

It is based on the technical interest used in the calculation of premiums, which takes into account the practice and the market, the regulatory requirements and the long-term investment strategy of the Group.

Administrative expenses

The expense assumptions take into account forecast expenses calculated using reasonable assumptions related to the maintenance and servicing of the effective policies. These assumptions are based on current expense levels, adjusted with the expected inflation rate.

Surrender rates

Surrenders are related to the exercising of the voluntary policy termination clause by the insured persons. The Group regularly monitors and analyses surrenders.
They are not taken into account in the calculation of the liabilities (mathematical reserve).

Sensitivity

Reserves sensitivity analysis is based on simulations by subsequent changes in the key factors and assumptions.
The key factors that influence the mathematical reserve are return on investments, mortality, costs, surrenders and discount rate. The Group has made a simulation to calculate the effect of a change in these factors.

The tables below describe the impact of the different factors and assumptions on the reserves on Life insurance contracts:

31 December 2019	**Change in assumptions**	**Effect on gross liabilities**	**Effect on net liabilities**
Mortality		**BGN'000**	**BGN'000**
Expenses	15%	138	138
Surrenders	10%	3,534	3,534
Discount rate	50%	(3,046)	(3,046)
	1%	(9,250)	(9,250)

31 December 2018	**Change in assumptions**	**Effect on gross liabilities**	**Effect on net liabilities**
		BGN'000	**BGN'000**
Mortality	10%	141	141
Expenses	10%	2,636	2,636
Surrenders	10%	749	749
Discount rate	1%	(8,585)	(8,585)

(b) Insurance risk on general insurance contracts

The major risk that the Group is facing with respect to general insurance contracts is the risk that the actual claims may differ than the expectations. This is influenced by the frequency of claims and severity of the claims. The objective of the Group is to ensure that there are sufficient reserves to cover these liabilities.

The above stated risk exposure is mitigated through diversification of a big portfolio of insurance contracts, limitations in underwriting procedures, appropriate methods to measure the premiums required and the future liabilities, as well as monitoring of the operating expenses incurred.

37. Insurance and financial risk (continued)

(b) Insurance risk on general insurance contracts (continued)

The Group concludes reinsurance contracts as part of its programme to mitigate the risks. Transfers to reinsurers are made non-proportionally. The non-proportional reinsurance is major excess reinsurance envisaged to mitigate the Group's net exposure to catastrophic disaster losses. The retention limits for excess reinsurance vary by product line and territory of occurrence of the event.

Although the Group has reinsurance arrangements, it is not relieved by its direct liabilities to the insured persons and therefore there is a credit exposure in respect of the ceded insurance risks to the extent that any reinsurer may not be able to meet its liabilities under such reinsurance arrangements.

The Group concludes mainly the following general insurance contracts: automobile insurance, household property insurance, general third party liability insurance, etc. The risks on general insurance policies normally cover periods of twelve months.

In respect of general insurance contracts most significant risks arise due to traffic accidents, natural disasters and legislative practices. In respect of claims filed with the courts that take several years to settle there is also an inflation risk. This risk is mitigated taking into account the expected inflation rates when estimating the insurance contract liabilities.

The Group has also limited its exposure by imposing maximum claim amount for certain contracts, as well as the use of reinsurance arrangements to limit its exposure in respect of catastrophic events (for example, hurricanes, earthquakes, and flood damages).

The objective of these underwriting and reinsurance strategies is to limit its exposure to natural disaster risks based on the Group's opportunity to undertake risk, while this is permitted by the management. The overall objective at present is to mitigate the impact of one catastrophic event.

The natural disaster exposure estimate is based on the structure of the group's portfolio. At the end of year, one of the broker's models is approved as a best estimate of catastrophic risk. The minimum reinsurance limit should cover the potential loss of 1 event in 100 years. There is always the risk, however, that the assumptions and techniques used in such models are not reliable or the claims arising from one unmodelled event are bigger than those arising as a result of one modelled event.

The table below presents the concentration of general insurance liabilities by types of business:

	31 December 2019			31 December 2018		
	Gross liabilities	**Reinsurance of liabilities**	**Net liabilities**	**Gross liabilities**	**Reinsurance of liabilities**	**Net liabilities**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Automobile insurance	255,877	(13,095)	242,782	223,681	(12,127)	211,555
Fire and other dangers and property damage	29,795	(4,628)	25,167	40,133	(16,486)	23,646
Sea, aviation and transport insurance	4,346	(650)	3,696	4,699	(612)	4,087
Health insurance, travel assistance	4,987	(11)	4,976	4,492	□	4,492
General third party liability	19,187	(1,275)	17,912	16,032	(1,158)	14,874
Financial risks	881	(1)	880	1,984	(56)	1,928
Total	**315,073**	**(19,660)**	**295,413**	**291,021**	**(30,439)**	**260,582**

37. Insurance and financial risk (continued)

(b) Insurance risk on general insurance contracts (continued)

Key assumptions

The key assumption underlying the estimates of the liability is that the development of the future claims to the Group will follow a model similar to the experience with the development in past claims. This includes assumptions in respect of the amount of each claim, claim inflation factors and frequency of claims for each year of incidents. Additional qualitative assessments are made to measure the extent to which past trends may not be applicable in the future, such as combination of segment portfolios, policy terms and conditions, and claims handling procedures. Judgement is used to assess the extent in which external factors, such as court decisions and state legislation, impact the estimates.

In 2019, changes in assumptions have the following effect on the obligations under insurance contracts:

Assumptions	**Increase / (decrease) in book value of the reserves in general insurance**
Increase in the original reserve of Lob Motor Casco with 5%	9

Claim development table

The tables presented below show the estimation of undertaken cumulative reported claims at each date of the statement of financial position together with the cumulative payments to date. Cumulative claims estimates do not include interest due on court claims and direct and indirect costs to settle them. The estimate of the claims does not reflect the amount of claims incurred but not reported at the date of the statement of financial position.

Cumulative payments are not reduced with the income from the recovered property, and the direct costs in relation to these claims.

37. Insurance and financial risk (continued)

(b) Insurance risk on general insurance contracts (continued)

Claim development table (continued)

Insurance year	Prior to 2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At the end of the insurance year	522,018	67,825	75,932	53,857	77,089	66,402	73,657	112,777	85,193	96,798	
1 year later	640,001	79,621	84,911	62,933	87,949	77,041	82,828	114,122	97,548		
2 years later	676,658	83,292	86,414	65,030	90,378	79,125	87,635	114,988			
3 years later	689,519	83,442	86,039	65,901	91,445	79,065	89,143				
4 years later	700,347	83,516	86,256	66,432	94,880	79,965					
5 years later	707,911	83,654	88,426	67,479	96,797						
6 years later	711,566	83,329	88,816	67,117							
7 years later	713,747	83,122	87,964								
8 years later	716,120	83,143									
9 years later	717,990										
Present estimate of claims incurred, cumulative	**717,990**	**83,143**	**87,964**	**67,177**	**96,797**	**79,965**	**89,143**	**114,988**	**97,548**	**96,798**	**1,531,513**
At the end of the insurance year	(352,196)	(45,404)	(54,318)	(39,819)	(47,899)	(40,391)	(48,612)	(53,740)	(51,896)	(52,883)	
1 year later	(536,432)	(66,448)	(75,063)	(54,426)	(74,325)	(61,328)	(72,898)	(86,898)	(80,798)		
2 years later	(594,046)	(72,356)	(77,992)	(57,733)	(79,883)	(70,104)	(79,356)	(105,563)			
3 years later	(630,085)	(76,086)	(79,529)	(59,724)	(84,590)	(73,841)	(82,271)				
4 years later	(658,535)	(78,000)	(81,346)	(62,507)	(88,689)	(75,935)					
5 years later	(680,963)	(80,320)	(83,068)	(64,597)	(91.309)						
6 years later	(694,731)	(82,017)	(83,903)	(64,904)							
7 years later	(701,118)	(82,214)	(84 122)								
8 years later	(706,813)	(82,320)									
9 years later	(710,712)	(45,404)	(54,318)	(39 819)	(47,899)	(40,391)	(48,612)	(53,740)	(51,896)	(52,883)	

37. Insurance and financial risk (continued)

(b) Insurance risk on general insurance contracts (continued)

Insurance year	Prior to 2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Payments at 31 December 2019	(710,712)	(84,122)	(64,904)	(91,309)	(75,935)	(82,271)	(105,563)	(80,798)	(86,898)	(52,883)	(1,435,395)
Gross liabilities on general insurance contracts as at 31 December 2019	**7,278**	**823**	**3,842**	**2,213**	**5,488**	**4,030**	**6,872**	**9,425**	**16,750**	**43,915**	**100 635**
Present estimate of the surplus on reported but not settled claims	4,630	299	1,723	1,097	1,938	1,245	1,761	1,594	2,737	621	17,646
Present estimate on IBNR	181	121	168	265	681	1,287	2,674	5,215	12,384	51,438	74,413
Total gross liabilities on general insurance contracts as at 31 December 2019	**12,089**	**1,243**	**5,733**	**3,575**	**8,107**	**6,562**	**11,307**	**16,234**	**31 870**	**95, 974**	**192,694**

Liability adequacy test sensitivity analysis of the reserves

31 December 2019	Amount in BGN'000	Sufficiency of reserves
Current best estimates of reserves	**159,596**	**17%**
Relative increase in the factors of reserves shortage (+10%)	164,075	15%
Relative decrease in collection from recourses (-10%)	160,628	17%

31 December 2018	Amount in BGN'000	Sufficiency of reserves
Current best estimates of reserves	**131,216**	**12%**
Relative increase in the factors of reserves shortage (+10%)	187,173	(11)%
Relative decrease in collection from recourses (-10%)	132,171	25%

(c) Financial risks

(1) Credit risk

Credit risk is the risk that one of the parties to the financial instrument will cause financial loss to the other party by failing to discharge its liabilities.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

To mitigate the Group's exposure to credit risk the following policies and procedures have been put into place:

- Group's policy on credit risk, which states the assessment and definition of what credit risk is to the Group. The compliance with the policy is monitored and violations are reported to the Group's risk committee. The policy is regularly reviewed to determine its relevance and to reflect any changes in the risk environment;
- The Group sets aside impairment loss provisions at the date of the statement of financial position;
- Concentration of credit risk is allocated to portfolio of investments in financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets held to maturity, loans granted, and trade and bank receivables and to a lesser degree short-term and other investments of the Group. The Group also has approved limits for the individual counterparties with respect to investments in bonds and bank deposits;
- The restrictions on the exposures to DZI counterparties are determined in accordance with the credit policies of the KBC Group. Net exposure limits are set at counterparty level or at the level of group of counterparties;
- Net exposure limits are set for each counterparty or group of counterparties, geographical and industrial segment (i.e., limits are set for investments and cash deposits exposures in foreign exchange trading and minimum credit ratings for investments that can be held);
- Reinsurance contracts are concluded with counterparties that have good credit ratings, and risk concentration is avoided through compliance with the policy guidelines in respect of counterparty limits that are determined every year at Group level;
- Due to the present financial situation the number of counterparties and the maturity of investments is strongly limited;
- The credit risk related to client balances arises as a result of failure to pay the premiums or contributions during the grace period, set out in the policy's general terms and conditions and exists until it expires, after which the policy is either paid or terminated. The commission fee payable to intermediaries is offset against receivables from them to mitigate the risk of doubtful receivables.

Exposure to credit risk

The table below shows the maximum exposure to credit risk for the elements of the statement of financial position. Assets related to investment contracts are included in the table below in a separate column as the credit risk for this type of assets is borne by the insured person.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Exposure to credit risk (continued)

	Other	Investment fund linked insurances	Total
31 December 2019	**BGN'000**	**BGN'000**	**BGN'000**
Financial and insurance assets			
Deposits with financial institutions	615	–	615
Trade and other receivables	2,423	–	2,423
Financial assets at fair value through other comprehensive income:			
Government bonds	373,089	–	373,089
Corporate bonds	72,885	–	72,885
Shares	188	–	188
Financial assets at amortized cost:			
Government bonds	29,332	–	29,332
Loans granted	10,780	–	10,780
Financial assets at fair value through profit or loss:			
Collected funds on investment contracts	–	80,756	80,756
Government bonds	1,942		1,942
Reinsurance transaction assets	20,649	–	20,649
Receivables on insurance transactions	82,833	–	82,833
Cash at banks	60,589	–	60,589
Total exposure to credit risk	**655,325**	**80,756**	**736,081**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Exposure to credit risk (continued)

	Other	Investment fund linked insurances	Total
31 December 2018	**BGN'000**	**BGN'000**	**BGN'000**
Financial and insurance assets			
Deposits with financial institutions	4,062	–	4,062
Trade and other receivables	2,699	–	2,699
Financial assets at fair value through other comprehensive income			
Government bonds	280,798	–	280,798
Corporate bonds	56,850		56,850
Shares	189	–	189
Financial assets at amortized cost			
Government bonds	29,494	–	29,494
Loans granted	10,780	–	10,780
Financial assets at fair value through profit or loss:			
Collected funds on investment contracts	–	43,963	43,963
Government bonds	1,588		1,588
Assets on reinsurance transactions	30,967	–	30,967
Receivables on insurance transactions	76,472	–	76,472
Cash at banks	99,020	–	99,020
Total exposure to credit risk	**592,919**	**43,963**	**636,882**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating

The table below presents information on the Group's exposure to credit risk through classification of the assets depending on the credit ratings of its counterparties. The Group classifies as investment class financial assets when external ratings are available for the counterparty. The non-investment class, satisfactory classification includes financial assets for which no ratings provided by a rating agency exist or which are rated lower than BBB, but the Group is not aware of indications and no deterioration of the creditworthiness of the counterparty is expected. Non-investment class unsatisfactory would be financial assets for which the Group expects deterioration of the creditworthiness of the counterparty. Assets related to investment contracts, are included in the table below in a separate column as the credit risk for this type of assets is borne by the insured person.

31 December 2019

	Investment class	Non-investment class: satisfactory	Investment fund linked insurances	Impaired	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets					
Deposits with financial institutions	615	-	–	–	615
Trade and other receivables	–	3,427	–	(1,004)	2,423
Financial assets at fair value through other comprehensive income:					
Government bonds	373,160	–	–	(71)	373,089
Corporate bonds	72,972	–	–	(87)	72,885
Shares	–	188	–	–	188
Financial assets at amortized cost:					
Government bonds	29,338	–	–	(6)	29,332
Loans granted	10,783	–	–	(3)	10,780
Financial assets at fair value through profit or loss:					
Shares in investment funds	–	–	80,756	–	80,756
Bonds	1,942	–	–		1,942
Reinsurance transaction assets	20,649	–	–	–	20,649
Receivables on insurance transactions	–	87,464	–	(4,631)	82,833
Cash with banks	60,589	–	–	–	60,589
Total	**570,048**	**91,079**	**80,756**	**(5,802)**	**736,081**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

Credit exposure by credit rating (continued)

31 December 2018

	Investment class	Non-investment class: satisfactory	Investment fund linked insurances	Impaired	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets					
Deposits with financial institutions	–	4,065	–	(3)	4,062
Trade and other receivables	–	2,938	–	(239)	2,699
Financial assets at fair value through other comprehensive income:					
Government bonds	280,883	–	–	(85)	280,798
Corporate bonds	56,945	–	–	(95)	56,850
Shares	–	189	–	–	189
Financial assets held to maturity:					
Bonds	29,504	–	–	(10)	29,494
Loans granted	10,783	–	–	(3)	10,780
Financial assets at fair value through profit or loss:					
Shares in investment funds	–	–	43,963	–	43,963
Bonds	1,588	–	–		1,588
Reinsurance transaction assets	30,967	–	–	–	30,967
Receivables on insurance transactions	–	80,893	–	(4,421)	76,472
Cash with banks	99,020	–	–	–	99,020
Total	**509,690**	**88,085**	**43,963**	**4,856**	**636,882**

As of 31 December 2019 and 31 December 2018 the Group has a deposit in United Bulgarian Bank.

The concentration of current accounts with related parties as of 31 December 2019 represents 97% of the amount cash and cash equivalents. The Group classifies as an investment class financial assets for which the counterparty has an external rating. In the non-investment class, those financial and insurance assets for which there is no rating by a rating agency or have a credit rating lower than BBB are indicated as satisfactory, but the Group has no indications and does not expect deterioration of the credit quality of the counterparty. Non-investment class, unsatisfactory are financial assets for which the Group expects deterioration of the credit quality of the counterparty. During the reporting periods, the Group has not identified such financial assets.The table below provides information about the Group's credit risk exposure as of 31 December 2019, classifying the assets according to the credit rating of the counterparties according to the credit scale of the Standard & Poors Credit Agency. AAA is the highest possible rating. Assets, which are out of the scope of the AAA to BBB rating are classified as speculative rated. The Group's policy is to maintain accurate and consistent risk ratings. This allows the Management to focus on the applicable risks and the comparison of exposures. The rating system is supported by a number of financial analyzes combined with processed market information to provide the main input to the counterparty risk assessment.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating (continued)

31 December 2019	AAA	AA	A	BBB	Not classified	Investment contracts	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets							
Deposits with financial institutions	—	—	615	—	—	—	615
Trade and other receivables	—	—	—	—	2,423	-	2,423
Financial assets at fair value through other comprehensive income							
Government bonds	1,640	10,406	19,916	341,127	-	-	373,089
Corporate bonds	-	2,233	33,838	36,814	-	-	72,885
Shares	-	-	-	-	188	-	188
Financial assets at amortized cost							
Bonds	—	—	—	29,333	—	—	29,333
Loans granted	—	—	—	10,780	—	—	10,780
Financial assets at fair value through profit or loss:							
Government bonds	—	—	—	1,942	—	—	1,942
Attracted funds on investment contracts	—	—	—	—	—	80,756	80,756
Reinsurance transaction assets	—	9,108	11,532	5	4	—	20,649
Receivables on insurance transactions	—	—	—	—	82,833	-	82,833
Cash at banks	—	—	57,277	3,312	42	—	60,589
Total	**1,640**	**21,747**	**123,178**	**423,313**	**85,448**	**80,756**	**736,082**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating (continued)

31 December 2018	AAA	AA	A	BBB	Not classified	Investment contracts	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets							
Deposits with financial institutions	–	–	4,062	–	–	–	4,062
Trade and other receivables	–	–	–	–	2,699	–	2,699
Financial assets at fair value through other comprehensive income							
Government bonds	1,678	5,123	12,728	261,269	–	–	280,798
Corporate bonds	–	2,146	25,383	29,321	–	–	56,850
Shares	–	–	–	–	189	–	189
Financial assets at amortized cost							
Bonds	–	–	–	29,494	–	–	29,494
Loans granted	–	–	–	10,780	–	–	10,780
Financial assets at fair value through profit or loss:							
Bonds	–	–	–	1,588	–	–	1,588
Attracted funds on investment contracts	–	–	–	–	–	43,963	43,963
Reinsurance transaction assets	–	6,886	5,770	18,172	139	–	30,967
Receivables on insurance transactions	–	–	–	–	76,472	–	76,472
Cash at banks	–	–	97,505	1,466	49	–	99,020
Total	**1,678**	**14,155**	**145,448**	**352,090**	**79,548**	**43,963**	**636,882**

Credit quality of financial assets

The credit quality of financial assets that are not past due is assessed on the basis of collectibility information after the balance sheet date.

The credit quality of receivables from insurance operations that are not overdue is assessed on the basis of collection information after the balance sheet date.

The table below provides information on the Group's exposure to government and corporate securities classified as at fair value through other comprehensive income and financial assets at amortized cost as at 31 December 2019.

Maturity	Value as of 31 December 2019	Value as of 31 December 2018
BGN'000	**BGN'000**	**BGN'000**
Up to 1 year	21,727	16,194
over 1 year to 3 years	70,494	57,927
over 3 years to 5 years	72,779	77,929
over 5 years to 15 years	275,648	215,092
over 15 years	34,658	-
	475,306	**367,142**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Impairment of financial assets

Financial assets' impairment (expected credit losses)

The modification of the corrective for expected credit losses of financial assets for the period is presented in the following table:

	Financial assets reported at fair value through other comprehensive income	Government securities reported at amortized cost	Issued deposits	Commercial receivables	Total
Allowance for credit losses On the 1st of January 2018	**-**	**-**	**-**	**174**	**174**
Effect of the initial application of IFRS 9	**96**	**10**	**35**	**3**	**144**
Allowance for credit losses On the 1st of January 2018 with the initial application of IFRS 9	**96**	**10**	**35**	**177**	**318**
Allowance for losses recognized in the statement of profit or loss including					
Allowance for newly acquired assets during the period	4	-	-	69	73
Written off allowance of sold or matured assets during the period	(16)	-	(32)	(4)	(52)
Change in adjustment due to credit risk	(4)	-	-	-	(4)
Increase from business combination	100	-	-	-	100
Allowance for credit losses On the 31st of December 2018	**180**	**10**	**3**	**242**	**435**
Allowance for losses recognized in the statement of profit or loss including					
Allowance for newly acquired assets during the period	46	-	-	123	169
Written off allowance of sold or matured assets during the period	(35)	(1)	-	(23)	(59)
Change in adjustment due to credit risk	(33)	-	-	662	629
Allowance for credit losses On the 31st of December 2019	**158**	**9**	**3**	**1,004**	**1,174**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(1) Credit risk (continued)

Impairment of financial assets

The corrective for financial assets' losses was initially recognized on the 1st of January 2018, being the first date of application of IFRS 9 for the Company. Throughout the period no significant changes were observed in the credit risk under the financial assets that could result in modification in the period of the expected credit losses, towards 12 months as of the effective term of the contract and vice versa.

(2) Liquidity risk

Liquidity risk is the risk that the Group may have difficulties in discharging its liabilities related to financial instruments. In respect of catastrophic events there is also liquidity risk related to the timing differences between the gross cash payments and the expected reinsurance recoveries.
The following policies and procedures are introduced to limit the Group's exposure to liquidity risk:

- The Group pays on a daily basis compensations and liabilities arising in the ordinary course of business. The Group monitors daily and controls its liquid funds needs through management of the inflows and outflows.
- A number of asset allocation rules exist, portfolio structure limits and asset maturity profiles to ensure that sufficient financing will be available to meet the liabilities under insurance contracts.
- Sufficient cash are kept available to finance the operations and to mitigate cash flow fluctuations.

The Group is subject to regulation by the Financial Supervisory Commission (FSC), Insurance Supervision Department. Starting from the beginning of 2016, the Group should comply with the requirements for capital adequacy, based on Regulation 2009/138/EU of the European Parliament (Solvency II).

As of the end of each accounting year the Group complete Quantity reporting templates (QRTs) that are subject of audit by the independent external auditor. On an annual basis FSC conducts Balance Sheet Review (BSR) with the participation of independent external counterparties and companies with high professional reputation. The objective of the BSR is estimation of the Insurance contract liabilities and assessment of the adequacy of technical reserves per Solvency II as well as recalculation of prudential indicators – MCR and SCR

The company has calculated the main indicators of Solvency II at the end of 2019 and 2018, which are presented in the table below:

	Total own funds	Total own funds MCR	SCR	MCR	SCR ratio	MCR ratio
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**		
31 December 2019	208,091	208,091	53,054	13,263	392%	1,569%
31 December 2018	180,035	180,035	47,209	12,400	381%	1,451%

The table below summarises the maturity structure of non-derivative financial assets of the Group based on the remaining non-discounted contractual flows, including interest receivables.

Maturity analysis

Maturity profiles for liabilities on insurance contracts and reinsurance assets are determined based on the estimated timing of the net cash outflows on recognised insurance liabilities. Premiums carried forward to the next reporting period and the reinsurer's share in such premiums in the next reporting period are excluded from the analysis as they do not represent contractual liabilities. Repayments that are subject to notification are treated as if the notification is subject to immediate service.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity analysis

The Group maintains a portfolio of marketable and diverse assets that are readily liquidated in case of unforeseen decline in cash flows. It has approved credit limits to individual counterparties (for bonds and deposits with credit institutions). In respect of reinsurance the Group applies limits determined at Group level. Reinsurance assets are presented on the same basis as reinsurance liabilities. Loans and borrowings include receivables upon the agreed interest rate.

Trends or risks which may influence the Group's liquidity for 2020

In the light of recent events in March 2020 (COVID-19 pandemic) the expectations are for preserving the stability of the financial parameters, keeping the quality of the insurance portfolio and achieving adequate for the current situation profit from the activity preserving sustainable liquid and capital buffers.

Additional measures have been taken for daily monitoring and management of liquid assets, as well as monitoring of the market value of the securities / bond portfolio.

The Group manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay both in a normal environment and under stress conditions. The Group invests mainly in liquid assets and the majority of the investment portfolio is government securities, which are highly liquid and can be sold by Group to cover the growing volume of emergency payments. The Group also maintains sufficient funds in current accounts (minimum required funds available) to provide daily payments. The Group uses government securities to cover technical reserves, denominated in BGN and EUR, corporate bonds andd funds on current accounts. The Group has approved limits for the use of repo transactions for the purpose of short-term liquidity provision.

Besides monitoring increased operational risk, the Group is keeping a very close eye on the related macroeconomic impact, including the impact of the KBC Group's home markets from decreasing GDP growth in China at a time when its economy is already in a fragile state. The financial markets also appear to be highly sensitive to the risks relating to the coronavirus, with stock markets, interest rates and oil prices all falling.

The developments at the start of 2020 (such as the COVID-19 pandemic) will likely outdate the current APC scenarios.

Although they put a serious stress on the market, so far they have not affected Group's liquidity and funding adequacy. Our stress tests currently indicate that the Group can withstand such adverse evolutions, which is visible from the main indicators of Solvency II as of 31 March 2020:

	Total own funds	**SCR**	**MCR**	**SCR ratio**	**MCR ratio**
	BGN'000	**BGN'000**	**BGN'000**		
DZI Life Insurance EAD	206,296	53,495	13,374	386%	1543%
DZI General Insurance EAD	165,721	86,636	36,852	191.3%	450%

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity analysis

The table below presents analysis of the contractual undiscounted cash flows on the Group's assets:

31 December 2019	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Over 15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets							
Depo sits with financial institutions	615	615	–	–	–	–	**615**
Loans granted	10,780	23	–	4,980	5,867	–	**10,780**
Trade and other receivables	2,423	2,423	–	–	–	–	**2,423**
Incl. financial guarantees	1,164	1,164	–	–	–	–	**1,164**
Financial assets at fair value through other comprehensive income	446,162	25,272	79,431	56,903	257,099	32,860	**451,565**
Financial assets at amortized cost	29,332	1,212	2,424	23,028	5,496	–	**32,160**
Financial assets at fair value through profit or loss:							
Funds under investment contracts	80,756	-	-	-	-	80,756	**80,756**
Reinsurance transaction assets	1,942	46	92	1,762	-	-	**1,900**
Reinsurance transaction assets	20,649	3,800	8,522	3,179	1,919	-	**17,420**
Receivables on insurance transactions	82,833	72,637	7,979	2,217	-	-	**82,833**
Cash	60,646	60,646	-	-	-	-	**60,646**
Total assets	**736,338**	**166,674**	**98,448**	**91,979**	**270,381**	**113,616**	**741,098**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity analysis (continued)

The table below presents analysis of the contractual undiscounted cash flows on the Group's liabilities.

31 December 2019	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	No maturity
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance liabilities						
Liabilities on insurance contracts, except unearned premium reserve						
Life insurance	174,107	15,810	26,659	37,302	90,627	**170,398**
General insurance	192,958	88,939	68,222	25,431	15,508	**198,100**
Liabilities on investment contracts	80,879	–	–	–	80,879	**80,879**
Liabilities to reinsurers	1,270	1,270	–	–	–	**1,270**
Payables to insurers, insurance intermediaries and insured persons	26,917	26,917	–	–	–	**26,917**
Trade and other payables	8,763	8,763	–	–	–	**8,763**
Lease liability	2,431	885	1,546	–	–	**2,431**
Total liabilities	**487,325**	**142,584**	**96,427**	**62,733**	**187,014**	**488,758**

The table below presents analysis of the contractual undiscounted cash flows on the Group's assets.

31 December 2018	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets						
Deposits with financial institutions	4,062	4,062	–	–	–	**4,062**
Trade and other receivables	2,699	2,699	–	–	–	**2,699**
Incl. financial guarantees	1,628	1,628	–	–	–	**1,628**
Financial assets at fair value through profit or loss	1,588	35	80	1,386	103	**1,604**
Financial assets at amortized cost	337,837	22,278	70,357	68,952	193,655	**355,242**
Financial assets at fair value through other comprehensive income	29,494	1,473	2,440	19,773	13,228	**36,914**
Rised funds under investment contracts	43,963	–	–	–	43,963	**43,963**
Loans granted	10,780	9,800	–	–	980	**10,780**
Reinsurance transaction assets	30,967	30,967	–	–	–	**30,967**
Receivables on insurance transactions	76,472	68,008	6484	1980	–	**76,472**
Cash	99,093	99,093	–	–	–	**99,093**
Total assets	**636,956**	**228,636**	**79,361**	**96,981**	**256,819**	**661,797**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity analysis (continued)

The table below presents analysis of the contractual discounted cash flows on the Group's liabilities.

31 December 2018	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Over 15 years	No maturity
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance liabilities							
Liabilities on insurance contracts, except unearned premium reserve							
Life insurance	165,390	20,013	34,586	34,866	67,792	8,133	**165,390**
General insurance	177,875	88,169	51,708	27,824	10,174	–	**177,875**
Liabilities on investment contracts	43,757	–	–	–	43,757	–	**43,757**
Derivative financial instruments	383	383	–	–	–	–	**383**
Short-term loan	–	–	–	–	–	–	–
Payables to insurers, insurance intermediaries and insured persons	25,313	25,313	–	–	–	–	**25,313**
Trade and other payables	9,376	9,376	–	–	–	–	**9,376**
Total liabilities	**422,094**	**143,254**	**86,294**	**62,690**	**121,723**	**8,133**	**422,094**

The Group classifies as current assets and liabilities with an expected maturity of up to one year and as non-current ones with an expected maturity of over one year.

Analysis of assets and liabilities by maturity according to the maturity expected by the Group

31 December 2019	Current	Non-current	Investment fund linked insurance	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Intangible assets, incl. goodwill	–	20,042	–	**20,042**
Tangible assets	–	26,335	–	**26,335**
Right of use assets	–	2,424	–	**2,424**
Deferred tax assets	–	721	–	**721**
Deferred acquisition costs	–	4,530	–	**4,530**
Investment properties	–	27,046	–	**27,046**
Deposits with financial institutions	615	–	–	**615**
Financial assets at fair value through profit or loss	30	1,912	80,756	**82,698**
Financial assets at fair value through comprehensive income	21,215	424,947	–	**446,162**
Financial assets at amortized cost	512	28,820	–	**29,332**
Loans granted	23	10,757	–	**10,780**
Trade and other receivables	2,745	–	–	**2,745**
Incl. financial guarantees	1,164	–	–	**1,164**
Assets on reinsurance transactions	3,800	16,849	–	**20,649**
Receivables on insurance transactions	72,637	10,196	–	**82,833**
Cash and cash equivalents	60,646	–	–	**60,646**
Other assets	1,193	–	–	**1,193**
Total assets	**163,416**	**574,579**	**80,756**	**818,751**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity analysis (continued)

Analysis of assets and liabilities by maturity according to the maturity expected by the Group (continued)

31 December 2019	**Current**	**Non-current**	**Investment fund linked insurance**	**Total**
Liabilities on insurance contracts	104,749	384,695	–	**489,444**
Liabilities on investment contracts	–	–	80,879	**80,879**
Employee retirement benefits liability	576	592	–	**1,168**
Deferred tax liabilities	–	1,142	–	**1,142**
Reinsurance payables	1,270	–	–	**1,270**
Payables to insurers, insurance intermediaries and insured persons	26,917	–	–	**26,917**
Trade and other payables and provisions	10,612	–	–	**10,612**
Lease payments	885	1,546	–	**2,431**
Corporate tax	1,589	–	–	**1,589**
Total liabilities	**146,598**	**387,975**	**80,879**	**615,452**

31 December 2018	**Current**	**Non-current**	**Investment fund linked insurance**	**Total**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
Intangible assets	–	20,115	–	**20,115**
Tangible assets	–	27,409	–	**27,409**
Deferred tax assets	–	539	–	**539**
Deferred acquisition costs	7	5,090	–	**5,097**
Investment properties	–	24,114	–	**24,114**
Deposits with financial institutions	4,062	–	–	**4,062**
Financial assets at fair value through profit or loss	35	1,553	43,963	**45,551**
Financial assets at fair value through comprehensive income	15,681	322,156	–	**337,837**
Financial assets at amortized cost	514	28,980	–	**29,494**
Loans granted	3	10,777	–	**10,780**
Trade and other receivables	2,699	–	–	**2,699**
Incl. financial guarantees	1,628	–	–	**1,628**
Assets on reinsurance transactions	30,967	–	–	**30,967**
Receivables from income tax	265	–	–	**265**
Receivables on insurance transactions	68,008	8,464	–	**76,472**
Cash	99,093	–	–	**99,093**
Other assets	1,454	–	–	**1,454**
Total assets	**222,788**	**449,197**	**43,963**	**715,948**

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(3) Market risk

31 December 2018	Current	Non-current	Investment fund linked insurance	Total
Liabilities on insurance contracts	129,757	332,141	–	**461,898**
Liabilities on investment contracts	–	–	43,757	**43,757**
Employee retirement benefits liability	540	506	–	**1,046**
Derivative financial instruments	383	–	–	**383**
Deferred tax liabilities	–	722	–	**722**
Payables to insurers, insurance intermediaries and insured persons	25,313	–	–	**25,313**
Trade and other payables and provisions	9,375	–	–	**9,375**
Total liabilities	**165,368**	**333,369**	**43,757**	**542,494**

Market risk is the risk that the fair value of the future cash flows on the financial instrument will vary due to the changes in market prices. Market risk includes three types of risks: foreign exchange rates (currency risk), market interest rate (interest rate risk) and market prices (price risk).

- Market risk is outside the Group's control and as a whole it cannot be diversified. A key method to mitigate market risk and its components is the collection and processing of information as to the macroeconomic environment and on that basis – forecasting and adaptation of the investment policy to the expected changes in the environment;
- There is market risk policy of the Group, setting out the assessment and determination of what is market risk to the Group. Compliance with the policy is monitored and exposures and violations are reported to the Group's Risk Committee. The policy is subject to regular review to confirm its relevance and to reflect the changes in the risk environment;
- There is structure of certain limits to allocate the assets and liabilities, aimed at ensuring that the Group invests in certain assets, which guarantee certain insurance liabilities and that the assets are held to ensure benefits and profits to the insured people that meet their expectations;
- Strict control is exercised over hedging operations, related with currency risk management..

The Group issues investment policies linked to shares. For business linked to investment shares the insured person bears the investment risk of the assets linked to the investment shares in the funds, as the policy benefits are directly related to the value of the assets in the fund. The Group's exposure to market risk in this business is limited to the extent in which income arising on accruals for asset management are based on the value of the assets in the fund.

(3a) Currency risk

Currency risk is the risk that the fair value of the future cash flows on the financial instrument will vary due to changes in the foreign exchange rates.

The main transactions of the Group are in EUR and Bulgarian lev and its exposure to currency risk arises mainly in respect to the US Dollar. As at 31 December 2019 the Group's financial assets and liabilities denominated in EUR do not give rise to currency risk as in an environment of Currency Board in the country the exchange rate of the Bulgarian lev to the EUR is fixed. Since the Group presents its financial statements in Bulgarian levs the latter may be influenced by movements in the foreign currency rates of currencies other that the EUR and the Bulgarian lev.

The Group's financial assets are denominated mainly in the same currencies as the liabilities on insurance and investments contracts which mitigates the currency risk for the Group. Therefore the main currency risk arises from the recognised assets and liabilities denominated in currencies other than these, in which it is expected to settle the liabilities on the insurance and investment contracts.

The currency risk is managed effectively by the Group through derivative financial instruments. Currency forwards are concluded to eliminate the FX exposure of individual transactions in foreign currencies. Currency forwards should be in the same currency and under the same conditions as the hedged item to maximise the effectiveness of hedging. The Group does not enter into such forwards unless there is firm commitment.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(3a) Currency risk (continued)

The Group is not exposed to significant currency risk due to the fact that it enters into its transactions mainly in BGN and EUR and the value of assets and liabilities denominated in other currencies that it reports is insignificant. The value of assets in US dollars amounts to BGN 1,134 thousand (2018: BGN 2,114 thousand), and that of liabilities amounts to BGN 1,635 thousand (2018: BGN 2,024 thousand).

The Group does not have a significant concentration of currency risk.

The analysis presented below is made for reasonable possible changes in the key variables where all other variables remain unchanged, showing the effect on the profit before tax and equity due to the changes in the fair value of monetary assets and liabilities sensitive to currency fluctuations, including liabilities on claims under insurance contracts. The variables correlation shows significant effect on the ultimate effect on market risk, but to demonstrate the effect due to the change in the variables these should be changed individually. It should be pointed out that the movements in these variables are non-linear.

		31 December 2019		31 December 2018	
Currency	**Change in variable**	**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
US dollars	+10%	(71)	–	161	–
US dollars	-10%	71	–	(161)	–

The method used to derive sensitivity information and key variables have not been changed compared to the prior period.

(3b) Interest rate risk

Interest rate risk is the risk that the future cash flows on a certain financial instrument will vary due to changes in the market interest rate levels.

Floating rate instruments expose the Group to cash flow risk, while fixed rate instruments expose the Group to fair value risk.

The Group's policy on interest rate risk requires it to manage this risk by maintaining a mix of floating and fixed interest rate instruments. The policy requires it to manage the maturities of the interest bearing assets and interest bearing liabilities. Any mismatch between floating and fixed interest rate instruments and their maturities is effectively managed by the Group through derivative financial instruments. Interests on floating rate instruments are repriced at least once a year. Interest on fixed rate instruments are determined at the inception of the financial instrument and are fixed until its maturity.

During the past five years measures have been taken for gradual increase in the maturity structure of portfolios to reduce interest rate risk for the Group. Assessments of the cash flows, as well as the impact of the movements in interest rates, related to the investment portfolio and insurance reserves are modelled and reviewed regularly.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(3) Market risk (continued)

(3b) Interest rate risk (continued)

The main objective of these methods is to limit the net changes in the value of assets and liabilities resulting from movements in interest rates.
Although it is more difficult to measure the sensitivity of insurance liabilities to potential changes in the interest rates than that of the related assets, the Group's management believes that the movements in interest rates will cause changes in the value of assets, which will largely offset the changes in the liabilities related to the main products.

Models used to describe the sensitivity of liabilities to changes in the interest rates are based on the KBC Group standards and are reviewed every year.
The value of the Group's assets depends on the dynamics of the market interest rates. The Group is exposed to risk of fluctuations in the interest rates as the yield of interest bearing assets moves as a result of movements in the market interest rates. In respect of floating interest rates the Group is exposed to risk depending on the interest rate index to which the respective financial instrument is linked. Internal models are used to measure the expected maturity of liabilities which allows more precise allocation of the liabilities according to their duration. As a result of the long-term investments made in 2010 - 2019 short positions of assets to liabilities have decreased which led to a decrease in the interest rate risk.

The analysis presented below is made for reasonably possible changes in the key variable with all other variable remaining unchanged, demonstrating the effect on the profit before tax (due to changes in the fair value of floating rate financial assets and financial liabilities) and equity (which reflects adjustments in profit before tax and the remeasurement of available-for-sale fixed rate financial assets). The correlation between the variables will have significant effect in the definition of the ultimate effect on interest rate risk, but to demonstrate the effect due to the movements in the variables, they should be changed individually. It should be pointed out that changes in variables are non-linear.

Interest rates changes outlined in the tables below would have an effect on the fair values of interest bearing financial assets available for sale, hence the equity of the Group. Interest earning deposits carried at amortised cost are generating fixed interest rates.

As of date		**Interest change (base points)**	**BGN**	**EUR**	**USD**	**in BGN'000 Total**
31 December 2019	Effect on capital	+100 bp	(10,200)	(8,262)	-	**(18,462)**
		-100 bp	11,465	8,755	-	**20,220**
	Effect on profit	+100 bp	-	-	-	-
		-100 bp	-	-	-	-
31 December 2018	Effect on capital	+100 bp	(6,737)	(21,779)	(2)	**(28,516)**
		-100 bp	6,312	13,238	2	**19,550**
	Effect on profit	+100 bp	-	-	-	-
		-100 bp	-	-	-	-

The method used to derive information on the sensitivity and key variables has not changed compared to the prior period.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(3) Market risk (continued)

(3c) Price risk

The price risk of equity instruments is the risk that the fair value of the future cash flows on a financial instrument will vary due to changes in the market prices (other than those arising as a result of interest rate or currency risks), regardless of whether these changes are due to factors specific to the individual financial instrument or its issuer, or factors having impact on all similar financial instruments traded at the market.

The Group's exposure to price risk of equity instruments is related to the financial assets and financial liabilities that vary as a result of changes in market prices, mainly securities not acquired on investment unit-linked insurances.

The Group's policy on price risk requires is to manage these risks by determining and monitoring the objectives and limitations on investments, diversification plans, country-based limitations of investments, sector and market and planned use of derivative financial instruments.

The table below presents information about the bonds reported at fair value by type of issuer:

	2019	2018
	BG'000	BG'000
Bulgaria	311,821	237,150
France	22,106	16,311
Romania	20,892	19,696
The Netherlands	13,010	7,150
England	11,496	14,592
German	9,543	2,995
Spain	8,748	5,934
Ireland	7,406	4,052
Poland	7,071	7,078
Slovakia	7,104	2,701
USA	6,347	8,142
Slovenia	6,267	2,001
Belgium	5,110	762
Sweden	2,433	2,394
Denmark	2,103	2,064
Italy	1,933	1,811
Australia	1,716	1,710
Czech Republic	1,135	1,070
Cayman Island	847	-
Finland	828	812
China	-	812
Total	**447,916**	**339,237**

Sensitivity analysis of financial assets to price risk

As part of the Group's investment strategy to reduce insurance and financial risk, it matches its investments to liabilities on insurance and investment contracts by reference to the types of incomes that are subject to payment to the contract holders.

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(3) Market risk (continued)

(3c) Price risk (continued)

		31 December 2019		31 December 2018	
	Movement in variables	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		BGN'000	BGN'000	BGN'000	BGN'000
Foreign exchange rate	+ 10 %	(71)	–	(161)	–
Foreign exchange rate	- 10 %	71	–	161	–

(4) Operational risk

Operational risk is the risk of deviation in the expected results arising due to inadequate or non-functional internal processes, people and systems, or external events.
To manage operational risk and to apply and develop methods, policies and procedures, the Group uses and introduces the effective methodology and standards of KBC Group. The main operational risk management tools include:

- database of operational events that resulted in a loss;
- assessments and analyses of occurred operational events in the financial sector;
- organisation of working groups for self-assessment of operational risk;
- identification and analysis of key risk indicators in the daily operations.

Operational risk management is specialized in the "Risks" directorate, section "Non-financial risks" as business scope is subordinated to the Executive Director "Finance and risk."

For the purposes of operational risk management functions a Local Risk and Capital Control Committee. It is chaired by the Finance and Risk Executive Officer and members – Chief Executive Officer, Chief Commercial Officer, Executive Director, Motor Insurance Products Management Director, Non-motor Insurance Products Management Director, Products and Medical Life Insurance Director, Compliance Director, Finance Director and other representatives.

A Commercial Network Control Committee operates as a subordinate unit to the above Committee. Its objective is to identify and manage the risks within the commercial network. The more important ones are reported to the Local Risk and Capital Management Committee. The monitoring and control processes of exposure to operational risk is carried out with joint participation of first and second line of control, the function of the first line of control in the management of operational risk is performed by the business - managers of major agencies and regional expert or chief specialist and specialist „Operations and control" at the local level in the country and the central level - from the people responsible for operational risk as set out in the following directorates and directions to the central Office: Life insurance, Corporate insurance, Finance, General operations, Information technologies, Information security, Legal framework, General Insurance Products management, General Insurance claims management, Commercial network development and sales, brokerage business. The function of the second line of control is performed by the Risk Directorate and the Committee to control commercial.

The following measures to manage operational risk have been implemented to date:

- Monthly meetings of the Local Risk and Capital Control Committee and the decisions and minutes are presented for verification by the MB;
- New Products Acceptance Committee (including review of existing products and changes to existing products). This Committee includes representatives of the Product Directorates, Sales Channels, Actuaries, Finance Directorate, Control Units, Information Technologies and other units. The Committee also adopted functions for revision of all effective products the main principle being that each product will be revised every 3 years as a minimum;

37. Insurance and financial risk (continued)

(c) Financial risks (continued)

(4) Operational risk (continued)

- A procedure to identify and report operational errors/omissions/problems has been introduced;
- Monthly meetings of the Commercial Network Control Committee. Its operations are related to the establishment of a transparent and efficient monitoring and control process over the activity of the insurance intermediaries – agents and brokers (including protection of the interests of DZI Group against fraud and violations, as well as prevention of serious incidents related to the intermediaries).

As at 31 December 2019 for the purpose of operational risk management rules and procedures related to the effective KBC Group Standards were adopted and implemented within the various units within the DZI structure for:

- Client complaint management;
- IT application access management;
- Internal rules on control and prevention of money laundering and financing of terrorism;
- Internal rules on protection of employees providing information on abuse and corruption within the Group;
- Financial flows management in products of investment nature;
- Accounting control;
- Classification of information;
- Underwriting process management;
- Liquidation process management;
- Human resources management.

In accordance with the standards of KBC for the management of non-financial risks the DZI Group has drawn up analysis, assessment of the requirements under the Group Key Controls in respect of the following processes:

- Life insurance;
- General (non-life) insurance;
- Legal risk management;
- Tax risk management;
- Business continuity management;
- Risk and capital management;
- Accounting and financial reporting;
- Human resource management;
- Corporate communication;
- Customer administration;
- New and active products;
- Marketing;
- Customer e-communication channels;
- Intermediary management;
- Property management;
- Supply management;
- IT;
- IT security management;
- Corporate governance.

Based on the analyses and assessments made a report on the internal control environment of DZI was prepared and plans were adopted for the implementation of the requirements under the Group Key Controls which are not yet fully introduced. As part of the responsibilities of the operational risk management is the ensuring of the continuity of business which aims at supporting the critical business functions, processes and services, their organisation, management or recovery/restoration within reasonable periods of time in case of unforeseen, full or partial business interruption. Crisis committee has been appointed chaired by the Chief Executive Director. In 2019 the Group DZI launched and implemented a number of initiatives aimed at increase of awareness as regards to the operational risk management in the Company.

38. Commitments and contingencies

Contingencies

Legal claims have been proceed against the Group from insured persons in connection with reported insurance claims on incurred insurance events. Legal claims are include in RBNS with the full or partial amount of the proceed claims and also an interest has been accrued for them as of the date, when they are expected to be settled. The Group is a party to property lawsuits, which do not have a significant effect on the financial statements of the Group.

Tax payables

In the end of the reporting period the National Revenue Agency has started revising the obligations of the subsidiary DZI General Insurance EAD under the VAT Act for the period between 01.01.2014 and 31.12.2015. The company does not expect any additional liabilities to arise in connection with the verification.

Bank Guarantees

DZI General Insurance EAD has issued bank guarantees amounting to EUR 700 thousand with validity up to 2024 in favor of the National Bureau of Bulgarian Motor Insurers and guarantees totaling BGN 19 thousand with validity up to 2022 in favor of commercial counterparties.

Operating lease liability

Operating lease agreements include leases of office buildings. The obligations under irrevocable operating leases are as follows:

	2019	2018
	BGN'000	BGN'000
No more than 1 year	-	860
No more than 1 year and no more than 5 years	-	1,404
More than 5 years	-	217
Total:	-	**2,481**

The Company has no other contingent liabilities as at 31 December 2019.

39. Related party disclosures

The Group carries out transactions with related parties and the key management personnel in the ordinary course of business. Sales to and purchases from other related parties are carried out at normal market prices.

As at 31 December 2019 and 31 December 2018 the Group has the following related parties:

- KBC Group N.V., Belgium – ultimate owner;
- KBC Insurance NV, Belgium – parent company;
- KBC Insurance NV subsidiaries - related parties under common control;
- United Bulgarian Bank AD and its subsidiaries - related parties under common control;
- UBB Interlease EAD and subsidiaries - related parties under common control.

39. Related party disclosures (continued)

Information on significant transactions with related parties during the year is presented below.

	2019	2018
Transactions with the owners	**BGN'000**	**BGN'000**
Rental income	340	-
Fee expenses	(149)	(133)
Dividend paid	(13,107)	-

Transactions with other related parties under common control	**2019 BGN'000**	**2018 BGN'000**
Premium income	12,268	11,108
Change in the unearned premium reserve	1	580
Premium received	1	672
Claims ceded to reinsurers	3,545	1,723
Commissions on reinsurance contracts	6	371
Fees income	242	54
Interest income	-	173
Rental income	240	2
Sale of assets	64	-
Commission expenses	(13,489)	(4,024)
Paid claims	(4,298)	(3,136)
Reinsurance premiums ceded	(7,814)	(4,917)
Change in the outstanding payment reserve to reinsurers	(19)	-
Paid bank charges	(395)	(345)
Rents	(13)	(5)
Service received	(1,261)	(559)
Interest expenses	-	(15)
Interest expenses on repo transactions	-	(11)
Loans received	-	60,435
Payments on loans received	-	(60,435)
Payments on loans received repo transactions	-	(37,960)
Derivative	-	(208)

Balances with related parties at the end of the year	**2019**	**2018**
	BGN'000	**BGN'000**
- the parent-company	**2019**	**2018**
Trade receivables	16	-
Trade payables	19	71
- other related parties under common control		
Cash and cash equivalents	57,416	96,732
Deposits in financial institutions	615	4,062
Guarantees provided	320	200
Receivables from insurance transactions	10,955	8,396
Assets under reinsurance contracts	4,855	2,218
Trade receivables	4	46
Commission payables	1,461	1,756
Lease liability	381	-
Unearned premium reserve	1	19
Derivatives	-	380
Liabilities to reinsurers	201	77
Pledge	1,506	1,506

39. Related party disclosures (continued)

The significant part of the Group's cash and deposits are held in current accounts with UBB AD and KBC Bank NV. The concluded contracts are under the standard requirements of the both banks, as the Group does not receive preferential requirements and conditions.

There were no recognized impairment losses on receivables from related parties during the period.

As of 31 December 2019 the Group has a receivable in the amount of BGN 320 thousand (2018: BGN 200 thousand), which is related to the issuance of bank guarantees by UBB AD in favor of its counterparties.

The established pledge in the amount of BGN 1,506 thousand represents collateral of a government securities, issue BG2040210218, with a nominal value of EUR 770 thousand maturing on 29 September 2025 in connection with an issued bank guarantee, the term of which expires on 12 April 2025.

The key management personnel of the Company includes the members of the Management Board and the Supervisory Board. The remuneration of key management personnel includes the following costs:

	2019 BGN'000	2018 BGN'000
Short-term remuneration:		
Salaries and social security contribution, including bonuses	1,044	900
Total short-term remuneration	1,044	900
Short-term payables for remuneration	192	73

40. Events after the date of the statement of financial position

The existence of a new coronavirus (Covid-19) was confirmed in early 2020 and has spread worldwide, causing disruptions to business and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. The outbreak and global spread of the coronavirus will exert downward pressure on ourthe Group's results in 2020 (but not have any impact on our financial position at year-end 2019). Given the new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequence swill be for the global economy and, more specifically for the bank-insurance group, which DZI Group is a part. Management of the Group is closely monitoring the situation. Also the Group management has adopted a cautious and conservative approach, even though the solid capital and liquidity positions are such that the Group is able to withstand extreme scenarios.

Our forecasts are based on the assumption that the coronavirus and the measures taken to limit its spread will have a significant – but temporary – negative economic impact. Under current assumptions, the European economy will contract in the first and second quarters of 2020 before gradually recovering in the second half of the year. The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments made during at the time of the preparation of this report in May 2020. More disclosures are presented in Note 37 "Insurance and financial risk" of the current financial statements.

In February 2020, the Group finalized a purchase of a large building in Varna with a total built-up area of approximately 27,000 square meters - the MALL VARNA business center. The Group plans to use the property, both for investment and for the needs of KBC Group companies with offices in Varna.

No other significant events have occurred between the date of the consolidated financial statements and the date of its authorization for issue that may require disclosure or may cause changes in the Group's financial position.