

# ANNUAL REPORT



## DZI – GENERAL INSURANCE EAD

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- A photograph showing the reflection of the skyscraper in a body of water, with a blue geometric overlay on the right side.
- **MANAGEMENT REPORT**
  - **STATEMENT OF CORPORATE GOVERNANCE**
  - **INDEPENDENT AUDITORS' REPORT**
  - **FINANCIAL STATEMENTS**

**31 December 2019**

**„DZI – GENERAL INSURANCE” EAD  
INDEPENDENT AUDITORS’ REPORT  
ANNUAL ACTIVITY REPORT  
STATEMENT OF CORPORATE GOVERNANCE  
FINANCIAL STATEMENTS  
31 DECEMBER 2019**

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**DZI General Insurance JSC – General information**

This version of the 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 (MB) 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

**Address**

Sofia 1000  
89B, Vitosha blvd.

**Lawyers**

Internal Corporate Law Directorate

**Auditors**

“PricewaterhouseCoopers Audit” OOD  
1000 Sofia  
9-11 “Maria Louisa” Blvd.

**“Grant Thornton” OODOOD**

1421 Sofia  
26 “Cherni Vrah” Blvd.

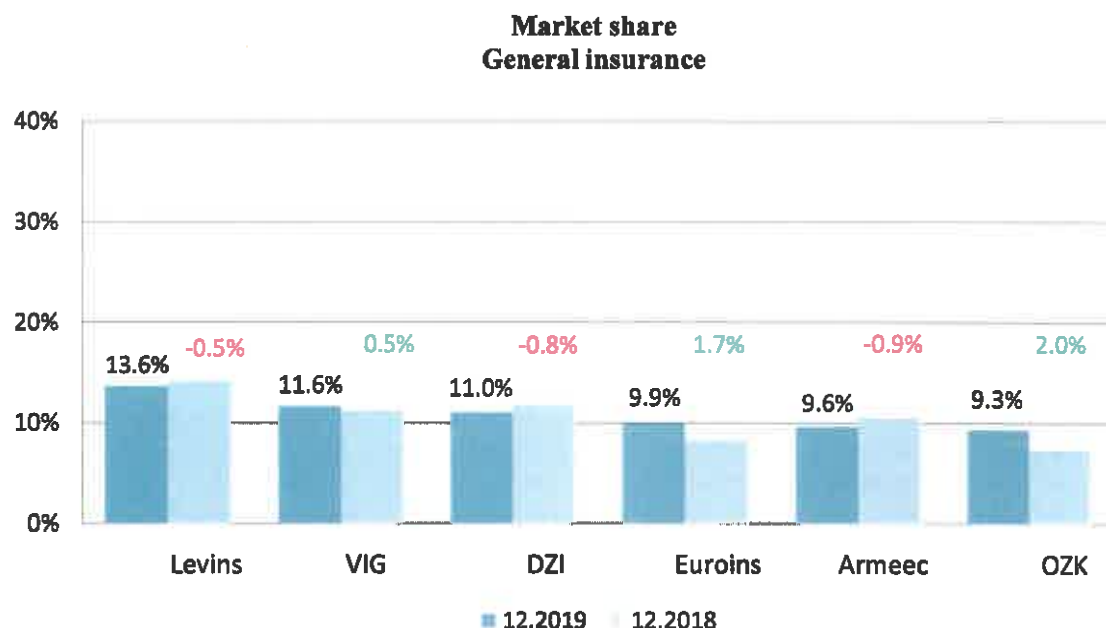
**“DZI - GENERAL INSURANCE” EAD  
ANNUAL ACTIVITY REPORT  
31 DECEMBER 2019**

**ACTIVITY REPORT  
OF “DZI - GENERAL INSURANCE” EAD  
FOR 2019**

**MACROECONOMIC AND MARKET ENVIRONMENT**

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

In 2019, the insurance market (outward 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.



## **LEGAL STATUS**

„DZI – General Insurance“ EAD (the Company) is registered under the laws of the Republic of Bulgaria on 27 February 1998. The Company is registered in the Commercial Register of Sofia City Court – Company Unit under № 5215 from 1998, re-registered in the Commercial Register in January 2008. Its address of management is Sofia, 89 Vitosha blvd and it is member of the DZI Group.

As of December 31, 2019, 100% of the capital is owned by "DZI - Life Insurance" EAD.

As of 31 December 2019 ultimate parent of “DZI - General Insurance” EAD is KBC Group N.V., Belgium through control over 100.00 % of the share capital of the parent ‘DZI - Life Insurance’ EAD.

The share capital of the Company amounts to BGN 66,586,779 distributed in 9,512,397 registered shares with a par value of BGN 7 each and the capital is paid in full. The Company does not have its own shares and in 2019 there is no acquisition or transfer of own shares.

The Company has a two-tier management system – Supervisory Board comprising 3 members and Management Board – comprising 4 members. The remuneration of the members of the management bodies and the commercial proxies in 2019 amounts to BGN 780 thousand.

According to the Articles of Association of “DZI - General Insurance” EAD the members of the management bodies have no preferences and restrictions in respect of acquiring shares of the Company. The members of the management bodies do not own shares of the Company and have not acquired or transferred such shares during the year.

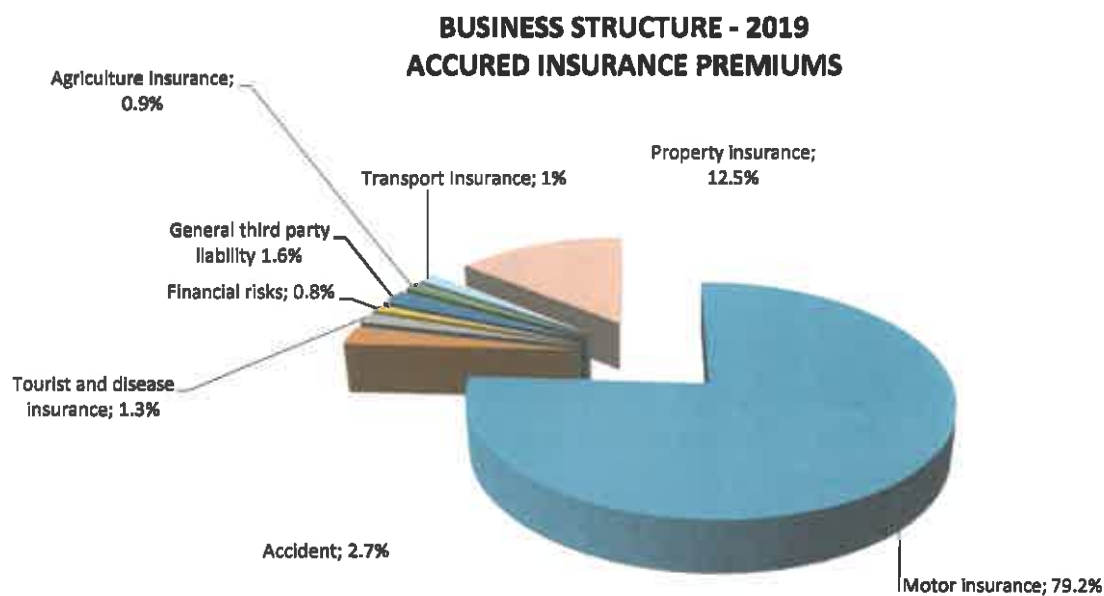
The information under art. 247, par. 2, it. 4 of the Commercial Act regarding participation of the members of the Supervisory and Management Board of “„DZI – General Insurance“” EAD in other commercial entities is presented in this report.

## **INSURANCE ACTIVITIES**

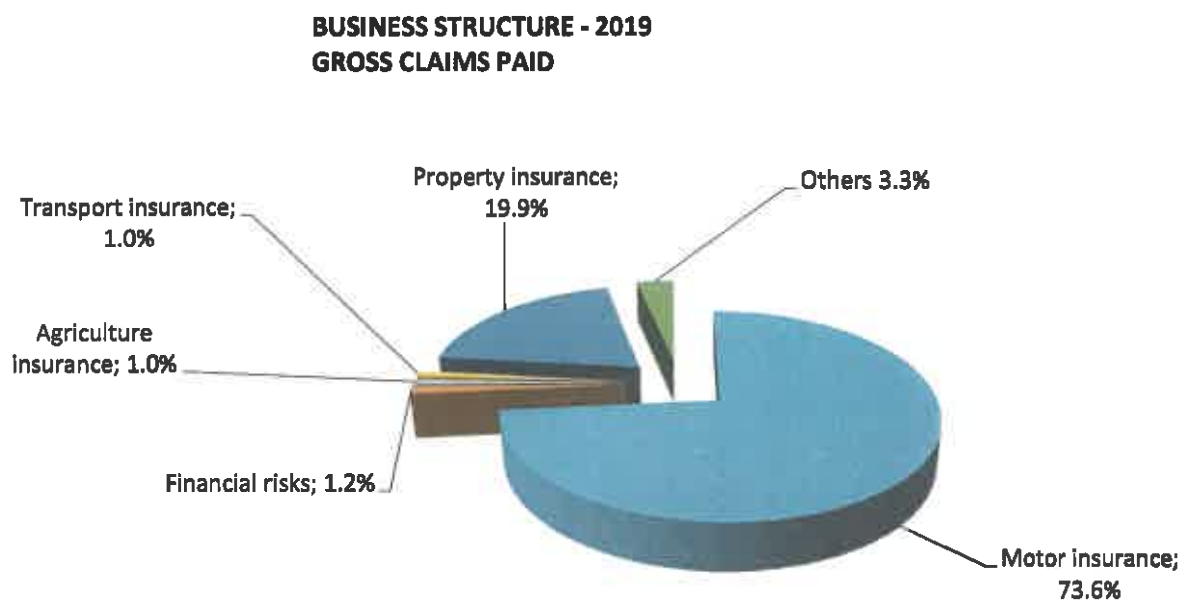
„DZI – General Insurance“ EAD holds permit No 3 issued by the National Insurance Board of 13 May 1998 to carry out insurance and reinsurance activities on all types of insurances in Section II of the Note to art. 6, par. 2 to the Law on Insurance (revoked) and additional license on the insurance under Section II, letter “A”, it. 10 of Note No 1 to the Insurance Code (revoked) 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.

The main objective of the Company in 2019 was to retain its position among the leading companies at the Bulgarian insurance market and to improve the profitability of its insurance products.

**Insurance premiums underwritten** in 2019 amount to BGN 256,649 thousand or they are with 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.

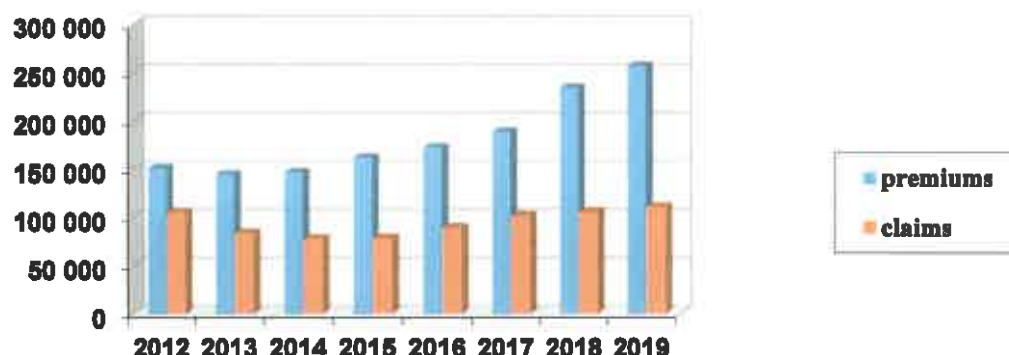


**Gross claims paid** amounting to BGN 111,209 thousand have been paid. The net amount of incurred claims, including reinsurance, income from recourses and changes in the outstanding payments reserve amounts to BGN 114,720 thousand. Compared to the previous 2018 this amount of claims is 18% higher.





**PREMIUM AND CLAIMS DEVELOPMENT DURING PERIOD  
2012 - 2019**



**Changes in premiums compared to 2018**

- An increase of 9% in the premiums underwritten is noted as a total for the Company which is mainly due to the higher sales of “Casco for road vehicles”, “GTP liability insurance” and “Property Insurance”.
- An increase by 4.76% as compared to the prior year is also reported in the premiums on Casco of road motor vehicles.
- There is an increase in the premium income under “Property” insurance by 16%.
- An increase is noted in premium income of “Thefts” 17.39%, “Motor Third Party liability” 12.52% and “Miscellaneous financial losses” 17.92%.
- A decrease in the premiums under “Casco of railway vehicles” (34.16%), “Cargo during transportation” (3.04%) and „Marine“(98.69%), General third party liabilities (2.94)

**Changes in claims compared to 2018**

- Claims paid during the period have increased by 4.89% as compared to the prior year;

**Changes in operating expenses compared to 2018**

The net operating expenses for 2019 amount to BGN 100,263 thousand, including BGN 30,692 thousand administrative expenses and BGN 67,614 thousand other expenses. Other expenses include BGN 55,253 thousand acquisition costs and BGN 12,361 thousand other which mainly include expenses for reimbursed and derecognized premiums, preventive measures, legal expenses, expenses for additional contributions to the Guarantee Fund and others.

Compared to 2018, there is an increase in operating costs of 8%, the reason being mainly the higher commission expense in relation to the increase in premium income from motor insurance and the cost of additional contributions to the Guarantee Fund that insurance companies owe since 2019.

**Development of insurance products**

In 2019 the Company is working to improve the various insurance products according to the needs and requirements of the clients.

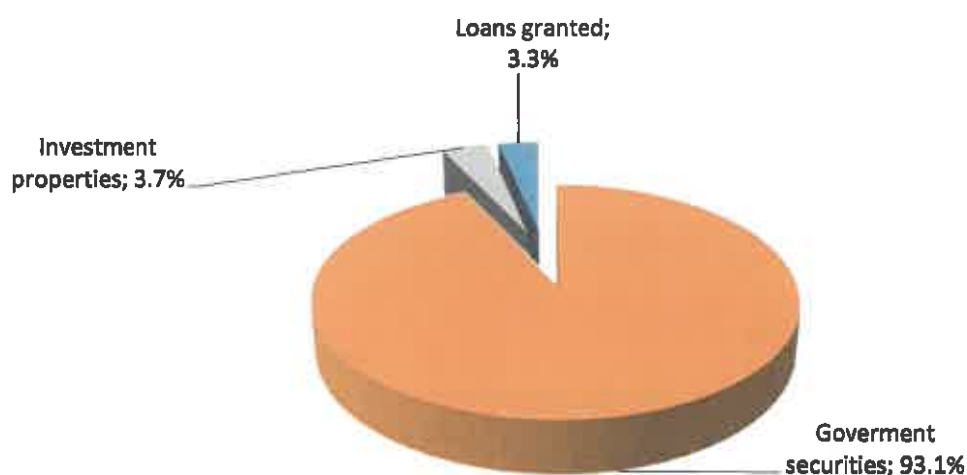


## **INVESTING ACTIVITIES**

The investing activities of „DZI - General Insurance“ EAD are subjected to the principles of prudence, profitability and liquidity, and are in compliance with the requirements of the legislative regulations – general and those in the field of insurance.

The structural framework of the Company's investment portfolio in 2019 is compliant with these principles.

### **INVESTMENT PORTFOLIO STRUCTURE IN 2019**



Structurally defining element in the investment portfolio of the Company are the bonds, amounting BGN 279,385 thousand as of 31 December 2019

Investment properties held by “DZI General Insurance” EAD are BGN 14,278 thousand at the end of 2019.

In 2019 the Company's deposits mature and due to the low interest rates on the market no new deposit agreements have been concluded.

The foreign debt acquired in 2013 issued by the Republic of Bulgaria in accordance with the legislation of the Federal Republic of Germany in the amount of BGN 9,800 thousand

Total investments as at the end of 2019 amount to BGN 303,463 thousand, which increases the investment portfolio of the Company by 31.69% compared to BGN 230,432 thousand in 2018.

Net investment income amounting to BGN 6,658 thousand has been realized, which is by 1% less compared to 2018.

Cash exposures in the form of current accounts and cash on hand, ensuring current liquidity amount to BGN 58,022 thousand.

## **RESEARCH AND DEVELOPMENT**

The Company does not engage in activities in the research and development field.

## **TERRITORIAL NETWORK**

„DZI – General Insurance“ EAD carries out its insurance activities throughout the country through 140 own territorial units, which ensure complete coverage of the whole territory. The main units used to realize sales and administration, liquidation and reporting on insurance policies are the Chief Agencies, the number and location of which corresponds to the administrative and territorial division of the country. Only sales of insurance products are carried out through the agencies and offices.

## **PERSONNEL**

As of 31 December 2019 the personnel of „DZI – General Insurance“ EAD includes 518 employees.

The remuneration policy of the Company is focused on linking the remuneration of the employees to their performance both individually and to the performance of their structural unit and Company as a whole.

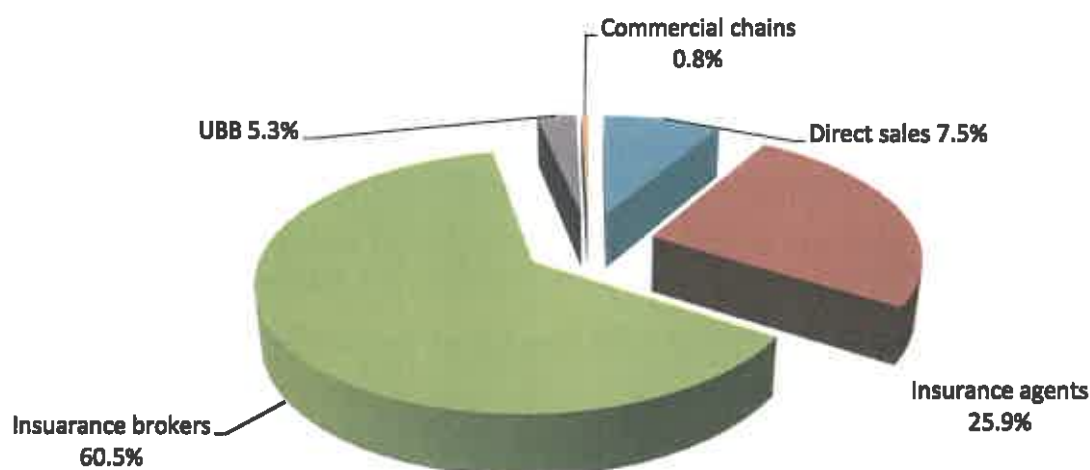
The Company has undertaken all steps necessary to comply with the regulatory requirements regarding health and safety at work.

## **COMMERCIAL NETWORK**

In addition to its territorial units throughout the country „DZI – General Insurance“ EAD carries out its business operations through a well-organized external commercial network of insurance brokers and agents.

The activity of insurance brokers at the general insurance market in the country is high. To utilize their potential in certain market segments „DZI – General Insurance“ EAD uses the intermediation of almost all licensed brokers. A major partner in the development of the banking.

**SALES STRUCTURE 2019**



No significant changes in the structure of the Company's sales have been noticed in 2019.

**“DZI - GENERAL INSURANCE” EAD  
ANNUAL ACTIVITY REPORT (CONTINUED)  
31 DECEMBER 2019**

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**FINANCIAL RESULTS OF „DZI - GENERAL INSURANCE“ EAD**

The result of the Company's activity in 2019 in the amount of BGN 26,932 thousand profit is presented in the financial statements of the Company, prepared in accordance with IFRS.

Net premiums earned amount to BGN 235,908 thousand and are formed on the basis:

- gross premiums underwritten amounting to BGN 256,649 thousand;
- change in premium reserves amounting to BGN (9,233) thousand;
- premiums ceded to reinsurers amounting to BGN (11,508) thousand;

Accrued payments, net of reinsurance and the change in the outstanding payments reserve, amount to BGN 114,720 thousand.

Acquisition costs incurred amount to BGN 55,253 thousand and administrative and business expenses amount to BGN 30,692 thousand.

Other technical expenses amount to BGN 12,361 thousand.

The financial operating result of „DZI – General Insurance“ EAD in 2019 is a profit amounting to BGN 26,932 thousand. This financial result is due to the continuous measures undertaken over the past few years for improvement in the risk profile of the insurance portfolio.

The total assets of „DZI – General Insurance“ EAD at 31 December 2019 amount to BGN 483,544 thousand, increasing by BGN 61,095 thousand or 14 % compared to the prior reporting period.

Investments represent 62.76 % of the Company's assets.

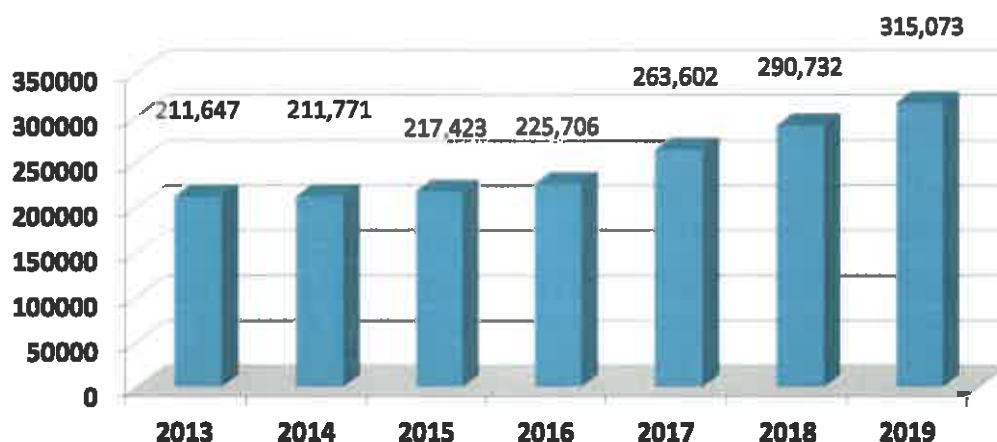
Tangible fixed assets, right of use and intangible assets amount to BGN 25,618 thousand, with a relative share of 5.30%.

Receivables and advances amount to BGN 75,476 thousand with the prevailing portion being related to receivables on direct insurance accrued as at 31 December 2019, as well as recourse receivables.

The remaining assets reported in the statement of financial position include: reinsurance transaction assets amounting to BGN 19,660 thousand, cash amounting to BGN 58,022 thousand, and the other assets amount to BGN 1,193 thousand.

The liabilities of „DZI – General Insurance“ EAD as of 31 December 2019 amount to BGN 349,936 thousand, comprising mainly insurance reserves amounting to BGN 315,073 thousand (a relative share of 90.7%). Of which BGN 192,694 thousand represent outstanding payments reserve and BGN 122,379 thousand represent unearned premiums reserve. Insurance reserves increase by 8.37 % compared to the prior year.

## **INSURANCE RESERVES FOR THE PERIOD 2013 - 2019**



The net assets of the Company amounted to BGN 133,608 thousand and increased by 2018 by BGN 31,668 thousand or by 31.07%

As of 31 December 2019 the retained earnings amount to BGN 42,051 thousand.

The equity of „DZI – General Insurance“ EAD comprises share (subscribed) capital amounting to BGN 66,587 thousand, general reserves – BGN 8,089 thousand, revaluation and other reserves amounting to BGN 16,881 thousand.

A key indicator characterizing the financial stability of an insurance company is the availability of own funds covering the solvency threshold in accordance with the Insurance Code. In 2019 the ratios of „DZI - General Insurance“ EAD are as follows:

Solvency threshold	-	BGN 82,918 thousand
Own funds	-	BGN 145,106 thousand

The solvency ratio is 175%.

The above figures indicate that „DZI - General Insurance“ EAD has available sufficient own funds to cover the required solvency threshold in accordance with the Insurance Code.

The tables below presents the financial ratios, which are specific to the Company:

	<b>2019</b>	<b>2018</b>
Combined Ratio	87.6%	90.8%
-Net Acquisition and Administrative Costs Ratio	34.1%	33.3%
-Net Claims Ratio	53.5%	57.5%

### **RISK MANAGEMENT**

The main objective of the risk management and financial governance framework is to protect the Company's shareholders of events which are an obstacle for the consistent attainment of the financial performance goals, including impossibility to gain potential revenues.

The main objective of the risk policy is to impose clearly defined parameters for the Company's transactions so as to minimize the potential adverse impact of the risks on the financial performance of the Company.

## **RISK MANAGEMENT (CONTINUED)**

The Company has established risk management procedures in compliance with the standards and requirements of KBC Group. These standards include the following elements:

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

As part of the system of risk management and internal control system in the Company the following key features have been implemented:

- Actuarial Function;
- Risk Management Function;
- Function of Compliance;
- The 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 function responsible for risk management is split in two main directions:

1. “Financial Risks” that include:

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

2. “Non-financial Risks” that include:

- Operational risk;
- Business continuity.

### ***Insurance risk***

- The main risk the Company 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 Company is to ensure that sufficient reserves are available to cover these liabilities.
- The Company mitigates the above-mentioned risk exposure through diversification of a large insurance contracts 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 Company signs reinsurance contracts as part of its risk mitigation program. Transfers to reinsurance are made on non-proportionate and proportionate basis. Non-proportionate reinsurance is mainly excess reinsurance aimed at mitigating the Company'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 Company 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.

## **RISK MANAGEMENT (CONTINUED)**

### ***Insurance risk (continued)***

- 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.

### ***Financial risk***

In its operating activities the Company is exposed to financial risks which result from the Company's financial assets and liabilities, reinsurance assets and liabilities, and technical reserves. The Company has developed and introduced risk management and control rules and procedures in order to identify efficiently, to manage and to control the level of financial risk.

The most important components of financial risk are: market risk, credit risk, and liquidity 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 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 Company'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 Company, setting out the assessment and determination of what is market risk to the Company. Compliance with the policy is monitored and exposures and violations are reported to the Company'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 Company invests in assets guaranteeing certain insurance liabilities and that the assets are held to ensure revenues and profits to the insured people that meet their expectations.

### ***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 Company to cash flow risk, while fixed rate instruments expose it to fair value risk.

The Company's policy on interest rate risk requires the Company to manage this risk by maintaining a suitable mix of fixed- and floating-rate instruments. The policy also requires the Company 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 Company 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.

## **RISK MANAGEMENT (CONTINUED)**

### ***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 Company are denominated in EUR and BGN and the exposure to currency risk arises mainly in respect to the USD. As of 31 December 2019 the financial assets and liabilities of the Company denominated in EUR do not give rise to currency risk as the exchange rate of the BGN is pegged to the EURO in an environment of the Currency Board operating in Bulgaria. Since the Company presents its financial statements in BGN the latter may be influenced by movements in the foreign currency rates of currencies other than EUR and BGN.

Additional information about the Company's exposure to currency risk is presented in Note 34 (b) of the Annual Financial Statements.

### ***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 exposure of the Company to venture capital is related to financial assets whose values vary as a result of changes in market prices, mainly securities.
- The Company's policy on price risk requires from the Company to manage these risks by determining and monitoring the objectives and limitations on investments, diversification plans and limitations of investments for each market.
- The Company does not have significant concentration of currency risk.

Additional information about the Company's exposure to price risk is presented in Note 33 (b) of the Annual Financial Statements.

### ***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 the Company's exposure to credit risk the Company has introduced the following policies and procedures:
  - Company's policy on credit risk that sets out the assessment and definition as to what is credit risk to the Company. Compliance with the policy is monitored and any violation is reported to the Company's Risk Committee. The policy is reviewed regularly to assess its appropriateness and to reflect the changes in the risk environment.
  - The Company sets aside provisions for impairment losses as at the date of the statement of financial position.
  - The concentration of credit risk is allocated between the portfolio of investments, financial assets at fair value through other comprehensive income, available-for-sale financial assets, financial assets by Amortized cost, financial assets held to maturity, loans granted, trade and bank receivables and, to a lesser extent, short-term and other Company investments. The company also has approved limits for individual counterparties in respect of investments in bonds and deposits with banks.
  - The limits on the Company's counterparty exposures are set in accordance with the credit policies of KBC Group. Net exposure limits are set at the level of counterparty or group of counterparties.



## **RISK MANAGEMENT (CONTINUED)**

### ***Credit risk (continued)***

- Reinsurance contracts are signed with counterparties with high credit ratings and the 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.

### ***Liquidity risk***

- Liquidity risk is the risk that the enterprise 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 Company's exposure to liquidity risk have been introduced:
  - The Company pays compensations and liabilities arising in the ordinary course of business on a daily basis. The Company 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 and cash equivalents are maintained available in order to finance the operations and to mitigate the fluctuations in the cash flows.

The Company 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 Company invests mainly in liquid assets and the majority of the investment portfolio is government securities, which are highly liquid and can be sold by the Company to cover the growing volume of emergency payments. The Company also maintains sufficient funds in current accounts (minimum required funds available) to provide daily payments. The company uses government securities to cover technical reserves - 88%, denominated in BGN and EUR and funds on current accounts - 12%. The company has approved limits for the use of repo transactions for the purpose of short-term liquidity provision.

### **Trends or risks which may influence the Company'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 Company's liquidity and funding adequacy. Our stress tests currently indicate that the Company can withstand such adverse evolutions.

## **RISK MANAGEMENT (CONTINUED)**

### **Trends or risks which may influence the Company's liquidity for 2020 (continued)**

This is also evident from the main Solvency II indicators, which are listed in the table below:

	<b>Total own funds</b>	<b>Own funds SCR</b>	<b>Own funds MCR</b>	<b>SCR</b>	<b>MCR</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>31 March 2020</b>	<b>165,721</b>	<b>86,636</b>	<b>36,852</b>	<b>191.3%</b>	<b>450.0%</b>
<b>31 December 2019</b>	<b>145,106</b>	<b>82,918</b>	<b>37,313</b>	<b>175.0%</b>	<b>388.9%</b>

### **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.
- For Operational Risk management and when developing and implementing methods, policies and procedures, the Company uses and introduces the acting methodology and standards of KBC Group. The main tools for operational risk management are the following:
  - 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 (including review and changes in effective products and/or processes). The Committee comprises representatives of the Product Directorates, Sales Channels Development Directorate, Brokerage Business Unit, Actuaries, Finance, Control Units, Information Technologies (IT) and other units. The Committee has adopted also functions to revise all effective products where the key principle is that each product shall 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 activities 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 clients' and/or company's interests against fraud and misconduct, as well as prevention of serious incidents resulting from vicious practices by insurance intermediaries).

The conclusions of the analysis made are presented in a special report on the Internal Control Environment of DZI. For all identified key controls that are not yet fully implemented, an action plan is proposed.

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 organization, management or recovery/restoration within reasonable periods of time in case of unforeseen, full or partial business interruption. A Crisis Committee has been appointed chaired by the Chief Executive Officer. The meetings of the Crisis Committee are conducted as a part of Local Risk and Capital Control Committee.

## **DEVELOPMENT AND FUTURE STRATEGY**

In 2018 a 5-years strategy for the development of DZI was established named “Speed”, which the Company continue to follow in 2019. The strategic goals of DZI include consolidating its market share leadership position and turning it into a quality benchmark for the insurance market. The company 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 will move to a higher level in the pyramid of banking and insurance integration.

## **DEVELOPMENT AND FUTURE STRATEGY (CONTINUED)**

A key factor in implementing this strategy is to place the customer and his/her needs at the center of attention, through the combination of employee talent, the level of digital solutions and the management and quality of data available to the company and placement.

To achieve these goals the Company has undertaken the following initiatives:

- Permanent improvement of the quality of the products and services offered by the Company - review of the quality, speed and availability of the processes and services provided from the moment of identification of its needs to the actual purchase and use of the service offered by the company;
- Implementation of information technologies facilitating the service digitalization processes, aimed at higher quality and speed of the services;
- Reduction of insurance risk through improvement of the underwriting process;
- Reduction of cost quota - through continued centralization and automation of non-commercial activities (reporting, claims handling, administration of contracts, payments);
- Conservative investment policy aimed at achieving the highest level of financial stability at the Bulgarian insurance market;
- Recruitment and retention of competent and highly motivated personnel; Active social commitment to society with a focus on sustainable use of natural resources and the next generation.

## **FUTURE INVESTMENTS**

In 2019 The Company has started the following main projects:

- Purchase of the MALL VARNA business center, which will be used for investment purposes as well as for the needs of KBC Group companies.
- Implementation of a new branch system Insis 10. The project includes a creation of a new generation IT platform, which will be able to serve to intermediaries, partners and clients of the Company, both for the issued of policies and for damage service. Replacing the main branch system with a new one is highly important for the sustainable development and digital future of the Company, following its ambition to become an unprecedented leader in digital insurance services

The Company does not have registered branches on the territory of Republic of Bulgaria and abroad. Under act.40 of the Accounting act, the Company prepares a corporate governance statement that is published together with the Annual Financial Statements.

The Company is exempt from making a non-financial statement under Art. 50 of the Accountancy Act. The non-financial information concerning the Company's activity is included in the consolidated report of the parent company's activities - "DZI - Life Insurance" EAD.

The members of the boards or their affiliates have not entered into contracts with the company that go beyond its normal business or materially deviate from the market conditions.

## **Information about subsequent events after the date of preparation of the 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 Company 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). 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 will be for the global economy and, more specifically, for the bank-insurance group, which DZI General insurance EAD is a part. Management of the Company is closely monitoring the situation. Also the Company 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.

**FUTURE INVESTMENTS (CONTINUED)**

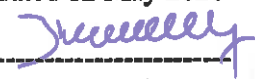
**Information about subsequent events after the date of preparation of the financial statements (continued)**

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, the Company 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 company plans to use the property, both for investment and for the needs of KBC Group companies with offices in Varna.

There are no other significant events occurred between the date of the financial statements and the date of their approval that require disclosure or change in the financial position of the Company.

This report is approved by the Management Board of „DZI - General Insurance“ EAD with Minutes dated 12 May 2020

  
Kosta Cholakov -  
Chairman of MB  
Chief Executive Officer



  
Boris Palichev -  
Member of MB  
Executive Direct

**“DZI - GENERAL INSURANCE” EAD**  
**ANNUAL ACTIVITY REPORT**  
**31 DECEMBER 2019**

**„DZI - General Insurance“ EAD**

**Information under art. 247, par. 2, it. 4 of the Commercial Act**

**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“ „NLB Vita“ "DZI - General Insurance" EAD "DZI - Life Insurance" EAD „KBC Group Re“ “KBC Asset Management N.V.”
Luc Popelier	No	No	„KBC Group N.V.“ “KBC Bank N.V.” “KBC Insurance N.V.” “KBC Bank Ireland plc” “K&H Bank” “K&H Insurance” “CSOB Banka Slovakia” „UBB“AD "DZI - Life Insurance" EAD "DZI - General Insurance" EAD
Grigoriy Vazov	No	"Vazov Institute" EOOD	“DZI - General Insurance“ EAD “DZI - Life Insurance” EAD "Vazov Institute" EOOD “Project company 1”AD “Rubikon Project” EOOD

**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” EAD “DZI - Life Insurance” EAD
Evgeni Benbasat	No	No	“DZI - General Insurance” EAD “DZI - Life Insurance” EAD
Bistra Vasileva	No	No	“DZI - General Insurance” EAD “DZI - Life Insurance” EAD
Boris Palichev	No	No	“DZI - General Insurance” EAD “DZI - Life Insurance” EAD

**STATEMENT OF CORPORATE GOVERNANCE  
OF „DZI - GENERAL INSURANCE“ EAD  
FOR 2019**

**Introduction**

The basic principles of corporate governance policy of „DZI - General Insurance“ EAD are governed by the Code of Corporate Governance approved by the Management Board of the Company.

The information related to the Code of Corporate Governance adopted by the „DZI - General Insurance“ EAD is publicly available on the official website of the insurer ([www.dzi.bg](http://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 N.V. (published on [www.kbc.com](http://www.kbc.com)).

More detailed information on Corporate Governance and compliance with the legal framework is contained in this Corporate Governance Statement of „DZI - General Insurance“ EAD.

The Management Board of „DZI - General Insurance“ EAD makes reviews on a regular basis, whether corporate governance practices are in accordance with existing legislation and the adopted Code of Corporate Governance.

In 2019, there were no cases of code practices that had not been observed.

**STRUCTURE OF MANAGEMENT**

"DZI - General Insurance" EAD (the Company) has a two-tier system of management - 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 - General Insurance“ EAD 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 Executive Officer in the business unit "International Markets" of KBC Group N.V.;
- 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" in business unit "International markets" in KBC Group N.V.;
- 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 control functions, without taking part in the management of the Company.

The Supervisory Board meets at least once on every three months but not less than 4 /four/ times a year.

Members of Management Board and other persons can participate in the meetings of Supervisory Board without right to vote, after they receive an invitation.

Supervisory Board Chairman shall convene the meetings at its own discretion or following a 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 board. Attending member cannot represent more than one absent member.

## **STRUCTURE OF MANAGEMENT (CONTINUED)**

The Supervisory Board can take decisions also without a presence but only if there is a written approval from all board members.

The Supervisory Board can take decisions by direct distance communication if they are in written form. In such cases, the decision enters in force when all board members are informed about the meeting and its 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 of each one of them.

### *Supervisory Board (SB) (continued)*

Functions and tasks of the Supervisory Board:

- ✓ The Supervisory Board determines the main lines in the activity of the Company;
- ✓ Proposes 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 and the proposal of the Management Board for distribution of profit generated by the Company.
- ✓ The Supervisory Board gives its approval for:
  - Participation or disposition of participation in other commercial companies or partnerships;
  - Acquisition and administration of real estate over BGN 1 000 000;
  - Transfer and acquisition of insurance portfolio;
  - Acquisition or disposition of enterprises or parts thereof;
  - Significant change in activities and organizational structure of the Company.

The Supervisory Board may establish special committees and determine their composition and operations. 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 - General Insurance“ EAD 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 - General Insurance“ EAD 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 head 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.



## **STRUCTURE OF MANAGEMENT (CONTINUED)**

### **Audit, risk and compliance committee (continued)**

Audit, risk and compliance committee has the following main responsibilities:

- To monitor 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 monitor the integrity and the objectivity of financial statements and accounting process as a whole;
- To monitor the quality of performance of the internal audit department and to ensure its independence, professionalism and expertise;
- To monitor the external audit activities, particularly its independences and effectiveness;
- To provide guidance regarding the current and future risk appetite, risk management strategy and risk profile;
- To control whether the values of assets and liabilities are in accordance with the business model and strategy of risk management;
- To observe the quality of risk management systems, compliance and legality by monitoring the provision of independence, professionalism and expertise of the units involved in these fields;
- To control whether the incentives provided by the Remuneration Committee consider the impact of risk, capital, liquidity and time for receiving the remunerations.

The Chairman of Audit, Risk and Compliance Committee reports to Supervisory Board the activities, conclusions and recommendations for approval after every meeting of the Committee. Minutes of meetings of the Committee must be submitted to the members of the Supervisory Board.

### **Remuneration Committee:**

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

<b>Chairman:</b>	Luc Popelier
<b>Members:</b>	Johan Daemen
<b>Secretary:</b>	Kremena Krалеva
<b>Guests:</b>	Petar Andronov Kosta Cholakov

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 stakeholders.

The remuneration committee meets at least once a year to discuss and to approve remuneration policies. For conducting committee meeting at least half of its members are required to attend.

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 meetings held by the Remuneration Committee, Minutes is prepared by permanently appointed Secretary, Director of "Human Resources", and the Minutes must be submitted to the members of the Committee.

## **STRUCTURE OF MANAGEMENT (CONTINUED)**

### **Remuneration Committee (continued)**

#### *Management Board (MB)*

The Management Board of „DZI - General Insurance“ EAD consists of 4 (four) members elected by the Supervisory Board. As of the end of 2019, the composition of the MB 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 company 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 has to meet 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 (MB):**

- The MB organizes the activities of the Company and determines the insurance and financial policy;
- Approves the annual reports of the responsible actuary of the Company and of Head of "Internal Audit and Control" unit;
- Determines the type and amount of Company's funds and also the related procedures for collecting and spending money on them;
- Approves the Program for the activities;
- Establishes management and organizational structure;
- Appoints and dismisses personnel performing key functions;
- Approves policies, rules and terms and conditions under the Insurance Code. Chooses and authorizes Executive Directors.

The Management Board can establish special committees and defines their composition and functioning. Currently established committees with the Management Board 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 achievement of activity results that ensure the achievement of goals, etc.

The LRCOC shall consist of Management Board members and the Director of “Risk Management” Directorate.

The Chairman of LRCOC is the Executive Director responsible for Finance and Risk sector. The Head of “Non-Financial Risks” unit with the Directorate “Risk Management” shall perform the function of LRCOC Secretary, responsible for meeting protocols with the decisions of each meeting, subject to subsequent approval by MB.

Employees explicitly listed in the activity rules of LRCOC and representatives of different bodies relevant to the issues discussed, must attend the LRCOC Meetings. The Chairman of LRCOC, through the Secretary of the Committee, may invite other participants to attend the meetings if he considers that their expert opinion is important and necessary for making a particular decision. The Head of Internal Audit and the Head of Control of commercial network, Internal Inspections and Compliance attend the meetings of LRCOC with status of observers. The LRCOC meets monthly.

The LRCOC shall take decisions if at least two of the members – Executive Directors are present in person and one of them must be the Executive Director responsible for “Finance and Risk”. Decisions of LRCOC shall be made with clear voting and full majority (unanimously) of the attending members. Each member is entitled to one vote. Other participants in the meeting have advisory vote.

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

The committee was created by the MB of „DZI - General Insurance“ EAD and has responsibilities which are expressly assigned by the MB. CANPP simultaneously fulfills function of a Committee responsible for approval of products which the insurer offers to markets and a channel of communication with the branch network (excluding products offered through business partners United Bulgarian Bank). CANPP operates in accordance with the policy of “Risk Appetite”, corporate strategy and capital policy.

The Committee 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 for sector “Operations”. Coordinator of the committee is the Manager of “Operation Risk” unit, sector “Operations”. The sponsors of the relevant processes are the directors of Directorates “General Insurance Products” and “Corporate and specialized insurance”, and the owners of the products are determined depending on the nature of the business proposal.

Minutes from each meeting of the committee shall contain the decisions taken and is subject to subsequent approval by the MB.

## **STRUCTURE OF MANAGEMENT (CONTINUED)**

### **Investment Committee:**

The investment committee is established by the MB of „DZI - General Insurance“ EAD and performs functions of advisory body. The Investment Committee convenes minimum four times per year and considers the following issues:

- ✓ Macro-economic framework, incl. interest rates;
- ✓ Maturity structure of financial assets portfolio;
- ✓ Investment objectives and strategy and suggestions for Investment Portfolio Management.

The members of the Committee are the following - Chairman of the Committee is the Executive Director for “Finance and Risk” and the rest of the members are “Finance” Director, “Risk” Director, “Investment Management” Expert, Director “Investment Management” with UBB.

Minutes from each meeting of the committee shall contain the decisions taken and is subject to subsequent approval by the MB.

All the responsibilities of the SB and the MB are governed by the Corporate Governance Code and the Articles of Association of the Company.

## **INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

### **Internal Control System**

“DZI - General Insurance” EAD applies multi-model of internal control following the requirements of KBC Group and three lines of defense are introduced.

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

Second line of defense are departments having independent control functions - Risk Management, Finance, Legal and Information Security. Departments engaged with independent control functions express their own opinion regarding the risks to which the Company is exposed. The Departments have the following duties:

- Monitoring and verifying the level of implementation of the KBC's Framework for business risk management and report on the overall risk environment to the Company's management;
- Control whether field action is respected by business and escalate if necessary;
- Report independently on risk issues to the relevant authorities and committees for risk in accordance with the institutions set out in the Risk Management Framework.

Third line of defense is "Internal Audit" Department, which reports to the Managements Board and the LRCOC and expresses a reasoned opinion on the functioning of the internal control framework; evaluates the operation of the first and second line of defense; verifies whether the risks are managed appropriately by processes in the Company.

As part of the Risk Management System and Internal Control System, except the key function of Internal Audit, the following three key functions have been introduced:

- Risk Management Function;
- Actuarial Function;
- Compliance function.

## **INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (CONTINUED)**

### **Risk management**

The main objective of the framework for risk management and financial management of the Company is to protect shareholders from events that hinder the consistent achievement of the objectives in terms of financial performance, including the inability to gain potential revenues.

The Company has developed and put in place rules and procedures for managing and controlling risks in order to define, to manage and to control the extent of financial and insurance risk. The 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 Company 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 company;
- 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 according laws and regulations that clearly define the responsibilities and tasks of the first and second line of defense.
- Performs a number of activities related to the management of the various risks in the entity;
- Assists first line of defense 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 Directorate is an independent function of the Company disclosed in the Charter of compliance. Its primary task is to prevent the risk of non-compliance or losses due to non-compliance with applicable laws, regulations or internal rules that are in the scope of the directorate functions.

## **INFORMATION RELATED TO MERGES AND ACQUISITIONS**

DZI - General Insurance“ EAD 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 Company has not issued securities with special control rights. According to the Articles of „DZI - General Insurance“ EAD issuing of preference shares conferring a right to more than one vote or additional liquidation share is forbidden.

## **INFORMATION RELATED TO MERGES AND ACQUISITIONS (CONTINUED)**

There are no deadlines or restrictions over holders with certain percentage or number of votes. Introduction of amendments to the Memorandum of the Company /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 by the Operation Rules of the MB/SB 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 - General Insurance” EAD implements diversity policy regarding 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 policy the company 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 one Bulgarian member and two Belgian members. The age range of the members is from 54 to 67 years old. One member of the Supervisory Board has a diploma in 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. The Management Board is composed of one Belgian member and two Bulgarian members. The Management Board includes members who were born between 1972 and 1982. Diversity in education and qualification of Management Board members is provided by significant experience in different areas and qualification in the following subjects - “Law”, “Accounting and Control”, “Business Administration” and “Industrial Business”.

This Declaration is approved by the Management Board of „DZI - General Insurance“ EAD with Minutes of 12 May 2020.



**Kosta Cholakov -  
Chairman of MB  
Chief Executive Officer**



**Boris Palichev -  
Member of MB  
Executive Director**



## Independent Auditors' Report

To the Sole shareholder of DZI -General Insurance EAD

### Report on the audit of the financial statements

#### Our opinion

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its 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 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the 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.

#### Our audit approach

##### Overview

<b>Materiality</b>	<ul style="list-style-type: none"><li>Overall Company materiality: BGN 2,532 thousand, which represents 1% of the Company's gross written premium (GWP).</li></ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"><li>Estimation uncertainty with respect to general technical insurance provisions</li></ul>



As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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 also 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.

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

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the 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 financial statements as a whole.

<b>Overall Company materiality</b>	BGN 2,532 thousand
<b>How we determined it</b>	Overall materiality represents approximately 1% of the Company's gross written premium (GWP)
<b>Rationale for the materiality benchmark applied</b>	<p>We have chosen gross written premium as the benchmark because it is the benchmark against which the performance of the Company is measured.</p> <p>We considered that the entity 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 financial statements and concluded that revenue was a meaningful measure for users of the financial statements.</p> <p>We selected the above threshold based on our professional judgement, noting that it is within the range of commonly acceptable quantitative materiality thresholds.</p>

### Key audit matters

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

## Key audit matter

## How our audit addressed the key audit matter

### Estimation uncertainty with respect to technical insurance provisions

At year-end 31 December 2019 payables for insurance contracts (before reinsurance) amount to BGN 315,073 thousand, as disclosed in Note 26 to the financial statements.

Insurance contract liabilities, referred to as technical insurance provisions, represent the most significant liability of the Company. The assessment of insurance contract liabilities is a complex area that requires application of the professional judgment, using a set of statistical and mathematical methods and models required by the Company's accounting policies as well as regulatory requirements.

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 financial statements.

We focused on provision for incurred but not reported claims (IBNR), and the adequacy of the reserves, including unexpired risk provision and run-off of the outstanding claims reserve.

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 general insurance reserves.

In relation to the particular matters set out above, our substantive testing procedures included, but were not limited to the following:

- Assessment and analysis of the accounting policy for technical insurance provisions valuation and presentation, as prescribed by the applicable IFRS;
- Independent test, with the assistance of our actuarial specialists of 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 Company's actuaries in estimating general insurance loss reserves;
- Independent calculation of the claims development patterns on selected product lines, particularly focusing on the largest and most sensitive to the respective assumptions technical 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;
- Evaluation of the completeness, relevance and adequacy of the disclosures in the financial statements.

Based on the work performed we considered that the methodologies and assumptions used in the valuation of technical insurance provisions are reasonable and in line with financial reporting requirements and industry accepted practice.

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

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Annual Activity Report, the Corporate Governance Statement, 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 where applicable 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 Annual Activity Report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
- b) the Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- c) the Corporate Governance Statement for the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company reporting process.

## Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 Audit 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.

## Report on other legal and regulatory requirements

### **Additional reporting on the audit of the 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 financial statements of the Company 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 Company on 7 June 2016.
- Grant Thornton OOD was appointed as a statutory auditor of the financial statements of the Company 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 Company on 26 September 2017.
- The audit of the financial statements of the Company for the year ended 31 December 2019 represents the fourth of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the financial statements of the Company for the year ended 31 December 2019 represents the third of total uninterrupted statutory audit engagements for that entity 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 Company's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that 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 Company.
- For the period to which our statutory audit refers, we have provided other services to the Company, in addition to the audit, which have been disclosed in Note 11 of the Company's financial statements.

For PricewaterhouseCoopers Audit OOD:

  
Jock Nunan  
Procurist



  
Boryana Dimova  
Registered Auditor responsible for the  
audit  
9-11, Maria Luiza blvd.  
1000 Sofia, Bulgaria

15 May 2020

For Grant Thornton OOD:

  
Mariy Apostolov  
Managing Director

A circular blue ink stamp. The outer ring contains the text 'ОДИТОРСКО ДРУЖЕСТВО' at the top and 'ГРАНТ ТОРНТОН ООД' at the bottom. The center contains the text 'София' and 'Рег. № 032'.

  
Emilia Marinova  
Registered Auditor responsible for the  
audit  
26, Cherni Vrah blvd.  
1000, Sofia, Bulgaria

15 May 2020

**“DZI - GENERAL INSURANCE” EAD  
STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDING 31 DECEMBER 2019**

	Notes	2019 BGN'000	2018 BGN'000
Gross premiums	3(a)	247,416	206,978
Premiums ceded to reinsurers	3(b)	(11,508)	(10,233)
<b>Net premiums</b>		<b>235,908</b>	<b>196,745</b>
Fees and commission income	4	935	695
Investment income	5	6,658	6,703
Realised gains	6	38	172
Gains and losses on fair value revaluation	7	139	40
Other operating income	8	1,172	1,171
<b>Total other income</b>		<b>8,942</b>	<b>8,781</b>
Expenses on claims paid – gross	9(a)	(103,447)	(96,756)
Claims ceded to reinsurers	9(b)	15,051	9,062
Change in insurance contract liabilities related to future payments – gross	9(c)	(15,109)	717
Change in insurance contract liabilities related to future payments ceded to reinsurers	9(d)	(11,215)	(10,203)
<b>Expenses on claims paid, net</b>		<b>(114,720)</b>	<b>(97,180)</b>
Interest expenses		(12)	-
Impairment of financial assets	34	(759)	(33)
Impairment of insurance receivables	10	(1,186)	(365)
Administrative expenses	11	(30,692)	(28,092)
Other operating expenses	12	(67,614)	(64,292)
<b>Other expenses</b>		<b>(100,263)</b>	<b>(92,782)</b>
<b>Total expenses on claims paid and other expenses</b>		<b>(214,983)</b>	<b>(189,962)</b>
<b>Profit before tax</b>		<b>29,867</b>	<b>15,564</b>
Income tax expense	14	(2,935)	(1,595)
<b>Profit for the year</b>		<b>26,932</b>	<b>13,969</b>

The financial statements are prepared on 24 April 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 12 May 2020 and signed on behalf of „DZI – General Insurance“ EAD by:

  
Kosta Cholakov  
Chief Executive Officer


  
Boris Palichev  
Executive Director

  
Anton Dechev  
Preparer

In reference to the auditors' report dated 15 May 2020:

„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





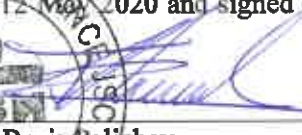


**"DZI - GENERAL INSURANCE" EAD  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDING 31 DECEMBER 2019**

	Notes	2019 BGN'000	2018 BGN'000
<b>Profit for the year</b>		<b>26,932</b>	<b>13,969</b>
<b>Other comprehensive income</b>			
Other comprehensive income subject to reclassification to profit or loss in future periods:			
Gain/(loss) of financial assets carried at fair value in other comprehensive income		5,335	(3,321)
(Loss)/gain from financial assets carried at fair value in the other comprehensive income, reclassified in profit or loss		(33)	1
Income tax effect	15, 14	(530)	332
<b>Other comprehensive income/(loss) subject to reclassification to profit or loss in future periods, net of tax</b>	<b>15</b>	<b>4,772</b>	<b>(2,988)</b>
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of defined benefit liability	15	(40)	(18)
Income tax effect	15, 14	4	2
<b>Other comprehensive (loss) not subject to reclassification to profit or loss in future periods, net of tax</b>	<b>15</b>	<b>(36)</b>	<b>(16)</b>
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>4,736</b>	<b>(3,004)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>31,668</b>	<b>10,965</b>

The financial statements are prepared on 24 April 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 12 May 2020 and signed on behalf of „DZI – General Insurance“ EAD by:

  
Kosta Cholakov  
Chief Executive Officer

  
Boris Palichev  
Executive Director


  
Anton Dechev  
Preparer

In reference to the auditors' report dated 15 May 2020:

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Audit company

„Grant Thornton“ OOD  
Audit company

  
Jock Nunan  
Procurator

  
Boryana Dimova  
Registered auditor,  
responsible for the audit



  
Mariy Apostolov  
Managing partner

  
Emilia Marinova  
Registered auditor,  
responsible for the audit





**"DZI - GENERAL INSURANCE" EAD  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDING 31 DECEMBER 2019**

Notes	Share capital	Retained earnings	Capital reserves	Revaluation reserve for financial assets carried at fair value through other comprehensive income	Revaluation reserve of tangible assets	Remeasurements of defined benefit liability	Total equity
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance as of 01 January 2018	66,587	7,525	8,089	15,225	46	(122)	97,350
Paid dividends	-	(6,375)	-	-	-	-	(6,375)
Total transactions with owner	-	(6,375)	-	-	-	-	(6,375)
Profit for the year	-	13,969	-	-	-	-	13,969
Other comprehensive income	-	-	-	(2,988)	-	(16)	(3,004)
Total comprehensive income	-	13,969	-	(2,988)	-	(16)	10,965
Equity as of 31 December 2018	66,587	15,119	8,089	12,237	46	(138)	101,940
Profit for the year	-	26,932	-	-	-	-	26,932
Other comprehensive income	-	-	-	4,772	-	(36)	4,736
Total comprehensive income	-	26,932	-	4,772	-	(36)	31,668
Equity at 31 December 2019	-	42,051	8,089	17,009	46	(174)	133,608

The financial statements are prepared on 24 April 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 12 May 2020 and signed on behalf of „DZI – General Insurance“ EAD by:

Kosta Cholakov  
Chief Executive Officer

In reference to the auditors' report dated 15 May 2020

"PricewaterhouseCoopers Audit" OOD  
Audit company

Jock Numan  
Procurator

Boryana Dimova  
Registered auditor, responsible for the audit

Boris Palichev  
Executive Director

Anton Dechev  
Prepared

"Grant Thornton" ООД  
Audit company  
София  
Per. № 032  
Emilia Marinova  
Registered auditor, responsible for the audit

**“DZI - GENERAL INSURANCE” EAD**  
**STATEMENT OF FINANCIAL POSITION**  
**31 DECEMBER 2019**

	Notes	31 December 2019 BGN'000	31 December 2018 BGN'000
<b>Assets</b>			
Intangible assets	16	6,809	4,464
Tangible assets	17	17,261	18,047
Right-of-use assets	30	1,548	-
Deferred tax assets	21	112	312
Investment properties	18	14,278	11,330
Loans granted	19(a)	9,800	9,800
Deposits in financial institutions	19(c)	-	4,062
Financial assets carried at fair value in other comprehensive income	19(d)	258,115	183,871
Financial assets at amortized cost	19(e)	21,270	21,369
Reinsurance transaction assets	20	19,660	30,439
Receivables on insurance transactions	22	74,170	68,118
Trade receivables and advances	23	1,306	1,893
Prepaid expenses and other assets	25	1,193	1,377
Cash and cash equivalents	24	58,022	67,367
<b>Total assets</b>		<b>483,544</b>	<b>422,449</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	31	66,587	66,587
Capital reserves	32(a)	8,089	8,089
Retained earnings		42,051	15,119
Revaluation reserve	32(b)	17,055	12,283
Remeasurements of defined benefit liability		(174)	(138)
<b>Total equity</b>		<b>133,608</b>	<b>101,940</b>
<b>Liabilities</b>			
Payables on insurance contracts	26	315,073	290,732
Lease liability	30	1,555	-
Retirement benefit liabilities	27	892	818
Payables to insurers, brokers and agents	28	23,736	21,670
Trade and other payables	29	7,961	7,191
Corporate tax payable		719	98
<b>Total liabilities</b>		<b>349,936</b>	<b>320,509</b>
<b>Total equity and liabilities</b>		<b>483,544</b>	<b>422,449</b>

The financial statements were prepared on 24 April 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 12 May 2020 and signed on behalf of “DZI – General Insurance” EAD by:

Kosta Cholakov  
Chief Executive Officer

Boris Dichev  
Executive Director

Anton Dechev  
Preparer

In reference to the auditors' report dated 15 May 2020

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Audit company

“Grant Thornton” OOD  
Audit company

Jock Nunan  
Procurator

Mariy Apostolov  
Managing partner

Boryana Dimova  
Registered auditor,  
responsible for the audit

Emilia Marinova  
Registered auditor,  
responsible for the audit



**“DZI - GENERAL INSURANCE” EAD**  
**STATEMENT OF CASH FLOWS**  
**31 DECEMBER 2019**

	Notes	2019 BGN'000	2018 BGN'000
<b>Cash flows from operating activities</b>			
Premiums received		229,008	200,825
Claims paid, net of recourses received		(99,412)	(94,613)
Amounts recovered to reinsurers, net		3,439	804
Payments to suppliers		(9,071)	(10,909)
Payments to employees and security institutions		(17,821)	(16,662)
Acquisition costs paid, net of commissions received from reinsurers		(32,769)	(26,450)
Paid premium taxes, GF and SF		(11,411)	(11,064)
Corporate tax paid		(2,669)	(1,361)
Other taxes paid, net		(2,394)	(677)
Other cash flows used in operating activities		(1,697)	(2,912)
<b>Net cash flows from operating activities</b>		<b>55,203</b>	<b>36,981</b>
<b>Cash flows from investing activities</b>			
Proceeds from fixed coupon securities		7,183	384
Purchase of fixed coupon securities		(76,863)	(8,904)
Acquisition of non-current tangible and intangible assets and investment properties		(6,692)	(19,655)
Proceeds from disposal of non-current tangible and intangible assets and investment properties		568	1,936
Interest received		6,998	7,199
Rents received		713	366
Proceeds from matured deposits		4,000	29,000
<b>Net cash flows from investing activities</b>		<b>(64,093)</b>	<b>10,326</b>
<b>Cash flows from financing activities</b>			
Lease payments	32	(455)	-
Dividends paid		-	(6,375)
<b>Net cash flows from financing activities</b>		<b>(455)</b>	<b>(6,375)</b>
<b>Change in cash and cash equivalents during the period</b>		<b>(9,345)</b>	<b>40,932</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>67,367</b>	<b>26,435</b>
<b>Cash and cash equivalents at the end of the period</b>	Note 24	<b>58,022</b>	<b>67,367</b>

The financial statements are prepared on 24 April 2020 and were authorised for issue by the Managing Board to the Supervisory Board on 12 May 2020 and signed on behalf of „DZI – General Insurance“ EAD by:

  
**Kosta Cholakov**  
 Chief Executive Officer

  
**Boris Palichev**  
 Executive Director


  
**Anton Dechev**  
 Preparer

In reference to the auditors' report dated 15 May 2020

„PricewaterhouseCoopers Audit OOD  
 Audit company


“Grant Thornton” OOD  
 Audit company

  
**Jock Numan**  
 Procurator

  
**Boryana Dimova**  
 Registered auditor,  
 responsible for the audit



  
**Mariy Apostolov**  
 Managing partner

  
**Emilia Marinova**  
 Registered auditor,  
 responsible for the audit



## **1. Corporate information**

„DZI – General Insurance“ EAD (the Company) is registered under the laws of the Republic of Bulgaria on 27 February 1998. Its address of management is Sofia, 89B, Vitosha Blvd, and it is member of the DZI Group. The sole owner of the Company as of 31 December 2019 and 2018 is “DZI - Life Insurance” EAD.

„DZI – General Insurance“ EAD was granted a permit to carry out insurance and reinsurance activities on 25 May 1998. General insurance is related to products ensuring compensation for property damage or accident. General insurance policies to large extend are contracted for a period of one year or less and they do not have surrender value. The insurer can change the premiums after the period covered by the policy.

As of 31 December 2019 ultimate parent of „DZI - General Insurance“ EAD is KBC Group N.V., Belgium through control over 100.00 % of the share capital of the parent DZI - Life Insurance EAD. Sole owner of the share capital of „DZI - Life Insurance“ EAD is KBC Insurance N.V.

The financial statements is approved by the Management Board of „DZI – General Insurance“ EAD on 12 May 2020.

### **2.1. Basis of preparation**

This financial statements has been prepared under the going concern principle using historical cost convention, except for investment properties, financial assets by fair value in the other comprehensive income (government securities, Eurobonds, international and equity investments), assets by fair value in the profit or loss (Eurobonds and government securities).

This financial statements of „DZI – General Insurance“ EAD has been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the Interpretation Committee (IFRIC) adopted by the European Union (EU). IFRS adopted by the EU is the generally accepted designation of a generic framework for fair presentation equivalent to the definition of the framework introduced in § 1 it.8 of the Additional Provisions of Accounting Act - International Accounting Standards (IAS).

The financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements". The Company presents the Profit or Loss Statements and Other comprehensive income in two separate statements: a profit or loss statement and a statement of comprehensive income.

All items in the financial statements are presented in BGN which is the functional currency of the Company and have been rounded to the nearest thousand (BGN'000), unless otherwise stated. The Company 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 financial statements.

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 recognized amounts and the Company intends to settle the asset and liability on net basis or to simultaneously realize the assets and settle the liabilities.

Income and expenses are not offset in the profit and loss statements unless allowed by an accounting standard or interpretation, as explicitly disclosed in the Company's accounting policies.

## **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.

### **The effect of IFRS 16 on the Financial Statements of the Company**

The Company 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 Company recognized assets with a right of use amounting to BGN 1,323 thousand and lease liabilities amounting to BGN 1,323 thousand (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018.)

The Company's activity as a lessor is not significant and the Company 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 Company**

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 Company. Information on these standards and amendments that have an impact on the Company's financial statements is presented below. The management expects all standards and amendments to be adopted in the accounting policy of the Company during the first period beginning after the effective date.



## **2.3 New standards and interpretations not yet adopted by the Company (continued)**

### **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 Company's financial statements:

**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 judgments, estimates and assumptions**

The preparation of 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. Uncertainties related to these assumptions and estimates may lead to actual results requiring material adjustments in the carrying amounts of the respective assets or liabilities in subsequent reporting periods. These factors may include:

## **2.4 Significant accounting judgments, estimates and assumptions (continued)**

### **Judgements 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**

##### ***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 (IBNR) 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 analyzed 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 Company 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. In 2019 The Company 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.

The Company assessed the receivables on recourse claims related to reported but not settled (RBNS) claims. Recourses relating to unpaid claims are measured at their recoverable amount on the basis of expected future cash flows, taking into account the likelihood of bringing a recourse claim and its collectability.

## **2.4 Significant accounting judgments, estimates and assumptions (continued)**

### **(a) Assessment of insurance contract liabilities (continued)**

#### ***Liabilities on general insurance contracts (continued)***

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 company 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.

Further information regarding the amount and type of liabilities is disclosed in Note 26. Sensitivity analysis from changes in the assumptions for the obligations under insurance contracts is disclosed in Note 34

The carrying amount of general insurance contract liabilities as at the date of the statement of financial position amounts to BGN 315,07s thousand (2018: BGN 290,732 thousand).

### **(b) Assessment of retirement benefits obligations to employees and other short-term benefits**

The retirement benefit obligation is determined through actuarial valuation based on the requirements of IAS 19. The actuarial valuation involves making 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 Company and including the drawing up of a reliable estimate regarding:

- the expected future retirement compensation due to each individual in accordance with the Labour Code and the Collective labour agreement;
- 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 Company, expected retirement benefit, assessment of the earned portion of the expected retirement benefit and discounting through the use of appropriate discount interest rate, as well as assumptions of early termination due to death or other reasons. Additional information on retirement benefits is presented in Note 27.

### **(c) Deferred tax assets**

Deferred tax assets are recognized for tax losses to the extent it is probable that taxable profit will be available against which such losses may be utilized. Judgement is required in determining the deferred tax assets that may be recognized on the basis of the timing and level of future taxable profits based on future tax planning strategies. Further information is presented in Note 21.

## **2.4 Significant accounting judgments, estimates and assumptions (continued)**

### **(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 Company and for them recognized income from insurance operations / income from regressions, initially up to the amount expected to be received by the Company from future economic benefits.

The estimate of the Company 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 Company 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 Company. Additional information on recourse receivables is presented in Note 22.

### **(e) 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 Company is typically reasonably certain to extend (or not terminate).

If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate). Otherwise, the Company 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 Company 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 Company 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.

### **(f) 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 Company. The carrying amounts of the assets are analyzed in notes 16 and 17. 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 judgments, estimates and assumptions (continued)**

### **(g) Measurement of expected credit losses**

Credit losses represent the difference between all contractual cash flows due to the Company and all cash flows that the Company expects to receive. Expected credit losses are a probable weighted estimate of the credit losses that require the assessment of the Company. 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).

### **(h) 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 (see Note 19).

## **2.5 Summary of significant accounting policies**

### **(a) Products classification**

Insurance contracts are the contracts where the Company (the insurer) 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 Company considers the features of the contract and determines whether they transfer significant insurance risk.

The Company 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.

The Company holds permit issued by the Financial Supervision Commission to carry out insurance activities on all types of insurances and risks regulated in the legislative framework and classified in 18 groups. Insurance contracts are split into two major groups Liability insurance and All other insurances.

### **(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. The useful lives of intangible assets have been determined as finite.

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:

**2.5 Summary of significant accounting policies (continued)**

	<b>Annual depreciation rate %</b>	<b>Useful lives in years</b>
Software	12.5% – 20%	5 – 8
Other intangible assets	11% – 33%	3 – 9

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.

**(c) Taxes**

***Current income tax***

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.

Under the Corporate Income Tax Act the tax rate in 2019 and 2018 is 10%.

***Deferred income tax***

Deferred taxes are recognized using the balance method for all temporary differences at the date of the statement of financial position between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carried over unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax credits carried forward and unused tax losses are used.

Deferred tax liabilities are recognized in full. Deferred tax assets and liabilities are offset only when the Company has the right and intent to offset the current tax assets or liabilities of the same tax institution

The Company reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to enable all or part of the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to be in force for the period in which the asset is realized or the liability is settled based on the tax rates (and tax laws) that are in effect or have entered into force, to a significant extent at the date of the statement of financial position.

Deferred tax assets and liabilities are recognized directly in the statement of other comprehensive income rather than in the profit or loss statement when the tax relates to items that were recognized directly in the statement of other comprehensive income.

**(d) Liability to pay retirement benefits to employees for length of service**

Employee benefits include the present value of the Company's liability to pay benefits to the employees at retirement age. According to the provisions of the Labor 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.

## **2.5 Summary of significant accounting policies (continued)**

In accordance with the requirements of IAS 19 the Company's contingent employee benefits liabilities are included in the annual results of the Company based on actuarial calculations. Actuarial gains and losses are fully recognized in the other comprehensive income.

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. They are recognized as an employee benefit expense in the profit or loss or 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 27.

### **(e) Financial assets**

#### ***Initial recognition and subsequent measurement***

The Company recognizes a financial asset or financial liability in its statement of financial position only when the entity becomes a party to the contractual terms of that instrument. Ordinary purchases or sales of financial assets are recognized and derecognized using the accounting based on the date of the transaction.

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 Company applies the requirements of IFRS 9 for the classification of financial instruments for the year ended 31 December 2019 and 31 December 2018.

#### ***Classification of Financial Instruments in Accordance with IFRS 9***

##### ***Classification of financial assets***

Upon the initial recognition of a financial asset, the Company assesses the instrument's terms of reference primarily to determine it either as equity or as a debt 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, it is classified at fair value through profit or loss on initial recognition.

If the Company has designated a financial asset as a debt at its 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:

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

## **2.5 Summary of significant accounting policies (continued)**

### **(e) Financial assets (continued)**

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 payments on principal 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 are met:

- the financial asset is held within a business model that targets both the collection of contractual cash flows and the sale of financial assets, and
- according to the contractual terms of the financial asset at specific dates, cash flows arise, which are only payments on principal 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 Company 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 Company.

If the Company does not have an unconditional right to avoid repayment of cash or the provision of the other financial asset to settle its contractual obligation, that obligation meets the definition of a financial liability.

### ***Financial assets at amortized cost***

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.



## **2.5 Summary of significant accounting policies (continued)**

### **(e) Financial assets (continued)**

#### ***Classification of financial liabilities (continued)***

##### ***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 Company 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. Gains and losses on financial assets at Amortized cost are recognized in profit or loss when the investment is derecognized or impaired, and through the amortization process.

##### ***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 reported 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 which is the fair value of the consideration given to acquire the financial assets. All directly attributable transaction costs are included in the cost of the financial assets

Following initial measurement loans and receivables are subsequently carried at Amortized cost using the effective interest method. Gains and losses on loans and receivables are recognized in the income statement, when they are derecognized or impaired, as well as through the Depreciation process.

##### ***Financial assets measured at fair value in other comprehensive income***

Financial assets measured at fair value in 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 in other comprehensive income are measured at fair value. Unrealized gains and losses on fair value are recognized in a separate component of other comprehensive income until financial assets are derecognized or impaired. On derecognition of debt instruments belonging to this category, the cumulative gains or losses previously recognized in other comprehensive income are recognized in profit or loss. On derecognition of capital instruments belonging to this category, the cumulative gains or losses previously recognized in other comprehensive income are reclassified in retain earnings.

## **2.5 Summary of significant accounting policies (continued)**

### **(f) Impairment of financial assets under IFRS 9**

#### **Recognition of Expected Credit Losses (ECL)**

The model for impairment of financial assets used by the company is the expected credit loss model (ECL). The model covers the following types of financial assets:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through other comprehensive income;
- Trade and other receivables at amortized cost.

ECL does not apply to equity financial instruments.

ECL of cash receivables is immaterial and the Company does not charge impairment for these financial assets. The correction for the loss of financial assets at amortized cost and trade and other receivables is recognized in the profit or loss statement and decreases the carrying amount of the financial asset in the statement of financial position.

The correction for the loss of financial assets at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

#### ***Calculation of ECL***

The expected credit loss on financial assets for the life of a financial asset is the sum of the expected lifetime losses of the financial asset discounted at the original effective interest rate. The 12-month expected loss is the portion of the expected loss for the life of the credit as a result of the default over the 12-month period after the reporting date.

The Company uses specific models on IFRS 9 the probability of default (PD), the expected exposition at default (EAD) and the loss given default (LGD) in order to calculate the expected loss on financial assets. As far as possible and in order to stimulate efficiency, the Company uses modeling techniques similar to those developed for prudential purposes. In the models, the Company applies estimated macroeconomic information. When calculating the ECL, probability weighted values are taken into account, the time value of money is taken into account, as well as information about past events, current conditions and projected future economic conditions.

For financial assets within the range of the expected credit loss model impairments are calculated to the extent that the maturity of the asset is matched, if the credit risk increases significantly after the initial recognition. Otherwise, ECL are calculated over a 12-month period.

#### ***Significant increase in credit risk***

The assessment of the significant increase in credit risk is a relative assessment based on the credit risk determined at the initial recognition. This is a multi-factor assessment, which is why a multi-factor approach has been developed.

## **2.5 Summary of significant accounting policies (continued)**

### **(f) Impairment of financial assets under IFRS 9 (continued)**

For the core investment portfolio - from bonds, the approach has three main lines:

- expecting low credit: Bonds always account for 12-month ECL if they have low credit risk at the end of the reporting period. 12-month ECL apply to bonds rated in the class "investment";
- preparation of internal rating (if first-line conditions are not met): a relative estimate of the probability of default on contracts is made after the initial recognition at the end of the reporting period. The valuation is carried out at the level of a separate financial asset;
- management's assessment: the Management reviews and evaluates the significant increase in credit risk for financial assets, both at the level of a separate financial asset and at the asset portfolio level.

If none of the three actions leads to a revision of the credit loss reporting period, the financial asset remains subject to 12-month CPA. If there is a change in the credit loss accounting period, impairment is recognized for the whole period until the end of the contract. Reverse Review is also possible if there is a decrease in the credit risk of the financial asset at the end of the reporting period.

At each reporting date the enterprise estimates the correction for loss for a financial instrument in the amount equal to the expected credit losses over the life of the instrument if the credit risk of that financial instrument has increased significantly after the initial recognition. If, at the reporting date, the credit risk of a financial instrument has not increased significantly since initial recognition, the enterprise estimates the correction for loss for a financial instrument at a rate equal to the expected credit loss for 12 months. At each reporting date, the enterprise assesses whether the credit risk of a financial instrument has increased significantly since initial recognition.

In its assessment, the Company recognizes the change in the risk of default over the expected life period of the financial instrument. To make this assessment, the Company compares the risk of default on the financial instrument to the reporting date and the date of initial recognition and takes into account reasonable and justified information that demonstrates a significant credit risk increase after initial recognition. The Company may assume that the credit risk of a financial instrument has not increased significantly after initial recognition if the financial instrument is found to have low credit risk as of the financial statements date.

#### ***ECL of trade and other receivables***

In respect of trade and other receivables, the Company recognizes, based on a simplified approach, expected credit losses over the life period of the contract.

The Company accepts that there is evidence of impairment of trade and other receivables if any of the following is present:

- significant financial difficulties of the debtor;
- probability for the debtor to become insolvent;
- overdue after the maturity date of 30 days or more.

## **2.5 Summary of significant accounting policies (continued)**

### **(f) Impairment of financial assets (continued)**

The Company estimates the expected credit losses by financial instrument, taking into account:

- the amount determined fairly and weighted on the basis of probability by estimating the range of possible outcomes;
- the value of money over time; and
- reasonable and justified information available as of the reporting date, for past events, current conditions and projected future economic conditions.

The maximum period to be taken into account when estimating the expected credit losses is the maximum term of the contracts (including options for extension) during which the Company is exposed to credit risk.

Additional numerical information on the exposure of the Company from ECL is given in Note 34.

### **(g) 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**

A financial liability is derecognized when it is extinguished, i.e. where the obligation laid down in the contract has ceased or is canceled or its period has expired.

### **(h) 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 the Company.

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.

## **2.5 Summary of significant accounting policies (continued)**

### **(h) Fair value (continued)**

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 Company 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 financial statements are categorized 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:

- 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 Company reviews their categorization 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 Company's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and available-for-sale financial assets, and for non-recurring measurement, such as assets held for sale / distribution to the owners.

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 held for trading. External valuers are involved in the measurement of the fair value of investment properties, the need for which is decided upon annually by the Company'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 Company'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 each 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 Company 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.

## **2.5 Summary of significant accounting policies (continued)**

### **(h) Fair value (continued)**

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 expenses 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 18 and Note 19.

### **(i) Impairment of nonfinancial assets**

At each reporting date, the Company assesses whether there are indications that an asset is impaired. In the case of such indications or when an annual impairment test of an asset is required, the Company determines the recoverable amount of that asset. The recoverable amount of the asset is the higher of the fair value less costs to sell of the asset or of the cash-flows generating unit (CFGU) and its value in use. The recoverable amount is determined for a separate asset unless the use of the asset does not generate cash flows that are substantially independent of the cash flows generated by other assets or groups of assets.

Impairment losses from continuing operations are recognized in the statement of profit and loss.

An assessment is made by the Company at each reporting date as to whether there is any indication that previously recognized impairment losses, on assets other than goodwill, may no longer exist or may have decreased. Previously recognized 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 recognized. 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 recognized for the asset in prior years. Reversals of impairment losses are recognized in the income statement.

Impairment losses from continuing operations are recognized in the statement of profit and loss.

### **(j) Tangible assets**

Items of property, plant and equipment, including owner occupied, are stated at cost, excluding daily service costs, less the accumulated depreciation and 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 Company 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:

	<b>Annual depreciation rate %</b>	<b>Useful lives in years</b>
Buildings	3	33
Equipment	5-20	5-20
Fixtures and fittings	10	10
Computers and communication networks	33.33	3
Motor vehicles	25	4

## **2.5 Summary of significant accounting policies (continued)**

### **(j) Tangible assets (continued)**

At the end of each financial year the residual values and useful lives of the assets and depreciation method are reviewed and adjusted as appropriate.

Reviews for impairment are made whenever there is an indication that the carrying amount of the asset may not be recoverable. Impairment losses are taken to the income statement as an expense. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the 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 derecognised.

### **(k) Investment properties**

Investment properties are initially measured at cost, which includes transaction costs. Expenditure relating to replacement of parts of the investment property is added to the carrying amount of the investment property as incurred and if they meet the investment property recognition criteria; current maintenance costs related to investment properties are taken to the income statement. Following initial recognition investment properties are measured at fair value, which reflects the market conditions as at the date of the statement of financial position. Gains or losses from changes in the fair values of investment properties are taken to the income statement in the period they are incurred.

Investment properties are derecognised when they are disposed, or permanently retired and no future economic benefits are expected from the disposal of the investment property.

Gains or losses from the retirement or disposal of an investment property are taken to the income statement for the respective period.

Transfers from or to investment properties are made only in case of change of their use, evidenced through termination of the use of the property by the owner, the commencement of an operating lease to a third party, or the completion of construction or development of the property. When an investment property is transferred to an owner-occupied property the deemed value of the property for subsequent reporting is its fair value as at the date of change in its use. When Company-occupied property becomes an investment property the accounting policy for property, plant and equipment is applied by the date of change in the use of the property. When the Company completes the construction or development of an investment property, built with own funds, any difference between the fair value of the property on that date and the carrying amount as previously reported is recognized in the income statement.

### **(l) Reinsurance**

The Company transfers the insurance risk in the ordinary course of business for certain types of insurance. Reinsurance assets represent balances due from 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 operations as at the date of the statement of financial position, recognized as income based on the premiums due during the reporting period - claims, profit sharing arrangements and commissions under the 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 Company remeasures receivables from reinsurers on a monthly basis by updating the reinsurers' share in the outstanding claims reserve and unearned premium reserve.

## **2.5 Summary of significant accounting policies (continued)**

### **(l) Reinsurance (continued)**

Reinsurance liabilities are obligations on reinsurance operations as at the date of the statement of financial position, recognized as an expense based on the premiums, claims, profit sharing arrangements and commissions during the reporting period.

Reinsurance gains or losses are recognized in the income statement immediately at the date of the purchase and are not depreciated.

Ceded reinsurance arrangements do not release the Company of its liabilities to the insured persons.

The Company does not undertake reinsurance risk in its ordinary course of business in relation to non-life insurance contracts, except in individual cases after an assessment of the cedent.

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

### **(m) Receivables on insurance transactions due by policy holders**

Receivables on insurance transactions are recognized 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 insurance transactions 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 Company, with the number of overdue payable premium being different for the different products. In case of impairment loss it is recognized in the profit or loss statement.

### **(n) Insurance contract liabilities (including general and health insurance)**

Liabilities on insurance contracts are recognized when the insurance contracts are issued 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 of the date of the 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 Financial Supervision Commission, the amount of the reserve for outstanding claims is reduced by a fair assessment of the recurring claims according to the Methodology for the assessment of the recurring claims.

As of the reporting date the liability is calculated using certain standard actuarial techniques to project claims, based on empiric data and current assumptions. The reserve for reported, but not settled claims is calculated using the “case by case” method for the expected amount of payments for each reported but not settled claim. Court claims are registered for the amount of the claim except for those where their amount exceeds the insured amount or are unreasonably high in value. Over the amount of the court claims there is statutory interest accrued pursuant to art. 86 of the Obligations and Contracts Act. The Company forms a reserve for incurred but not reported claims by the “chain-ladder” method as the development factors are weighted for the whole period of calculation. Liability is not discounted to reflect the time value of money over time. The liabilities are derecognized when the contract expires, is terminated or implemented.



## **2.5 Summary of significant accounting policies (continued)**

### **(n) Insurance contract liabilities (including general and health insurance) (continued)**

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

All contracts are subject to liability adequacy test (LAT), which presents the current best estimate of the future cash flows to the management. The result of LAT test sensitivity is presented in note 35(a). The Company carries out an examination of the need to form a reserve for unexpired risks in accordance with Art. 85 of Ordinance 53 of FSC. For insurance “Motor third part liability”, the Company carries out an examination of the need for formation of a non-extinguishing risk reserve, according to Art. 85, par. 2 of Ordinance No 53 and for all other insurances according to Art. 85, par. 3 of Ordinance No 53. As of 31.12.2019 there is a reserve for unexpired risks under two types of insurance - “Motor third part liability” and “General third part liability”.

### **(o) 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.

### **(p) Provisions**

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past events and a reliable estimate of the amount of the obligation can be made. Provisions are measured based on the best estimate by the management, as of the date of the statement of financial position regarding the costs needed to settle the respective liability

### **(q) Equity, reserves and dividends**

#### ***Share capital***

Share capital is presented at the nominal amount of the shares issued and paid-up. Proceeds from issued shares in excess of their nominal amount are taken to the share premium.

#### ***Dividends on ordinary share capital***

Dividends on ordinary shares are recognized as a liability and are deducted from equity when they are approved by the sole shareholder.

Dividends for the year that are approved after the date of the statement of financial position are considered as a non-adjusting event after the reporting period.

Reserves of the Company include:

- Capital reserves –formed as deduction from profit for the year under current trade legislation
- Revaluation reserves- - includes gains or losses on revaluation of financial and non-financial assets under the applicable accounting standards
- Reserve of actuarial revaluations- includes actuarial gains or losses from changes in demographic or financial assumptions and the return on plan assets.

## **2.5 Summary of significant accounting policies (continued)**

### **(r) Revenue recognition**

#### ***Gross premiums***

Gross written premiums on general insurance contracts include the total premiums due over the whole cover period of the contracts issued during the reporting period. Gross written premiums are recognized on the inception date of the policy. Gross premiums also include adjustments for write-offs incurred in the reporting period for receivables on premiums related to contracts signed during prior periods.

Unearned premiums are those parts of premiums written during the current period, related to the period of insurance risk after the date of the financial statement. They are calculated based on proportional daily base. The unearned premium is deferred as unearned premium reserve.

### **(s) Revenue recognition**

#### ***Premiums ceded to reinsurers***

Gross written premiums on general insurance include total premiums due for the whole cover under the contract issued during the period and are recognized on the inception date of the policy.

Unearned reinsurance premiums are those portions of premiums written during the current period which are related to periods of reinsurance risk after the date of the financial statement. Unearned reinsurance premiums are deferred over the term of the underlying insurance policies for contracts with related risks and for the term of the reinsurance contract.

Unearned reinsurance premiums are those portions of written premiums 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 services and other fees on contracts are charged to the insured persons under insurance contracts. These fees are recognized 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 recognized in such future periods

#### ***Investment income***

Interest income is recognized in the income statement 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 dividends as well, when the right of the Company to receive payment is established.

#### ***Realised gains / (losses)***

Realised gains on investments reported in the income statement, include gains and losses on financial assets and investment properties. Gains and losses on disposal of investments are calculated as the difference between the net disposal proceeds and the original or amortized cost and are recognized on the occurrence of the disposal transaction.

## **2.5 Summary of significant accounting policies (continued)**

### **(t) Recognition of expenses on claims and financial expenses**

General insurance claims include all claims arising 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.

#### ***Claims ceded to reinsurers***

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

#### ***Financial expenses***

Interest paid is recognized in the income statement 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.

#### ***Operational and administrative expenses***

The operating and administrative expenses are recognized in profit or loss when the services are used or on the date of their occurrence.

### **(u) 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 Company on the grounds of art. 433 of the Insurance Code in effect as at 31 December 2019.

All persons against whom the Company has liquid and demandable receivables on recourses are debtors of the Company. In the cases when the guilty party has a valid Third Party Liability insurance the Company 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;
- Identified right to claim against the guilty person or his insurer (valid for claimed but not settled claims);
- Based on a statistical model (valid for emerging but unpublished claims).

### **(v) Foreign currency translation**

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

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.

## **2.5 Summary of significant accounting policies (continued)**

### **(v) Foreign currency translation (continued)**

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:

<b>31 December 2019</b>		<b>31 December 2018</b>	
USD 1	BGN 1.74099	USD 1	BGN 1.70815
EUR 1	BGN 1.95583	EUR 1	BGN 1.95583

### **(y) Changes in accounting policies**

The Company 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.

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

On adoption of IFRS 16, the company 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 Company's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate of the Company applied to the lease liabilities on 1 January 2019 was 1.54%.

	<b>1 January 2019</b> <b>BGN'000</b>
Operating lease commitments disclosed as at 31 December 2018 (of which 486 BGN thousand short-term)	1,495
Discounted using the company's incremental borrowing rate of 1.54%	1,456
Add: Finance lease liabilities recognized as at 31 December 2018	-
Less: Short-term and low-value leases recognized on a straight-line basis	133
<b>Lease liability recognized as at 1 January 2019</b>	<b>1,323</b>
<b>Of which are:</b>	
<b>Current lease liabilities</b>	<b>368</b>
<b>Non-current lease liabilities</b>	<b>955</b>

## **2.5 Summary of significant accounting policies (continued)**

### **(x) Changes in accounting policies (continued)**

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

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.

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

	<b>1 January 2019</b>
	<b>BGN'000</b>
Amount equal to lease liability as at 1 January 2019 under IFRS16	1,323
<i>Adjusted for:</i>	
Lease prepayments recognised as of 31 December 2018	-
Accrued lease payments as of 31 December 2018	-
Reclassification to finance lease receivable (finance sublease)	-
<b>Right-of-use asset as at 1 January 2019</b>	<b>1,323</b>

The first-time application of IFRS 16 has the following impact on the balance sheet statement as at 1 January 2019:

- Right of use assets – increase by BGN 1,323thousand
- Lease liabilities – increase by BGN 1,323 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 statement of profit and loss, and cash flow statement for 2019 is presented in Note 30 to these financial statements.

Practical expedients applied:

In applying IFRS 16 for the first time, the Company 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 Company. 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.

## **2.5 Summary of significant accounting policies (continued)**

### **(x) Changes in accounting policies (continued)**

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

##### ***Accounting policies applied from 1 January 2019 (continued)***

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.

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 buildings 1 – 18 years
- right of use for the vehicles 4 years

**2.5 Summary of significant accounting policies (continued)**

**(x) Changes in accounting policies (continued)**

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

***Accounting policies applied from 1 January 2019 (continued)***

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 Company 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 Company 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.

***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.

**3. Net premiums**

**a) Gross premiums on insurance contracts**

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>BGN'000</b>	<b>BGN'000</b>
Premiums underwritten	26 (2)	256,649	234,826
Change in unearned premium reserve and reserve for unexpired risks		(9,233)	(27,848)
<b>Gross premiums – total</b>		<b>247,416</b>	<b>206,978</b>

**b) Premiums ceded to reinsurer under insurance contracts**

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>BGN'000</b>	<b>BGN'000</b>
Premiums ceded	26(2)	(11,944)	(10,080)
Change in unearned premium reserve		436	(153)
<b>Total premiums ceded to reinsurer</b>		<b>(11,508)</b>	<b>(10,233)</b>
<b>Net premiums – total</b>		<b>235,908</b>	<b>196,745</b>

**4. Fees and commissions income**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Fee income on insurance transactions	699	232
Fee income on reinsurance transactions	236	463
<b>Total fees and commissions income</b>	<b>935</b>	<b>695</b>

**5. Investment income**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Interest income on financial assets carried at fair value in other comprehensive income	4,916	5,059
Interest income on financial assets at amortized cost	758	756
Rental income from investment properties	555	344
Interest income on loans granted	425	425
Interest income from deposits and current accounts with financial institutions	4	119
<b>Total investment income</b>	<b>6,658</b>	<b>6,703</b>

**6. Realised gains**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Gains/(losses) from foreign currency revaluation	15	(19)
Financial assets carried at fair value in other comprehensive income		
Realized gains from bonds	37	2
Realized losses from bonds	(34)	(2)
<b>Total realized gains on financial assets carried at fair value in other comprehensive income, net</b>	<b>3</b>	<b>-</b>
<b>Lands and Buildings</b>		
Gains from the sale of land, buildings and investment properties	20	234
Realized losses from the sale of land and buildings	-	(43)
<b>Total realized profits from the sale of land, buildings and investment properties</b>	<b>20</b>	<b>191</b>
<b>Total realized gains</b>	<b>38</b>	<b>172</b>

**7. Gains and losses on revaluation to fair value**

The realized profits of BGN 139 thousand in 2019 (2018: losses of BGN 40 thousand) were realized through a revaluation of the fair value of the investment properties of the Company. Detailed information on investment properties is presented in Note 18.

**8. Other operating income**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Legal income	919	917
Abandon income	70	52
Other	183	202
<b>Total other operating income</b>	<b>1,172</b>	<b>1,171</b>



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**9. Expenses on claims - net**

	Notes	2019	2018
		BGN'000	BGN'000
<b>(a) Annuities and claims paid</b>			
Expenses on indemnities – gross		(111,209)	(106,025)
Amounts recovered through recourses		7,762	9,269
<b>Total annuities and claims paid - gross</b>	26 (1)	<b>(103,447)</b>	<b>(96,756)</b>
<b>(b) Claims ceded to reinsurer</b>	26 (1)	<b>15,051</b>	<b>9,062</b>
<b>(c) Change in liabilities on insurance contracts – gross</b>			
Change in liabilities on general insurance contracts related to outstanding payments		(15,109)	717
<b>Total change in contractual liabilities - gross</b>		<b>(15,109)</b>	<b>717</b>
<b>(d) Change in liabilities on insurance contracts ceded to reinsurer</b>			
Change in liabilities under general insurance contracts related to outstanding payments		(11,215)	(10,203)
<b>Total change in liabilities on insurance contracts ceded to reinsurer</b>		<b>(11,215)</b>	<b>(10,203)</b>
<b>Expenses on annuities and claims paid - net</b>		<b>(114,720)</b>	<b>(97,180)</b>

**10. Impairment of insurance receivables**

The Company 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 (h) 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 Company 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 12 Other operating expenses. The Company 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 1,186 thousand (2018: BGN 365 thousand) are included within "Impairment of insurance receivables" in the Statement of profit or loss, as well as in the "Impairment of receivables due from policyholders" in Note 22.

**11. Administrative expenses**

	Notes	2019	2018
		BGN'000	BGN'000
Expenses on employee benefits	13	19,930	18,012
External services		6,406	5,003
Depreciation of tangible assets	17, 30	1,803	1,595
Depreciation of intangible assets	16	669	859
Consumables		988	1,138
Expenses on bank fees and commissions		272	238
Expenses on audit		265	181
Expenses on rents		98	891
Tax on expenses		40	39
Other administrative expenses		221	136
<b>Total administrative expenses</b>		<b>30,692</b>	<b>28,092</b>

## **11. Administrative expenses (continued)**

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 147 thousand – respectively BGN 115 thousand for Pricewaterhouse Coopers Audit OOD and BGN 32 thousand for Grant Thornton OOD (2018: BGN 148 thousand- respectively BGN 116 thousand for Pricewaterhouse Coopers Audit OOD and BGN 32 thousand for Grant Thornton OOD).

In 2019, the expenses for services by the external auditor PricewaterhouseCoopers Audit OOD, other than those related to the annual audit, amount to: BGN 4 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 4 thousand) and BGN 70 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 70 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 2 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 2 thousand) and BGN 6 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).

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.

## **12. Other operating expenses**

	Notes	2019 BGN'000	2018 BGN'000
Acquisition costs		55,253	49,843
Premiums repaid		6,812	5,479
Legal expenses		1,119	1,376
Prevention initiatives		796	1,121
Contributions to funds		583	3,449
Profit sharing arrangements		553	445
Expenses related to investment properties	18	203	33
Expenses on operating fees and commissions		178	173
Other expenses		2,117	2,373
<b>Total other operating expenses</b>		<b>67,614</b>	<b>64,292</b>

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

## **13. Expenses on employee benefits**

	Notes	2019 BGN'000	2018 BGN'000
Expenses on remuneration, including salaries		14,411	13,287
Expenses on social security contributions		2,701	2,196
Provision personnel bonuses		2,064	1,767
Other expenses on personnel		687	683
Provisions for paid leaves		33	26
Change in retirement benefits provision	27	34	53
<b>Total expenses on employee benefits</b>		<b>19,930</b>	<b>18,012</b>

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**14. Income tax benefit**

	Notes	2019 BGN'000	2018 BGN'000
Profit for the year		29,867	15,564
Applicable tax rate		10%	10%
Expected income tax expense		(2,987)	(1,556)
Tax effect of adjustments for non-deductible expenses		(1,553)	(1,088)
Tax effect of adjustments for tax-exempt income		1,283	1,283
<b>Current tax expense</b>		<b>(3,257)</b>	<b>(1,361)</b>
Reversal of tax temporary differences	21	(204)	100
Tax effect of components of other comprehensive income	15	526	(334)
<b>Income tax expense for the year</b>		<b>(2,935)</b>	<b>(1,595)</b>

**15. Income tax related to the elements of the other comprehensive income**

	2019			2018		
	Amount before tax	Tax (expense) / benefit	Net amount	Amount before tax	Tax (expense) / benefit	Net amount
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Other comprehensive income subject to reclassification to profit or loss	5,302	(530)	4,772	(3,320)	332	(2,988)
Other comprehensive income not subject to reclassification to profit or loss	(40)	4	(36)	(18)	2	(16)
<b>Total</b>	<b>5,262</b>	<b>(526)</b>	<b>4,736</b>	<b>(3,338)</b>	<b>334</b>	<b>(3,004)</b>

**16. Intangible assets**

	Software	Other intangible assets	Acquisition costs of software and other intangible assets	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Gross carrying amount</b>				
At 1 January 2018	6,001	612	524	7,137
Additions	-	-	2,385	2,385
Disposals	-	(1)	-	(1)
Transfers	340	746	(1,086)	-
<b>At 31 December 2018</b>	<b>6,341</b>	<b>1,357</b>	<b>1,823</b>	<b>9,521</b>
Additions	-	5	3,017	3,022
Disposals	-	(3)	(8)	(11)
Transfers	1,002	-	(1,002)	-
<b>At 31 December 2019</b>	<b>7,343</b>	<b>1,359</b>	<b>3,830</b>	<b>12,532</b>

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**16. Intangible assets (continued)**

	Software BGN'000	Other intangible assets BGN'000	Acquisition costs of software and other intangible assets BGN'000	Total BGN'000
<b>Accumulated amortization</b>				
At 1 January 2018	4,050	150	-	4,200
Amortization	770	88	-	858
Disposals	-	(1)	-	(1)
At 31 December 2018	4,820	237	-	5,057
Amortization	566	103	-	669
Disposals	-	(3)	-	(3)
At 31 December 2019	5,386	337	-	5,723
Carrying amount at 31 December 2018	1,521	1,120	1,823	4,464
Carrying amount at 31 December 2019	1,957	1,022	3,831	6,809

The book value of fully depreciated intangible assets that are in use as of December 31, 2019, is BGN 4,896 thousand (2018: BGN 3,920 thousand). At the end of each reporting period, the Company estimates the useful lives of intangible assets and, if necessary, adjusts them. An additional "Business Systems" group with a useful life of 8 years was created in 2018.

In 2019 there was no change in the useful life of the assets compared to the one originally determined at their acquisition. The Company has contractual obligations to acquire intangible assets (software) amounting to BGN 2,289 thousand, with no pledge as collateral at the end of the reporting period.

**17. Tangible assets**

	Land	Buildings	Personal computers and other equipment	Motor vehicles	Expenses for acquisition of tangible assets	Other, including fixtures and fittings	Total
Gross carrying amount	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January 2018	469	8,353	5,173	2,551	70	1,707	18,323
Additions	-	94	-	-	9,943	-	10,037
Disposals	-	(416)	(476)	(19)	(10)	(25)	(945)
Transfers	-	9,367	457	105	(9,982)	53	-
At 31 December 2018	469	17,398	5,154	2,637	21	1,735	27,414
Additions	-	-	-	-	559	-	559
Disposals	-	-	(247)	(26)	-	(28)	(301)
Transfers	-	-	418	-	(438)	20	-

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**17. Tangible assets (continued)**

<b>At 31 December 2019</b>	<b>469</b>	<b>17,398</b>	<b>5,325</b>	<b>2,611</b>	<b>142</b>	<b>1,727</b>	<b>27,672</b>
<b>Accumulated depreciation</b>							
<b>At 1 January 2018</b>	–	2,252	3,335	2,100	–	811	8,498
<b>Depreciation</b>	–	427	682	342	–	144	1,595
<b>Disposals</b>	–	(208)	(474)	(18)	–	(26)	(726)
<b>At 31 December 2018</b>	–	2,471	3,543	2,424	–	929	9,367
<b>Depreciation</b>	–	545	582	95	–	123	1,345
<b>Disposals</b>	–	–	(247)	(26)	–	(28)	(301)
<b>At 31 December 2019</b>	–	3,016	3,878	2,493	–	1,024	10,411
<b>Carrying amount at 31 December 2018</b>	<b>469</b>	<b>14,927</b>	<b>1,611</b>	<b>213</b>	<b>21</b>	<b>806</b>	<b>18,047</b>
<b>Carrying amount at 31 December 2019</b>	<b>469</b>	<b>14,382</b>	<b>1,447</b>	<b>118</b>	<b>142</b>	<b>703</b>	<b>17,261</b>

The book value of fully depreciated tangible assets that are in use as at 31 December 2019 is BGN 5,711 thousand (2018: BGN 4,732 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, as originally determined at their acquisition.

The Company has no contractual obligation to acquire tangible assets. There are no pledges such as collateral at the end of the reporting period.

**18. Investment properties**

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>BGN'000</b>	<b>BGN'000</b>
<b>On 1 January</b>		11,330	5,369
<b>Sold</b>		(465)	(1,501)
<b>Advance paid for acquisition of investment property</b>		3,274	–
<b>Newly acquired</b>		–	7,422
<b>Gain from fair value adjustments</b>	7	139	40
<b>On 31 December</b>		<b>14,278</b>	<b>11,330</b>

Investment properties are carried at fair value which is determined on the basis of valuations. The fair value is based on market data and it is the amount 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, 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 income statement.

## **18. Investment properties (continued)**

Accounting for investment properties also meets the regulatory requirements of the Financial Supervision Commission (FSC). The fair value of the Company's investment properties as of 31 December 2019 has been determined using the fair market value method and the fair value based on 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 three 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) the 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 transaction. 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 allows 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.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate.

In the cost approach and indicative value is drawn 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 will be higher than the cost of buying or building equivalent asset. To determine the new replacement value of the properties with this method, the Method of Depreciated Replacement Cost is used for assessment of buildings and Market Analogues Method – for assessment of the land.

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**18. Investment properties (continued)**

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 (average weighted) 2019	Interval (average weighted) 2018
Residential properties	MPM	Offer (deal) price sq.m.	-	1,164 – 1,188 (1,176)
		Annual growth of market benchmarks (actual deals)	0%	0%
		Estimated monthly rent per sq. m.	-	5.27 – 5.3 (5,3)
	CFCFM	Annual increase of rent	0%	0%
		Rate of return	-	5,1%
Commercial properties	MPM	Offer (deal) price sq.m.	373 – 4,314 (1,590)	373 – 4,314 (1,590)
		Annual growth of market benchmarks (actual deals)	0%	0%
		Estimated monthly rent per sq. m.	2,55 – 29,46 (11,37)	2,0 – 28,2 (22,1)
	CFCFM	Annual increase of rent	0%	0%
		Rate of return	7% – 9%	8,1% – 11,1%

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

Type of investment property	2019	2018
	BGN'000	BGN'000
Residential	-	465
Commercial	14,278	10,865
<b>Fair value</b>	<b>14,278</b>	<b>11,330</b>

Investment properties are disclosed at Level 3 in the fair value hierarchy. The deviation in the significant, but not monitored entry data would not lead to substantial deviations, higher or lower, from the fair value of the investment properties. Not monitored entry data are not directly inter-related and do not influence each other in order to have major impact on the measurement of the fair value of the investment properties.

In 2019, the rental income from investment properties amounted to BGN 555 thousand, (2018: BGN 344 thousand). Revenues are presented in the statement of profit or loss on line Investment income, Note 5.

Investment property costs are BGN 203 thousand and BGN 33 thousand respectively in 2019 and 2018 (Note 12). These expenses include taxes, local fees, ongoing repairs, etc. and are reported in the statement for profit or loss in the line "Other operating expenses" (Note 12). The Company has no contingent claims on investment property contracts. The Company does not have investment properties pledged as collateral in respect of liabilities.

The Company has contractual obligations to acquire investment property amounting to BGN 24,555 thousand (2018: BGN 0.), related to business center MALL VARNA.

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**18. Investment properties (continued)**

The future minimum lease payments are presented as follows:

	Minimum lease payments (revenue)			
	Up to 1 BGN'000	From 1 to 5 BGN'000	Over 5 years BGN'000	Total BGN'000
As of 31 December 2019	562	878	-	1,440
As of 31 December 2018	631	938	-	1,569

**19. Financial instruments and fair value of financial assets**

**(a) Financial instruments**

The Company's financial instruments are summarised by category as follows:

	Note	Assets at fair value in OCI BGN'000	Assets at Amortized cost BGN'000	Total BGN'000
<b>2019</b>				
Trade receivables and prepayments	23	—	1,306	1,306
Financial assets carried at fair value in other comprehensive income	19 (c)	258,115	—	258,115
Financial assets at amortized cost	19 (e)	—	21,270	21,270
Loans granted		—	9,800	9,800
Cash and cash equivalents	24	—	58,022	58,022
		<b>258,115</b>	<b>90,398</b>	<b>348,513</b>
<b>2018</b>				
Deposits in financial institutions	19 (b)	—	4,062	4,062
Trade receivables and prepayments	23	—	1,893	1,893
Financial assets carried at fair value in other comprehensive income	19 (c)	183,871	—	183,871
Financial assets at amortized cost	19 (e)	—	21,369	21,369
Loans granted		—	9,800	9,800
Cash and cash equivalents	24	—	67,367	67,367
		<b>183,871</b>	<b>104,491</b>	<b>288,362</b>

**(b) Financial instruments – fair value disclosures**

The table below provides comparison between the fair values of financial instruments, other than trade receivables and cash and their carrying amounts:

	2019		2018	
	Carrying amount BGN'000	Fair value BGN'000	Carrying amount BGN'000	Fair value BGN'000
Deposits in financial institutions	—	—	4,062	4,062
Financial assets carried at fair value in other comprehensive income	258,115	258,115	183,871	183,871
Financial assets at amortized cost	21,270	24,077	21,369	24,633
Loans granted	9,800	12,672	9,800	12,626
<b>Total</b>	<b>289,185</b>	<b>294,864</b>	<b>219,102</b>	<b>225,192</b>



**19. Financial instruments and fair value of financial assets (continued)**

**(c) Deposits in financial institutions**

Deposits are presented in the statement of financial position at amortized cost. The amount of the interest attributable as at 31 December 2019 according to terms of the deposit agreements is BGN 62 thousand.

The fair values of deposits placed and loans granted are estimated through comparison of the current market interest rates on deposits with similar maturity and currency deposits and loans with the interest rates offered at the time of their initial recognition.

**(d) Financial assets carried at fair value in other comprehensive income**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Fair value</b>		
Bonds	258,115	183,871
<b>Total financial assets carried at fair value in OCI</b>	<b>258,115</b>	<b>183,871</b>

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

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Bulgaria	234,274	173,765
Romania	11,151	10,106
Belgium	4,277	-
Slovenia	4,267	-
Slovakia	4,146	-
<b>Total</b>	<b>258,115</b>	<b>183,871</b>

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.

**(e) Financial assets at amortized cost**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Amortized cost</b>		
Bonds	21,270	21,369
<b>Total financial assets at amortized cost</b>	<b>21,270</b>	<b>21,369</b>

Financial assets at amortized cost include bonds issued by the Government of the Republic of Bulgaria. The average interest rate on interest-bearing financial assets of the Company is 2,30 % as at 31 December 2019 (2018: 3,12%). The average effective interest rate of the debt issued by the government of the Republic of Bulgaria as at 31 December 2019 is 4,35% (2018: 4,35%).

**19. Financial instruments and fair value of financial assets (continued)**

**(g) Carrying amount of financial assets other than trade receivables and cash**

	Notes	Deposits in financial institutions and loans granted BGN'000	Financial assets at fair value in other comprehens ive income BGN'000	Financial assets at amortized cost BGN'000	Total BGN'000
<b>As of 1 January 2018</b>		<b>59,061</b>	<b>179,140</b>	<b>21,472</b>	<b>259,673</b>
Additions, newly acquired		128,800	8,904	–	137,704
Accrued interest	5	544	5,059	756	6,359
Matured, incl. interest accrued		(174,562)	(5,497)	(963)	(181,022)
Fair value loss reported in the statement of other comprehensive income		–	(3,321)	–	(3,321)
Premium allocation			(423)	104	(319)
Realized gains		19	–	–	19
FX translations		–	9	–	9
<b>As of 31 December 2018</b>		<b>13,862</b>	<b>183,871</b>	<b>21,369</b>	<b>219,102</b>
Additions, newly acquired		–	76,863	–	76,863
Accrued interest		425	4,916	758	6,099
Matured, incl. interest accrued		(4,487)	(12,315)	(756)	(17,558)
Fair value loss reported in the statement of other comprehensive income		–	5,345	–	5,345
Premium allocation		–	(565)	(101)	(666)
<b>As of 31 December 2019</b>		<b>9,800</b>	<b>258,115</b>	<b>21,270</b>	<b>289,185</b>

**(h) Fair value measurement and fair value hierarchy**

The table below presents analysis of financial assets carried at fair value by fair value hierarchy level:

	Notes	Level 1 BGN'000	Level 3 BGN'000	Total fair value BGN'000
<b>As at 31 December 2019</b>				
<b>Financial assets carried at fair value in other comprehensive income</b>				
Bonds		258,115	–	258,115
	19 (d)	<b>258,115</b>	<b>–</b>	<b>258,115</b>
<b>Financial assets for which fair value is disclosed:</b>				
<b>Financial assets at amortized cost</b>				
Bonds	19 (b)	24,077	–	24,077
Loans granted	19 (b)	–	12,672	12,672
<b>Total financial assets</b>		<b>282,192</b>	<b>12,672</b>	<b>294,864</b>

**19. Financial instruments and fair value of financial assets (continued)**

**(h) Fair value measurement and fair value hierarchy (continued)**

As at 31 December 2018	Notes	Level 1 BGN'000	Level 3 BGN'000	Total fair value BGN'000
<b>Financial assets carried at fair value in other comprehensive income</b>				
Bonds	19 (d)	183,871	–	183,871
<b>Financial assets at amortized cost</b>				
Bonds	19 (f)	24,633	–	24,633
Deposits placed		–	4,062	4,062
Loans granted	19 (a)	–	12,626	12,626
<b>Total financial assets</b>		<b>208,504</b>	<b>16,688</b>	<b>225,192</b>

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 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 by reference to 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 3 financial assets and liabilities are measured using a valuation technique based on assumptions supported by observable current market transactions. The pricing for these assets and liabilities is done through prices based on broker quotations, investments in private equity funds with fair values, received through fund managers, and assets that are measured using the Company's own models, most of the assumptions in which are observable at the market.

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. Therefore, non-observable input data reflect the Company'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 Company's own data.

Gains haven't been recognized on day 1 due to the use of valuation techniques in which not all input data are coming from an observable market.

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**20. Reinsurance transaction assets**

	Notes	Share in outstanding payments	Share in unearned premiums	Total reinsurance transaction assets
		BGN'000	BGN'000	BGN'000
Reinsurance of insurance contracts				
On 1 January 2018		40,203	592	40,795
Change in 2018	3 (b), 9 (d)	(10,203)	(153)	(10,356)
On 1 January 2019		30,000	439	30,439
Change in 2019	3 (b), 9 (d)	(11,215)	436	(10,779)
At 31 December 2019	26 (1), 26 (2)	18,785	875	19,660

**21. Taxes**

**(a) Deferred tax liability**

	2019	2018
	BGN'000	BGN'000
Deferred tax liability on fixed assets and investment property	407	99
<b>Total deferred tax liability</b>	<b>407</b>	<b>99</b>

**(b) Deferred tax asset**

	2019	2018
	BGN'000	BGN'000
Retirement benefit obligations	89	82
Other liabilities to staff	430	329
<b>Total deferred tax asset</b>	<b>519</b>	<b>411</b>
<b>Net deferred tax asset</b>	<b>112</b>	<b>312</b>

	Notes	Statement of profit and loss 2019	2018
		BGN'000	BGN'000
<i>Deferred tax liabilities</i>			
Accelerated depreciation for tax purposes		(309)	25
<i>Deferred tax assets</i>			
Retirement benefit obligations		3	6
Other liabilities to staff		102	69
<b>Total deferred tax income</b>	14 (a)	<b>(204)</b>	<b>(100)</b>

**22. Receivables on insurance transactions**

	2019	2018
	BGN'000	BGN'000
Receivables from policyholders	70,986	63,202
Impairment of receivables due from policyholders	(357)	(368)
Other receivables due from insurers	111	124
Recourse receivables	7,704	9,213
Impairment of recourses	(4,274)	(4,053)
<b>Total receivables on insurance operations</b>	<b>74,170</b>	<b>68,118</b>

## **22. Receivables on insurance transactions (continued)**

Claims on policyholders are insurance premiums due from insured persons under contracts with deferred payments. The impairment of receivables due from policy holders is presented in the line "Impairment of insurance receivables" in the Statement of profit or loss.

Receivables representing recourse claims have a net amount after impairment of BGN 3,430 thousand (2018: BGN 5,160 thousand). The derecognition expenses of receivables on receivables are included in the Statement of profit or loss in the line "Expenses on paid claims". The Company exercises its rights to the recognition of a recourse on the grounds of Art. 213 and 213a of the Insurance Code in force on 31 December 2019. The right of recourse shall arise for the reimbursement of the indemnity paid and the costs incurred in determining it against persons whose fault has been destroyed or damaged the insured property.

During the period the Company has accrued an impairment loss on insurance receivables in the amount of BGN 1,186 thousand (2018: BGN 365 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.

Comprehensive impairment for recurring and insurance claims is calculated on the basis of historical collection data.

The movement in the impairment of receivables from policyholders and recourses in 2019 and 2018 can be reconciled as follows:

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

## **23. Trade receivables and prepayments**

	<b>2019 BGN'000</b>	<b>2018 BGN'000</b>
Financial guarantees	1,485	1,472
Other receivables and prepayments	641	481
Impairment	(967)	(197)
<b>Financial assets</b>	<b>1,159</b>	<b>1,756</b>
Receivables on indirect taxes and fees	147	137
<b>Non-financial assets</b>	<b>147</b>	<b>137</b>
<b>Total trade receivables and prepayments</b>	<b>1,306</b>	<b>1,893</b>

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.

**23. Trade receivables and prepayments (continued)**

All trade and other financial receivables of the Company 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 Company 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:

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

**24. Cash and cash equivalents**

	<u>2019</u> <u>BGN'000</u>	<u>2018</u> <u>BGN'000</u>
Cash at banks	57,980	67,308
Cash on hand	42	59
<b>Cash and cash equivalents</b>	<u>58,022</u>	<u>67,367</u>

The Management believes that the carrying amount of cash and cash equivalents approximates their fair value as at the date of the statement of financial position due to their short-term nature. The Company does not have blocked cash on current accounts. During the reported reporting periods, the Company has not carried out investment and financial transactions where no cash or cash equivalents have been used and are not reflected in the cash flow statement.

As of 31 December 2019 the Company has made an estimate of the expected credit loss accordance with IFRS 9, but such is not accrued due to its immaterial value.

**25. Prepaid expenses and other assets**

	<u>2019</u> <u>BGN'000</u>	<u>2018</u> <u>BGN'000</u>
Prepaid expenses	476	520
Prepayments for stickers on Motor Third Party Liability Insurance	717	857
<b>Other assets</b>	<u>1,193</u>	<u>1,377</u>

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**26. Liabilities on 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	118,281	(11,769)	106,512	111,696	(24,158)	87,538
Incurred but not reported claims reserve	74,413	(7,016)	67,397	65,890	(5,842)	60,048
Outstanding claims reserve	26(1) 192,694	(18,785)	173,909	177,586	(30,000)	147,586
Unearned premium reserve	26(2) 122,379	(875)	121,504	113,146	(439)	112,707
<b>Total liabilities on general insurance contracts</b>	<b>315,073</b>	<b>(19,660)</b>	<b>295,413</b>	<b>290,732</b>	<b>(30,439)</b>	<b>260,293</b>

See Note 20 for further information on reinsurance of liabilities.

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 change in claims incurred in prior insurance year". 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.

**(2) Unearned premiums 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	(438)	112,708	85,299	(593)	84,706
Premiums underwritten during the year	3(a), 256,851	(11,945)	244,906	234,971	(10,080)	224,891
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

## **26. Liabilities on insurance contracts (continued)**

As at 31 December 2019, the Company 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.

## **27. Retirement employee benefits liability**

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

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Current service cost, net from benefits paid	33	50
Interest expense on employee benefits liability	1	3
<b>Total</b>	<b>34</b>	<b>53</b>

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

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>At 1 January</b>	<b>818</b>	<b>747</b>
Interest expense	1	2
Current service costs	85	114
Employee benefits paid	(52)	(64)
Actuarial losses	40	19
<b>At 31 December</b>	<b>892</b>	<b>818</b>

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

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
Salary growth rate	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 growth rate assumption is based on information provided by the Company's management and represents 2.5% increase per annum.

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

The table below presents quantitative analysis of the sensitivity of the retirement employee benefits liability as at 31 December 2019 to the key actuarial assumptions:



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**27. Retirement employee benefits liability (continued)**

Assumptions	Discount rate		Salary growth rate		Turnover of personnel		Mortality	
	+		+				+	
	0.25%	-0.25%	0.25%	-0.25%	+ 1%	-1%	0.25%	-0.25%
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000

**31 December 2019**

Effect on the retirement benefits liability – increase/(decrease)	(8)	8	(8)	8	(33)	33	(7)	7
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**31 December 2018**

Effect on the retirement benefits liability – increase/(decrease)	(6)	6	6	(6)	(29)	29	(7)	7
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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.

The table below summarizes the maturity structure of the retirement benefits liability based on the expected undiscounted payments:

	Interest rate	Up to 1 year BGN'000	Over 1 year BGN'000	Total BGN'000
<b>As of 31 December 2019</b>				
Gross amount due		455	4,523	4,978
Discount	0.22%	-	(4,086)	(4,086)
<b>Discounted cash flows</b>		<b>455</b>	<b>437</b>	<b>892</b>

	Interest rate	Up to 1 year BGN'000	Over 1 year BGN'000	Total BGN'000
<b>As 31 December 2018</b>				
Gross amount due		432	4,313	4,745
Discount	1.40%	-	(3,927)	(3,927)
<b>Discounted cash flows</b>		<b>432</b>	<b>386</b>	<b>818</b>

At the end of the current reporting period the average term of the retirement benefits liability is 18.9 years (2018: 19.3 years).

**28. Payables to insurers, brokers, agents**

	2019 BGN'000	2018 BGN'000
Commissions due to brokers	2,781	3,326
Bonuses accrued to brokers	1,007	540
Commissions due to agents	1,732	1,515
Bonuses accrued to agents	775	613
Commissions accrued on outstanding premiums to agents and brokers	14,803	13,118
Liabilities to insurers and reinsurers	2,638	2,558
<b>At 31 December</b>	<b>23,736</b>	<b>21,670</b>

**29. Trade and other payables**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Liabilities to guarantee and security fund	1,462	2,312
Employee benefits liability	2,475	2,326
Accrued expenses	1,674	882
Expenses on social security and other taxes	1,740	1,469
Trade payables	598	73
Other	12	129
<b>Total trade and other payables</b>	<b>7,961</b>	<b>7,191</b>

All amounts are subject to payment within one year. The management believes that the carrying amount of trade and other payables approximates their fair value due to their short-term nature. Personnel payables are short-term and represent payment to current employees of the Company, which should be settled in 2020. They arise mainly in connection with accumulated unused leave at the end of the reporting period and provisions for annual staff bonuses.

**30. Right-of-use assets and lease liabilities**

<b>Right-of-use assets (by class of assets)</b>	<b>31 December 2019 BGN'000</b>	<b>1 January 2019 BGN'000</b>
Land and buildings	1,449	1,323
Vehicles	99	-
<b>At the end of the period</b>	<b>1,548</b>	<b>1,323</b>

<b>Right-of use asset</b>	<b>Land and buildings BGN'000</b>	<b>Vehicles BGN'000</b>	<b>Total BGN'000</b>
<b>Cost:</b>			
As at 1 January 2019	1,323	-	1,323
Additions – new lease contracts	600	114	714
Termination of lease contracts	(40)	-	(40)
<b>As at 31 December 2019</b>	<b>1,883</b>	<b>114</b>	<b>1,997</b>
<b>Depreciation:</b>			
As at 1 January 2019	-	-	-
Depreciation for the year	443	15	458
Termination of lease contracts	(9)	-	(9)
<b>As at 31 December 2019</b>	<b>434</b>	<b>15</b>	<b>449</b>
<b>Net Book Value as at 31 December 2019</b>	<b>1,449</b>	<b>99</b>	<b>1,548</b>

**Lease liabilities**

	<b>31 December 2019 BGN'000</b>	<b>1 January 2019 BGN'000</b>
Short-term lease liabilities	526	368
Long-term lease liabilities	1,029	955
<b>Total lease liabilities</b>	<b>1,555</b>	<b>1,323</b>

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

	<b>31 December 2019</b>	<b>31 December 2019</b>
	<b>Minimum lease</b>	<b>Present value of</b>
	<b>payments</b>	<b>lease payments</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Up to 1 year	579	579
Between 1 and 5 years	1,037	1,029
<b>Total minimum lease payments</b>	<b>1,616</b>	<b>1,555</b>
Reduced by the amounts representing financial expenses	(61)	-
<b>Present value of minimum lease payments</b>	<b>1,555</b>	<b>1,555</b>

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

	<b>IFRS 16</b>	<b>IAS 17</b>
	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Depreciation charge for the right-of-use assets by class of assets		
Buildings	434	-
Vehicles	15	-
<b>Total depreciation charge</b>	<b>449</b>	<b>-</b>
Interest expense on lease liabilities (included in finance expenses)	12	-
Expense relating to leases of low-value assets that are not short-term leases (included in administrative and distribution expenses)	98	-
<b>Total expenses related to leases</b>	<b>110</b>	<b>-</b>

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

	<b>IFRS 16</b>	<b>IAS 17</b>
	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Principal	443	-
Interest	12	-
	<b>455</b>	<b>-</b>
Cash outflow for leases – operating activity	-	891
Cash outflow for leases – financial activity	455	-
<b>Total cash outflows</b>	<b>455</b>	<b>891</b>

**31. Share capital**

The registered capital of the Company consists of 9,512,397 fully paid ordinary shares with a nominal value of BGN 7 per share. All shares are entitled to receive a dividend and a liquidation stake and represent one vote from the general meeting of the shareholders of the Company. In 2018, the Company made a dividend distribution in the amount of BGN 6,375 thousand or BGN 0.67 per share. The sole owner of the capital of the Company is “DZI - Life Insurance” EAD. There was no change in the composition and structure of share capital during the two reporting periods. No new shares are issued or canceled.

### **32. Other equity instruments**

#### **(a) Capital reserves**

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

#### **(b) Revaluation reserve**

The revaluation reserve is formed by the revaluation of financial assets at fair value through other comprehensive income or available for sale and tangible fixed assets and the tax effect of the change

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Revaluation reserve from financial assets carried at fair value in other comprehensive income	18,899	13,597
Revaluation reserve of tangible assets	46	46
Current tax	(1,890)	(1,360)
<b>Total</b>	<b>17,055</b>	<b>12,283</b>

The revaluation of financial assets measured at fair value in other comprehensive income and available-for-sale financial assets is recognized for tax purposes in the year of accounting. The book value of available-for-sale financial assets and financial assets at fair value through other comprehensive income is equal to their tax value. The revaluation of tangible fixed assets is formed as a result of reclassification of an operating property into an investment property.

### **33. Risk management rules**

#### **(a) Governance framework**

The main objective of the risk and financial management governance framework is to protect the Company's shareholders of events which are an obstacle for the consistent attainment of the financial performance goals, including impossibility to use opportunities arising. The Company 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 Company's transactions, to minimize the potential adverse impact of the risks on the financial performance of the Company.

As part of the KBC Group, the Company carries out its risk management procedures in accordance with the standards and requirements of the KBC Group. These standards include the following:

- Local Risk Management Committee
- Developing procedures and systems for risk identification, measurement and reporting of their development;
- Develop a system of limits and procedures that determine the Company's risk tolerance and limit its risk exposure.

#### **(b) Capital management objectives, policies and approach**

The Company 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 Company and therefore to ensure certain level of security for the insured persons;

### **33. Risk management rules (continued)**

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

- 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 harmonies 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 Company's business and to maximize the return to the shareholders.

In reporting financial stability the capital and solvency are measured using the KBC Group rules. These 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 Company 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 Company is trying to optimize the structure and sources of capital, to ensure that return to the shareholders and policy holders is maximized.

The Company'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 and undertaking appropriate measures to influence the Company'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 Company is the definition of target return rates, adjusted for risk, which are aligned to the performance goals and which ensure that the Company remains focused on the better return to the shareholders.

The main source of capital used by the Company are the funds from the equity holders and borrowings. Where it is efficient to do so, in addition to the more traditional financing sources the Company uses sources of capital such as reinsurance and securitization.

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 Company 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.

In 2019, the Company did not pay a dividend to its sole owner (2018: BGN 6,375 thousand).

#### **(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 Company 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 Company maintains an appropriate solvency position allowing it to meet any unforeseen liabilities arising as a result of economic turmoil or natural disasters.

### **33. Risk management rules (continued)**

#### **(c) Regulatory framework (continued)**

The activity of the Company is subject to regulatory requirements in the Republic of Bulgaria (the jurisdiction in which it operates). These regulations not only provide for the approval and monitoring of activities, but also impose certain restrictive provisions (eg maintaining minimum levels of own funds to ensure the insolvency of the insurer, minimum capital requirements and capital adequacy) to minimize the risk of non-compliance performance and insolvency of the insurance companies to meet unforeseen debts upon their occurrence.

Each insurer shall have allowable own funds at least equal to the Solvency Capital Requirement at all times. 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. 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 favor 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 allowable own funds, covering the last reported solvency capital requirement.

A key indicator characterizing the financial stability of an insurance company is the availability of own funds covering the solvency threshold in accordance with the Insurance Code. In 2019 the ratios of „DZI - General Insurance“ EAD are as follows:

Solvency threshold	-	BGN 82,918 thousand
Own funds	-	BGN 145,106 thousand

The solvency ratio is 175%.

The minimum capital requirement is the minimum amount that must be equal to the allowable basic own funds of the insurer and is calculated in accordance with the principles set out in the Insurance Code.

The absolute minimum amount of MCR for an insurer with the licenses of DZI General Insurance” EAD is BGN 7,400 thousand.

Detailed information is presented in Note 34 b, Liquidity risk.

In addition to the regulatory requirements, the Company has capital requirements for solvency imposed by the KBC Group, which are also taken into account in the process of capital management of the Company.

The Company meets all these external requirements throughout the financial year.

### **33. Risk management rules (continued)**

#### **(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 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.

The main risk the Company is faced with in relation to insurance contracts is the risk that the actual claims may differ from the expectations. This is influenced by the frequency of claims and their amount. The objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

### **34. Insurance and financial risk**

#### **(a) Insurance risk**

The abovementioned risk exposure is mitigated through diversification of large portfolio of insurance contracts, application of limitations in the underwriting procedures, appropriate valuation methods for the required premiums and measurement of future liabilities, as well as monitoring of operating costs incurred.

The Company concludes reinsurance contracts as part of the risk mitigation program. Transfer to reinsurers is made on a disproportionate basis. The disproportionate reinsurance is mainly over-reinsurance, intended to mitigate the Company's net exposure to catastrophic disaster losses. Excess reinsurance retention limits vary across product lines and territories of the occurrence of the event.

Although the Company has reinsurance arrangements it is not relieved of its direct obligations to the insured persons and therefore there is credit exposure in respect of the insurance risks transferred to the extent to which any reinsurer may fail to meet its obligations under such reinsurance arrangements.

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

Most of the significant risks related to general insurance contracts result from traffic accidents, natural disasters and legislative amendments. In respect of claims filed through the court which take several years to settle, there is also inflation risk. This risk is mitigated by taking into account the expected penalty interests when estimating the insurance contract liabilities.

The Company has also limited its exposure by imposing maximum claim amounts 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 Company'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.

**34. Insurance and financial risk (continued)**

**(a) Insurance risk (continued)**

The exposure to natural disaster estimate is based on the structure of the Company's portfolio. At the end of each year one of international reinsurer broker models is approved as a best estimate of catastrophic risk. The minimum reinsurance limit should cover the potential loss of event with probability of occurrence 1 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 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 table below presents the concentration of general insurance liabilities by lines of business:

	<b>2019</b>			<b>2018</b>		
	<b>Gross liabilities</b>	<b>Reinsurance of liabilities</b>	<b>Net liabilities</b>	<b>Gross liabilities</b>	<b>Reinsured liabilities</b>	<b>Net liabilities</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Motor insurance	255,877	(13,095)	242,782	223,681	(12,127)	211,554
Fire and other hazard and property damage	29,795	(4,628)	25,167	40,133	(16,486)	23,647
Marine, 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	15,743	(1,158)	14,585
Financial risks	881	(1)	880	1,984	(56)	1,928
<b>Total</b>	<b>315,073</b>	<b>(19,660)</b>	<b>295,413</b>	<b>290,732</b>	<b>(30,439)</b>	<b>260,293</b>

**Key assumptions**

The key assumption underlying the estimates of the liability is that the development of the future claims to the Company 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 accident.

Additional qualitative assessments are made to measure the level in which past claims may not be applicable in the future, for example a combination of segment portfolios, terms and conditions on policies and claims handling procedures.

Expert 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 the assumptions have the following effect on liabilities for insurance contracts:



**“DZI - GENERAL INSURANCE” EAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
31 DECEMBER 2019**

**34. Insurance and financial risk (continued)**

**(a) Insurance risk (continued)**

***Key assumptions (continued)***

**Assumptions**

Increase in the initial reserves for insurance “Casco” by 5%

**Increase/(decrease) in the carrying amount of reserves**  
9

***Claim development table***

The tables presented below show the estimation of undertaken cumulative reported claims at each date of the financial statement together with the cumulative payments to date. The cumulative estimates of claims do not include the interest due on claims filed through the court and direct and indirect costs to settle them. The estimate of the claims does not include the amount of claims incurred but not reported at the date of the financial statement. Cumulative payments are not reduced with the income from the recovered property, and the direct costs in relation to these claims.

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		

**“DZI - GENERAL INSURANCE” EAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
31 DECEMBER 2019**

**34. Insurance and financial risk (continued)**

**(a) Insurance risk (continued)**

*Claim development table (continued)*

	Prior to 2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
<b>Insurance year</b>											
At the end of the											
insurance year											
1 year later	(352,196)	(45,404)	(54,318)	(39,819)	(47,899)	(40,391)	(48,612)	(53,740)	(51,896)	(52,883)	
2 years later	(536,432)	(66,448)	(75,063)	(54,426)	(74,325)	(61,328)	(72,898)	(86,898)	(80,798)		
3 years later	(594,046)	(72,356)	(77,992)	(57,733)	(79,883)	(70,104)	(79,356)	(105,563)			
4 years later	(630,085)	(76,086)	(79,529)	(59,724)	(84,590)	(73,841)	(82,271)				
5 years later	(658,535)	(78,000)	(81,346)	(62,507)	(88,689)	(75,935)					
6 years later	(680,963)	(80,320)	(83,068)	(64,597)	(91,309)						
7 years later	(694,731)	(82,017)	(83,903)	(64,904)							
8 years later	(701,118)	(82,214)	(84,122)								
9 years later	(706,813)	(82,320)									
	(710,712)	(45,404)	(54,318)	(39,819)	(47,899)	(40,391)	(48,612)	(53,740)	(51,896)	(52,883)	
<b>Payments at 31</b>											
<b>December 2019</b>	<b>(710,712)</b>	<b>(84,122)</b>	<b>(64,904)</b>	<b>(91,309)</b>	<b>(75,935)</b>	<b>(82,271)</b>	<b>(105,563)</b>	<b>(80,798)</b>	<b>(86,898)</b>	<b>(52,883)</b>	<b>(1,435,395)</b>

Gross liabilities on  
general insurance  
contracts as at 31

December 2017

Present estimate of the  
surplus on reported but  
not settled claims

Present estimate on

IBNR

**Total 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	16,749	43,915	100 635
	4,630	299	1,723	1,097	1,938	1,245	1,761	1,594	2,737	621	17,646
	181	121	168	265	681	1,287	2,674	5,215	12,384	51,438	74,413
	12,089	1,243	5,733	3,575	8,107	6,562	11,307	16,234	31 870	95, 974	192,694

**34. Insurance and financial risk (continued)**

**(a) Insurance risk (continued)**

**Liability adequacy test sensitivity analysis of the reserves**

**31 December 2019**

	<b>BGN'000</b>	<b>Sufficiency of reserves</b>
<b>Current best estimates of post-claim reserves</b>	<b>159,596</b>	<b>17%</b>
Increase of the Reserve Redundancy Factor for Attritional and XL claims with (+10%)	164,075	15%
Reduction in collection from recourses (-10%)	160,628	17%

**31 December 2018**

	<b>BGN'000</b>	<b>Sufficiency of reserves</b>
<b>Current best estimates of post-claim reserves</b>	<b>131,216</b>	<b>12%</b>
Increase of the Reserve Redundancy Factor for Attritional and XL claims with (+10%)	187,173	(11%)
Reduction in collection from recourses (-10%)	132,171	25%

**(b) Financial risks**

**(1) Credit risk**

Credit risk is the risk that a party under the financial instrument will cause financial loss to the other party under the instrument by failing to discharge its liabilities.

The following policies and procedures have been put in place to mitigate the Company's exposure to credit risk:

- Company's policy on credit risk, which states the assessment and definition of what credit risk is to the Company. The compliance with the policy is monitored and violations are reported to the Company's risk and capital control and management committee. The policy is regularly reviewed to determine its relevance and to reflect any changes in the risk environment.
- The Company sets aside impairment loss provisions at the date of the statement of financial position.
- Concentration of credit risk is allocated to portfolio of investments, available-for-sale financial assets, financial assets held to maturity, loans granted, trade and bank receivables and to a lesser degree short-term and other investments of the Company. The Company has approved limits for certain counterparties in respect of investments in bonds and bank deposits.
- The restrictions on the exposures to the Company's counterparties are determined in accordance with the credit policies of the KBC Group. Net exposure limits are determined at the level of the counterparty or group of counterparties.
- 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 KBC 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 paid to intermediaries is offset against receivables from them to mitigate the risk of doubtful receivables.

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(1) Credit risk (continued)**

**Exposure to credit risk**

The table below shows the maximum exposure to credit risk for the elements of the statement of financial position.

	Notes	2019 BGN'000	2018 BGN'000
<b>Financial and insurance assets</b>			
Deposits in financial institutions	19(b)	-	4,062
Trade receivables and prepayments	23	1,159	1,756
Financial assets carried at fair value in other comprehensive income			
<i>Bonds</i>	19(c)	258,115	183,871
Financial assets at amortized cost	19(e)	21,270	21,369
Loans granted	19(a)	9,800	9,800
Assets on reinsurance transactions	20	19,660	30,439
Receivables on insurance transactions	22	74,170	68,118
Cash in current accounts	24	58,022	67,367
<b>Total credit risk exposure</b>		<b>442,196</b>	<b>386,782</b>

**Credit exposure according to credit rating**

The table below presents information regarding the Company's exposure to credit risk through classification of the assets depending on the credit rating of the counterparties.

The Company classifies as investment class financial assets those for which external credit rating exists for the counterparty. The non-investment class, satisfactory includes those financial assets for which no rating is awarded by a rating agency or have credit ratings lower than BBB, but the Company has no indications and no deterioration of the credit quality of the counterparty is expected. Non-investment class, unsatisfactory would include financial assets for which the Company anticipates deterioration of the credit quality of the counterparty.

**31 December 2019**

	Investment class BGN'000	Non- investment class: satisfactory BGN'000	Impaired BGN'000	Total BGN'000
<b>Financial and insurance assets</b>				
Trade receivables and prepayments	—	2,127	(968)	1,159
Financial assets carried at fair value in other comprehensive income	258,164	—	(49)	258,115
Financial assets at amortized cost	21,274	—	(4)	21,270
Loans granted	9,803	—	(3)	9,800
Assets on reinsurance transactions	19,660	—	—	19,660
Receivables on insurance transactions	—	78,801	(4,631)	74,170
Cash in current accounts	57,980	42	—	58,022
<b>Total</b>	<b>366,881</b>	<b>80,970</b>	<b>(5,655)</b>	<b>442,196</b>

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(1) Credit risk (continued)**

**Credit exposure according to credit rating (continued)**

**31 December 2018**

	<b>Investment class</b>	<b>Non- investment class: satisfactory</b>	<b>Impaired</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial and insurance assets</b>				
Deposits in financial institutions	–	4,065	(3)	4,062
Trade receivables and prepayments	–	1,951	(195)	1,756
Financial assets carried at fair value in other comprehensive income	183,930	–	(59)	183,871
Financial assets at amortized cost	21,376	–	(7)	21,369
Loans granted	9,803	–	(3)	9,800
Assets on reinsurance transactions	30,439	–	–	30,439
Receivables on insurance transactions	–	72,539	(4,421)	68,118
Cash in current accounts	67,308	–	–	67,308
<b>Total</b>	<b>312,856</b>	<b>78,555</b>	<b>(4,688)</b>	<b>386,723</b>

As at 31 December 2019 the Company does not have exposures in deposits

The concentration of cash in current accounts with related parties as at 31 December 2019 represents 94% of all exposure in cash in current accounts.

The table below presents information regarding the Company's exposure to credit risk as at 31 December 2019 with the assets being classified depending on the credit rating awarded by Standard and Poor's Rating Agency, where AAA is the highest possible rating. Assets outside the scope of rating AAA to BBB are classified as such with speculative rating.

The Company's policy is to maintain accurate and consistent risk ratings. This allows the management to focus on the applicable risks and on comparison of exposures. The rating system is maintained by a number of financial analyses combined with processed market information, in order to secure the primary input data for the counterparty risk assessment.

**“DZI - GENERAL INSURANCE” EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2019**

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(1) Credit risk (continued)**

**Credit exposure according to credit rating (continued)**

<b>31 December 2019</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Not classified</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial and insurance assets</b>					
Trade receivables and prepayments	—	—	—	1,159	1,159
Financial assets carried at fair value in other comprehensive income					
<i>Bonds</i>	—	4,267	253,848	—	258,115
Financial assets at amortized cost	—	—	21,270	—	21,270
Loans granted	—	—	9,800	—	9,800
Assets on reinsurance transactions	9,108	10,543	5	4	19,660
Receivables on insurance transactions	—	—	—	74,170	74,170
Bank accounts	—	54,725	3,255	42	58,022
<b>Total</b>	<b>9,108</b>	<b>69,535</b>	<b>288,178</b>	<b>75,375</b>	<b>442,196</b>

<b>31 December 2018</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Not classified</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial and insurance assets</b>					
Deposits in financial institutions	—	4,062	—	—	4,062
Trade receivables and prepayments	—	—	—	1,756	1,756
Financial assets carried at fair value in other comprehensive income					
<i>Bonds</i>	—	—	183,871	—	183,871
Financial assets at amortized cost	—	—	21,369	—	21,369
Loans granted	—	—	9,800	—	9,800
Assets on reinsurance transactions	6,886	5,242	18,172	139	30,439
Receivables on insurance transactions	—	—	—	68,118	68,118
Bank accounts	—	65,793	1,466	49	67,308
<b>Total</b>	<b>6,886</b>	<b>75,097</b>	<b>234,678</b>	<b>70,062</b>	<b>386,723</b>

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(1) Credit risk (continued)**

**Credit quality of financial assets**

The credit quality of financial assets that are neither overdue nor impaired is measured on the basis of post-balance sheet collection information.

The table presented below provides information regarding the Company's exposure to government securities, classified as financial assets carried at fair value in other comprehensive income and at amortized cost, depending on their maturity as at 31 December 2019.

<i><b>Maturity</b></i>	<b>Carrying amount as of 31 December 2019 BGN'000</b>	<b>Carrying amount as of 31 December 2018 BGN'000</b>
<b>BGN'000</b>		
Within 1 year	13,838	10,547
1 to 3 years	48,320	38,926
3 to 5 years	20,439	40,721
5 to 15 years	178,499	115,046
More than 15 years	18,289	-
	<b>279,385</b>	<b>205,240</b>

The credit quality of receivables on insurance operations that are neither past due nor impaired can be assessed based on information about the collection rate after the balance sheet date.

***Impairment of financial assets (expected credit losses)***

The modification of the corrective for expected credit losses of financial assets for the period is presented in the following table:

	<b>Financial assets at fair value in other comprehensive income</b>	<b>Financial assets at amortized cost</b>	<b>Total:</b>
<b>Allowance for Credit losses on January 1, 2018</b>	-	142	142
<b>Effect of the initial application of IFRS 9</b>	60	32	92
<b>Allowance for Credit losses on January 1, 2018 with the initial application of IFRS 9:</b>	60	174	234
<b>Allowance for Credit losses recognized in the statement of profit or loss, incl.</b>			
<i>Allowance for Credit losses for newly acquired assets during the period</i>	3	56	59
<i>Written off allowance for credit losses of sold or matured assets during the period</i>	-	(22)	(22)
<i>Increase from business combination</i>	(4)	-	(4)

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(1) Credit risk (continued)**

**Credit quality of financial assets (continued)**

	<b>Financial assets at fair value in other comprehensi ve income</b>	<b>Financial assets at amortized cost</b>	<b>Total:</b>
<b>Allowance for Credit losses on 31 December 2018</b>	<b>59</b>	<b>208</b>	<b>267</b>
Allowance for Credit losses recognized in the statement of profit or loss, incl.	—	—	—
<i>Allowance for Credit losses for newly acquired assets during the period</i>	23	117	140
<i>Adjustment Written off allowance for credit losses of sold or matured assets during the period</i>	—	(10)	(10)
<b>Allowance for Credit losses on 31 December 2019</b>	<b>(33)</b>	<b>662</b>	<b>629</b>
<b>Allowance for Credit losses on January 1, 2018</b>	<b>49</b>	<b>977</b>	<b>1,026</b>

The adjustment for losses on financial assets was initially recognized as of 01.01.2018, which is the first date of application of IFRS 9 for the Company. During the period no significant changes in the credit risk on the financial assets were observed, which would lead to a change in the period of expected credit losses, in course of 12 months to the term of the contract, and back again.

**(2) Liquidity risk**

***Aggregated impairment of assets***

Liquidity risk is the risk that the Company 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 Company's exposure to liquidity risk:

- 
- 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 and cash equivalents are kept available to finance the operations and to mitigate cash flow fluctuations.

“DZI-General Insurance” EAD is subject to regulation by the Financial Supervisory Commission (FSC), Insurance Supervision Department. The Company complies with the requirements for capital adequacy, based on Regulation 2009/138/EU of the European Parliament (Solvency II). During the fiscal year FSC organised a Balance Sheet Review (BSR) of the Insurance Companies with the involvement of independent external reviewers and institutions with high professional reputation. The objective of the BSR was 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.



### **34. Insurance and financial risk (continued)**

#### **(b) Financial risks (continued)**

#### **(2) Liquidity risk (continued)**

#### **Trends or risks which may influence the Company'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 Company 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 Company invests mainly in liquid assets and the majority of the investment portfolio is government securities, which are highly liquid and can be sold by the Company to cover the growing volume of emergency payments. The Company also maintains sufficient funds in current accounts (minimum required funds available) to provide daily payments. The company uses government securities to cover technical reserves - 88%, denominated in BGN and EUR and funds on current accounts - 12%. The company has approved limits for the use of repo transactions for the purpose of short-term liquidity provision.

Besides monitoring increased operational risk, the Company 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 Company's liquidity and funding adequacy.

This is also visible from the main Solvency II indicators as of 31 March 2020, which are listed in the table below:

	<b>Total own funds</b>	<b>SCR</b>	<b>MCR</b>	<b>SCR ratio</b>	<b>MCR ratio</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>31 March 2020</b>	165,721	86,636	36,852	191.3%	450.0%

The Company has calculated the main indicators as per Solvency II, which are presented in the table below:

	<b>Total own funds</b>	<b>SCR</b>	<b>MCR</b>	<b>SCR ratio</b>	<b>MCR ratio</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>31 December 2019</b>	145,106	82,918	37,313	175.0%	388.9%
<b>31 December 2018</b>	129,241	69,883	31,447	185%	411%

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(2) Liquidity risk (continued)**

**Maturity structure**

The table below summarizes the maturity structure of non-derivative financial assets of the Company based on the remaining non-discounted contractual flows, including interest receivables. Liabilities are presented based on the undiscounted cash flows as at 31 December 2018 and 31 December 2019.

Maturity profiles for liabilities on insurance contracts and reinsurance assets are determined based on the estimated timing of the net cash outflows on recognized insurance liabilities. Unearned 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.

The Company maintains a portfolio of marketable and diverse assets that are readily liquidated in case of unforeseen decline in cash flows. Reinsurance assets are presented on the same basis as insurance liabilities. Loans and receivables include contractual interest receivable.

<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Less 1 year</b>	<b>1 – 3 years</b>	<b>3-5 years</b>	<b>5-15 years</b>	<b>More than 15 years</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial and insurance assets</b>							
Trade receivables and prepayments	1,159	1,159	–	–	–	–	1,159
Financial assets carried at fair value in the other comprehensive income	258,115	15,564	51,327	8,497	167,112	19,080	261,580
Financial assets at amortized cost	21,270	861	1,721	17,995	2,660	–	23,237
Loans granted	9,800	20	–	4,890	4,890	–	9,800
Assets on reinsurance transactions	19,660	2,811	8,522	3,179	1,919	–	16,431
Receivables on insurance transactions	74,170	63,974	7,979	2,217	–	–	74,170
Cash and cash equivalents	58,022	58,022	–	–	–	–	58,022
<b>Total assets</b>	<b>442,196</b>	<b>142,411</b>	<b>69,549</b>	<b>36,778</b>	<b>176,581</b>	<b>19,080</b>	<b>444,399</b>

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(2) Liquidity risk (continued)**

<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Less 1 year</b>	<b>1 – 3 years</b>	<b>3-5 years</b>	<b>5-15 years</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial and insurance liabilities</b>						
Liabilities on insurance contracts - general insurance except for Unearned premium reserve	192,694	88,675	68,222	25,431	15,508	197,836
Liabilities to insurers, agents, brokers	23,736	23,736	-	-	-	23,736
Trade and other liabilities	7,961	7,961	-	-	-	7,961
Lease liability	1,555	526	1,029	-	-	1,556
<b>Total liabilities</b>	<b>225,946</b>	<b>120,898</b>	<b>69,251</b>	<b>25,431</b>	<b>15,508</b>	<b>231,089</b>
<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Less 1 year</b>	<b>1 – 3 years</b>	<b>3-5 years</b>	<b>5-15 years</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Deposits in financial institutions	4,062	4,062	-	-	-	4,062
Trade receivables and prepayments	1,756	1,756	-	-	-	1,756
Financial assets carried at fair value in the other comprehensive income	183,871	14,095	44,972	25,271	110,030	194,368
Financial assets at amortized cost	21,369	1,214	1,797	19,056	2,890	24,957
Loans granted	9,800	20	-	4,890	4,890	9,800
Assets on reinsurance transactions	30,439	30,439	-	-	-	30,439
Receivables on insurance transactions	68,118	59,654	6,484	1,980	-	68,118
Cash and cash equivalents	67,367	67,367	-	-	-	67,367
<b>Total assets</b>	<b>386,723</b>	<b>178,607</b>	<b>53,253</b>	<b>51,197</b>	<b>117,810</b>	<b>400,867</b>

**“DZI - GENERAL INSURANCE” EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2019**

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(2) Liquidity risk (continued)**

<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Less 1 year</b>	<b>1 – 3 years</b>	<b>3-5 years</b>	<b>5-15 years</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial and insurance liabilities</b>						
Liabilities on insurance contracts - general insurance except for Unearned premium reserve	177,586	87,880	51,708	27,824	10,174	177,586
Liabilities to insurers, agents, brokers	21,670	21,670	–	–	–	21,670
Trade and other liabilities	7,191	7,191	–	–	–	7,191
<b>Total liabilities</b>	<b>206,447</b>	<b>116,741</b>	<b>51,708</b>	<b>27,824</b>	<b>10,174</b>	<b>206,447</b>

The table presented below summarises the expected utilisation or settlement of assets and liabilities. Cash flows for assets and liabilities are derived using the approved ALM models to set aside reserves in general insurance:

**Maturity analysis and expected term of recovery**

<b>31 December 2019</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Intangible assets	-	6,809	6,809
Tangible assets	-	17,261	17,261
Right-of use assets	-	1,548	1,548
Deferred tax assets	-	112	112
Investment properties	-	14,278	14,278
Trade receivables and prepayments	1,306	-	1,306
<i>Incl. financial guarantees</i>	844	-	844
Financial assets carried at fair value in other comprehensive income	13,458	244,657	258,115
Financial assets at amortized cost	380	20,890	21,270
Loans granted	20	9,780	9,800
Reinsurance transaction assets	2,811	16,849	19,660
Receivables on insurance transactions	63,974	10,196	74,170
Cash and cash equivalents	58,022	-	58,022
Prepaid expenses and other	1,193	-	1,193
<b>Total assets</b>	<b>141,164</b>	<b>342,380</b>	<b>483,544</b>

<b>31 December 2019</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Liabilities on insurance contracts	88,675	226,398	315,074
Lease liability	526	1,029	1,555
Employee retirement benefits liability	455	437	892
Liabilities to insurers, brokers, and agents	23,736	–	23,736
Trade and other payables	7,961	–	7,961
Corporate tax liability	719	-	719
<b>Total liabilities</b>	<b>122,072</b>	<b>227,864</b>	<b>349,936</b>

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(2) Liquidity risk (continued)**

<b>31 December 2018</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Intangible assets	–	4,464	4,464
Tangible assets	–	18,047	18,047
Deferred tax assets	–	312	312
Investment properties	–	11,330	11,330
Deposits in financial institutions	4,062	–	4,062
Trade receivables and prepayments	1,893	–	1,893
<i>Incl. financial guarantees</i>	<i>1,609</i>	<i>–</i>	<i>1,609</i>
Financial assets carried at fair value in other comprehensive income	10,166	173,705	183,871
Financial assets at amortized cost	381	20,988	21,369
Loans granted	20	9,780	9,800
Reinsurance transaction assets	30,439	–	30,439
Receivables on insurance transactions	59,654	8,464	68,118
Cash and cash equivalents	67,367	–	67,367
Prepaid expenses and other	1,377	–	1,377
<b>Total assets</b>	<b>173,359</b>	<b>247,090</b>	<b>422,449</b>

<b>31 December 2018</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Liabilities on insurance contracts	87,880	202,852	290,732
Employee retirement benefits liability	432	386	818
Liabilities to insurers, brokers, and agents	21,670	–	21,670
Trade and other payables	7,289	–	7,289
<b>Total liabilities</b>	<b>117,271</b>	<b>203,238</b>	<b>320,509</b>

**(3) Market risk**

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 Company'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 Company, setting out the assessment and determination of what is market risk to the Company. Compliance with the policy is monitored and exposures and violations are reported to the Company's Risk and Capital Control and Management 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 portfolios, aimed at ensuring that the Company invests in assets that guarantee certain insurance liabilities and that the assets are held to ensure benefits and profits to the insured people that meet their expectations.

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(3) Market risk (continued)**

**(a) 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 Company are denominated in EUR and BGN and its exposure to currency risk arises mainly in respect to the US Dollar. As at 31 December 2019 the Company'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 BGN to the EUR is fixed. Since the Company presents its financial statements in BGN the latter may be influenced by movements in the foreign currency rates of currencies other than the EUR and BGN.

The Company's financial assets are denominated mainly in the same currencies as the liabilities on insurance contracts which mitigate the currency risk for the Company. 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.

The Company is not exposed to significant currency risk due to the fact that it concludes its transactions mainly in BGN and EUR and the value of assets and liabilities denominated in other currencies, which it reports is insignificant.

The value of assets in US dollars amounts to BGN 518 thousand (2018: BGN 216 thousand), and that of liabilities is BGN 963 thousand (2018: BGN 1,184 thousand).

The company does not have a significant concentration of currency risk.

The analysis presented below is made for reasonably possible changes in the key variables where all other variables remain unchanged, showing the effect on the pre-tax profit 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. Since all currency translation of the Company is done in the income statement, there is no effect on the equity.

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	
	Change in variable	Effect on	Effect on	Effect on	Effect on
		profit before tax	equity	profit before tax	equity
Currency	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
US Dollars	10.00%	(65)	—	21	—
US Dollars	-10.00%	65	—	(21)	—

The method used to derive sensitivity information and key variables have not been changed compared to the prior period.

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(3) Market risk (continued)**

***(b) 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 Company to cash flow risk, while fixed rate instruments expose the Company to fair value risk.

The Company'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. Interests on floating rate instruments are repriced at least once a year. Interest on fixed rate instruments is determined at the inception of the financial instrument and are fixed until its maturity.

Over the past five-year measures have been taken for gradual increase in the maturity structure of portfolios to reduce interest rate risk for the Company. 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. 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 rate than that of the related assets, the Company'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 Company's assets depends on the dynamics of the market interest rates. The Company 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 Company 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. In the last year the company invested mainly in long-term bonds to optimize the profitability of investments, leading to an increase 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 Company has presented sensitivity analysis of available-for-sale financial assets to reasonable movements in interest rates and the effect is only on equity. 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.

Financial assets measured at fair value in other comprehensive income and available-for-sale financial assets have fixed interest rates and their sensitivity to interest rate risk has no impact on pre-tax profit

**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(3) Market risk (continued)**

**(b) Interest rate risk (continued)**

		Interest change (base points)	in BGN'000			
<i>As of date</i>			BGN	EUR	USD	Total
	Effect on capital	+100 bp	(7,391)	(3,622)	-	(11,013)
		-100 bp	8,202	3,818	-	12,019
<b>31 December 2019</b>	Effect on profit	+100 bp	-	-	-	-
		-100 bp	-	-	-	-
	Effect on capital	+100 bp	(4,767)	(5,761)	(2)	(10,530)
		-100 bp	5,085	6,312	2	11,399
<b>31 December 2018</b>	Effect on profit	+100 bp	-	-	-	-
		-100 bp	-	-	-	-

The method used to derive sensitivity information and significant variables was not changed compared to the previous period.

**(c) 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 Company's policy on price risk requires it to manage these risks by determining and monitoring the objectives and limitations on investments, diversification plans, investment limits at each market.

The concentration of financial assets reported at fair value by issuers is as follows:

	2019	2018
	BGN'000	BGN'000
Bulgaria	234,274	173,765
Romania	11,151	10,106
Belgium	4,277	-
Slovenia	4,267	-
Slovakia	4,146	-
<b>Total</b>	<b>258,115</b>	<b>183,871</b>



**34. Insurance and financial risk (continued)**

**(b) Financial risks (continued)**

**(3) Market risk (continued)**

**(c) Price risk (continued)**

***Analysis of sensitivity of financial assets to price risk***

As part of the Company's investment strategy to reduce insurance and financial risk to reduce both insurance and financial risk, it matches its investments to liabilities on insurance contracts. Most of the Company's financial assets are fixed profitability and the effect of changes in market interest rates on their fair value is shown in the sensitivity analysis of changes in interest rates set out in Note 34 (3) (c).

**(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 Company 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 a Local Risk and Capital Control Committee is functioning. It is chaired by the Finance and Risk Executive Director and members – Chief Executive Officer, Chief Commercial Officer, Executive Director, Director "Acquisition motor insurance", Director "General Insurance Non-motor Products", Director "Products and Medical Life Insurance", Director "Legality", "Finance" Director and other representatives.

A Commercial Network Control Committee operates as a subordinate unit to the above Local Risk and Capital Control 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 at the central level – by the people responsible for operational risk as set out in the following directorates and directions to the Head Office: Life insurance, Corporate insurance, Finance, General operations, Information technologies, Information security, Legal, 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 department "Nonfinancial Risks" and by the Committee for control of commercial network.

### **34. Insurance and financial risk (continued)**

#### **(b) Financial risks (continued)**

#### **(4) Operational risk (continued)**

The work of the officers in charge of operational risk is in close cooperation with all control units within the DZI Group companies and colleagues from the “Risk Management” Division of KBC Group.

The following measures for operational risk management are realized as of this moment:

- 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 of 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 related to KBC Group Standards for:

- Client complaint management;
- IT application access management;
- Internal rules on control and prevention of money laundering and financing of terrorism;
- Internal procedures 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 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 insurance;
- Legal risk management;
- Tax risk management;
- Business continuity management;
- Risk and capital management

### **34. Insurance and financial risk (continued)**

#### **(b) Financial risks (continued)**

#### **(4) Operational risk (continued)**

- Accounting and financial reporting;
- Human resource management;
- Corporate communication;
- Customer administration;
- New and active products;
- Marketing and trade communication;
- Customer e-communication channels;
- Intermediary management;
- Property management;
- Supply management;
- IT;
- IT security management;
- Corporate governance.

The conclusions of the analysis are presented in a report prepared for this purpose on the internal control environment of DZI. For all identified key controls that are not yet fully implemented, an action plan is proposed.

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 Officer. 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.

### **35. Related party transaction**

As at 31 December 2019 and 2018 the Company has carried out transactions with the following related parties:

- KBC Group N.V., Belgium – ultimate controlling entity;
- KBC Insurance NV, Belgium - controlling entity;
- DZI - Life Insurance EAD - parent company;
- KBC Group Re SA (Assurisk SA) - related parties under common control;
- 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.

Information on significant transactions with related parties during the year is presented below:

**35. Related party transaction (continued)**

**35.1 Transactions with owners**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Dividend paid	-	(6,375)
Premium income	61	42
Paid claims	(25)	-
Services received	(204)	(180)
Purchase of fixed assets	(482)	-

**35.2. Transactions with other related parties under common control**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Premium income	11,637	10,308
Paid claims	(4,298)	(3,136)
Commission expenses	(3,438)	(2,819)
Reinsurance premiums ceded	(7,359)	(4,665)
Claims reassigned to reinsurers	3,383	1,723
Commissions on reinsurance contracts	6	371
Services received	(1,220)	(559)
Bank charges	(262)	(230)
Interest income	-	173
Services provided	130	-

**35.3. Transactions with key management personnel**

Key management personnel of the Company include the members of Management Board and Supervisory Board. The remunerations of key management personnel are as follows:

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Short-term remuneration:		
Salaries and social security contribution, including bonuses	780	639

**35.4. Balances with related parties at the end of the year**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>- owners:</b>		
Purchase of fixed assets	202	-
<b>- other related parties under common control:</b>		
Receivables from insurance policies	10,939	8,395
Commission payables	271	423
Assets on reinsurance transaction	4,805	2,218
Liabilities on reinsurance transaction	146	-
Payables on services received	319	-
Current accounts	54,703	65,842
Deposits with financial institutions	-	4,062
Pledge	1,506	1,506

### **35. Related party transaction (continued)**

#### **35.4. Balances with related parties at the end of the year (continued)**

	<b>2019</b>	<b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>key management personnel:</b>		
Short-term payables for remuneration	138	73

The terms and conditions related to receivables and payables to related parties are disclosed in the relevant Notes. They don't differ from the usual requirements under which the Company enters into transactions with unrelated parties.

The significant part of the Company'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 Company does not receive preferential requirements and conditions.

There were no recognized impairment losses on receivables from related parties during the period.

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.

### **36. Commitments and contingencies**

#### ***Contingencies***

Legal claims have been filed against the Company from insured persons in connection with reported insurance claims on incurred insurance events. Legal claims are included 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.

#### ***Tax payables***

In the end of the reporting period the National Revenue Agency has started revising the obligations of 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***

The Company 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:

	<b>2019</b>	<b>2019</b>
	<b>BGN'000</b>	<b>BGN'000</b>
No more than 1 year	-	486
No more than 1 year and no more than 5 years	-	799
More than 5 years	-	210
<b>Total:</b>	<b>-</b>	<b>1,495</b>

**36. Commitments and contingencies (continued)**

The Company has no other contingent liabilities as at 31 December 2019.

**37. 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 Company 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). 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 will be for the global economy and, more specifically for the bank-insurance group, which DZI General insurance EAD is a part. Management of the Company is closely monitoring the situation. Also, the Company 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.

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. More disclosures are presented in Note 34 “Insurance and financial risk” of the current financial statement.

In February 2020, the Company 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 company plans to use the property, both for investment and for the needs of KBC Group companies with offices in Varna.

There are no other significant events occurred between the financial statements date and the date of their approval, which would require disclosure or change the financial position of the Company.