

ANNUAL REPORT



DZI – LIFE INSURANCE EAD



- MANAGEMENT REPORT
- STATEMENT OF CORPORATE GOVERNANCE
- INDEPENDENT AUDITORS' REPORT
- FINANCIAL STATEMENTS

31 December 2019

**„DZI – LIFE INSURANCE” JSC
INDEPENDENT AUDITOR’S REPORT
SEPARATE MANAGEMENT REPORT
STATEMENT OF CORPORATE GOVERNANCE
SEPARATE FINANCIAL STATEMENTS
31ST OF DECEMBER 2019**

DZI – Life Insurance JSC

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DZI - Life 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 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 1463
89B, Vitosha blvd.
Milenium business center

Lawyers

Internal Corporate Law Directorate

Auditors

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

Grant Thornton OOD
1421 Sofia
26 Cherni vrah blvd.

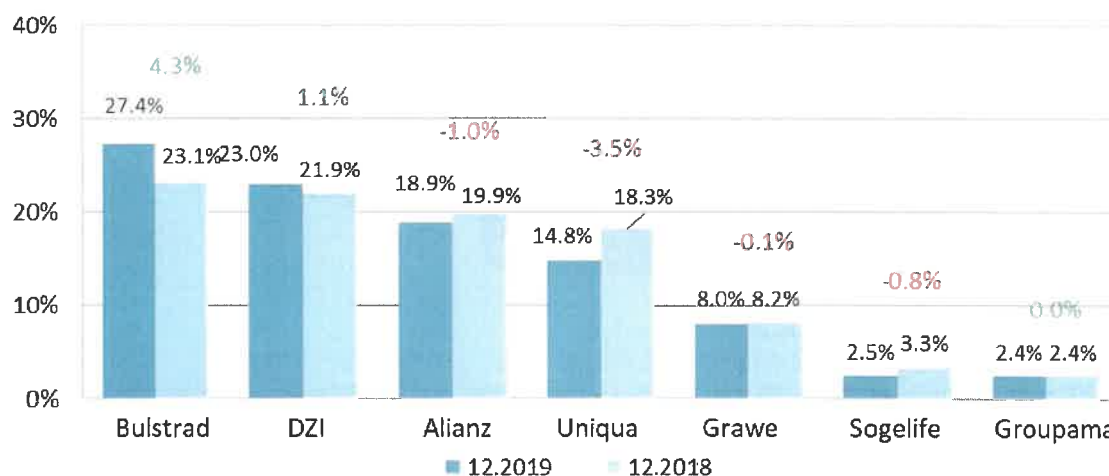
Activity report
OF “DZI - LIFE INSURANCE” JSC
for 2019

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

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

Market share Life Insurance



LEGAL STATUS

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

The share capital of the Company amounts to BGN 38,600 thousand, distributed in 3,860,000 registered shares with a par value of BGN 10 each. The capital is fully paid-in. No acquisitions or transfer of own shares are performed in 2019.

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 in 2019 amounts to BGN 264 thousand. More detailed information is presented in Note 37 to the Annual financial statement.

According to the Articles of Association of DZI - Life Insurance JSC the members of the management bodies have no preferences and restrictions in respect of acquiring shares of the Company. The members of the management bodies do not hold Company shares and have not acquired or transferred such throughout the year.

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

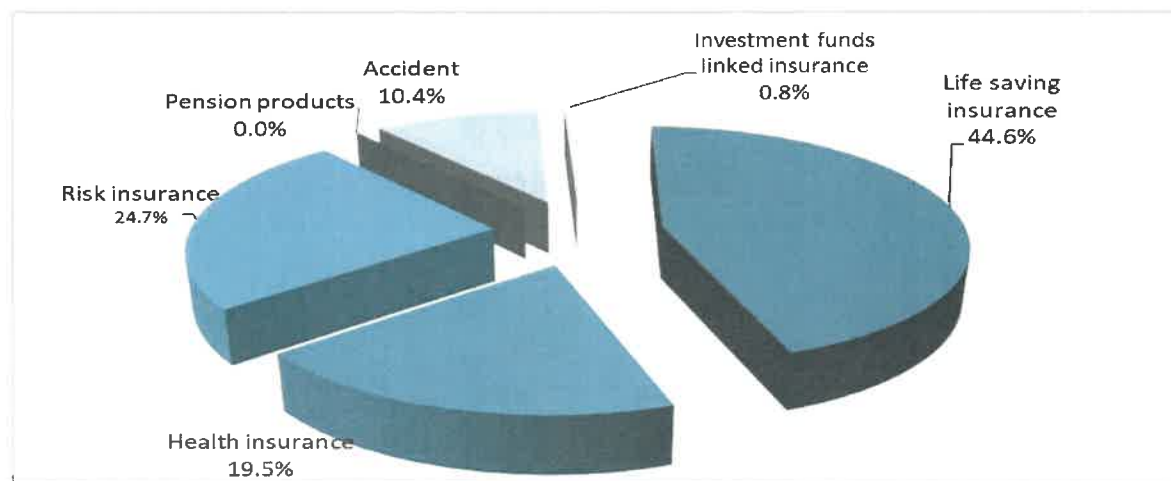
INSURANCE ACTIVITY

“DZI - Life Insurance” JSC holds a license to carry out insurance and reinsurance activity on all types of insurances in Section 1, appendix No 1 to the Insurance Code, except Insurance for acquisition of capital. In 2012 the Company obtained a license for the Accident and Disease insurances from Section 2 of the above-mentioned Appendix.

Insurance written premiums in 2019 amount to BGN 76,569 thousand. Written premiums, net of reinsurance, amount to BGN 73,299 thousand. Insurance premiums increased by 82% as compared to 2018, which is due to acquisition of a new insurance business.

The share of life insurance with savings element is 44.6% of the total premium income of DZI - Life Insurance JSC in 2019, health insurance – 19.5%, and risk insurance – 24.7%.

BUSINESS STRUCTURE – 2019 INSURANCE PREMIUMS ACCRUED



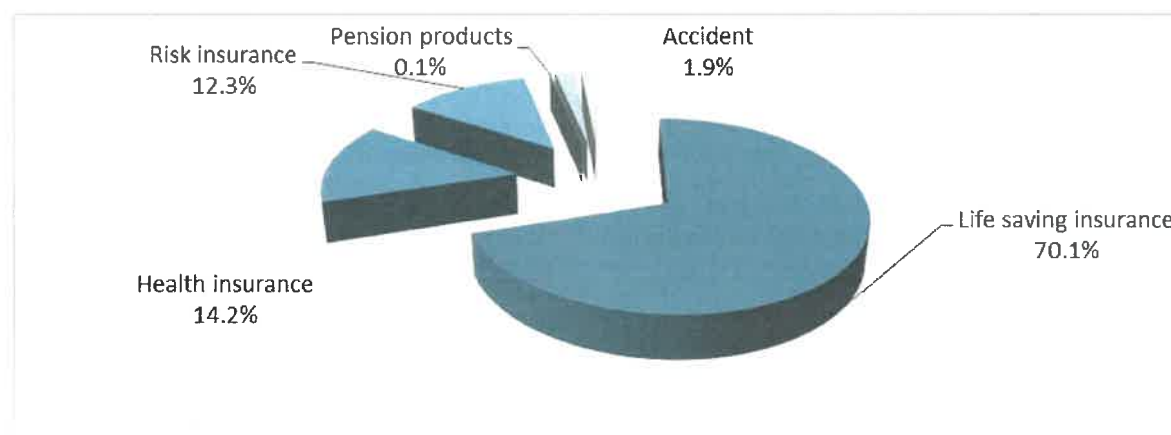
Changes in premiums compared to 2018

- The premium income on life insurance with savings element accrued in 2019 amounts to BGN 34,167 thousand, with an increase of 24.4% compared to 2018.

Gross Payments on life insurance amount to BGN 37,223 thousand, with an increase of 35.84 % compared to 2018.

The Company has made payments on general insurance policies concluded prior to 30 June 1998 amounting to BGN 7 thousand, net of recourses.

BUSINESS STRUCTURE - 2019 INSURANCE PAYMENTS



INSURANCE ACTIVITY (CONTINUED)

Modification of the operational costs compared to 2018

The net operational costs for 2019 amount to 28,998 thousand BGN and include 14,912 thousand BGN of administrative costs and 14,086 thousand BGN of other costs. The position "other costs" includes 13,420 thousand BGN acquisition costs and 666 thousand BGN other costs – mainly representing costs for fees and contributions, as well as maintenance of investment properties.

Compared to 2018 there is an increase of operational costs with 127%, whereas the main reason behind that is the higher cost for acquisition costs due to the business combination.

Development of insurance products

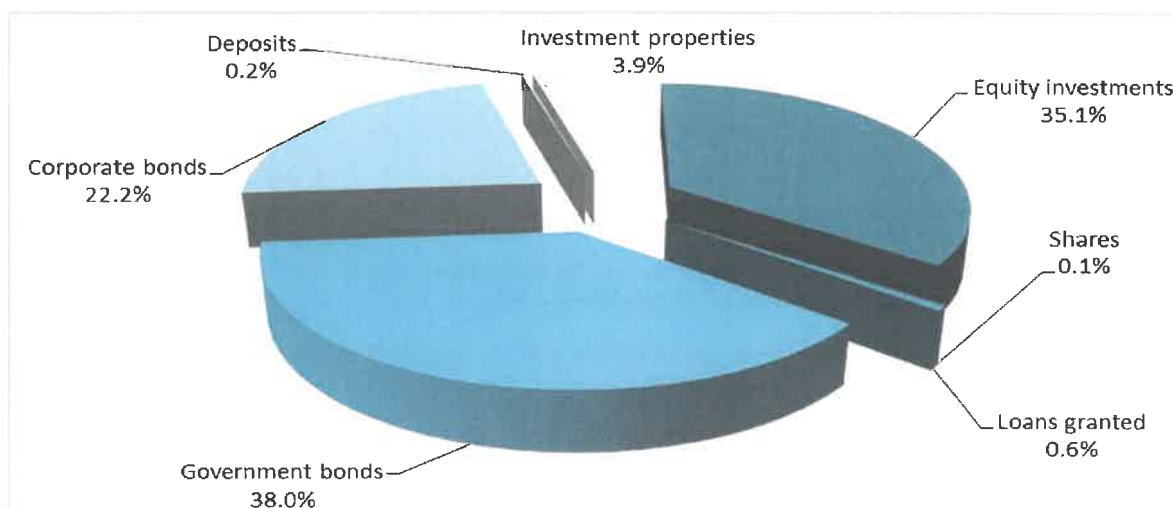
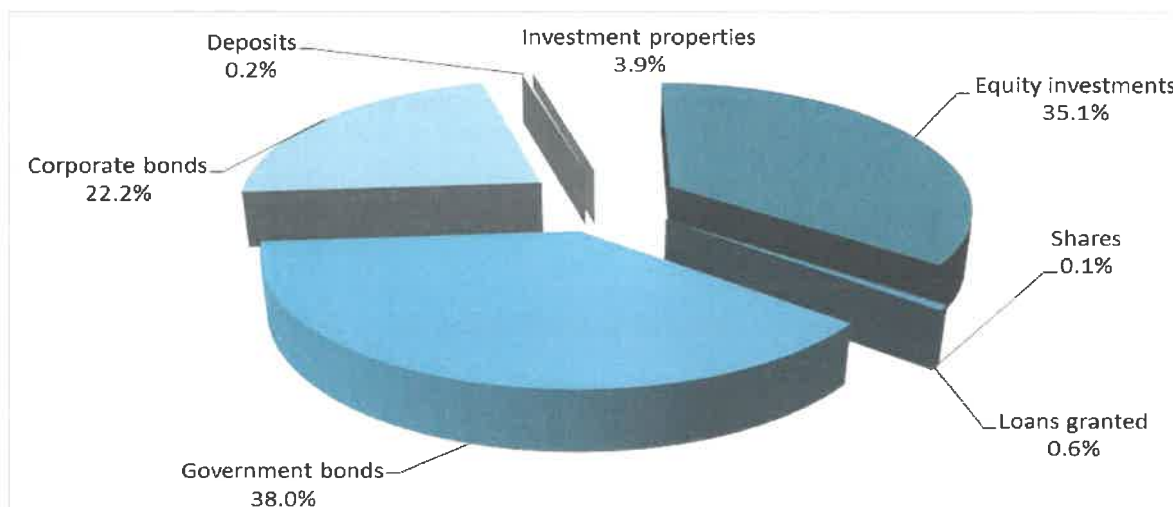
In 2019 the Company did not develop new insurance products.

INVESTING ACTIVITIES

The investing activities of DZI - Life Insurance JSC 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 – 2019



INVESTING ACTIVITIES (CONTINUED)

INVESTMENT PORTFOLIO STRUCTURE – 2019 (CONTINUED)

The total equity investments of DZI – Life Insurance JSC amount to BGN 115,425 thousand. These investments comprise 100% participation in the following commercial subsidiary:

Company name	Main activity	31.12.2019	31.12.2018
"DZI - General Insurance" JSC	General insurance	100%	100%

DZI – Life Insurance JSC holds minority shares at the total amount of BGN 188 thousand in other commercial entities, in which it has neither control, nor significant influence. These investments are not listed.

Structurally defining element in the investment portfolio of the Company are bonds, which amount to BGN 197,863 thousand as at 31 December 2019. The major portion of the insurance reserve coverage represents government bonds which are characterised with its security, good yield and liquidity.

Government securities in Bulgarian lev, Euro and US dollars are issued by the government of Bulgaria and are traded at a liquid inter-banking market.

Investments in real estate amount to BGN 12,768 thousand, compared BGN 12,784 thousand in 2018.

As at the end of 2019 the Company holds foreign debt issued by the Republic of Bulgaria in accordance with the legislation of the Federal Republic of Germany amounting to BGN 1,861 thousand.

As at the end of 2019 the Company has deposit with related party at the amount of BGN 615 thousand.

The total investments at the end of 2019 amount to BGN 328,721 thousand which is 12% more compared to 2018.

Investment income generated amounts to BGN 4,631 thousand. BGN 3,896 thousand of them are taken to the life insurance technical account and are allocated on long-term Life insurance as additional interest on the mathematical reserve.

Cash exposures in the form of current accounts, ensuring current liquidity, amount to BGN 2,624 thousand.

RESEARCH AND DEVELOPMENT

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

TERRITORIAL NETWORK

DZI – Life Insurance JSC carries out its insurance activities throughout the country through 143 own territorial units (including agent offices), which ensure complete coverage of the whole territory.

The main units used to realise 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 insurances and acceptance of insurance claims are carried out through the agencies and offices, while payments are made centrally.

PERSONNEL

As at 31 December 2019 the personnel of DZI – Life Insurance JSC includes 202 payroll employees.

Remuneration policy of the Company is focused on linking the remuneration of each employee with the results of the structural unit and the company as well as its individual performance.

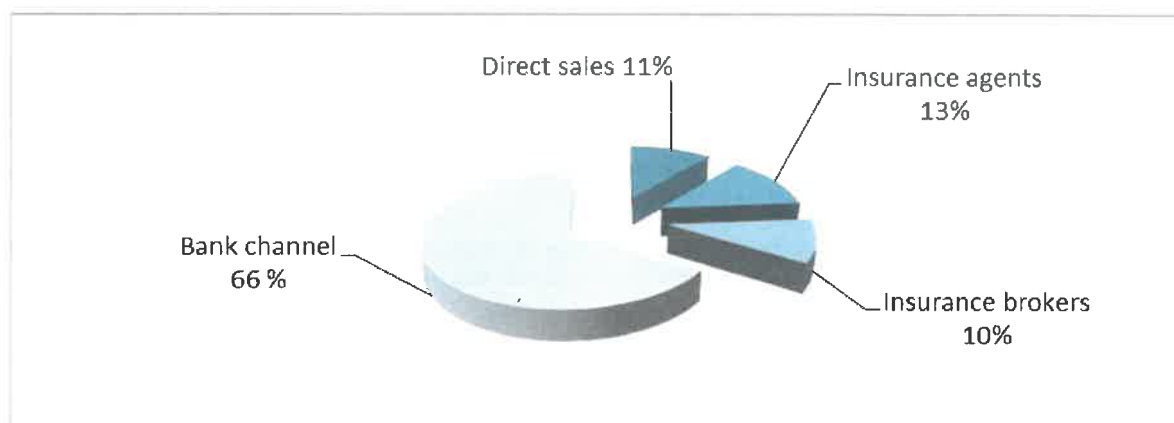
The Company has undertaken all steps necessary to comply with the regulatory requirements regarding health and safety at work.

COMMERCIAL NETWORK

In addition to its territorial units throughout the country DZI – Life Insurance JSC carries out its business operations through a well-organised external commercial network of insurance brokers and agents, as well as with a bank channel.

The share of premiums in 2019 generated through bank channel (UBB) increase significant, because of business combination of new business with a major of bank channel. Sales through the brokerage channel decrease with 15% and the direct channel with 10%, while the share of sales through agents stay stable compare to 2018.

COMMERCIAL NETWORK – 2019



FINANCIAL RESULTS

The result of the Company's operations in 2019 is shown in its separate financial statements prepared in accordance with the requirements of IFRS.

Net earned premiums amount to BGN 73,299 thousand. They comprise:

- Gross premiums underwritten amounting to BGN 76,569 thousand BGN;
- Negative movement in premium reserves amounting to 966 thousand BGN;
- Premiums ceded to reinsurers amounting to BGN 2,304 thousand BGN.

Accrued payments, net of reinsurance, and the movement in the outstanding claims reserve, amount to BGN 39,294 thousand.

The acquisition cost incurred amount to BGN 12,853 thousand and administrative expenses – BGN 14,912 thousand.

Investment income amounts to BGN 4,631 thousand.

Other technical costs (impairment of insurance receivables) amount to BGN 4,364 thousand.

The financial result of the business activity of “DZI – Life Insurance” JSC for 2019 is a profit at the amount of 6,562 thousand BGN.

The total assets of DZI - Life Insurance JSC as at 31 December 2019 amount to BGN 450,225 thousand, with an increase of 10% compared to the prior reporting period.

Investments represent 73% of the Company's assets as their share increases by 12% compared to 2018.

Assets under investment contracts amount to BGN 80,756 thousand with a relative share of 24% of the total investments of The company.

The fixed tangible, intangible and right-of-use assets amount to 23,183 thousand BGN.

Receivables on insurance transactions amount to BGN 8,663 thousand.

The remaining assets reported in the statement of financial position include: reinsurance transaction assets amounting to BGN 989 thousand, cash amounting to BGN 2,624 thousand and deferred acquisition costs BGN 4,530 thousand.

FINANCIAL RESULTS (CONTINUED)

As at 31 December 2019 DZI - Life Insurance JSC liabilities amount to BGN 265,109 thousand. The major portion (66%) represent insurance reserves amounting to BGN 174,371 thousand, BGN 174,107 thousand of them represent life insurance reserves.

Liabilities under investment contracts amounted to BGN 80,879 thousand, which is 30.50% of the value of liabilities.

The obligations towards intermediaries, reinsurers and the other obligations amount to 7,304 thousand BGN.

The remaining liability reported in the statement of financial position include: retirement benefit obligations BGN 276 thousand, deferred tax liability amounting to BGN 533 thousand, lease liability BGN 876 thousand and income tax payables BGN 870 thousand.

The Company's net assets amount to BGN 185,116 thousand, which is a decrease of BGN 1,825 thousand or 1%.

The equity of DZI – Life Insurance JSC comprises share (subscribed) capital amounting to BGN 38,600 thousand, other reserves – BGN 34,542 thousand, revaluation reserves amounting to BGN 15,171 thousand, as well as retain earnings amounting to BGN 96,839 thousand, of which net profit of BGN 6,562 thousand for 2019.

According to the Insurance Code a major indicator characterising the financial stability of insurers is the availability of own funds covering the solvency threshold. In 2019 the ratios of DZI - Life Insurance JSC are as follows:

- Solvency capital requirement - BGN 53,054 thousand
- Own funds - BGN 208,091 thousand

The ratio of the Solvency Capital Requirement is 392%. Cost/ Income ratio for 2019 and 2018 is as follows:

	2019	2018
Cost / Income	55%	73.9%

The abovementioned values indicate that DZI - Life Insurance JSC has sufficient amount of own funds to cover the required solvency threshold as defined by Insurance code.

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, to minimise the potential adverse impact of the risks on the financial performance of the Company.

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, their measurement 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 introduced the following key features:

- 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.

RISK MANAGEMENT (CONTINUED)

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

- Life insurance activities carried out by the Company represent taking over the risk of loss of life or bodily injury for the insured persons that are direct subject of the risks. The Company is exposed to uncertainty related to the frequency and size of claims under the contracts.
- The main risk the Company faces is the risk that the actual payments on claims and insured amounts related to the terms and conditions of the contracts underwritten may differ from the estimates. The Company's objective is to ensure that the insurance reserves set aside are sufficient to cover the liabilities undertaken.
- The Company manages the insurance risk it undertakes by limiting the insurance limits, improving its underwriting procedures (signing of contracts), development of new products and pricing methods, centralised reinsurance management and monitoring of the filed claims. Insurance risk is measured separately for each insurance contract based on the effective underwriting policy of the Company.
- The Company uses insurance risk valuation and control methods, including various analyses and sensitivity tests. The theory of probability is applied in the pricing of insurance policies portfolio and setting aside insurance reserves. The main risk is related to the fact that the frequency and amount of damages and claims may be higher than the expected ones.
- The reinsurance strategy of the Company is aimed at achieving diversification of the risks in order to ensure balanced portfolio of similar risks thus reducing the volatility of the result. The Company's management defines the level of retention and amounts above this level are reinsured. Premiums in excess of the retention level, for which there is liability under the insurance contract concluded are ceded to the reinsurer, such as the case with Life insurances.

Financial risk

During its operational business, the Company is exposed to financial risks arising from financial assets and liabilities, reinsurance assets and liabilities and technical reserves. The Company has developed and introduced risk management and control rules and procedures aimed at effective determining, managing and controlling financial risk.

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

Market risk

- Market risk is the risk that the fair value of the future cash flows on the financial instrument will vary due to 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 benefits and profits to the insured people that meet their expectations.

RISK MANAGEMENT (CONTINUED)

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.

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 exposures of the Company are in EUR, Bulgarian lev and a small portion USD. The 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 significant rise to currency risk as in an environment of Currency Board in the country the exchange rate of the Bulgarian lev to the EUR is fixed. Since the Company presents its financial statements in Bulgarian levs the latter may be influenced by movements in the foreign currency rates of currencies other than the EUR and the Bulgarian lev.

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

The 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.
- Company's exposition to capital instruments' price risk is related to the financial assets whose values vary as a result of market price changes, mainly securities.
- 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, country-based limitations of investments, sector and market.
- The Company does not have significant concentration of currency risk.

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

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.
- To mitigate the Company's exposure to credit risk the following policies and procedures have been put in place:
 - 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 in financial assets at fair value through profit and loss, available-for-sale financial assets, trade and bank receivables and to a lesser degree short-term and other investments of the Company. The company has approved limits for the individual contragents in terms of investments in bonds and deposits in banks.
 - The restrictions on the exposures to DZI counterparties are determined in accordance with the credit policies of the KBC Group. The net exposition limits are defined at contragent or contragent group level;
 - Net exposure limits are determined for each counterparty or group of counterparties, geographic and industry segment (i.e. limits are determined for investments and cash deposits, the exposures to FX trade and minimum credit ratings for the investments that may be held);
 - Reinsurance contracts are concluded with counterparties that have good credit ratings, and risk concentration is avoided through compliance with the policy guidelines in respect of counterparty limits that are determined every year at Group level;
 - Due to the present financial situation the number of counterparties and the maturity of investments is strongly limited;

RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

- The credit risk related to client balances arises as a result of failure to pay the premiums or contributions during the grace period, set out in the policy's general terms and conditions and exists until it expires, after which the policy is either paid or terminated. The commission fee payable to intermediaries is offset against receivables from them to mitigate the risk of doubtful receivables;
- The Company issues investment unit-linked policies for a number of its operations. In the business linked to investment units in funds the insured person bears the investment risk on the assets held by the funds, linked to investment shares, as the yield on the policy is directly linked to the value of the fund's assets. Therefore the Company does not have significant credit risk on financial assets linked to investment shares.

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

Liquidity risk

- 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:

- The Company pays on a daily basis compensations and liabilities arising in the ordinary course of business. The Company monitors daily and controls its liquid funds needs through management of the inflows and outflows;
- A number of asset allocation rules exist, portfolio structure limits and asset maturity profiles to ensure that sufficient financing will be available to meet the liabilities under insurance and investment contracts;
- Sufficient cash is kept available to finance the operations and to mitigate cash flow fluctuations.

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 - 68%, denominated in BGN and EUR and corporate bonds in EUR - 32% to cover technical reserves/ 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.

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

	Total own funds	Own funds	Own funds	SCR	MCR
	BGN'000	SCR	MCR	SCR	MCR
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
31 March 2020	206,296	53,495	13,374	386%	1,543%
31 December 2019	208,091	53,054	13,263	392%	1,569%

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

RISK MANAGEMENT (CONTINUED)

Operational risk

- Operational risk is the deviation from the expected results arising from inadequate or inoperative internal processes, people and systems or from external events.
 - The operational risk is about deviation from the expected results due to inadequate or ineffective internal processes, people and systems, as well as external events.
 - In order to be managing the operational risk and with the application and elaboration of methods, policies and procedures, the Company uses and introduces effective methodology and standards of the Group KBC. The main instruments for operational risk management are:
- 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 as a result of malicious practice on behalf of intermediaries).

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

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

The conclusions of the performed analysis are presented in the report on the Internal control DZI environment drawn to this end. In view of all the identified key roles that have still not been fully implemented an action plan was 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 Director. 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-year strategy for the development of DZI "Speed" was established, which the Company continue to follow in 2019. DZI's strategic goals include consolidating its position as the market in terms of market share and turning it into a benchmark for quality of service on the insurance market. The 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 bank-insurance integration.

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.

DEVELOPMENT AND FUTURE STRATEGY (CONTINUED)

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.

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

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

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

Information about subsequent events after the date of preparation of the separate 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 Life 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.

The European economy staged a gradual general recovery during 2019, making the outlook for 2020 somewhat brighter.

Unfortunately, the outbreak and global spread of the coronavirus in 2020 changed this outlook. It is now generally expected that there will be a severe downturn in world economic growth in 2020 and that the recovery will start in the second half of the year at the earliest.

As an open economy, Europe is quite vulnerable to the direct and indirect economic consequences of the corona crisis.

The policy response to this crisis has been robust. However, the extent to which the measures involved will counteract the slowdown is still largely uncertain.

Our forecasts are based on the assumption that the coronavirus and the measures taken to limit its spread will have a significant – but temporary – negative economic impact. Under current assumptions, the European economy will contract in the first and second quarters of 2020 before gradually recovering in the second half of the year.

The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments made during at the time of the preparation of this report.

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

DEVELOPMENT AND FUTURE STRATEGY (CONTINUED)

Management responsibilities

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

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

This report was approved by the Management Board of DZI - Life Insurance JSC with Minutes dated the 12th of May 2020.



Kosta Cholakov
Chairman of the Management Board and
Chief Executive Officer



Boris Palichev
Member of the Management Board and
Executive Officer

APPENDIX

DZI - Life Insurance JSC

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

1. SUPERVISORY BOARD

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

2. MANAGEMENT BOARD

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

STATEMENT OF CORPORATE GOVERNANCE
OF "DZI - LIFE INSURANCE" JSC

For 2019

Introduction

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

The information related to the Code of Corporate Governance adopted by the „DZI - Life Insurance“ JSC is publicly available on the official website of the insurer (www.dzi.bg). The Corporate Governance Code has been prepared in accordance with current legislation, and also in accordance with the Charter of Corporate Governance of KBC Group NV. (published on www.kbc.com).

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

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

There are no identification for such cases in 2019.

STRUCTURE OF MANAGEMENT

Management system

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

Supervisory Board (SB)

Currently the Supervisory Board of „DZI - Life Insurance“ JSC has 3 (three) members elected by the sole shareholder. At the end of 2017 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 Officer Business Department "International Markets" in 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" business unit "International markets" in KBC Group NV.
- Grigoriy Vazov - independent member - Bulgarian citizen born in 1951. He holds a Master's degree in "Finance and Credit" from the VFSI "D. A. Tsenov "Svishtov, Bulgaria. Mr. Vazov is also rector of the Higher School of Insurance and Finance, Sofia.

The Supervisory Board performs only 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 could participated in meetings of Supervisory Board but only if they were invited and without right to vote.

Supervisory Board Chairman shall convene meetings at its own discretion or as 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 council. Attending member cannot represent more than one absent member.

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

The Supervisory Board can make decisions by direct distance communication, but they must be in written form. In such cases, the decision enters in force when all board members are informed about the meeting and his agenda. On matters within its competence, the Supervisory Board takes decisions with ordinary majority.

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

STRUCTURE OF MANAGEMENT (CONTINUED)

Management system (continued)

Supervisory Board (SB) (continued)

Functions and tasks of the Supervisory Board:

- ✓ The Supervisory Board determines the main guidelines in the activity of the Company;
- ✓ Propose to the sole shareholder whether to increase or decrease the capital;
- ✓ Appoints members of Management Board and conclude contracts with them about management;
- ✓ Verifies the Annual Financial Statements; The Management Report of Activities and the proposal of the Management Board for distribution of profit distribution generated by the company.
- ✓ Gives its approval for:
 - Participation or disposition of participation in other commercial companies or partnerships without legal personality;
 - Acquisition and administration of real estate over BGN 1 000 000;
 - Transfer and acquisition of insurance portfolio;
 - Acquisition or disposition of businesses or parts thereof;
 - Significant change in activities and organizational structure of the Company.

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

- Audit, risk and compliance committee;
- Remuneration Committee

Audit, risk and compliance committee

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

Chairman: Johan Daemen

Members: Teodor Sedlarski (independent member)
Snezhana Kaloyanova (independent member)

The members of the „DZI - Life Insurance“ JSC 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 Audit, risk and compliance committee has the following main responsibilities:

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

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

Remuneration Committee:

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

Chairman: Luc Popelier

Members: Johan Daemen

Secretary: Kremena Kraveva

Guests: Petar Andronov
Kosta Cholakov

STRUCTURE OF MANAGEMENT (CONTINUED)

Management system (continued)

Supervisory Board (SB) (continued)

Remuneration Committee: (continued)

The Remuneration Committee may propose to the Supervisory Board decisions on remuneration, taking into account the impact on risk and its management, long-term interests of shareholders, investors and other persons concerned.

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

The Remuneration Committee has the following powers:

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

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

Management Board (MB)

The Management Board of „DZI - Life Insurance“ JSC consists of 3 (three) members elected by the Supervisory Board.. At the end of 2019, the composition of the Board is as follows:

- Kosta Cholakov - Chairman and CEO - Bulgarian citizen born in 1972. He holds a master's degree in "Banking & Finance" at the University of "Queen Mary", London, England.
- Evgeni Benbasat – member of the Management Board and Executive Officer – Bulgarian citizen born in 1975. Holds master's degree in "Business administration to City University in Seattle, Washington, USA
- Bistra Vasileva – member of the Management Board and Executive Officer - Bulgarian citizen, born in 1972, holds master's degree in the major "Industrial business" to the University of National and World Economy, Sofia, Bulgaria
- Boris Palichev - member of the Management Board and Executive Officer - Bulgarian citizen, born in 1982. holds master's degree in the major "Accounting and control" to 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 have to meets at least once every two weeks. Decisions of the Management Board shall be taken by a simple majority unless the law or decision of the sole shareholder says otherwise.

The Management Board reports its activities to the Supervisory Board at least once every 3 / three / months but not less than 4 / four / times per year.

Functions and tasks of the Management Board:

- The Management Board organizes the activities of the Company, and also the insurance and financial policy;
- Approves the annual actuarial reports of the responsible actuary of the Company and also reports issued by the Head of "Internal Audit and Control";
- Determine 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;
- Determines management and organizational structure;
- Appoint and dismiss personnel performing key functions;
- Adopt policies, rules and terms and conditions under the Insurance Code. Chooses and authorizes CEOs.

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

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

STRUCTURE OF MANAGEMENT (CONTINUED)

Local Risk and Capital Oversight Committee (LRCOC):

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

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

The LRCOC shall consist of Management Board members and Risk and Capital Management representatives.

The Chairman of LRCOC is the Chief Financial Risk Officer (CFRO). Head of Non-Financial Risk Management shall perform the function of LRCOC Secretary, responsible for meeting protocols.

Employees, representatives of different bodies, which are relevant to the issues discussed must attend to LRCOC Meetings.

The Chairman of LRCOC by the Secretary of the Committee may invite other participants to attend meetings if he considers that their expert opinion is important and necessary for making a particular decision.

Observers with permanent invitation for the LRCOC: Head of Internal Audit and HJSC of Compliance and Internal Inspections

The LRCOC meets monthly, each 4-th week of the month.

The LRCOC shall take decisions provided by at least two of the members - executive

Directors are present in person (implying that always the CFRO or his replacement should take part). Decisions of LRCOC shall be made with total majority (unanimously) of the attending members. Each member is entitled to one vote. Other participants in the meeting have an advisory vote.

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

The committee was created by the Board of „DZI - Life Insurance“ JSC and perform responsibilities which are expressly assigned by it.

CANPP simultaneously fulfils the function of the Committee for the approval of products which entity offers to markets and channel of communication with the branch network (excluding products offered through the business partner UBB).

CANPP operates in accordance with the policy of "Risk appetite", corporate strategy and capital policy

Committee's members have the following functions - Chairman, owner of the product, sponsor and coordinator, which must be held by different persons. Chairman of CANPP's is the Executive Director in Department 'Operations'. Coordinator of the committees is the assistant of the executive director.

Sponsors of the relevant processes are Director of "Life Insurance Products" and Director "Corporate and specialized insurance" owners of the products are determined depending on the nature of the business proposal.

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

Investment Committee:

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

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

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

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Internal Control System

„DZI - Life Insurance“ JSC applies multi-model of internal control following the requirements of KBC Group; they introduced three lines of defence:

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

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

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

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

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

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

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, manage and control the extent of financial and insurance risk. Management Board adopts policies and procedures, which are approved/ rejected by Supervisory Board. The main objective of the risk policy is to define clearly defined parameters and rules for the operations of the 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 based on laws and regulations that clearly define the responsibilities and tasks of the first and second line of defence;
- Performs a number of activities related to the management of the various risks in the entity;
- Assists first line of defence in the implementation of the Common framework for risk management:
 - o on a regional level by explaining, consulting, training and supervision;
 - o on central level through training, seminars,

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

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT (COTINUED)

Information related to mergers and acquisitions

„DZI - Life Insurance“ JSC 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 Statute of „DZI - Life Insurance“ JSC issuing of preference shares conferring a right to more than one vote or additional liquidation share is forbidden.

There are no 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 in Operation rules of the Management/Supervisory, in compliance with the Insurance Code and the Commercial Law.

Redemption of shares can be made by a decision of the sole owner, under the terms and conditions set out in current legislation.

DIVERSITY POLICY

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

Pursuant to the requirements of diversity policies, the 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 a Bulgarian member and two Belgian members. The age range of the members is from 53 to 66 years old. One member of the Supervisory Board has a diploma of Business economy, the second has a degree in actuarial mathematics and the third has a qualification in "Finance".

In 2019, the composition of the Management Board meets the requirements of Diversity policy for board members.

Supervisory Board was composed of a Belgian member and two Bulgarian members. Management board include member who were born between 1962 and 1979. Diversity in education and qualification is the Management Board is provided by significant experience in different areas and qualification in the following subjects - "Legal", "Accounting and Control" and "Sociology".

This Declaration was approved by the Management Board of „DZI - Life Insurance“ JSC with Minutes dated the 12th of May 2020.


Kosta Cholakov
Chairman of the Management Board and
Chief Executive Officer




Boris Palichev
Member of the Management Board and
Executive Officer



Independent Auditors' Report

To the Sole shareholder of DZI – Life Insurance EAD

Report on the audit of the separate financial statements

Our opinion

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

In our opinion, the separate financial statements present fairly, in all material respects, the separate 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 separate 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 separate 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

Materiality	<ul style="list-style-type: none"> Overall Company materiality: BGN 777 thousand, which represents 1% of gross written premium.
Key audit matters	<ul style="list-style-type: none"> Estimates used in calculation of life insurance contract liabilities and liability adequacy test (LAT)

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

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

Overall Company materiality	BGN 777 thousand
How we determined it	Overall materiality represents approximately 1% of the Company's gross written premium (GWP).
Rationale for the materiality benchmark applied	<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 separate financial statements and concluded that revenue was a meaningful measure for users of the separate 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 separate 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
<p>Estimates used in calculation of life insurance contract liabilities and liability adequacy test (LAT)</p> <p>As at 31 December 2019, the payables for insurance contracts (before reinsurance) amount to BGN 174,371 thousand, as disclosed in note 25 to the separate financial statements.</p> <p>Insurance contract liabilities, also referred as technical insurance provisions, represent the most significant liability of the Company. Their assessment is a complex area that requires application of a set of statistical and mathematical methods and models as required by the Company's accounting policies and regulatory requirements. The valuation of technical insurance provisions requires professional judgment over uncertain future outcomes, including primarily the timing and ultimate settlement of long-term policyholder liabilities.</p> <p>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 separate financial statements.</p> <p>We focused on the mathematical provision and the liability adequacy test (LAT), due to their significance as well as the presence of a number of assumptions when setting them. Consistent with the insurance industry, the Company uses valuation models to support the calculations of mathematical reserve. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design application of the models. Economic assumptions such as investment return and interest rates and actuarial assumptions such as mortality, morbidity and customer behavior are key inputs used to estimate there mainly long-term life insurance liabilities. Significant judgement is applied in these assumptions.</p>	<p>We obtained an understanding and evaluated the design and operating effectiveness of selected key controls over the actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting and governance processes used by management related to the valuation of life insurance reserves.</p> <p>Our approach focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions used in the calculation of technical provisions or performing liability adequacy test. In relation to the particular matters set out above, our substantive testing procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> - Review and analysis of the accounting policy in respect of the Company's technical insurance provisions valuation and presentation, as prescribed by the applicable IFRS; - Obtaining an understanding of the internal actuarial process, including management's determination and approval process for setting economic and actuarial assumptions. We used our actuarial specialists to assist us in performing our audit procedures. - In particular, our approach focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions used in the calculation of technical provisions or performing liability adequacy test. - Our assessments also included challenging, as necessary, specified economic and actuarial assumptions, considering management's rationale for the actuarial judgements applied, along with comparison to applicable industry experiences. We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with applicable accounting standards. - Furthermore, by performing our

Key audit matter	How our audit addressed the key audit matter
<p>The Company's IFRS life insurance liability adequacy test was performed in order to confirm that technical provisions, net of deferred acquisition cost, were adequate in the context of expected future cash outflows.</p>	<p>recalculations we have determined whether the models and systems were calculating the technical provisions accurately and completely. We tested validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. The inputs used in actuarial testing were reconciled to the accounting records and relevant supporting evidence.</p> <ul style="list-style-type: none"> - We also evaluated the completeness, relevance and adequacy of the separate financial statement disclosures.

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

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

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 Separate Management Report and the Separate 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 Separate Management Report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) the Separate Management Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- c) the Separate Corporate Governance Statement for the financial year, for which the separate 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 separate financial statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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 separate 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 separate 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 21 June 2016.
- Grant Thornton OOD was appointed as a statutory auditor of the separate 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 separate 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 separate 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 Note10 of the Company's separate financial statements.

For PricewaterhouseCoopers Audit OOD:



Jock Nunan
Procurist

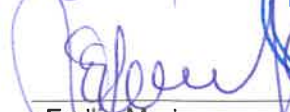

Boryana Dimova
Registered Auditor responsible for the audit
9-11, Maria Luiza blvd.
1000 Sofia, Bulgaria




15 May 2020

For Grant Thornton OOD:


Mariy Apostolov
Managing Director


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



15 May 2020

DZI - LIFE INSURANCE JSC
SEPARATE STATEMENT OF PROFIT OR LOSS
31 DECEMBER 2019

	Notes	2019 BGN'000	2018 BGN'000
Gross premiums	3(a)	75,603	41,427
Premiums ceded to reinsurers	3(b)	(2,304)	(723)
Net premiums		73,299	40,704
Fees and commissions income	4	1,831	482
Investment income	5	4,631	9,285
Realised (losses)/gains	6	(33)	2,385
Gains and losses on fair value revaluation	7	302	(77)
Other operating income	8	567	338
Total other income		7,298	12,413
Expenses on claims and annuities paid, gross	9(a)	(37,230)	(27,411)
Claims ceded to reinsurers	9(b)	162	-
Movement in insurance contract liabilities except unearned premium reserve - gross	9(c)	(2,207)	398
Movement in insurance contract liabilities except unearned premium reserve ceded to reinsurers	9(d)	(19)	-
Expenses on claims and annuities paid, net		(39,294)	(27,013)
Financial expenses		(151)	(121)
Recovered impairment of financial assets		20	16
Impairment of insurance receivables	22	(4,364)	(3,830)
Administrative expenses	10	(14,912)	(8,553)
Other operating expenses	10	(14,086)	(4,230)
Other expenses		(33,493)	(16,718)
Total expenses on claims and annuities paid and other expenses		(72,787)	(43,731)
Profit before tax		7,810	9,386
Income tax expense	12	(1,248)	(321)
Profit for the year		6,562	9,065

The separate financial statements are prepared on 24 April 2020 and were authorized for issue by the Management Board to the Supervisory Board on 12 May 2020 and signed on behalf of "DZI – Life Insurance JSC by:


Kosta Cholakov
Chief Executive Officer



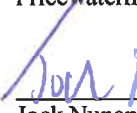

Boris Palichev
Executive Officer

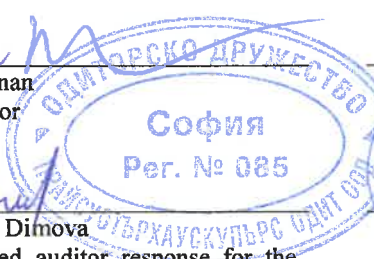

Anton Dechev
Preparer

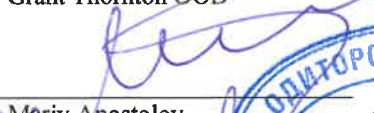
Audited according to the auditor's report dated 15 May 2020

PricewaterhouseCoopers Audit OOD


Grant Thornton OOD



Jock Nunan
Procurator




Mariy Apostolov
Managing partner





Boryana Dimova
Registered auditor response for the audit


Emilia Marinova
Registered auditor responsible for the audit

DZI - LIFE INSURANCE JSC
SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
31 DECEMBER 2019

	Notes	2019 BGN'000	2018 BGN'000
Profit for the year		6,562	9,065
Other comprehensive income			
<i>Other comprehensive income subject to reclassification to the profit or loss in future periods</i>			
Gain/ (loss) from financial assets at fair value through other comprehensive income that occurred during the period		5,256	(1,399)
Gain/ (loss) on financial assets at fair value through other comprehensive income, reclassified to profit or loss		(10)	(2,421)
Income tax effect	13	(513)	382
Other comprehensive income subject to reclassification to the profit or loss in future periods, net of tax	13	4,733	(3,438)
<i>Other comprehensive (loss) not subject to reclassification to the profit or loss in future periods</i>			
Actuarial losses on defined benefit plans	13	(12)	(5)
Income tax effect		1	-
Other comprehensive (loss) not subject to reclassification to the profit or loss in future periods, net of tax		(11)	(5)
Other comprehensive income/ (loss) for the year, net of tax		4,722	(3,443)
Total comprehensive income for the year, net of tax		11,284	5,622

The separate financial statements are prepared on 24 April 2020 and were authorized for issue by the Management Board to the Supervisory Board on 12 May 2020 and signed on behalf of "DZI – Life Insurance JSC by:


Kosta Cholakov
Chief Executive Officer





Boris Parichev
Executive Officer



Anton Dechev
Preparer

Audited according to the auditor's report dated 15 May 2020

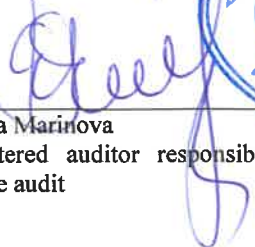
PricewaterhouseCoopers Audit OOD

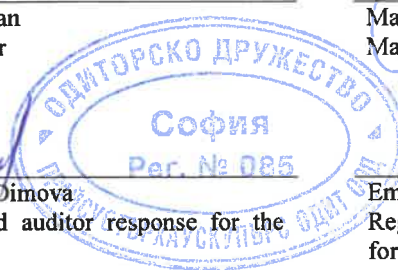
Grant Thornton OOD


Jock Nunan
Procurator


Mariy Apostolov
Managing partner


Boryana Dimova
Registered auditor response for the audit


Emilia Marinova
Registered auditor responsible for the audit



DZI - LIFE INSURANCE JSC
SEPARATE STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2019

	Notes	Share capital BGN'000	Capital reserves BGN'000	Retained earnings BGN'000	Revaluation reserve on tangible assets BGN'000	Revaluation reserve on financial assets at fair value through other comprehensive income BGN'000	Remeasurements of defined benefit liability BGN'000	Total equity BGN'000
Balance on the 1st of January 2018		38,600	34,542	90,099	1,683	10,766	(20)	175,670
Profit for the year		-	-	9,065	-	-	-	9,065
Other comprehensive income	13	-	-	-	-	(3,438)	(5)	(3,443)
Total comprehensive income		-	-	9,065	-	(3,438)	(5)	5,622
Increase from business combinations		-	-	4,220	-	1,427	-	5,647
Balance on the 31st of December 2018		38,600	34,542	103,384	1,683	8,755	(25)	186,939
Balance on the 1st of January 2019		38,600	34,542	103,384	1,683	8,755	(25)	186,939
Profit for the year		-	-	6,562	-	-	-	6,562
Other comprehensive income	13	-	-	-	-	4,733	(11)	4,722
Total comprehensive income		-	-	6,562	-	4,733	(11)	11,284
Dividends paid during the year		-	-	(13,107)	-	-	-	(13,107)
Transactions with shareholders		-	-	(13,107)	-	-	-	(13,107)
Balance on the 31st of December 2019		38,600	34,542	96,839	1,683	13,488	(36)	185,116

The separate financial statements are prepared on 31 April 2020 and were authorized for issue by the Management Board to the Supervisory Board on 12 May 2020 and signed on behalf of "DZI - Life Insurance JSC by:

Kosta Cholakov
Chief Executive Officer

Boris Palichev
Executive Officer

Anton Dechev
Preparer

Audited according to the auditor's report dated 15 May 2020

PricewaterhouseCoopers Audit OOD

Jock Nunan
Procurator

Boryana Dinova
Registered auditor response for the audit

Mariy Apostolov
Managing partner

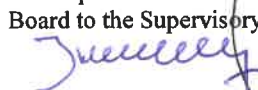
Emilia Marinova
Registered auditor responsible for the audit


Grant Thornton OOD

DZI - LIFE INSURANCE JSC
SEPARATE STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019

		31 December 2019 BGN'000	31 December 2018 BGN'000
	Notes		
Assets			
Intangible assets	15	11,210	13,628
Goodwill	1.3; 15	2,023	2,023
Deferred acquisition costs	23	4,530	5,097
Property, plant and equipment	16	9,074	9,362
Right-of-use assets	31	876	-
Investment properties	17	12,768	12,784
Investments in subsidiaries	14	115,425	115,425
Loans granted	19(b)	980	980
Deposits in financial institutions	19(b)	615	-
Financial assets at fair value through other comprehensive income	19(c)	188,047	153,966
Financial assets at fair value through profit or loss	19(e)	82,698	45,551
Financial assets at amortized cost	19(f)	8,062	8,125
Reinsurance transaction assets	20	989	528
Receivables on insurance transactions	22	8,663	8,354
Trade and other receivables	19(b)	1,641	884
Income tax receivables		-	362
Cash	24	2,624	31,726
Total assets		450,225	408,795
Equity and liabilities			
Equity			
Share capital	32.1	38,600	38,600
Retained earning		96,839	103,384
Revaluation reserve	32.3	15,171	10,438
Capital reserves	32.2	34,542	34,542
Actuarial revaluations reserve		(36)	(25)
Total equity		185,116	186,939
Liabilities			
Payables on insurance contracts	25	174,371	171,166
Payables on investment contracts	26	80,879	43,757
Retirement benefit obligations	27	276	228
Deferred tax liability	21	533	495
Financial derivatives	18	-	383
Payables to reinsurers	28	1,270	785
Payables to insurance intermediaries and insured persons	29	3,181	2,858
Trade and other payables	30	2,853	2,184
Income tax payables		870	-
Lease liabilities	31	876	-
Total liabilities		265,109	221,856
Total equity and liabilities		450,225	408,795

The separate financial statements are prepared on 24 April 2020 and were authorized for issue by the Management Board to the Supervisory Board on 12 May 2020 and signed on behalf of "DZI – Life Insurance JSC by:


Kosta Cholakov
Chief Executive Officer



Boris Palonev
Executive Officer



Anton Dechev
Preparer

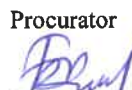
Audited according to the auditor's report dated 15 May 2020

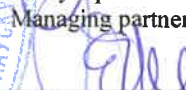
PricewaterhouseCoopers
Audit OOD

Grant Thornton OOD

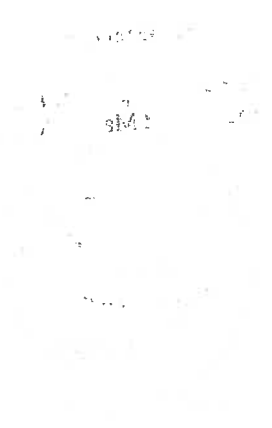

Jock Nunan
Procurement


Mariy Apostolov
Managing partner


Boryana Dimova
Registered auditor response
for the audit


Emilia Marinova
Registered auditor responsible for
the audit

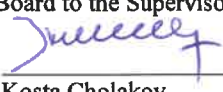
The notes from page 6 page 89 are integral part of the present separate financial statements



DZI - LIFE INSURANCE JSC
SEPARATE STATEMENT OF CASH FLOWS
31 DECEMBER 2019

	Notes	2019 BGN'000	2018 BGN'000
Operating activities			
Premiums received		82,430	38,256
Reinsurance premiums paid		(2,199)	(823)
Paid claims		(46,557)	(26,750)
Deposit part received from insurances with investment fund		33,073	21,112
Amounts paid on investment contracts		(3,587)	(549)
Payments to suppliers		(2,964)	(1,901)
Payments to employees and social insurance institutions		(5,429)	(3,869)
Acquisition costs paid		(11,718)	(3,279)
Paid corporate income tax		(553)	(251)
Paid taxes, different from the corporate income tax		(2,191)	(1,504)
Other cash flows from operating activities		1,199	1,052
Net cash flows used in operating activities		41,504	21,494
Investing activities			
Acquisition of subsidiary, net of cash equivalents		-	(18,753)
Proceeds from securities		3,363	42,041
Proceeds from sale of non-current assets		713	224
Purchases of fixed tangible and intangible assets		(1,854)	(5,001)
Purchase of securities		(33,196)	(2,466)
Purchase of shares in investment funds		(34,332)	(17,397)
Proceeds of shares in investment funds		3,529	339
Interest received		4,994	3,508
Dividends received	5	-	6,375
Rents received		834	331
Deposits provided		(605)	-
Proceeds from matured deposits		-	35,205
Other cash flows used in investing activities		(548)	(335)
Net cash flows used in investing activities		(57,102)	44,071
Financing activities			
Dividends paid		(13,107)	-
Received/ (paid) loans, net	19(h)	-	(37,960)
Lease payments		(397)	-
Net cash flows used in financing activities		(13,504)	(37,960)
Net increase in cash and cash equivalents		(29,102)	27,605
Cash and cash equivalents on 1 January		31,726	4,121
Cash and cash equivalents on 31 December	24	2,624	31,726

The separate financial statements are prepared on 24 April 2020 and were authorized for issue by the Management Board to the Supervisory Board on 12 May 2020 and signed on behalf of "DZI – Life Insurance JSC" by:


Kosta Cholakov
Chief Executive Officer



Boris Palichev
Executive Officer



Anton Dechev
Preparer


Audited according to the auditor's report dated 15 May 2020


PricewaterhouseCoopers Audit OOD

Grant Thornton OOD


Jock Nunan
Procurator


Mariy Apostolov
Managing partner


Boryana Dimova
Registered auditor response for the audit


Emilia Marinova
Registered auditor responsible for the audit

1.1 Corporate information

DZI – Life Insurance JSC ("the Company", "DZI", "DZI – Life Insurance JSC") is a commercial entity in accordance with the Commercial Act, it is successor of the State Insurance Institute established in 1946 through the merger of all national branches of foreign insurance companies having insurance activities in Bulgaria.

The Company is registered in the Republic of Bulgaria, having its seat and address of management in Sofia, Triaditsa Municipality, 89B, Vitosha blvd. DZI – Life Insurance JSC carries out its operations on the territory of the Republic of Bulgaria.

DZI holds a license for insurance and reinsurance activities for all types of insurances under Section I of Appendix No 1 to the Insurance Code in effect as at 31 December 2019, with the exception of Insurance for purchase of capital, as well as Accident insurance and Disease Insurance in Section II of the above-mentioned appendix.

As at 31 December 2019 the sole owner is KBC Insurance NV, Belgium.

The separate financial statements of DZI – Life Insurance JSC for the year ended 31 December 2019 were authorized for issue by virtue of decision of the Management Board to the Supervisory Board of 12 May 2020.

1.2 Consolidation

As at 31 December 2019 DZI – Life Insurance JSC holds 100% of the shares and stakes of the following commercial entity:

Company appellation	Nature of activity
DZI – General Insurance JSC	General Insurance

Investments in subsidiaries are presented at cost less any impairment loss. The accompanying financial statements are not consolidated financial statements in accordance with art. 37, para 2 of the Accountancy Act (in effect as at 31 December 2019) and International Financial Reporting Standard (IFRS) 10 Consolidated Financial Statements.

The Company prepares consolidated financial statements in accordance with IFRS 10 and the Bulgarian legislation, which will be approved and issued until the end of June 2020. Further information regarding the subsidiaries of DZI – Life Insurance JSC is presented in Note 14.

1.3 Business combination

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

The acquired company is being consolidated in accounting manner by "DZI – Life Insurance" in the period from the 31st of March 2018 to the 30th of December 2018 with the assumption that in the period from the 15th of March to the 31st of March no significant transactions have occurred to have significant impact on the financial condition of the acquired company. In 2018 procedure was initiated for merging the acquired company that finally completed on the 31st of December 2018 – the date of entering the merger (and the deletion of the acquired company) in the Commercial register.

Since the acquisition date to the merger date, "UBB – Life Insurance" has realized revenues at the amount of BGN 27,344 thousand and profit at the amount of BGN 4,041 thousand included in the consolidated financial statement.

Should the company "UBB – Life Insurance" had been acquired on the 1st of January 2018 the revenues of this company in the consolidated statement of "DZI – Life Insurance" for the period would have been BGN 35,988 thousand and the profit for the period would have been BGN 6,374 thousand.

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

1.3 Business combination (continued)

The costs related to the acquisition amount to BGN 238 thousand and include costs for legal services and due diligence. These expenses have been reported in the profit or loss in the period of their occurrence and are included in the line "Costs for hired services" in the statement of profit or loss of "DZI – Life Insurance".

According to the requirements of IFRS 3 Business combinations, operation or other event whereas the acquiring company gets control over one or more businesses, as well as, merger operations are being treated as business combinations. The standard requirements are not enforceable for a combination of enterprises under common control.

Yet the Company's management has the right to choose suitable accounting policy including the method of reporting business combination based on IFRS 3 in the case of combinations between enterprises under common control.

The Company's management is of the opinion that the most suitable reporting method is the purchase method in conformity with the principles of recognizing insurance contracts regulated in IFRS 4, namely that on the date of acquisition the insurer has measured the undertaken insurance liabilities and insurance assets at fair value.

As of the acquisition date of UBB Life Insurance JSC assets and liabilities of the acquired company have been measured at their fair value. As a result of the reported business combination an intangible asset was recognized – acquired insurance business (AIB) and occurred goodwill.

	Fair value as of 31.03.2018 BGN'000
Assets	
Deferred tax assets	144
Tangible assets	106
Investment property	5,122
Financial assets available for sale	96,364
Financial assets at fair value through profit and loss	8,544
Receivables under insurance operations	1,136
Trade and other receivables	391
Cash and cash equivalents	8,725
Total of assets	120,532
Revaluation reserve	1,997
Liabilities	
Obligations under insurance contracts	86,640
Obligations to reinsurers	232
Obligations to insurance intermediaries and insureds	1,507
Trade and other obligations	2,072
Total liabilities	90,451
Total identifiable net assets	28,084

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

	BGN'000
Transferred consideration settled in cash	41,268
Fair value of the acquired identifiable net assets	(28,084)
Fair value of acquired insurance business	(11,161)
Goodwill	2,023

As of the date of UBB Life Insurance's merger in DZI Life Insurance JSC, whereas the acquired enterprise terminates its legal independence, all assets and liabilities have been recognized at their net book value. For the purposes of preparation the separate financial statement, the management of the company has chosen the perspective application of the method of "found" balance values (predecessor accounting method) according to which the separate financial statement of the acquiring company DZI Life Insurance includes the assets and liabilities of the acquired UBB Life Insurance as of the merger date, i.e. 31.12.2018.

The business results of the acquired company are included in the consolidated financial statements of the acquiring company for the period as of the date of the business combination to the merger date.

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

1.3 Business combination (continued)

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

	Net book value as of 31.12.2018 BGN'000
Assets	
Deferred acquisition costs	1,176
Tangible assets	51
Investment property	5,429
Financial assets available for sale	92,462
Financial assets at fair value through profit and loss	10,787
Assets under reinsurance operations	116
Receivables under insurance operations	624
Trade and other receivables	496
Receivables from income tax	63
Cash and cash equivalents	22,515
Total of assets	133,719
Equity	
Retained earnings	4,220
Revaluation reserve	1,427
Total equity	5,647
Liabilities	
Obligations under insurance contracts	86,406
Obligations under investment contracts	10,765
Deferred tax liability	69
Obligations to re-insurers	258
Obligations to insurance intermediaries and insureds	1,037
Trade and other obligations	616
Total liabilities	99,151
Total identifiable net assets	28,921
	BGN'000
Transferred consideration settled in cash	41,268
Cash and cash equivalents acquired	(22,515)
Net cash outflow on acquisition	18,753
Net cash paid relating to the acquisition	18,753

“UBB – Life Insurance” is not a public company hence there is no market information about it. The measurement according to the market value method is based on the financial position and the forecasts for the cash flows of “Solvency II” of “UBB – Life Insurance” as of the 31st of March 2018 for a term of 10 years, because of the significant uncertainty and no suitable income curve.

The income curves being used for discounting are based on assets’ return for covering the technical reserves. The supposable approach is that each and every enterprise measurement would be based on the insurance portfolio value as well as on the equity under IFRS of “UBB – Life Insurance”.

Thus, the way it is required in IFRS 3, we have also analysed whether we should take into account corrections when assessing assets’ net value while taking into account the development of UBB – Life Insurance” financial condition and new positions.

The goodwill is mainly related to the growth and future return expectations, the significant skills and experience of the personnel of the acquired company, as well as the expected cost decrease. The goodwill is not expected to be deducted for tax purposes.

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

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

1.3 Business combination (continued)

The present financial statement includes the balance sheet of the businesses of the acquired company as of the end of 2018. The values in the statement of profit or loss, as well as the particular notes in the financial statement include solely movements of “DZI – Life Insurance” without the inclusion of the businesses of “UBB – Life Insurance”.

If necessary, each and every effect brought by the merger with “UBB – Life Insurance” has been presented at the particular line with the appellation “Increase / (decrease) from business combination”.

2.1 Basis of preparation

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

The financial statements of DZI – Life Insurance JSC have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by EU which have been endorsed by the European Union (IFRS, endorsed by EU).

The term “IFRS, as adopted by the EU” has the meaning of paragraph 1, subparagraph 8 of the Additional provisions of Bulgarian Accountancy Act, which is International Accounting Standards (IAS).

The financial statement is presented in conformity with IAS 1 “Presentation of financial statements”.

The company presents the statement of profit or loss and the other comprehensive income in two separate statements: statement of profit or loss and statement of comprehensive income.

The indicators in the financial statement are presented in BGN being the functional currency of the Company, and rounded off to thousand (thousand BGN) unless otherwise stated.

The company presents the statement of its financial position in general according to the liquidity degree. An analysis concerning assets’ recovery or liabilities’ settlement within twelve months as of the date of the statement of financial position (current) and after more than 12 months after the date of the statement of the financial position (fixed) is presented in the explanatory notes.

The financial assets and financial liabilities are being set off and the net sum is presented in the statement of financial position only if there is legal right to set off the recognized sums and if there is intention to be settled on net base, or for simultaneous assets realization and liabilities settlement.

Revenues and costs are not being set off in the statement of profit or loss, unless it is not allowed or permitted in a particular accounting standard or interpretation, the way this has been disclosed in particular in Company’s accounting policy.

The company did not prepare its consolidated financial statements as of the date of preparation of the separate financial statements of the Company and its subsidiaries, as required by IFRS 10.

The Company applied the interpretation embedded in the memorandum issued by the European Commission Internal market and services, regarding the meeting of the Accounting Regulatory Committee (ARC/08/2007), reviewing the relations between regulations of IFRS and Company directives 4 and 7.

The European Commission considers that if a company choose or is obliged to prepare its separate financial statements according to IFRS, as adopted by the EU, they cannot be prepared and presented independently of the preparation and presentation of the consolidated financial statements.

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 958 thousand and lease liabilities amounting to BGN 958 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.

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.

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

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 judgements, estimates and assumptions

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

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

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

Liabilities on life insurance contracts

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

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

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

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

2.4 Significant accounting judgements, estimates and assumptions (continued)

(a) Assessment of insurance contract liabilities (continued)

Liabilities on life insurance contracts (continued)

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

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

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

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

The future payments reserve on insurance contracts is determined on a claim by claim basis for all damages reported.

Additional amount is calculated for incurred but not reported claims using statistic methods set out in Ordinance No 53 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund, issued by the Financial Supervision Commission. The definition of the reserve is based on assumptions as to the expected amount of claims and therefore it may differ from actual amounts paid. Further information on life insurance contract liabilities is presented in Note 25.

Liabilities on general insurance contracts

Liabilities on general insurance contracts are related to products ensuring compensation for property and non-property damages. The Company is not licensed to carry out general insurance activities but pays compensations under insurance contracts concluded until 1998.

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

Liabilities related to investment contracts are presented at the fair value of the assets linked to the investment contracts.

The assessment of the liabilities includes the reassessment of investment fund shares, which is determined by the total value of the assets. The number of investment shares, multiplied by the current value of one share as at the date of the reporting period, represents the reserve on the investment contract which determines the liability. Further information on investment contract liabilities is presented in Note 26.

(c) Assessment of retirement benefit liabilities

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

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

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

This assessment is made individually for each employee and includes projection of the expected length of service with the Company, expected retirement compensation upon retirement, assessment of the earned portion of the expected retirement benefit and discounting through the use of the best assumptions as to the discount interest rate, salary increases, early termination and death. Further information on the employee retirement benefits is presented in Note 27.

2.4 Significant accounting judgements, estimates and assumptions (continued)

(d) Receivables on insurance contracts

Receivables from insurance contracts (from clients) 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 insurance contract 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.

(e) Deferred tax assets / deferred tax liabilities

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

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

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

- For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the 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.

(g) Goodwill impairment test

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

(h) Non-financial assets impairment test

An impairment loss is the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

To determine the value in use, the Company's management calculates the expected future cash flows for each cash-generating unit and determines the appropriate discount factor in order to calculate the present value of these cash flows.

2.4 Significant accounting judgements, estimates and assumptions (continued)

(h) Non-financial assets impairment test (continued)

When calculating the expected future cash flows, management makes assumptions about future gross profits. These assumptions are related to future events and circumstances. Actual results may vary and require significant adjustments to the Company's assets in the next reporting year. In most cases, the determination of the applicable discount factor assesses the appropriate adjustments in relation to market risk and risk factors that are specific to individual assets.

The Company has reported impairment losses on non-current assets in the amount of BGN 2,200 thousand in 2019 (2018: BGN 0) in order to reduce the carrying amount of non-current assets to their recoverable amount.

(i) Useful life of depreciable assets

Management reviews the useful lives of depreciable assets at the end of each reporting period.

As of 31 December 2019, management determines the useful life of the assets, which represents the expected useful life of the assets of the Company. The carrying amounts of the assets are analyzed in notes 15 and 16. Actual useful lives may differ from the estimated technical and moral wear and tear, mainly on software products and computer equipment.

(j) 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).

(k) Fair value measurement

The management uses techniques for measuring the fair value of financial instruments (in the absence of quoted prices in an active market) and non-financial assets. In applying valuation techniques, management makes maximum use of market data and assumptions that market participants would make when evaluating an instrument. In the absence of applicable market data, management uses its best estimate of the assumptions that market participants would make.

These estimates may differ from the actual prices that would be determined in a fair market transaction between informed and willing parties at the end of the reporting period (see Note 19).

2.5 Summary of significant accounting policies

(a) Product classification

Insurance contracts are the contracts where the Company takes over significant insurance risk through compensation of the insured person or another beneficiary in case of occurrence of a specific uncertain future event (insured event), which has adverse influence on the insured person. Investment contracts are contracts related to financial risk.

Any risk which is not classified as insurance risk is a financial risk.

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

A contract classified as insurance contract remains such by the end of its validity regardless of the possibility for a significant decrease in the insurance risk.

A contract classified as investment contract may be reclassified as insurance contract at a later stage if the insurance risk becomes material. Investment contracts are classified additionally as such with or without discretionary participation features.

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

2.5 Summary of significant accounting policies (continued)

(b) Tangible assets

Tangible assets are recognised at cost, less the accumulated depreciation, amortisation and accumulated impairment loss.

Replacement costs or costs related to major inspection are capitalized as incurred and if it is probable that future economic benefits related to the property will flow to the 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:

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

Depreciation costs are included in the profit or loss statement under "Administrative expenses".

At the end of each financial year, the residual values and useful lives of the assets and the depreciation method shall be reviewed and, if appropriate, adjusted.

Impairment reviews are made when there are indications that the carrying amount may not be recovered. Impairment losses are recognized as an expense in the profit or loss statement.

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

(c) 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 limited and unlimited.

Intangible assets with limited useful lives

Intangible assets with finite lives are depreciated over their useful economic life and reviewed for impairment whenever there is an indication that the intangible asset may be impaired. The depreciation period and method for intangible assets with finite useful lives are assessed at least at the end of each financial year.

Any changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. Depreciation charges for intangible assets with finite useful lives are recognized in the income statement.

Depreciation is accrued on a straight-line basis over the useful life of the asset.

2.5 Summary of significant accounting policies (continued)

(c) Intangible assets (continued)

Intangible assets with limited useful lives (continued)

In 2019 and 2018, the amortization rate and useful life are as follows:

	Annual depreciation rate	Useful lives
	%	in years
Software	12% – 20%	5 – 8
Fair value of acquired insurance business	10%	10

The amortization period and the amortization method for an intangible asset with a limited useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected model of consumption of the economic benefits, embodied in the asset are changed by the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

Intangible assets with unlimited useful lives

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

(d) Business combinations and goodwill

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

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

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

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

In the case of business combination achieved in stages, the Company re-measures the share interest held before that in the enterprise being acquired at fair value as of the acquisition date (i.e. the date of control acquisition) and recognizes the resulting profit or loss if any, in the profit or loss.

The sums recognized in the other comprehensive income of share interest in the enterprise being acquired before the date of control acquisition are recognized in the same manner as if the Company has directly released the share interest held before that.

2.5 Summary of significant accounting policies (continued)

(d) Business combinations and goodwill (continued)

Goodwill is about the future economic benefits that result from other assets acquired in business combination, which have not been individually identified and individually recognized. See the explanation in note 1.3. about the information concerning the initial goodwill definition. For the purposes of the impairment test the goodwill is distributed among each and every unit that generates cash flow to the Company (or a group of units that generate cash flows) that is expected to be benefit from the business combination, irrespective of whether other assets or liabilities of the acquired company have been distributed towards these units. Goodwill is measured at acquisition value, decreased with the accrued impairment losses. See note 15 about information for the impairment tests.

In the cases of transactions related to a combination of enterprises under common control the requirements of IFRS 3 are not applicable yet because of the absence of other established accounting rules and principles, the Company has undertaken the implementation of the purchase method.

(e) Investment properties

Investment properties are land and buildings held to generate rental income or for appreciation of value. Investment properties are initially recognised at cost. Costs incurred to acquire the asset are included in the initial measurement.

Subsequently investment properties are measured at fair value. The Company reports all changes in the fair value of its investment properties in the statement of profit or loss.

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

(f) Investments in subsidiaries and associates

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. There is control when the Company is exposed to, or has rights to, the variable return on its interest in the investee and is able to influence that return through its powers over the investee. In the separate financial statements of the Company, investments in subsidiaries are recognized at cost. Investments of the Company in subsidiaries and associates are recognized in the statement of financial position at acquisition cost.

The Company recognizes a dividend from a subsidiary in profit or loss in its separate financial statements when the right to receive the dividend is established.

(g) 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. When it comes to calculating the current taxes we apply the tax rates and tax laws in effect or that have been significantly passed as of the date of statement of financial position.

In conformity with the Corporate Income Taxation Act the tax rate for 2019 and 2018 amounts to 10%.

Income tax is based on the taxable profit and the financial result has been transformed for this purpose in accordance with the Bulgarian tax legislation.

Deferred income tax

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

2.5 Summary of significant accounting policies (continued)

(g) Taxes (continued)

Deferred income tax (continued)

The deferred tax liabilities are fully recognized. Deferred tax assets and liabilities could be offset only if the Company has the right and intention to make up for the current tax assets or liabilities from the same tax institution.

Deferred tax assets are recognized for all deducible temporary differences, transferred unused tax credits and unused tax losses to the degree to which it is probable to have taxable profit to which we could use the deducible temporary differences, the transferred unused tax credits and the unused tax losses.

A deferred tax liability is recognised for all taxable temporary differences,

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

The Company reviews the carrying amount of deferred income tax assets is reviewed at each date of statement of financial position and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each date of statement of financial position and are recognised to the extent it has become probable that future taxable profit will be gained, which would allow recovery of the deferred tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets and liabilities are recognised directly in the statement of comprehensive income (not in the statement of profit or loss), when the tax relates to items that have been recognised directly in the statement of comprehensive income.

(h) Retirement employee benefit liabilities

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 Labour Code each employee is entitled to two gross salaries upon retirement, and if the length of service with the same employer exceeds 10 years, the benefits amount to six gross salaries at the time of retirement.

In accordance with the requirements of IAS 19 the Company's contingent employee benefits liabilities are included in the annual results of the Company based on actuarial calculations. Revaluation of actuarial gains and losses is fully recognised 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 recognised 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.

(i) Financial assets other than derivative financial instruments

Initial recognition and subsequent measurement

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

2.5 Summary of significant accounting policies (continued)

(i) Financial assets other than derivative financial instruments (continued)

Initial recognition and subsequent measurement (continued)

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 Assets Instruments for the year ended 31 December 2019 and 31 December 2018.

Classification of financial assets

Upon the initial recognition of a financial asset the Company primarily evaluates the contractual terms of the instrument to define it either as equity or as a debt finance instrument..

Capital Financial Instrument is any contract that involves the Company's interest in the net asset value of another company. In addition, the Company examines whether there is a contractual obligation for the issuer under a financial instrument to provide cash flows or to trade financial assets and financial liabilities with a third party under conditions that are potentially unfavorable to the issuer.

Financial instruments that do not meet the criteria for designation as equity instruments are classified as debt instruments.

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

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

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

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

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

A financial asset is measured at fair value through other comprehensive income if the following two conditions:

- the financial asset is held within a business model that seeks both to collect contractual cash flows and sales of financial assets, and
- according to the contractual terms of the financial asset at specific dates, cash flows arise, which are only principal payments and interest on the outstanding amount of the principal.

A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

Notwithstanding the above, the 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.

2.5 Summary of significant accounting policies (continued)

(i) Financial assets other than derivative financial instruments (continued)

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 has no unconditional right to avoid the payment of the cash or the provision of the other financial asset in order to settle its contractual obligation, this obligation meets the definition of a financial liability.

The Company classifies a financial liability into one of the following categories:

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

For the purposes of the annual financial report, financial assets at amortized cost are divided into three subcategories:

- Financial assets - government securities at amortized cost;
- Cash and short-term deposits;
- Loans and other receivables at amortized cost.

Financial assets - government securities at amortized cost

Financial assets at amortized cost are non-derivative financial assets and have fixed or determinable payments and fixed maturities and which the 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. Profits and losses on financial assets at amortized cost are recognized in the profit or loss statement when the investment is derecognised or impaired, as well as through the amortization process.

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 at amortized cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of financial assets remuneration.

All transaction costs that are directly related to the acquisition are also included in the cost of acquisition of the financial assets. After initial assessment, loans and receivables are measured at amortized cost using the effective interest method. Profits and losses from loans and receivables are recognized in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

2.5 Summary of significant accounting policies (continued)

(i) Financial assets other than derivative financial instruments (continued)

Financial assets measured at fair value through profit or loss

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

Financial assets measured at fair value through 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.

Repurchase agreements - Repo deals

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

On derecognition or impairment, cumulative gains or losses previously recognized in other comprehensive income are recognized in profit or loss.

When capital instruments in this category are derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to retained earnings.

(j) Derivative financial instruments

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

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

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

(k) Impairment of financial assets

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

Recognition of expected credit losses (ECL)

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

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

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

2.5 Summary of significant accounting policies (continued)

(k) Impairment of financial assets (continued)

Recognition of expected credit losses (ECL) (continued)

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

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

Calculation of the ECL

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

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

As much as possible and in order to promote effectiveness, the Company uses modelling techniques that are similar to the ones developed for prudential purposes. Within the models the Company applies forecast macroeconomic information.

When it comes to calculating the ECL we reflect the probability weighed values while taking into consideration the money value throughout time, as well as information about past events, current terms, conditions and forecast of the future economic conditions.

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

Significant credit risk increase

The measurement of the significant credit risk increase is a relative measurement defined at the initial recognition.

This is a multi-factorial measurement hence a multi-factorial approach has been elaborated.

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

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

If neither of the three actions brings about period review for taking the credit losses into consideration, the financial asset should be reported with 12-month ECL. If a change is to be done in the period of credit losses reporting, we recognize depreciation referable to the whole period until the contract end.

The reverse consideration is possible as well, if we observe decrease of financial asset's credit risk as of the end of the reporting period.

2.5 Summary of significant accounting policies (continued)

(k) Impairment of financial assets (continued)

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

As of each reporting date the enterprise measures the corrective for financial instrument losses at the amount equal to the expected credit losses throughout the effective term of the instrument, if the credit risk of this financial instrument has significantly increased after the initial recognition. If as of the reporting date the credit risk of a financial instrument has not significantly increased after the initial recognition, the enterprise measures the loss corrective for this financial instrument at the amount equal to the expected credit losses for 12 months. As of each reporting date the enterprise measures whether the credit risk of a particular financial instrument has significantly increased after the initial recognition.

During its measurement the Company takes into account the risk change as of the default occurrence during the expected term of the financial instrument. In order to perform this measurement, the Company compares the risk of default occurrence under the financial instrument as of the reporting date and as of the date of the initial recognition and takes into account the reasonable and argued information that certifies the significant increase of credit risk after the initial recognition. The Company could accept that the credit risk of a particular financial instrument has not significantly increased after the initial recognition if it was established that the financial instrument is of low credit risk as of the date of the statement of financial position.

ECL of commercial and other receivables

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

The company perceives that there are evidence of impairment of commercial and other receivables if some of the following indications is present:

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

The company measures the expected credit losses under the financial instrument while taking the following into account:

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

Additional numerical information about Company's exposure to the ECL is presented in note 34.

(l) Derecognition of financial assets

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

- the contractual rights to receive cash flows from the asset have expired;
 - the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement
 - The contractual rights to receive cash flows from the financial asset have been transferred and:
- the Company has transferred substantially all the risks and rewards of the financial asset, or
 - the Company has neither transferred, nor retained substantially all the risks and rewards of the financial asset, but has transferred control over the asset.

2.5 Summary of significant accounting policies (continued)

(l) Derecognition of financial assets (continued)

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, but has not transferred control of the asset, the financial asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase. In the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Difference between the available borrower and lender of debt instrument that is essentially with different terms and conditions is accounted as extinguishment of the initial financial liability and recognition of new financial liability.

Similarly, a significant change in the terms and conditions of an available financial liability or its part (irrespective of whether due to debtor's financial hardships or not) should be accounted as extinguishment of the initial financial liability and recognition of a new financial liability.

The difference between the balance value of a financial liability (or financial liability part) that has been extinguished or transferred to another person and the paid remuneration, including all the transferred non-money assets or undertaken liabilities should be recognized in the profit or loss.

(m) 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.

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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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.

2.5 Summary of significant accounting policies (continued)

(m) Fair value (continued)

For assets and liabilities that are measured at fair value on a recurring basis, the Company reviews their categorisation at the respective fair value hierarchy level (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether transfer(s) should be made between levels.

The 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 financial assets at fair value through profit and loss, and for non-recurring measurement, such as assets held for sale / distribution to the owners.

Internal valuation experts are usually involved for measurement of the fair values of significant assets, such as available for sale financial assets and financial assets at fair value through profit and loss. External appraisers 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 appraisers include professional experience, qualities and reputation and according to the enforceable regulatory requirements.

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. If the fair value cannot be measured reliably the financial instruments are stated at cost which is the fair value of the consideration paid to acquire the investment or the amount initially received from the financial liability. All directly attributable transaction costs are included in the cost of the investment.

Analysis of the fair values of financial instruments and additional information as to how these were measured are provided in Note 18 and 19.

(n) Impairment of non-financial assets

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

Impairment losses from continuing operations are taken to the statement of profit or loss.

An assessment is made by the Company at each reporting date as to whether there is any indication that previously recognised impairment losses, on assets other than goodwill, may no longer exist or may have decreased. Previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount may not exceed the carrying amount of the asset that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Reversals of impairment losses are recognised in the statement of profit or loss.

2.5 Summary of Significant Accounting Policies (continued)

(o) Reinsurance

The company cedes life insurance premiums in order to limit its exposure to significant claims. Outward reinsurance premiums and the reinsurer's share in the indemnities are included in the respective line items in the insurer's financial statements. Reinsurance gains or losses are recognised in the statement of profit or loss immediately and are not amortised.

Reinsurance assets represent balances due from reinsurance companies. Such balances are related to receivables on reinsurance transactions to be received as at the date of the statement of financial position, recognised as income on outward reinsurance based on the premiums due during the reporting period, results participation arrangements and commissions under the effective reinsurance contracts. These are measured at their due value applying the respective exchange rate as at the date of the statement of financial position.

Reinsurance liabilities are liabilities on reinsurance transactions due for payment as at the statement of financial position, based on the premiums, indemnities, result sharing arrangements and commissions due during the reporting period under effective reinsurance contracts of the Company on outward and inward reinsurance. These liabilities are measured at their due amount applying the respective exchange rate as at the date of the statement of financial position. Reinsurance assets or liabilities are derecognised when the contractual rights are repaid or expire, or when the contract is transferred to a third party.

(p) Insurance receivables

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

(q) Deferred expenses

Deferred acquisition costs (DAC)

Deferred acquisition costs are acquisition commissions reported in the financial period, related to the closing of the insurance contracts, which are deferred to periods after the date of the statement of financial position. Acquisition costs are deferred using actuarial methods to the extent the latter are recoverable against future insurance premiums.

Following initial recognition deferred acquisition costs are amortised over the expected life of the contract (period of collection of the insurance premiums) using a fixed percentage of the premiums. Deferred acquisition costs are derecognised when the related contracts are terminated – due to occurrence of the insured event, early termination (surrender) or ex-officio liquidation. Deferred acquisition costs are assets to cover the technical insurance reserve in accordance with the Insurance Code in effect as at 31 December 2019. The Company reviews deferred acquisition costs for impairment at each reporting date or more often, when indications of impairment exist. Impairment review is carried out through insurance liability adequacy test.

(r) Cash

Cash comprise cash at banks and cash in hand. For the purpose of the cash flow statement, cash consist of cash at banks and cash in hand, as well as short-term deposits with an original maturity of three months or less. The Company prepares its cash flow statement under the direct method. Cash is measured at amortized cost.

(s) Insurance contract liabilities (insurance reserves)

Liabilities on life insurance contracts

Liabilities on life insurance contracts are recognised when the insurance contracts are closed and initial premiums due are accrued.

The reserves represent the estimated liabilities undertaken by the insurer on concluded insurance and reinsurance contracts, costs related to the performance of these liabilities and the potential adverse deviation from the assumptions made.

2.5 Summary of Significant Accounting Policies (continued)

(s) Insurance contract liabilities (insurance reserves) (continued)

Liabilities on life insurance contracts (continued)

According to the Insurance Code in effect as at 31 December 2019 the DZI - Life Insurance JSC forms the following liabilities on insurance contracts:

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

Mathematical reserve and capitalised value of pensions

The mathematical reserve and the capitalised value of pensions are calculated using a prospective net premium method – the difference between the present value of the expected future insurance payments and the present value of the expected future net premiums.

The additionally allocated income on policies, the present value of premiums reported less acquisition costs that are related to periods after the date of the statement of financial position and additional administrative costs are included in the mathematical reserve and the capitalised value of pensions. The calculation is based on the same technical bases used in the calculation of the net premiums, including the discount (technical) interest rate and mortality table.

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

Additional reserve for expected adverse deviation from the technical bases used

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

Unearned premiums reserve

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

Outstanding claims reserve

The outstanding claims reserve is set aside to cover indemnities and amounts due, as well as claims handling expenses incurred before the end of the reporting period, regardless of whether reported to the Company or not, and which have not been paid at that date.

Reserve for future participation in income

It is set aside on contracts with savings element and discretionary participation features to cover future adverse deviations in the investment yield. The distribution of the accrued sums in the reserve under the insurance contracts is taking place only after the Management Board of the Company passes resolution to this end.

Reserve for bonuses and rebates

It includes amounts intended for policyholders and beneficiaries under insurance contracts in the form of bonuses and rebates resulting from the favourable development of the insurance risk.

2.5 Summary of Significant Accounting Policies (continued)

(s) Insurance contract liabilities (insurance reserves) (continued)

Liability adequacy test

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

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

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

Liabilities on general insurance contracts

Liabilities on general insurance contracts are related to products ensuring compensation for property and non-property damages. The Company continues to pay indemnities under general insurance contracts concluded until 1998.

Outstanding claims reserve is set aside on such contracts. This reserve is based on the estimated unsettled claims, regardless whether reported as at the date of the statement of financial position or not, as well as the expenses related to the settlement of such claims.

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

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

(u) Discretionary participation features

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

(v) 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.

2.5 Summary of Significant Accounting Policies (continued)

(v) Financial liabilities (continued)

Subsequent assessment

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

Other financial liabilities are recognized when they become due and, upon initial recognition, are carried at the fair value of the consideration received, net of directly attributable transaction costs. After initial recognition, they are measured at amortized cost using the effective interest method.

Derecognition

Financial liabilities and insurance liabilities are derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

(w) Liabilities to insurers and brokers

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

(x) Provisions

General

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

(y) Equity, reserves and dividends

Share capital

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

The reserves in Company's equity include:

- Capital reserves - formed as deductions from the profit for the year in accordance with the current commercial legislation (legal and additional);
- Re-measurement reserves - includes gains or losses on revaluation of financial and non-financial assets in accordance with applicable accounting standards;
- Reserve of actuarial re-measurements - includes actuarial gains or losses from changes in demographic or financial assumptions and the return on plan assets.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and are deducted from equity when they are approved by the Company's shareholders.

2.5 Summary of Significant Accounting Policies (continued)

(y) Equity, reserves and dividends (continued)

Dividends on ordinary share capital (continued)

Dividends for the year that are approved after the date of the statement of financial position are considered an event after the date of the statement of financial position. All transactions with the Company owners are individually presented in the statement of changes in equity.

(z) Revenue recognition

Gross premiums

Gross premiums on life insurance contracts as well as the insurance portion of premiums on investment contracts are recognised as income:

- on the date the policy becomes effective – the one-off premium due;
- on the date the new premium period on the policy becomes effective - the premium due for this period;
- on the payment date – the prepaid premium.

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

Premiums ceded to reinsurers

Gross reinsurance premiums on life insurance contracts are recognised as income when they fall due or on the date the policy becomes effective.

Fees and commissions income

Fees related to policy administration, investment management services, surrenders and other fees on contracts are charged to the insured persons under insurance and investment contracts.

These fees are recognised as income in the period when the related services are rendered. If fees are related to services rendered in future periods, they are deferred and recognised in such future periods.

Investment income

Interest income is recognised in the statement of profit or loss as interest accrues and is calculated using the effective interest rate method.

Fees and commissions that are integral part of the effective income on a financial asset or liability are recognised as an adjustment in the effective interest rate of the instrument.

Investment income includes investment property rental income and dividends, when the right of the Company to receive payment is established.

For listed securities this is the date when the security price does not include any dividends.

Realised gains and losses

Realised gains and losses on investments reported in the statement of profit or loss include gains and losses on financial assets, investment properties, investment products and currency revaluation, as well as profits/ (losses) from lands and buildings.

Gains and losses also include the ineffective portion of currency risk management. Gains and losses on disposal of investments are calculated as the difference between the net disposal proceeds and the original or amortised cost and are recognised on the occurrence of the disposal transaction.

2.5 Summary of Significant Accounting Policies (continued)

(z) Revenue recognition (continued)

Other income

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

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

Expenses on annuities and claims paid

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

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

Claims ceded to reinsurers

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

Financial expenses

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

Administrative and other operating expenses

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

(ab) Changes in accounting policies

The 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.

2.5 Summary of Significant Accounting Policies (continued)

(ab) Changes in accounting policies (continued)

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

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

The effect from adoption of IFRS 16 on the 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 1.55%.

	1 January 2019
	BGN'000
Operating lease commitments disclosed as at 31 December 2018	986
Discounted using the company's incremental borrowing rate of 1.55%.	976
Less: Short-term and low-value leases recognized on a straight-line basis	958
Lease liability recognized as at 1 January 2019	958
Of which are:	
Current lease liabilities	341
Non-current lease liabilities	617

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:

	1 January 2019
	BGN'000
Amount equal to lease liability as at 1 January 2019 under IFRS16	958
Right-of-use asset as at 1 January 2019	958

The first-time application of IFRS 16 affected the following balance sheet items as at 1 January 2019:

- Right of use assets – increase by BGN 958 thousand
- Lease liabilities – increase by BGN 958 thousand
- There was no impact on retained earnings on 1 January 2019.

Detailed information on the financial effect of the application of IFRS 16 on the income statement and cash flow statement for 2019 is presented in Note 31 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.

2.5 Summary of Significant Accounting Policies (continued)

(ab) Changes in accounting policies (continued)

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.

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 retail vehicles 4 years

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The 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.

2.5 Summary of Significant Accounting Policies (continued)

(ab) Changes in accounting policies (continued)

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.

The leasing activity of the Company

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

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company.

These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations.

For critical judgements in determining the lease term, please refer to Note 2.4.

(ac) Foreign currency translation

The separate financial statements of DZI - Life Insurance JSC have been prepared in thousands of Bulgarian levs. 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 Bulgarian levs using the foreign currency rate ruling of the Bulgarian National Bank (BNB) at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rate of exchange of BNB at the date of the statement of financial position.

Foreign exchange differences on transactions and translation of monetary assets and liabilities denominated in foreign currencies are taken to the statement of profit or loss in the period they are incurred. The key exchange rates at the beginning and at the end of the reporting period were as follows:

	As of the 31st of December 2019	As of the 31st of December 2018
USD 1 =	1.74099 BGN	1.70815 BGN
EUR 1 =	1.95583 BGN	1.95583 BGN

3. Net premiums

(a) Gross premiums on insurance contracts

	2019 BGN'000	2018 BGN'000
Life insurance contracts	76,569	41,480
Movement in unearned premium reserve	(966)	(53)
Gross premiums – total	75,603	41,427

(b) Premiums on insurance contracts ceded to reinsurers

	2019 BGN'000	2018 BGN'000
Life insurance	(2,784)	(936)
Movement in unearned premium reserve	480	213
Total premiums ceded to reinsurers	(2,304)	(723)
Net premiums – total	73,299	40,704

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
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4. Fees and commissions income

	2019	2018
	BGN'000	BGN'000
Administration of policies and loans on policies, incl. fees under investment fund contracts (Unit-linked, UL) and redemption fees	1,831	482
Total fees and commissions income	1,831	482

5. Investment income

	Notes	2019	2018
		BGN'000	BGN'000
Rental income from investment properties		683	239
Interest revenues from:			
<i>Financial assets at fair value through profit or loss</i>		43	37
<i>Financial assets at fair value through other comprehensive income</i>		3,566	2,277
<i>Financial assets at amortized cost</i>		288	287
<i>Loans granted</i>		45	45
Dividend revenues from investment in subsidiary and other interests		-	6,375
Interest income from deposits with financial institutions		6	25
Total investment income		4,631	9,285

6. Realised gains/(losses)

	Notes	2019	2018
		BGN'000	BGN'000
Financial assets at fair value through other comprehensive income			
<i>Realized gains</i>			
Bonds		10	2,574
<i>Realized (losses)</i>			
Bonds		(7)	(191)
Total realized profits from financial assets at fair value through other comprehensive income	19(i)	3	2,383
Land and buildings			
<i>Realized gains</i>		25	5
<i>Realised (losses)</i>		(61)	(3)
Total realised gains		(33)	2,385

7. Gains and losses from revaluation to fair value

	Notes	2019	2018
		BGN'000	BGN'000
Gains / (losses) from re-measurement to fair value of the investment properties	17	287	3
Gains/ (losses) on revaluation of derivative financial instruments held for trading		16	(65)
Gains/(losses) on revaluation to fair value of financial instruments at fair value through profit or loss other than financial derivatives	19(i)	(1)	(15)
Total gains / (losses) on revaluation to fair value		302	(77)

8. Other operating income

Other operating income amounting to BGN 567 thousand (2018: BGN 338 thousand) represent mainly income from trailer fee at the amount of BGN 242 thousand (2018: BGN 54 thousand), sale of tangible assets at BGN 127 thousand (2018: BGN 111 thousand), rent amounting at BGN 133 (2018: BGN 109 thousand).

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

9. Expenses on annuities and claims paid – net

(a) Expenses on annuities and claims – gross

	2019	2018
	BGN'000	BGN'000
Life insurance contracts	37,223	27,403
General insurance contracts	7	8
Total annuities and claims paid - gross	37,230	27,411

(b) Claims ceded to reinsurer

Life insurance contracts	(162)	-
Total claims ceded to reinsurer	(162)	-

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

Movement in liabilities on outstanding payments on life insurance	1,797	(553)
Movement in liabilities on outstanding payments on general insurance	(25)	(8)
Movement in the mathematical reserve on life insurance	654	326
Movement in other liabilities on life insurance	(219)	(163)
Total movement in contractual liabilities, except the unearned premium reserve – gross	2,207	(398)

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

Movement in liabilities on life insurance contracts	19	-
Total movements in liabilities on insurance contracts ceded to reinsurer, except unearned premiums reserve	19	-
Expenses on annuities and claims paid - net	39,294	27,013

10. Administrative and operating expenses

	Notes	2019	2018
		BGN'000	BGN'000
Expenses on employee benefits	11	6,460	4,590
Amortisation of intangible assets	15	1,230	131
Impairment of intangible assets	15	2,200	-
Depreciation of buildings and equipment	16,31	1,195	735
IT expenses		958	505
Expenses on maintenance of offices		652	495
Expenses on hired services		567	623
Expenses on advertising and marketing		457	223
Expenses on audit fees and other professional services		355	329
Expenses on training and other expenses on personnel	11	228	78
Taxes and fees expense		149	126
Expenses on office consumables		53	23
Expenses on rentals of offices		29	492
Expenses on other materials		379	203
Total administrative costs		14,912	8,553

10. Administrative and operating expenses (continued)

	Notes	2019 BGN'000	2018 BGN'000
Other operating expenses			
Acquisition costs		12,853	3,350
Movement in deferred acquisition costs	23	567	539
Movement in bonus accrual		39	103
Sharing positive financial results		2	4
Net gain loss on foreign exchange revaluation		(9)	(77)
Contributions to guarantee funds		(44)	(27)
Maintenance of investment properties		181	73
Other operating costs		497	265
Total other operating expenses		14,086	4,230

The accrued amounts for the services provided by the registered auditors for statutory independent financial audit of the separate and consolidated financial statements for the year ending on 31 December 2019 are BGN 167 thousand, respectively BGN 117 thousand for PricewaterhouseCoopers Audit OOD and BGN 50 thousand for Grant Thornton OOD (2018: a total amount of BGN 134 thousand, respectively BGN 84 thousand for PricewaterhouseCoopers Audit OOD and BGN 50 thousand for Grant Thornton OOD).

In 2019, the expenses accrued for services by the external auditor PricewaterhouseCoopers Audit OOD for audit of annual group reporting forms are BGN 21 thousand (2018: BGN 15 thousand).

In 2019, the expenses for services by the external auditor PricewaterhouseCoopers Audit OOD, other than those related to the annual audit amount to BGN 5 thousand in connection with the performance of agreed procedures regarding the financial information presented in the annual reports on Ordinance 53, which are submitted to the Financial Supervisory Commission (2018: BGN 5 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 117 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 4 thousand in connection with the performance of agreed procedures regarding the financial information presented in the annual reports on Ordinance 53, which are submitted to the Financial Supervisory Commission (2018: BGN 4 thousand) and BGN 8 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 8 thousand).

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

11. Expenses on employee benefits and trainings

	Notes	2019 BGN'000	2018 BGN'000
Expenses on remuneration, including salaries		4,463	3,444
Bonus provision		1,161	660
Expenses on social security		802	460
Expenses on training and other expenses on personnel		228	78
Movement in retirement benefits provision	27	34	26
Total expenses on employee benefits	10	6,688	4,668

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12. Income tax expense

	2019	2018
	BGN'000	BGN'000
Accounting profit before income tax	7,810	9,386
Applicable tax rate	10%	10%
Expected tax expense according to the applicable tax rate	(781)	(939)
Tax effect of costs not recognized for tax purposes	(1,847)	(364)
Tax effect from revenues not recognized for tax purposes	915	1,315
Current tax expense	(1,713)	-
Reversal of temporary difference	(48)	26
Tax effect of components of other comprehensive income	513	(347)
Income tax expense for the year	(1,248)	(321)

13. Income tax related to the components 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 the profit or loss:						
Financial assets at fair value through other comprehensive income	5,246	(513)	4,733	(3,820)	382	(3,438)
Available for sale financial assets	-	-	-	-	-	-
Other comprehensive income not subject to reclassification to the profit or loss						
Actuarial (losses) on defined benefit plans	(12)	1	(11)	(5)	-	(5)
Total	5,234	(512)	4,722	(3,825)	382	(3,443)

14. Investments in subsidiaries

DZI - Life Insurance JSC exercises control through its shareholding of more than 50% in the following entity:

	As at 31 December 2019	As at 31 December 2019	As at 31 December 2018	As at 31 December 2018
	% of the shareholding	BGN'000	% of the shareholding	BGN'000
"DZI – General Insurance" JSC	100%	115,425	100%	115,425
		115,425		115,425

The accounting policy of the subsidiary is in line with the accounting policy of the parent-company. Its head office is located in the Republic of Bulgaria. The reporting date and reporting year of the subsidiary "DZI – General Insurance" JSC coincide with the ones of "DZI – Life Insurance" JSC.

DZI Life Insurance JSC reviews for impairment its investments in subsidiaries at each year-end. Based on the impairment review as at 31 December 2019 of the Company's the investment in DZI – General Insurance JSC the management has not found any indications that the carrying amount of the investment might exceed its recoverable amount.

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31 DECEMBER 2019

15. Intangible assets and goodwill

	Note	Brands BGN'000	Software BGN'000	Acquired insurance business(VBI) BGN'000	Costs for acquiring intangible assets BGN'000	Other intangible assets BGN'000	Total BGN'000
Book value							
On the 1 st of January 2018		1,980	1,370	-	241	370	3,961
Acquired		-	-	-	902	-	902
Increase from business combination		-	15	11,161	-	-	11,176
Transfers		-	14	-	(191)	177	-
On the 31 st of December 2018		1,980	1,399	11,161	952	547	16,039
Acquired		-	-	-	1,012	-	1,012
Transfers		-	1,389	-	(1,438)	49	-
On the 31st of December 2019		1,980	2,788	11,161	526	596	17,051
Accumulated amortisation and impairment							
On the 1 st of January 2018		-	1,233	-	-	195	1,428
Accrued	10	-	81	-	-	50	131
Increase from business combination		-	15	837	-	-	852
On the 31 st of December 2018		-	1,329	837	-	245	2,411
Accrued amortization	10	-	67	1,113	-	50	1,230
Accrued impairment		-	-	2,200	-	-	2,200
On the 31st of December 2019	10	-	1,396	4,150	-	295	5,841
Carrying amount							
On the 31st of December 2018		1,980	70	10,324	952	302	13,628
On the 31st of December 2019		1,980	1,392	7,011	526	301	11,210

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

As at 31 December 2019 the DZI brand has been reviewed for impairment. Factors taken into account during the impairment review included: decrease in the market value significantly exceeding the one that might be expected as a result of time past or orderly use; significant movements in market interest rates which may influence the discount rate used to determine the present value; significant changes having adverse impact on the company with respect to the volume or pattern of the present or future use of the asset. Based on the test, it was found that there are no indications that could lead to impairment of the DZI trade mark.

In 2018 as a result of the acquisition of investment in subsidiary UBB Life Insurance and its subsequent merger in DZI Life Insurance, two new intangible assets were recognized – goodwill and fair value of acquired insurance business (AIB). Both assets were initially recognized as of the date of the Company acquisition - 31.03.2018.

15. Intangible assets and goodwill (continued)

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

The goodwill was initially recognized on consolidated basis as an asset with unlimited useful life. The goodwill occurs as the difference between the value of the paid remuneration and the net identifiable assets and liabilities of the acquired company at the amount of BGN 2,023 thousand. The goodwill is tested for impairment annually as per the requirements of IAS 36 on an annual basis if the recoverable amount of an investment is lower than its carrying value..

In the end of 2018, the impairment test was performed and no prerequisite for its occurrence was established.

In 2019 has been made an impairment test of Goodwill and VBI. The result of the calculations shows that the PV of the expected future cash flows is much higher than the book value of the goodwill asset, therefore, it can be concluded that no sufficient evidences to suggest that impairment must be recognized at the end of the reporting period.

VBI- there is sufficient evidences to confirm that the current value of the intangible asset linked to the ex-UBB Life insurance portfolio is lower than the initially recognized amount less the accumulated depreciation. As of 31 December 2019 is recognized impairment of BGN 2,200 thousand, which is presented in separate statement of profit or loss within Administrative expenses. This assessment is based on key assumptions such as the limitation of the information on the risk insurance portfolio, which constitutes one of the components of the recognized business, the presence of uncertainty for the development of this portfolio, issues related to the quality of portfolio data (termination of policies) and issuance of new ones as a result of changes in the data on loans granted by UBB AD).

The reporting value of the fully amortized intangible assets being in use as of the 31st of December 2019 amounts to BGN 1,497 thousand (2018: BGN 1,407 thousand). In the end of each reporting period the Company measures the useful life of the intangible assets and if necessary, corrects them. In 2019 and 2018 no change has occurred compared to the defined useful life of assets at their acquisition.

As of 31 December 2019 The Company has contractual obligations for the acquisition of intangible assets (software) of the amounts of BGN 221 thousand. The Company does not have pledged as collateral at the end of the reporting period.

16. Tangible assets

	Note	Land BGN'000	Buildings BGN'000	Facilities BGN'000	Costs for acquiring intangible assets BGN'000	Total BGN'000
Book value						
On the 1 st of January 2018		111	11,077	3,218	-	14,406
Acquired		-	3,977	176	56	4,209
Increase from business combination		-	-	654	-	654
Disposals		-	(68)	(39)	-	(107)
On the 31 st of December 2018		111	14,986	4,009	56	19,162
Acquired		-	-	2	544	546
Disposals		-	(83)	(274)	-	(357)
Transfer		-	30	397	(427)	-
On the 31 st of December 2019		111	14,933	4,134	173	19,351

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16. Tangible assets (continued)

	Note	Land BGN'000	Buildings BGN'000	Facilities BGN'000	Costs for acquiring intangible assets BGN'000	Total BGN'000
Accumulated amortisation and impairment						
On the 1 st of January 2018		10	5,979	2,561	-	8,550
Accrued depreciation	10	-	517	218	-	735
Accrued impairment		(1)	(8)	-	-	(9)
Written off depreciation		-	(43)	(35)	-	(78)
Increase from business combination		-	-	602	-	602
On the 31 st of December 2018		9	6,445	3,346	-	9,800
Accrued depreciation	10	-	579	222	-	801
Written off depreciation		-	(50)	(274)	-	(324)
On the 31st of December 2019		9	6,974	3,294	-	10,277
Carrying amount On the 31st of December 2018		102	8,541	663	56	9,362
On the 31st of December 2019		102	7,959	840	173	9,074

The book value of fully depreciated tangible assets still in use as at 31 December 2019 amounts to BGN 3,273 thousand (2018: BGN 3,012 thousand). At the end of each reporting period the Company estimates the useful lives of tangible assets and if necessary, corrects them. In 2019 and 2018 there is no change to expected useful lives of the assets at their acquisition. The Company does not have significant contractual obligations to acquire tangible assets, there are no pledges such as collateral at the end of the reporting period. The amount of expenses for acquisition of tangible assets as of 31.12.2019 amounts to BGN 175 thousand (2018: BGN 56 thousand).

Depreciation expenses are presented in the separate statement of profit or loss at "Administrative expenses". The Company has no significant contractual obligations for acquisition of tangible assets, as well as no pledged such as collateral at the end of the reporting period.

17. Investment properties

	Notes	2019 BGN'000	2018 BGN'000
On the 1st of January		12,784	7,443
Sold		(576)	(91)
Improvement of investment property		273	-
Net gain from changes in fair value	7	287	3
Increase from business combination		-	5,429
On the 31st of December		12,768	12,784

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

17. 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 at 31 December 2019 has been determined using valuation reports issued by 'Yavlena Impact' OOD. The assumptions used in the valuation vary depending on the specifics of the property. Valuations were made based on two approaches which are assigned different weights and thus the ultimate fair value of the properties is derived. The approaches used include: (i) the capitalised future cash flows method, (ii) market price method and (iii) cost method.

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

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

The risk of non-renting or vacancy is also determined expertly and is based on surveys of the occupancy rate for similar properties. The capitalisation rate is determined by the market and is an indication of the development and liquidity of the market, as well as the risk of investment in the respective type of properties. It is determined following in-depth study and analysis of the market evidence as to rents of similar properties over a reasonable period of time before the date of the expert valuation. The capitalisation rate is directly dependent on the rate of return on the investment in similar properties, calculated on the basis of the capital values from comparative market benchmarks. In the existence of comparable and reliable information detailed studies of the yield asked at the market for the respective type of properties are made, through comparison of the offers to rent out and rental prices for the same properties. The fair value is determined on the basis of the net annual rental income and multiplier depending on the capitalisation rate and the remaining useful life of the property.

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

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

Type of investment properties	Valuation method	Significant unobserved input data	Interval (weighted average)	Interval (weighted average)
			2019	2018
Residential properties	MPM	Offer (deal) price sq. m.	1,843 – 1,929	1,743 – 1,793
		Annual growth of market benchmarks (actual deals)	(1,886)	(1,768)
		Estimated monthly rent per sq. m.	0%	0%
	CFCFM	Annual increase of rent	8– 8,4 (8,2)	7,4 – 10,1 (8,8)
		Rate of return	0%	0%
Commercial properties	MPM	Offer (deal) price sq. m.	5.0% - 5.0%	5.1% - 7.5%
			267– 1,908 (662)	274– 1,801 (712)

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17. Investment properties (continued)

Type of investment properties	Valuation method	Significant unobserved input data	Interval (weighted average) 2019	Interval (weighted average) 2018
		Annual growth of market benchmarks (actual deals)	0%	0%
Land plots (land)	CFCFM	Estimated monthly rent per sq. m.	0%	0%
		Annual increase of rent	2 – 24.2 (6.7)	1.5 – 14.5 (6.4)
		Rate of return	5%-10%	6.0% – 11.4%

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

	2019	2018
Type of investment property	BGN'000	BGN'000
Residential	342	320
Commercial	11,635	12,464
Land	791	-
Fair value as of the 31st of December	12,768	12,784

Investment properties are disclosed at Level 3 in the fair value hierarchy. Movements in the material non-observable inputs would not result in material differences, higher or lower than the fair value of the investment properties. Non-observable inputs are not directly linked and do not influence each other so as to have material effect in the definition of the fair value of investment properties.

The Company concludes rent contracts for all of its investment properties provided for use to third parties. Rental income during the year amounts to BGN 685 thousand (2018: BGN 239 thousand) and are included in the separate Statement of profit or loss of the line "Investment income". No conditional rents have been recognized. Direct operating expenses (included in "Administrative and operating expenses") arising in relation to these properties during the year amount to BGN 181 thousand (2018: BGN 73 thousand). These costs include taxes, local fees, ongoing repairs and others and are presented in the separate statement of profit or loss of the line "Other operating expenses".

The future minimum lease payments are presented as follows:

	Minimum lease income			
	Up to 1 year	From 1 to 5 years	Over 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000
As of 31 December 2019	740	2,253	1,197	4,190
As of 31 December 2018	347	476	-	823

The company has no contingent receivables under the lease agreements for investment properties. The company has no investment properties pledged as collateral.

18. Derivative financial instruments

As of 31.12. 2019 the company does not have open positions in derivatives. The FX - interest swaps contracts, which are active as of 31.12.2018, related to ZUNK bonds in USD are closed in the beginning of 2019.

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

18. Derivative financial instruments (continued)

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

As at 31 December 2019 the Company does not have open positions to hedge its open positions of derivative financial instruments.

19. Financial instruments other than derivative instruments and fair values of financial assets

(a) Financial instruments

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

	Note	Assets at fair value through OCI	Assets at fair value through profit and loss	Assets at amortized cost	Total
		BGN'000	BGN'000	BGN'000	BGN'000
2019					
Deposits in financial institutions	19 (b)			615	615
Trade and other receivables	19 (b)	-	-	1,641	1,641
Financial assets at fair value through other comprehensive income	19 (c)	188,047	-	-	188,047
Financial assets at fair value through profit or loss	19 (e)	-	82,698	-	82,698
Financial assets held to maturity	19 (f)	-	-	8,062	8,062
Loans granted	19 (b)	-	-	980	980
Cash	24	-	-	2,624	2,624
		188,047	82,698	13,922	284,667
2018					
Trade and other receivables	19 (b)	-	-	884	884
Financial assets at fair value through other comprehensive income	19 (c)	153,966	-	-	153,966
Financial assets at fair value through profit or loss	19 (e)	-	45,551	-	45,551
Financial assets held to maturity	19 (f)	-	-	8,125	8,125
Loans granted	19 (b)	-	-	980	980
Cash	24	-	-	31,726	31,726
		153,966	45,551	41,715	241,232

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19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

(a) Financial instruments (continued)

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

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	BGN'000	BGN'000	BGN'000	BGN'000
Loans granted, deposits placed, trade and other receivables	3,236	3,639	1,864	2,423
Financial assets at fair value through other comprehensive income	188,047	188,047	153,966	153,966
Financial assets at fair value through profit or loss	82,698	82,698	45,551	45,551
Financial assets at amortized cost	8,062	9,260	8,125	9,420
Total	282,043	283,644	209,506	211,360

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

	2019	2018
	BGN'000	BGN'000
Amortised cost		
Deposits placed	615	—
Loans granted	980	980
Life insurance loans granted	881	712
Other receivables and advances	760	172
Total loans granted, deposits, trade and other receivables	3,236	1,864
Fair value		
Deposits placed	615	—
Loans granted	1,384	1,539
Life insurance loans granted	881	712
Receivables and advances	760	172
Total loans granted, deposits, trade and other receivables	3,640	2,423

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

In 2019, the Company has provided a long-term bank deposit in the amount of USD 350 thousand, at market interest rates and maturity on 16 March 2020.

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

	2019	2018
	BGN'000	BGN'000
Fair value		
Shares	188	189
Government bonds	114,974	96,927
Corporate bonds	72,885	56,850
Total Financial assets at fair value through other comprehensive income	188,047	153,966

19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

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

The table below presents information about the bonds reported at fair value through other comprehensive income by type of issuer:

	2019	2018
	BGN'000	BGN'000
Bulgaria	76,336	62,306
France	22,106	16,311
The Netherlands	13,010	7,150
England	11,496	14,592
German	9,543	2,995
Romania	9,010	9,080
Spain	8,748	5,934
Ireland	7,406	4,052
Poland	7,071	7,078
USA	6,347	8,142
Slovakia	2,958	2,701
Sweden	2,433	2,394
Denmark	2,103	2,064
Slovenia	2,000	2,001
Italy	1,933	1,811
Australia	1,716	1,710
Czech Republic	1,135	1,070
Cayman Island	847	-
Belgium	833	762
Finland	828	812
China	-	812
Total	187,859	153,777

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

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

The table below presents information about the bonds reported at fair value through profit or loss by type of issuer:

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

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

(e) Financial assets at amortized cost

	2019	2018
	BGN'000	BGN'000
Amortised cost		
Bonds	8,062	8,125
Total financial assets at amortized cost	8,062	8,125

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19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

(e) Financial assets at amortized cost (continued)

	2019	2018
	BGN'000	BGN'000
Fair value		
Bonds	9,260	9,420
Total financial assets at amortized cost	9,260	9,420

The company has government bonds issued by the Republic of Bulgaria, denominated in BGN and EUR.

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

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

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

		Loans granted, deposits and other receivables	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
	Notes	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
As of the 1st of January 2018 (restated)		38,963	105,250	16,210	8,188	168,611
Newly acquired		55,035	-	19,863	-	75,185
<i>incl. interest accrued</i>	5	70	2,277	37	287	2,671
Revaluation effect of investment funds		-	-	(572)		(572)
Matured		(92,631)	(1,986)	(339)	(287)	(95,243)
Sold		-	(40,503)	-	-	(40,503)
Losses from fair value in other comprehensive income		-	(3,820)	-	-	(3,820)
Losses from fair value	7	-	-	(65)	-	(65)
Realized profits	6	-	2,383	-	-	2,383
Recovered impairments	34	14	16	-	-	30
Accrued impairments	34	(13)	(1)	-	-	(14)
Amortisation restatement		-	58	-	(63)	(5)
Re-classification		-	-	(333)	-	(333)
FX translation taken to the statement of comprehensive income		-	107	-	-	107

19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

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

	Notes	Loans granted, deposits and other receivables	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Increase from business combination		496	92,462	10,787	–	103,745
As of the 31st of December 2018.		1,864	153,966	45,551	8,125	209,506
As of the 1st of January 2019		1,864	153,966	45,551	8,125	209,506
Newly acquired		58,450	33,196	34,332	288	126,266
<i>incl. interest accrued</i>	5	51	3,566	43	288	3,948
Revaluation effect of investment funds		-	-	6,329	-	6,329
Matured		(57,085)	(3,363)	(3,529)	(288)	(64,265)
Losses from fair value in other comprehensive income		-	5,246	-	-	5,246
Losses from fair value	7	-	-	15	-	15
Realized profits	6	-	3	-	-	3
Recovered impairments	34	13	35	-	1	49
Accrued impairments	34	(6)	(23)	-	-	(29)
Amortisation restatement		-	(1,023)	-	(64)	(1,087)
As of the 31st of December 2019		3,236	188,047	82,698	8,062	282,043

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

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

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

For financial assets and financial liabilities of short-term nature (maturing in less than three months) it is assumed that their carrying amounts approximate their fair values.

This assumption is used for demand deposits and savings accounts without specified maturities. Other floating interest rate instruments are adjusted to reflect the changes in the required credit spread at the time of the initial recognition of the instrument.

Assets and liabilities for which the fair value approximates their carrying amount include:

- trade and other payables,
- receivables and advances,
- loans granted on Life insurance,
- minority interests (shares) and
- short-term loan.

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19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

(g) Fair value definition and hierarchy

The table below shows an analysis of the financial instruments at fair value by hierarchy level:

At 31 December 2019	Notes	Level 1 BGN'000	Level 2 BGN'000	Level 3 BGN'000	Total fair value BGN'000
Financial assets at fair value through profit or loss:					
Collected funds on investment contracts		–	80,756	–	80,756
Bonds		1,942	–	–	1,942
Financial assets at fair value through other comprehensive income:					
Government bonds		114,974	–	–	114,974
Corporate bonds	19(c)	72,885	–	–	72,885
Financial assets for which fair values are disclosed					
Credits and receivables:					
Loans granted		–	–	1,384	1,384
Deposits		–	–	615	615
Financial assets at amortised cost:					
Government bonds		9,260	–	–	9,260
Total financial assets		199,061	80,756	1,999	281,816
Financial liabilities					
	Notes		Level 2 BGN'000		Total fair value BGN'000
Payables under investment contracts			80,879		80,879
Total financial liabilities			80,879		80,879
At 31 December 2018					
	Notes	Level 1 BGN'000	Level 2 BGN'000	Level 3 BGN'000	Total fair value BGN'000
Financial assets at fair value					
Financial assets at fair value through profit or loss:					
Collected funds on investment contracts		–	43,963	–	43,963
Bonds		1,588	–	–	1,588
Financial assets at fair value through other comprehensive income:					
Government bonds		96,927	–	–	96,927
Corporate bonds	19(c)	56,850	–	–	56,850
Financial assets for which fair values are disclosed					
Credits and receivables:					
Loans granted		–	–	1,539	1,539
Financial assets at amortised cost:					
Government bonds	19(f)	9,420	–	–	9,420
Total financial assets		164,785	43,963	1,539	210,287

19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

(g) Fair value definition and hierarchy (continued)

Financial liabilities	Notes	Level 2	Total fair value
		BGN'000	BGN'000
Payables under investment contracts		43,757	43,757
Derivative financial instruments:			
FX-interest swaps	18	383	383
Total financial liabilities		44,140	44,140

Loans granted represents issued by the Republic of Bulgaria foreign debt under the law of the Federal Republic of Germany. It consists of a loan whose term is a 15-year one, with acquisition date in December 2013 and maturity date in December 2028, the interest rate is 4.6%.

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 instrument is considered quoted at an active market if the quotations are readily accessible and are available regularly at a stock exchange, dealer, broker, industrial group, price service agency or regulatory agency and these prices represent actual and regular arm's length transactions.

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

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

At the end of 2019 DZI – Life Insurance JSC has classified in Level 2 fair value hierarchy category financial liabilities with a carrying amount of BGN 80,879 thousand, for which no market prices are available (2018: BGN 44,140 thousand). The Company has measured these financial assets and liabilities using valuation technique, based on market data.

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

Non-observable input data reflect the 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.

As at 31 December 2019 and 31 December 2018 DZI – Life Insurance JSC discloses the fair value of loans granted, deposits trade and other receivables and financial assets at amortised cost.

As at 31 December 2019 the item "Receivables and advances", as well as "Loans granted on Life insurances" in the financial statements are presented at amortised cost which equals the carrying amounts, and amount to BGN 760 thousand and BGN 881 thousand, respectively (2018: BGN 172 thousand and BGN 712 thousand, respectively).

Minority interests are presented at cost and amount to BGN 188 thousand (2018: BGN 189 thousand).

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

19. Financial instruments other than derivative instruments and fair values of financial assets (continued)

(h) Compensation of financial assets and financial liabilities

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

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

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

20. Reinsurance transaction assets

	Notes	2019 BGN'000	2018 BGN'000
Assets under reinsurance operations in the reserve for forthcoming payments		50	69
Reinsurance transaction assets in the unearned premiums reserve		939	459
Total reinsurance transaction assets	25	989	528

21. Taxes

(a) Deferred tax liability

	2019 BGN'000	2018 BGN'000
Revaluation of financial assets to other comprehensive income	-	37
Increase from business combinations including <i>Deferred tax liability from the difference between the book value of non-current assets for accounting and tax purposes</i>	-	88
Deferred tax liability from the difference between the book value of non-current assets for accounting and tax purposes	735	498
Total deferred tax liability	735	623

(b) Deferred tax asset

	2019 BGN'000	2018 BGN'000
Provision for unpaid leaves	7	4
Provision for bonuses and unpaid amounts to individuals	168	82
Retirement benefit obligations	23	20
Asset under deferred taxes for actuarial profits and losses	4	3
Change from business combinations including <i>Unused annual leaves</i>	-	(4)
<i>Unpaid amounts to individuals</i>	-	23
Total deferred tax asset	202	128
Net deferred tax liability	533	495

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21. Taxes (continued)

(b) Deferred tax asset (continued)

	Statement of profit and loss	
	2019	2018
	BGN'000	BGN'000
<i>Deferred tax liabilities</i>		
Accelerated depreciation for tax purposes	(121)	(21)
<i>Deferred tax assets</i>		
Unused paid leave	7	
Unpaid salaries	63	44
Retirement benefit obligations	3	3
Total income / (expense) for deferred tax recognized in the statement of profit or loss	(48)	26

22. Receivables on insurance transactions

	2019	2018
	BGN'000	BGN'000
Due from Life and Health insurances policy holders	9,875	8,971
Due to investment contract policy holders	(1,212)	(617)
Total receivables on insurance transactions	8,663	8,354

The Company reports the income and receivables from insurance premiums on the accrual basis principle, 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 (c) above. They are presented in the statement of financial position as receivables from insurance operations. After the expiration of the contract or upon termination of the contract due to non-payment of due installments, the non-received due premiums are written off. The part of the written-off receivables, for which the Company has bear insurance risk during the respective reporting periods, is reported as impairment of receivables on uncollected premiums. These insurance receivables are determined as non-recoverable and are written off directly from the carrying amount. The effect for the reporting period amounts to BGN 4,364 thousand (2018: BGN 3,830 thousand), presented at Impairment of insurance receivables in the separate statement profit or loss.

23. Deferred acquisition costs

	Notes	Insurance contracts	Investment contracts without discretionary participation features	Total
		BGN'000	BGN'000	BGN'000
As of 1 January 2018		3,997	463	4,460
Occurred during the period	10	241	-	241
Depreciation	10	(834)	(14)	(848)
Revaluation		-	68	68
Increase of business combination		-	1,176	1,176
As at 31 December 2018		3,404	1,693	5,097
Occurred during the period	10	69	-	69
Depreciation	10	(1,248)	(109)	(1,357)
Revaluation		-	721	721
As at 31 December 2019		2,225	2,305	4,530

24. Cash

	2019	2018
	BGN'000	BGN'000
Cash at banks	2,609	31,712
Cash on hand	15	14
Total cash	2,624	31,726

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24. Cash (continued)

The carrying amounts disclosed above approximate reasonably the fair value of cash at the date of the statement of financial position. As of the end of 2019 a cash amount of BGN 161 thousand is blocked on current accounts (2018.: BGN 320 thousand).

During the presented reporting periods, the Company has not carried out investment and financial transactions in which no cash or cash equivalents have been used and which are not reflected in the cash flow statement.

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

25. Liabilities on insurance contracts

		2019			2018		
		Liabilities on insurance contracts	Reinsurance of liabilities	Net	Liabilities on insurance contracts	Reinsurance of liabilities	Net
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Life Insurance contracts		174,107	(989)	173,118	170,877	(528)	170,349
General Insurance contracts		264	–	264	289	–	289
Total liabilities on insurance contracts		174,371	(989)	173,382	171,166	(528)	170,638

The Company does not treat general insurance contracts as a separate segment as they represent immaterial portion of its operations and the results therefrom are not monitored by the Company's management for the purpose of making management decisions.

Gross liabilities on life insurance contracts are presented in the table below

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

a) Liabilities on life insurance savings contracts

	Gross	Reinsurance	Net
	Liabilities on insurance contracts with savings element	Liabilities on insurance contracts with savings element	Liabilities on insurance contracts with savings element
	BGN'000	BGN'000	BGN'000
2019			
Mathematical reserve and outstanding payments reserve at 31 December 2018	157,182	-	157,182
Recognised premium income (premiums underwritten)	35,422	-	35,422
Expenses and commissions	(6,515)	-	(6,515)
Liabilities paid for death, expiry, surrenders and annuities	(27,375)	-	(27,375)
Premiums written off	(2,889)	-	(2,889)
Return on investment of mathematical reserve	3,640	-	3,640

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25. Liabilities on insurance contracts (continued)

a) Liabilities on life insurance savings contracts

	Gross Liabilities on insurance contracts with savings element BGN'000	Reinsurance Liabilities on insurance contracts with savings element BGN'000	Net Liabilities on insurance contracts with savings element BGN'000
2019			
Deviation from the expected assumptions	(262)	-	(262)
Mathematical reserve and outstanding payments reserve at 31 December 2019	<u>159,203</u>	<u>-</u>	<u>159,203</u>

	Gross Liabilities on insurance contracts with savings element BGN'000	Reinsurance Liabilities on insurance contracts with savings element BGN'000	Net Liabilities on insurance contracts with savings element BGN'000
2018			
Mathematical reserve and outstanding payments reserve at 31 December 2017	72,680	-	72,680
Recognised premium income (premiums underwritten)	25,322	-	25,322
Expenses and commissions	(3,516)	-	(3,516)
Liabilities paid for death, expiry, surrenders and annuities	(17,863)	-	(17,863)
Premiums written off	(2,930)	-	(2,930)
Return on investment of mathematical reserve	1,738	-	1,738
Deviation from the expected assumptions	(274)	-	(274)
Increase from business combinations	82,025	-	82,025
Mathematical reserve and outstanding payments reserve at 31 December 2018	<u>157,182</u>	<u>-</u>	<u>157,182</u>

(b) Liabilities on risk insurance contracts

	2019			2018		
	Liabilities on risk insurance contracts BGN'000	Reinsurance BGN'000	Net BGN'000	Liabilities on risk insurance contracts BGN'000	Reinsurance BGN'000	Net BGN'000
Reserve on claims reported by insured persons	2,851	(50)	2,801	675	-	675
Reserve for incurred but not reported claims	2,354	-	2,354	950	-	950
Increase from business combinations	-	-	-	3,123	(69)	3,054
Outstanding claims reserve	<u>5,205</u>	<u>(50)</u>	<u>5,155</u>	<u>4,748</u>	<u>(69)</u>	<u>4,679</u>

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31 DECEMBER 2019

25. Liabilities on insurance contracts (continued)

(b) Liabilities on risk insurance contracts (continued)

Outstanding claims reserve on risk insurance contracts

	2019			2018		
	Liabilities on insurance contracts	Reinsurance	Net	Liabilities on insurance contracts	Reinsurance	Net
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January	4,748	(69)	4,679	1,208	-	1,208
Claims incurred during the current insurance year	10,932	(143)	10,789	6,586	-	6,586
Claims paid during the year	(10,475)	162	(10,313)	(6,169)	-	(6,169)
Increase from business combinations	-	-	-	3,123	(69)	3,054
At 31 December	5,205	(50)	5,155	4,748	(69)	4,679

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

	2019			2018		
	Liabilities on risk insurance contracts	Reinsurance	Net	Liabilities on risk insurance contracts	Reinsurance	Net
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January	5,487	(459)	5,028	4,170	(200)	3,970
Premiums underwritten	76,569	(2,784)	73,786	41,535	(935)	40,600
Premiums earned	(75,603)	2,304	(73,299)	(41,483)	723	(40,760)
At 31 December	-	-	-	1,265	(47)	1,218
At 1 January	6,454	(939)	5,515	5,487	(459)	5,028

(d) Outstanding claims reserve on investment contracts

The outstanding payments reserve includes BGN 103 thousand in 2019 (BGN 103 thousand in 2018) related to matured investment contracts which have not been paid out to the clients.

26. Liabilities on investment contracts

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

27. Employee retirement benefits liability

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

	2019	2018
	BGN'000	BGN'000
Current service cost	34	37
Interest expense on employee benefits liability	-	1
Total	34	38

27. Employee retirement benefits liability (continued)

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

	2019	2018
	BGN'000	BGN'000
On 1 January	228	197
Interest expense	2	1
Current service cost	48	37
Employee benefits paid	(14)	(12)
Actuarial losses	12	5
On 31 December	276	228

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

	2019	2018
	%	%
	BGN'000	BGN'000
Future salary increases	2.5	2.5
Personnel turnover rate	10.0	10.8
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 (benchmark government bonds) at the end of 2019 and 2018 respectively.

The salary increase rate assumption is based on information provided by the Company's management and represents 2,5% increase per annum compared to the prior reporting period.

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

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

Assumptions	Discount rate		Salary increase		Mortality	Turnover of personnel		Sensitivity
	Increase by	Decrease by	Increase by	Decrease by		Increase by	Decrease by	
	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
31 December 2019	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Effect on the retirement obligation	—							
increase/(decrease)	(2)	2	2	(2)	(2)	2	(11)	11
31 December 2018								
Effect on the retirement benefits liability	—							
increase/(decrease)	(2)	2	2	(2)	(1)	1	(8)	8

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 summarises the maturity structure of the retirement benefits liability based on the expected undiscounted payments:

	2019	2018
	BGN'000	BGN'000
Within 1 year	120	108
2 to 5 years	179	159
Over 5 years	1,190	784
Total expected non-discounted payments	1,489	1,051

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27. Employee retirement benefits liability (continued)

At the end of the current reporting period the average term of the retirement benefits liability is 17.3 years in 2019 (15.9 years in 2018).

28. Liabilities to reinsurers

	Amounts due on outward reinsurance
At 31 December 2018	387
Incurred during the year	963
Settled during the year	(823)
Increase from business combination	258
At 31 December 2018	785
Incurred during the year	3,215
Settled during the year	(2,730)
At 31 December 2019	1,270

The carrying amounts disclosed above approximate the fair value as at the date of the statement of financial position. All amounts are due for payment within one year.

29. Payables to insurance intermediaries and insured persons

	2019 BGN'000	2018 BGN'000
Commissions due to brokers	494	533
Commissions due to agents	1,459	1,337
Commissions due on uncollected premiums	836	647
Liabilities to insured persons	391	341
	3,181	2,858

30. Trade and other payables

	2019 BGN'000	2018 BGN'000
Employee benefits liability	1,269	888
Expenses on social security and other taxes	581	339
Guarantee fund	223	337
Trade payables	780	620
	2,853	2,184

The above carrying amounts approximate the fair value at the date of the statement of financial position. All amounts are subject to payment within one year.

31. Right-of-use assets and lease liabilities

Right-of-use assets and lease liabilities

Right-of-use assets (by class of assets)

	31 December 2019 BGN'000	1 January 2019 BGN'000
Land and buildings	846	-
Vehicles	30	-
At the end of the period	876	-

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

Right-of use asset

	Land and buildings	Vehicles	Total
	BGN'000	BGN'000	BGN'000
Cost:			
As at 1 January 2019	-	-	-
Effect from IFRS 16	958	-	958
Additions – new lease contracts	277	35	312
As at 31 December 2019	1,235	35	1,270
Depreciation:			
As at 1 January 2019	-	-	-
Depreciation for the year	389	5	394
As at 31 December 2019	389	5	394
Net Book Value as at 1 January 2019	-	-	-
Net Book Value as at 31 December 2019	846	30	876

Lease liabilities

	31 December 2019	1 January 2019
	BGN'000	BGN'000
Short-term lease liabilities	359	341
Long-term lease liabilities	517	617
Total lease liabilities	876	958

	31 December 2019	31 December 2019
	Minimum lease payments	Present value of lease payments
	BGN'000	BGN'000
Up to 1 year	365	359
Between 1 and 5 years	530	517
Total minimum lease payments	895	876
Reduced by the amounts representing finance costs	(19)	-
Present value of the minimum lease payments	876	876

The following amounts are recognised in profit or loss:

	IFRS16	IAS17
	2019	2018
	BGN'000	BGN'000
Depreciation charge for the right-of-use assets by class of assets		
Buildings	389	-
Vehicles	5	-
	394	-
Total depreciation charge	394	-
Interest expense on lease liabilities (included in finance cost)	4	-
Expense relating to leases of low-value assets that are not short-term leases (included in administrative and distribution expenses)	29	-
Total expenses related to leases	33	-

The following amounts are recognised in the cash flow statement:

	IFRS16	IAS17
	2019	2018
	BGN'000	BGN'000
Principal	393	-
Interest	4	-
	397	-

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

	IFRS16 2019	IAS17 2018
	BGN'000	BGN'000
Cash outflow for leases – operating activity	-	492
Cash outflow for leases – financial activity	397	-
Total cash outflows	397	492

32. Equity and reserves

32.1. Registered capital

Company's registered capital consists of 3,860,000 fully paid in ordinary shares with par value at the amount of 10 per share. All the shares are with the right of receiving dividend and liquidation share and give the right to one vote at the general meeting of Company's shareholders. The sole shareholder of the Company's capital is KBC Insurance NV, Belgium. During the reporting periods no change occurred in the compounds and structure of shareholder's capital. In 2019, the Company made a dividend distribution in the amount of BGN 13,107 thousand or BGN 3.39 per share.

32.2. Capital reserves

Capital reserves are set aside by the Company in accordance with art. 246, para 2, item 1 and under art. 246, para 2, item 4 of the Commercial Act.

32.3. Revaluation reserve

Revaluation reserve includes the following components:

	2019 BGN'000	2018 BGN'000
Re-measurement reserve of tangible assets	1,683	1,683
Re-measurement reserve of financial assets reported at fair value through other comprehensive income	13,488	8,755
	15,171	10,438

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

33. Risk management rules

(a) Governance framework

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 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 minimise the potential adverse impact of the risks on the financial performance of the Company.

The Company has established risk management unit with clear rules set out by the Management Board, its committees and the related committees of the executive management. The "Financial Risks" and "Non-Financial Risks" Units are part of the Risk department that is directly subordinate Risk Executive Officer, who is responsible for "Finance and Risk".

33. Risk management rules (continued)

(a) Governance framework (continued)

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

Within the scope of the managed risks by Sector “Non-financial risks:

- Operational risk;
- Business continuity.

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, their measurement 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.

(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 secure a certain level of security for the insured persons;
- to distribute the capital efficiently and in support of the development of the business while ensuring that the return on the capital used meets the requirements of capital providers and the shareholders;
- to keep the financial flexibility through maintaining strong liquidity and access to a number of capital markets;
- to harmonise the asset and liabilities profile while taking into account the inherent risks to the business;
- to maintain the financial strength in support of the growth of new business and to meet the requirements of insured persons, regulators and shareholders;
- to maintain stable credit ratings and good capital ratios in order to support the objectives of the Company's business and to maximise the return to the shareholders.

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

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

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 to undertake 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.

33. Risk management rules (continued)

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

Capital management approach (continued)

The main source of capital used by the Company is 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 securitisation.

The capital requirements are forecast 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.

	2019	2018
	BGN'000.	BGN'000
Total shareholder funds as per financial statements	185,116	186,939
Capital available	185,116	186,939

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.

The business operations of the Company are subject to regulatory requirements in the jurisdiction where it operates.

These regulatory provisions do not only envisage approval and monitoring of the activities but they impose certain restrictive provisions (such as, minimum guaranteed capital) to minimise the risk of default and insolvency of the insurance companies to meet their unforeseen liabilities as they arise. The Company has complied with all such requirements throughout the financial year.

Each insurer shall at all times have eligible own funds at least equal to the Solvency Capital Requirement. The insurer's own funds include the main own funds and the additional own funds.

The main own funds of the Company represent the excess of assets over the 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 favour of the insurer, respectively the reinsurer).

The Solvency Capital Requirement is calculated according to the standard formula based on the presumption that the insurer will operate as a going concern.

In calculating the Solvency Capital Requirement, the insurer shall take into account the impact of risk mitigation techniques, provided that credit risk and other risks arising from the use of such techniques are adequately reflected in the Solvency Capital Requirement. The SCR is calculated at least once a year and presents the results to the supervisory authority - the Financial Supervision Commission.

The insurer is obliged to maintain eligible own funds, covering the last reported Solvency Capital Requirement.

The main indicator characterizing the financial stability of insurers is the availability of own funds covering the solvency margin, according to the Insurance Code. For 2019 the indicators of DZI - Life Insurance JSC are the following:

- Solvency capital requirement - BGN 53,054 thousand
- Own funds - BGN 208,091 thousand

33. Risk management rules (continued)

c) Regulatory framework (continued)

The ratio of the Solvency Capital Requirement is 392%.

The Minimum Capital Requirement is the minimum amount that must be equal to the eligible 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 - Life Insurance EAD is BGN 12,400 thousand. Detailed information is presented in Note 34 b, 2 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 capital management process of the Company.

The company meets all external requirements throughout the financial year.

(d) Asset and liability management framework (ALM)

Financial risks arise on the open positions on interest, FX and equity products which are exposed to general and specific movements in the market. The Company manages its assets and liabilities within the ALM framework, which is developed to achieve long-term return on investments that exceeds its liabilities on insurance and investment contracts. The main ALM technique of the Company is to match assets and liabilities on insurance and investment contracts by reference to the type of annuities and claims due to the insured persons. A separate asset portfolio is kept for each identifiable category of liabilities.

The Company's ALM frame is integrated with the financial risk management, related to other financial assets and liabilities of the Company, which are not closely linked to the insurance and investment liabilities and it is integral part to the insurance risk management policy to ensure that during each period sufficient cash flows are available to meet the liabilities on insurance and investment contracts.

(e) 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 - 88%, denominated in BGN and EUR and corporate bonds in EUR - 12% to cover technical reserves/ 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. Our stress tests currently indicate that the Company can withstand such adverse evolutions.

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

	Total own funds	Own funds SCR	Own funds MCR	SCR	MCR
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
31 March 2020	206,296	53,495	13,374	386%	1,543%

34. Insurance and financial risk

(a) Insurance risk

The main risk the Company faces is the risk that the actual payments on claims and insured amounts related to the terms and conditions of the contracts underwritten may differ from the estimates.

The Company's objective is to ensure that the insurance reserves set aside are sufficient to cover the liabilities undertaken.

Insurance risks undertaken are subject to assessment based on the Company's underwriting policy.

The Company has concluded reinsurance contracts aimed at protection against certain events which may have adverse impact on its financial stability. Self-retention of the insurer is within a certain limit above which all amounts are reinsured automatically. Amounts above the retention level based on signed reinsurance contracts are ceded to the reinsurer as is the case with Life insurances.

Life insurance contracts

Life insurance is related to insurance coverage for death or survival of the insured person. Long-term policies are usually concluded for a period over 5 years and have surrender value clause. The insurer cannot change the premiums on the policy and should provide coverage for the risk, provided the insured person pays the premiums. Furthermore, life insurance includes short-term, annually renewable Life risk insurances and Medical insurances.

General insurance is related to product ensuring compensation for property or non-property damages. The Company is not licensed to carry out general insurance activities but pays compensations under insurance contracts concluded until 1998.

Classification of contracts

Insurance contracts are the contracts where the Company takes over significant insurance risk through compensation of the insured person or another beneficiary in case of occurrence of a specific uncertain future event (insured event), which has adverse influence on the insured person.

Any risk which is not classified as insurance risk is a financial risk.

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

Investment contracts are classified additionally as such with or without discretionary participation features.

A contract classified as insurance contract remains such by the end of its validity regardless of the possibility for a significant decrease in the insurance risk.

A contract classified as investment contract may be reclassified as insurance contract at a later stage if the insurance risk becomes material.

Insurance contracts are classified as insurances with savings element and risk insurances.

In accordance with the above classification DZI – Life Insurance JSC contracts are divided into the following:

Insurance contracts with savings element

These contracts combine payments upon death with a savings element. The discretionary participation feature (profit sharing) is contained in insurance contracts with a savings element. The Company set aside and maintains mathematical reserve for them:

- **Combined Life insurances:** The combined Life insurance is the main policy in the Company's portfolio, which offers payment of an insured amount fixed in the contract in case of death or upon survival over the term agreed in the policy. The Company has established a portfolio of insurance contracts with a savings element (combined Life insurances) and profit sharing in targeted investments related to the Company's internal investment funds;

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Insurance contracts with savings element (continued)

- Child insurances are contracts of fixed maturities where the beneficiary child receives a guaranteed insured amount on maturity (when becoming 18 years of age or more), which amount is set out in the contract regardless of whether the insured person has survived the expiry of the term or not;
- The universal insurance is a product combining accumulation of a savings fund with minimum guaranteed annuity with additional payment of agreed insured amount upon death;
- Capital: since the end of 2008 and Eurogarant since 2014, 2015 and 2016 - Life insurance with accumulation of saving fund, which has an additional guaranteed income over a fixed period. The Company does not separate the guaranteed element from the discretionary participation feature and recognises a liability for future distribution of income over the complete life of the contract. This liability is presented as part of the mathematical reserve in the Company's statement of financial position;
- Group contracts with savings element signed with employers for a term of one year.

Risk insurances

Risk insurances are short-term contracts, usually for a period of one year, and a right to annual renewal. These contracts are concluded for the following types of insurance: Life risk insurances, Medical insurances, Accident insurances and they ensure payment of the insured amount upon death (death due to an accident) or compensations related to bodily injury. This type of insurance contract does not offer payments on survival or guaranteed surrender values.

Unearned premium reserve is reported in the Company's statement of financial position for the portion of the reported premiums, which is related to the period of agreed coverage of the risk after the date of the statement of financial position. The risk insurances offered by the Company include:

- Risk life insurance;
- Medical insurance
- "Accident" insurance.

To the risk insurance we could refer the "Life" insurances of credit borrowers.

These are insurance contracts with fixed terms and without additional nonguaranteed income).

This category includes group credit life insurance contracts. The beneficiary under these insurance contracts is United Bulgarian Bank JSC (UBB) which offers its individual clients (credit borrowers) group credit life insurances. The credit life insurances protect the Company clients against the consequences of events (for example, death or disability) that could impact client's ability and his/her dependents to extinguish their obligations towards the financial institution. The paid out guaranteed indemnities in the case of the occurrence of the particular insured event are relate to sum not settled under the contract. There are no indemnities in the case of maturity or refusal to continue the policy.

The duration of the insurance cover equals the loan term defined in the loan contract.

The insurance premium is recognized on the grounds of the premium that has been due and collected. Some insurance contracts include lump sum payment that is to be received in advance in the beginning of each insurance period during the cover period.

Other insurance contracts include premium payment scheme that follows the scheme of loan extinguishment for each borrower. All the premiums are recognized as revenue (won premiums) pro rata to the cover period. The part of the received premium under effective contracts related to risk still not expired as of the balance sheet date is reported as debt under not written premiums net of commissions. The premiums are shown before deducting the commissions.

Investment contracts related to financial risk

Investment contracts are contracts that transfer immaterial insurance risk to the Company from the insured person. The investment risk is undertaken by the insured person. Since 2007 the Company offers contracts that are classified as investment contracts with an insurance component, as follows:

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Investment contracts related to financial risk (continued)

- With discretionary participation features: DZI does not offer such products.
- Without discretionary participation features (the investment contracts offered have an insurance component).

Only the insurance premium, i.e. the portion of the premium related to the undertaken insurance risk is reported as premium income in the Company's statement of profit or loss. Amounts collected on investment contracts that transfer mainly financial risk, such as long-term savings contracts with an insurance element, are taken to the Company's statement of financial position. The amounts collected thereunder are credited to the Company's statement of financial position as a direct increase in the deposit component of insurances.

The main risks that the Company is exposed to are as follows:

Mortality – risk of losses due to the fact that the mortality rate of insured persons is higher than the expected.

In calculating insurance premiums and mathematical reserve the Company uses mortality tables for the general population in Bulgaria and insurance mortality table. The insurance mortality table is based on the mortality of the general population in Bulgaria with further adjustments reflecting the behaviour of the insurance mass, comprising the Company's insured persons. On annual basis the Company makes an analysis of the mortality of insured persons on individual contracts and compares that with the results derived using the mortality tables. Additional analysis is made of mortality of insured persons by groups of insurance contracts.

Some uncertainty is noticed in respect of the influence of epidemics and changes in life style such as smoking, nutrition habits, and physical activity habits, which may lead to deterioration of the mortality indicators in the future.

Disability (invalidity) – risk of losses due to the fact that invalidity level amongst the insured persons is higher than the expected.

As a compulsory or optional coverage to life insurance contracts the Company offers permanent disability or reduced ability due to an accident and illness. Risk premiums on this type of insurance contracts are determined on the basis of the Company's past experience. Analysis is made every year of the occurred events related to this risk for insured persons on individual contracts and they are compared to the results derived using the risk premiums. Additional analysis is made of the disability of insured persons by group contracts.

Morbidity – risk of losses due to the fact that the morbidity amongst insured persons is higher than the expected.

The Company offers additional package "Particularly heavy diseases" which is concluded to the main coverage of the Life savings insurances.

Surrenders and cancellations

The percentage of surrenders and cancellations is a factor influencing the Company's portfolio. Every year analysis of the number of surrenders and cancellations, as well as amounts paid is made. This analysis is made separately for each contract portfolio.

Expenses – risk of losses due to the fact that the Company's actual expenses related to servicing the insured persons' portfolio are higher than the expected ones.

In determining the insurance premiums the Company takes into account the administrative deferred expenses. The actual and estimated administrative expenses of the Company are compared annually.

The underwriting strategy of the Company is developed in such a way to ensure that the risks undertaken for insurance are measured reliably in respect of the type of risk and the insured amount or compensation.

The underwriting rules ensure appropriate criteria for selection and measurement of the risks. This is achieved through the use of health declarations, medical examinations and tests, ensuring on the basis of the current health condition and the family medical history, the assumptions made upon pricing. The Company has the right to aggravate or refuse certain risks.

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Surrenders and cancellations (continued)

For risk Life insurances the risk is diversified depending on the profession (risk class) within which the insured person or insured persons in the group (in case of group contracts) fall.

In addition, the Company reinsures certain risks for protection against events that may have negative effect on its financial stability.

On the other hand, the Company applies a policy of active management and control over the reported claims, which aims to reduce or eliminate the possibility of adverse development of the risk.

For investment contracts the Company periodically accrues risk premiums for death and has the right to change these accruals depending on the development of the risk.

Insurance risk described above is influenced by the right of the signatory (insured/insuring person) not to pay the future premiums or to early terminate the insurance contract.

The geographical concentration of the Entity's life insurance contract liabilities and investment contract liabilities is concentrated only in Bulgaria. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

The tables presented below show the concentrations of liabilities on life and non-life insurance contracts:

	2019			2018		
	Gross reserve	Reinsurance	Net reserve	Gross reserve	Reinsurance	Net reserve
Life						
"Life" & annuity insurance	153,136	50	153,086	148,964	69	148,895
a) Insurance "Life"	152,313	50	152,263	148,079	69	148,010
Life Insurance(risk Death and Maturity)	147,448	-	147,448	144,073	-	144,073
Term insurance "Life" - risk Death	4,866	50	4,816	4,006	69	3,937
b) Annuities	823	-	823	885	-	885
Marriage and birth insurance	5,436	-	5,436	6,331	-	6,331
Unit Link and Index-linked life insurance	9,148	-	9,148	9,789	-	9,789
Capital redemption	-	-	-	-	-	-
Supplementary insurance	219	-	219	116	-	116
	167,939	50	167,889	165,200	69	165,131
Non-life						
Insurance Accident	1,260	-	1,260	1,956	-	1,956
Insurance Sickness	4,908	939	3,969	3,722	459	3,262
	6,168	939	5,228	5,677	459	5,218
	174,107	989	173,118	170,877	528	170,349

Methods and assumptions used to calculate the liabilities under life insurance contracts (mathematical reserve)

The mathematical reserve for classical savings products is calculated using the net premium prospective method.

The mathematical reserve is the difference between the present value of the expected future insurance payments and the present value of the expected future net premiums without using the Zillmer quota.

For the Universal Life insurance and Capital insurance and Eurogarant the mathematical reserve is calculated using the retrospective method and it is equal to the savings fund accumulated at the date of the calculation.

The gross mathematical reserve, including the capitalised value of pensions, includes any additionally allocated yield on policies and an additional amount for administrative expenses.

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Methods and assumptions used to calculate the liabilities under life insurance contracts (mathematical reserve) (continued)

The mathematical reserve and the capitalised value of pensions are calculated using the prospective method from the Company's information system, using a methodology set by the actuary in charge. The calculation is based on the same technical bases which are used to calculate net premiums, including technical interest rate and mortality table. The calculation of the mathematical reserve and the capitalised value of pensions corresponds to the basis used to report premium income in the Company's statement of profit or loss.

The mathematical reserve is calculated as the sum of the mathematical reserves for each policy, calculated individually from the automated system for each effective insurance.

Key assumptions

The mathematical reserve on Life insurances, child insurances and insurances with profit sharing in targeted investments linked to the Company's internal investment funds is calculated using the same actuarial assumptions that have been used to calculate the net premiums (including technical interest rate and mortality table) and are included in the approved insurance – technical plan:

Technical interest rate 4%; 3%, 2.5%, 1.8%, 1.75%, 1.3%, 1.1% and 0.8% (for products in force after October 2006); 2.5% for universal and combined Life insurances; 1.8% for long-term risk Life insurance;

National mortality tables B-1952/1968 (insurance), B-1989/1991 (general population), B-1989/1999 (modified insurance), B-1989/2003 (general population), B-2011/2013 (general population).

Due to the possible deviations between the insurance technical plans and the actual results, the mathematical reserve and the capitalised value of pensions are increased by an additional reserve for adverse deviation from actuarial assumptions – for products in the LIFE system.

Mortality tables

The mortality tables used are based on the mortality levels of the general population in Bulgaria, and in some cases, as deemed appropriate by the actuaries, mortality levels in the insurance mass are taken into account (the Company's experience).

Discount rate

It is based on the technical interest used in the calculation of premiums, which takes into account the practice and the market, the regulatory requirements and the long-term investment strategy of the Company.

Administrative expenses

The expense assumptions take into account forecast expenses calculated using reasonable assumptions related to the maintenance and servicing of the effective policies. These assumptions are based on current expense levels, adjusted with the expected inflation rate.

Surrender rates

Surrenders are related to the exercising of the voluntary policy termination clause by the insured persons. The Company regularly monitors and analyses surrenders.

They are not taken into account in the calculation of the liabilities (mathematical reserve).

Sensitivity

Reserves sensitivity analysis is based on simulations by subsequent changes in the key factors and assumptions.

The key factors that influence the mathematical reserve are return on investments, mortality, costs, surrenders and discount rate. The Company has made a simulation to calculate the effect of a change in these factors.

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Sensitivity (continued)

The tables below describe the impact of the different factors and assumptions on the reserves on insurance contracts:

Life insurance contracts

31 December 2019

	Change in assumptions	Effect on gross liabilities	Effect on net liabilities
		BGN'000	BGN'000
Mortality	15%	138	138
Costs	10%	3,534	3,534
Surrenders	50%	(3,046)	(3,046)
Discount rate	1%	(9,250)	(9,250)

31 December 2018

	Change in assumptions	Effect on gross liabilities	Effect on net liabilities
		BGN'000	BGN'000
Mortality	10%	141	141
Costs	10%	2,636	2,636
Surrenders	10%	749	749
Discount rate	1%	(8,585)	(8,585)

The Company prepares estimates and assumptions that are to be reflected on the accounted sums, assets and liabilities within the next financial year. The estimates and assumptions are being continuously measured and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable considering the circumstances.

Final obligation that occurs as a result of damages suffered under insurance contracts

The measurement of the final obligation that occurs from damages suffered under insurance contracts is the most important accounting estimate of the Company.

There are several uncertainty sources that are to be taken into consideration when measuring the obligation the Company should pay under such damages finally.

Estimates of the future payments of indemnities and premiums that occur as a result of insurance contracts

The definition of the obligations under insurance contracts depends on the suggestions made by the Company in pricing. The proposals are made on the expected number of death cases in each of the years in which the Company is exposed to risk. The Company bases these assumptions on the standard for the particular industry and the national mortality rate tables that reflect the current historical experience in terms of the mortality rate corrected if suitable so that these could reflect Company's own experience.

In view of contracts that insure the risk of longevity a provision is set aside that is suitable yet not too cautious for expected mortality rate improvements. The expected number of death cases defines the value of the indemnity payments and the value of the measurement premiums.

The main uncertainty source are epidemics as AIDS and widely varying lifestyle changes such as eating, smoking and physical habits that could result in future mortality levels being much poorer than the ones in the past for the age groups in which the Company is greatly exposed to death risk.

Nevertheless some of the abovementioned have already been taken into consideration by the Company, for example weight, smoking, professional and physical habits whereas these are considered during the process of entering the insurance contracts. This risk decreases by the continuous healthcare and social conditions improvements. Because of this Company's exposition to death risk is limited even though it exists.

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Estimates of the future payments of indemnities and premiums that occur as a result of insurance contracts (continued)

The group credit life insurance contracts are contracts with lump sum premium and regular premium payment whose indemnities are bound with the sum not extinguished under the loan at the time of death. The premiums resulting from all the insureds such as group, plus the return on investment in these premiums during the cover effective term are believed to be suitable for covering the expected general claims for indemnities in the case of death, bearing in mind the fact the indemnity due and payable in the case of death goes down each year with the gradual decrease of the non-extinguished loan sum.

All the groups of credit life insurance contracts are being annually renewed. In the case the current experience proves to be more unfavourable than the assumptions at the pricing time, the premium could be increased according to the contractual terms and conditions so that it could cover all the deficits that could occur otherwise.

Estimates are made in view of the future revenues from investments that occur from the assets which secure the long-term insurance contracts.

These estimates are based on the current market return, as well as the expectations of the future economic and financial development.

Process used for decision-making on assumptions

In view of the long-term insurance contracts with fixed and guaranteed terms and with additional non-guaranteed incomes, the assumptions are made at two stages. In the beginning of the contract the Company defines the assumptions in relation to future mortalities, return on investment and administrative costs. These assumptions should be used for calculating the obligations during the contractual effective term. These assumptions are supplemented by the risk and uncertainty margin. These assumptions are “locked” during the effective term of the contract.

Consequently, in view of each following year new assumptions are being added in order to define whether the obligations are adequate in conformity with the latest estimates.

If we believe the debts are adequate, the assumptions would not be changed. If these are not adequate, the assumptions should be changed (not locked”) so that these could reflect the latest current approximates. The adequacy tests for these contracts are mainly featured by the fact that the changes effects in the assumptions for measuring the obligations and the related assets are not symmetrical.

The improvements in the assumptions do not impact the value of liabilities and the related assets until the liabilities are not written off, while the significant deterioration of the assumptions should be immediately recognized so that liabilities are adequate. The assumptions used for the insurance contracts and announced in the present note are the following:

Mortality rate

The selected suitable basic table on the standard mortality rates is the table for the period of 1997-1998, and it reflects the mortality rate of the Bulgarian population in sexes. The Company does not have sufficient and reliable database in order to draw its own mortality rate tables. Additionally, there are no mortality rate tables at the market for insurance purposes; there are only mortality rate tables of the population. The experience with damages in recent years shows that mortality rate would be much lower than the expected mortality rate of the population.

Disability rate

The disability rates are taken from studies of the market experience that have been corrected if suitable compared to Company's own global experience.

Termination/continuation

We studied the Company experience in recent years and used statistical methods in order to define a suitable termination/continuation per cent.

34. Insurance and financial risk (continued)

(a) Insurance risk (continued)

Return on investment

The used measurement interest rates are the following (being price interest rates):

In view of previous ordinary basic products in EUR - 2.75%.

In view of new ordinary basic products in EUR - 2.50%.

These interest rates are believed to be conservative enough yet we observe decrease in the average expected interest rates, whereas these are from 0.56% to 1.24% (net of costs and default provisions) for long-term fixed investment instruments in EUR.

The present cost level for the particular products is perceived as suitable cost base. The business costs could be divided into first-year and renewed policies and renewed policies and are expressed either as premium per cent or as fixed policy sum. In order to inflate the costs we have accepted the 1.50% per cent.

(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.

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

- 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 expected credit loss provisions at the date of the statement of financial position;
- Concentration of credit risk is allocated to portfolio of investments in financial assets at fair value through profit and loss, available-for-sale financial assets, trade and bank receivables and to a lesser degree short-term and other investments of the Company;
- The restrictions on the exposures to DZI counterparties are determined in accordance with the credit policies of the KBC Group;
- Net exposure limits are determined for each counterparty or group of counterparties, geographic and industry segment (i.e. limits are determined for investments and cash deposits, the exposures to FX trade and minimum credit ratings for the investments that may be held.
- Reinsurance contracts are concluded with counterparties that have good credit ratings, and risk concentration is avoided through compliance with the policy guidelines in respect of counterparty limits that are determined every year at Group level;
- Due to the present financial situation the number of counterparties and the maturity of investments is strongly limited;
- The credit risk related to client balances arises as a result of failure to pay the premiums or contributions during the grace period, set out in the policy's general terms and conditions and exists until it expires, after which the policy is either paid or terminated. The commission fee payable to intermediaries is offset against receivables from them to mitigate the risk of doubtful receivables;
- The Company issues investment unit-linked policies for a number of its operations. In the business linked to investment units in funds the insured person bears the investment risk on the assets held by the funds, linked to investment shares, as the yield on the policy is directly linked to the value of the fund's assets. Therefore the Company does not have significant credit risk on financial assets linked to investment shares.

Credit exposure by credit rating

The table below presents information on the Company's exposure to credit risk through classification of the assets depending on the credit ratings of its counterparties. Assets related to investment contracts, are included in the table below in a separate column as the credit risk for this type of assets is borne by the insured person.

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating (continued)

31 December 2019

	Investment class	Non-investment class: satisfactory	Non- investment class: unsatisfactory	Investment fund linked insurances	Impaired	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets						
Loans granted	980	-	-	-	-	980
Deposits		615				615
Loans granted under Life insurance	-	881	-	-	-	881
Other receivables	-	662	-	-	(37)	585
<i>Financial assets at fair value through comprehensive income:</i>						-
Government bonds	114,996	-	-	-	(22)	114,974
Corporate bonds	72,972	-	-	-	(87)	72,885
Shares	-	188	-	-	-	188
<i>Financial assets at amortised cost</i>						
Government Bonds	8,064	-	-	-	(2)	8,062
<i>Financial assets at fair value through profit and loss:</i>						
Collected funds on investment contracts	-	-	-	80,756	-	80,756
Government bonds	1,942	-	-	-	-	1,942
Reinsurance transaction assets	989	-	-	-	-	989
Receivables on insurance transactions	-	8,663	-	-	-	8,663
Cash at banks	2,609	-	-	-	-	2,784
Total	203,167	10,354	-	80,756	(148)	294,129

31 December 2018 **Neither past due, nor impaired**

	Investment class	Non- investment class: satisfactory	Non- investment class: unsatisfactory	Investment fund linked insurances	Impaired	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets						
Loans granted	980	-	-	-	-	980
Loans granted under Life insurance	-	712	-	-	-	712
Other receivables	-	216	-	-	(44)	172

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating (continued)

31 December 2018 **Neither past due, nor impaired**

	Investment class	Non- investment class: satisfactory	Non- investment class: unsatisfactory	Investment fund linked insurances	Impaired	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Financial assets at fair value through comprehensive income:</i>						
Government bonds	96,953	-	-	-	(26)	96,927
Corporate bonds	56,945	-	-	-	(95)	56,850
<i>Financial assets at amortised cost</i>						
Government Bonds	8,128	-	-	-	(3)	8,125
<i>Financial assets at fair value through profit and loss:</i>						
Collected funds on investment contracts	-	-	-	43,963	-	43,963
Government bonds	1,588	-	-	-	-	1,588
Reinsurance transaction assets	528	-	-	-	-	528
Receivables on insurance transactions	-	8,354	-	-	-	8,354
Cash at banks	31,712	-	-	-	-	31,712
Total	196,734	9,282	-	43,963	(168)	249,911

As of 31 December 2019 the Company has a deposit in UBB AD. As of 31 December 2018 the Company has no exposure to term deposits.

The concentration of current bank accounts with related parties as of 31 December 2019 represents 97% of the amount of the total cash.

The Company classifies as investment class financial assets for which the counterparty has external rating.

Financial assets for which no rating has been issued by a rating agency or with credit rating lower than BBB, but for which the Company has no indications and does not expect deterioration of the credit quality of the counterparty, are classified as non-investment class, satisfactory.

Non-investment class, unsatisfactory are financial assets for which the Company expects deterioration of the credit quality of the counterparty.

The table below presents information regarding the Company's exposure to credit risk as at 31 December 2018 with the assets being classified depending on the credit rating issued by Standard & Poors.

AAA is the highest possible rating.

Assets outside the scope of rating AAA to BBB are classified as such with speculative rating.

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating (continued)

31 December 2019	AAA	AA	A	BBB	Not classified	Investment contracts	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets							
Loans granted	-	-	-	980	-	-	980
Deposits	-	-	615	-	-	-	615
Loans granted on life insurance contracts	-	-	-	-	881	-	881
Receivables and advances	-	-	-	-	585	-	585
Financial assets at fair value through other comprehensive income:							
Government bonds	1,640	10,406	15,649	87,279	-	-	114,974
Corporate bonds	-	2,233	33,838	36,814	-	-	72,885
Shares	-	-	-	-	188	-	188
Financial assets at amortised cost:							
Government bonds	-	-	-	8,062	-	-	8,062
Financial assets at fair value through profit or loss:							
Government bonds	-	-	-	1,942	-	-	1,942
Collected funds on investment contracts	-	-	-	-	-	80,756	80,756
Reinsurance transaction assets	-	-	989	-	-	-	989
Receivables on insurance transactions	-	-	-	-	8,663	-	8,663
Cash at banks	-	-	2,552	57	-	-	2,609
Total	1,640	12,639	53,643	135,134	10,317	80,756	294,129
31 December 2018	AAA	AA	A	BBB	Not classified	Investment contracts	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets							
Loans granted	-	-	-	980	-	-	980
Loans granted on life insurance contracts	-	-	-	-	712	-	712
Receivables and advances	-	-	-	-	172	-	172
Financial assets at fair value through other comprehensive income:							
Government bonds	1,678	5,123	12,728	77,398	-	-	96,927
Corporate bonds	-	2,146	25,383	29,321	-	-	56,850
Shares	-	-	-	-	188	-	188

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(1) Credit risk (continued)

Credit exposure by credit rating (continued)

31 December 2018	AAA	AA	A	BBB	Not classified	Investment contracts	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Financial assets at amortised cost:</i>							
Government bonds	-	-	-	8,125	-	-	8,125
<i>Financial assets at fair value through profit or loss:</i>							
Government bonds	-	-	-	1,588	-	-	1,588
Collected funds on investment contracts	-	-	-	-	-	43,963	43,963
Reinsurance transaction assets	-	-	528	-	-	-	528
Receivables on insurance transactions	-	-	-	-	8,354	-	8,354
Cash at banks	-	-	31,712	-	-	-	31,712
Total	1,678	7,269	70,351	117,412	9,288	43,963	250,099

Credit quality of financial assets

The credit quality of financial assets, which are not past due is assessed on the basis of recoverability information after the balance sheet date.

The table below provides information on the Company's exposure to government and corporate securities classified as at fair value through other comprehensive income and financial assets at amortized cost according to their maturity as of 31 December 2019:

Maturity	31 December 2019	31 December 2018
BGN'000	BGN'000	BGN'000
Within 1 year	7,889	5,648
1 to 3 years	22,174	19,001
3 to 5 years	52,340	37,208
5 to 15 years	97,149	100,046
More than 15 years	16,369	-
	195,921	161,903

(2) Liquidity risk

Financial assets' impairment (expected credit losses)

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

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(2) Liquidity risk (continued)

Financial assets' impairment (expected credit losses) (continued)

	Financial assets at fair value through other comprehensiv e income BGN'000	Financial assets at amortized cost BGN'000	Deposits BGN'000	Trade receivables BGN'000	Total BGN'000
Allowance for Credit losses on January 1, 2018	-	-	-	32	32
Effect of the initial application of IFRS 9	36	3	13	-	52
Allowance for Credit losses on January 1, 2018 with the initial application of IFRS 9:	36	3	13	32	84
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>	1	-	-	13	14
<i>Written off allowance for credit losses of sold or matured assets during the period</i>	(16)	-	(13)	(1)	(30)
<i>Increase from business combination</i>	100	-	-	-	100
Allowance for Credit losses on 31 December 2018	121	3	-	44	168
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	-	-	6	29
<i>Adjustment Written off allowance for credit losses of sold or matured assets during the period</i>	(35)	(1)	-	(13)	(49)
Allowance for Credit losses on 31 December 2019	109	2	-	37	148

The allowance for credit losses for financial assets was initially recognized on the 1st of January 2018, being the first date of application of IFRS 9 for the Company. Throughout the period no significant changes were observed in the credit risk under the financial assets that could result in modification in the period of the expected credit losses, towards 12 months as of the effective term of the contract and vice versa.

Credit quality of financial assets

The credit quality of financial assets that are not past due is assessed on the basis of recoverability information after the balance sheet date.

The credit quality of receivables from insurance operations, which are not past due is assessed on the basis of collection information after the balance sheet date.

Liquidity risk

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:

- The Company pays on a daily basis compensations and liabilities arising in the ordinary course of business.
- The Company monitors daily and controls its liquid funds needs through management of the inflows and outflows.

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(2) Liquidity risk (continued)

Liquidity risk (continued)

- 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 and investment contracts.
- Sufficient cash is kept available to finance the operations and to mitigate cash flow fluctuations.

DZI - Life Insurance JSC is subject to regulation by the Financial Supervisory Commission (FSC), Insurance Supervision Department. Starting from the beginning of 2016, the Company should comply with the requirements for capital adequacy, based on Regulation 2009/138/EU of the European Parliament (Solvency II).

As of the end of each accounting year the Company complete Quantity reporting templates (QRTs) that are subject of audit by the independent external auditor. On an annual basis FSC conducts Balance Sheet Review (BSR) with the participation of independent external counterparties and companies with high professional reputation. The objective of the BSR is estimation of the Insurance contract liabilities and assessment of the adequacy of technical reserves per Solvency II as well as recalculation of prudential indicators – MCR and SCR. The results from the BSR are presented in the table below:

	Own funds	Own funds MCR	SCR	MCR	SCR ratio	MCR ratio
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
31 December 2019	208,091	208,091	53,054	13,263	392%	1.569%
31 December 2018	180,035	180,035	47,209	12,400	381%	1.451%

Maturity structure

The table below summarises the maturity structure of financial assets and financial liabilities of the Company based on the remaining non-discounted contractual liabilities, including interest payables and receivables.

Maturity profiles for liabilities on insurance contracts and reinsurance assets are determined based on the estimated timing of the net cash outflows on recognised insurance liabilities. Premiums carried forward to the next reporting period and the reinsurer's share in such premiums in the next reporting period are excluded from the analysis as they do not represent contractual liabilities.

The Company maintains a portfolio of marketable and diverse assets that are readily liquidated in case of unforeseen decline in cash flows. It has approved credit limits to individual counterparties (for bonds and deposits with credit institutions). In respect of reinsurance the Company applies limits determined at Group level. Reinsurance assets are presented on the same basis as reinsurance liabilities. Loans and receivables include contractual interest receivables.

The table below presents analysis of the contractual undiscounted cash flows on the Company's assets.

31st of December 2019	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Over 15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets							
Deposits with financial institutions	615	615	-	-	-	-	615
<i>Credits and receivables:</i>							-
Loans granted on life insurance	881	881	-	-	-	-	881
Loans granted	980	3	-	-	977	-	980
Receivables and prepayments	759	759	-	-	-	-	759
<i>including financial guarantees</i>	320	320	-	-	-	-	320

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity structure (continued)

31st of December 2019	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Over 15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets at fair value through other comprehensive income	188,047	9,708	28,104	48,406	89,987	13,780	195,518
Financial assets at amortized cost	8,062	351	703	5,033	2,836	-	9,634
<i>Financial assets at fair value through profit or loss</i>							
Funds under investment contracts	80,756	-	-	-	-	80,756	80,756
Government bonds	1,942	46	92	1,762	-	-	1,900
Reinsurance transaction assets	989	528	-	-	-	-	528
Receivables on insurance transactions	8,663	8,354	-	-	-	-	8,354
Cash	2,784	31,726	-	-	-	-	31,726
Total assets	294,318	53,907	30,622	56,099	95,742	14,526	250,895

Maturity analysis

The table below presents analysis of the contractual undiscounted cash flows on the Company's liabilities.

31 December 2019

	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance liabilities						
<i>Liabilities on insurance contracts, except unearned premium reserve</i>						
Life insurance	174,107	15,810	26,659	37,302	90,627	170,398
General insurance	264	264	-	-	-	264
Liabilities on investment contracts	80,879	-	-	-	80,879	80,879
Liabilities to reinsurers	1,270	1,270	-	-	-	1,270
Payables to insurance intermediaries and insured persons	3,181	3,181	-	-	-	3,181
Trade and other payables	1,004	1,004	-	-	-	1,004
Lease liability	876	359	517	-	-	876
Total liabilities	261,581	21,888	27,176	37,302	171,506	257,872

The table below presents analysis of the contractual undiscounted cash flows on the Company's assets.

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(2) Liquidity risk (continued)

Maturity analysis (continued)

31st of December 2018	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance assets						
Deposits with financial institutions	-	-	-	-	-	-
<i>Credits and receivables:</i>						
Loans granted on life insurance	712	712	-	-	-	712
Loans granted	980	-	-	-	980	980
Receivables and prepayments	172	172	-	-	-	172
<i>including financial guarantees</i>	19	19	-	-	-	19
Financial assets at fair value through other comprehensive income	153,966	8,183	25,385	43,681	83,625	160,874
Financial assets at amortized cost	8,125	259	643	717	10,338	11,957
Funds under investment contracts	43,963	-	-	-	43,963	43,963
Financial assets at fair value through profit or loss	1,588	35	80	1,386	103	1,604
Reinsurance transaction assets	528	528	-	-	-	528
Receivables on insurance transactions	8,354	8,354	-	-	-	8,354
Cash	31,726	31,726	-	-	-	31,726
Total assets	250,100	49,955	26,108	45,784	139,009	260,856

Maturity analysis (non-derivative instruments)

The table below presents analysis of the contractual undiscounted cash flows on the Company's liabilities.

31 December 2018	Carrying amount	Within 1 year	1-3 years	3-5 years	5-15 years	Over 15 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial and insurance liabilities							
<i>Liabilities on insurance contracts, except unearned premium reserve</i>							
Life insurance	165,390	20,013	34,586	34,866	67,792	8,133	165,390
General insurance	289	289	-	-	-	-	289
Liabilities on investment contracts	43,757	-	-	-	43,757	-	43,757
Derivative financial instruments	383	383	-	-	-	-	383
Liabilities to reinsurers	785	785	-	-	-	-	785
Payables to insurance intermediaries and insured persons	2,858	2,858	-	-	-	-	2,858
Trade and other payables	957	957	-	-	-	-	957
Total liabilities	214,419	25,285	34,586	34,866	111,549	8,133	214,419

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(2) Liquidity risk (continued)

Asset and liability maturity analysis by expected maturity

The Company classifies as current assets and liabilities with an expected maturity within one year and as non-current assets and liabilities with expected maturity exceeding one year.

31 December 2019	Current	Non-current	Investment fund linked insurance	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Intangible assets	-	11,210	-	11,210
Goodwill	-	2,023	-	2,023
Tangible assets	-	9,074	-	9,074
Deferred acquisition costs	-	4,530	-	4,530
Investment properties	-	12,768	-	12,768
Investments in subsidiaries	-	115,425	-	115,425
Deposits with financial institutions	615	-	-	615
<i>Credits and receivables:</i>				-
Loans granted on life insurance	881	-	-	881
Loans granted to the government	3	977	-	980
Other receivables	760	-	-	760
<i>including financial guarantees</i>	320	-	-	320
Financial assets at amortized cost	132	7,930	-	8,062
Financial assets at fair value through other comprehensive income	7,757	180,290	-	188,047
Financial assets at fair value through profit or loss	30	1,912	80,756	82,698
Assets on reinsurance transactions	989	-	-	989
Receivables on insurance transactions	8,663	-	-	8,663
Cash	2,624	-	-	2,624
Right of use assets	-	876	-	876
Total assets	25,454	347,015	80,756	450,225

31 December 2019	Current	Non-current	Investment contract linked liabilities	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<i>Liabilities on insurance contracts:</i>				
Life insurance	15,810	158,297	-	174,107
General insurance	264	-	-	264
Liabilities on investment contracts	-	-	80,879	80,879
Employee retirement benefits liability	121	155	-	276
Deferred tax liability	-	533	-	533
Liabilities to reinsurers	1,270	-	-	1,270
Trade payables and payables to insurers, insurance intermediaries and insured persons	6,034	-	-	6,034
Lease liability	359	517	-	876
Income tax payables	869	-	-	869
Total liabilities	24,728	159,502	80,879	265,109

DZI - LIFE INSURANCE JSC
NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2019

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(2) Liquidity risk (continued)

Asset and liability maturity analysis by expected maturity (continued)

31 December 2018	Current	Non-current	Investment contract linked assets	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Intangible assets	-	15,651	-	15,651
Tangible assets	-	9,362	-	9,362
Deferred acquisition costs	7	5,090	-	5,097
Deferred tax asset	-	12,784	-	12,784
Investment properties	-	115,425	-	115,425
Investments in subsidiaries	-	-	-	-
Deposits with financial institutions	-	-	-	-
<i>Credits and receivables:</i>				
Loans granted on life insurance	712	-	-	712
Loans granted to the government	3	977	-	980
Other receivables	172	-	-	172
<i>including financial guarantees</i>	19	-	-	19
Financial assets at amortized cost	133	7,992	-	8,125
Financial assets at fair value through other comprehensive income	5,515	148,451	-	153,966
Financial assets at fair value through profit or loss	35	1,553	43,963	45,551
Assets on reinsurance transactions	528	-	-	528
Receivables on insurance transactions	8,354	-	-	8,354
Income tax receivable	362	-	-	362
Cash	31,726	-	-	31,726
Total assets	47,547	317,285	43,963	408,795

31 December 2018	Current	Non-current	Investment contract linked liabilities	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<i>Liabilities on insurance contracts:</i>				
Life insurance	20,677	150,200	-	170,877
General insurance	289	-	-	289
Liabilities on investment contracts	-	-	43,757	43,757
Employee retirement benefits liability	108	120	-	228
Deferred tax liability	-	495	-	495
Derivative financial instruments	383	-	-	383
Liabilities to reinsurers	785	-	-	785
Trade payables and payables to insurers, insurance intermediaries and insured persons	5,042	-	-	5,042
Total liabilities	26,620	151,479	43,757	221,856

(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.

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(3) Market risk (continued)

- 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 benefits and profits to the insured people that meet their expectations.
- Strict control is exercised over currency risk management operations.

(3a) Currency risk

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

The main transactions of the Company are in EUR and Bulgarian lev and its exposure to currency risk arises mainly in respect to the US Dollar. As at 31 December 2019 the 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 Bulgarian lev to the EUR is fixed. Since the Company presents its financial statements in Bulgarian levs the latter may be influenced by movements in the foreign currency rates of currencies other than the EUR and the Bulgarian lev.

The Company's financial assets are denominated mainly in the same currencies as the liabilities on insurance and investments contracts. Therefore the main currency risk arises from the recognised assets and liabilities denominated in currencies other than these, in which it is expected to settle the liabilities on the insurance and investment contracts.

The currency risk is managed effectively by the Company through derivative financial instruments. Currency forwards are concluded to eliminate the FX exposure of individual transactions in foreign currencies. Currency forwards should be in the same currency and under the same conditions as the hedged item to maximise the effectiveness of currency risk management. The Company does not enter into such forwards unless there is firm commitment.

In accordance with the KBC Group policies the Company limits its FX exposure and for this purpose in 2008 it has carried out several derivative transactions in order to limit mainly its exposure to USD.

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 amount of assets in US dollars amounts to BGN 616 thousand (2018: BGN 1,907 thousand), and that of liabilities is BGN 672 thousand (2018: BGN 840 thousand).

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

The analysis presented below is made for reasonable possible changes in the key variables where all other variables remain unchanged, showing the effect on the profit before tax and equity due to the changes in the fair value of monetary assets and liabilities sensitive to currency fluctuations, including liabilities on claims under insurance contracts. The variables correlation shows significant effect on the ultimate effect on market risk, but to demonstrate the effect due to the change in the variables these should be changed individually. It should be pointed out that the movements in these variables are non-linear.

Currency	31 December 2019			31 December 2018	
	Movement in variables	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
USD	+10%	(6)	-	140	-
USD	-10%	6	-	(140)	-

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(3) Market risk (continued)

(3a) Currency risk (continued)

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

(3b) Interest rate risk

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

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

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

Over the past five years 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 rates 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. As a result of the long-term investments made in 2010 - 2017 short positions of assets to liabilities have decreased which led to a decrease in the interest rate risk.

The analysis presented below is made for reasonably possible changes in the key variable with all other variable remaining unchanged, demonstrating the effect on the profit before tax (due to changes in the fair value of floating rate financial assets and financial liabilities) and equity (which reflects adjustments in profit before tax and the measurement of available-for-sale fixed rate financial assets, including the cash flow hedges effect). 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.

The effect of changes in interest rates studied in the tables below would have effect on the fair values of interest bearing available-for-sale financial assets and hence the equity of the Company. Interest bearing credits and receivables at amortised cost either charge fixed interest rates, therefore they are not exposed to the risk of changes in the basic interest rate levels.

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(3) Market risk (continued)

(3b) Interest rate risk (continued)

	Change of interest rate (basic points)	In thousand BGN			
		<i>BGN</i>	<i>EUR</i>	<i>USD</i>	<i>Total</i>
31 st of December 2019	+100 bp	(2,809)	(4,640)	-	(7,449)
	-100 bp	3,263	4,937	--	8,200
31 st of December 2018	+100 bp	(1,971)	(16,018)	--	(17,989)
	-100 bp	1,227	6,926	-	8,153

The average effective interest rate of the interest-bearing financial assets of the Company as of the 31st of December 2019 is 2.67% (2018: 3.12 %).

(3c) Price risk

The price risk of equity instruments is the risk that the fair value of the future cash flows on a financial instrument will vary due to changes in the market prices (other than those arising as a result of interest rate or currency risks), regardless of whether these changes are due to factors specific to the separate 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, country-based limitations of investments, sector and market and planned use of derivative financial instruments.

The table below presents information about the bonds reported at fair value by type of issuer:

	2019	2018
	BGN'000	BGN'000
Bulgaria	77,547	63,385
France	22,106	16,311
The Netherlands	13,010	7,150
England	11,496	14,592
German	9,543	2,995
Romania	9,741	9,590
Spain	8,748	5,934
Ireland	7,406	4,052
Poland	7,071	7,078
USA	6,347	8,142
Slovakia	2,958	2,701
Sweden	2,433	2,394
Denmark	2,103	2,064
Slovenia	2,000	2,001
Italy	1,933	1,811
Australia	1,716	1,710
Czech Republic	1,135	1,070
Cayman Island	847	-
Belgium	833	762
Finland	828	812
China	-	812
Total	189,801	155,366

34. Insurance and financial risk (continued)

(b) Financial risks (continued)

(3) Market risk (continued)

(3c) Price risk (continued)

Sensitivity analysis of financial assets to price risk

As part of the Company's investment strategy to reduce insurance and financial risk, it matches its investments to liabilities on insurance and investment contracts by reference to the types of income that is subject to payment by the contract holders.

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 financial assets and financial liabilities included in the statement of profit or loss) and equity (which reflects adjustments in profit before tax and the changes in the fair value of the financial assets, included in the statement of changes in equity). The correlation between the variables will have significant effect in the definition of the ultimate fair value and/or amortised cost of financial assets, other than derivative financial instruments, 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.

	Movement in variables	31 December 2019		31 December 2018	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		BGN'000	BGN'000	BGN'000	BGN'000
Foreign exchange rate	+ 10 %	(6)	(6)	140	140
Stock exchange	+ 10 %	-	-	-	-
Foreign exchange rate	- 10 %	6	6	(140)	(140)
Stock exchange	- 10 %	-	-	-	-

35. 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 financial sector;
- organisation of working groups for self-assessment of operational risk;
- identification and analysis of key risk indicators in the daily operations.

Operational risk management is specialized in the "Risks" directorate, section "Non-financial risks" as business scope is subordinated to the Executive Director "Finance and risk."

For the purposes of operational risk management functions a Local Risk and Capital Control Committee. It is chaired by the Finance and Risk Executive Officer and members – Chief Executive Officer, Chief Commercial Officer, Executive Director, General Insurance Products Management Director, Products and Medical Life Insurance Director, Legality Director, Chief "Specialized service for "Internal audit and control" and other representatives.

A Commercial Network Control Committee operates as a subordinate unit to the above Committee. Its objective is to identify and manage the risks within the commercial network. The more important ones are reported to the Local Risk and Capital Management Committee.

The monitoring and control processes of exposure to operational risk is carried out with joint participation of first and second line of control.

35. Operational risk (continued)

The function of the first line of control in the management of operational risk is performed by the business - managers of major agencies and regional expert or chief specialist and specialist "Operations and control" at the local level in the country and the central level - from the people responsible for operational risk as set out in the following directorates and directions: Products "Medical and life insurance", Liquidation of medical and life insurance, Corporate insurance, Finance, Information technologies, Information security, Legal, Vehicle insurance acquisition, Non-vehicle products management general insurance, General insurance damages management, Sales network and sales development, Brokerage business. The second line control function is being performed by the department "Non-financial risks" and the Committee sales network control.

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

The following measures for operational risk management are realized:

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

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

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

In accordance with the standards of KBC for the management of non-financial risks the DZI Group has drawn up analysis, assessment of the requirements under the Group Key Controls in respect of the following processes:

- Life insurance;
- General (non-life) insurance;
- Legal risk management;
- Tax risk management;
- Business continuity management;
- Risk and capital management;
- Accounting and financial reporting;
- Human resource management;
- Corporate communication;
- Customer administration;
- New and active products;
- Marketing and trade communication;
- Customer e-communication channels;
- Intermediary management;
- Property management.

35. Operational risk (continued)

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: (continued)

- Supply management;
- Information technologies;
- IT security management;
- Corporate governance;
- Outsourcing.

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

As part of the responsibilities of the Operational Risk Management is the ensuring of the “continuity of business” which aims at supporting the critical business functions, processes and services, their organisation, management or recovery/restoration within reasonable periods of time in case of unforeseen, full or partial business interruption.

Crisis committee has been appointed chaired by the Chief Executive Director and deputy-chairman – Executive Officer “Finance and risk”. The meetings of the Crisis committee are conducted as a part of Local Risk and Capital Control Committee.

In 2018 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.

36. Commitments and contingencies

Contingencies

Legal claims have been proceed against the Company from insured persons in connection with reported insurance claims on incurred insurance events. Legal claims are include in RBNS with the full or partial amount of the proceed claims and also an interest has been accrued for them as of the date, when they are expected to be settled. The Company is a party to property lawsuits, which do not have a significant effect on its financial statements. The Company has no other contingent liabilities as of December 31, 2019.

Operating lease liability

Operating lease agreements include leases of office buildings. The obligations under irrevocable operating leases are as follows:

	2019	2019
	BGN'000	BGN'000
No more than 1 year	-	374
No more than 1 year and no more than 5 years	-	605
More than 5 years	-	7
Total:	-	986

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

37. Related party disclosures

As of the 31 December 2019 and 31 December 2018 the Company has the following related parties:

- KBC Group N.V., Belgium – ultimate parent-company;
- KBC Insurance NV, Belgium – the parent-company;
- KBC Bank N.V., Belgium – related party under common control
- KBC Insurance NV subsidiaries - related parties under common control;
- United Bulgarian Bank AD and its subsidiaries - related parties under common control;

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37. Related party disclosures (continued)

- UBB Interlease EAD and subsidiaries - related parties under common control;
- DZI - General Insurance EAD - subsidiary.

The Company carries out transactions with related parties in the ordinary course of business.

Transactions with the parent-companies	2019	2018
	BGN'000	BGN'000
Rental income	340	-
Fee expenses	(149)	(133)
Divident paid	(13 107)	-
Transactions with subsidiaries	2019	2018
	BGN'000	BGN'000
Premium income	204	180
Service received	(61)	(42)
Insured claims received	14	-
Other sales	482	-
Dividends received	-	6 375
Transactions with other related parties under common control	2019	2018
	BGN'000	BGN'000
Premium income	631	800
Change in the unearned premium reserve	1	580
Premium received	1	672
Claims ceded to reinsurers	162	-
Fee income	242	54
Rental income	110	2
Sale of assets	64	-
Commision expenses	(10,051)	(1,205)
Reinsurance premiums ceded	(455)	(252)
Change in the pending provision reserve to reinsurers	(19)	-
Bank charges	(133)	(115)
Rents	(13)	(5)
Service received	(41)	-
Interest expenses	-	(15)
Interest expenses repo transactions	-	(11)
Loans received	-	60,435
Payments on loans received	-	(60,435)
Payments on loans received repo transactions	-	(37,960)
Derivatives	-	(208)
Balances with related parties at the end of the year	31.12.2019	31.12.2018
	BGN'000	BGN'000
- the parent-company		
Trade receivables	16	-
Trade payables	19	71
- subsidiaries		
Trade receivables	203	-
- other related parties under common control		

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31 DECEMBER 2019

37. Related party disclosures (continued)

Balances with related parties at the end of the year (continued)	31.12.2019	31.12.2018
	BGN'000	BGN'000
Cash	2,713	30,890
Deposits	615	-
Guarantees provided	320	200
Claims on insurance operations	16	1
Assets under reinsurance contracts	50	-
Trade receivables	-	46
	1	
Commission payables	190	1,333
Lease liability	62	-
Unearned premium reserve	1	19
Derivates	-	380
Liabilities to reinsurers	55	77

The terms and conditions related to receivables and payables to related parties are disclosed in the relevant Notes.

They do not 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 bank 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.

As of 31 December 2019 the Company has a receivable in the amount of BGN 320 thousand (2018: BGN 200 thousand), which is related to the issuance of bank guarantees by UBB AD in favor of its counterparties.

The key management personnel of the Company includes the members of the Management Board and the Supervisory Board. The remuneration of key management personnel includes the following costs:

	2019	2018
	BGN'000	BGN'000
Short-term remuneration:		
Salaries and social security contribution, including bonuses	264	261
Total short-term remuneration	264	261
Short-term payables for remuneration	54	-

38. 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 the Company's results in 2020 (but not have any impact on our financial position at year-end 2019). Given the new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequence will be for the global economy and, more specifically for the bank-insurance group, which DZI Life insurance JSC is a part. Management of the Company is closely monitoring the situation. Also the management has adopted a cautious and conservative approach, even though the solid capital and liquidity positions are such that the Company is able to withstand extreme scenarios.

The management's 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 the preparation of this report in April 2020.

38. Events after the date of the statement of financial position (continued)

More disclosures are presented in the section “Information about subsequent events after the date of preparation of the separate financial statements” in Separate management report and Note 34 “Insurance and financial risk” of the current financial statement.

There are no other significant events have occurred between the date of financial statements and the date of its approval that may require disclosure or may cause changes in the Company’s financial position .