


BULSTRAD

VIENNA INSURANCE GROUP

SEPARATE ANNUAL FINANCIAL STATEMENTS

ZAD BULSTRAD VIENNA INSURANCE GROUP

December 31, 2019



Sofia, 2020

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Independent Auditors' Report

To the Shareholders of ZAD Bulstrad Vienna Insurance Group AD

Report on the audit of the separate financial statements

Our opinion

We have audited the separate financial statements of ZAD Bulstrad Vienna Insurance Group AD (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 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) and with the Commission's interpretation as described in Note 2.1 of the separate financial statements.

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 Auditor's 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' International 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 2,775 thousand which represents approximately 1% of gross written premium.
Key audit matters	<ul style="list-style-type: none"> Estimation uncertainty with respect to technical insurance provisions

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. As in all of our audits, 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 2,775 thousand
How we determined it	Overall materiality represents approximately 1% of the Company's gross written premium (GWP)
Rationale for the materiality benchmark applied	We have chosen gross written premium as the benchmark because it is the benchmark against which the performance of the Company is measured.

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 separate 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><i>Estimation uncertainty with respect to insurance contract liabilities</i></p> <p>As at 31 December 2019 insurance contract liabilities (before reinsurance) amount to BGN 292,983 thousand, as disclosed in Notes 19, 20 to the separate financial statements.</p> <p>Insurance contract liabilities, referred also as technical insurance provisions, represent the most significant liability of the Company. The assessment of insurance contract liabilities is a complex area that requires application of the professional judgment, using a set of statistical and mathematical methods and models required by the Company's accounting policies as well as regulatory requirements.</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 contract liabilities are disclosed in Note 3.2 and 4.7 to the accompanying separate financial statements.</p> <p>The evaluation of general insurance loss reserves involves a high degree of subjectivity and complexity in applying the key assumptions and methodology. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date. Specifically, long-tail lines of business are generally more difficult to project and subject to greater uncertainties than short-tail ones.</p> <p>We focused on provision for incurred but not reported claims (IBNR) and the adequacy of the reserves, including unexpired risk provision and run-off of the outstanding claims reserve.</p>	<p>We obtained an understanding and evaluated the design and operating effectiveness of selected key controls over the actuarial methodology, integrity of input data, assumptions and governance processes used by management in the valuation of technical insurance provisions.</p> <p>Our substantive testing procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Assessment and analysis of the accounting policy for valuation and presentation of technical insurance provisions to ensure that it is in line with the applicable IFRS as well as the regulatory framework applicable for the Company • Involvement of our actuarial specialists to independently and critically test management's general insurance loss reserve estimates, and evaluate the reasonableness of the methodology and assumptions used against recognized actuarial practices and industry standards. Key internal assumptions were also reconciled with the accounting or other relevant data. On a sample basis, we have tested the calculation files to verify both input data and mathematical accuracy of the calculations.; • Testing the completeness and accuracy of underlying claims data, utilized by the Company's actuaries in estimating general insurance loss reserves, by reconciliation with supporting documents; • Performing an independent calculation of the claims development patterns on selected product lines, particularly focusing on the largest and most uncertain general insurance loss reserves, and assessment for adequacy of unexpired risk reserve and incurred but not reported reserve (IBNR), including run-off of the outstanding claims reserve; • Evaluation of the completeness, relevance and adequacy of the disclosures in the separate financial statements.



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

Management is responsible for the other information. The other information comprises Separate Annual Activity 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 Annual Activity 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 Annual Activity 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 Annual Activity 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's financial 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 Accounting Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

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

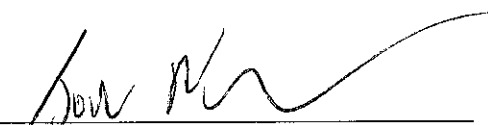
In accordance with the requirements of the Independent Financial Audit Act in connection with Art.10 of Regulation (EU) 537/2014, we hereby additionally report the information stated below:

- 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


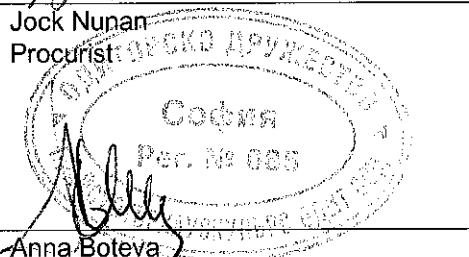
meeting of shareholders held on 17 September 2019 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as auditors of the Company on 17 September 2019.

- HLB Bulgaria 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 17 September 2019 for a period of one year. HLB Bulgaria OOD was first appointed as auditors of the Company on 30 November 2017.
- The audit of the separate financial statements of the Company for the year ended 31 December 2019 represents the first 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 HLB Bulgaria 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 non-audit services to the Company, in addition to the audit, which have been disclosed in Note 34 of the Company's separate financial statements.

For PricewaterhouseCoopers Audit OOD:



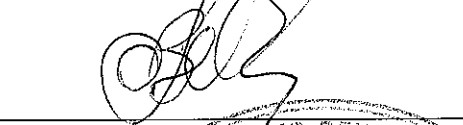
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Procurist



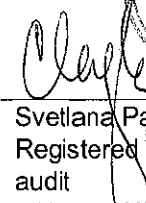
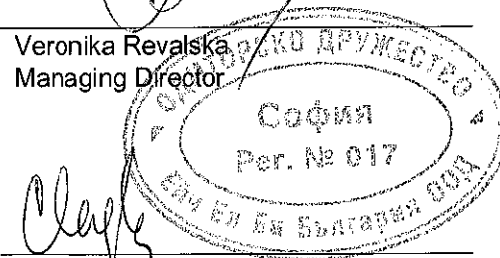
Anna Boteva
Registered Auditor responsible for the
audit
9-11, Maria Luiza blvd.
1000 Sofia, Bulgaria

Date: 30 March 2020

For HLB Bulgaria OOD



Veronika Revalska
Managing Director



Svetlana Pavlova
Registered Auditor responsible for the
audit
149-151, Konstantin Velichkov blvd.,
1309 Sofia, Bulgaria

Date: 30 March 2020

Supervisory Board

Chairman: Peter Höfingner

Members: Werner Matula
Josef Aigner
Gerhard Lahner
Plamen Gochev
Anton Stankov

Management Board

Chairman: Nedyalko Chandarov – Chief Executive Officer

Members: Theodore Iliev - Executive Director
Ivo Gruev - Executive Director
Plamen Shinov – Executive Director
Nikola Pamukov- Executive Director
Svetla Nestorova-Asenova

Auditors

PricewaterhouseCoopers Audit OOD (LTD)
HLB Bulgaria OOD (LTD)

Head Office

5, Pozitano Square
Sofia, Bulgaria

BULSTRAD

VIENNA INSURANCE GROUP

**SEPARATE MANAGEMENT REPORT
OF
ZAD BULSTRAD VIENNA INSURANCE GROUP AD**

2019

Sofia, 2020

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

1. MACROECONOMIC AND REGULATORY INDICATORS

The main drivers of economic growth are domestic consumption and the export of Bulgarian goods and services. In general, the total macroeconomic indicators have a positive effect on the insurance market, reflected in the more active demand for insurance solutions by households and the business.

The insurance sector stands out as one of the national economic sectors characterized by high dynamics and changes. The main factors are:

- the entry of new participants
- market consolidation through mergers and acquisitions
- concentration of financial portfolios
- the distribution channels are dominated by insurance brokers
- increased role of the Regulator is observed
- stronger focus on motor insurance - the general insurance market is characterized by its focus on motor insurance. By December 2019, 27% and 45% (2018: 29% and 44%) of the total premium in the market has been generated by the Motor Hull and Motor Third Party Liability lines of business, respectively. This is approx. 72.2% (2018: 74.4%) of the total market.

In 2019, the non-Life insurance market has been characterized by strong competition in the pricing of the insurance products, continuous growth and concentration of the brokerage distribution channels, as well as by strong focus on the needs of the individual customers. The main risks and uncertainties faced by the insurance sector, and ZAD BULSTRAD VIENNA INSURANCE GROUP AD ("Bulstrad" or the "Company") in particular have been the unstable external and internal political environment and the volatility of the Bulgarian and the world financial markets.

According to FSC data till December 31, 2019 the non-life insurance market has registered a growth in gross premium (written) of 16% (2018: 19%) compared to 2018*¹. According to preliminary data published as statistical information on the website of the FSC, as of December 31, 2019, BULSTRAD VIENNA INSURANCE GROUP was ranked second in terms of market share in gross premium income, (2018: second).

In 2019 the Financial Supervision Commission did not withdraw the license of any insurance company.

In 2018, the Financial Supervision Commission withdrew the license of Olympic insurance company for failing to comply with solvency requirements and breaches of the Insurance Code.

On the Bulgarian insurance market as a whole, by groups of offered insurance products, Motor insurance holds the largest share and, in particular, Motor Third-Party Liability. The table below illustrates the breakdown of gross premium income by major business groups by the end of December 2019, as well as by the end of 2018:

Gross premium income by major business lines	2019	2018
Motor insurance	72.2%	74.4%
Cargo, Marine and Aviation insurance	1.7%	1.9%
Property insurance	14.1%	15.5%
Other insurance	12.1%	8.2%

The products under the Motor insurance group are Motor Hull and Motor Third Party Liability. Motor insurance has accounted for 72.2% of the premium income realized through December 2019 (2018: 74.4%). Till December 31, 2019, Motor Hull insurance registered 6% growth compared to 2018: growth of 8%. Redistribution of the insured objects among the major motor insurers is the major factor in this development. Motor Third Party Liability insurance accomplished 16 % growth (2018: 42%) compared to 2018.

¹ According to a publication of FSC statistics, [https://www.fsc.bg/bg/pazari/zastrahovatelyn-pazar/statistika/obshhto-zastrahovane/profit-or-loss-and-other-comprehensive-income-as-at-31.12.2019-\(preliminary-data\)-and-31.12.-2018-\(final-data\)](https://www.fsc.bg/bg/pazari/zastrahovatelyn-pazar/statistika/obshhto-zastrahovane/profit-or-loss-and-other-comprehensive-income-as-at-31.12.2019-(preliminary-data)-and-31.12.-2018-(final-data))

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

Claims paid till December 31, 2019 increased by 9% (2018: increased by 13%) compared to the previous year. The largest share in the structure of the claims paid is those paid for Motor claims - 81% (2018: 84%). The larger part of the claims paid related to Motor claims till December 31, 2019 are under Motor Third Party Liability insurance: 51% (2018: 64%), and less so - under Motor Hull insurance: 30% (2018: 36%).

Structure of gross claims paid by major business lines as of 31.12.2019

	2019	2018
Motor insurance	80.6%	83.7%
Cargo, Marine and Aviation insurance	0.7%	1.2%
Property insurance	10.9%	8.8%
Other insurance	7.8%	6.3%

BULSTRAD VIENNA INSURANCE GROUP is placed second in terms of market share in claims paid (third rank in 2018). This ranking is based on the data submitted by the insurance companies on the territory of Bulgaria till the end of December 2019 in FSC².

2. PERFORMANCE RESULT

Financial analysis

In 2019, BULSTRAD VIENNA INSURANCE GROUP has generated net profit of BGN 11,402 thousand. The result generated for the same period in 2018 is profit of BGN 13,274 thousand. The Company's net assets by the end of the financial year are BGN 99,393 thousand (BGN 84,308 thousand for 2018). The Company's assets by December 31, 2019 are BGN 496,679 thousand (BGN 408,455 thousand for 2018).

In 2019, the Company has generated a gross premium income of BGN 277,457 thousand (BGN 235,600 thousand for 2018). The net earned premium for the same period is BGN 183,500 thousand (2018: BGN 164,757 thousand). The net claims paid in 2019 amount to BGN 84,054 thousand (2018: BGN 80,110 thousand).

For the financial year 2019, the Company has generated a net written premium of BGN 189,670 thousand (for 2018: BGN 179,439 thousand). The net combined ratio (3) for 2019 is 96.54% (2018: 96.19%). The ratio achieved by the Company is above the average market ratio (2), which as of December 31, 2019 is 92.39% and in 2018 is 95.68%³

Analysis of insurance business

Written premium

Per lines of business, the highest relative share belongs to Motor insurance. The table below shows the distribution of gross written premium by main lines of business by the end of 2019:

	<u>2019</u>		<u>2018</u>	
	Gross premiums written	%	Gross premiums written	%
Motor insurance	188,746	68%	157,011	67%
Cargo, Marine and Aviation insurance	13,670	5%	11,562	5%
Property insurance	51,545	19%	44,864	19%
Other insurance	23,496	8%	22,163	9%
	<u>277,457</u>	<u>100%</u>	<u>235,600</u>	<u>100%</u>

² According to a publication of FSC statistics, <https://www.fsc.bg/bg/pazari/zastrahovatelnen-pazar/statistika/obshto-zastrahovane/>, profit or loss and other comprehensive income as at 31.12.2019 and 31.12. 2018; the allocated investment income transferred to the non-life technical result is deducted from the net technical result.

³ The net combined ratio is calculated as the ratio of the difference between the premiums earned, net of reinsurance and the net technical result and net premiums earned.

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

The Motor business encompasses Motor Hull and Motor Third Party Liability insurance. Motor insurances constitute 68% (2018: 67%) of the premium income generated in 2019. Compared to the previous year, the Motor Hull premiums have increased by 10% (2018: 17%). The main reasons lie in the redistribution of insured entities among the major motor insurance companies, higher sums insured and changes in the tariffs. Motor Third Party Liability insurance has increased by 35% compared to 2018 (2018: 18%). This type of insurance is characterized by highly competitive environment, both at the levels of commissions and tariffs. The Company is highly selective for this type insurance and offers diversified tariffs for different geographic areas of the country, drivers' age groups and other applicable criteria.

The trend on the overall insurance market is towards increasing the share of Motor Third Party Liability insurance as a part of Motor insurance: 62% (2018: 60%)*, which is in response to its legal compulsory nature. Respectively, its share in the Company's portfolio is 24% (2018: 31%).

As a result of a well-developed business model, the Company has succeeded to maintain a considerable Motor Hull insurance portfolio: 61% (2018: 69%) of the Company's Motor insurance.

The premium income of the group of Cargo, Aviation and Marine insurance has achieved a growth of 18% compared to 2018 (in 2018 change of 5%). Traditionally the company is recognized by its clients as a leader on the market of these specific insurance services. The company has managed to regain some of its main clients already last year, as well as to benefit from its participation in international insurance programs.

The group of Property insurance includes insurance of household property, industrial sites, hotels, restaurants, shops. In 2019, the premium income under Property insurance has increased by 15% compared to 2018 (in 2018: a change of 9%). The Company placed special focus on property insurances, addressing the needs of the small and medium business and households. At the same time, Bulstrad managed to secure several considerable corporate accounts due to its traditions and expertise in the areas of underwriting and reinsurance. The group of other insurance products includes Personal Accident, Liabilities, Agriculture and Railway Hull. The written premium for this line registers an increase of 6% compared to 2018 (2018: 10%).

Claims Paid

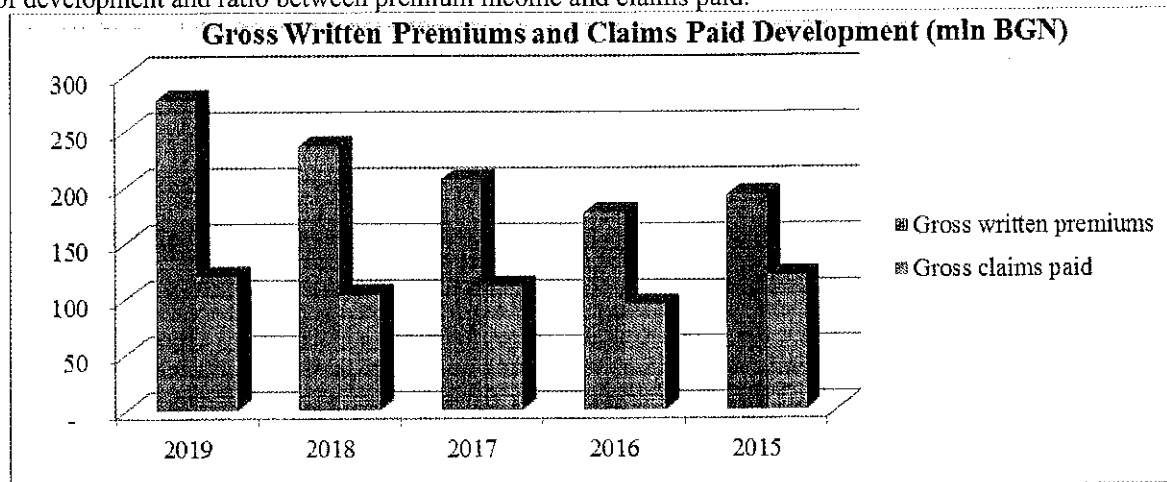
The gross amount of claims paid, without deducting recourse income, by the Company as of December 2019 have increased by 16% (2018: decrease of 2%) compared to the previous year, whereas the net amount of claims paid by the Company as at December 2019 has increased by 5% (2018: 1%) compared to the previous year. The largest share in the structure of the gross amount of claims paid are those paid for damage to motor vehicles: 75%. A trend characterizing the Company has been retained: most of the paid claims related to motor vehicle claims are under Motor Hull insurances - 62%, while a lesser share of claims paid are under Motor Third Party Liability, 35%.

	2019				2018			
	Gross claims paid	Recourses	Reinsurer share	Net claims paid	Gross claims paid	Recourses	Reinsurer share	Net claims paid
Motor insurance	(99,376)	10,265	16,567	(72,543)	(92,651)	12,287	15,402	(64,962)
Cargo, Marine and Aviation insurance	(2,795)	284	48	(2,463)	(3,815)	126	329	(3,360)
Property insurance	(24,113)	199	17,460	(6,455)	(12,537)	325	5,966	(6,246)
Other insurance	(4,017)	7	1,417	(2,593)	(6,582)	-	1,040	(5,542)
	(130,301)	10,755	35,492	(84,054)	(115,585)	12,738	22,737	(80,110)

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Based on its good performance on the insurance market, the Company has succeeded to maintain good trend of development and ratio between premium income and claims paid.



3. PROBABLE FUTURE DEVELOPMENT OF THE COMPANY

The development strategy of Bulstrad focuses on the implementation of management models and practices that will ensure sustainable development of the Company through:

- Leading market position
- Safeguarding and improving the technical result by means of:
 - well-structured underwriting and pricing based on specific risks
 - diversification and segmentation of the portfolio
 - adherence to a balanced investment strategy and risk strategy in the asset management
- Maintaining stable regulatory indicators required by Solvency II
- Adequate reinsurance program
- Adherence to good corporate management practices and comprehensiveness in the publication of financial and business information about the Company

The Company does not carry out research and development activities.

The Company has not acquired its own shares in 2019 or in 2018.

The company has no branches.

4. SHARE CAPITAL AND TRANSACTIONS WITH SHARES

No change has occurred in 2019 in the allocation of the equity of the Company and it remains identical to the one as at 31.12.2018.

Shareholder	Share (%)
TBI Bulgaria EAD	85.80 %
Vienna Insurance Group Wiener Versicherung Gruppe	14.20%

On 01.06.2018 TBI Bulgaria EAD has entered into a procedure for liquidation. The sole owner of TBI Bulgaria EAD is Vienna Insurance Group Wiener Versicherung Gruppe.

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Vienna Insurance Group Wiener Versicherung Gruppe, Austria (“VIG”, “The Group”) is the ultimate parent company of ZAD BULSTRAD VIENNA INSURANCE GROUP AD.

5. INVESTMENT POLICY

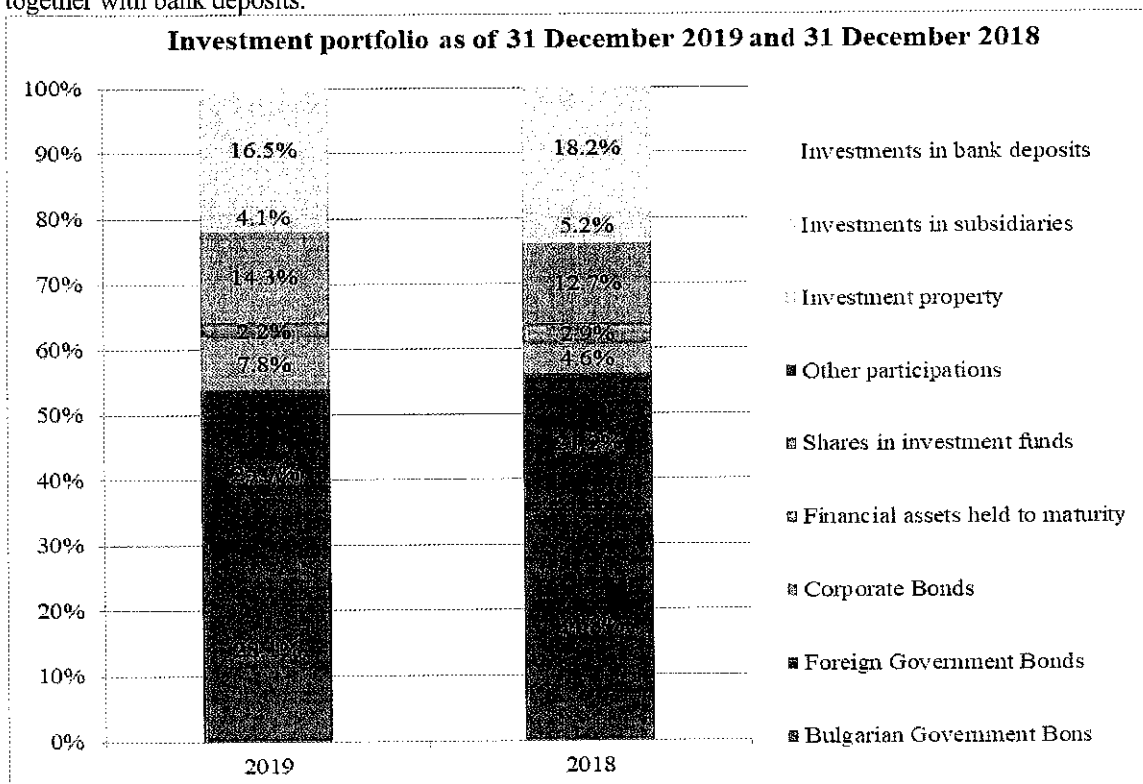
The long-term ability of the Company to meet flawlessly its liabilities under insurance contracts is the main goal and essential element of its investment policy. Therefore, it follows a balanced approach with respect to risk and return, with a key emphasis on the approach of managing the assets in relation to its liabilities. In this approach, the investment portfolio is aligned in a way that reflects in the utmost degree the characteristics of the insurance liabilities based on duration and currency structure. Along with this, the aim of the investment portfolio is to accomplish supplementary income, in addition to the income from insurance activities. The maintenance of a considerable share of fixed income (through investment in debt securities) provides a stable return, along with keeping the portfolio volatility low. This plays an important role in the investment and financial policy of the Company in view of the instability of technical results .

A major principle of the Company's investment policy is to invest only in assets for which it can assess, accept and control the risk they bear. Due to the risk nature of its core business and its contractual obligations to insured persons, the Company's investment policy is conservative. Diversification of the portfolio as the main means of managing the investment risk is an essential characteristic. The portfolio is structured in such a way as to avoid concentration on an individual asset, issuer or market.

Another major function of the investment portfolio is to provide the necessary liquidity level for the Company. Given the uncertainty of cash outflows arising from insurance contracts, liquidity is a major consideration for selection of assets in the investment portfolio.

Given the investment activity's conservative nature, investments in government debt with investment grade rating constitute a major part of the Company's investment portfolio. This allows for generating of a stable interest income, while ensuring the necessary liquidity.

The Company investment portfolio consists of financial assets, investments in subsidiaries and investment properties. The major part of the investment portfolio is taken by financial assets, including investments in Bulgarian and foreign government debt, corporate bonds, shares and units in collective investment schemes, together with bank deposits.

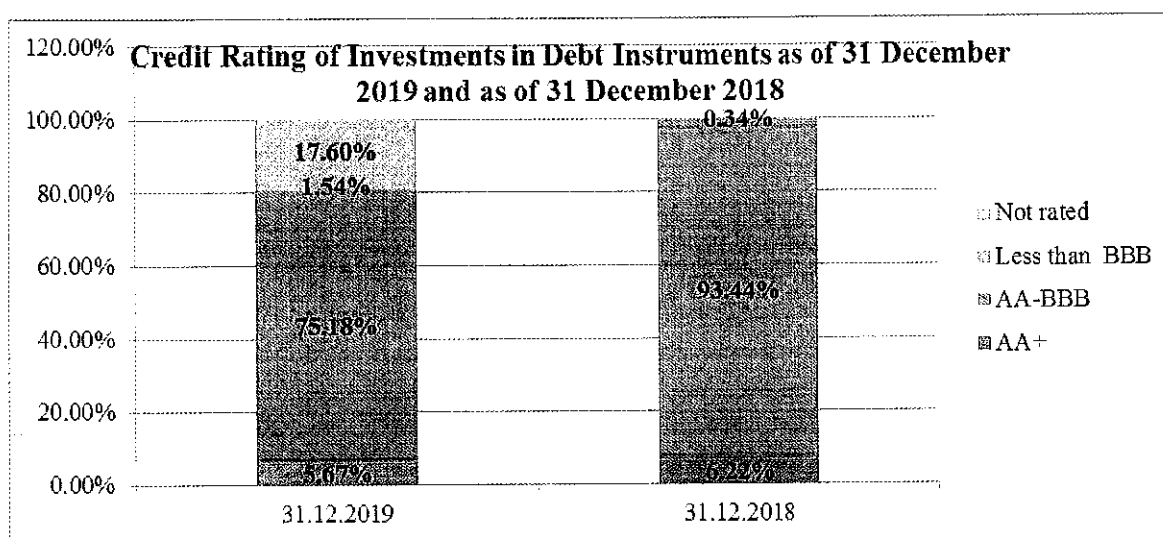


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In 2019 due to significant positive operative cash flows, the Company has increased its asset base by 28.5% (2018: 7.7%) which has further increased investment opportunities.

As of 31.12.2019, investments in debt instruments have accounted for 80% of the financial asset portfolio, whereas over 98 % of them have an investment grade rating.



** The credit ratings used by the Company are the second best available as per VIG's group policy.

The table below summarizes the investments in subsidiaries and associated companies:

	England		Bulgaria			Total
	EIRB, London	VIG Services Bulgaria EOOD	ZEAD Bulstrad Life VIG EAD	Global Services Bulgaria AD	Nova Ins EAD	
	<i>Subsidiary</i>	<i>Subsidiary</i>	<i>Subsidiary</i>	<i>Associate</i>	<i>Subsidiary</i>	
December 31, 2017	147	496	21,709	190	6,259	28,801
Capital contributions	-	-	3,000	-	-	3,000
Impairment	-	-	-	(108)	-	(108)
December 31, 2018	147	496	24,709	82	6,259	31,693
Capital contributions	164		5,000			5,164
December 31, 2019	311	496	29,709	82	6,259	36,857
% share	100.00%	100.00%	100.00%	25.00%	100%	

A contribution of BGN 5,000 thousand was made to the capital of ZEAD Bulstrad Life Vienna Insurance Group EAD in the course of the year (2018: BGN 3,000 thsd).

A buyout of the minority share for BGN 164 thousand was made to the capital of EIRB, London in the course of the year by which Bulstrad's share participation in EIRB's capital equals 100%.

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As of December 31, 2019 the Company has relied on the previous year's review of the investments in subsidiaries by external independent appraisers (Maconis EOOD), with established professional qualifications and recent valuation experience of assets similar to the appraised ones.

As of December 31, 2018 following a review of the investments in subsidiaries by the external independent appraisers (Maconis EOOD), it has been estimated that there is an indication for impairment of the participation of BULSTRAD VIENNA INSURANCE GROUP in Global Services Bulgaria AD at the amount of BGN 108 thousand.

6. INSURANCE RISK MANAGEMENT

6.1. Objectives and policies for management of insurance risk *(ref. Note 7 "Insurance Risk Management" in the Separate Financial Statement of the Company)*

Insurance risk is the risk of occurrence of an insured event where the amount of the claim and the due indemnity respectively exceed the amount of the formed insurance reserves. To manage this risk, the Company has adopted an approach for careful analysis of the various insurance risks, stipulated under the general terms and conditions of the insurance contracts. In addition, the Company has adopted a practice to reinsure some of its risks. In choosing a reinsurance contract, amounts of self-retention and types of reinsurance contracts conform to the specifics of the insurance products offered.

Irrespective of the fact that the Company has concluded reinsurance contracts, no possible revenues from the reinsurers' share in the claim are transferred to the insured persons. In this case, the Company is exposed to credit risk up to the amount of the liabilities that the insurer shall cover under the reinsurance contract. The Company applies strict rules for selection of reinsurers and the choice is focused on reinsurers with a high credit rating.

Specific insurance risk management measures include setting of insurance limits, approval procedures for transactions involving new products or in excess of specified limits, pricing methods and centralized reinsurance management. The Company uses different methods to assess and control insurance risks, both for individual types and non-life types of insured risks.

6.2 Financial Risks *(ref. Note 9 "Financial Risks" of the Individual Annual Financial Statement of the Company)*

Financial risks relate to adverse changes in interest rates, foreign currency exchange rates between the different currencies and the market price of securities and other financial instruments. Such fluctuations affect the Company's profitability.

- **Interest rate risk** - the Company has constant exposure to market interest rate fluctuations, which have an effect on its financial position and cash flows. Interest rate margins may vary as a result of changes in market conditions. The Company also constantly monitors the changes in the prices and yields of government securities traded. Market risk is actively monitored in order to ensure compliance with market risk charges.
- **Currency risk** - Currency risk is the risk of adverse effects from fluctuation of the prevailing currency exchange rates on the financial position and cash flows of the Company. The management "Bulstrad Vienna Insurance Group" AD has adopted a conservative policy regarding currency risk management and most of the Company assets and liabilities are denominated in BGN and EUR.
- **Liquidity risk** - The liquidity risk is the risk that the Company will encounter difficulties to meet its current and potential obligations as payments become due. The discrepancy in the maturity structure potentially increases profitability, but at the same time it increases the risk of losses. In order to manage the liquidity risk, the Company maintains highly liquid assets at any time.
- **Credit risk** - Credit risk is the risk that the customers may not be able to fully repay the amounts owed to the Company when they become due. The Company might not be able to collect all its receivables on already concluded insurance contracts for which it bears the risk from occurrence of

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an insurance event. In this case, the Company undertakes actions for voluntary collection of receivables. Unless the receivables could be collected in a certain period of time, the insurance contract is unilaterally terminated by the Company. Other sources of credit risk are reinsurance receivables and debt securities exposures, being a part of the Company's investment portfolio. Exposure to the risk is limited by the conservative approach of selecting reinsurers (those with a high credit rating) and investing in high quality securities - predominantly government debt.

6.3. Other risks

Other risks identified and associated with the Company activity are:

- risks of amendments to the legal framework of the insurance market (increased limits of liability under obligatory insurances, setting high limits of different financial indicators, a change in the judicial practice, etc.);
- risks of errors in the assumptions and the used models;
- risk of fluctuations of the operating data.

For the management and control of the identified risks, the Company applies various analytical models and uses a broad spectrum of information sources.

The internal control system is the aggregate of rules and procedures aimed at:

- monitoring of the management systems and the risk assessment methods, control of the various risks and their management;
- an adequacy and observance of the internal procedures in the performance of the insurance, investment and general administrative activity of the Company; economic and efficient use of the resources. The control activities are assigned to the directors of the specialized departments, the officials exercising managerial functions as well as to the Head of the specialized Internal Control Department. The control of the activities is exercised in compliance with approved programs and adopted rules.

The Company's Internal Audit is regulated by the International Standards of Professional Practice of the Institute of Internal Auditors (IIA) and its Code of Ethics on the basis of the following principles:

1. Independence and objectivity;
2. Competence and professional conduct;
3. Responsibility;
4. Integrity and confidentiality.

Bustard's Internal Audit is dedicated to establishing conditions for an objective, competent and independent audit of the Internal Control System within the framework of scheduled audits or at the request of the Management or Supervisory Board.

The Internal Audit performs activities of inspection and evaluation of:

1. observation of the legal requirements in the conducting of the Company's activity;
2. observation of the policies, internal rules and procedures in the conducting of the Company's activity;
3. observation of the procedures for concluding insurance and reinsurance contracts, accepting and considering claims and determining the payments on them;
4. conducting and reporting of all the activities transferred by the insurer, including the activity and the accountability of the insurance agents.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD is part of Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG", "The Group") and applies VIG's requirements, policies and standards to the internal audit function, which on the basis of a comparative analysis, are not less strict than those required under the Insurance Code.

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7. REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARD

For its services in 2019, the Management of the company received total remuneration amounting to BGN 1,081 thousand (2018: BGN 1,831 thousand).

The members of the management bodies of the Company have not acquired or transferred Company shares.

8. INFORMATION ABOUT THE MANAGEMENT BODIES OF ZAD BULSTRAD VIENNA INSURANCE GROUP AD

The company has a two-tier management system: Supervisory Board and Management Board.

As of December 31, 2019, the members of the Management Board of BULSTRAD VIENNA INSURANCE GROUP are: Nedyalko Chandarov, Ivo Gruev, Plamen Shinov, Nikola Pamukov, Theodore Iliev and Svetla Nestorova-Asenova.

Any participation of the members of the Management Board of BULSTRAD VIENNA INSURANCE GROUP as partners with unlimited liability, ownership of more than 25 per cent of the capital of the company and their participation in other companies or cooperatives as procurators, managers or board members is as follows:

Nedyalko Dimchev Chandarov

- July 07, 2015 – present – Executive Director and member of the Management Board of BULSTRAD VIENNA INSURANCE GROUP;
- August 24, 2007 – present – Sole owner and manager of NED GROUP EOOD January 12, 2016;
- March 06, 2019 – present – Member of the Supervisory Board of Nova Ins EAD;
- February 17, 2017 - present - Member of the Supervisory Board of Global Services Bulgaria AD;
- November 25, 2016 - present – Member of the Supervisory Board of VIG Properties Bulgaria AD
- December 05, 2016 - present –member of the Management Board of Bulstrad Life Vienna Insurance Group EAD.

Ivo Ivov Gruev

- 2012 - present – member of the Management Board of BULSTRAD VIENNA INSURANCE GROUP, October 26, 2016 – present – Executive Director of BULSTRAD VIENNA INSURANCE GROUP AD;
- July 16, 2012 – present – manager of VIG Services Bulgaria;
- January 12, 2016 - present – Executive Director and member of the Management Board of Nova Ins EAD;
- September 07, 2018 - present - member of the Management Board of NBBMI (National Bureau of Bulgarian Motor Insurers).

Nikola Yordanov Pamukov

- April 08, 2019 - present – Executive Director and member of the Management Board of BULSTRAD VIENNA INSURANCE GROUP.

Plamen Angelov Shinov

- October 26, 2016 - present – Executive Director and member of the Management Board of BULSTRAD VIENNA INSURANCE GROUP;
- January 12, 2016 - present – member of the Management Board of Nova Ins EAD;
- October 07, 2013 - present – member of the CC of Global Services Bulgaria AD and from August 03, 2015 - present – member of the Management Board of Global Services Bulgaria AD.

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Theodore Iliiev Iliiev

- April 08, 2019 - present – Executive Director and member of the Management Board of BULSTRAD VIENNA INSURANCE GROUP;
- August, 01 2013 – Executive Director and member of the Management Board of VIG Properties Bulgaria AD;
- January, 12 2016 – present - member of the Management Board of Nova Ins EAD;
- August, 13 2012 – July 18, 2018 - member of the CC of TBI Bulgaria EAD.

Svetla Ivanova Nestorova-Asenova

- January 28, 2015 - present – Manager of DZZD Obedinenie BULSTRAD;
- August 01, 2013- present – Member of the Supervisory Board of VIG Properties Bulgaria AD;
- August 17, 2006 - present –Executive Director and member of the Management Board of Bulstrad Life Vienna Insurance Group EAD;
- August 11, 2011 - present – member of the Management Board of the Association of Bulgarian Insurers;
- August 03, 2015 - present – Member of the Supervisory Board of Global Services Bulgaria AD
- October 26, 2016 - present – member of Management Board of BULSTRAD VIENNA INSURANCE GROUP;

As at December 31, 2019, the members of the Supervisory Board of BULSTRAD VIENNA INSURANCE GROUP are: Josef Aigner, Peter Höfnger, Gerhard Lahner and Werner Matula, Plamen Gochev and Anton Stankov.

Any participation of the members of the Supervisory Board of BULSTRAD VIENNA INSURANCE GROUP as partners with unlimited liability, ownership of more than 25 per cent of the capital of the company and their participation in other companies or cooperatives as procurators, managers or board members is as follows:

Josef Aigner

- Member of the Supervisory board of BULSTRAD VIENNA INSURANCE GROUP;
- Member of the Administrative Board of Ray Sigorta A.S.;
- Member of the Supervisory board of Risk Consult Polska Sp.z.o.o.;
- Managing director of Risk Consult Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H.;
- Managing director of Vienna International Underwriters GmbH.

Peter Höfnger

- Member of the Management Board of Vienna Insurance Group AG Wiener Versicherung Gruppe (Austria);
- Deputy chairman of the Supervisory Board of Insurance Company Kupala Belarusian-Austrian Closed Joint Stock Insurance Company (Belarus);
- Member of the Supervisory Board of UNION Vienna Insurance Group Biztosito Zrt. (Hungary);
- Member of the Supervisory Board of VIG RE zajišťovna, a.s (Czech Republic);
- Chairman of the Supervisory Board ZAD BULSTRAD VIENNA INSURANCE GROUP AD (Bulgaria);
- Chairman of the Supervisory Board of BULSTRAD LIFE VIENNA INSURANCE GROUP EAD (Bulgaria);
- Chairman of the Supervisory Board of Global Assistance, a.s. (Czech Republic);
- Chairman of the Supervisory Board of Intersig Vienna Insurance Group Sh.A., (Albania);
- Chairman of the Supervisory Board of Sigma InterAlbanian Vienna Insurance Group Sh.A., (Albania);
- Chairman of the Supervisory Board of Wiener Städtische Osiguranje akcionarsko drustvo za osigur, (Serbia);

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- Chairman of the Administrative Council of Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group, (Montenegro);
- Chairman of the Supervisory Board of Wiener osiguranje Vienna Insurance Group dionicko drustvo za osiguranje, (Croatia);
- Chairman of Supervisory Board of Pension Insurance Company Doverie AD, (Bulgaria);
- Member of Audit Committee of ZAD BULSTRAD VIENNA INSURANCE GROUP AD (Bulgaria);
- Chairman of Supervisory Board of Compensa Life Vienna Insurance Group SE, (Estonia);
- Chairman of Supervisory Board of Seesam Insurance AS, (Estonia);
- Chairman of Supervisory Board of "Compensa Services" SIA, (Latvia);
- Chairman of Supervisory Board of BTA Baltic Insurance Company AAS, (Latvia);
- Chairman of Supervisory Board of AB "Compensa Services", (Lithuania);
- Chairman of Supervisory Board of Compensa Vienna Insurance Group, akcine draudimo bendrove, (Lithuania);
- Chairman of Supervisory Board of UAB "Compensa Life Distribution", (Lithuania).

Gerhard Lahner

- Member of Management Board of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, (Austria);
- Member of Supervisory Board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD (Bulgaria);
- Chairman of Supervisory Board of VIG Asset Management, a.s., (Czech Republic);
- Chairman of Supervisory Board of VIG FUND, a.s., (Czech Republic);
- Chairman of Supervisory Board of VIG ND, a.s., (Czech Republic);
- Member of Supervisory Board of AB Modrice, a.s., (Czech Republic);
- Member of Supervisory Board of AIS Servis, s.r.o., (Czech Republic);
- Member of Supervisory Board of CP Solutions a.s., (Czech Republic);
- Member of Supervisory Board of Main Point Karlín II., a.s., (Czech Republic);
- Member of Supervisory Board of Prazska softwarova s.r.o, (Czech Republic);
- Member of Supervisory Board of VIG RE zajist'ovna, a.s., (Czech Republic);
- Member of Advisory Council of Anel Investment Praha s.r.o., (Czech Republic);
- Member of Supervisory Board of CEESEG Aktiengesellschaft, (Austria);
- Member of Supervisory Board of Wiener Börse AG, (Austria);
- Member of Supervisory Board of Wien 3420 Aspern Development AG, (Austria);
- Member of Advisory Council of AQUILA Hausmanagement GmbH, (Austria);
- Second deputy of Community representative of Verein von Wiener Börseemittenten, (Austria).

Werner Matula

- Member of the Supervisory Board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD, (Bulgaria);
- Member of the Supervisory board of BULSTRAD LIFE VIENNA INSURANCE GROUP EAD, (Bulgaria);
- Member of the Supervisory board of ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., (Romania);
- Member of the Supervisory board of BCR Asigurari de Viata Vienna Insurance Group S.A., (Romania);
- Managing director of arithmetica Consulting GmbH, (Austria);
- Member of the Supervisory board of Omniasig Vienna Insurance Group S.A., (Romania);

Plamen Gochev

- Member of the Supervisory board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD;
- Holds 50% of the capital of Gomar OOD, with UIC 131357528;
- Holds 50% of the capital of Ecogama OOD, with UIC 175256000;

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- Manager of Gomar OOD, with UIC 131357528;
- Manager of Gomar OOD – Branch Popovo, with UIC 1313575280016.

Anton Stankov

- Member of the Supervisory board of Insurance Joint-Stock Company ZAD BULSTRAD VIENNA INSURANCE GROUPAD;
- Authorized representative of Law Firm Stankov, Stoev, Simeonov, registered under the Bar Act.

9. SIGNIFICANT TRANSACTIONS AND EVENTS AFTER THE BALANCE SHEET DATE

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020, the virus spread globally. The Company considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these financial statements, to date there has been no discernible impact on the Company's regular business operations, however the future effects cannot be predicted.

10. INFORMATION ABOUT SERVICES PROVIDED BY THE INDEPENDENT AUDITORS

In 2019 the Company has recognised expenses for services for statutory audit performed by the joint auditors at the amount of BGN 282 thousand (2018: BGN 168 thousand). This amount includes BGN 53 thousand the statutory audit for the year ended 31 December 2018.

During 2019 the Company has accrued and paid other expenses for audit services provided by the statutory auditors at the amount of BGN 279 thousand (incl. VAT) (2018: BGN 248 thousand (incl. VAT)). This amount includes BGN 142 thousand (incl. VAT) for non-audit services for the year ended 31 December 2019 (2018: BGN 136 thousand (incl. VAT)).

For the audited period and as at the date of this report the PWC has provided, is in the process of providing or negotiating the following services with the Company:

- Joint audit of the separate and consolidated financial statements of the Company for the year ended 31 December 2019, prepared in accordance with the IFRS, as adopted in the EU;
- Review of the Company's financial information prepared for consolidation purposes in accordance with the accounting policies of Vienna Insurance Group for the year ended 31 December 2019;
- Engagement for performance of agreed upon procedures by the joint auditors as at 31 December 2019 in accordance with article 3, paragraph 1, items 1 and 2 of Ordinance №53 from 23 December 2016, regarding the reporting requirements, valuation of assets and liabilities and forming the technical reserves of insurers, reinsurers and the Guarantee Fund. The engagement is to be performed in accordance with the requirements of ISRS 4400;
- Engagement for performance of agreed upon procedures by the joint auditors as at 31 December 2019 in accordance with Article 126, paragraph 2, item 2 of the Insurance Codex in relation to article 304, paragraph 1, letter g) of the Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). The engagement includes a balance sheet review of the Company as at 31 December 2018 and is to be performed in accordance with FSC's adopted methodology and in accordance with the requirements of ISRS 4400.

For the audited period and as at the date of this report HLB Bulgaria OOD has provided, is in the process of providing or negotiating the following services with the Company:

- Joint statutory audit of the separate and consolidated financial statements of the Company for the year ended 31 December 2019 and the year ended 31 December 2018, prepared in accordance with the IFRS, as adopted in the EU;

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- Engagement for performance of agreed upon procedures by the joint auditors as at 31 December 2019 and as at 31 December 2018 in accordance with article 3, paragraph 1, items 1 and 2 of Ordinance №53 from 23 December 2016, regarding the reporting requirements, valuation of assets and liabilities and forming the technical reserves of insurers, reinsurers and the Guarantee Fund. The engagement is to be performed in accordance with the requirements of ISRS 4400;
- Engagement for performance of agreed upon procedures by the joint auditors as at 31 December 2019 and as at 31 December 2018 in accordance with Article 126, paragraph 2, item 2 of the Insurance Codex in relation to article 304, paragraph 1, letter g) of the Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

11. CHANGES IN REGULATIONS AND BASIC PRINCIPLES OF GOVERNANCE

No changes have been registered in the principles of governance in 2019 and 2018.

12. GENERAL INFORMATION ABOUT THE GROUP

Over 25,000 employees work for the Vienna Insurance Group, at around 50 companies in 25 countries⁴. We develop insurance solutions in line with personal and local needs, which have made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE). 437 full-time employees work for the Company (2018: 452) and over 25,000 for the Group.

Expertise and stability

Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

Focus on Central and Eastern Europe

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

Local Market Presence

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

Strong finance position and credit rating

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

Additional information about VIG can be found at www.vig.com as well as in the VIG Group Annual Report.

⁴ The information is published on <https://www.vig.com/en/vig/group/profile.html>

**Corporate Governance Statement
(pursuant to Art.100n of the Law on Public Offering of Securities)
BULSTRAD VIENNA INSURANCE GROUP**

ZAD BULSTRAD VIENNA INSURANCE GROUP AD considers corporate governance a key issue in creating an effective market economy. The Code is a standard of good practice and a communication tools between businesses from different countries.

In implementation of its obligations laid down in Art. 100n of the Law on Public Offering of Securities, the Deputy Chairman of the Financial Supervision Commission approved the National Corporate Governance Code, established in October 2007, as subsequently amended in 2012 and 2016 for Corporate Governance Code within the meaning of Art. 100 n, par. 8 of the Law on Public Offering of Securities.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD (the Company) has prepared Program for good corporate governance based on the Principles of Good Corporate Governance of the OECD and complies with as appropriate, the requirements and the recommendations of the National Corporate Governance Code.

1. Implementation of the principles of transparency, independence and responsibility of the Managing Bodies of the Company *(information under Art. 100 n, par 8, item 5 of the Law on Public Offering of Securities)*. **Policy of diversity in respect of the administrative, management and supervisory bodies** *(information under Art. 100 n, par 8, item 5 of the Law on Public Offering of Securities)*

The Management Bodies of the Company are: General Meeting of Shareholders, Supervisory Board and Management Board.

The General Meeting of Shareholders resolves with respects the following main issues:

1. To amend and supplement the Statutes of ZAD BULSTRAD VIENNA INSURANCE GROUP AD;
2. To increase and decrease the capital of ZAD BULSTRAD VIENNA INSURANCE GROUP AD;
3. To transform or terminate the Company;
4. To appoint and dismiss independent external auditors;
5. To approve the annual financial statements after issuance of an audit report by the appointed independent external auditors;
6. To elect and release the Members of the Supervisory Board, to determine the remuneration and royalty (payment) of the members of the Supervisory and the Management Board as well as the term for which they are due;
7. To release from liability the Members of the Supervisory Board and the Management Board;
8. To take decisions on the issuance of bonds;
9. To determine the amount of the dividends and the contributions to the Reserve Fund;

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT (CONTINUED)
31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

10. To take decision on the distribution of the preferential shares and determining the amount of the annual dividend from them

11. To take decisions to terminate the activity of of ZAD BULSTRAD VIENNA INSURANCE GROUP AD by appointing liquidators, except in cases of insolvency;

12. To take decisions all other matters that the law and this Statute empowers it in express competence or which are not within the competence of the Supervisory Board and the Management Board.

The company has a two-tier management system: Supervisory Board and Management Board.

Five of the six members of the Management Board are also executive directors of the Company. In accordance with the Rules of Organization and Operation of the Management Board, a common framework for the areas of responsibility of each member is adopted. The Members of the Management Board report regularly for their activities to the Supervisory Board.

As of December 31, 2019, the members of the Supervisory Board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD are: Peter Höfingler, Werner Matula, Josef Aigner, Gerhard Lahner, Plamen Gochev and Anton Stankov. As of December 31, 2019, the members of the Management Board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD are: Nedyalko Chandarov, Theodore Iliev, Ivo Gruev, Plamen Shinov, Nikola Pamukov and Svetla Nestorova. By resolution of SB of November 23, 2018, Theodore Iliev Iliev and Nikola Yordanov Pamukov were elected for members of the Management Board and Executive Directors of the Company. FSC has approved the appointment of Theodore Iliev and Nikola Pamukov as members of the Management Board and Executive Directors of the Company since April 8, 2019 in a decision, dated February 6, 2019.

The Company complies with the policy of diversity in respect to its management and supervisory bodies in relation to aspects such as age, gender, education and professional experience. The diversity in the Management Board ensures the lack of "group thinking" and sufficient market incentives for the development of the Company.

The members of the Management Board of BULSTRAD VIENNA INSURANCE GROUP have different education, professional experience and management responsibilities in the Company.

Principles of diversity in terms of education and professional experience have been also been observed with respect to the members of the Supervisory Board.

During the reporting period, in line with the Good Corporate Governance Standards, the Company has ensured compliance with some of the key practices listed below:

1. Observance of the ratio between independent and dependent members of the Supervisory Board according to the requirements of the law;
2. Preserving the established practice the position of Chairman of the Management Board and Chief Executive Director to be occupied by one and same person.

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT (CONTINUED)
31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

3. The members of the management bodies have submitted the required written statements about their participations in management and control bodies of other commercial companies.
4. The members of the Management Board have been with regular mandates.
5. The members of the management bodies have fulfilled conscientiously their responsibilities; they have treated with integrity the shareholders in decision-making; attended regularly the meetings, acquainted themselves in advance with the materials and impartially expressed their opinion; abided by the standards of business conduct and ethics; avoided actions, positions or interests which were in conflict with the interests of the Company or which create impression that such conflict existed.
6. The requirement for the Management Board to have meetings at least once every two weeks has been observed. The directors have attended the meetings regularly. The established procedures of setting the date, place, time and agenda of the meetings, deliberation of the materials, decision-making and keeping the minutes for the meetings have been observed.
7. The members of the management body had a full access to the Company management.
8. A Code of Ethics of the officials of BULSTRAD VIENNA INSURANCE GROUP was adopted and approved by the Management Board.
9. Changes in all major rules of the Company operation were made, reflecting the changes of the business activity.
10. The Company website contains data about the Company and phone numbers for communication with it; the quarterly and annual reports of the Company, the management reports and other data about the Company that are of interest to the investors.
11. The Management Board of the Company supervises the implementation of the program for good corporate governance.

2. Description of main characteristics of Internal control system and financial reporting risk management *(information under Art. 100 n, par 8, item 3 of the Law on Public Offering of Securities)*

2.1 Internal control system

The Company has an established internal control system, whose main purpose is to protect the interests of both shareholders and clients, to contribute towards decreasing of risks and to ensure the reliability and accuracy of reporting in accordance with the regulatory requirements.

Participants in the internal control system, who exercise control at different levels are the Management of the Company and the managers of key functions and units.

2.2 Risk management system

The Management of the Company aims to actively manage all risks related to the specifics of the insurance activities.

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT (CONTINUED)
31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

The risk management system determines the powers and responsibilities of the individual structural divisions of the Company, the organization and order of interaction in risk management, analysis and assessment of risk-related information, and periodic risk management reporting. An internal audit function has been established within the management system.

The organization and the activities of the officials and the units involved in managing the risks in the Company are fully compliant with the requirements of the Insurance Code.

2.3 Main components of the internal control system and the financial reporting risk management system

2.3.1 Control environment. The control environment includes the following:

- Communicating and enforcing integrity and ethical values. The imposition of integrity and ethical values includes, but is not limited to, action by the management to eliminate or mitigate incentives or temptations that could induce staff to engage in dishonest, unlawful or unethical actions. The Integrity and Ethical Values Policy of the Company includes communication of behavioral standards for staff by following a Code of Conduct;
- Commitment to Competence. Competence is the knowledge and skills necessary to perform the tasks that define the job description of a person;
- Participation of those charged with governance by overseeing the design of the model and the effective functioning of the alert procedures and processes to review the effectiveness of the Company's internal control;
- Philosophy and operational style of the Management of the Company;
- An adequate organisational structure has been established, which includes taking into account the main areas of authority and responsibilities and the appropriate hierarchical levels of accountability and reporting;
- Assigned appropriate powers and responsibilities;
- Human resources policy and practice including high standards for the selection of qualified persons
- focusing on the educational background and previous professional experience, as well as a focus on continuing education.

2.3.2 Company's risk assessment procedures

For the purposes of financial reporting, the Company's risk assessment process includes how management identifies the business risks that are material to the preparation of a financial statement in accordance with the entity's financial reporting framework, assesses their significance, assesses the likelihood of their occurrence and decides how to respond to these risks and how to manage them and how to evaluate the results accordingly. Risks relevant to sound financial reporting include external and internal events, transactions and circumstances that may arise and have a negative impact on the Company's ability to initiate, register, process and report financial data consistent with assertions made of the management in the financial statements. The risks may arise or change due to circumstances such as those listed below:

- Changes in the regulatory environment;
- New personnel;
- New or updated IT systems;
- Rapid growth;
- New technologies;

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT (CONTINUED)
31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

- New business models, products or activities;
- Corporate restructuring; and
- New accounting standards and clarifications.

2.3.3 IT systems, including the related business processes, involved in financial reporting and communication

The IT system includes infrastructure (physical and hardware components), software, people, procedures and data. The Company's IT system, related to process of financial reporting includes the financial reporting system and documentation methods, which:

- identify and record all valid transactions;
- describe in a timely manner the transactions and operations in sufficient detail to allow their appropriate classification for financial reporting purposes;
- evaluate the value of transactions in a manner that allows their appropriate monetary value to be reported in the Company's financial statements;
- determine the time period during which the transactions and transactions took place to enable their recording in the appropriate accounting period;
- adequately represent the transactions and related disclosures in the financial statements.

2.3.4 Control activities. The Company has adopted a number of policies and procedures related to the following:

- Performance and performance reviews;
- Information processing;
- Physical controls (security of assets, approval of access to computer programs and data files, periodic census and comparison with the amounts in the accounting registers); and Separation of duties.

2.3.5 Current monitoring of controls.

An important responsibility of the management is to establish and maintain continuous internal control. The ongoing monitoring of controls by management includes assessing whether they are working as intended and whether they are appropriately modified to reflect changes in terms. Internal auditors and staff performing similar functions contribute to ongoing monitoring of controls.

2.4 Compliance Function at the Legal Department

A function ensuring compliance with the regulatory requirements within the framework of the management system is established.

The Head of Compliance Function advises the management and supervisory bodies of the Company on compliance with the laws, regulations, directly applicable acts of the competent bodies of the European Union and the internal instruments of the Company, in particular:

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT (CONTINUED)
31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

- Insurance requirements: legal provisions and requirements under the insurance legislation in force (including the Solvency II Directive and related regulations) applicable to the Company's overall business activity;
- *Capital market regulations*, and in particular legal provisions aimed at prevention of market abuse;
- *Competition Protection Laws*: antitrust regulations and provisions ensuring fair competition;
- *Financial crime*: legal provisions relating to bribery, misappropriation, fraud, etc.
- *Protection of personal data and the right to privacy*: provisions governing commercial secrecy, personal data, etc.;
- *Commercial sanctions and embargo*: prohibition or restriction of cooperation with certain states, individuals and legal entities
- *Code of Ethics*: a set of rules for moral, ethical and lawful conduct on the part of the employees;

The Compliance Function at the Legal Department has the following responsibilities:

- *It assesses the possible effect of amendments in the legal environment on the Company's activities;*
- *It identifies and assesses the risk arising from the non-compliance with the laws, regulations, directly applicable acts of the competent authorities of the European Union and the internal instruments of the Company and proposes measures to prevent actions in violation of applicable laws and regulations;*
- *Exercises control over the systems and structures that provide information to the FSC in the light of the accuracy and adequacy of the information provided;*
- *Participates in projects at VIG level together with other employees of the group about general regulatory requirements;*
- *Periodically reports to the Management Board of the Company and to the Head of Compliance Division of the Vienna Insurance Group, etc.*

3. Information under Art. 100 n, par 8, item 4, namely: Art. 100 n, par. 8, item 4- information under Art.10, paragraph 1, letters "c", "d", "e", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

3.1. As of December 31, 2019, the Company has not received offers for takeover by and/or merger with another company.

The Company does not hold shares in other companies whose shares are officially listed on stock exchanges or exchanges situated or operating in the territory of one or more Member States.

No shareholders of the Company hold preferential shares or other special rights of control.

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE MANAGEMENT REPORT (CONTINUED)
31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

No restrictions on the voting rights provided by shares exist.

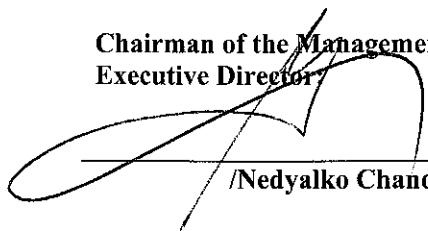
The General Meeting is in charge of appointment or change of the members of the Supervisory Board and amendments to the Articles of Association of the Company. The capital of the Company may be increased or decreased by a resolution of the General Meeting of shareholders.

The Supervisory and Management Board members are not entitled to special powers related to the redemption of shares.

This Corporate Governance Statement is an integral part of the separate Management Report of ZAD Bulstrad Vienna Insurance Group AD for 2019.

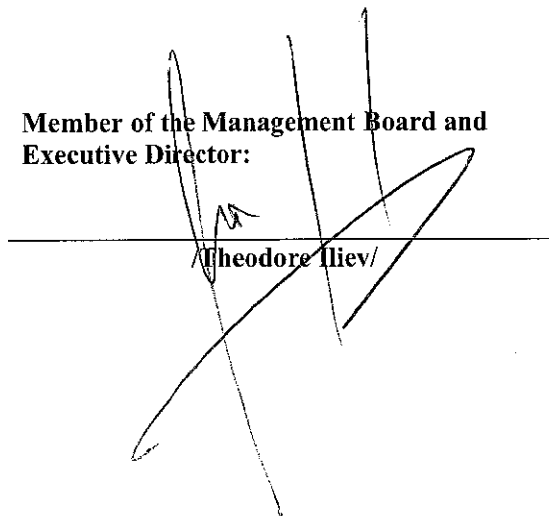
March 25, 2020

**Chairman of the Management Board and
Executive Director**



/Nedyalko Chandarov/

**Member of the Management Board and
Executive Director:**



/Theodore Iliev/

BULSTRAD

VIENNA INSURANCE GROUP

**SEPARATE ANNUAL
FINANCIAL STATEMENTS**

ZAD BULSTRAD VIENNA INSURANCE GROUP AD

December 31, 2019

Sofia, 2020

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

	Note	31 December 2019	31 December 2018
ASSETS			
Property and equipment	12	14,538	14,993
Investment properties	11	9,095	9,095
Right-of-use assets	38	5,437	-
Intangible Assets	9	1,613	1,342
Deferred acquisition costs	16	29,167	28,514
Investments in subsidiaries	10	36,857	31,693
Other equity participations		89	89
Financial Assets			
Available-for-sale financial assets	13	169,556	127,429
Held to maturity financial assets	14	4,981	4,977
Bank deposits		2,753	501
Reinsurer's share of insurance contracts	19, 20	107,221	88,450
Accounts receivable and other assets	15	65,985	65,787
Cash and cash equivalents	17	49,387	35,585
TOTAL ASSETS		496,679	408,455

The accompanying explanatory notes from pages 8 to 69 are an integral part of these Separate Financial Statements.

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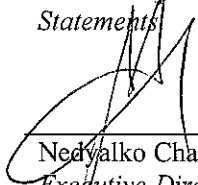
**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

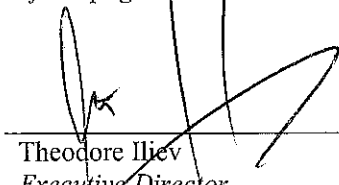
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	Note	31 December 2019	31 December 2018
EQUITY AND LIABILITIES			
EQUITY			
Share capital		31,475	31,475
Share premium	18	14,934	14,934
Other reserves	18	33,320	27,120
Retained earnings	18	19,664	10,779
TOTAL EQUITY		99,393	84,308
LIABILITIES			
Insurance liabilities	19, 20	292,983	250,042
Subordinated loan	25	6,264	6,264
Lease liabilities	38, 39	5,547	-
Deferred tax liabilities	22	629	715
Retirement benefit obligations	26	1,176	1,093
Reinsurer's share of deferred acquisition costs	16	2,617	1,991
Reinsurer's deposits	21	44,859	29,390
Reinsurance liabilities	24	13,381	6,602
Agents and policyholders' liabilities	23	19,784	17,685
Corporate income tax liabilities		366	321
Other liabilities	27	9,680	10,044
TOTAL LIABILITIES		397,286	324,147
TOTAL EQUITY AND LIABILITIES		496,679	408,455

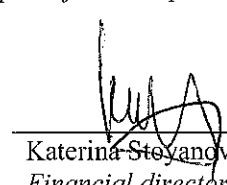
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Nedjalko Chandarov
Executive Director



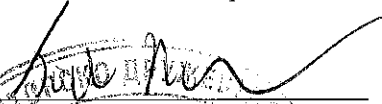
Theodore Iliev
Executive Director



Katerina Steyanova
Financial director

Initialled for identification purposes in reference to the auditor's report:

For PricewaterhouseCoopers Audit OOD:




Jock Nunan
Procurent
София
Per. № 088

Anna Beteva
Registered auditor

Date: 30-03-2020

For HLB Bulgaria OOD:



Veronika Revalska
Manager
София
Per. № 017

Svetlana Pavlova
Registered auditor

30. 03. 2020

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

	Note	2019	2018
Gross written premiums	28	277,457	235,600
Premiums ceded to reinsurers	28	(87,787)	(56,161)
Net written premiums	28	189,670	179,439
Change in gross unearned premium reserve	19	(16,056)	(18,092)
Reinsurer's share in change in unearned premium reserve	19	9,886	3,410
Net change in unearned premium reserve	19	(6,170)	(14,682)
Premiums earned, net of reinsurance		183,500	164,757
Reinsurance commissions and profit sharing	29	12,068	4,751
Net investment income	30	6,209	10,019
Other income	31	2,258	2,233
TOTAL INCOME		204,035	181,760
Claims paid	32	(119,546)	(102,847)
Reinsurers' share of claims paid	32	35,492	22,737
Net claims paid	32	(84,054)	(80,110)
Change in gross outstanding claims reserve	20	(26,885)	(21,099)
Change in reinsurer's share of outstanding claims reserve	20	8,886	13,581
Change in outstanding claims reserve, net	20	(17,999)	(7,518)
Claims incurred, net of reinsurance		(102,053)	(87,628)
Acquisition costs	16, 33	(60,367)	(47,747)
Administrative expenses	34	(21,844)	(20,272)
Financial expenses	35	(777)	(681)
Other expenses	36	(6,783)	(11,937)
TOTAL EXPENSES		(191,824)	(168,265)
PROFIT BEFORE TAX		12,211	13,495
Income tax	37	(809)	(221)
PROFIT (LOSS) FOR THE YEAR		11,402	13,274

The accompanying explanatory notes from page 8 to page 69 are an integral part of these Separate Financial Statements.

Nedyalko Chandarov
Executive Director

Theodore Iliev
Executive Director

Katerina Stoyanova
Financial director

Initialled for identification purposes in reference to the auditor's report:

For PricewaterhouseCoopers Audit OOD:

Jock Nunan
Procurist

Anna Boteva
Registered auditor

Date: 30-03-2020

For HLB Bulgaria OOD:

Veronika Revalska
Manager

Svetlana Pavlova
Registered auditor

30. 03. 2020

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Profit for the year		11,402	13,274
Other comprehensive income			
<i>Items which are or may be reclassified subsequently to profit or loss</i>			
Net change in the reserve of subsequent measurements of the fair value of financial assets available for sale			
– Net amount of the reserve reclassified to profit or loss during the year	30	(349)	754
– Net change in the fair value on revaluation for the year		4,511	(3,343)
Tax effects on other comprehensive income that can be reclassified	37 (c)	(416)	259
		<u>3,746</u>	<u>(2,589)</u>
<i>Items which shall not be reclassified to profit or loss</i>			
Actuarial remeasurement of defined benefit liability, net of taxes			
	22, 26	<u>(63)</u>	<u>(133)</u>
Total other comprehensive income, net of taxes		3,683	(2,722)
		<u>15,085</u>	<u>10,552</u>

The accompanying explanatory notes from page 8 to page 69 are an integral part of these Separate Financial Statements.

BULSTRAD
Nedyalko Chandarov **VIENNA INSURANCE GROUP** Executive Director
Elena Iliev Executive Director

Katerina Stoyanova
Financial director

Initialled for identification purposes in reference to the auditor's report:

For PricewaterhouseCoopers Audit OOD:

Jock Nunan
Procurist

Anna Boteva
Registered auditor

Date: 30-03-2020

For HLB Bulgaria OOD:

Veronika Revalska
Manager

Svetlana Pavlova
Registered auditor

30. 03. 2020

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITY			
Profit for the year		11,402	13,274
Adjustments for:			
Depreciation of property and equipment	12	975	985
Amortisation of intangible and right-of-use assets	9,39	1,293	130
Net (gain)/loss from foreign currency revaluation of investments	30,36	(38)	763
Net loss from foreign currency revaluation of payables		74	-
Net (gain) from deals with financial assets	30	(349)	(754)
Impairment of investments in subsidiaries	30	-	108
Impairment and written off receivables	36	4,791	12,171
Written off property, equipment and intangible assets	9,12	18	336
Interest income	30	(1,790)	(2,090)
Dividend income	30	(4,267)	(8,133)
Rental income from investment properties	30,31	(96)	(68)
Interest expense	35	313	313
Income tax	37	810	221
		13,136	17,256
Change in:			
Reinsurers' share of liabilities under insurance contracts	19,20	(18,772)	(16,991)
Deferred acquisition costs	16,33	(27)	(6,310)
Receivables and other assets		(4,987)	(16,796)
Insurance liabilities	19, 20	42,941	39,191
Agents and policyholders' liabilities	23	2,099	2,395
Reinsurance liabilities	24	6,779	(592)
Reinsurers' deposits	21	15,469	6,504
Other liabilities		(290)	618
Cash flows from operating activities		56,348	25,275
Current income tax paid		(1,260)	(300)
Net cash flows from operating activities:		55,088	24,975

The accompanying explanatory notes from page 8 to page 69 are an integral part of these Separate Financial Statements.

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**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

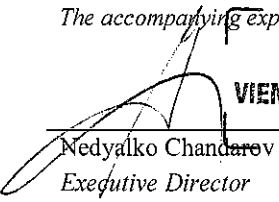
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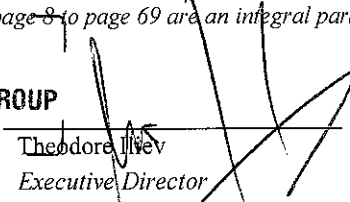
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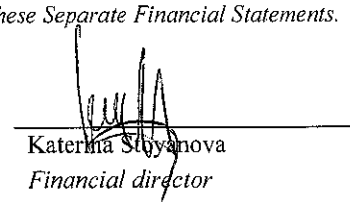
	Note	2019	2018
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of investments in financial assets		(74,626)	(88,939)
Proceeds from sale of investments in financial assets		36,196	76,938
Acquisition of investments in bank deposits		(2,212)	(500)
Acquisition of property, plant and equipment and intangible assets		(1,052)	(1,532)
Increase in share capital of subsidiaries	10	(5,164)	(3,000)
Proceeds from investment properties rentals		96	51
Interest received on securities investments		2,598	2,200
Dividends received from investments in financial assets		363	296
Dividends received from investments in subsidiaries		3,904	8,133
Net cash flows used in investing activity:		(39,897)	(6,353)
CASH FLOWS FROM FINANCING ACTIVITY			
Interests paid on subordinated debt	25,35	(313)	(313)
Principal elements of lease payments	39	(1,054)	-
Net cash flows used in financing activities:		(1,367)	(313)
Increase of cash and cash equivalents		13,824	18,309
Cash and cash equivalents at the beginning of the year	17	35,585	17,292
Effect of exchange rate fluctuations on cash and cash equivalents held		(22)	(16)
Cash and cash equivalents at the end of the year	17	49,387	35,585

The accompanying explanatory notes from page 8 to page 69 are an integral part of these Separate Financial Statements.

**BULSTRAD
VIENNA INSURANCE GROUP**


Nedyalko Chandarov
Executive Director

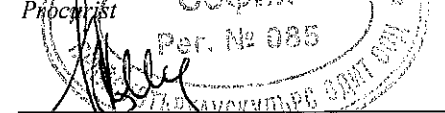

Theodore Iliev
Executive Director


Katerina Stoyanova
Financial director

Initialled for identification purposes in reference to the auditor's report:

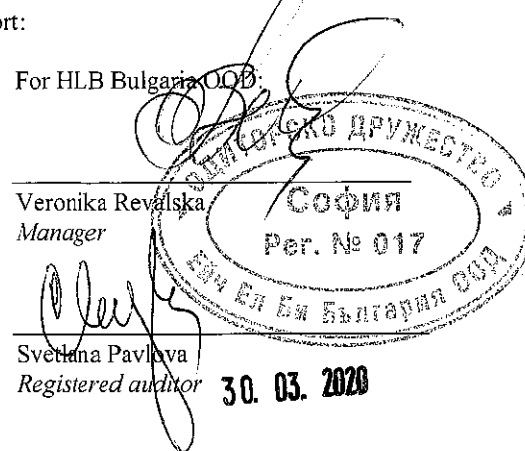
For PricewaterhouseCoopers Audit OOD:

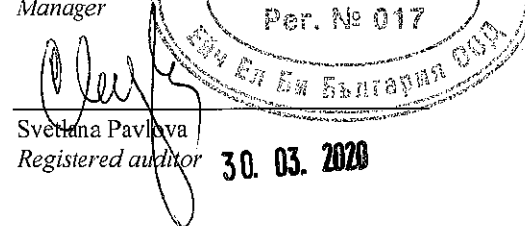

Jock Numan
Principist


Anna Boteva
Registered auditor

Date: 30-03-2020

For HLB Bulgaria OOB:


Veronika Revalska
Manager


Svetlana Pavlova
Registered auditor

30. 03. 2020

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

	Share capital	Share Premium	General Reserves	Revaluation Reserve, PPE	Fair value reserve	Remeasurements of post-employment benefit Obligations reserve	Retained earnings	Total Equity
On December 31, 2017	31,475	14,934	6,259	18,108	5,648	(262)	(2,406)	73,756
Total comprehensive income for the year	-	-	-	-	-	-	13,274	13,274
<i>Financial result for the year</i>	-	-	-	-	(2,589)	(133)	-	(2,722)
<i>Other comprehensive income</i>	-	-	-	-	(2,589)	(133)	13,274	10,552
Total comprehensive income for the year	-	-	-	-	(306)	-	306	-
On December 31, 2018	31,475	14,934	6,259	18,108	2,753	(395)	11,174	84,308
Total comprehensive income for the year	-	-	-	-	-	-	11,402	11,402
<i>Financial result for the year</i>	-	-	-	-	3,746	(63)	-	3,683
<i>Other comprehensive income</i>	-	-	-	-	3,746	(63)	11,402	15,085
Total comprehensive income for the year	-	-	2,911	-	-	-	(2,911)	-
On December 31, 2019	31,475	14,934	9,170	18,108	6,499	(458)	19,665	99,393

The accompanying explanatory notes from 8 to 69 are an integral part of these Separate Financial Statements.

Nedyalko Chardarov
Executive Director

Theodore NIKY
Executive Director

In accordance with an Independent Auditors' Report:

For PricewaterhouseCoopers Audit OOD:

Jock Numan
Procurist

Anna Boteva
Registered auditor

Date: 30-03-2020

For HLB Bulgaria OOD:

Veronika Revalska
Manager

Svetlana Pavlova
Registered auditor

30.03.2020

**BULSTRAD
VIENNA INSURANCE GROUP**

Katerina Stoyanova
Financial Director

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

ZAD BULSTRAD VIENNA INSURANCE GROUP AD (the Company) was incorporated in 1961. The registered office of the Company is at 5, Pozitano Square, Sofia, Bulgaria. The company is part of Vienna Insurance Group AG Wiener Versicherung Gruppe, Austria ("VIG", "The Group"). VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe is one of the leading Austrian insurance groups in Central and Eastern Europe and thus is also the largest listed insurance group in Austria. Wiener Städtische Versicherungsverein holds around 70 % of VIG's shares and is the ultimate controlling party. As of December 31, 2019, the allocation of the share capital of the company is as follows:

Shareholder	Share (%)
TBI Bulgaria EAD (Solely-owned PLC)	85.80 %
Vienna Insurance Group Wiener Versicherung Gruppe	14.20 %

The Company was granted License No. 11 from July 16, 1998 for insurance and reinsurance activities by the Bulgarian Financial Supervision Commission. The company has specialized in offering the following insurance: motor, cargo, aviation, marine, property, liabilities, agriculture as well as reinsurance.

The company has a two-tier management system: Supervisory Board and Management Board. The company is represented jointly by a Chief Executive Officer and an Executive Officer or by any two Executive Officers. One person cannot be authorized for the whole activity.

As of December 31, 2019 the Company has 437 employees (2018: 452 employees).

2. BASIS FOR PREPARING THE ANNUAL SEPARATE FINANCIAL STATEMENTS

2.1. Basis of preparation

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU). IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

This separate financial statements has been prepared under the going concern principle using historical cost convention, except for the following assets and liabilities, which are presented at fair value in profit or loss: land and buildings, investment properties, available-for-sale assets. Liabilities for defined benefit plans are measured at the net present value of the liability.

The preparation of separate financial statements in conformity with IFRS requires the use of certain critical and accounting estimates. It also requires management of the Company to execute its judgment and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

The Separate Annual Financial Statements has been approved by the Management Board with a decision dated March 25, 2020.

At the time of approval of these separate financial statements the Company has not prepared the related consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group") as required by IFRS 10. The Company applied an interpretation contained in the agenda paper issued by the European Commission Internal Market and Services for the meeting of the Accounting Regulatory Committee (document ARC/08/2007) about the relationship between the IAS regulation and the 4th and 7th Company Law Directives, which were subsequently replaced by Directive 2013/34/EU of the European Parliament and of the Council. The Commission Services Department is of the opinion that, if a company chooses or is required to prepare its separate financial statements in accordance with IFRS as adopted by the European Union, it can prepare and issue them independently from the preparing and issuing the consolidated financial statements.

**ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

(all amounts are in thousands of BGN, unless otherwise noted)

**2. BASIS FOR PREPARING THE ANNUAL SEPARATE FINANCIAL STATEMENTS
(CONTINUED)**

2.1. Basis of preparation (continued)

In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - will be fully consolidated.

Bulstrad Vienna Insurance Group also prepares consolidated financial statements in accordance with the IFRS as adopted by EU and comprising of financial statements of the Company and its subsidiaries. In order to obtain overall understanding of the financial status, operations' results and changes in financial status of the Group as a whole, users should read these Separate Financial Statements along with the Consolidated Financial Statements of the Group.

(a) New and amended standards adopted by the Company

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

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019);

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. 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 right of use assets amounting to BGN 6,486 thousand and lease liabilities amounting to BGN 6,486 thousand (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018). See note 2.2 for further disclosures.

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

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);

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.

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

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2019 and have not been previously adopted by the Company have been published. The Company's assessment of the impact of these new standards and interpretations is set out below.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

2. BASIS FOR PREPARING THE SEPARATE ANNUAL FINANCIAL STATEMENTS
(CONTINUED)

2.1. Basis of preparation (continued)

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020);

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

There are no other standards that are not yet adopted, and which are expected to have a significant impact on the Company during the current or future reporting period as well as in the foreseeable future transactions.

(c) New standards, interpretations and amendments not yet adopted by the EU

IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016);

Sale or Contribution 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 to be determined by the IASB);

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023);

The standard applies to annual reporting periods beginning on or after January, 1 2023 and will be applied retrospectively, thus allowing its earlier application. It revokes IFRS 4 *Insurance Contracts*, revised in 2016. Its scope covers all insurance contracts concluded by any insurance company, including active and passive reinsurance, as well as investment contracts with discretionary participation feature (DPF), provided that the Company issues insurance contracts.

Although the initial assessment of the possible effect of IFRS 17 has not been completed, the Company expects that these changes, when initially applied would have a material and comprehensive impact on the presentation in the individual financial statements of the Company as the Company issues insurance contracts.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020)

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

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

2. BASIS FOR PREPARING THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

2.2. Changes in accounting policies (continued)

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.

(a) 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 1.403%.

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

	1 January 2019
	BGN'000
Operating lease commitments disclosed as at 31 December 2018	6,580
Discounted using the company's incremental borrowing rate of 1,403%	(92)
Less: Short-term and low-value leases recognized on a straight-line basis	(2)
Lease liability recognized as at 1 January 2019	6,486
Of which are:	
Current lease liabilities	1,468
Non-current lease liabilities	5,018

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	6,486
<i>Adjusted for:</i>	
Lease prepayments recognised as of 31 December 2018	7
Accrued lease payments as of 31 December 2018	(7)
Right-of-use asset as at 1 January 2019	6,486

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 6,486 thousand
- Lease liabilities – increase by BGN 6,486 thousand

There was no impact on retained earnings on 1 January 2019.

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

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

2. BASIS FOR PREPARING THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

2.2. Changes in accounting policies (continued)

- 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.

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured in BGN the currency of the primary economic environment in which the entity operates (the 'functional currency').

Transactions and balances

Transactions in foreign currencies are recorded in BGN using the foreign currency rate ruling of the Bulgarian National Bank (BNB) at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated 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.

Presentation of statement of financial position in order of liquidity

The Company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

2. BASIS FOR PREPARING THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Presentation of statement of financial position in order of liquidity (continued)

	31 December 2019			31 December 2018		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
<i>In thousands of BGN</i>						
ASSETS	199,851	296,828	496,679	157,572	250,883	408,455
Investment properties	-	9,095	9,095	-	9,095	9,095
Other equity participations	-	89	89	-	89	89
Investments in subsidiaries	-	36,857	36,857	-	31,693	31,693
Investments in bank deposits	2,753	-	2,753	501	-	501
Available-for-sale financial assets	2,327	167,229	169,556	1,358	126,071	127,429
Held to maturity financial assets	11	4,970	4,981	11	4,966	4,977
Intangible assets	-	1,613	1,613	-	1,342	1,342
Property and equipment	-	14,538	14,538	-	14,993	14,993
Right of use assets	-	5,437	5,437	-	-	-
Other assets	62,880	3,105	65,985	49,340	16,447	65,787
Reinsurer's share of insurance contracts	46,619	60,602	107,221	36,359	52,091	88,450
Cash and cash equivalents	49,387	-	49,387	35,585	-	35,585
Deferred acquisition cost	29,167	-	29,167	28,514	-	28,514
LIABILITIES	229,058	168,228	397,286	166,588	157,559	324,147
Deferred income tax liability	629	-	629	715	-	715
Liabilities under insurance contracts	135,429	157,554	292,983	101,613	148,429	250,042
Agents and policyholders' liabilities	19,673	111	19,784	14,823	2,862	17,685
Reinsurance liabilities	13,381	-	13,381	6,602	-	6,602
Deposits of reinsurers	44,859	-	44,859	29,390	-	29,390
Retirement benefit obligations	1,176	-	1,176	1,093	-	1,093
Subordinated loans	5	6,259	6,264	5	6,259	6,264
Lease liabilities	1,255	4,292	5,547	-	-	-
Current income tax liability	366	-	366	321	-	321
Other liabilities	9,668	12	9,680	10,035	9	10,044
Reinsurer's share in deferred acquisition costs	2,617	-	2,617	1,991	-	1,991

3. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense for the period.

Estimates and assumptions are based on historical experience and other factors that are reasonable under these circumstances, the results of which form the basis for estimates about the assets and liabilities carrying amount that are not evidenced by and through other sources. Actual results may differ from these estimates.

These estimates and assumptions are reviewed on a regular basis. A revision of estimates is performed in the year of review of estimates, if the revisions concerns the current year or in the year of the review and future years if the revision concerns current and future years. The estimates made by the management in applying IFRS that have material effect on the financial statements and the accounting estimates with significant risk from material adjustment in the next year are presented below.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

3. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

3.1. Judgements

Judgements used in accounting policies that have the most significant impact on the amounts recognized in the financial statements are included in the following attachments:

- Note 4.8 Insurance contracts
- Note 4.13 Recognition of premium income;
- Note 6 Insurance risk management;
- Note 8 Financial risks.

3.2. Uncertainty in assumptions and assessment

Uncertainty in assumptions and valuation of insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods. The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment. Information of the requirements for calculation of the insurance reserve is provided in note 6 – Insurance Risk Management, and information on the reserves is provided in note 20.

Sensitivity analysis from changes in the assumptions for the obligations under insurance contracts is disclosed in Note 6.6.

Fair values

Fair values assessment for financial and non-financial assets and liabilities is required by some of the Company's accounting policies and disclosures.

The Company uses as much observable data as possible when assessing the asset or liability fair value. Fair values are grouped in the different levels in the fair value hierarchy based on incoming data in the assessment techniques as follows:

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

3. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

3.2. Uncertainty in assumptions and assessments (continued)

- Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included in Level 1 that are directly available (i.e. as prices) or indirectly (i.e. derived from prices) for observation of the asset or the liability.
- Level 3: Inputs for the asset or the liability that are not based on observable market data (unobservable input data).

If input data used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in this level of the fair value hierarchy as lowest level input that is significant to entire valuation.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Most of the Company's financial investments are measured at fair value. Most of these fair values are defined as Level 1, according to the above hierarchy.

Investment properties are also assessed by fair value. Their fair value is classified in Level 3, according to the above hierarchy.

More information on assumptions made in the fair values and the measurement in assessment techniques, measurement criteria within Level 3 of fair value hierarchy, additional information, including sensitivity information to non-market factors, is included in the following attachments:

Note 5 – Financial instruments;

Note 11 – Investment property.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Intangible assets

Intangible assets acquired by the Company are initially recognized at cost, which comprises their purchase cost and all costs directly attributable to the acquisition of the asset.

Internally generated intangible assets are recognized only when the Company can identify whether or when is available an identifiable asset, which will generate future economic benefits and whose value can be reliably measured.

Subsequently intangible assets are measured at cost of acquisition, decreased by the accumulated amortization and any accumulated impairment losses. Subsequent costs, related to intangible asset, are recognized at the carrying amount of the asset if they increase its future economic benefit. Any other costs are recognized as incurred costs in the period in which they occur.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1. Intangible assets (continued)

The intangible assets, used by the Company, have limited useful life and are amortized on a straight-line basis over the expected useful life of the respective assets.

The following annual amortization rates are applied:

Intangible Assets	Years	%
Software	5, 4	20%, 25%
Licenses	5, 2	20%, 50%

The useful life and depreciation method of intangible assets are reviewed at least at the end of each reporting period. Changes in expected useful life or in expected model of consumption of economic benefits from the asset are reflected through a change in the useful life or amortization method, as appropriate, and are treated as changes in the accounting estimates. Intangible assets amortization costs are recognized as current expenses during the reporting period.

Gains and losses arising from write-off of intangible assets, representing the difference between the net proceeds upon release and the carrying amount of the asset, are reported in profit or loss once the asset is derecognized.

4.2. Investments in subsidiaries and associates

Subsidiary is an entity controlled by the Company. The Company controls an entity when it has an exposure to the entity, is entitled to variable returns from its participation and has the ability to influence that return through its control over the subsidiary.

At acquisition, the investments in subsidiaries are initially recognized at cost that equals the agreed monetary consideration, transferred from the seller. Cost incurred in relation to the acquisition (legal fees, consultancy fees, et.) are recognised directly in profit or loss.

Control over the subsidiary is considered when the Parent company directly or indirectly holds more than 50% of the voting rights, and/or is entitled to appoint more than 50% of the members of the management bodies, as well as to exercise control over its operating and financial policies.

Investments in associates are capital investments into companies, in which the Company does not exercise control, but has significant influence over their operations, as it owns between 20% or more of their shares/voting rights.

Investments in subsidiaries and associates are measured at cost method.

4.3. Investment property

The Company classifies a certain property as an investment property when it is held with the purpose of earning rental income, and not for administrative purposes or for sale in the ordinary course of business. Investment properties are measured initially at their acquisition cost which comprises their purchase price and any directly attributable expenditure, such as property transfer taxes, fees for provided legal services etc. Their subsequent valuation is carried at fair value, reflecting the market conditions by the date of the statement of financial position.

Any gains or losses arising from changes in the fair value of investment properties are directly recognized in profit or loss in the period in which they arise.

Gains or losses arising from the sale of an investment property (determined as the difference between the net sale proceeds and the carrying amount of the property) are recognized in profit or loss for the period.

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts are in thousands of BGN, unless otherwise noted)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3. Investment property (continued)

When an investment property that was previously classified as property, plant and equipment is sold, all associated amounts recognized in the revaluation reserve are transferred to retained earnings or losses from prior periods. Investment property is derecognized (written-off) from the Statement of Financial Position when it is sold or leased under finance lease or when it is permanently withdrawn from use and no economic benefits are expected from its disposal. Gains or losses arising from the disposal of an investment property (determined as the difference between the net disposal proceeds and the carrying amount of the property) are recognized in profit or loss in the period of disposal.

4.4. Property, plant and equipment

Property, plant and equipment are initially recognized at cost of acquisition. The acquisition cost includes the purchase price, customs duties and any directly attributable costs of bringing the asset to operating condition. Direct costs are mainly: costs for initial delivery and handling, installation costs and expenses for professional fees for the persons involved with the specific project.

Land and buildings are measured at revalued amount, which is their fair value at the date of the revaluation, decreased by the subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value is estimated on the basis of professionally qualified assessor's assessment by the date of the preparation of the Statement of Financial Position.

When the book value of such assets is increased as a result of revaluation, the increase is directly recognized through the statement of comprehensive income statement in the equity in Revaluation reserve item, except for of the cases when it reverses a revaluation decrease previously recognized as expense. In such case the revaluation is recognized as income. When there is a decrease of the fair value of an asset for which there is a revaluation reserve formed, the decrease is recognized directly in the equity, reducing the revaluation reserve, up to the amount of credit balance which exists in the revaluation reserve of this asset. If there is no revaluation reserve formed (or it is insufficient), the decrease is recognized as an expense during the current period and shall be presented in the Statement of profit or loss.

Plant and equipment are carried at cost less any subsequent accumulated depreciation and impairment losses.

Any subsequent expenditure relating to an item of property and plant is capitalized only when it increases the future economic benefits of the asset or its useful life. All other expenditure such as day-to-day servicing and maintenance costs are recognized in profit or loss as incurred.

Depreciation is charged on a straight-line basis over the estimated useful lives of items of property, plant and equipment as follows:

Property, plant and equipment	Years	%
Buildings	33.0	3.03%
Computers	5.0, 4.0	20%, 25%
Vehicles	6.6, 5.0	15%, 20%
Furniture and equipment	6.8, 6.7	15%

Land is not subject to depreciation. The carrying amount, the useful life and the method of depreciation of the assets must be reviewed at each financial year-end, and if necessary, they should be changed.

At each reporting date the company determines whether there is any objective evidence for impairment of the property, plant and equipment. An asset must be impaired when its recoverable amount is less than its carrying amount in the Statement of Financial Position. Any impairment losses with respect to plant and machinery are expensed in profit or loss as incurred. Impairment losses with respect to land and buildings are charged directly against any related revaluation surplus.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4. Property, plant and equipment (continued)

The entity derecognizes the carrying amount of an item of property, plant and equipment from the Statement of Financial Position when the asset is sold, or no future economic benefits are expected from its use. Gains and losses arising on disposal of property, plant and equipment (determined by comparing the proceeds from disposal with the carrying amount of the asset) are recognized in profit or loss account, when the asset is derecognized. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

4.5. Financial instruments

The company plans to benefit from the so-called "method of postponement" for the application of IFRS 9 *Financial Instruments* until 2021 until the entry into force of IFRS 17 *Insurance Contracts* as a Company primarily offering insurance contracts. The Company continues to apply IAS 39 *Financial Instruments: Recognition and Measurement*.

The Company classifies its investments as financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets held to maturity and loans and other receivables.

The Company classifies non-derivative financial liabilities in the other financial liabilities.

Recognition and measurement

The Company recognizes financial asset when it becomes a party under contractual relations. Any purchase or sale of financial assets is recognized on the trading day, i.e. the date on which the Company engages to buy or sell the asset.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading instruments which are held by the Company chiefly for the purpose of short-term profit taking as a result of changes in the asset's fair value. They include treasury and corporate debt securities as well as investments in capital instruments of companies over which the Company does not have control or significant influence.

Initially these financial assets are recognized at fair value which is equal to the cost paid for acquisition. After initial recognition of the financial assets at fair value as profit or loss, they are revaluated at fair value, determined by the reporting date.

Any gains or losses arising as a result of the change in the fair value of these assets are recognized in the Statement of profit or loss.

Any interest received during the time of possession of the financial asset is recognized in the Statement of profit or loss as interest income. Dividends from equity instruments are recognized in the Statement of profit or loss, when the right of the entity to receive payment is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. All loans and receivables are recognized upon the actual granting of the funds to the borrowers or upon establishment of the right to a receivable. These investments are initially recognized at fair value. Subsequent to initial recognition, these investments are carried at amortized costs.

The amortized value is the amount at which the financial assets are measured at their initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount and maturity amount and minus any reduction for impairment or non-collectability. Gains and losses from derecognition, impairment and amortization of loans and receivables are recognized in the Statement of profit or loss at the time of their occurrence. Once per year the Company does an impairment test over its due receivables.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5. Financial instruments (continued)

Held to maturity financial assets

Financial assets held to maturity are assets with fixed or determinable profitability and fixed maturity, which the Company has the positive intent and ability to hold to maturity.

These instruments are initially measured at fair value plus any expenses, directly attributable to the acquisition transaction.

Subsequent to initial recognition, these investments are carried at amortized cost. Gains and losses are recognized in the Statement of profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

At each reporting date the Company assesses whether any objective evidence of impairment of loans and receivables exists. The amount of the impairment is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The amount of loss is recognized in the statement of profit or loss. If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables; held-to-maturity assets or financial assets at fair value through profit or loss. They include treasury and corporate debt securities as well as investments in capital instruments of companies over which the Company does not have control or significant influence.

These investments are initially recorded at fair value, which is equal to cost plus transactions costs that are directly attributable to the acquisition.

The subsequent measurement of financial assets available-for-sale is also at fair value by the statement date. Any gains and losses arising from change in the fair value of these financial assets are recognized as a separate component of other comprehensive income, except for impairment losses, which are recognized in profit and loss. Upon derecognition of a financial asset any accumulated gain or loss previously recognized in equity is recognized in profit and loss.

Any interest received during the time of possession of the financial asset is recognized in the Statement of profit or loss as interest income. Dividends from equity instruments available for-sale are recognized in the Statement of profit or loss, when the right of the entity to receive payment is established.

At each reporting date the Company assesses whether any objective evidence exist for impairment of a financial asset or a group of financial assets. The Company has adopted that a financial asset classified as available-for-sale must be impaired when its fair value decreases significantly below cost and in prolonged period. When the decrease of the fair value of an available-for-sale asset is recognized directly in equity and objective evidence exists that the asset is impaired, the accumulated loss is deducted from equity and recognized through profit or loss. The amount of the accumulated loss deducted from equity and recognized in the profit or loss is the difference between the acquisition cost (net of repayments of the principal and amortization) and the current fair value, less the impairment loss recognized previously in the profit or loss.

Impairment losses, recognized in profit or loss, for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed with the amount of the reversal recognized in profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5. Financial instruments (continued)

The Company classifies investments in capital instruments that do not have a quoted market price on an active market as other investments in equity instruments.

Available-for-sale financial assets (continued)

Investments in such financial instruments whose fair value cannot be reliably measured are recognized in the Statement of Financial Position at acquisition cost.

Cash and cash equivalents

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.

Non-derivative financial liabilities-recognition and measurement

A financial liability is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognized in profit or loss.

Other non-derivative financial liabilities are recognized initially at fair value, reduced by all directly attributable transaction costs. After their initial recognition, these liabilities are subsequently measured at depreciated cost using the effective interest method.

Derecognition of financial instruments

The Company derecognizes a financial asset (or part of financial asset, if applicable), when:

- Contractual rights to the cash flows from the asset have expired.
- The Company has retained the right to receive the cash flows from the asset, but has undertaken a contractual obligation to pay all cash flows collected, without considerable delay, to a third party under a transfer transaction;
- The Company has transferred the contractual rights to receive cash flows from the asset, whereupon:
 - the Company has transferred all or substantially all risks and rewards from the owning of the financial asset; or
 - the Company has neither transferred, not retained all or substantially all risks and rewards related to the asset but has lost control over it.

Upon derecognition of an available-for-sale financial asset the accumulated revaluation reserve is derecognized from equity and recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

4.6. Fair value of financial instruments

Some of the Company's assets and liabilities are measured and presented and/or only disclosed at fair value for financial reporting purposes. Financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity financial assets, cash and cash equivalents, bank deposits, investment property, financial lease receivables and payables are such type of instruments.

Fair value is the price that would be obtained at the sale of an asset or paid for a transfer of liability in a orderly transaction between market participants on the measurement date and on the core market for the company or in the absence of such market on the most profitable market which the company can access to this date. The fair value of a liability reflects the risk of defaulting on the liability.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6. Fair value of financial instruments (continued)

When possible, the Company measures the fair value of a financial instrument using the stock prices on the active market for this instrument. A market is considered active when the transactions in this asset or liability are carried out with sufficient frequency and volume ensuring continuous information on the price.

If no market price is available on the active markets, the company uses assessment techniques, by maximizing the reliance on appropriate observable inputs and minimizing the use of unobservable inputs. The selected measurement technique covers all factors potentially taken into account by market participants in determining the price of the transaction.

Commonly the best evidence of a financial instrument's fair value is the price of the transaction, i.e. the fair value of the transferred or received consideration. If the company determines that the fair value at initial recognition differs from the transaction price and if the stock price of a similar asset or liability does not constitute evidence of fair value, nor it is based on a assessment technique using data from market observables, then the financial instrument is initially assessed at fair value adjusted with deferring the difference between the fair value under the initial recognition and the price of the transaction.

Subsequently, this difference is recognized in profit or loss deferred for an appropriate period based on the life cycle of the instrument but not later than the time when the measurement can be fully supported by observable market data or when the transaction is finalized.

If an asset or liability measured at fair value has a "ask" and "bid" price, then the company shall measure the assets and long positions at the "ask" price, and the liabilities and short positions at the "bid" price. The subsequent valuation of debt instruments is made at "bid" price at closing on the market for the last business day of that month.

The fair value of a demand deposit shall not be less than the amount payable on demand, discounted from the original date on the deposit becomes potentially payable.

The Company recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period in which the respective change has occurred.

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

4.7. Insurance contracts

Insurance contracts are those that transfer significant insurance risk over the Company.

Once classified as insurance contracts at the date of inception, the Company continues to recognize them as insurance contracts over the period of their duration, even if the insurance risk reduces significantly during this period, unless all rights and obligations, arising from the insurance contract have expired or have been cancelled.

Unearned premium reserve (UPR)

Premiums transferred are those parts of the premiums written during the year that relate to periods of insurance risk after the date of the financial statements. The amount of the reserve is calculated under the precise day method, taking into account the term of the insurance contracts and the type of insurance premiums (one-off or deferred).

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7. Insurance contracts (continued)

Unexpired risk reserve (URR)

Unexpired risk reserve is formed to cover risks for the period between the end of reporting period and the date on which the insurance contract expires in order to cover the payments and expenses related to these risks which are expected to exceed the UPR formed. The Company forms unexpired risk reserve when the gross technical result of certain line of business has been negative for the last 3 years, including the current reporting period, excluding MTPL, whose method of calculation has been disclosed in note 6.7.

Outstanding claims reserve (OCR) and claims handling cost

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Outstanding claims reserve (OCR) is set to cover losses on claims for which insurance events have occurred before the reporting period, whether reported or not, and have not been paid by the period end. It includes reported but not paid claims and incurred but not reported claims (IBNR), along with claims handling expenses. The amount of the reserve for reported but not paid claims is calculated using the claim-by-claim method, according to which the expected amount of the claim payment for any reported but not settled claim is determined.

The reserve amount for incurred but not reported claims is estimated by applying the “chain ladder” method. It is based on the Company experience during the current and past 10 years, whereas for MTPL insurance this period includes the past 13 years. The Company reviews the claims' development, the period of occurrence and reporting of insurance events. It assumed that the delay in reporting of claims does not change in time and there is a correlation between adjacent periods in the claims payments development.

The claims handling cost are included in the calculation of the RBNS reserve.

Deferred acquisition costs

Those direct and indirect costs incurred during the financial period arising from acquiring or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums from insurance contract. Such costs represent mostly commissions and advertising expenses and are deferred proportionately to the unearned premium reserve. All other acquisition costs are recognised as an expense when incurred. DAC is amortised over the period in which the related revenues are earned.

The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss. 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 amortisation period or method and are treated as a change in an accounting estimate. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period. DACs are derecognised when the related contracts are either settled or disposed of.

DAC are treated as a separate item in the balance sheet asset, and reinsurer's share in DAC is recorded in the liability on the balance sheet.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Reinsurance contracts

Passive reinsurance

The company cedes part of the insurance risk it bears under insurance contracts to reinsurers to reduce net losses by risk diversification. Reinsurance activity does not cancel the direct liability of the Company to the insured person.

Passive reinsurance (continued)

The premiums ceded to reinsurers are recognized as expense in the Statement of profit or loss when incurred. The Company cedes a part of the insurance risk that it bears under the reinsurers' insurance contracts. The expected benefits for the Company from reinsurance contracts in respect to outstanding claims are recognized as assets in the statement of financial position at the time they arise. Amounts recoverable by reinsurers are estimated by the methods for assessing the reserve for claims reported but not paid or settled claims relating to the reinsurance contract.

The management periodically performs an impairment test of reinsurance receivables. Reinsurance receivables are considered impaired when objective evidence exists about an event that occurred after initial recognition of the receivable and the company may not receive entire amount due as agreed in contract as a result of this event and this event has direct impact on the amount that the company will receive from the reinsurer that could be reliably measured. If objective evidence for impairment exists, the Receivables from reinsurance operations are written down to their recoverable amount. The difference is recognized as change in the reinsurer's share in the outstanding claims reserve and as an expense in the Statement of profit or loss.

Active reinsurance

The Company also assumes reinsurance risk in its usual business under non-life insurance contracts. Active reinsurance premiums and claims are recognized as income or expense in the same way they would be if reinsurance is considered as a direct business, being reported by lines of business from underlying business. Reinsurance liabilities represent balances to insurance companies. Liabilities are measured under the relevant reinsurance contract.

Premiums and claims are presented on a gross basis both for passive and for active reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights have lapsed or expired or when the contract is transferred to third party.

4.9. Leases – the Company as a Lessee

(a) 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.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9. Leases – the Company as a Lessee (continued)

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

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 depreciation periods for the right-of-use assets are as follows:

- right of use for the office buildings 33 years
- right of use for the motor vehicles 5-6.6 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.

Disclosure consistent with 2018 - Investment property is derecognized (written-off) from the Statement of Financial Position when it is sold or leased under finance lease or when it is permanently withdrawn from use and no economic benefits are expected from its disposal.

(b) 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9. Leases – the Company as a Lessee (continued)

(c) 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.

4.10. Reinsurance contract deposits

In cases where this has been agreed between the parties, the Company allocates a reinsurance contract deposit to secure the reinsurer's share of premiums and claims. Deposits are carried at amortized cost.

4.11. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The interest of the discounted amount is recognized as a finance cost.

4.12. Gross written premiums

The gross written premiums shall include the premiums that have been recognized as income under insurance contracts of direct insurance and inward reinsurance on the basis of the amount owed by the insured/(insuring) person during the whole covered period; this is the amount which the insurer is entitled to receive on the grounds of insurance contracts executed during the reporting period, including in the event where the period covered includes fully or partially a subsequent reporting period.

The income from insurance contracts with deferred payments is accrued up to the full amount of premium per policy due are recorded in the Statement of Financial Position as receivables from insurance operations. The premiums are reported gross of paid commissions to intermediaries. Premiums accrued under cancelled contracts are derecognized. Derecognized premiums for the current reporting period which correspond to insurance policies issued during the current period are recognized as a decrease of gross premium income. Derecognized premiums in the current reporting period which reflect an adjustment of premium income that was recognized in previous periods are recognized as an expense for written-off premiums in the current period. Gross written premiums are recognised net of insurance taxes due which are booked in balance sheet and paid to the tax authority when premium is paid by the customer.

4.13 Fee and commission income

Fee and commission income consists of fees from reinsurance and co-insurance contracts.

Interest income from insurance can occur for court insurance receivables (mainly recourse receivables) and is booked when received.

4.14. Paid claims

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years..

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14. Paid claims (continued)

The Company's right to recover from the insured person or from a third party liable for damage originating from the Company's payment under an insurance contract is recognized as a recourse receivable on the date on which this right is established. Income from recognising recourse receivable is presented as decrease of claims paid in the separate statement of profit or loss.

Reinsurer's share in paid claims

Reinsurance claims are recognized when the relevant gross claim has been paid and recognized in the Statement of profit or loss.

4.15. Expenses for remuneration of agents and brokers (acquisition expenses)

The expenses for remuneration of agents and brokers are accrued for the period which the respective premium income is related to.

4.16. Administrative expenses

Administrative expenses relate to the operation and maintenance of the Company's activities and comprise of personnel expenses, depreciation charges for property, plant and equipment, and amortization charges for intangible assets, advertising costs, offices maintenance etc. to the extent that they are not reported as net commission expenses, claims incurred and investment expenses. Administrative expenses are recognized in the Statement of profit or loss in the reporting period they occurred.

4.17. Net investment income

Net investment income includes the Company's gains and losses from managing its assets for technical reserves coverage. Investment income consist of interest income on bank deposits and assets available-for-sale; rental income of investment properties; change of fair value of financial instruments recognized at fair value through profit or loss; change in the fair value of investment properties, impairment losses of assets available-for-sale as well as income from reversal of such impairment losses; gains realized through sales of investments; foreign currency revaluations and others, net of asset management fees.

The effective interest method is used for recognition of interest income or expense.

Dividend income is recognized in profit or loss on the date the Company receives the right to the dividend.

Rental income from investment property is recognized on a straight-line basis in profit or loss over the period of the rental contract.

4.18. Financial expenses

Interest paid is recognised in the statement of profit or loss as it accrues and is calculated by using the EIR method. Accrued interest is included within the carrying value of the interest bearing financial liability.

4.19. Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

By the date of each financial statement, the Company estimates the amount of expected expense accruing from compensated absences that is expected to be paid as a result of the unused entitlement to accrued leave. It shall include an approximate estimate of the remuneration itself and the contributions to the obligatory social and health insurance that the employer owes to these amounts.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19. Employee benefits (continued)

Defined contribution plans

Obligations for contributions to defined contribution plans comprise contributions to state-owned institutions and to obligatory pension funds managed by privately-owned management companies in accordance with legal requirements or individual choice. Obligations for contributions to defined contribution plans are expensed as the related service is provided.

Post-employment benefits

The Company obligation in respect of postemployment benefits is restricted to the statutory requirement to pay employees an amount equivalent to two or six monthly salaries upon retirement, depending on length of service in the Company. The amount of future benefits that employees have earned in the current and prior periods is estimated and that amount is discounted at an appropriate discount rate, based on the yield at the statement date on bonds of acceptable credit rating that have maturity dates approximating the terms of the Company obligations and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

Revaluations of net defined benefit liability which comprise actuarial gains and losses are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefits, including costs for past service, are recognized in profit or loss.

Termination benefit

The Company as an employer is liable to pay certain types of benefits upon termination of the employment contract before retirement in compliance to the local labour and social security regulations in Bulgaria.

The Company recognizes employee postemployment benefit before retirement when a binding commitment is demonstrated based on a publicly announced plan, incl. for restructuring, to terminate the employment contract with the persons concerned without being able to cancel or to formally issue the documents of resignation. Postemployment benefit payable more than 12 months are discounted and presented in the Statement of Financial Position in present value.

4.20. Income tax

The Company calculates profit tax in compliance with the effective legislation. Income tax expense includes current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement date, and any adjustments to tax payable in respect of previous years.

The amount of the current tax liability or receivable is the best estimate of the tax amount that is expected to be paid or received, reflecting the income tax uncertainties. The current tax also includes the tax effects of dividends. Current tax assets or liabilities shall be netted provided that certain criteria are met. In 2019 the nominal tax rate for Bulgaria is 10% (2018: 10%).

Deferred tax

The deferred tax is calculated through application of the liability method, in respect of any temporary differences by the statement date, existing between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20. Income tax (continued)

Deferred tax (continued)

Deferred tax is not recognized for temporary differences from initial recognition of assets and liabilities upon transactions that do not concern profit or loss, for neither accounting nor taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they refer to profit taxes imposed by the same tax authorities and only if the Company has the legal right to make or receive net payments on current tax liabilities or profit tax receivables.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which tax loss carry forwards and tax credits can be utilized. Deferred tax assets are reviewed by each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax related to items that are accounted for as other comprehensive income components are also accounted for directly in the respective comprehensive income component or the balance sheet equity position.

4.21. Subordinated debt

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings, and issued notes are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of profit or loss.

Additional disclosures related to the temporary opt-out possibility from the application of IFRS 9 "Financial Instruments" in IFRS 4 "Insurance Contracts"

As at December 31, 2019, the Company exercised its right to apply the temporary opt-out possibility from the application of IFRS 9 "Financial Instruments", in accordance with the requirements of IFRS 4 "Insurance Contracts". The Company intends to exercise this temporary opt-out possibility until the adoption of IFRS 17 "Insurance Contracts" on January 1, 2021, in accordance with IFRS 4. The supplementary disclosures of the Company required by Art. 39 (B) of IFRS 4 in connection with the application of the temporary exemption from IFRS 9 are enclosed.

The Company met the qualifying conditions for deferral of applying IFRS 9 because (i) its liabilities connected with insurance exceeded 90% of total liabilities at 31 December 2015 and (ii) there were no subsequent substantial changes in the entity's activities. The Company expects to apply IFRS 9 from 2021.

Additional disclosures relating to the temporary opt-out possibility from the application of IFRS 9 "Financial Instruments" in IFRS 4 "Insurance Contracts", continued

The carrying amount of liabilities arising from contracts within the scope of IFRS 4 as at December 31, 2015 amounts to 93% of the total liabilities; the carrying amount of the liability related to insurance business under the definitions of IFRS 4 as at December 31, 2015 amounts to 96% of the total liability.

The amendment to IFRS 4 "Insurance Contracts" regulates the temporary opt-out possibility from the application of IFRS 9 "Financial Instruments", requires the disclosure of the change in the fair values of financial assets that pass SPPI (Solely Payment of Principal and Interest) test and separately from all other financial assets.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2019, the Company has made an assessment that the following classes of financial assets have contractual cash flows that pass the SPPI test:

- Government Bonds;
- Corporate Bonds;
- Bank deposits;
- Cash and cash equivalents.

The remaining financial assets held by the Company as of December 31, 2019 have contractual cash flows that do not pass the SPPI test. This group includes the following types of assets:

- Shares in investment funds;
- Shares;
- Derivatives.

The change in the fair value of the two sets of financial assets mentioned above as of December 31, 2019 compared to December 31, 2018 is set out in the table below:

Financial Assets	December 31, 2019		December 31, 2018		Fair value change	
	SPPI	Other	SPPI	Other	SPPI	Other
Bank deposits	2,753	-	501	-	-	-
Government bond and corporate bond	143,811	-	111,396	-	2,730	-
Stocks in commercial entities and shares in investment funds	-	31,840	-	22,132	-	4,458
Derivatives	-	1	-	23	-	-
Receivables and other assets	3,957	-	3,572	-	(298)	-
Cash and cash equivalents	49,387	-	35,585	-	-	-
Total	199,908	31,841	151,054	22,155	2,432	4,458

The following table presents the assets carrying amount, which have passed the Solely Payment of Principal and Interest test to illustrate their exposure to credit risk by December 31, 2019.

December 31, 2019*	AAA	AA-BBB	BB and lower	No rating available	Total
Bank deposits	-	2,753	-	-	2,753
Government bond and corporate bond	10,017	129,956	2,724	-	142,696
Receivables and other assets	-	-	-	3,597	3,597
Cash and cash equivalents	-	47,069	2,300	18	49,387
Total	10,017	179,778	5,024	3,615	198,433

* The credit rating used by the Company is the second best available, in accordance with VIG's Group policy.

Regarding the definition of credit risk and material credit risk in IFRS 9 the Company applies the VIG methodology. According to it financial assets with a credit rating higher than BB are assessed as financial assets with low credit risk.

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5. FINANCIAL INSTRUMENTS

5.1 Accounting classifications and fair values

Determination of the fair value of financial instruments

The tables below show the book value and fair value of the financial assets and liabilities, including their levels in fair values hierarchy. Fair value information is not included if the carrying amount is a reasonable approximation of the fair value.

December 31, 2019	Note	Fair value				Total	Level 1	Level 2	Level 3	Total
		Loans and receivables	Available-for sale	Held to maturity	Financial liabilities					
Financial assets assessed at fair value										
Bulgarian government securities		-	62,737	-	-	62,737	32,189	30,548	-	62,737
Foreign government securities		-	57,448	-	-	57,448	57,448	-	-	57,448
Corporate bonds		-	17,531	-	-	17,531	14,420	3,111	-	17,531
Shares in investment funds		-	31,069	-	-	31,069	30,982	87	-	31,069
Shares of commercial enterprises		-	771	-	-	771	93	678	-	771
Total	13	-	169,556	-	-	169,556	135,132	34,424	-	169,556
Financial assets not assessed at fair value										
Held to maturity	14	-	-	4,981	-	4,981	-	6,098	-	6,098
Receivables and other assets	15	3,957	-	-	-	3,957	-	-	-	-
Derivatives		1	-	-	-	1	-	-	-	-
Cash and cash equivalents	17	49,387	-	-	-	49,387	-	-	-	-
Investments in bank deposits		2,753	-	-	-	2,753	-	-	-	-
Total		56,098	-	4,981	-	61,079	-	6,098	-	6,098
Financial liabilities not assessed at fair value										
Deposits of reinsurers	21	-	-	-	44,859	44,859	-	-	-	-
Subordinated loan	25	-	-	-	6,264	6,264	-	-	-	-
Total		-	-	-	51,123	51,123	-	-	-	-

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5. FINANCIAL INSTRUMENTS (CONTINUED)

**5.1 Accounting classifications and fair values (continued)
Determination of the fair value of financial instruments (continued)**

	Note	Fair value				Total	Level 1	Level 2	Level 3	Total
		Loans and receivables	Available-for sale	Held to maturity	Financial liabilities					
December 31, 2018										
<i>In BGN thousand</i>										
Financial assets assessed at fair value										
Bulgarian government securities		-	60,429	-	-	60,429	29,867	30,562	-	60,429
Foreign government securities		-	36,891	-	-	36,891	36,891	-	-	36,891
Corporate bonds		-	7,977	-	-	7,977	7,413	564	-	7,977
Shares in investment funds		-	21,442	-	-	21,442	21,360	82	-	21,442
Shares of commercial enterprises		-	690	-	-	690	690	-	-	7,977
Total	13	-	127,429	-	-	127,429	96,221	31,208	-	127,429
Financial assets not assessed at fair value										
Held to maturity	14	-	-	4,977	-	4,977	-	6,099	-	6,099
Receivables and other assets	15	3,572	-	-	-	3,572	-	-	-	-
Derivatives		23	-	-	-	23	-	-	-	-
Cash and cash equivalents	17	35,585	-	-	-	35,585	-	-	-	-
Investments in bank deposits		501	-	-	-	501	-	-	-	-
Total		39,681	-	4,977	-	44,658	-	6,099	-	6,099
Financial liabilities not assessed at fair value										
Deposits of reinsurers	21	-	-	-	29,390	29,390	-	-	-	-
Subordinated loan	25	-	-	-	6,264	6,264	-	-	-	-
Total		-	-	-	35,654	35,654	-	-	-	-

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5. FINANCIAL INSTRUMENTS (CONTINUED)

5.2 Measurement of fair value

Measurement techniques and significant unobservable inputs

The following table represents measurement techniques, used when determining the fair value of Level 2, as well as significant unobservable inputs used.

Financial instruments assessed at fair value

Type	Assessment technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and the estimated fair value
Bulgarian government securities	Market quotes (observable input)	No unobservable inputs are used	No unobservable inputs are used
Corporate bonds	Market quotes (observable input)	No unobservable inputs are used	No unobservable inputs are used
Shares in contractual funds	Redemption price equal to the fund's assets net value, reduced by redemption costs. (observable input)	No unobservable inputs are used	No unobservable inputs are used
Shares of commercial enterprises	Market quotes	No unobservable inputs are used	No unobservable inputs are used
Derivatives	Market comparatives	No unobservable inputs are used	No unobservable inputs are used

Financial instruments not measured at fair value

Type	Assessment technique	Significant unobservable inputs
Held to maturity securities	Method of discounted cash flows (discount rate is the yield of Bulgarian government bonds)	Not applicable.

Financial liabilities not measured at fair value

Type	Assessment technique	Significant unobservable inputs
Deposits of reinsurers	Market comparatives	No unobservable inputs are used
Subordinated loan	Market comparatives	No unobservable inputs are used

(ii) Transfers between Level 1 and Level 2

In 2019 the Company continues applying group policies for the evaluation of the financial instruments designed in order to comply with the requirements of IFRS 13 and Solvency II at group level and the same time setting a single price for the same asset for all the companies in the Group. These policies introduce conservative/strict rules for determining the levels in the value hierarchy under IFRS 13. According to those rules, for debt instruments, an Emission Market with a residual volume of more than 500 million of the issue's denomination is considered to be active. Emissions that do not meet these criteria are not considered as active market assets and are classified in Level 2 even in the cases where they have price indices in electronic price information systems. Because of this in 2018, part of the Bulgarian government bonds are reclassified from Level 1 to Level 2, despite the existence of a market price from an external source (Bloomberg quotes).

Also investments in shares in investment funds amounting to BGN 678 thousand (2019: BGN 690 thousand) are reclassified from Level 1 to Level 2 due to a lack of quoting in electronic price information systems. They are valued at the redemption price announced by the management company.

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6. INSURANCE RISK MANAGEMENT

6.1. Insurance risk management objectives and policies

Insurance risk is the risk of occurrence of an insurance event where the amount of damage and respectively of due indemnity exceeds the amount of the insurance reserves formed. To manage this risk the Company performs a detailed analysis of various insurance risks and reflects this in the general terms and conditions of the insurance policies. In addition, the Company transfers some of its risks to reinsurers.

When choosing the type of the reinsurance treaties the Company considers the retention levels, the specifics of the insurance products, etc.

Regardless of the fact that the Company has reinsurance contracts any possible income from the reinsurer's share in indemnities is not transferred to the insured persons. In this case the Company is exposed to credit risk of up to the liabilities that the insurer must pay according to the reinsurance treaty. The Company has adopted strict rules for selection of reinsurers. Selection is focused on reinsurers that have been awarded high credit ratings.

The Company manages its insurance risk through insurance underwriting limits, procedures for approval of transactions which involve new products or which exceed certain limits, pricing methods and centralised reinsurance management. The Company applies several methods for assessment and monitoring of insurance risk exposures, for both individual types of risks and overall risk exposure.

An internal control framework has been introduced to manage insurance risk through three lines of protection. The first line of protection is the function of signing, product development and pricing. As a second line of protection, an independent risk management function has been established with a direct reporting line to the Company's Management Board which sets the risk framework, limits, the Company's risk appetite and oversees the risks to which it is exposed, as well as offers mitigation measures. A third line of defence is the internal audit, which monitors the first and second protection lines.

6.2. Underwriting strategy

The Company underwriting strategy seeks product diversity to ensure a balanced portfolio. As present the company offers over 80 insurance products. Every year the full range of products offered is analysed, adapted and complemented and for that purpose both the Company results and the insurance needs of the market are considered.

A major share of the Company insurance portfolio is taken by Motor Insurance followed by Property Insurance. The company has also been a leader in the field of Aviation, Marine and Cargo insurance for many years.

6.3. Product characteristics

The Company offers a list of insurance products approved by the Financial Supervision Commission.

Motor Insurance

The Motor line of business includes Motor Hull, Motor Third Party Liability, Personal Accident insurance for Passengers in the Motor Vehicle and Travel Assistance in Bulgaria and abroad. The risks covered completely meet the insurance coverage needs of owners, users and owners of motor vehicles. The territorial scope of these insurance policies covers all of Europe.

A flexible premium tariff policy has been developed which allows for the calculation of different policy premiums for the different insurance risks. The terms and conditions of insurance contracts and the deadlines for reporting and settlement of claims are entirely consistent with the legal requirements.

Property Insurance

The Property Insurance group includes the insurances of household property against fire, natural disasters, burglary and other usual risks. The terms and conditions of insurance contracts reflect to the utmost customers' needs and they comply with the legal and regulatory requirements.

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6. INSURANCE RISK MANAGEMENT (CONTINUED)

6.3. Product characteristics (continued)

Property Insurance, continued

When evaluating the risk associated with these insurance contracts, the Company stresses on the adequate evaluation of the insured sum and periodically surveys the insured objects.

Aviation, Marine and Cargo Insurance

The terms and conditions of these insurance contracts are entirely consistent with the international insurance markets.

Third Party Liability Insurance

The Company offers a wide range of products of General Third Party Liability policies and Professional Liability policies (including professional liability of notaries, lawyers, medical staff etc.), most of which are obligatory by virtue of a normative act.

Personal Accident and Travel Assistance

Personal Accident insurances cover the risk of death, permanent or temporary disability as a result of an accident.

6.4. Concentration of insurance risk

With regards to risk concentration, Management believes that efforts were made to achieve a relatively uniform allocation of insured objects. Risk is assessed on a systematic basis by the Company experts and accumulation of insurance sums is monitored both by groups of clients and by regions. The concentration of insurance risk before and after reinsurance by line of business, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) is disclosed in note 20. The geographical concentration of the Company insurance contract liabilities is only in Bulgaria.

6.5. Basic assumptions for calculation of the insurance contract liabilities

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome of insurance events. The sources of information used as inputs for the assumptions are internal and they are based on detailed studies carried out annually. The assumptions are reviewed to ensure that they are consistent with observable market prices or other published information. There is stronger emphasis on current trends and if there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

Each reported claim is assessed with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information becomes available. The provisions are based on information currently available. The key methods used for the estimation of the insurance contract provisions remain unchanged from prior years and are based on expected loss ratios and on the Company estimation of the expected claims ratio by lines of business.

The assumptions that have the greatest effect on the estimation of insurance contract liabilities are the expected claims ratios for the most recent years of claims for the different lines of business.

When estimating the incurred but not reported claims reserve, it is assumed that the tendency for development of delays in claims reporting shall remain unchanged in the next few years. This assumption is set in the method used for calculation of the liability.

In regard to the unearned premium reserve for all insurance policies with fixed insurance periods an assumption is made that risk allocation during the period will remain uniform.

For insurance policies without fixed insurance periods an average insurance period is set which is determined on the basis of statistical data for past period. Again an assumption is made that risk allocation during the period will remain uniform.

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6. INSURANCE RISK MANAGEMENT (CONTINUED)

6.5. Basic assumptions for calculation of the insurance contract provisions (continued)

The assumptions that have the most significant effect on the assessment of the unexpired risk reserve are expected claims ratio for the last periods of occurrence of the claims for the individual types of insurances. The total claims ratio as at December 31, 2019 is 55.6% (2018: 53.2%).

The tables below present the gross and net claim ratio for the three lines of business over the last 3 years:

Gross claim ratio

Line of business	2019	2018	2017
Motor Hull insurance	56.63%	56.72%	62.03%
Motor Third Party Liability	82.81%	93.77%	89.73%
Property Insurance	56.18%	38.05%	32.68%

Net claim ratio

Line of business	2019	2018	2017
Motor Hull insurance	57.53%	58.57%	60.42%
Motor Third Party Liability	95.01%	68.84%	74.51%
Property Insurance	28.10%	36.57%	43.22%

There has been a decreasing trend of net claim ratio in the Motor Hull Insurance and Property Insurance. For Motor Third Party Liability Insurance, there is an increase due to significant increase in the IBNR reserve during the year (73% compared to the end of 2018).

6.6. Sensitivity analysis

The table below shows eight simulations for analysis of the factors affecting the Company equity and profit. The analysis uses the capital position of the Company by the reporting date as a starting point. The changes shown are net of corporate tax.

Effects	Assets under stress (BGN)	Change		Change	
		Equity (BGN)	Profit (BGN)	Equity (%)	Profit
Equity As of December 31, 2019		99,393	11,402	-	-
Assumptions for development of market risks					
Increase of interest rates by 50 b.p.	143,992	3,637	-	3.66%	0.00%
Decrease of interest rates by 50 b.p.	143,992	(3,637)	-	(3.66%)	0.00%
Increase of the market value of equity instruments and investment funds by 30%	31,840	8,597	-	8.65%	0.00%
Decrease of the market value of equity instruments and investment funds by 30%	31,840	(8,597)	-	(8.65%)	0.00%
Increase of the market value of property by 10%	22,322	2,158	-	2.17%	0.00%
Decrease of the market value of property by 10%	22,322	(2,950)	(824)	(2.97%)	(7.23%)
Increase of non-collectable receivables from direct insurance by 5%	60,129	-	(368)	0.00%	(3.22%)
Decrease of non-collectable receivables from direct insurance by 5%	60,129	-	368	0.00%	3.22%

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6. INSURANCE RISK MANAGEMENT (CONTINUED)

6.6. Sensitivity analysis (continued)

From the reviewed realistic scenarios, the one with a change in the market value of equity instruments has the most significant influence on the Company's equity. The other considered scenarios have a comparable impact on equity, the strongest being the change in interest rates by 50 basis points, being a part of the Company's investment portfolio. Interest rates changes only affect the interest-sensitive assets value in the Company's balance sheet such as government and corporate bonds. The assets value change under interest rate fluctuations is not offset by a change in the value of the liability because the Company does not discount the amount of the liabilities under insurance contracts when determining their carrying amount in the annual financial statements.

Stress test scenarios on insurance risks include a catastrophic event (applicable to property insurance and Casco insurance) with a cumulative effect of BGN 20 million; an increase/decrease of the net claims ratio by 10% and MTPL IBNR stress test with additional delay in the reporting of bodily injury claims which leads to increase in the first two development factors by 20%. Effects are recognised in profit.

<i>Effects</i>	2019 Profit	2018 Profit
Basic positions	11,402	13,274
Catastrophic event	(352)	(176)
Increase of claims ratio by 10%	(9,185)	(7,887)
Decrease of claims ratio by 10%	9,185	7,887
MTPL IBNR - bodily injury claims increase in the first two development factors by 20%	(3,609)	(2,669)

When simulation of a catastrophic event is being performed the impact on profit is limited to retention after Nat Cat reinsurance (retention was changed in 2019). In an analysis of the effect from the change of the net claims ratio an allowance of 10% is made due to an increase in the claims. The claims ratio reflects the effect of the change in all the components of the claims incurred, namely paid claims and reserves in outstanding payments, incl. in the reserve for incurred but not reported claims. The claims ratio change has greater impact than in 2018 due to the higher premium earned. INBR for immaterial damages is highly sensitive to changes in development factors and the gross amount in 2019 increases by 25.5% (2018: 28.3%) while impact to profit is mitigated by reinsurance.

6.7. Liability adequacy and necessity of formation of unexpired risks reserve

The responsible actuary periodically performs a liability adequacy test to ensure that the reserves, less the deferred acquisition costs are sufficient to cover potential future claims payments. In the assessment of the adequacy of the insurance reserves, the Company takes into account all expected cash flows from insurance contracts, such as claim payments, claims handling expenses, etc.

The unearned premium reserve adequacy test is limited to the unexpired part of the active portfolio of insurance contracts and represents a comparison between earned premiums and all costs incurred, including those for occurred claims, acquisition and administrative expenses.

As of December 31, 2019 on insurance under Section II, letter "A", item 10.1 of Appendix 1 to the Insurance Code, namely Motor Third Party Liability, in accordance with the requirement of Art. 85, par. 2 of Ordinance No. 53 of the FSC it was examined the necessity to form a reserve for unexpired risks.

In the next table are presented the results for Motor Third Party Liability Insurance:

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6. INSURANCE RISK MANAGEMENT (CONTINUED)

6.7. Liability adequacy and necessity of formation of unexpired risks reserve (continued)

Earned premium	67,363
Expected operational expenses	(16,677)
Expected ultimate loss	(28,691)
Result	21,995

The results of the examination conducted proved that the amount of the expected final loss and operating costs for the underwriting activity of 2019 does not exceed the premium earned in the same relevant year, which evidenced that it is unnecessary to allocate a reserve for unexpired risks.

In accordance with the requirement of Art. 85, par 3 of Ordinance No. 53 of the FSC as of 31.12.2019 the result under Annex 6 in relation to Art. 3 of the said Ordinance is being determined. The calculations are made by types of insurances other than those under Section II, letter "A", item 10.1 of Appendix 1 to the Insurance Code, separately for the last three years, including the current one. An additional reserve for unexpired risks is being formed for the types of insurance for which the claims incurred and the costs incurred in the previous three years, including the current one, are higher than the premium earned.

The table below displays the technical result of the Company by line of business:

Type of insurance	2017	2018	2019
1. Accident	876	1,496	2,353
including Accident of Public Transport Passengers	(324)	(292)	(14)
3. Insurance of land vehicles, excluding railroad vehicles	7,354	17,721	13,607
4. Railroad Vehicles	2,155	(59)	1,930
5. Aircraft Hull	1,784	1,283	1,261
6. Marine Hull	(21)	(538)	318
7. Cargo in Transit	796	1,066	1,234
8. Fire and Natural Disasters	7,782	6,060	(1,151)
9. Property	2,444	2,211	2,401
10. Third Party Liability related to the possession and use of motor vehicles	(3,496)	(7,290)	(523)
including Motor Third Party Liability	(3,649)	(7,278)	-
including Green Card	153	(342)	-
Including Carrier's liability	-	330	(523)
11. Third Party Liability related to the possession and use of aircrafts	1,631	1,326	1,949
12. Third Party Liability related to the possession and use of vessels	137	33	89
13. General Third Party Liability	4,419	2,034	2,064
16. Miscellaneous Financial Losses	2	239	(78)
18. Travel Assistance	459	441	6,019
Total:	26,322	26,023	32,953

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7. CAPITAL RISK MANAGEMENT

In the interests of the shareholders and insurance customers, the goal of the management is to ensure that the Company has adequate capital resources at all times and it fulfils its respective minimum regulatory capital requirements. Maintaining this good capital base in the future is also important, both to allow to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

The company is subject to regulation by the Financial Supervisory Commission (FSC), Insurance Supervision Department. The Company complies with the requirements for capital adequacy, based on Regulation 2009/138/EU of the European Parliament (Solvency II) for both 2019 and 2018. The objective of the management is to maintain coverage of 125% under Solvency II. As at 31 December 2019, the Company has its own funds to cover the Solvency Capital Requirement under the Insurance Code.

	Own funds	SCR	SCR ratio
	BGN'000	BGN'000	BGN'000
31 December 2019	135,420	83,430	162.30%
31 December 2018	104,210	72,218	144.30%

8. FINANCIAL RISKS

Financial risks relate to adverse changes in interest rates, foreign currency exchange rates between the different currencies and the market price of securities and other financial instruments. Such movements affect the Company profitability.

8.1. Interest rate risk

At all times the Company has exposure to market interest rate fluctuations which have an effect on its financial position and cash flows. Interest rate margins may vary as a result of changes in market conditions.

The Company continuously monitors the fluctuations of foreign currencies, differences in the interest rates and maturity structure of its assets and liabilities. The Company also currently monitors the changes in the prices and yield of government securities traded. The market risk is actively monitored in order to ensure compliance with the market risk restrictions.

8.2. Currency risk

Currency risk is the risk of adverse effects from fluctuation of the prevailing currency exchange rates on the financial position and cash flows of the Company.

The management of ZAD BULSTRAD VIENNA INSURANCE GROUP AD has adopted a conservative policy regarding currency risk management and As of December 31, 2019 most of the Company assets and liabilities are denominated in BGN and EUR.

The following table presents the results of the analysis of the sensitivity of the balance sheet of the Company from exchange rate changes. The two major foreign currencies for which currency risks can occur - US dollars and Romanian leu participate in the analysis. The objective is to examine the effect of the changes in the rates of these currencies affect the Company's equity position.

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8. FINANCIAL RISKS (CONTINUED)

8.2. Currency risk (continued)

	<u>Net Exposure</u>	<u>Profit</u>	<u>Change BGN</u>	<u>Change (%)</u>
Profit as at 31.12.2019		11,402		
US Dollar exchange rate increase by 25%	(7,003)	9,651	(1,751)	(18.14%)
US Dollar exchange rate decrease by 25%	(7,003)	13,153	1,751	18.14%
Romanian leu exchange rate increase by 25%	(1,390)	11,054	(348)	(3.61%)
Romanian leu exchange rate decrease by 25%	(1,390)	11,750	348	3.61%

Standard shocks of 25% change in currency value were used in the analysis by analogy with the standard Solvency II formula. The currency forward purchased (ref. to 4.5 Accounting policy) by the Company for hedging the foreign currency risk is carried at US dollars exposures. As evident by the presented results, fluctuations in exchange rates have a limited impact on the Company's equity.

8.3. Liquidity risk

The liquidity risk is the risk that the Company will encounter difficulty to meet its current and potential obligations as payments become due without incurring losses. The discrepancy in the maturity structure potentially increases the risk of losses. In order to manage the liquidity risk the Company maintains highly liquid assets at any time.

The table below provides an analysis of the Company assets and liabilities as at December 31, 2019 and December 31, 2018, grouped by expected maturity of insurance contracts.

December 31, 2019

	<u>Up to 1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Above 5 years</u>	<u>Undefined maturity</u>	<u>Total</u>
ASSETS							
Investments in bank deposits	500	-	2,253	-	-	-	2,753
Available-for-sale financial assets	-	-	2,327	71,419	63,970	31,840	169,556
Held to maturity financial assets	-	-	11	-	4,970	-	4,981
Reinsurer's share of insurance contracts	8,355	13,742	24,522	50,111	10,491	-	107,221
Receivables and other assets	18,313	15,811	27,766	3,042	63	-	64,995
Cash and cash equivalents	49,387	-	-	-	-	-	49,387
TOTAL ASSETS	76,555	29,553	56,879	124,572	79,494	31,840	398,893
LIABILITIES							
Liabilities under insurance contracts	24,051	39,700	71,678	135,410	22,144	-	292,983
Agents and policyholders' liabilities	8,616	5,268	5,789	111	-	-	19,784
Reinsurance liabilities	4,816	2,149	6,416	-	-	-	13,381
Deposits of reinsurers	-	-	44,859	-	-	-	44,859
Subordinated loans	-	-	5	-	6,259	-	6,264
Lease liabilities	105	210	939	2,043	2,250	-	5,547
Other liabilities	4,938	1,373	1,294	12	-	-	7,617
TOTAL LIABILITIES	42,526	48,700	130,980	137,576	30,653	-	390,435
Maturity mismatching	34,029	(19,147)	(74,101)	(13,004)	48,841	31,840	

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8. FINANCIAL RISKS (CONTINUED)

8.3. Liquidity risk (continued)

December 31, 2018

	Up to 1 month	1-3 months	3-12 Months	1-5 years	Above 5 years	Undefined maturity	Total
ASSETS							
Investments in bank deposits	-	-	501	-	-	-	501
Available-for-sale financial assets	-	-	1,358	31,929	72,010	22,132	127,429
Held to maturity financial assets	-	-	11	-	4,966	-	4,977
Reinsurer's share of insurance contracts	3,030	6,060	27,269	43,943	8,148	-	88,450
Receivables and other assets	16,025	16,095	16,549	15,949	498	-	65,116
Cash and cash equivalents	34,388	1,197	-	-	-	-	35,585
TOTAL ASSETS	53,443	23,352	45,688	91,821	85,622	22,132	322,058
LIABILITIES							
Liabilities under insurance contracts	8,468	16,935	76,210	124,985	23,444	-	250,042
Agents and policyholders' liabilities	6,011	4,956	3,856	2,775	87	-	17,685
Reinsurance liabilities	6,602	-	-	-	-	-	6,602
Deposits of reinsurers	-	-	29,390	-	-	-	29,390
Subordinated loans	-	-	5	-	6,259	-	6,264
Other liabilities	5,460	709	1,920	9	-	-	8,098
TOTAL LIABILITIES	26,541	22,600	111,381	127,769	29,790		318,081
Maturity mismatching	26,902	752	(65,693)	(35,948)	55,832	22,132	

8.4. Credit risk

Credit risk is the risk that the customers may not be able to fully repay the amounts owed to the Company when they become due.

The Company might not be able to collect all its receivables on already underwritten insurance contracts for which it bears the risk from occurrence of an insured event. In this case the Company undertakes actions for voluntary collection of receivables. Unless the receivables could be collected in a certain period of time the insurance contract is unilaterally terminated by the Company.

The table below summarizes the Company maximum credit risk exposure assets per credit ratings of the counterparties where the financial assets are placed As of December 31, 2019 and December 31, 2018 on the basis of ratings from Standard & Poor's, Fitch and Moody's. All assets with credit risk are neither overdue, nor impaired.

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8. FINANCIAL RISKS (CONTINUED)

8.4. Credit risk (continued)

December 31, 2019 *

Financial and insurance assets	AAA	AA-BBB	Less than BBB	Not rated	Total
Investments in bank deposits	-	2,753	-	-	2,753
Available-for-sale debt securities	10,017	124,976	2,724	-	137,717
Held to maturity debt securities	-	4,981	-	-	4,981
Reinsurer's share of insurance contracts	-	106,327	334	560	107,221
Receivables and other assets	-	-	-	64,995	64,995
Cash and cash equivalents in banks	-	47,069	2,300	18	49,387
Total financial assets and insurance assets	10,017	286,106	5,358	65,573	367,054

December 31, 2018

Financial and insurance assets	AAA	AA-BBB	Less than BBB	Not rated	Total
Investments in bank deposits	-	-	501	-	501
Available-for-sale debt securities	6,855	98,063	379	-	105,297
Held to maturity debt securities	-	4,977	-	-	4,977
Reinsurer's share of insurance contracts	-	85,037	531	2,882	88,450
Receivables and other assets	-	-	-	65,116	65,116
Cash and cash equivalents in banks	-	21,376	14,196	13	35,585
Total financial assets and insurance assets	6,855	209,453	15,607	68,011	299,926

* The credit rating used by the Company is the second best available, in accordance with VIG's Group policy.

The table below presents the credit quality of insurance receivables:

Credit quality of receivables	Note	2019	2018
Insurance receivables			
Not due		53,831	54,908
Past due and impaired		10,069	6,783
Impairment allowance		(4,733)	(3,067)
Net amount		5,336	3,717
Total insurance receivables	15.1	59,167	56,875

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8. FINANCIAL RISKS (CONTINUED)

8.4. Credit risk (continued)

As of December 31, 2019 and December 31, 2018, overdue but not impaired receivables consist of BGN 489 thousand receivables under active reinsurance (2018: 489 thousand BGN) and BGN 11 thousand receivables under passive reinsurance (2018: BGN 5 thousand) and fall into overdue between 1-30 days.

Recourse receivables	Note	2019	2018
Past due and impaired		13,869	20,424
Impairment provision		<u>(12,469)</u>	<u>(16,757)</u>
Net amount	15.3	<u>1,400</u>	<u>3,667</u>
Other receivables	Note	2019	2018
Not due		4,351	4,587
thereof impaired		535	3,678
Impairment provision		<u>(535)</u>	<u>(847)</u>
Net amount		<u>3,816</u>	<u>3,740</u>
Past due and impaired		4,626	4,902
Impairment provision		<u>(4,013)</u>	<u>(4,067)</u>
Net amount		<u>613</u>	<u>835</u>
Prepaid expenses		770	631
Advances		<u>219</u>	<u>40</u>
Total other receivables	15.2	<u>5,418</u>	<u>5,246</u>

The Company has no indications for deterioration of the credit quality of the counterparty for those insurance assets, which are not due and for which no rating is awarded by a rating agency. As at the date of the approval of those financial statements, the Company has already collected about BGN 11,900 thousands from the balance of the non due insurance receivables existing at the year end.

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9. INTANGIBLE ASSETS

	2019	
	Software products and licenses	Total
Cost		
At 1 January 2018	3,414	3,414
Additions	1,171	1,171
Disposals	(48)	(48)
At 31 December 2018	4,537	4,537
Cost		
At 1 January 2019	4,537	4,537
Additions	515	515
Disposals	-	-
At 31 December 2019	5,052	5,052
Accumulated amortization		
At 1 January 2018	3,111	3,111
Additions	130	130
Disposals	(46)	(46)
At 31 December 2018	3,195	3,195
Accumulated amortization		
At 1 January 2019	3,195	3,195
Additions	244	244
Disposals	-	-
At 31 December 2019	3,439	3,439
Net book amount		
At 1 January 2018	303	303
At 31 December 2018	1,342	1,342
At 31 December 2019	1,613	1,613

As of December 31, 2019 the Company reviewed its intangible assets and has estimated that there are no indications for impairment.

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10 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	England		Bulgaria			Total
	EIRB, London	VIG Services Bulgaria EOD	ZEAD Bulstrad Life VIG EAD	Global Services Bulgaria AD	Nova Ins EAD	
	<i>Subsidiary</i>	<i>Subsidiary</i>	<i>Subsidiary</i>	<i>Associate</i>	<i>Subsidiary</i>	
December 31, 2017	147	496	21,709	190	6,259	28,801
Capital contributions	-	-	3,000	-	-	3,000
Impairment	-	-	-	(108)	-	(108)
December 31, 2018	147	496	24,709	82	6,259	31,693
% share 2018	85.00%	100.00%	100.00%	25.00%	100%	
Capital contributions	164		5,000			5,164
December 31, 2019	311	496	29,709	82	6,259	36,857
% share 2019	100.00%	100.00%	100.00%	25.00%	100%	

On August 12, 2019 a resolution was taken at a meeting of the Management Board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD as sole owner of the capital of ZEAD BULSTRAD Life Vienna Insurance Group EAD and after the explicit approval of the Supervisory Board of ZAD BULSTRAD VIENNA INSURANCE GROUP AD for increase of the capital of ZEAD BULSTRAD Life Vienna Insurance Group EAD by BGN 5,000,000 by issuing 5,000,000 ordinary registered dematerialized bearer shares with a nominal value of BGN 1. The issue price of the shares is equal to the nominal one.

On November 1, 2019 “Bulstrad Vienna insurance Group” AD as owner of 85% of the capital of European Insurance and Reinsurance Brokers Limited, acquired an additional 3,750 shares of GBP 1 face value. AS a result the Company became the sole owner of EIRB, London. The effective date of the deal is September 30,2019.

By December 31, 2018 the Company has assigned a review of the investments in subsidiaries and associates to external independent appraisers (Maconis EOOD) having recognized professional qualifications and recent valuation experience of assets similar to the appraised ones, as a result of which it has been estimated that there is a an indication the participation of Insurance Joint-Stock Company “BULSTRAD VIENNA INSURANCE GROUP” AD in Global Services Bulgaria AD to be impaired at the amount of BGN 108 thousand.

11. INVESTMENT PROPERTIES

	December 31	
	2019	2018
By January 1	9,095	9,119
Change in fair value	-	-
Change in value, other than revaluation	-	(24)
By December 31	9,095	9,095

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11. INVESTMENT PROPERTIES (CONTINUED)

As of December 31, 2019, a specialized enterprise /independent valuator/ carried out a market assessment of the property owned by the Company. As a result, it was found that there is no significant difference between their carrying amounts and its' fair prices as of December 31, 2019.

Valuation approach

The valuation has been carried out in accordance with the requirements of *IAS 16 Property, Plant and Equipment* and *IFRS 13 Fair Value Measurement*. This valuation applies two basic approaches and valuation methods for measurement of the fair value of the different groups of tangible assets.

'Market approach' using "Market comparison method"

The approach includes methods in which prices and other relevant information is used generated from market transactions with identical or comparable assets or group of assets. In this approach the value is estimated through analysis of recent sales of similar property, recently sold or offered for sale on the market which is analysed and compared to the assessed property and if necessary corrections are made for differences in quantitative or qualitative factors as time of sale, location, physical condition, type, life cycle, volume of assets, revenue and etc.

"Income approach' through "Method of discounted cash flows"

This approach covers a range of valuation methods, which transform future amounts (such as cash flows or income and expenses) into current (discounted) amounts. The approach based on discounted cash flows establishes the discounting and capitalization base of net cash flows which can be generated if the property is rented for a given time period. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. The present value of the forecasted revenue based on time value of money could be estimated through applying an appropriate discount rate and/or capitalization rate.

Fair value hierarchy

Fair value estimations of groups of investment properties are categorized as fair values of Level 3 based on the inputs used in the measurement technique.

Assessment techniques using significant unobservable inputs

The following table represents assessment techniques used when determining the fair value of the investment properties, as well as significant unobservable inputs used and their potential impact on the fair value received by them.

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11. INVESTMENT PROPERTIES (CONTINUED)

Assessment technique and approach	Significant unobservable inputs	Interrelationship between significant unobservable inputs and the estimated fair value
<u>Land and buildings</u>		
<i>Market approach</i>		
<p>Market comparison method</p> <p>This method determines the value by analysing the prices of recently sold or proposed properties comparable to the property valued.</p> <p>When transaction information is not available, the fair value is determined by the selling prices offers from publicly available databases. Because of the individual characteristics of each property, corrections are made to comparable sales data to reflect the differences between each comparable property and the property being valued.</p>	<ol style="list-style-type: none"> 1. Limitations on the availability of actual transaction data or stock prices of similar assets traded in an active market 2. Limited number of identifiable comparable properties (less than 5 for each property) 3. Estimated value for sale of the land. 4. Correction of the market comparison, by using coefficients <ul style="list-style-type: none"> - location - infrastructure - economic situation - others 	<p>The fair value will increase (decrease) , if:</p> <ul style="list-style-type: none"> • higher or lesser number of market comparables are used • less or more corrective factors are applied • Corrective factors for negotiation, size, location, availability, etc. are higher or lower. <p>In addition, the fair value measurement will be more reliable when it is mostly compared with comparable transaction prices rather than selling prices.</p>
<p><i>Discounted cash flow method</i></p> <p>This method determines the value based on calculation of pure cash flows from renting out, which are discounted with the expected return from such type of investments.</p>	<ol style="list-style-type: none"> 1. Estimated monthly income 2. Estimated costs 3. Discount rate and/or rate of capitalization. 4. Estimated occupancy of the areas 	<p>The fair value will increase (decrease) if:</p> <ul style="list-style-type: none"> • a higher or lower monthly income is used; • a higher or lower rate of estimated costs is used; • a different discount rate and/or capitalization rate is used; • a higher or lower expected occupancy of the areas is applied.

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12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transport vehicles	Compute rs	Furniture and equipment	Total
At cost					
Balance on January 01, 2018	18,704	189	2,359	3,575	24,827
Additions	-	342	452	34	828
Written off	-	(146)	(398)	(54)	(598)
Balance on December 31, 2018	18,704	385	2,413	3,555	25,057
At cost					
Balance on January 01, 2019	18,704	385	2,413	3,555	25,057
Additions	-	89	255	178	522
Written off	-	-	(300)	(75)	(375)
Balance on December 31, 2019	18,704	474	2,368	3,658	25,204
Accumulated depreciation					
Balance on January 01, 2018	4,108	70	1,983	3,206	9,367
Accrued	684	32	177	92	985
Written off	-	(66)	(172)	(50)	(288)
Balance on December 31, 2018	4,792	36	1,988	3,248	10,064
Accumulated depreciation					
Balance on January 01, 2019	4,792	36	1,988	3,248	10,064
Accrued	685	64	140	86	975
Written off	-	-	(297)	(76)	(373)
Balance on December 31, 2019	5,477	100	1,831	3,258	10,666
Carrying amount					
On January 1, 2018	14,596	119	376	369	15,460
On December 31, 2018	13,912	349	425	307	14,993
On December 31, 2019	13,227	374	537	400	14,538

As of December 31, 2019, a specialized company / independent valuator / carried out a market assessment of the property owned by the Company. As a result of the assessment relying on the assessment report from the licensed independent assessor it has been concluded that no significant change in the property value is registered.

The fair value of the buildings is determined by external, independent property valutors, with recognized professional qualifications and recent experience in assessment of properties with location and category similar to the valued ones. The fair value of the buildings is classified as Level 3 fair value under on the basis of the input data for the used measurement technique. The applied measurement techniques and the unobservable inputs used by the valuator are disclosed in Note 11.

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12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company has no assets encumbered or serving as securities.

As of 31.12.2019 159 thousand BGN of the carrying amount of buildings have been leased.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2019	2018
Bulgarian government securities	62,737	60,429
Foreign government securities	57,448	36,891
Corporate bonds	17,531	7,977
Shares in investment funds	31,069	21,442
Shares in enterprises	771	690
	169,556	127,429

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2019	2018
Held-to-maturity corporate bonds	4,981	4,977
	4,981	4,977

15. RECEIVABLES AND OTHER ASSETS

	Notes	December 31	
		2019	2018
Receivables from insurance and reinsurance	15.1	59,167	56,874
Recourse receivables	15.3	1,400	3,667
Other receivables and other assets	15.2	5,418	5,246
		65,985	65,787

15.1. RECEIVABLES FROM INSURANCE AND REINSURANCE

	December 31	
	2019	2018
Receivables from direct insurance	60,129	55,287
Receivables from active reinsurance	2,281	4,032
Receivables from passive reinsurance	1,490	622
Impairment	(4,733)	(3,067)
	59,167	56,874

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15. RECEIVABLES AND OTHER ASSETS (CONTINUED)

15.1. RECEIVABLES FROM INSURANCE AND REINSURANCE (CONTINUED)

As of December 31, 2019 the Company has no receivables encumbered or serving as security.

Movement in the accumulated impairment by direct insurance are as follows:

	December 31	
	2019	2018
At the beginning of the year	(3,067)	(1,936)
Accrued impairment for direct insurance	(2,500)	(2,595)
Reversal of impairment for direct insurance	834	1,464
At the end of the year	(4,733)	(3,067)

15.2. OTHER RECEIVABLES AND OTHER ASSETS

	December 31	
	2019	2018
Guarantees	4,060	3,950
Receivables from securities	4,444	4,536
Prepaid expenses	770	631
Court receivables	19	94
Advances suppliers	219	40
Receivables from clients	8	4
Receivables from intermediary services	308	389
Other	137	516
Impairment of receivables from securities and guarantees	(4,547)	(4,914)
	5,418	5,246

Movements in the accumulated impairment by other receivables as follows:

	December 31	
	2019	2018
At the beginning of the year	(4,914)	(4,734)
Accrued impairment for other receivables	-	(535)
Reversal of impairment for guarantees	298	-
Reversal of impairment for securities	69	20
Written-off impairment	-	335
At the end of the year	(4,547)	(4,914)

15.3 RECOURSE RECEIVABLES

	December 31	
	2019	2018
Recourse receivables	13,869	20,424
Impairment of recourse receivables	(12,469)	(16,757)
	1,400	3,667

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15. RECEIVABLES AND OTHER ASSETS (CONTINUED)

15.3 RECOURSE RECEIVABLES (CONTINUED)

Movement in the accumulated impairment on recourse receivables is as follows:

	December 31	
	2019	2018
At the beginning of the year	(16,757)	(15,328)
Accrued impairment for recourse receivables	-	(5,141)
Reintegrated impairment for recourse receivables	114	-
Written off impairment	4,174	3,712
At the end of the year	(12,469)	(16,757)

16. DEFERRED ACQUISITION COSTS

A) As at:

	December 31, 2019		December 31, 2018	
	Gross	Reinsurer share	Gross	Reinsurer share
Motor Insurance	22,506	50	21,660	110
Cargo, aviation and marine Insurance	183	6	98	4
Property Insurance	5,138	2,382	5,000	1,628
Other	1,340	179	1,756	249
Total:	29,167	2,617	28,514	1,991

B) Change in deferred acquisition costs

	December 31, 2019		December 31, 2018	
	Gross	Reinsurer's share	Gross	Reinsurer's share
Balance on January 01	28,514	1,991	21,725	1,512
Accrued	29,167	2,617	28,514	1,991
Released	(28,514)	(1,991)	(21,725)	(1,512)
Balance at December 31	29,167	2,617	28,514	1,991

ZAD BULSTRAD VIENNA INSURANCE GROUP AD
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
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17. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	18	13
Cash on current accounts and bank deposits under 90 days	49,369	35,572
	49,387	35,585
In foreign currency	5,513	3,643
In BGN	43,874	31,942
	49,387	35,585

18. EQUITY

Share capital

As of December 31, 2019 the share capital of ZAD BULSTRAD VIENNA INSURANCE GROUP AD amounts to BGN 31,474,580, distributed into 3,147,458 ordinary registered dematerialized voting shares with a nominal value of BGN 10 (ten).

As of December 31, 2019, the allocation of the share capital of the company is as follows:

Shareholder	Share (%)
TBI Bulgaria EAD	85.80 %
Vienna Insurance Group Wiener Versicherung Gruppe	14.20 %

On 01.06.2018 TBI Bulgaria EAD has entered into a procedure for liquidation. The sole owner of "TBI Bulgaria" EAD is Vienna Insurance Group Wiener Versicherung Gruppe.

No changes have been registered in the ownership over the Company's share capital in 2019.

Share premium

No changes have been registered in share premium in 2018 and 2019.

General reserves & Retained earnings

General reserves comprise of statutory reserves established pursuant to the requirements of the Commercial Act whereby the Company is required to build a reserve by setting aside a minimum of 10% of the profit for the year until it reaches 10% of share capital or higher depending on the Articles of Association of the Company, profit and losses accrued in previous periods, additional reserves determined by the General Meeting of Shareholders.

Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment less deferred tax liability arising from revaluation. The revaluation reserve relates also to the revaluation of property, plant and equipment immediately prior to their reclassification as investment property.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognized or impaired.

Dividends

The Company has not declared and paid dividends as of December 31, 2019 and December 31, 2018.

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19. INSURANCE CONTRACTS LIABILITIES

	Notes	December 31	
		2019	2018
Unearned premium reserve	19.1	127,921	111,865
Outstanding claims reserve	20	165,062	138,177
		292,983	250,042

19.1 Unearned premium reserve

A) *As at:*

	December 31, 2019			December 31, 2018		
	Gross	Reinsurer's share	Net	Gross	Reinsurer's share	Net
Motor insurance	97,237	19,002	78,235	85,551	14,321	71,230
Cargo, aviation and marine insurance	1,998	1,018	980	1,455	830	625
Property insurance	22,126	12,425	9,701	18,340	7,273	11,067
Other	6,560	2,014	4,546	6,519	2,150	4,369
Total:	127,921	34,459	93,462	111,865	24,574	87,291

B) *Change in the unearned premium reserve*

	December 31, 2019			December 31, 2018		
	Gross	Reinsurer's share	Net	Gross	Reinsurer's share	Net
On January. 01	111,865	24,574	87,291	93,773	21,164	72,609
Accrued	127,921	34,459	93,462	111,865	24,574	87,291
Released	(111,865)	(24,574)	(87,291)	(93,773)	(21,164)	(72,609)
On December 31	127,921	34,459	93,462	111,865	24,574	87,291

20. OUTSTANDING CLAIMS RESERVE

A) *As of:*

	December 31, 2019			December 31, 2018		
	Gross	Reinsurer's share	Net	Gross	Reinsurer's share	Net
Reserve for reported, but not settled claims	120,794	46,186	74,608	106,527	42,994	63,533
Reserve for incurred, but not reported claims	44,268	26,576	17,692	31,650	20,882	10,768
Total:	165,062	72,762	92,300	138,177	63,876	74,301

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20. OUTSTANDING CLAIMS RESERVE (CONTINUED)

The tables below illustrate the breakdown of the outstanding claim reserve by lines of business as at December 31, 2019 and December 31, 2018:

Reserve for reported, but not settled claims	December 31, 2019			December 31, 2018		
	Gross	Reinsurer's share	Net	Gross	Reinsurer's share	Net
Motor insurance	85,842	29,253	56,588	70,326	27,332	42,994
Cargo, aviation and marine insurance	3,485	1,270	2,216	3,763	971	2,792
Property insurance	22,787	13,222	9,565	19,667	10,566	9,101
Other	8,680	2,441	6,239	12,771	4,125	8,646
Total:	120,794	46,186	74,608	106,527	42,994	63,533

A) As of, continued

Reserve for incurred, but not reported claims	December 31, 2019			December 31, 2018		
	Gross	Reinsurer's share	Net	Gross	Reinsurer's share	Net
Motor insurance	42,253	26,058	16,194	29,536	20,373	9,163
Cargo, aviation and marine insurance	424	74	350	200	44	156
Property insurance	779	312	467	456	316	140
Other	812	132	681	1,458	149	1,309
Total:	44,268	26,576	17,692	31,650	20,882	10,768

B) Development:

	December 31, 2019			December 31, 2018		
	Gross	Reinsurer's share	Net	Gross	Reinsurer's share	Net
At January 01	138,177	63,876	74,301	117,078	50,295	66,784
Payments	(119,546)	(35,492)	(84,054)	(102,847)	(22,737)	(80,111)
Change in relation to current year	136,371	37,571	98,800	104,136	22,801	81,335
Change in relation to previous years	10,060	6,807	3,253	19,810	13,517	6,293
At December 31	165,062	72,762	92,300	138,177	63,876	74,301

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NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
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20. OUTSTANDING CLAIMS RESERVE (CONTINUED)

B) Development (continued):

The tables below illustrate claims development over financial years on a gross basis. Unallocated claims handling expenses are allocated to the amounts paid for the respective accident year.

Insurance year	Prior to 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
At the end of the insurance year	298,971	175,119	116,820	96,376	63,756	40,358	30,049	24,945	18,848	22,260
1 year later	-	57,306	48,744	26,373	19,805	13,746	8,236	4,912	3,729	1,371
2 years later	-	-	69,379	31,543	15,864	10,353	5,827	4,089	2,811	1,796
3 years later	-	-	-	59,187	36,415	16,955	9,320	7,000	6,627	5,575
4 years later	-	-	-	-	94,924	51,238	18,219	11,564	6,261	5,984
5 years later	-	-	-	-	-	81,152	44,076	20,938	17,297	9,846
6 years later	-	-	-	-	-	-	78,435	41,687	16,437	13,737
7 years later	-	-	-	-	-	-	-	83,317	52,142	27,255
8 years later	-	-	-	-	-	-	-	-	88,403	48,874
9 years later	-	-	-	-	-	-	-	-	-	103,347
Present estimate of claims incurred, cumulative at 31 December	298,971	232,425	234,944	213,479	230,764	213,802	194,162	198,452	212,555	240,044
At the end of the insurance year	159,868	83,731	44,141	42,166	25,327	12,418	5,588	5,495	1,796	1,010
1 year later	-	57,306	32,115	11,849	9,053	6,513	3,143	2,282	2,378	246
2 years later	-	-	49,255	20,461	7,327	5,050	2,358	1,649	1,554	385
3 years later	-	-	-	40,643	24,183	8,238	3,581	2,902	1,769	996
4 years later	-	-	-	-	59,425	38,322	7,684	4,776	1,486	1,742
5 years later	-	-	-	-	-	48,971	28,427	8,954	5,594	3,621
6 years later	-	-	-	-	-	-	52,854	30,162	6,382	3,836
7 years later	-	-	-	-	-	-	-	55,329	28,274	12,935
8 years later	-	-	-	-	-	-	-	-	56,794	34,057
9 years later	-	-	-	-	-	-	-	-	-	60,421
Payments at 31 December	159,868	141,037	125,511	115,119	125,315	119,513	103,635	111,550	106,028	119,250

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20. OUTSTANDING CLAIMS RESERVE (CONTINUED)

B) Development (continued):

	Prior to 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross liabilities on general insurance contracts as at 31 December 2019	139,102	91,388	109,433	98,360	105,449	94,290	90,527	86,902	106,527	120,794	-
Present estimate of the reported but not settled claims at 31 December 2019	21,250	1,124	1,411	4,579	4,242	6,225	9,901	14,320	14,817	42,925	120,794
Present estimate on IBNR at 31 December 2019	(1,585)	(99)	(324)	(1,251)	(198)	393	326	3,751	10,381	32,874	44,268
Total gross liabilities on general insurance contracts as at 31 December 2019	19,665	1,025	1,087	3,328	4,044	6,617	10,228	18,071	25,198	75,799	165,062

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21. REINSURANCE DEPOSITS

As of December 31, 2019, the reinsurance deposits are BGN 44,859 thousand (December 31, 2018 – BGN 29,390 thousand) comprising the balances related to quota share reinsurance contracts for Motor Third Party Liability and Accident insurance concluded with VIG Holding as reinsurer. All reinsurance deposits are due within one year.

Accrued interest on the deposits reinsured under reinsurance contracts in 2019 is BGN 69 thousand (2018: 63 thousand).

22. DEFERRED TAX

	<u>Assets</u>		<u>Liabilities</u>		<u>Net assets/ (liabilities)</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Investment property	-	-	(557)	(557)	(557)	(557)
Property and equipment	289	268	(1,419)	(1,417)	(1,130)	(1,149)
IFRS 16	555	-	(544)	-	11	-
Unused leave and pension provisions	123	114	-	-	123	114
Non-paid amounts under non-employment contracts	130	138	-	-	130	138
Non-paid bonuses	137	115	-	-	137	115
Accruals	657	624	-	-	657	624
Net tax assets/(liabilities)	1,891	1,259	(2,520)	(1,974)	(629)	(715)

	<u>2018</u>	<u>Change in other comprehensive income</u>	<u>Change in profit or loss</u>	<u>2019</u>
	Investment property	(557)	-	-
Property and equipment	(1,417)	-	(1)	(1,418)
IFRS 16	-	-	11	11
Fixed assets depreciation	268	-	20	288
Unused leave and pension provisions	114	7	2	123
Non-paid amounts under non-employment contracts	138	-	(8)	130
Non-paid bonuses	115	-	22	137
Accruals	624	-	33	657
Net tax assets/(liabilities)	(715)	7	79	(629)

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22. DEFERRED TAX (CONTINUED)

	2017	Change in other comprehensiv e income	Change in profit or loss	2018
Investment properties	(557)	-	-	(557)
Property and equipment	(1,417)	-	-	(1,417)
Fixed assets impairment	49	-	(49)	-
Fixed assets depreciation	248	-	20	268
Unused leave and pension provisions	103	15	(4)	114
Non-paid amounts under non-employment contracts	105	-	33	138
Non-paid bonuses	60	-	55	115
Accruals	241	-	383	624
Net tax (assets)/liabilities	(1,168)	15	438	(715)

The Company has no unrecognized deferred tax assets and liabilities as at December 31, 2019.

23. LIABILITIES TO INTERMEDIARIES AND POLICYHOLDERS

	December 31	
	2019	2018
Co-insurance payables	234	1,268
Agents and brokers payables	18,909	15,376
Payables to policyholders	641	1,041
	19,784	17,685

24. REINSURANCE LIABILITIES

	December 31	
	2019	2018
Ceded premium payables		
Payables under proportional treaties	7,159	3,421
Payables under non-proportional treaties	2,274	909
Other reinsurance payables	3,948	2,272
	13,381	6,602

25. SUBORDINATED DEBT

As of December 31, 2019 ZAD BULSTRAD VIENNA INSURANCE GROUP AD has liabilities under a subordinated debt borrowed from the affiliate Vienna Insurance Group AG Wiener Versicherung Gruppe amounting to BGN 6,264 thousand (2018: BGN 6,264 thousand) including a principal of BGN 6,259 thousand and interest of BGN 5 thousand. The maturity of the loan is December 28, 2025, with annual interest rate 5% which relies on the market levels.

The liabilities under this agreement rank behind the liabilities to all other creditors of the company.

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25. SUBORDINATED DEBT (CONTINUED)

	Subordinated Debt
Balance as of January 1, 2019	6,264
<i>Changes in Cash flow from financing activities</i>	
Loan interest paid	(313)
Total changes in Cash flow from financing activities	(313)
Changes related to the liability	
Interest expenses	313
Total other changes associated with the liability	313
Balance as of December 31, 2019	6,264

26. RETIREMENT BENEFIT OBLIGATIONS

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Bulgarian Labour Code (LC). According to these provisions of LC, at the termination of the employment contract of an employee who has reached the right to a pension, the employer shall pay to him/her benefits at the amount of two monthly gross salaries.

In case the employee or officer has gained employment experience of 10 years or more to the date of retirement, these benefits shall amount to six monthly gross salaries.

The approximate amount of the liabilities for defined benefit pension plans for each reporting period and the costs recognized in profit and losses are based on actuarial reports (the information on the applied parameters and assumptions is provided below).

	December, 31	
	2019	2018
Current value of the liabilities by January 1, 2019	1,093	1,000
Paid amounts	(55)	(122)
Costs for current services	57	53
Interest costs	11	14
Actuarial (profit) /loss from changes to financial assumptions	70	148
Current value of the liabilities as of December 31, 2019	1,176	1,093

Actuarial assumptions

The main actuarial assumptions by the date of the report (presented as average values) are presented as follows:

	December 31	
	2019	2018
Growth of gross labour remuneration	1.0%	1.0%
Discount rate	0.6%	1.0%

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27. OTHER LIABILITIES

	December 31	
	2019	2018
Guarantee fund payables	964	853
Liabilities to suppliers	587	1,304
Insurance premium tax liabilities	2,471	2,001
Wages and salaries	1,753	1,672
Social security payables	258	238
Payables on compensated leaves	55	36
Tax liabilities, other than corporate income tax	271	197
Other liabilities	3,321	3,743
	9,680	10,044

28. GROSS WRITTEN PREMIUMS

	2019			2018		
	Gross written premium	Ceded premium	Net written premium	Gross written premium	Ceded premium	Net written premium
Motor insurance	188,746	(42,508)	146,238	157,011	(25,306)	131,705
Cargo, aviation and marine insurance	13,670	(4,552)	9,118	11,562	(4,141)	7,421
Property insurance	51,545	(28,905)	22,640	44,864	(21,536)	23,328
Other	23,496	(11,822)	11,674	22,163	(5,178)	16,985
	277,457	(87,787)	189,670	235,600	(56,161)	179,439

29. FEE AND COMMISSION INCOME

	2019	2018
Reinsurance commissions	11,694	5,756
Reinsurance profit commissions	374	(1,005)
	12,068	4,751

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30. NET INCOME FROM INVESTMENT

	<u>2019</u>	<u>2018</u>
Interest income on investments in bank deposits and cash equivalents	15	7
Interest income on available-for-sale and held to maturity financial assets	1,775	1,768
Dividend income from subsidiaries	3,904	8,124
Dividend income from other equity participations	363	324
Realized gains on available-for-sale financial assets	349	754
Reversal of impairment of receivables on financial assets	66	19
Impairment of investments in subsidiaries	-	(108)
Foreign exchange gains/(losses)	-	(696)
Asset management fees	(350)	(241)
Rental income from investment property	87	68
	<u>6,209</u>	<u>10,019</u>

Dividend income from subsidiaries and other equity participations include dividend income from the subsidiary, Bulstrad Life VIG - BGN 3,144 thousand (2018: BGN 1,847 thousand), Nova Ins - BGN 550 thousand (2018: BGN 5,196 thousand), PAKO - BGN 6 thousand (2018: BGN 9 thousand), EIRB London - (2018: BGN 869 thousand) and VIG Services Bulgaria - BGN 211 thousand (2018: BGN 211 thousand).

31. OTHER INCOME

	<u>2019</u>	<u>2018</u>
Revenue from co-insurance intermediation	23	26
Interest income from insurance	251	331
Salvage revenue	279	141
Written off liabilities	446	1,379
Foreign exchange gains from revaluation of insurance receivables/payables	893	-
Net gain/(loss) on disposal and write off of non-current assets	-	26
Rental income	9	10
Other income	357	320
	<u>2,258</u>	<u>2,233</u>

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32. CLAIMS PAID

	2019				2018			
	Gross claims paid	Recourse booked	Reinsurer share	Net claims paid	Gross claims paid	Recourse booked	Reinsurer share	Net claims paid
Motor insurance	(99,377)	10,266	16,567	(72,544)	(92,651)	12,287	15,402	(64,962)
Cargo, aviation and marine insurance	(2,795)	284	48	(2,463)	(3,815)	126	329	(3,360)
Property insurance	(24,113)	199	17,460	(6,454)	(12,537)	325	5,966	(6,246)
Other	(4,017)	7	1,417	(2,593)	(6,582)	-	1,040	(5,542)
	(130,302)	10,756	35,492	(84,054)	(115,585)	12,738	22,737	(80,110)

33. ACQUISITION COSTS

	2019	2018
Commissions expense	(54,843)	(46,147)
Other acquisition costs	(6,177)	(7,910)
Change in deferred acquisition costs	653	6,310
	(60,367)	(47,747)

34. ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and related expense	(10,491)	(9,880)
Social security and defined pension plan contribution	(1,621)	(1,683)
Office maintenance	(477)	(4,809)
Advertising	(930)	(833)
Depreciation and amortisation	(2,266)	(1,115)
External professional services, incl. audit fees	(782)	(804)
Other costs	(5,277)	(1,148)
	(21,844)	(20,272)

In 2019 the stated expenses for the remuneration of the Company Management is BGN 1,081 thousand (BGN 1,831 thousand in 2018) included under item Salaries and related expense.

In 2019 the Company has recognised expenses for statutory audit performed by the joint auditors at the amount of BGN 282 thousand (2018: BGN 168 thousand). This amount includes BGN 53 thousand related to the statutory audit for the year ended 31 December 2018.

During 2019 the Company has recognised expenses for non-audit services provided by the statutory auditors at the amount of BGN 279 thousand (incl. VAT) (2018: BGN 248 thousand (incl. VAT)). This amount includes BGN 142 thousand (incl. VAT) for non-audit services for the year ended 31 December 2018 (2018: BGN 136 thousand (incl. VAT)).

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35. FINANCIAL COSTS

	<u>2019</u>	<u>2018</u>
Bank commissions	(349)	(368)
Interest expense on subordinated debt	(313)	(313)
IFRS 16 interest expenses	(115)	-
	<u>(777)</u>	<u>(681)</u>

36. OTHER EXPENSES

	<u>2019</u>	<u>2018</u>
Written-off insurance receivables	(3,624)	(4,409)
Impairment of receivables, incl. recourse receivables	(1,552)	(6,271)
Guarantees impairment	298	(535)
Costs for other written-off receivables	(359)	(3)
Foreign exchange loss from revaluation of insurance receivables /payables	(932)	(67)
Other insurance costs	(614)	(652)
	<u>(6,783)</u>	<u>(11,937)</u>

37. INCOME TAX EXPENSE

	<u>2019</u>	<u>2018</u>
<i>a) Income tax expense recognized in profit or loss</i>		
Current tax on profits for the year	(889)	(659)
Decrease/(increase) in deferred tax liability	80	438
Income tax expense	<u>(809)</u>	<u>(221)</u>

b) Effective income tax reconciliation

Profit before taxes	12,211	13,495
Tax rate	10%	10%
Corporate profit tax based on the statutory tax rate	(1,221)	(1,350)
Non-deductible tax expenses	(29)	(7)
Tax effect of adjustments for tax-exempt income	441	1,135
Total income tax expense recognized in income and expense	<u>(809)</u>	<u>(221)</u>

Effective tax rate	7.1%	1.6%
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c) Taxes recognized in other comprehensive income

For the year ended 31 December						
<i>In BGN'000</i>	Before tax	2019 Tax (Expense) / Revenue	Net of taxes	Before tax	2018 Tax (Expense) / Revenue	Net of taxes
Change in reserve of subsequent fair value measurements of financial assets available-for-sale	4,162	(416)	3,746	(2,589)	259	(2,330)

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38. 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	4,467	5,117
Vehicles	970	1,369
At the end of the period	5,437	6,486

Right-of use asset	Land and buildings	Vehicle s	Total
	BGN'000	BGN'000	BGN'000
Cost:			
As at 1 January 2019	5,117	1,369	6,486
Additions – new lease contracts	16	-	16
Termination of lease contracts	(16)	-	(16)
As at 31 December 2019	5,117	1,369	6,486
Depreciation:			
As at 1 January 2019	-	-	-
Depreciation for the year	(650)	(399)	(1,049)
As at 31 December 2019	(650)	(399)	(1,049)
Net Book Value as of 1 January 2019	5,117	1,369	6,486
Net Book Value as of 31 December 2019	4,467	970	5,437

Lease liabilities

	31 December 2019 BGN'000	1 January 2019 BGN'000
Short-term lease liabilities	1,255	1,467
Long-term lease liabilities	4,292	5,019
Total lease liabilities	5,547	6,486

	31 December 2019 Present value of lease payments BGN'000
Up to 1 year	1,255
Between 1 and 5 years	2,042
Above 5 years	2,250
Total minimum lease payments	5,547
Reduced by the amounts representing finance costs	-
Present value of the minimum lease payments	5,547

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38. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

The following amounts are recognized in profit or loss:

	IFRS16 2019 <u>BGN'000</u>	IAS17 2018 <u>BGN'000</u>
Interest expense on lease liabilities (included in finance cost)	115	-
Expense relating to short-term leases - vans (included in distribution expenses)	67	-
Expense relating to leases of low-value assets that are not short-term leases (included in administrative and distribution expenses)	36	-
Operating lease expense (IAS17) (included in administrative and distribution expenses)	-	1,297
Total expenses related to leases	<u>218</u>	<u>1,297</u>

39. DEBT RECONCILIATION

The table below analyses the movement in debt for each of the periods presented.

(in BGN'000)	Notes	Subordinated debt	Lease liabilities	Total debt	Cash and cash equivalents	Net debt
Balance at 1 January 2018		(6,264)	-	(6,264)	17,292	11,028
Cash flows		313	-	313	18,293	18,606
Interest accrued		(313)	-	(313)	0	(313)
Balance at 31 December 2018		(6,264)	-	(6,264)	35,585	29,321
IFRS16 adjustment	38		(6,486)	(6,486)		(6,486)
Balance at 1 January 2019		(6,264)	(6,486)	(12,750)	35,585	22,835
Cash flows		313	1,054	1,367	13,824	15,191
New lease contracts		-	(16)	(16)	0	(16)
Termination of the lease contract		-	16	16	0	16
Interest accrued		(313)	(115)	(428)	0	428
Foreign exchange adjustments		-	-	-	(22)	(22)
Balance at 31 December 2019		(6,264)	(5,547)	(11,811)	49,387	37,576

40. CONTINGENT LIABILITIES

The Company covers liability for damage to insurance events covered by compulsory professional liability insurance under Art. 316 par. 2 of the Insurance Code on behalf of its insurance agents. As of 31 December 2019 the Company network consists of 823 insurance agents (2018: 683).

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41. RELATED PARTIES TRANSACTIONS

41.1. PARENT COMPANY AND ULTIMATE CONTROLLING ENTITY

As of December 31, 2019 the allocation of the share capital of ZAD BULSTRAD VIENNA INSURANCE GROUP AD is as follows:

Shareholder	Share (%)
TBI Bulgaria EAD	85.80 %
Vienna Insurance Group Wiener Versicherung Gruppe	14.20 %

The tables below present transactions with ultimate controlling entity Vienna Insurance Group Wiener Versicherung Gruppe as as of December 31, 2019 and December 31, 2018.

December 31, 2019

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>Vienna Insurance Group, Wiener Versicherung Gruppe</i>					
	-	111	-	364	Services under contract - technical & administrative
	47,491	44,859	-	69	Reinsurance contract /reinsurance reserves, reinsurer's deposits and interest/
	181	1,907	38,378	38,956	Reinsurance contract
	-	6,264	-	313	Loan borrowed and interest expenses under the loan

December 31, 2018

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>Vienna Insurance Group, Wiener Versicherung Gruppe</i>					
	6	1,008	-	323	Services under contract-technical & administrative
	35,693	29,390	-	63	Reinsurance contract /reinsurance reserves, reinsurer's deposits and interest/
	24	1,186	13,927	22,606	Reinsurance contract
	-	6,264	-	313	Loan borrowed and interest expenses under the loan

According to the VIG Group Rules, the Company defines as Key personnel only people hired under management contracts along with close family members of key management personnel and companies and unincorporated businesses controlled or jointly controlled by key management personnel and/or their close family members.

41.2. KEY MANAGEMENT PERSONNEL

By the end of 2019 members of the management and control bodies of the Company do not own shares of its capital. They are entitled only to receive remuneration for their management services.

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>Key management personnel</i>					
	-	-	-	1,081	Remuneration of the management
	-	450	-	560	Conditional and deferred benefits
	-	-	-	36	Social securities of the Company management

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41. RELATED PARTIES TRANSACTIONS (CONTINUED)

41.2. KEY MANAGEMENT PERSONNEL (CONTINUED)

By the end of 2018 members of the management and control bodies of the Company do not own shares of its capital. They are entitled only to receive remuneration for their management services.

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>Key management personnel</i>					
	-	-	-	1,831	Remuneration of the management
	-	550	-	600	Conditional and deferred benefits
	-	-	-	30	Social securities of the Company Management

ZAD BULSTRAD VIENNA INSURANCE GROUP AD has provided insurance coverage to its key management personnel related to non-life insurance risk in particular property and personal accident insurance. Insurance coverage is in accordance the general terms of these products. In 2019 the total amount of recognized gross written premiums is BGN 9 thousand (2018: BGN 4 thousand).

In accordance with art. 240 of the Commercial Law, the Management and Supervisory Board members have provided guarantees for their management amounting to BGN 28 thousand (2018: BGN 28 thousand).

41.3. RELATED PARTIES, OTHER TRANSACTIONS

A. Transactions with entities under common control

The following tables present transactions with entities under common control (VIG Group subsidiaries) as at December 31, 2019 and December 31, 2018:

December 31, 2019

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>VIG RE zajišťovna, a.s.</i>	29,007	3,736	9,556	14,481	Reinsurance contract
<i>Wiener Städtische Versicherung VIG</i>	3,151	7	333	153	Reinsurance contract
<i>Compensa SA Vienna Insurance Group</i>	18	-	11	29	Reinsurance contract
<i>Ray Sigorta A.S.</i>	703	-	32	1,309	Reinsurance contract
<i>Donau Versicherungs AG VIG</i>	18	14	50	30	Reinsurance contract
<i>POK Doverie</i>	-	-	-	42	Voluntary pension insurance
	-	22	127	65	Under insurance contracts
<i>DV Asset Management EAD</i>	-	-	3	1	Under insurance contracts
	20	22	-	238	Asset management
<i>Bulgarski Imoti Assistance EOOD</i>	-	2,023	-	342	Office rent/IFRS 16
<i>Risk Consult Bulgaria OOD</i>	-	11	-	121	Under service contract

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41. RELATED PARTIES TRANSACTIONS (CONTINUED)

41.3. RELATED PARTIES, OTHER TRANSACTIONS (CONTINUED)

A. Transactions with entities under common control (continued)

December 31, 2018

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>VIG RE zajišťovna, a.s.</i>	29,724	584	4,505	8,747	Reinsurance contract
<i>Wiener Städtische Versicherung VIG</i>	1,786	-	241	90	Reinsurance contract
<i>Compensa SA Vienna Insurance Group</i>	8	-	1	23	Reinsurance contract
<i>Ray Sigorta A.S.</i>	-	-	39	1,716	Reinsurance contract
<i>Donau Versicherungs AG VIG</i>	-	-	1	15	Reinsurance contract
<i>POK Doverie</i>	31	19	149	65	Under insurance contracts
<i>DV Asset Management EAD</i>	-	-	2	-	Under insurance contracts
<i>Bulgarski Imoti Assistance EOOD</i>	-	10	-	192	Asset management
	-	-	-	296	Office rent and administrative expenses

B. Transactions with subsidiaries

The tables below present transactions with the Company's subsidiaries (direct and indirect) as at December 31, 2019 and December 31, 2018:

December 31, 2019

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>VIG Services Bulgaria EOOD</i>	-	-	-	1,630	Under contract for claims handling services
	2	131	28	45	Office rent and administrative expenses
	-	-	15	5	Under insurance contracts
	-	-	-	66	Salvages
	-	-	211	-	Dividend income
<i>ZEAD Bulstrad Life Vienna Insurance Group</i>	117	95	-	178	Expenses for Life insurance - personnel
	-	11	71	36	Under insurance contracts
	-	-	3,144	-	Dividend income
<i>Insurance Company Nova Ins EAD</i>	-	-	550	-	Dividend income
	-	-	4	-	Rental income
	3	2	21	16	Reinsurance contracts

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41. RELATED PARTIES TRANSACTIONS (CONTINUED)

41.3. RELATED PARTIES, OTHER TRANSACTIONS (CONTINUED)

B. Transactions with subsidiaries (continued)

December 31, 2019

(continued)

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>EIRB, London</i>	509	3,715	-	-	Reinsurance contracts
<i>Global Services Bulgaria</i>	-	-	-	648	Acquisition services under contract
	-	67	-	191	Under agreement for claims handling services
				5	Consulting services
<i>Bulstrad Labour Medicine EOOD</i>	-	-	-	7	Contract for labour medicine

December 31, 2018

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>VIG Services Bulgaria EOOD</i>	-	100	-	1,249	Under contract for claims handling services
	3	6	19	48	Office rent and administrative expenses
	-	-	22	99	Under insurance contracts
	-	-	-	56	Salvages
	-	-	170	-	Dividend income
<i>ZEAD Bulstrad Life Vienna Insurance Group</i>	-	87	-	200	Expenses for Life insurance - personnel
	14	-	62	-	Under insurance contracts
	-	-	1,789	-	Dividend income
<i>Insurance Company Nova Ins EAD</i>	-	-	5,196	-	Dividend income
	2	-	2	-	Rental income
<i>EIRB, London</i>	-	-	869	-	Dividend income
	-	2,585	-	-	Reinsurance contracts
<i>Global Services Bulgaria</i>	-	-	-	576	Acquisition services under contract
	-	67	-	171	Under agreement for claims handling services
<i>Bulstrad Labour Medicine EOOD</i>	-	-	-	7	Contract for labour medicine

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41. RELATED PARTIES TRANSACTIONS (CONTINUED)

41.3. RELATED PARTIES, OTHER TRANSACTIONS (CONTINUED)

C. Associates

The following tables present transactions with associates as at December 31, 2019 and December 31, 2018:

December 31, 2019

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>PAKO AD</i>	-	-	6	-	Dividend income
<i>TBI Info AD</i>	-	28	-	316	Software maintenance

December 31, 2018

<i>Related party</i>	<i>Receivable</i>	<i>Liability</i>	<i>Income</i>	<i>Expense</i>	<i>Type of transaction</i>
<i>PAKO AD</i>	-	-	14	-	Dividend income
	-	-	1	1	Under insurance contracts
<i>TBI Info AD</i>	-	-	-	237	Software maintenance
	-	-	6	-	Under insurance contracts

42. SUBSEQUENT EVENTS

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020, the virus spread globally. The Company considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these financial statements, to date there has been no discernible impact on the Company's regular business operations, however the future effects cannot be predicted. As the situation is still developing, management considers it impractical to provide a quantitative estimate of the potential impact of this outbreak on the Company. The entity has tried to assess potential impact over financial assets as part of the sensitivity analysis disclosed in Note 6.6.