



GP Reinsurance EAD

SOLVENCY AND FINANCIAL CONDITION REPORT

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Introduction

GP Reinsurance EAD (the Company or GP Re) falls under the scope of Solvency II Directive and is required to disclose publicly the Solvency and Financial Condition Report (SFCR).

This is in accordance with the Directive 2009/138/EC ('Solvency II Directive') as well as with the Delegated Regulation 2015/35/EC ('Delegated Act') and related Guidelines.

The objective of the Solvency and Financial Condition Report (SFCR) is to increase transparency in the insurance market requiring insurance and reinsurance undertakings to disclose publicly, at least on an annual basis, a report on their solvency and financial condition.

The document has been approved by the Supervisory Board and Management Board on 21st April 2020.

The users of the SFCR addressed to are mainly the ceding companies within Generali Central Eastern European region, or the companies from which the Company accepts the risks.

SFCR specific content is defined by primary legislation and its implementing measures - which provide detailed information on the essential aspects of the businesses of the undertaking, such as a description of the economic activity and performance of the undertaking, the system of governance, risk profile, evaluation of assets and liabilities and capital management - for solvency purposes.

When disclosing the information referred to in this Regulation figures reflecting monetary amounts shall be disclosed in Bulgarian Lev (BGN) unless otherwise stated.

GP Reinsurance EAD is falling under the scope of Solvency II Directive reporting and is required to disclose publicly SFCR with reference to the financial year starting from 1/1/2019.

The Solvency and Financial Condition Report of the Company has been prepared in English language and then translated in Bulgarian.

Summary

Section	Summary
A.1. Business	GP Reinsurance is the captive reinsurer of Generali in CEE region. In 2019 the Company provides proportional and non-proportional treaty reinsurance. Due to the Group's diversity across the Central and Eastern Europe region, the Company is able to mitigate local specifics and risks for lower cost of capital than each insurance company on its own. This provides the Group companies with a lower cost of capital, protects their balance sheets, significantly helps with meeting solvency requirements and provides a competitive advantage in the insurance market as it provides capacity to make additional room for underwriting additional risks and offer higher limits than it would otherwise be allowed.
A.2. Underwriting Performance	The Company's underwriting performance is reflecting the business performance of the primary insurers (cedants). In 2019 the reinsurance portfolio followed a stable course of development with gross written premium of BGN 1.881m (both life and non-life), gross combined ratio of 69% and gross technical result of BGN 576m. The net technical result of the company for 2019 is BGN 342m
A.3. Investment Performance	<p>GP Reinsurance aims at maximizing investment returns while maintaining appropriate level of risk and liquidity which is compatible with targeted returns and to achieve the Strategic Plan objectives through portfolio diversification and an accurate liability-driven investment strategy. Those objectives are incorporated in the strategy to ensure the establishment of appropriate return potential while ensuring that the Company can always meet its obligations without undue costs and in accordance with its internal and external Regulatory Capital Requirements.</p> <p>The Company's investment strategy is based on the 'Prudent Person Principle'.</p>
A.4. Performance of other activities	The Company doesn't have leasing arrangements which can be considered material.
A.5. Any other information	This section includes information on transactions with related parties, ceded reinsurance receivables, dividends paid during 2019 in relation to 2018 profit and management remunerations.
B.1. General information on the system of governance	<p>The Company has as at 31 December 2019 a two-tier management system with Management Board (MB) and Supervisory Board (SB). Audit Committee and Risk Committees are functioning with their main goal to support the MB and SB in terms of improving the internal control and risk management system.</p> <p>GP Re internal control and risk management system is founded on the three lines of defence – operational functions (Risk Owners) as a first line, compliance, risk management and actuarial functions as second line and internal audit as a third line.</p>
B.2. Fit and proper requirements	<p>The Company follows the Internal Fit and Proper Rules which are defined in line with:</p> <ul style="list-style-type: none"> • The guidelines and procedures, by means of which the Company ensures compliance with the Insurance code fit and proper requirements for the members of the Management and Supervisory Boards and for other personnel who are not in the Boards but are authorized to manage and represent the Company, as well as of the personnel performing key functions. • The requirements in terms of fitness and experience of the members of the management bodies, performing management functions according to the Company's organizational structure. • The fit and proper requirements for the employees where the Company evaluates their fitness and proper in terms of the Generali Group Fit and Proper Policy. <p>The objective of these Rules is to ensure compliance and strict implementation of the legal requirements and the Generali Group Policy by defining minimum fit and proper standards.</p>

B.3. Risk management system including the own risk and solvency assessment	<p>The Risk Management system ensures that all risks, to which the Company is exposed to, are properly and effectively managed on the basis of the risk strategy defined.</p> <p>GP Re Risk Management process, also aligned with the Group one, is defined on the following phases – risk identification, risk measurement, risk management and control and risk reporting.</p> <p>The Own Risk and Solvency Assessment (ORSA) process is a key component of the Risk Management system which aims at assessing the adequacy of the solvency position and the risk profile of the Company on a current and forward-looking basis.</p> <p>Capital Management and Risk Management are strongly integrated processes. This integration is deemed essential to ensure alignment between business and risk strategies.</p>
B.4. Internal control system	<p>The Internal Control System framework, whose design and structure is approved by the Management and Supervisory Boards, is defined as the system that operates to ensure that business activity complies with the law in force and with the various directives and procedures in place. It also ensures that company processes are efficient and effective where their respective objectives are concerned and that accounting and management information is reliable and complete.</p> <p>Internal Control therefore comprises a set of tools that helps the business to reach its targets in line with the level of risk selected by top management. Such targets are not restricted solely to business targets, but extend also to those connected with financial reporting as well as compliance with all internal and external rules and regulations, and take on varying importance depending on the risk that has been identified. It follows that the relevant internal control mechanisms take on a varying nature and form too, depending on the particular process or processes under the spotlight.</p>
B.5. Internal audit function	<p>The Internal Audit Department is an independent, effective and objective function established to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the system of governance, with a view of improving the efficacy and efficiency of the internal control system of the organization and of the governance processes. The Internal Audit Department supports the Management Board in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time and provides the Management Board and the Audit Committee with analysis, appraisals, recommendations and information concerning the activities reviewed; it also carries out assurance and advisory activities for the benefit of the Management Board, the Supervisory Board, the Top Management and other departments.</p>
B.6. Actuarial function	<p>According to local legislation and Group policy Actuarial function is in place with separation of calculation and validation roles.</p>
B.7. Outsourcing	<p>The company has adopted Generali Group Outsourcing Policy for direct application. The policy intends to set consistent minimum mandatory outsourcing standards for all Generali Group entities, assign main outsourcing responsibilities and ensure that appropriate controls and governance structures are established within any outsourcing initiative. The Policy outlines the main principles to be followed when implementing outsourcing.</p> <p>In addition to the Group Outsourcing Policy, the company has adopted Internal Outsourcing Guidelines which are designed as a local supplement to the Group Outsourcing Policy and aim at providing a structured view to the managing of the outsourcing activities in the company, defining the roles and responsibilities for the administration and management of the Outsourcing activities and contracts, as well as setting the criteria based on which an outsourced activity/function shall be classified as critical or important. The Internal Guidelines also define the local regulatory framework applicable to outsourced functions and activities.</p>
B.8. Any other information	<p>The Management Board is obliged to revise at least once per year the internal control programs, relevant documents and policies composing the Internal control system and to amend it where necessary.</p>
C.1. Underwriting risk	<p>These are risks arising from:</p>

	<ul style="list-style-type: none"> - P&C reinsurance obligations in relation to the perils covered and the processes used in the conduct of business. It includes at least the risk of underestimating the frequency and/or severity of the claims in defining pricing and reserves (respectively Pricing Risk and Reserving Risk) and the risk of losses arising from extreme or exceptional events (Catastrophe Risk). Those risks are successfully managed and mitigated mainly via external reinsurance program. - Life and health underwriting risks derived from the accepted reinsurance business in the life and health segment. They are accepted across the ACEER (Austria, Central Eastern Europe and Russia) region and refers to new life business which started in 2018 and some specialized Health insurer classified as SLT.
C.2. Market risk & C.3. Credit risk	The Company manages its investments in a prudent way according to the so-called 'Prudent Person Principle', and strives to optimize the return of its assets while minimizing the negative impact of short term market fluctuations on its solvency. For the evaluation of its Market & Credit Risks, it makes use of the EIOPA Standard Formula. In line with the Strategic Asset Allocation the Company is mainly exposed to fixed income exposure, and consequently to interest rate risk.
C.4. Liquidity risk	The Liquidity Risk Management relies on projecting cash obligations and available cash resources into the future, so as to monitor that available liquid resources are at all times sufficient to cover the cash obligations that will come due in the same period. The Liquidity Metrics show stable liquidity position without relevant deviations.
C.5. Operational risk	<p>The Company has implemented operational risk management system with the primary focus on identifying, assessing and evaluating operational risk events that may occur and evaluating the strength of the company's processes and mitigation activities to prevent or respond to such events.</p> <p>In 2019 no significant operational loss has occurred in GP Re.</p>
C.6. Other material risk	This section discusses concentration risk, i.e. the risk stemming from all risk exposures with a potential loss which is large enough to threaten the solvency or the financial position of the company. Risk concentrations are significant when they could threaten the solvency or the liquidity position of the company, thus substantially impacting its risk profile.
C.7. Any other information	Other risks and their relevance to the company are discussed (emerging, reputational and contagion risks).
D.1. Assets	The section provides an overall description of the SII valuation methods for Assets.
D.2. Technical provisions	The amount of the technical provisions after reinsurance recoverables calculated according to IFRS standards amounts to 1.396.620 ths BGN at year-end 2019. This amount has been revaluated according to Solvency II principles to market value which is 615.925m BGN at year-end 2019.
D.3. Other liabilities	In this section, an overall description of the SII valuation methods for Liabilities other than technical provision is given, complementary to the general Valuation for Solvency Purposes (paragraph D - introduction).
D.4. Alternative methods for valuation	<p>Assets: In respect of the official SII data valuation, there are no significant changes to valuation models used and to model inputs. In general terms, it must be noticed that the vast majority of assets portfolio owned by GP Re is recognized at IFRS fair value. The determination of the fair value is mostly done by using the market quotes. The Company does not apply any kind of the alternative methods of valuation on liabilities, different from the described in the relevant chapters earlier.</p> <p>Liabilities: The Company does not apply any kind of the alternative methods of valuation on liabilities, different from the described in the relevant chapters above.</p>
E.1. Own Funds	The amount of eligible own funds at YE19 reached 1.51bn BGN (after 346m BGN of foreseeable dividend to be paid during this year from last year's profit). The same items previous year were 1.42bn BGN (after 247m BGN of foreseeable dividend).

	<p>The solvency ratio slightly decreased to 238% (last year 240%).</p> <p>All own funds items to cover SCR (and MCR) are classified as Tier 1.</p>
E.2. Solvency Capital Requirement and Minimum Capital Requirement	<p>The SCR calculated according to the solvency regulation is 637m BGN, more than a half of this amount coming from Non-Life underwriting risks (last year 591,5m BGN).</p> <p>The MCR calculated according to solvency regulation is about 215,5m BGN (last year 199m BGN).</p>
E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement	The Company does not use duration-based equity risk sub-module in the calculation of the SCR
E.4. Differences between the standard formula and any internal model used	The company does not use internal model for the calculation of regulatory SCR.
E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement	The Company has a sound solvency position with solvency ratios exceeding significantly the statutory requirements.
E.6. Any other information	<p>This section provides information on sensitivity testing analyses,</p> <p>the impact of simple changes in specific risk drivers (e.g. Interest Rates, equity shocks, credit spreads and Interest Rate volatility) on the variability of the Own Funds and Solvency Ratio.</p>

A. Business and Performance

A.1. BUSINESS

Details GP Re

GP Reinsurance EAD (the Company or GP Re) is a sole joint-stock company registered in the Commercial Register with the Registry Agency on 24 July 2008 under No 200270243. The company's seat is in Sofia, the Republic of Bulgaria. Its registration address is Sofia 1504, Oborishte Region, 68, Kniaz Alexander Dondukov Blvd., and the correspondence address is Sofia 1504, Oborishte Region, 79-81, Kniaz Alexander Dondukov Blvd, 5th floor.

The sole owner of the capital as at 31.12.2019 is Generali CEE Holding B.V. with seat in the Kingdom of the Netherlands. The ultimate parent of the Company is Assicurazioni Generali S.p.A with seat in Trieste, Italy which owns 100 % of Generali CEE Holding B.V.

The scope of activity of the Company includes non-life and life reinsurance. It was licensed under № 626-O3 dated 18 June 2008 as a joint-stock company with main scope of business in non-life reinsurance. In 2017 with Resolution № 1385-O3 from 31st October 2017 of the FSC the company was licensed for reinsurance activities in life insurance.

Details Financial Supervision Commission (BG Regulator)

The contact details of Financial Supervision Commission in Bulgaria is the following:

1000 Sofia, 16 Budapeshta str.

Call center: +3592 94 04 999

Press center: +3592 94 04 582

Fax: +3592 829 43 24

E-mail: bg_fsc@fsc.bg

Details external auditors

In 2019 the external audit has been performed by 2 auditors jointly with the following contact details:

Baker Tilly Klitou & Partners OOD

5, Stara Planina Str., 5th and 6th floor, 1000 Sofia Bulgaria

Tel: +359 2 958 0890

Fax: +359 2 859 2139

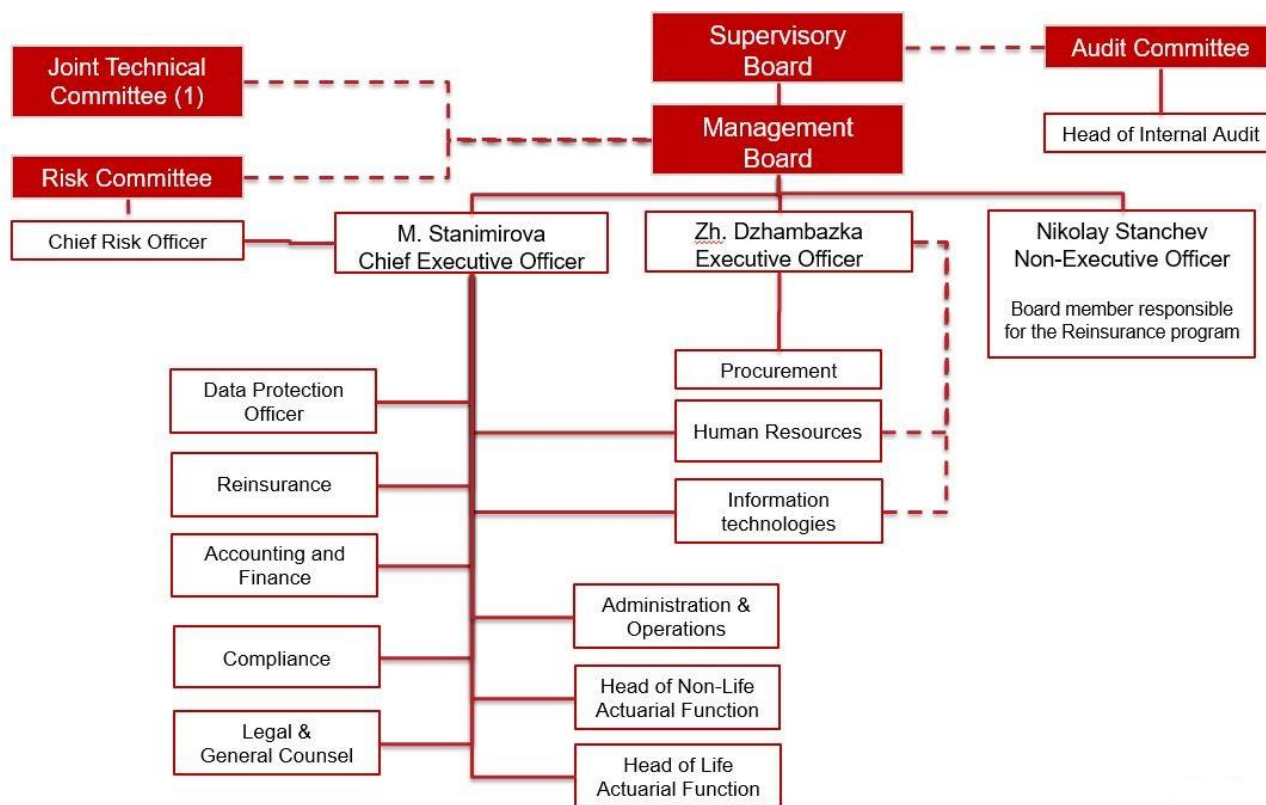
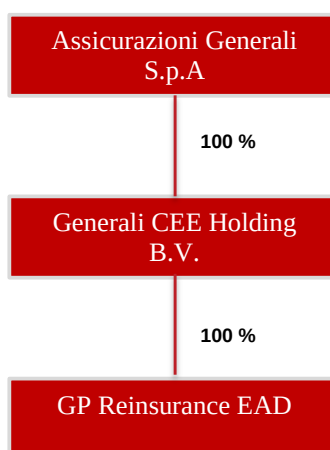
Website: <https://www.bakertilly.bg/>

AFA OOD

38, Oborishte Str., 1504 Sofia, Bulgaria

Tel: +359 2 943 37 00

Website: <http://www.afa.bg>

Organizational structure of GP Re as at 31 December 2019Position in the legal structure of Generali Group as at 31 December 2019Lines of business, geographical areas and performance

The Company provides reinsurance services mainly to insurance companies from Generali CEE Holding B.V., covering the portfolio of companies on the territory of Bulgaria, Serbia, Montenegro, Romania, Czech Republic, Hungary, Slovakia, Croatia, Slovenia, Poland and from 2019 Austria. From the last quarter of 2019 the company is also having one reinsurance contract with Bosna Reinsurance Company Ltd accepting mainly life business. The latter is not part of Generali Group.

GP Reinsurance EAD provides cover to 3 entities in the Czech Republic - Ceska Pojistovna A.S., Ceska pojistovna Zdravi, Generali Pojistovna A.S., all three being part of Generali Group. In 2019, following a strategic decision in Czech Republic, Ceska Pojistovna A.S. acquired almost the whole portfolio of Generali Pojistovna A.S. and Ceska pojistovna Zdravi. Starting from 21.12.2019 there will be only one insurance company in the Czech Republic named Generali Ceska pojistovna A.S. The name of the former Generali Pojistovna A.S. has changed to Pojistovna Patricie A.S. There is a small residual portfolio from the reinsurance program which remained in Patrice after 20.12.2019 (Bond QS and D&O QS run-off). The rest of the reinsurance portfolio was transferred to Generali Ceska pojistovna A.S. effective from 21.12.2019.

In 2019 the company continues to provide proportional reinsurance cover to Assicurazioni Generali S.P.A. – US Branch, which started in 2016 and non-proportional cover to Assicurazioni Generali S.P.A. – UK Branch, which started in 2018. These reinsurance programs are fully retro-ceded.

GP Reinsurance EAD provides proportional coverage to the following lines of business: Property, General Third Party Liability, Professional Indemnity, Motor Third Party Liability, Motor Casco, Personal Accident, Travel Insurance, Health Insurance, Marine and Cargo, Agriculture (Crops and Drought), Directors and Officers (D&O) Liability and Bonds.

GP Reinsurance EAD provides non-proportional coverage for several different lines of business. They include Property, Motor Casco, Motor Third Party Liability, General Third-Party Liability, Professional Indemnity, Marine, Travel Insurance, Personal Accident, Agriculture (Crops and Livestock), Insolvency of mortgagers, Catastrophic Events (Property and Casco), Health insurance, Bond. The programs can be either defined as Excess of Loss (XL) or Stop Loss (SL).

The Company maintains ceded reinsurance for the purposes of reinsurance risk management. The Company reinsures part of the risk in order to decrease its exposure to losses and to preserve its capital resources. The Company enters into a combination of proportional and non-proportional reinsurance contracts in order to decrease the net exposure to risk.

Starting from 2014 the Company places almost 100% of its retroceded business to Assicurazioni Generali following the centralization reinsurance strategy of the Group.

The ceded reinsurance proportional programs are Bonds QS, Cyber QS and Crops Revenue QS (Agro). GP Reinsurance has ceded reinsurance non-proportional treaties for the following lines of business: Agriculture, Property, Engineering, General Third Party Liability and Professional Indemnity, Directors and Officers Liability, Motor Third Party Liability, Marine (including Cargo) and Catastrophic Events. The main change in the external reinsurance program for 2019 is the increased capacity of the external CAT treaty from EUR 810 m in 2018 to EUR 835 m in 2019.

GP Reinsurance EAD profit after tax in 2019 is BGN 354 m which is a 29% increase in comparison to 2018 (BGN 274 m). The profit of the Company was generated mainly from its reinsurance business.

A.2. UNDERWRITING PERFORMANCE

GP Reinsurance is the captive reinsurer of Generali in CEE region. Due to the Group's diversity across the Central and Eastern Europe region, the Company is able to mitigate local specifics and risks for lower cost of capital than each insurance company on its own.

The company's underwriting performance is ultimately reflecting the business performance of the primary insurers (cedants). In 2019 the reinsurance portfolio followed a stable course of development. The key underwriting indicators are summarised in the below table:

Key indicators (Figures in BGN/mIn)	YE19	YE18	Change (%)
Gross Written Premium	1.881	1.731	9%
Ceded Reinsurance Premium	271	242	12%
Gross Combined Ratio	69%	77%	(8bp)
Net Combined Ratio	79%	82%	(3bp)
Gross Technical Result	576	393	47%
Net Technical Result	342	270	27%
Net Technical Provisions	1.397	1.438	(3%)

The company portfolio includes all major lines of business, with the following distribution based on gross written premium:

(Figures in BGN/mIn)	YE19	% of Total	YE18	% of Total
AHD	135	7%	131	8%
Casco	377	20%	326	19%

Credit and suretyship	18	1%	11	1%
Fire and Property Damage	663	35%	615	36%
MAT	55	3%	44	3%
Misc financial losses	1	0%	1	0%
MTPL	418	22%	415	24%
TPL	187	10%	177	10%
Assistance	9	0%	7	0%
Life	18	1%	4	0%
TOTAL	1.881	100%	1.731	100%

A.3. INVESTMENT PERFORMANCE

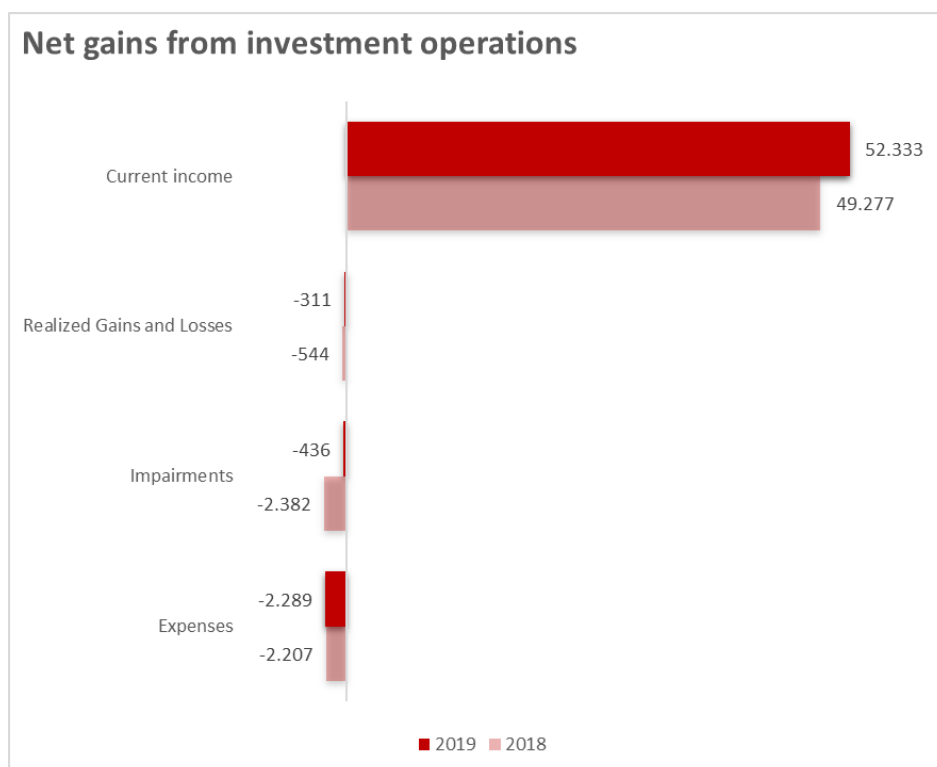
GP Reinsurance aims at maximizing investment returns while maintaining appropriate level of risk and liquidity which is compatible with targeted returns and to achieve the Strategic Plan objectives through portfolio diversification and an accurate liability-driven investment strategy. Those objectives are incorporated in the strategy to ensure the establishment of appropriate return potential while ensuring that the Company can always meet its obligations without undue costs and in accordance with its internal and external Regulatory Capital Requirements.

Even though the investment result in 2019 achieved the targets it, the macroeconomic environment during the year can be described as low yield environment affected by variety of risks and uncertainties. In order to sustain the investment performance in such environment, the pursued strategy consisted in an increase of asset and geographical diversification, in particular of exposures towards private market, alternative debt and private equity investments, offering risk-adjusted return also under Solvency II framework.

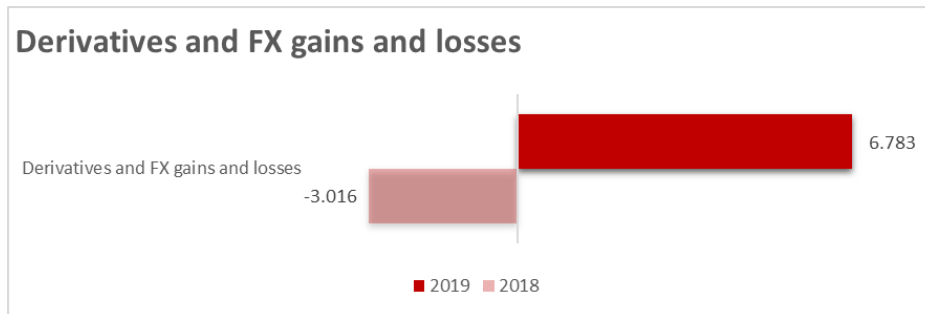
As a result of the undertaken measures in the adopted strategy for 2019, GP Re investments achieved exceptionally positive results in 2019 as both risky assets and risk-free assets delivered impressive performance.

By summarizing the financial performance in accounting terms, we have net profits from investments in 2019 of BGN 49 m (BGN 44 m in 2018) reflected in the statement of the profit or loss. The overall increase of BGN 5 m is split by BGN 4 m increase in income from loans - BGN 2 m lower recognized impairment for the 2019, partially offset by 1 m decrease in income from dividends, 1 m interest decrease from bonds and 1 m increased yield from other financial instruments.

In the BGN:

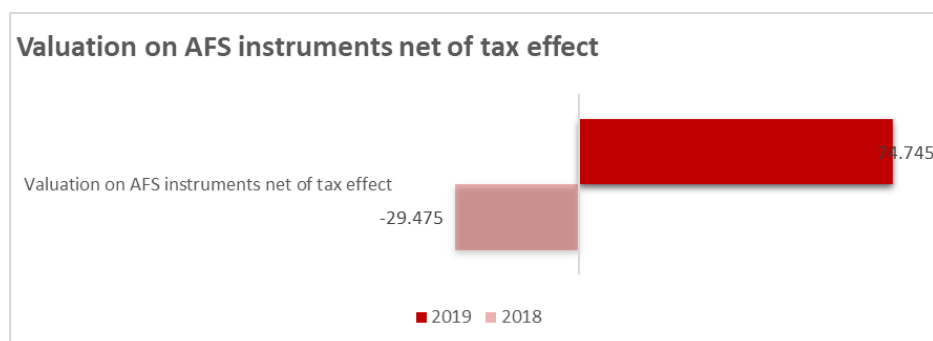


Other operating investment result relates to derivatives and foreign currency gains and losses, in 2019 the result is positive BGN 7 m and is significantly higher with BGN 10 m compared to 2018 (BGN - 3 m) due to the successful currency risk hedging strategy and the favorable market conditions in 2019.



The reserve for unrealized gains and losses of available for sale instrument has improved and growth to BGN 75 m from negative BGN (27) m in 2018 showing BGN 104 m positive market valuations net of tax effects due to the improved market conditions, recovering from the decline in 2018 and the successful tactical asset allocation.

Valuation of AFS Instruments



A.4. PERFORMANCE OF OTHER ACTIVITIES

The Company doesn't have leasing arrangements which can be considered material.

A.5. ANY OTHER INFORMATION

A.5.1. INTRAGROUP TRANSACTIONS

Related party transactions

The sole owner of the Company is Generali CEE Holding B.V. Netherlands which holds 100% of the Company's shares. 100% of the capital of Generali CEE Holding B.V. Netherlands are owned by Assicurazioni Generali S.P.A (registered in Italy) which is the ultimate parent.

According to the group reporting policy the related parties for GP Reinsurance EAD are the following:

- Assicurazioni Generali S.P.A.
- All ceding companies
- Generali Investment CEE
- Generali Development
- Generali Insurance EAD
- Generali Zakrila MDC OOD

- Generali Ceska Pojistovna A.S.
- Generali Versicherung A.G.
- Generali real estate investment fund a.s.
- Generali Osiguranje, Republic of Serbia
- Generali Reosiguranje, Republic of Serbia
- Lion River Investment fund
- Generali Europe Income Holding S.A.
- Generali fund Emer. Europe Bond y EUR S.A.
- Generali fund Emerging Europe y EUR DIV S.A.
- Generali Fond ropy a energetiky
- GMPSS EM CRNCY SUPERN-3Y EUR
- New Economies Fund, Generali Invest CEE plc.

The related party transactions of the Company for 2019 are presented below as follows:

- All transactions related to accepted reinsurance are with intra-group companies
- Services agreement between the Company and Generali CEE Holding B.V
- Services agreement between the Company and Generali Development
- Part of the accepted business has been ceded to Assicurazioni Generali S.P.A
- Transactions related with Generali Investment CEE– there is a contract between the Company and Generali Investment CEE for management of the investments
- Services agreement between the Company and Generali Versicherung A.G.
- Services agreement between the Company and Generali Insurance EAD
- Services agreement between the Company and Generali Zakrila MDC OOD
- Transaction related with purchased equity shares from Generali Real Estate Fund a.s.;
- Transactions related with a loan granted to Generali Real Estate Fund a.s.;
- Transaction related with corporate bonds issued by Generali Ceska Pojistovna a.s.;
- Transactions related with purchased shares of Generali Osiguranje, Republic of Serbia
- Transactions related with purchased shares of Generali Reosiguranje, Republic of Serbia
- Transactions related with purchased shares of Lion River Investment fund
- Transactions related with purchased shares of Generali Europe Income Holding S.A.
- Transactions related with provided loan to Generali Europe Income Holding S.A.
- Transactions related with purchased shares of Generali fund Emer. Europe Bond y EUR S.A.
- Transactions related with purchased shares of Generali fund Emerging Europe y EUR DIV S.A.
- Transactions related with purchased shares of Generali Fond ropy a energetiky
- Transactions related with purchased shares of GMPSS EM CRNCY SUPERN-3Y EUR
- Transactions related with purchased shares of New Economies Fund, Generali Invest CEE plc.

1. Income / (expenses) from related parties (BGN thousand)

Mother company:	2019	2018
Generali CEE Holding B.V. - service agreement	(674)	(687)
Other related parties:	2019	2018
ASSICURAZIONI GENERALI S.P.A – premium ceded	(270.785)	(241.733)

GP Reinsurance EAD - Business and Performance

ASSICURAZIONI GENERALI S.P.A – claims paid ceded reinsurance	66.803	13.761
ASSICURAZIONI GENERALI S.P.A – changes in the reinsurer's share in technical reserves (ceded reinsurance)	(38.742)	97.810
ASSICURAZIONI GENERALI S.P.A – commissions ceded reinsurance	7.691	8.514
ASSICURAZIONI GENERALI S.P.A – deferred acquisition costs under ceded reinsurance	1.083	4.966
ASSICURAZIONI GENERALI S.P.A – premium accepted	132.617	131.087
ASSICURAZIONI GENERALI S.P.A – claims paid accepted reinsurance	(30.778)	(9.039)
ASSICURAZIONI GENERALI S.P.A – changes in the reinsurer's share in technical reserves (accepted reinsurance)	19.672	(21.811)
ASSICURAZIONI GENERALI S.P.A – commissions accepted reinsurance	(3.513)	(4.868)
Legal entities which are controlled by the parent company – net written premium	1.748.326	1.722.055
Legal entities which are controlled by the parent company – claims	(812.026)	(904.246)
Legal entities which are controlled by the parent company – acquisition commissions	(439.228)	(409.648)
Legal entities which are controlled by the parent company – other operating expenses	(18.879)	(15.588)
Legal entities which are controlled by the parent company – reserves net	6.552	(174.197)
Legal entities which are controlled by the parent company – interest income	3.789	2.671
Generali Investment CEE – management commission	(1.904)	(1.843)
Generali Development – depreciation expense	(163)	(163)
Generali Versicherung A.G. – service agreement	(140)	(142)
Generali Insurance – Bulgaria – service agreement	(17)	(14)
Generali Zakrila MDC OOD - service agreement	(71)	(57)
Generali Česká pojišťovna a.s. – service agreement	(157)	(158)
Generali Real Estate Fund – dividend income	1.196	1.703
Generali Real Estate Fund – interest income	2.444	456
Generali Osiguranje, Republic of Serbia – dividend income	19	13
Generali Europe Income Holding S.A. – interest income	1.543	852
Generali Europe Income Holding S.A. – dividend income	820	558
Generali fund EMERGING EUROPE Y EUR- dividend income	-	1.067
Generali fund GMPS SICAV EM Currencies Supranat Fd 3YH EUR- dividend income	174	15

2. Payables/Receivables with related parties (BGN thousand)

	31.12.2019	31.12.2018
Mother company:		
Generali – CEE Holding B.V. - service agreement	340	340
Generali – CEE Holding B.V. – other receivables	19	19
Other related parties:		
ASSICURAZIONI GENERALI S.P.A – premium ceded, reinsurance payables	7.434	8.851
ASSICURAZIONI GENERALI S.P.A – other payables ceded	25	99
ASSICURAZIONI GENERALI S.P.A – claims paid, ceded reinsurance receivables	49.199	10.737
ASSICURAZIONI GENERALI S.P.A – reinsurer's share in technical reserves (ceded reinsurance)	145.180	182.536
ASSICURAZIONI GENERALI S.P.A – premium accepted, reinsurance receivables	-	2.746
ASSICURAZIONI GENERALI S.P.A – claims paid, accepted reinsurance payables	10.329	20
ASSICURAZIONI GENERALI S.P.A – reinsurer's share in technical reserves (accepted reinsurance)	36.860	55.514
ASSICURAZIONI GENERALI S.P.A – other receivables	271	150
Legal entities which are controlled by the parent company – reinsurance receivables	151.499	148.246
Legal entities which are controlled by the parent company – reinsurance payables	112.359	66.256
Legal entities which are controlled by the parent company – other assets	5.010	72
Legal entities which are controlled by the parent company – other liabilities	1.920	172
Legal entities which are controlled by the parent company – reinsurance reserves	1.530.983	1.650.751
Legal entities which are controlled by the parent company – reinsurance deposits	108.545	186.589
Payable to Generali Investment CEE	174	154
Generali Development – intangible asset/capitalized expenditures	21	183
Generali Ceska Pojistovna a.s. – service agreement	16	16
Generali real estate investment fund a.s.– equities AFS as of 31.12.2019; investment in associates as of 31.12.2018	131.245	110.141
Generali real estate investment fund a.s. – loan	60.800	70.368
Generali Osiguranje, Republic of Serbia - equities AFS portfolio	158	172
Generali Reosiguranje, Republic of Serbia - equities AFS portfolio	1	1
Generali Europe Income Holding S.A. – equities AFS portfolio	59.065	57.178
Generali Europe Income Holding S.A. – loan	44.865	44.671
Lion River Investment fund – equities AFS portfolio	43.314	31.646
Generali fund „EMERGING EUROPE BOND Y EUR“;- equities AFS portfolio	11.734	11.729
Generali fund „EMERGING EUROPE Y EUR“ – equities AFS portfolio	13.239	13.235
Generali Fond ropy a energetiky - equities	3.023	2.985
Generali fund „GMPS SICAV EM Currencies Supranat Fd 3YH EUR“ – equities AFS portfolio	3.911	3.910
New Economies Fund, Generali Invest CEE plc – equities AFS portfolio	3.788	-

3. Ceded reinsurance receivables and payables

As at 31 December 2019 the Company has receivables on ceded reinsurance from Assicurazioni Generali S.P.A in the amount of BGN 49.199 thousand (2018: BGN 10.737 thousand). As at 31 December 2019 the Company has payables on ceded reinsurance to Assicurazioni Generali S.P.A in the amount of BGN 7.459 thousand (2018: BGN 8.950 thousand).

4. Dividends paid

Based on a decision made at the Management Board meeting on 07 May 2019 and on the decision of the sole owner Generali CEE Holding B.V, the Company has paid dividends to the parent company for year 2018 in the amount of BGN 246.955 thousand (BGN 4.6 thousand per share) (2017: in the amount of BGN 244.155 thousand. (BGN 4.6 thousand per share)).

5. Management remunerations

As at 31 December 2019 the short-term management remunerations amounted to BGN 437 thousand (2018: BGN 566 thousand).

6. Collaterals and commitments

As at 31 December 2018 the Company has commitments to invest in Generali Europe Income Holding S.A. the amount of BGN 5 thousand (2018: BGN 5 thousand) and in Lion River Investment fund the amount of BGN 42.683 thousand (2018: BGN 47.793 thousand).

The table below presents the value of collateral liabilities held:

(BGN thousands)	31.12.2019	31.12.2018
Collateral held for loans made or bonds purchased	161.967	63.431
Collateral held for derivatives	10.410	1.017
Other collateral held	-	723
Total	172.377	65.171

A.5.2. INFORMATION ABOUT CORONAVIRUS – COVID 19

Pursuant to the EIOPA-BoS-20/236 Recommendation of 20 March 2020 on COVID 19, implemented by the Financial Supervision Commission on 26 March 2020, it should be noted that in the wider context of the economic and financial framework characterized by uncertainty and high volatility linked to the effects of COVID-19, the Company has activated mechanisms for monitoring the solvency position on an ongoing basis, for the purpose of timely analysis the evolution of the situation and the implementation of consequent actions, where necessary.

In a context of greater uncertainty and volatility, especially in the financial markets, due to the COVID 19 pandemic underway, for which it is not currently possible to make a reasonable estimate of the medium-term impact, also on the macroeconomic level – Generali Group continues to focus on the disciplined execution of the strategy.

Generali has promptly implemented a series of initiatives to ensure business continuity and to protect the health of the people who work for the Group, its distribution network and its customers.

On Company level, GP Reinsurance EAD has ensured full compliance with the national restrictive measures introduced for the period of state of emergency, at the same time effectively continuing its operations under the activated Business Continuity Plan.

Although it is difficult to estimate an overall total impact it is obvious that for many (re)insurers the situation is similar to combination of more stress events occurring at the same time, at least:

- Equity markets fall
- Fall of specific bond markets
- Potential subsequent rating downgrades related to bond issuers as well as reinsurance counterparties
- Pandemic scenario leading to significant health insurance indemnities
- Potential business interruption reimbursements

The Company has established sound risk management system which enables to regularly monitor the situation and its impact to capital adequacy.

In terms of possible shocks, the Company's exposure to underwriting losses coming from Coronavirus is rather limited. At the same time, equity risk is also not significant due to low SAA limit for equity investments (target 6.2% in 2019).

On the other hand, bond exposures prevail in terms of SAA (target 74.5% in 2019) which makes the company sensitive mainly to bond value volatility.

Adjusted YE19 capital adequacy solvency results are estimated in order to reflect Coronavirus shock impact. Adjusted YE19 numbers represent YE19 as if market situation at 31st December 2019 was that one which occurred at 24th March 2020. Adjusted YE19 reflect the following assumptions:

- Decrease of bond portfolio value (without accounting impairment)
- Decrease of equity portfolio value (with accounting impairment)

Adjusted YE19 solvency numbers show that solvency ratio would still be above upper limit of capital target operating range:

mBGN	YE19	Adjusted YE19
Total eligible own funds to meet the SCR	1.514,9	1.412,8
SCR	637,0	630,8
Ratio of Eligible own funds to SCR	238%	224%

At the date of approval of this report, the updated solvency situation of the Company, albeit impacted by the aforementioned volatility, remains very solid.

GP Reinsurance EAD - **SOLVENCY AND FINANCIAL CONDITION REPORT**

Net	0	0	0	0	0	0	0	0	0
Expenses incurred	2.976	29.648	0	119.881	96.791	16.115	116.297	55.483	5.180
Other expenses	0	0	0	0	0	0	0	0	0
Total expenses	0	0	0	0	0	0	0	0	0

Premiums, claims and expenses by line of business (2/3)

(Thousand BGN)	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of Business for: accepted non-proportional reinsurance				Total
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
Premiums written								
Gross - Direct Business	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	0	8.275	974	0	0	0	0	1.514.177
Gross - Non-proportional reinsurance accepted	0	0	0	6.370	27.571	6.968	301.777	342.686
Reinsurers' share	0	0	0	301	17.095	6.216	221.097	271.012
Net	0	8.275	974	6.069	10.476	752	80.680	1.585.851
Premiums earned								
Gross - Direct Business	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	0	8.275	974	0	0	0	0	1.510.843
Gross - Non-proportional reinsurance accepted	0	0	0	6.370	28.687	6.867	302.649	344.573
Reinsurers' share	0	0	0	301	17.972	6.186	221.526	269.114
Net	0	8.275	974	6.069	10.715	682	81.123	1.586.302
Claims incurred								
Gross - Direct Business	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	0	5.377	330	0	0	0	0	779.072
Gross - Non-proportional reinsurance accepted	0	0	0	5.217	9.095	13.185	30.070	57.566
Reinsurers' share	0	0	0	0	1.697	13.308	9.815	27.543
Net	0	5.377	330	5.217	7.398	-123	20.256	809.095
Changes in other technical provisions								
Gross - Direct Business	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0

GP Reinsurance EAD - **SOLVENCY AND FINANCIAL CONDITION REPORT**

Reinsurers' share	0	0	0	0	0	0	0	0
Net	0	0	0	0	0	0	0	0
Expenses incurred	0	2.706	368	58	190	31	888	446.611
Other expenses	0	0	0	0	0	0	0	632
Total expenses	0	0	0	0	0	0	0	447.243

		Life reinsurance obligations			Total
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance		
C250	C260	C270	C280	C300	
0	0	0	24.610	24.610	
0	0	0	0	0	
0	0	0	24.610	24.610	
0	0	0	24.610	24.610	
0	0	0	0	0	
0	0	0	24.610	24.610	
0	0	0	6.167	6.167	
0	0	0	0	0	
0	0	0	6.167	6.167	
0	0	0	0	0	
0	0	0	0	0	
0	0	0	0	0	
0	0	0	0		
0	0	0	0	13.185	

Premiums, claims and expenses by country (1/1)

(Thousand BGN)	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	BG	CZ	PL	HU	SK	RO	0
Premium written							
Gross - Direct Business							0
Gross - Proportional reinsurance accepted		878.820	217.796	235.757		102.256	1.434.630
Gross - Non-proportional reinsurance accepted		84.313	38.451	12.013	118.281	7.753	260.811
Reinsurers' share				-0	13.872		13.872
Net		963.133	256.247	247.771	104.409	110.009	1.681.568
Premium earned							
Gross - Direct Business							0
Gross - Proportional reinsurance accepted		878.836	217.667	232.501		102.273	1.431.277
Gross - Non-proportional reinsurance accepted		84.313	38.451	12.013	120.168	7.753	262.697
Reinsurers' share				-0	13.872		13.872
Net		963.149	256.118	244.515	106.296	110.025	1.680.103
Claims paid							
Gross - Direct Business							0
Gross - Proportional reinsurance accepted		444.102	85.787	162.220		53.468	745.577
Gross - Non-proportional reinsurance accepted		6.515	3.167	3.698	15.601	5.642	34.623
Reinsurers' share				18	-3.236		-3.218
Net		450.617	88.954	165.900	18.837	59.110	783.418
Changes in other technical provisions							
Gross - Direct Business							0
Gross - Proportional reinsurance accepted							0
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share							0
Net							0
Expenses incurred	77	247.996	71.837	77.713	-3.513	27.502	421.612
Other expenses							
Total expenses							421.612

B. System of Governance

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1. INFORMATION ON GENERAL GOVERNANCE: STRUCTURE OF ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODIES, DESCRIPTION OF ROLES AND RESPONSIBILITIES, DETAILS ON THE SEGREGATION OF RESPONSIBILITIES

The Company had as at 31 December 2019 a two-tier management system according to the adopted Articles of Association with Management Board and Supervisory Board. The organizational structure was approved by the Management Board and if necessary, it can be amended or supplemented.

The bodies of the Company are as follows:

- 1) The Sole Owner of the capital
- 2) The Supervisory Board
- 3) The Management Board.

Their powers are explicitly specified in the Articles of Association.

The Supervisory Board as at 31.12.2019 consists of the following members:

- Mr. Carlo Schiavetto – Chairman and member
- Mrs. Beata Petrusova – member
- Mr. Werner Moertel – independent member
- Mrs. Anna Hegedus - independent member.

The Management Board as at 31.12.2019 consists of the following members:

- Mrs. Mihaela Stanimirova– Chairman and Chief Executive Officer
- Mrs. Zhaneta Dzhambazka – member and Executive Officer
- Mr. Nikolay Stanchev – member.

All important decisions related to the Company's business are made by the Management Board, and some of them are approved by the Sole Owner of the capital and by the Supervisory Board. All resolutions are recorded and signed by the members who attended the relevant meetings. Resolutions can be passed also in absentia.

The Executive Directors are elected by the Supervisory Board according to the legal procedure. Every change in the senior management is agreed with the Sole Owner of the capital. The Executive Directors are appointed by management contracts with approved business plans and personal tasks for each calendar year. The management bodies function according to established business rules.

The Company's employees become aware of their powers and responsibilities through their job descriptions, attached to their Labor Contracts. Thus the major communication and information flows are defined (vertical and horizontal) for every position in the Company.

GP Re internal control and risk management system is founded on the three lines of defence:

- the operating functions (the "Risk Owners"), which represent the first line of defence and have ultimate responsibility for risks relating to their area of expertise
- actuarial, compliance and risk management functions, which represent the second line of defence
- Internal Audit, which represents the third line of defence (together with actuarial, compliance and risk management functions the "Control Functions").

The following committees have been established and are functioning in the Company:

- 1) Audit Committee – Mr. Martin Mancik – Chairman (elected in January 2018), and Mr. Roman Smetana and Mr. Jakub Rezek - members
- 2) Risk Committee – Mrs. Marcela Stredova - Chairman, Mr. Tomas Gubanec and Mrs. Mihaela Stanimirova – members.

Below are the responsibilities of the 2 committees.

COMMITTEES	
Key role	Description
Audit Committee	<p>With resolution of the Sole Shareholder and following the requirements of the Independent Financial Audit Act, an Audit Committee has been established in the company. The members and mandate of the Audit Committee members are decided by the Sole Shareholder in compliance with the Independent Financial Audit Act.</p> <p>The Audit Committee is established as an independent advisory body to the Supervisory Board, which observes the financial reporting processes in the company; the effectiveness and efficiency of the internal control and risk management system; observes the independent financial audit in the company; recommends to the Sole Shareholder the appointment of an auditor to perform the independent financial audit of the company; and performs a review of the independence of the registered auditor in accordance with the Law and the Ethical Code of the Professional Accountants, including the provision of non-audit (ancillary) services by the registered auditor.</p> <p>The Audit Committee provides recommendations to the Management and Supervisory Boards regarding the internal control and risk management system.</p> <p>The Audit Committee reviews and provides opinion on the Annual Audit Plan and the Annual Report of the Internal Audit Department.</p> <p>The Audit Committee reports on its activities to the Sole Shareholder, once every year.</p>
Risk Committee	<p>The Risk Committee acts as an advisory body to provide support to the Company's Top Management in defining the Company's target risk and the related levels of economic capital; in monitoring the risk profile on the basis of reports prepared by the Company's Risk Management function and in setting any corrective strategies.</p> <p>The Risk Committee includes top management and representatives from GCEE Holding Risk Management department to which part of the risk management activities are outsourced.</p>
Joint Technical Committee	<p>At the end of 2018, the Company formed a Joint Technical Committee between the Risk Management and Actuarial Functions. The Committee continues its activities also in 2019. The aim of the Committee is to integrate the activities and allow for coordinated decisions between the two functions.</p>

B.1.2. INFORMATION ON KEY FUNCTIONS

Following the Group Directives on Internal Control and Risk Management System, the company is considering risk and controls in line with the integrated method defined across Generali Group.

The functions involved in the risk management and internal control process operate according to the Three Line of Defense approach:

- 1) the operational structures (Risk Owners) are the first line of defense and are responsible for the risks concerning their area
- 2) the Risk Management function, Actuarial function and the Compliance function are the Second Line of Defense
- 3) the Internal Audit Function is the third line of defense.

Key role	Description
Risk Management Function	<p>The Risk Management is in charge of implementing and overseeing the risk management system. In particular it is responsible for providing information and suggestions to the Risk Committee and for working in close relation with the Heads of the business areas. Moreover, the Risk Management is in charge of the coordination of risk management policies, the execution of risk controlling activities and the development of risk evaluation methodologies.</p> <p>The Chief Risk Officer (CRO) leads the Risk Management and reports to the Risk Committee and to the regional Risk Management department. The function of CRO is performed by the Chief Executive Officer of the Company.</p>

	Part of the Risk management activities are outsourced to Generali CEE Holding Risk management department – e.g. aggregation and calculation of all risks for Standard Formula, Forward looking assessment of required and available capital, investment risk limit monitoring etc.
Compliance Function	The Compliance function has the responsibility for identifying, evaluating and preventing risks related to failure to comply with laws and regulations; it reports to the Chief Executive Officer and the Management Board and functionally to the regional Compliance department.
Internal Audit Function	The Internal Audit function has the responsibility to ensure monitoring and evaluating the effectiveness and efficiency of the system of internal controls and the need for improvement, also through support and advice to other business functions. Based on the Solid Line reporting model, the Head of Internal Audit Department reports to the Management Board and the Audit Committee of GP Reinsurance EAD, and ultimately to the Head of Group Audit, through the Head of the GCEE Audit.
Actuarial function	<p>The Actuarial function has the responsibility to coordinate the calculation of technical provisions, ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions, assess the sufficiency and quality of the data used in the calculation of technical provisions, compare best estimates against experience, inform the Management Board of the reliability and adequacy of the calculation of technical provisions, oversee the calculation of technical provisions in the cases where there are insufficient data or appropriate quality to apply a reliable actuarial method, express an opinion on the overall underwriting policy, express an opinion on the adequacy of reinsurance arrangements and contribute to the effective implementation of the risk management system.</p> <p>Part of the actuarial activities are outsourced to Generali CEE Actuarial department – e.g. – calculation and validation of Solvency II technical provisions.</p> <p>The company has one person as Head of Actuarial Function for Life and one person as Head of Actuarial Function for Non-life.</p>

In line with the Group strategy, the risk function and Top Management is trying to engage various functions in the risk management process to raise awareness and sharpen the sense of importance of risk management processes.

Part of the Management Board members are also members of the Risk Committee on which meetings ORSA results and main risk management issues are regularly presented.

B.1.3. MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE

The following important changes in the system of governance have occurred during 2019:

- With its resolution as of 28.08.2019, the Supervisory Board elected Mr. Nikolay Stanchev as a non-executive Director and member of the Management Board of the company. With the same resolution, Mr. Mario Carini was released as member of the Management Board with effect from 01.09.2019.
- With its resolution as 28.10.2019, the Management Board defines the split of responsibilities between the new Board Members.
- With Resolution of the Sole Owner of the capital, Generali CEE Holding B.V., Mr. Luciano Cirina was dismissed as a member of the Supervisory Board of the company and Mrs. Beata Petrusova was elected as a new member.

B.1.4. REMUNERATION POLICY

The Remuneration policy is adopted by the Supervisory Board of the Company and aims at:

- Defining clear and objective rules for remuneration structuring in the Company according to the Company business plan, goals, activities, values and long-term interests and also according to the principles and good practices for the protection of the interests of the users of reinsurance services.
- Ensuring remunerations in the Company that will allow the attraction, retention and motivation of highly qualified and loyal employees that will be working to achieve the goals of the Company in the conditions of sound and efficient risk management.

The remuneration structure consists of a combination of several components ensuring the relevant and balanced composition of the overall remuneration consistent with the Company's business strategy, goals, values and long-term interests and also with the budget for the relevant year.

The components forming the overall remuneration are as follows:

- Basic (permanent) remuneration. It is determined on the basis of the job position in the management and organizational structure of the Company, the assigned responsibilities, targets and long-term interests of the Company, the individual personal characteristics and the state and conditions of the labor market

- Additional (permanent) remuneration. It is determined with the labor conditions on the basis of the law parameters and opportunities. The additional remuneration is permanent when paid permanently together with the basic remuneration and it is determined only on the number of years of employment
- Additional (nonpermanent, flexible) remuneration based on the achieved results. It is determined on the basis of the achieved results that were preliminary assigned as targets for a certain period of time
- Other material motivations and benefits. They are determined based on the job position in the management and organization structure in the Company and the assigned responsibilities and are not related to achieving certain results or taking certain risks.

The conditions and the order of setting the flexible remuneration is as follows:

- The variable remuneration is related to the results and is based on a combination of the employee's performance evaluation, the department's evaluation and the whole company's evaluation
- The evaluation of the employee's job is based on financial (except Control Functions) and non-financial criteria
- The evaluation of Control Functions cannot be based on financial criteria and cannot be dependent on achieved financial results of the company.
- The evaluation process is based on the long-term performance and the payment of the flexible remuneration is distributed for a time period, considering the Company's economic cycle and undertaken risks.
- The performance evaluation, used for determining the flexible remuneration and its distribution, takes into consideration all undertaken and potential risks, the cost of capital and the required liquidity.

When over the year the employee receives a variable remuneration, which amounts to more than one third of his gross annual salary, not less than 40 % of the variable remuneration and considerable part of the remuneration is paid on installments for a minimum period of three years depending on the economic cycle of the Company, the activities of the Company and the risks coming out of these activities, as well as according to the position of this employee.

B.1.5. MATERIAL TRANSACTIONS DURING THE REPORTING PERIOD WITH SHAREHOLDERS, WITH PERSONS WHO EXERCISE A SIGNIFICANT INFLUENCE ON THE UNDERTAKING, AND WITH MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

During the reporting period no material transactions are executed with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the Management or Supervisory Boards.

B.2. FIT AND PROPER REQUIREMENTS

The Internal Fit and Proper Rules define the requirements in terms of fitness and experience of the members of the management and control bodies, key company employees. They are approved by the Supervisory Board of the Company.

Fitness and proper requirements for the members of the Management and Supervisory Boards are:

- 1) Each member of the Management Board shall at any time meet the fitness requirements under Art. 80, para. 1, It, 1 and 2, and Art. 83, para. 1 of the Insurance code (IC).
- 2) Each member of the Supervisory Board shall at any time meet the fitness requirements under Art. 80, para. 1, It, 1 and 2, and Art. 83, para. 2 of the IC. Independent members of the Supervisory board shall at any time meet the fitness requirements under Art. 81, para 2 of the IC as well.
- 3) The members of the Management Board who have been appointed to perform the Chief Executive Officer or the Executive Officer function shall at any time meet also the requirements under Art.80, para.4 of the IC.
- 4) The members of the Boards shall at any time meet the proper requirements under Art.80, para.1, It. 3 - 9 and para.3 of the IC.
- 5) The Members of the Boards are subject to approval by the FSC according to the IC provisions and procedure.

The members of the Boards shall collectively possess at least a relevant experience and knowledge of the:

- 1) Bulgarian insurance market,
- 2) the business strategy and business models,
- 3) the management system,
- 4) the actuarial and financial analysis,
- 5) the regulatory framework and requirements.

There is no requirement for each individual member to possess expertise, competencies and experience in all areas of the undertaking. Nonetheless, the collective knowledge competencies and experience shall ensure a sound and prudent management of the undertaking. The fitness of the members of the Boards shall be evaluated individually /considering the contribution of each individual member to the collective decision/ and collectively.

Fitness and proper requirements for the personnel in charge of the units performing key functions

The personnel in charge of the units performing key functions pursuant to Art. 78, para.1 of the IC shall meet the following fit and proper requirements:

- 1) for the Appointed Actuary – under Art. 97, para. 2 and Art. 99, para. 1 of the IC. Within 7 days as from the decision for his appointment the Company shall send a written notice to the Deputy Chairperson of the FSC in charge of the Insurance Supervision Division and submit a declaration under Art. 99, para. 1 of the IC.
- 2) for the Risk Management function /the Risk Manager/ - under Art. 89, para. 2 of the IC
- 3) for the Compliance function /the Compliance Officer/ - under Art. 93, para. 5 of the IC. The Head of Compliance is subject to approval by the FSC as per the stipulations of the IC.
- 4) for the Internal Audit function – under Art. 95, para. 3 of the IC. The Head of Internal Audit is subject to approval by the FSC as per the stipulations of the IC.

Pursuant to Art. 292 of the Code on Insurance the personnel entrusted with the product distribution shall comply with the fit and proper requirements. The company, in its activity of a captive reinsurance company, has outsourced its underwriting and reinsurance program development to an external provider and is monitoring that the employees of the provider meet the fit and proper requirements.

The Fit and Proper (and Independence when required) assessment shall be conducted on a single occasion when the personnel take up their duties, and periodically at least once a year. The assessment can be conducted ad hoc and at the discretion of the competent body.

The evaluation of the fit and proper requirement shall be conducted as follows:

- 1) for the members of the Boards - by the Bodies themselves
- 2) for the Audit Committee – by the Supervisory Board
- 3) for the head of the Unit performing the Internal Audit function /the Head of the Internal Audit Department/ - by the Management and Supervisory Board
- 4) for the Appointed Actuary, for the Head of the Risk Management function /the Risk Manager/ and for the Head of the Compliance function /the Head of the Compliance Office/ - by the Management Board
- 5) for the rest of the personnel subject to these guidelines – by the appointing Body.

The HR Department shall request a written self-declaration at a minimum on an annual basis from all relevant employees, by means of which each of them shall confirm his adherence to the IC applicable requirements and to the Generali Group Fit and Proper Policy, by declaring his commitment to give immediate notice to the HR Department of any significant facts and events relevant to the declared circumstances or changing them.

B.3. RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1. RISK MANAGEMENT SYSTEM

The purpose of the Risk Management system is to ensure that all risks to which the Company is exposed to are properly and effectively managed on the basis of the risk strategy defined, following a set of processes and procedures and based on clear governance provisions.

The principles defining the Risk Management system, including strategies, processes and reporting procedures, are provided in the Generali Group Risk Management Policy which is the cornerstone of all risk-related policies and guidelines. The Risk Management Policy covers all risks the Company is exposed to, on a current basis or on forward-looking basis.

GP Re Risk Management process is defined on the following phases:



1. Risk identification

The purpose of the Risk identification is to ensure that all material risks to which the Company is exposed to are properly identified. For that purpose, the Risk Management Function interacts with the main Business Functions in order to identify the main risks, assess their importance and ensure that adequate measures are taken to mitigate them according to a sound governance process. Within this process, Emerging Risks are also taken into consideration.

Based on Solvency II risk categories and for the purpose of Solvency Capital Requirement (SCR) calculation, risks are categorized according to the following Group Risk Map:

Risk Map

Risks covered by Partial Internal Model					Non quantifiable risks
Internal Model				Standard Formula	
Financial Risks	Credit Risks	Insurance Risks Non-Life	Insurance Risks Life & Health	Operational Risks	
Interest Rate yields	Spread widening	Pricing	Mortality CAT		Liquidity
Interest Rate volatility	Credit Default	Reserving	Mortality no CAT		Strategic
Equity Price	Counterparty Default	CAT	Longevity		Reputational
Equity volatility		Non-Life Lapse	Morbidity/Disability		Emerging
Property			Life Lapse		Contagion
Currency			Expense		
Concentration			Health CAT		
			Health Claim		

The Company has also developed an effective Risk Management system for those risks which are not included in the SCR calculation, such as Liquidity Risk and Other Risks (so called 'non-quantifiable risks', i.e. Reputational Risk, Contagion Risk and Emerging Risks).

Please see sections C.4 Liquidity Risk and C.6 Other Material Risk.

2. Risk measurement

Identified risks can be measured through their contributions to the SCR, eventually complemented by other modelling techniques deemed appropriate and proportionate to better reflect the Company risk profile. Using the same metric for measuring the risks and the SCR ensures that each risk is covered by an adequate amount of capital which could absorb the loss incurred if the risk materializes. For SCR calculation purposes 1 in 200 years events are considered.

In compliance with Solvency II regulation, the SCR is calculated based on the EIOPA Standard Formula.

Risks not included in the SCR calculation, such as Liquidity Risk and the Other Risks are evaluated based on quantitative and qualitative techniques and models.

3. Risk Management and control

As part of Generali Group, the Company operates under a sound Risk Management system in line with the processes and the strategy set by Generali Group. To ensure that the risks are managed according to the risk strategy, the Company follows the governance defined in the Group Risk Appetite Framework (RAF). RAF governance provides a framework for risk management embedding in day-to-day and extraordinary business operations, control mechanisms as well as escalation and reporting processes.

The purpose of the RAF is to set the desired level of risk exposure (in terms of Risk Appetite and Risk Preferences) and limit excessive risk-taking. Tolerance Levels based on capital and liquidity metrics are set accordingly. Should an indicator approach or breach the defined Tolerance Levels, escalation mechanisms are then activated.

4. Risk reporting

Risk monitoring and reporting is a key Risk Management process which allows to maintain Business Functions, Top Management, Management Board, Supervisory Board and Supervisory Authority aware and informed on the risk profile development, risk trends and breaches of Risk Tolerances.

The Own Risk and Solvency Assessment (ORSA) is the main risk reporting process, coordinated by the Risk Management Function. Its purpose is to provide the assessment of risks and of the overall solvency needs on a current and forward-looking basis. The ORSA process ensures ongoing assessment of the solvency position in line with the Strategic Plan and Capital Management Plan, followed by a regular communication of ORSA Results to the Supervisory Authority after Management Board approval. More details are provided in section B.3.2.

5. Risk governance

The above Risk Management process is ensured by the Risk Management Function, which in compliance with Solvency II and the principles set in the Risk Policies, supports the Management Board (MB) and Top Management in ensuring the effectiveness of the Risk Management system.

The Risk Management Function is responsible for reporting to the MB the most significant risks identified and for coordinating the ORSA process. The Risk Management Function has the responsibility to:

- Assist the MB and other functions in the effective operation of the Risk Management system
- Monitor the Risk Management system and the implementation of the Risk Management Policy
- Monitor the general risk profile of the Company and coordinate the risk reporting, including the reporting in case of tolerances breaches
- Advise MB and support main business decision-making processes.

In terms of risk governance, a description of how the Risk Management Function is implemented and integrated into the organisational structure and decision-taking processes is provided in section B.1. General Information on System of Governance.

B.3.2. ORSA PROCESS

The ORSA process is a key component of the Risk Management system which aims at assessing the adequacy of the solvency position and the risk profile on a current and forward-looking basis.

The ORSA process documents and properly assesses the main risks the Company is exposed to, or might be exposed on the basis of its Strategic Plan. It includes the assessment of the risks in scope of the SCR calculation, but also the Other Risks not included in SCR calculation. In terms of risk assessment techniques, stress test and sensitivity analysis are also performed with the purpose to assess the resilience of the solvency position and risk profile to changed market conditions or specific risk factors.

The ORSA Report is produced on an annual basis. In addition to the annual ORSA Report, non-regular ORSA Reports may be produced when the risk profile has changed significantly.

All results are properly documented in the ORSA Report and discussed during the Company Risk Committee. After discussion and approval by the MB, the Report is submitted to the Supervisory Authority. As a general rule, the information included in the ORSA Report is sufficiently detailed in order to ensure that the relevant results can be used in the decision-making process and in the business planning process.

The results of the local ORSA are also reported to the Parent Company as an input to the ORSA process of Generali Group. For this reason, the Company follows the principles set in the Group Risk Management Policy and additional operating procedures. These are issued by Head Office to grant consistency of the ORSA process across the Companies of Generali Group.

B.3.3. RISK EMBEDDING IN CAPITAL MANAGEMENT PROCESS

Capital Management and Risk Management are strongly integrated processes. This integration is deemed essential in order to align capital and business management processes.

By means of the ORSA process the projection of capital position and the forward-looking risk profile assessment contribute to the Strategic Planning and Capital Management process.

The ORSA Report relies on the Capital Management Plan to verify the adequacy, including the quality, of the Eligible Own Funds to cover the overall solvency needs during the planning period.

To ensure the risk and business strategies on-going alignment, the Risk Management supports actively the strategic planning process.

B.4. INTERNAL CONTROL SYSTEM

Generali Group Internal Control Policy sets out the basic principles of the internal control system that should govern the activities of the Company. The aim of this policy is to guarantee that all processes are designed in the most suitable manner and puts an emphasis on having in place effective and proper internal control measures, which will ensure reliable protection against and mitigation of the risks to which the Company is exposed to.

The Company aims at maintaining the highest standards of business integrity and impeccable reputation, and therefore requires from its managers and employees to be fully acquainted with the internal control framework, the best practice standards and to observe these

regulations at all times. Showing integrity and adhering to ethical values should be first and foremost part of the business conduct of top management, therefore one of the basic values in the Compliance Policy is the principle of "Leading by example".

Internal control framework makes use of a number of tools which help the Company to achieve its objectives in accordance with its risk appetite. These objectives are not limited to the revenue and expenses, as well as the profit, but also encompass areas such as financial reporting, the fulfillment of internal and external regulations and procedures requirements, etc. All these are assigned different priority depending on their inherent risk. The internal company control mechanisms are also of different nature and are set taking into consideration the specifics of the given process to which they relate.

One of the main aspects of the internal control framework is that high moral values are sustained and encouraged throughout the Company. Generali Group Code of Conduct is approved by the Company and it sets standards that have to be followed by all Group employees, including members of the administrative management and supervisory bodies. In addition, all third parties (consultants, suppliers, intermediaries, etc.) which perform activities on behalf of the Group Companies are required to follow the principles set out in the Code.

The Code of Conduct gives the minimum standards, which should be observed by all and provides for special rules for conduct in relation to the following areas: diversity and inclusion, assets and business data protection, conflicts of interest, anti-bribery and anti-corruption, insider dealing, anti-money laundering, anti-terrorism financing and international sanctions.

The communication to employees of the company rules for honest and ethical behavior is done during their first day in the company when they are acquainted with the Code of Conduct. There are annual trainings on these principles, Integrity Week sessions and other thematic trainings.

The effectiveness of the above control mechanisms are guaranteed not only by means of monitoring and established controls throughout the whole organizational structure, but also through appropriate channels for breach reporting.

The internal control culture is also maintained by high level of awareness of each employee on their roles and responsibilities and therefore their rights and applicable hierarchical reporting system.

The control activities are performed based on the three levels of defense model. The first level of defense are all employees who observe the internal and legal regulations and professional standards. The second level of defense is performed by the Compliance function and all other control functions within the company (e.g. Risk Management). The third level of defense is the Internal Audit function, which reviews given activities and controls their adequate performance, reviews the controls in place, their efficiency and level of security.

The control activities include periodic review of business areas (control on performance), automated controls being in place during the activities (the latter being preferred due to the limited risk of human error and intervention) and physical controls on assets (measures for asset protection, inventory checks, audits). Segregation of duties is a basic principle in place. The division of responsibilities aims to reduce the possibilities for making or covering a mistake or fraud during the normal course of business.

The internal control is maintained at all time by dedicated units and activities.

The Compliance Office provides the function under Art. 93 and Art. 94 from the Insurance code which is a part of the Internal control system of the Company and local compliance unit as per the Group Compliance policy. The Compliance office is an independent structural unit in the Company, directly subordinate to the Management Board of the Company and to the Chief Executive Officer. Controls put in place by the Compliance Function are preventive, current and ex-post. To assure that the intended outcomes are achieved, the Compliance Function adopts a systemic and disciplined approach of evaluation and improvement of the effectiveness of noncompliance risk management processes, ensuring continuous compliance of all Company activities with the applicable legal framework, involving in the process the Management bodies, the key functions and the employees of the Company, without regard to their job or structural position. They are all required to comply with the applicable legal framework relevant to their functions in the Company and to adhere to it in their day-to-day business activity.

B.5. INTERNAL AUDIT FUNCTION

In GP Reinsurance EAD the Internal Audit function is performed by the Internal Audit Department in line with the organizational rules from the Audit Group Policy approved by the Board of Directors of Assicurazioni Generali S.p.A. (Generali Group ultimate parent company) and the Audit Policy approved by Management Board of GP Reinsurance EAD.

The Internal Audit Department is an independent and objective function established by the Management Board and the Supervisory Board to examine and evaluate the adequacy, effectiveness and efficiency of the internal control system and of all the other elements of the governance system, through assurance and advisory activities for the benefit of the Management Board, the Top Management and other stakeholders.

It supports the Management Board in identifying the strategies and guidelines on internal control and risk management, ensuring that they are appropriate and valid over time, and provides the Management Board and the Audit Committee with analysis, appraisals, recommendations and information concerning the activities reviewed.

In line with the Audit Group Policy and based on a solid line reporting model, the Head of the Internal Audit Department reports to the Management Board, to the Audit Committee and to the Supervisory Board, of GP Reinsurance EAD, and ultimately to the Head of Group Audit, through the Head of Business Unit Audit.

The adopted functional reporting model ensures autonomy of the of the Internal Audit Department and independence from the operational management as well as more effective communication flows. The implementation of the model includes:

- The use of a general internal audit methodology, developed by the Group Audit Unit of Assicurazioni Generali
- Organizational structure to be adopted (recruiting, appointment, dismissal, remuneration, sizing and budget in agreement with the Management Board of GP Reinsurance EAD)
- Target setting and year-end appraisal
- Audit Reporting methods
- Consultation with the Internal Audit Department about the Internal Audit Plan prior to its submission for approval to the Management Board of GP Reinsurance EAD.

The Internal Audit Department is provided with adequate human and financial resources and its employees possess and acquire the knowledge, skills and competencies needed to perform the Internal Audit function's role and mission.

Internal Audit Department has a full, free, unrestricted and timely access to any of the organization's records, physical properties, and personnel pertinent to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information. The Head of Internal Audit Department has free and unrestricted access to the meetings and resolutions of the Supervisory board and the Management Board.

The Internal Audit Department adheres to The Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Professional Practices Framework (IPPF).

The Head of Internal Audit Department shall not assume any responsibility for any other operational function and should have an open, constructive and cooperative relationship with the Regulator, in order to ensure the exchange of information relevant to their respective responsibilities.

All employees of the Internal Audit Department comply with the specific fit and proper requirements as requested by the Fit & Proper Policy and avoid as much as possible any activities that could create conflicts of interest or could be perceived as such. The internal auditors shall always behave in an impeccable manner and shall keep strictly confidential the whole information of which they have become aware whilst performing their duties. The Internal Audit Department shall remain independent and objective and shall avoid any interference in the following cases:

- Selection of an audit engagement
- Defining of the internal audit scope
- Defining of the audit procedures, frequency and the timing of the audit engagements
- Presentation of the results of the audit engagements.

Internal Auditors have no direct operational responsibility or authority over any of the audited activities. Accordingly, they are not involved in the Company operations or in the development, adoption or implementation of organizational or internal control measures. However, the need of impartiality does not exclude the possibility to request from the Internal Audit Function an opinion on specific matters related to the internal control principles to be complied with.

At least once a year the Head of Internal Audit Department submits to the Audit Committee of GP Reinsurance EAD an Internal Audit Plan. The Audit Plan is further submitted for approval to the Management Board.

The Audit Plan is prepared based on a prioritization of the audit universe using a risk-based methodology and it takes into account all the activities, the system of governance, the expected developments of the activities and innovations, the organization's strategies, the key business objectives, the inputs from the Top management and the members of the Management Board and the Audit Committee. Furthermore, all deficiencies found during previous audits and newly identified risks are considered in the preparation of the Plan.

The Audit Plan submitted for approval by the Head of Internal Audit Department to the Management Board and the Audit Committee of GP Reinsurance EAD, includes at least the audit engagements, the criteria based on which they were selected, their timing as well as the required budget and human resources. The Head of the Internal Audit Department communicates to the Audit Committee and the Management Board the impact of any resource limitations and significant changes occurred during the year. The Management Board discuss and approves the plan along with the budget and human resources required to deliver it.

The Plan is regularly reviewed and adjusted by the Head of the Internal Audit Department depending on the changes in the organization's business, existing risks, operations, programs, systems, controls and audit findings. If necessary, the Internal Audit Department may carry out audits, which are not included in the approved Audit Plan. These additional audit engagements and their results are reported to the Management Board and to the Audit Committee at the earliest opportunity.

Following the conclusion of each engagement, a written audit report is prepared and submitted to the auditee and the auditee's hierarchy and to the Management Board and the Audit Committee. The Audit Report includes:

- Identified weaknesses related to the effectiveness, efficiency and consistency of the internal control system, and major shortcomings regarding the compliance with the internal policies, procedures, processes and company's objectives
- Level of significance of the audit findings
- Corrective actions taken or to be taken concerning the identified risks and the proposed deadlines for their implementation.

The Company's Management is responsible for the corrective actions, while the Internal Audit Department oversees the implementation of appropriate follow-up monitoring over the implementation of the adopted remedial actions and verifies their effectiveness.

Based on its activity and in line with the Group Audit Policy, the Internal Audit Department is responsible for the reporting of significant risk exposures and identified control issues to the Management Board, to the Supervisory Board and to the Audit Committee of the Company, including fraud risks, governance issues or other matters, should the Top Management request it.

The Head of Internal Audit Department at least every six months submits to the Management Board and to the Audit Committee, and once a year to the Supervisory Board a local report on the activities, issues identified and action plans for their resolution. It also includes the results of the follow-up activities, the persons and/or functions responsible for the implementation of the action plans, timing and effectiveness of the remedial actions for the initially found weaknesses.

The Management Board identifies the necessary actions in terms of every identified issue and ensures their implementation. However, in the event of particularly serious situations, the Head of the Internal Audit Department immediately informs the Management Board, the Top Management, including the Audit Committee and the Supervisory Board of the Company, the Head of Business Unit Audit and the Head of Group Audit.

The Internal Audit Department works in co-operation with other key functions and the external auditors to continuously foster the efficiency and effectiveness of the internal control system.

The Internal Audit Department implements a quality assurance and improvement program, which includes both internal and external assessments and covers all aspects of the audit activity. The program includes an evaluation of the audit activity's conformance with the IPPF Standards, the Audit Group Policy, the Group Audit Manual, and an evaluation of whether the auditors apply the Code of Ethics. The program also evaluates the efficiency and effectiveness of the audit activity and identifies potential for improvement.

B.6. ACTUARIAL FUNCTION

The main responsibilities of GP Reinsurance EAD Actuarial Function, as required by the Solvency II principles (article 48 of Directive 2009/138/EC), are the following:

- coordinate the calculation and validate the technical provisions;
- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- inform the Management Board of the Company on the reliability and adequacy of the calculation of the Technical Provisions;
- express an opinion on the overall underwriting policy;
- express an opinion on the adequacy of the reinsurance arrangements;
- contribute to the effective implementation of the risk-management system.

Since 2018 the Actuarial Function has been divided between Life and Non-Life and located under the CEO area to ensure an effective coordination for the calculation of technical provisions. In addition, to preserve the independence in carrying out his activities, the heads of Actuarial Function functionally reports to the Management Board, to which they have independent and direct access.

Within this framework and as required by the Solvency II regulation, the heads of the actuarial function for life and non-life produce written reports to be submitted to the Management Board at least annually. This report provides with the opinions on the reliability and adequacy of the calculation of technical provisions, on the overall underwriting policy and on the adequacy of reinsurance arrangements and documents all tasks that have been undertaken by the actuarial function and their results, reports possible remarks and suggested remediation actions.

In terms of resources, the Actuarial Function currently consists of several people. All of them possess an actuarial preparation, with a degree in actuarial sciences, statistics or mathematics, or otherwise finance/insurance specific post degree qualifications.

In detail, in addition to the heads of the function, two persons in Non-Life and one person in Life are dedicated to the calculation and coordination of the activities (methodology, reporting, processes), while two persons are specifically dedicated to the independent validation of the technical provisions in Solvency II, separately for Non-Life and Life. Calculation and validation activities are outsourced to Actuarial teams in Generali CEE Holding while Head of the Non-Life function and Head of the Life function are performed by internal resources (Appointed Actuaries).

GP Reinsurance EAD acts in line with Group Outsourcing Policy, where all rules and obligation are specified for proper set up and management of outsourcing relationship intra group and extra group, criteria for classification of outsourcing significance, roles and responsibilities, contracts content, internal process, evidence, monitoring of outsourcing.

B.7. OUTSOURCING

B.7.1. INFORMATION ON OUTSOURCING POLICY

The company has adopted Generali Group Outsourcing Policy for direct application. The policy intends to set consistent minimum mandatory outsourcing standards for all Generali Group entities, assign main outsourcing responsibilities and ensure that appropriate controls and governance structures are established within any outsourcing initiative. The Policy outlines the main principles to be followed when implementing outsourcing.

The Policy introduces a risk-based approach, adopting a proportionality principle to apply requirements according to the risk profile (distinguishing between critical and not critical outsourcing), the materiality of each outsourcing agreement and the extent to which the company controls the service providers.

The Policy requires the appointment, for each outsourcing agreement, of a specific business referent. The business referent is responsible for the overall execution of the outsourcing lifecycle, from the risk assessment to the final management of the agreement and subsequent monitoring activities of the Service Level Agreements defined in each contract.

In addition to the Group Outsourcing Policy, the company has adopted Internal Outsourcing Guidelines which are designed as a local supplement to the Group Outsourcing Policy and aim at providing a structured view to the managing of the outsourcing activities in the company, defining the roles and responsibilities for the administration and management of the Outsourcing activities and contracts, as well as setting the criteria based on which an outsourced activity/function shall be classified as critical or important. The Internal Guidelines also define the local regulatory framework applicable to outsourced functions and activities.

The company has in place outsourcing agreements for critical and important activities and functions. The outsourcing providers are resident of the Czech Republic. The company outsources part of the activities related to the Actuarial and Risk Management functions. Part of Reinsurance activities are also outsourced – mainly related to underwriting. The agreement also covers Asset and Liability Management services. For the management of the majority of its assets, the company uses the professional services of an asset management company.

B.8. ANY OTHER INFORMATION

The Company implemented the Group Directives on internal control and risk management system and the local regulatory requirements in terms of system of governance and the current set-up is considered adequate to the nature, scale and complexity of the risks inherent in the business of GP Re.

The Company Articles of Association foresees that the Management Board reviews at least on annual basis the documents, program and policies comprising the company system of governance and in case of need to initiate their update.

There have been no significant changes to the system of governance in the first months of 2020.

C. Risk Profile

C.1. UNDERWRITING RISK

C.1.1. LIFE UNDERWRITING RISK

RISK EXPOSURE AND ASSESSMENT

Life and health underwriting risks derive from the accepted reinsurance business in the life and health segment. It is accepted across the ACEER (Austria, Central Eastern Europe and Russia) region and refers to life business which started in 2018 and some specialized Health insurance classified as SLT.

Life and health underwriting risks can be distinguished in biometric and operating risks embedded in the life and health insurance policies. Biometric risks derive from the uncertainty in the assumptions regarding mortality, longevity, health, morbidity and disability rates taken into account in the insurance liability valuations. Operating risks derive from the uncertainty regarding the amount of expenses and the adverse exercise of contractual options by policyholders. Policy lapse is the main contractual option held by the policyholders, together with the possibility to reduce, suspend or partially surrender the insurance coverage.

Life and health underwriting risks are:

- mortality risk, defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in mortality rates, where an increase in mortality rates leads to an increase in the value of insurance liabilities. Mortality risk also includes mortality catastrophe risk, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events
- longevity risk like mortality, is defined as the risk resulting from changes in mortality rates, where a decrease in mortality rates leads to an increase in the value of insurance liabilities
- disability and morbidity risks derive from changes in the disability, sickness, morbidity and recovery rate
- lapse risk is linked to the loss or adverse change in liabilities due to a change in the expected exercise rates of policyholder options. The relevant options are all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. Mass lapse events are also considered
- expense risk results from changes in the expenses incurred in servicing insurance or reinsurance contracts
- health risk results from changes in health claims and also includes health catastrophe risk.

The approach underlying the life underwriting risk measurement is based on the calculation of the loss resulting from unexpected changes in biometric and/or operating assumptions. Capital requirements for life underwriting risks are calculated on the basis of the difference between the Solvency II technical provisions before and after the application of the stress.

Life underwriting risks are measured by means of standard formula.

RISK MANAGEMENT AND MITIGATION

Life underwriting risk management is based on two main processes:

- accurate pricing
- ex-ante selection of risks through underwriting.

Both these are appropriately performed on the cedents' level according to Generali Group UW guidelines.

Life products accepted by the company consist mainly of protection business (CPI and Mortgage insurance).

Life and health underwriting risks form just negligible part in comparison to NL portfolio. These risks are fully retained within Company. No transfers of life underwriting risks to SPVs are reported at YE2019.

C.1.2. NON-LIFE UNDERWRITING RISK

RISK EXPOSURE AND ASSESSMENT

P&C Underwriting Risk is the risk arising from P&C insurance obligations, in relation to the perils covered and the processes used in the conduct of business. It includes at least the risk of underestimating the frequency and/or severity of the claims in defining pricing and reserves (respectively Pricing Risk and Reserving Risk) and the risk of losses arising from extreme or exceptional events (Catastrophe Risk).

The Company cannot avoid exposure to potential losses stemming from the risks intrinsically related to the nature of its core businesses. However, properly defining standards and recognizing, measuring, setting limits to these risks is of critical importance to ensure the Company's resilience under adverse circumstances and to align P&C underwriting activities with the Company Risk Appetite.

The Company, in line with Generali Group risk strategy, accepts risks that are known and understood, where the available information and the transparency of exposure enables the businesses to achieve a high level of professional underwriting, with consistent development. Moreover, risks are underwritten with quality standards in the underwriting procedures in order to secure profitability and limit moral hazard.

In 2019 GP Reinsurance EAD has continued its main reinsurance activities and extended its portfolio to Austria. The Company provides reinsurance services mainly to companies from Generali CEE Holding B.V. on the territory of Austria, Bulgaria, Serbia, Montenegro, Romania, Czech Republic, Hungary, Slovakia, Croatia, Slovenia and Poland.

In 2019 the external reinsurance treaties are retro-ceded directly to Assicurazioni Generali S.p.A., except for Drought and Crop Revenue treaties QS (related to the portfolio of Generali Serbia), which are placed through the reinsurance broker Aon-Benfield.

The exposures of the Company to the underwritten risks are described in the other corresponding sections of this documentation, related to the Technical Provisions and the Market Value Balance Sheet.

The SCR for Non-Life Underwriting Risks is measured through standard formula. The P&C Underwriting Risks are measured through a quantitative model aimed at determining the SCR, based on the methodology and parameters defined in the Standard Formula approach. The risk measurement derives from the application of a pre-defined stress to the best estimate with a probability of occurrence equal to 0,5%.

Moreover, in addition to capital metrics, the Risk Management Function defines risk indicators, such as relevant exposures, risk concentration and other metrics to monitor the development of the P&C Underwriting Risks. This ensures on-going alignment with the Risk Appetite Framework.

The Risk Management Function also checks the appropriateness of the parameters used in the SCR calculation by performing sensitivity analysis. For the assessment of P&C Underwriting risks in terms of SCR, please refer to chapter E.

The key risk measures have not been changed from the previous year.

The reinsurance treaties of GP Reinsurance EAD can be subdivided into three basic categories:

- The reinsurance contracts, under which the reinsurance coverage is fully taken by GP Reinsurance EAD. In this case the results from the reinsurance operations remain in the portfolio of the Company
- The reinsurance contracts under which part of the risk remains with GP Reinsurance EAD and the rest is retro-ceded. According to them the ceded part is related to risks, which exceed the pre-defined limits, and the Company pays certain insurance premium in return
- The reinsurance contracts, under which the coverage is fully retro-ceded. In this case the reinsurance coverage of all transferred insurance policies is ceded and does not affect the result of GP Reinsurance EAD, which only administrates the contracts and retro-cedes premiums, claims and reserves.

RISK MANAGEMENT AND MITIGATION

P&C Risk selection starts with an overall proposal in terms of underwriting strategy and corresponding business selection criteria in agreement with Group Head Office. The underwriting strategy is formulated consistently with the Risk Preferences defined by the Management Board within the Risk Appetite Framework.

During the Strategic Planning process, targets are established and translated into underwriting limits with the objective to ensure business is underwritten according to the plan. Underwriting limits define the maximum size of risks and classes of business the Company shall be allowed to write without seeking any additional or prior approval. The limits may be set based on value limits, risk type, product exposure or class of occupancy. The purpose of these limits is to attain a coherent and profitable book of business that is founded on the expertise of the Company.

The company has stated its main underwriting (i.e. accepting) limits within Operational Limit Handbook (OLH) which is regularly updated and reported at Risk Committee.

Reinsurance is the key risk mitigation technique for the P&C portfolio. It aims at optimizing the use of risk capital by ceding part of the Underwriting Risk to selected counterparties simultaneously minimizing the Credit Risk associated with such operation.

The Company places the treaty reinsurance to the Head Office mainly through CAT XL treaty.

The Property Catastrophe Reinsurance Program for 2019 was designed as follows:

- Protection aims to cover single occurrence losses up to a return period of at least 250 years;
- Protection proved capable in all recent major cat losses;
- Substantial risk capital saved by means of the protection;
- An additional aggregate XL program is protecting the Company balance sheet in case of multiple events in a year.

The Company has historically preferred traditional reinsurance as a tool for mitigating Catastrophe Risk resulting from its P&C portfolio, and has shown no appetite for other mitigating techniques.

Risk Management Function confirms the adequacy of the risk mitigation techniques on annual basis. In addition, independent opinion on reinsurance (i.e. ceded) strategy is provided by CRO function.

C.2. MARKET RISK

The Company invests the collected premiums in a wide variety of financial assets, with the purpose of honoring future promises to cedants and generating value for the shareholder.

The Company might then be exposed to the following Market and Credit Risks, that:

- Invested assets do not perform as expected because of falling or volatile market prices;
- Cash of maturing bonds are reinvested at unfavorable market conditions, typically lower interest rates.
- Invested assets do not perform as expected because of perceived or actual deterioration of the credit worthiness of the issuer;
- Derivative or reinsurance contracts do not perform as expected because of perceived or actual deterioration of the credit worthiness of the counterparty.

The Company holds its assets until they are needed to redeem the promises to cedants, the Company is relatively immune to short-term decrease and fluctuations in the market value of its assets.

Nonetheless, the Company is required by the Solvency II regulation to hold a capital buffer, with the purpose of maintaining a sound solvency position even in the circumstances of adverse market movements. Please refer to section E.2.

For this purpose, the Company manages its investments in a prudent way according to the so-called 'Prudent Person Principle'¹, and strives to optimize the return of its assets while minimizing the negative impact of short term market fluctuations on its solvency.

The Company invests the premiums collected in financial instruments ensuring that benefits to cedants can be timely paid. If the value of the financial investments sufficiently decreases at the moment when benefits to cedants need to be paid, the Company may fail to maintain its promises to cedants. Therefore the Company must ensure that the value of the financial investments backing the insurance contracts do not fall below the value of its obligations.

Asset allocation	Market value (thousand BGN) 2019	Market value (thousand BGN) 2018
Government bonds	1.170.635	1.108.967
Corporate bonds	563.383	498.840
Investment funds	79.629	73.860
Equity	260.782	233.989
Structured notes	0	5.701
Cash and deposits	140.717	228.242
Mortgages and loans	105.665	115.040
Reverse REPO	161.967	63.431
Derivatives	10.410	1.939
Total	2.493.188	2.330.008

¹ The 'Prudent Person Principle' set out in Article 132 of Directive 2009/138/EC requires the Company to only invest in assets and instruments whose risk can be identified, measured, monitored, control and reported as well as taken into account in the Company overall solvency needs. The adoption of this principle is ruled in the Group Investment Governance Policy (GIGP).

RISK EXPOSURE AND ASSESSMENT

The Market Risks included in the Company Risk Map are:

- Equity Risk: the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of equity market prices which can lead to financial losses.
- Interest Rate Risk: the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of interest rates in the market. The Company is mostly exposed to upward changes in interest rates as higher interest rates decrease the present value of the promises made to policyholders less than the value of the assets backing those promises.
- Concentration Risk: the risk of incurring in significant financial losses because the asset portfolio is concentrated to a small number of counterparties, thus increasing the possibility that a negative event hitting only a small number or even a single counterparty can produce large losses
- Currency Risk: the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in exchange rates.
- Property Risk: the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in the level of property market prices.
- Spread Risk: the risk of adverse changes in the market value of the assets due to changes in the market value of non-defaulted credit assets. The market value of an asset can decrease either because the market's assessment of the creditworthiness of the specific obligor decreases, which is typically accompanied by a credit rating downgrade, or because there is a market-wide systemic reduction in the price of credit assets.

The current allocation to Market Risks is the following:

Asset allocation	Market value (thousand BGN) 2019	Market value (thousand BGN) 2018
Concentration risk	2.301.631	2.148.876
Property risk	260.923	251.153
Equity risk	140.948	122.958
Interest rate risk	2.060.137	1.919.603
Currency risk	645.556	622.488
Spread risk	1.899.915	1.774.933
Total	7.309.110	6.840.011

For the evaluation of its Market Risks, the Company makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

Market Risk concentration is explicitly modelled by the Standard Formula. Based on the results of the model and on the composition of the balance sheet the Company has no material risk concentrations.

RISK MANAGEMENT AND MITIGATION

The 'Prudent Person Principle' is the main cornerstone of the Company investment management process. To ensure a comprehensive management of Market Risks impacts on assets and liabilities, the Company Strategic Asset Allocation (SAA) process needs to be liability-driven and strongly inter-dependent with reinsurance-specific targets and constraints. The Company, following the Generali Group approach, has integrated Strategic Asset Allocation (SAA) and Asset Liability Management (ALM) within the same process.

One of the main risk mitigation techniques used by the Company consists in liability driven management of the assets, which aims at granting a comprehensive management of assets taking into account the Company liabilities structure.

The asset portfolio is invested and rebalanced according to the asset class and duration weights defined through the Investment Management process and based on the 'Prudent Person Principle'. The aim is not just to eliminate the risk but to define an optimal risk-return profile satisfying the return target and the Risk Appetite of the Company over the Business Planning period.

The Company uses also derivatives with the aim to mitigate the risk present in the asset or/and liability portfolios. The derivatives help the Company to improve the quality, liquidity and profitability of the portfolio, according to the Business Planning targets.

ALM&SAA activities aim at ensuring that the Company holds sufficient and adequate assets in order to reach defined targets and meet liability obligations. This implies detailed analyses of asset-liability relationship under a range of market scenarios and expected/stressed investment conditions.

The ALM&SAA process relies on a close interaction between Investment, Finance, Actuarial, Treasury and Risk Management Functions. The inputs and targets received from these Functions guarantee that the ALM&SAA process is consistent with the Risk Appetite Framework, Strategic Planning and Capital Allocation processes.

The aim of the Strategic Asset Allocation process is to define the most efficient combination of asset classes which, according to 'Prudent Person Principle' and related relevant implementation measures, maximizes the investment contribution to value creation, taking into account solvency, actuarial and accounting indicators.

The annual SAA proposal:

- Defines target exposure and limits, in term of minimum and maximum exposure allowed, for each relevant asset class;
- Embeds the deliberate ALM mismatches permitted and potential mitigation actions that can be enabled on the investment side.

Regarding specific asset classes (Private Equity, Alternative Fixed Income, etc.), the Group has centralized their management and monitoring. This kind of investments is subject to accurate due diligence aiming at assessing the quality of the investments, the level of risk related to the investment, its consistency with the approved liability-driven SAA;

In addition to risk tolerance limits set on the Company solvency position defined within the RAF, the current risk monitoring process of the Company is also integrated by the adoption of the Generali Group Risk Guidelines (GRG) provided by Head Office. The GRG include general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.

Furthermore, the Company is also actively implementing Market Risk mitigation strategies:

Currency risk

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. As the functional currency of the Company is CZK, movements in the exchange rates between foreign currencies and CZK affect the Company's financial statements.

The Company implemented the risk management strategy for foreign currency (FX) risk management of the company's investment portfolios. The Company holds its reinsurance liabilities in foreign currencies based on the currency of the reinsurance treaty. The net technical liabilities are covered by investment portfolios on the asset side, and there is an additional investment portfolio covering part of the Company's own capital. Individual assets within the investment portfolios are generally denominated in the currency corresponding to currency of liabilities. For cases where the asset is not denominated in the same currency as liabilities, the Company concludes FX derivatives to hedge the asset against movements in the asset's currency against the liabilities' currency. The above described portfolios therefore represent the economic hedging also in relation to the functional currency of the Company (CZK). The assets' FX position is dynamically adjusted using FX derivatives and spot operations on a money market and capital market to ensure the required hedged position.

The Company implements the hedge accounting to reflect its hedging strategy within the financial statements. Within the hedge accounting activities, effectiveness of hedging is measured based on comparison of the change in the fair value of the hedging instrument and change in the fair value of hedged item with respect to the hedged risk. The hedge relationship is considered to be effective for the test result within 80-125%.

C.3. CREDIT RISK

For general information on the Market and Credit Risk Context, see previous section on the Market Risk.

RISK EXPOSURE AND ASSESSMENT

The Credit Risk included in the Company Risk Map is:

Counterparty Default Risk: reflects possible losses due to unexpected default, or deterioration in the credit standing of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months.

The current allocation to Credit Risk is the following:

Exposure to risk type	Market value (thousand BGN) 2019	Market value (thousand BGN) 2018
Counterparty Default Risk	638.927	700.841

In order to ensure that the level of Credit Risks deriving from the invested assets are adequate to the business run by the Company and to the obligations taken with the cedants, the investment activity is performed in a sound and prudent manner in accordance with the 'Prudent Person Principle' set out in Article 132 of Directive 2009/138/EC, as ruled in the Group Investment Governance Policy (GIGP), that has been approved by Head Office and subsequently approved by the Company.

The 'Prudent Person Principle' is applied independently of the fact that assets are subject to Market Risks, Credit Risks or both.

Common risk measurement methodologies (both qualitative and quantitative) are applied in order to provide an integrated measurement of the risks borne by the Company.

For the evaluation of its Credit Risks, the Company makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

The methodology used to evaluate the Credit Risks is unchanged with respect to the previous reporting period.

RISK MANAGEMENT AND MITIGATION

The Credit Risks borne by the Company are managed in many concurrent ways.

The Company has adopted guidelines to limit the credit risk of the investments. These favour the purchase of investment grade debt instruments. These are debt instruments with little risk of default by the counterpart or secured by a reliable guarantee.

The asset portfolio is invested and rebalanced according to the asset class and duration weights defined through the Investment Management process described above and based on the 'Prudent Person Principle'. The aim is not just to eliminate the risk but to define an optimal risk-return profile satisfying the return target and the Risk Appetite of the Company over the Business Planning period.

Moreover, the application of the standard formula produces a set of quantitative Risk Metrics that allows the definition of risk tolerance levels and to perform sensitivities analysis on selected risk scenarios.

In addition to the framework illustrated above, the current risk monitoring process of the Company is also integrated by the adoption of the Generali Group Investments Risk Guidelines (GIRG) provided by the Group head office to The System of Investment Risk Limits. It includes general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.

C.4. LIQUIDITY RISK

RISK EXPOSURE AND ASSESSMENT

Liquidity Risk is defined as the uncertainty emanating from business operations, investment or financing activities, over the ability of the insurer to meet payment obligations in a full and timely manner, in a current or stressed environment. This could include meeting commitments only through a credit market access at unfavorable conditions or through the sale of financial assets incurring in additional costs due to illiquidity of (or difficulties in liquidating) the assets.

The Company is exposed to Liquidity Risk as a result of insurance operating activity, depending on the cash-flow profile of the expected new business, due to the potential mismatches between the cash inflows and the cash outflows deriving from the business. Liquidity Risk can additionally stem from investing activity, due to potential liquidity gaps deriving from the management of the Company's assets portfolio as well as from a potentially insufficient level of liquidity (i.e. capacity of being sold at a fair price in adequate amounts and within a reasonable timeframe) in case of disposal. Finally, the Company can be exposed to liquidity outflows related to issued guarantees, commitments, derivative contract margin calls, or regulatory constraints regarding Insurance Provisions Coverage Ratio and capital position.

The Company's Liquidity Risk Management relies on projecting cash obligations and available cash resources into the future, so as to monitor that available liquid resources are at all times sufficient to cover the cash obligations that will come due in the same period.

For this purpose, a set of Liquidity Risk Metrics is defined and used to regularly monitor the liquidity situation.

The metrics are calculated both under the base scenario, in which the values of cash-flows, assets and liabilities are consistent with the strategic plan, and under a set of stress scenarios, in which the projected cash inflows and outflows and market price of assets are recalculated to take into account unlikely but plausible circumstances that would adversely impact the Company's liquidity.

Liquidity Risk limits are defined in terms of values of the above-mentioned metrics that the Company cannot exceed. The limit framework is designed so as to ensure that the Company holds a 'buffer' of liquidity in excess of the amount required to withstand the adverse circumstances depicted in the stress scenarios. Liquidity Risk limits are defined within Risk Appetite Framework (RAF).

C.4.1. EXPECTED PROFIT INCLUDED IN FUTURE PREMIUMS

The Expected Profit Included in Future Premiums (EPIFP) represents the expected present value of future cash-flows which result from the inclusion in Technical Provisions of premiums relating to existing insurance and reinsurance contracts. These are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the cadent to discontinue the Policy.

The amount of EPIFP for the Life business written by the Company has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to 8.463 thousand BGN at year-end 2019. Last year EPIFP for the Life business was not calculated (0 BGN) due to low volumes of business in 2018.

The amount of EPIFP for the Nonlife business written by the Company has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to 297 m BGN at year-end 2019. Increase of the profit compared to the last year (270 m BGN) is driven by assumptions of lower loss ratios for CAT reinsurance.

C.5. OPERATIONAL RISK

RISK EXPOSURE AND ASSESSMENT

Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Losses from events such as fraud, litigation, damages to premises, cyber-attacks and failure to comply with regulations are therefore covered in the definition. Compliance and Financial Reporting Risks fall within this category.

RISK MEASUREMENT

Operational risks are measured following the standard formula approach.

The SCR for operational risks amounts to 58 m BGN (equal to 6% of total SCR before diversification and 9% of total SCR after diversification).

There are no substantial changes to be reported over the reporting period.

RISK MANAGEMENT AND MITIGATION

Although ultimate responsibility for managing the risk sits in the first line, the so-called risk owners, the Risk Management Function with its methodologies and processes ensures an early identification of the most severe threats across the company. In doing so, it provides management at all levels with a holistic view of the broad operational risk spectrum that is essential for prioritizing actions and allocating resources in most risk related critical areas.

The target is achieved by adopting methodologies and tools in line with industry best practices and by establishing a strong dialogue with the first line of defence.

Furthermore, since 2015, the Group has been exchanging operational risk data in an anonymous fashion through the "Operational Risk data eXchange Association (ORX)", a global association of operational risk practitioners where main industry players also participate. The aim is to use the data to improve internal controls and to anticipate emerging trends. In addition, since losses are collected by the first line, the process contributes to create awareness among the risk owners upon risks that actually impact the Company and therefore the Group. In this sense, a primary role is played by Group-wide forward-looking assessments that aim to estimate the evolution of the operational risk exposure in a given time horizon, supporting in the anticipation of potential threats, in the efficient allocation of resources and related initiatives.

MAIN ACTIVITIES WITHIN THE OPERATIONAL RISK MANAGEMENT FRAMEWORK

Following best industry practices, Generali's framework for Operational Risk Management includes as main activities the Loss Data Collection (LDC), risk assessment and scenario analysis.

The Loss Data Collection is the process of collection of losses suffered as result of the occurrence of Operational Risk event and provides a backward-looking view of the historical losses suffered due to Operational Risk events.

Risk assessment and scenarios analysis provide a forward-looking view on the risks that expose Generali and require an analysis of the risks performed jointly with the business owners:

- Risk assessment provides a high-level evaluation of the forward-looking inherent and residual risk exposure of each relevant Company and, as a consequence, of the Group. The outcomes of the assessment drive the execution of the scenario analysis;
- Scenario analysis is a recurring process that, considering the risk assessment results, provides a detailed evaluation of the Group Operational Risk exposure through the selection and the evaluation of specific risk scenarios.

During 2019, the company was monitoring and collecting loss data and performed Risk Assessment, which was a joint activity between Operational Risk and Compliance.

MAIN COMPANY RISKS

Using the Group classification of operational risks, the Company identified the following main operational risk areas:

- Cyber attack (IT attack with loss or alteration of data)
- Product flaws (Flaws in product development and design – related to reinsurance program)
- Internal fraud in payment (Fraud in payments, theft or robbery initiated by employees/ agents)
- IT data loss (Unavailability/Breakdowns of IT infrastructures and/or Loss or Accidental Alteration of IT Data)
- Insurance Investments (Failure to implement investment decisions)
- Tax (Failure to comply with laws/ regulations concerning tax)
- Fraud by Clients (Fraud by clients/ third parties)
- Fraud by suppliers (Fraud by suppliers and/ or outsourcers)
- Data entry (Incorrect data entry/ transfer)
- IT infrastructure breakdown (Loss or accidental alteration of IT data (application dysfunction)
- Non-authorized transactions (Non-authorized transactions and/ or alteration of applications/ recorded data (intentional))

The company implemented Loss Data Collection process in 2016 according to the Group methodology. In 2019 no significant operational loss has occurred in the company.

C.6. OTHER MATERIAL RISK

C.6.1. RISK CONCENTRATION

Concentration risk is the risk stemming from all risk exposures with a potential loss which is large enough to threaten the solvency or the financial position of the company. Risk concentrations are significant when they could threaten the solvency or the liquidity position of the company, thus substantially impacting its risk profile.

On Generali Group level, there are three categories of exposures identified in terms of main sources of concentration risk for the Group and consequently also for GPRe:

- Investment exposures stemming from investment activity;
- Exposures to reinsurance counterparty default risk stemming from ceded reinsurance; and
- Non-life underwriting exposures, specifically natural disasters or man-made catastrophes.

The annual assessment has outlined no significant risk concentrations at year-end 2019 that could undermine the solvency or liquidity situation of the Company.

C.7. ANY OTHER INFORMATION

C.7.1. OTHER RISKS

As part of the qualitative Risk Management framework, also the following risk categories are considered, even though they do not take part of SCR calculations:

- Emerging Risks arising from new trends or risks difficult to perceive and quantify, although typically systemic. These usually include internal or external environment changes, social trends, regulatory developments, technological achievements, etc. For the assessment of these risks, the Company relies on the information set provided by Head Office and ensures a proper discussion with all main Business Functions
- Reputational Risk referring to potential losses arising from deterioration or a negative perception of the Company or among its customers, counterparties and Supervisory Authority. The processes in place in order to manage this risk are: communication and media monitoring activities, corporate and social responsibility, ethics and compliance. Overall, due to the nature of GP Reinsurance EAD operations, i.e. a captive reinsurer for Generali insurance companies in the CEE region, the exposure to reputational risk is limited.

- Contagion risk refers to potential negative implications that events occurring within one Group company may negatively affect also GP Re.

C.7.2. INFORMATION ON SENSITIVITIES

The Company is testing the sensitivity of its solvency position on various detrimental scenarios. Results are included in the section E.6

D. Valuation for Solvency Purposes

The valuation of Assets and Non-Technical liabilities (resp. D1 and D3), is based on the SII regulatory framework that standardizes valuations and measurements of MVBS² assets and liabilities, coherently with the Directive 2009/138/EC, which largely reflects the IFRS principles adopted by the European Commission (with some exceptions hereafter reported).

For the sake of clarity, common relevant regulatory reference and disclosure notes have been described both in Assets and Other liabilities, while specific regulatory statements to be applied only on asset or other liability items have been disclosed in the appropriate valuation and measurement section of sub-chapter D.1. and D.3.

In order to define the MVBS at Solo level, all assets and liabilities on the balance sheet must be stated at fair value in accordance with Art 75 of Directive 2009/138/EC (L1 – Dir).

The primary objective for valuation as set out in Article 75 of L1 - Dir requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the approach of Solvency II, when valuing balance sheet items on an economic basis, undertakings need to consider the risks that arise from a particular balance sheet item, using assumptions that market participants would use in valuing the same asset or liability.

This approach leads insurance and reinsurance undertakings to value assets and liabilities at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; in addition, in case of liabilities valuation, parties shouldn't make any adjustment to take account of the change of the own credit standing of the insurance or reinsurance undertaking occurred from the recognition of the liability to the valuation date.

According to the Commission delegated regulation (L2-DR) insurance and reinsurance undertakings shall value assets, unless otherwise clearly stated in the regulation, in conformity with:

- 1) International accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC.
If those standards allow for the use of more than one valuation method, insurance and reinsurance undertakings shall only use valuation methods that are consistent with Article 75 of Directive 2009/138/EC;
- 2) other valuation methods that are deemed to be consistent with Article 75 of Directive 2009/138/EC, when the valuation methods included in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 are either temporarily or permanently not consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC.

By way of derogation from points above #1 and #2, insurance and reinsurance undertakings may value an asset or a liability using an alternative valuation method which is proportionate to the nature, scale and complexity of the risks inherent in the business of the undertaking, provided that:

- 1) the valuation method is:
 - consistent with Article 75 of Directive 2009/138/EC; and
 - proportionate with respect to the nature, scale and complexity inherent in the business of the undertaking
- 2) the undertaking does not value that asset or liability using international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 in its financial statements
- 3) valuing assets and liability using international accounting standards would impose costs on the undertaking that would be disproportionate with respect to the total administrative expenses.

The IFRSs' accounting bases, such as the definitions of assets and liability and the recognition / derecognition criteria, are applicable as the default accounting framework, unless otherwise stated. IFRSs also refer to a few basic presumptions, which are equally applicable:

- going concern assumption.
- individual assets and liability are valued separately.
- the application of materiality, whereby the omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the Solvency II balance sheet. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fair value hierarchy

² MVBS – market value balance sheet. The term is used within Generali Group to refer to Solvency II balance sheet.

In Tech Spec (V6) it is clearly indicated the fair value hierarchy to be adopted in valuating assets and other liabilities than technical provision. On this basis, the undertaking applied the following hierarchy of high-level principles for valuation of assets and liabilities:

- I. use of quoted market prices in active markets for the same assets and liability
- II. where the use of quoted market prices for the same assets or liability is not possible, use of quoted market prices in active markets for similar assets or liability with adjustments to reflect differences
- III. if there are no quoted market prices in active markets available, use of mark-to-model techniques. Those alternative valuation techniques must be benchmarked, extrapolated or otherwise calculated as far as possible from a market input
- IV. maximum use of relevant observable inputs and market inputs is recommended, while use of undertaking-specific inputs and unobservable inputs should be minimize
- V. valuing liabilities at IFRS fair value, the adjustment to take account of the own credit standing as required by IFRS 13 Fair Value Measurement must be eliminated. In addition, when valuing financial liabilities subsequently after initial recognition, the adjustment to take account of the own credit standing as required by IFRS 13 Fair Value Measurement and as defined by IFRS 7 Financial Instruments: Disclosures, has to be eliminated.

The definition of fair value in IFRS 13 is based on an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. Being basic concept from IFRS13 imported into SII environment, inputs used in valuation techniques are classified into three levels, giving the highest priority to (unadjusted) quoted prices in active markets for identical asset or liabilities and the lowest priority to unobservable inputs³.

Level 1 inputs

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available, with limited exceptions.

If an entity holds a position in a single asset or liability and the asset or liability is traded in an active market, the fair value of the asset or liability is measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity, even if the market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 inputs

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly.

They include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liability in markets that are not active
- inputs other than quoted prices that are observable for the asset or liability, for example:
 - interest rates and yield curves observable at commonly quoted intervals
 - implied volatilities
 - credit spreads
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

Level 3 inputs

Level 3 inputs are unobservable inputs for the asset.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Fair value measurement approach

³ If the inputs used to measure fair value are classified at different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment).

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

A fair value measurement requires an entity to determine all of the following:

- the particular asset or liability that is the subject of the measurement (consistently with its unit of account)
- for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use)
- the principal (or most advantageous) market for the asset or for the liability
- the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or the liability and the level of the fair value hierarchy within which the inputs are categorized.

Guidance on measurement

IFRS 13 provides the guidance on the measurement of fair value, including the following:

- an entity takes into account the characteristics of the asset or the liability being measured that a market participant would take into account when pricing the asset or the liability at measurement date (e.g. the condition and location of the asset and any restrictions on the sale and use of the asset);
- fair value measurement assumes an orderly transaction between market participants at the measurement date under current market conditions
- fair value measurement assumes a transaction taking place in the principal market for the asset or the liability, or in the absence of a principal market, the most advantageous market for the asset or the liability
- a fair value measurement of a non-financial asset considers its highest and best use
- a fair value measurement of a financial or non-financial liability or an entity's own equity instruments assumes it is transferred to a market participant at the measurement date, without settlement, extinguishment, or cancellation at the measurement date
- the fair value of a liability reflects non-performance risk (the risk the entity will not fulfil an obligation), including an entity's own credit risk and assuming the same non-performance risk before and after the transfer of the liability
- an optional exception applies for certain financial assets with offsetting positions in market risks or counterparty credit risk, provided conditions are met (additional disclosure is required).

Valuation techniques

An entity uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset would take place between market participants and the measurement date under current market conditions. Three used valuation techniques are:

- market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets/liability or a group of assets/liabilities (e.g. a business);
- cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost);
- income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

In some cases, a single valuation technique will be appropriate, whereas in others multiple valuation techniques will be appropriate.

SII legislation clearly states the similarity of the approach, with particular regards to *Article 10 L2-DR Valuation methodology – valuation hierarchy*.

D.1. ASSETS

Solvency II regulation clarifies the relation between the SII valuation of assets and liabilities and the international accounting standards (IFRS) adopted by the European Commission in accordance with Regulation (EC) No 1606/2002 provided that those standard include valuation methods consistent with the requirement of Art 75 – L1 Dir. The primary objective for valuation as set out Solvency II regulation requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the approach defined by Solvency II, when valuing balance sheet items on an economic basis, undertakings need to consider the risks that arise from a particular balance sheet item, using assumptions that market participants would use in valuing the asset or the liability.

According to this approach assets and liabilities are valued as follows:

- I. Assets should be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction

- II. Liabilities should be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

When valuing liabilities under point (ii) no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.

In Solvency II environment, fair valuation should be generally determined in accordance with IFRS principles statement. Only for some specific items, exceptions are required or IFRS valuation methods are excluded.

In particular, the exceptions refer to:

- Goodwill and intangible assets
- Participations (or related undertakings);
- Deferred taxes

GOODWILL, DAC AND INTANGIBLE ASSETS

According to L2-DR Article 12 (Valuation methods for goodwill and intangible assets), insurance and reinsurance undertakings shall value at zero goodwill, deferred acquisition costs and intangible assets other than goodwill, unless the intangible asset can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a quoted market price for the same or similar assets. Computer software tailored to the needs of the undertaking and "off the shelf" software licenses that cannot be sold to another user shall be valued at zero.

All intangible assets and DAC are valued at zero in MVBS balance sheet. The Company does not have any goodwill as at 31.12. 2019.

DEFERRED TAXES

Although recalling the IAS 12 principles in the current SII regulatory framework, in order to avoid any possible misunderstanding about IAS 12 interpretation and application, SII legislation clarifies explicitly that all the reference amounts on which determination of deferred taxes is based on should be calculated in accordance with SII valuation instead of IFRS rules.

Solvency II regulatory framework states that in the MVBS deferred tax assets, representing the amounts of income taxes recoverable in future periods, shall be recognized in respect of:

- deductible temporary differences⁴;
- the carry-forward of unused tax losses; **and**
- the carry-forward of unused tax credits.

and determined on the basis of the differences between the values ascribed to assets and liabilities (recognized and valued in accordance with Articles 75-86 of L1 -Dir) and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

Undertakings ascribe a positive value to deferred tax assets when it is probable that future taxable profit will be available against which the deferred tax asset can be utilized, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits.

Furthermore, IAS 12 provides that the enterprise shall recognize a deferred tax asset with respect to the carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. In evaluating the probability that future taxable profits will be realized against which unused tax losses and unused tax credits can be utilized, IAS 12 points out that the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when a group entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

While a DTL can be recognized in the balance sheet without further justification, the recognition of a DTA is subject to a recoverability test, which aims at showing that sufficient profits will be available in the future to absorb the tax credit, since a DTA can only be recognized "to the extent that it is probable that future taxable profit will be available against which the DTA can be utilized". In case the deferred taxes after shock (= initial deferred taxes + adjustment) result in a situation of DTA, a recoverability test will be needed to verify if the whole tax can be recognized. In order to test this recoverability, it is necessary not only to take into account any sources of future profits, including the ones which are not already recognized in the balance sheet, but also "any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses / credits".

⁴ A temporary difference is a difference between the carrying amount of an asset or liability in the balance sheet and its tax base.

IAS 12 prohibits discounting of DTA and DTL to reflect the time value of money due to its impracticability or complexity in scheduling the timing of reversal of each temporary difference.

The carrying amount of a deferred tax asset should be reviewed at each balance sheet date. An enterprise should reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

In this respect, IAS 12.28 explains that taxable temporary differences relating to the same taxation authority and the same taxable entity as the deductible temporary differences are one source of evidence that taxable profits will be available. If these compatible taxable temporary differences will reverse in the same periods as the deductible temporary differences or in periods into which tax losses may be carried back or forward, deferred tax assets should be recognized (IAS 12.28 and 36).

In other words, deferred tax assets should be recognized, at a minimum, to the extent of existing taxable temporary differences that are likely to offset the effects of any deductible temporary differences, unused tax losses or unused tax credits.

Deferred tax assets arising from available tax losses are recognized if the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available (IAS 12.35). Entities may therefore look forward for several future accounting periods to determine whether they will have sufficient taxable profit to justify the recognition of a deferred tax asset. In these circumstances, there is no specific restriction on how many years the entity may look forward ('the lookout period'), unless there is a date at which the availability of the tax losses expires.

The uncertainties of the future mean that the evidence supporting future profits in later periods will generally not be as convincing as that for earlier periods, but there is no rule as to the duration of the lookout period. This depends on the facts and circumstances of the situation in question. The unavailability of detailed profit forecasts does not necessarily jeopardize the assumption that profits for later years are available to support a deferred tax asset. If there are detailed forecasts showing profits for the next three years, it may be unlikely that profits will reduce to nil in year four.

The key condition is that the profits are probable and that there is convincing evidence to support management's assumptions.

An entity's projections should be, generally, consistent with the assumptions made about projection periods in other areas of financial reporting. For example, assumptions used in value in use impairment testing calculations would be expected to be consistent with assumptions used in determining whether a deferred tax asset is recoverable.

The recoverability of deferred taxes should be re-assessed at the end of each reporting period using the criteria set out in IAS 12.36.

Table below presents deferred tax asset and liability recognized by the Company in the economic balance sheet.

SII BS item (Thousand BGN)	DTA	DTL
Other investments	3.898	-
Receivables, payables	48	-
Insurance provisions and amount ceded to reinsurers from insurance provisions	-	(78.069)
Other provisions	391	-
Any other assets, liabilities, not elsewhere shown	-	(1)
Netting	(4.337)	4.337
Total	-	(73.733)

Material deferred tax asset was recognized from Other investments and Other provisions. Deferred tax liabilities arise mostly from difference between technical provision tax value and technical provision calculated according to SII.

Deferred tax liability on receivables and payables relates mainly to the difference on reinsurance payables, which are for the SII purposes adjusted to be consistent with the insurance provisions calculated according to the SII principles.

There are no unused losses from current or preceding period to which deferred tax relates.

The probability of future taxable profits is supported by the business plans, which are prepared for three years horizon and approved by the parent company.

The major part of DTA and DTL arise from the SII valuation of financial instruments and properties as well as technical provisions compared to their tax base and IFRS valuation.

Net Deferred Taxes

(Thousand BGN)	Expiry Date				
	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	Unlimited
Net Deferred Taxes	(73.733)	(73.733)	0	0	0
Deferred Tax Assets	4.337	4.337	0	0	0
DAC & Intangible assets	0	0	0	0	0
Investments (including Real Estate self-used)	3.898	3.898	0	0	0
Net Insurance Provision and Reinsurance Deposits	0	0	0	0	0
Financial Liabilities	0	0	0	0	0
Other Items	439	439	0	0	0
Deferred Tax Liabilities	(78.070)	(78.070)	0	0	0
DAC & Intangible assets	0	0	0	0	0
Investment (including Real Estate self-used)	0	0	0	0	0
Net Insurance Provision and Reinsurance Deposits	(78.069)	(78.069)	0	0	0
Financial Liabilities	0	0	0	0	0
Other Items	(1)	(1)	0	0	0

INVESTMENTS – HOLDINGS IN RELATED UNDERTAKINGS

A participation is constituted by the share ownership or by the full use of a dominant or significant influence over another undertaking⁵. In this respect the IFRS concept of control and significant influence applies and as a result, holdings are not limited to equity instruments.

When classifying a participation based on share ownership, directly or by way of control, the participating undertaking has to identify:

- I. its holding percentage of voting rights and whether this represents at least 20% of the potential related undertaking's voting rights (paid-in ordinary share capital); **and**
- II. its holding percentage of all classes of share capital issued by the related undertaking and whether this represents at least 20% of the potential related undertaking's issued share capital (paid-in ordinary share capital and paid-in preference shares).

Where the participating undertaking's holding represents at least 20% in either case its investment should be treated as a participation.

Valuation

In the L2 –DA, Article 13 provides a hierarchy that shall be used to value holdings in related undertakings for Solvency purposes:

- Quoted market price

⁵ L3 Guidelines states that when identifying a related undertaking pursuant to Article 212 (2) of Directive 2009/138/EC on the basis that the participating undertaking can exert a dominant or significant influence over another undertaking, supervisory authorities should consider the following: current shareholdings and potential increases due to the holding of options, warrants or similar instruments membership rights of a mutual or mutual-type undertaking and potential increases in such rights representation on the administrative, management or supervisory board of the potential related undertaking involvement in policy-making processes, including decision making about dividends or other distributions material transactions between the participating undertaking and potential related undertaking interchange of managerial personnel provision of essential technical information management on a unified basis.

- Adjusted equity method (if no active market)
- IFRS equity method (if non-insurance)
- Alternative techniques (if associates or joint controlled entities).

Measurement principles in IAS 27, IAS 28 and IAS 31 do not apply for the Solvency balance sheet, since they do not reflect the economic valuation required by Solvency II Directive (Article 75).

The economic value of holdings shall correspond to the quoted market price in an active market, if available. When exists an active market for the instrument, which constitutes the insurer's holding in a related undertaking, it is assumed that the holding can be disposed for a price equal to the quoted price on that market⁶.

Many related undertakings are not listed on securities markets. This is in particular the case for subsidiary and joint venture undertakings. If there is no observable quoted price from an active market available, the adjusted equity method (representing insurer's or reinsurer's share of the excess of assets over liabilities valued in accordance with articles 75 – Dir) should be applied to insurance and reinsurance related undertakings.

In case of non-insurance related undertakings, alternatively the Adjusted IFRS equity method - equity method as prescribed in IFRS with the deduction of the value of goodwill and intangible assets - could be applied.

For associates it is also allowed, where an adjusted equity method/adjusted IFRS equity method is not possible, to use an alternative valuation method provided that this method is consistent with the valuation approach set out in article 75. The general approach for associated entities is the following:

- a) if the associated undertaking is valued at cost for Generali Group IFRS purposes an alternative method is adopted (IFRS book value);
- b) if the associated undertaking is valued at Equity for Group IFRS purposes, entity is valued using:
 - 1. Adjusted IFRS equity method (default approach); or
 - 2. Adjusted Equity method. This option is applicable only for some types of undertakings (i.e. not for SII sectoral entities).

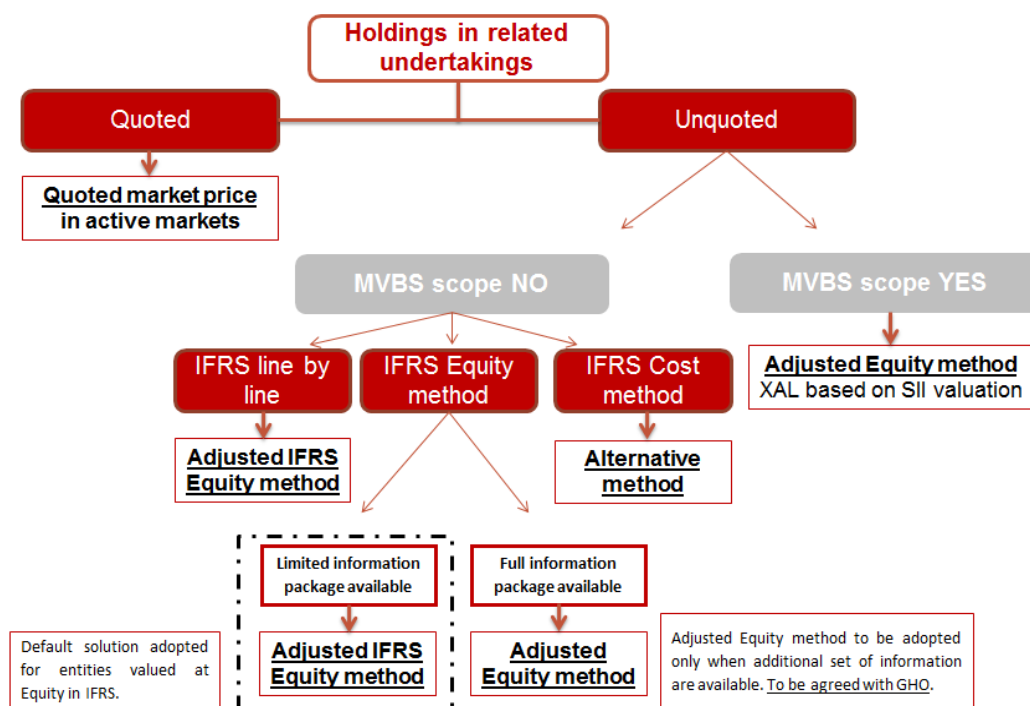
In general terms, using the Adjusted IFRS equity method instead of the adjusted equity method based on Solvency II valuation principles may not lead to a proper economic value because, in many cases, not all balance items will be measured at fair value. However, this method is introduced to facilitate and harmonize the valuation in cases where it is difficult to revalue the complete balance sheet of the related undertaking based on Solvency II principles. Therefore, it only can be applied when the same method has been applied in the financial statements – meaning that the information is available already. To have consistency with the adjusted equity method based on Solvency II principles, goodwill and intangible assets shall be deducted.

Normally it will be possible for the insurer or reinsurer to recognize and value the individual assets and liabilities in the related undertakings in accordance with the Solvency II approaches applied on its directly owned assets and liabilities. In some cases, however, when the related undertaking is not controlled by the insurer or reinsurer (i.e. the related undertaking is not a subsidiary) the parent undertaking may not have sufficient knowledge of the individual assets and liabilities in the related undertaking to apply an economic valuation on them. In such cases the insurer or reinsurer can apply an alternative valuation.

As far as adjusted equity method and adjusted IFRS equity method are concerned, it has to be highlighted that negative SII generated by the application of one of the two methods above mentioned are not floor to zero. The only peculiarity that differs related undertaking with negative SII value from the general participations having a positive SII value is the MVBS classification: related undertaking with negative SII value are not classified as participation asset, but on liability side as provisions other than technical provisions.

The following decisional tree reports drivers and triggers adopted to properly associate different alternative method to each related undertaking.

⁶ The quoted price will include market participants assessment of elements in the related undertaking that otherwise would not be included in a Solvency II balance sheet, e.g. goodwill and intangible assets. However, the fact that the equity instruments have a quoted price in an active market and presumably could be sold on that market justifies this valuation.



Finally, it has to be worthwhile mentioning that the fair value of all group participations is determined centrally using the wide range of data gathered by Group that allows the Head Office functions to determine the SII value of related undertakings in compliance with the decisional tree above reported for all the local parent company.

INVESTMENTS – EQUITIES

The SII valuation method for equity is in line with IFRS measurement. Therefore, no difference arises between statutory accounts and SII value.

INVESTMENTS – GOVERNMENT BONDS

According to SII regulation, all bonds are recognized at IFRS fair value; while, for statutory accounts a part of bond portfolio, specifically the IFRS categories of loans and held to maturity, is recognized at IAS/IFRS amortized cost. This difference determines the change in values.

INVESTMENTS – BONDS (CORPORATE, STRUCTURED NOTES, COLLATERALISED SECURITIES)

According to SII regulation, all bonds are recognized at IFRS fair value; while, for statutory accounts a part of bond portfolio, specifically the IFRS categories of loans and held to maturity, is recognized at IAS/IFRS amortized cost. This difference determines the change in values.

COLLECTIVE INVESTMENTS UNDERTAKINGS

No difference between statutory accounts and SII value (both of them recognized at fair value). The item includes also hedge funds

DERIVATIVES

No difference between statutory accounts and SII value (both of them recognized at fair value).

DEPOSITS OTHER THAN CASH EQUIVALENTS

Generally, no relevant change to SII value moving from statutory to MVBS accounts due to close duration and maturity.

OTHER INVESTMENTS

Residual class of investments items.

LOANS AND MORTGAGES

According to IFRS valuation, loans are measured at amortized cost rather than at fair value. This implies a different valuation moving from IFRS to MVBS metrics: loans and mortgages are recognized at IAS/IFRS amortized cost for IFRS statutory accounts, while at fair value for SII purpose.

DEPOSITS TO CEDANTS

The change to SII value is due to the different accounting approach: deposits to cedants are recognized at IAS/IFRS amortized cost for statutory accounts, while SII value recognized them at fair value. In dependence on the reinsurance agreement (if for instance the return of the deposit is the variable risk free return) the cost could represent an acceptable proxy of the fair value of the cash deposits; in some cases more enhanced models are used, based on cash flows related to the deposit and regulated by the reinsurance agreement itself.

RECEIVABLES (INSURANCE, REINSURANCE, TRADE NOT INSURANCE)

Due to short duration and maturity and to the absence of expected interest cash-flows, receivables do not present relevant change to SII value moving from statutory to SII values as the IFRS values is considered a good approximation of fair value and therefore receivables are classified within level 3 of the fair value hierarchy. If appropriate, receivables are valued at market value, considering observable inputs.

CASH AND CASH EQUIVALENTS

Due to short duration and maturity, cash and cash equivalents are not subject to relevant change for SII purposes.

ANY OTHER ASSETS, NOT ELSEWHERE SHOWN

All other assets are recorded at fair value under Solvency II, but by default the IFRS value is kept. This class of assets mainly include prepaid interest, deferrals and other accrued income.

D.2. TECHNICAL PROVISIONS

LIFE TECHNICAL PROVISIONS

SII Group life technical provisions: overview and details by component

The Solvency II Life Technical Provisions at the end of 2019 have been calculated according to articles 77 to 83 of the Solvency II Directive 2009/138/EC. In line with Solvency II rules and the policy conditions, contract boundaries are applied on accident riders, and no future cash flows from this segment are projected/considered in the Life Technical Provisions calculation.

The following table shows the amount of Solvency II Group Technical Provisions at 31 December 2019 and at 31 December 2018, broken down by main components: best estimate of liabilities, risk margin and reinsurance recoverables net of the counterparty default adjustment.

(SII Life technical provisions		
(thsBGN)	31.12.2019	31.12.2018
Best estimate of liabilities - gross of reinsurance	-4.668	859
Risk margin	1.099	80
Technical provisions - gross of reinsurance	-3.569	939
Reinsurance recoverables	0	0
Technical provisions - net of reinsurance	-3.569	939

The Best Estimate of liabilities in 2019 turned to be asset, having negative sign. This change is driven by increasing low volatile reinsurance program in life segment for CPI products, which was introduced in 2018 for the first time. This segment is steadily increasing and is generating negative Best Estimate of liabilities, which has offset the positive part of Best Estimate of liabilities generated by claims reserves. Risk Margin increase has reflected increased life volumes.

SII Group life technical provisions: details by line of business

The following table reports the amount of Solvency II Group life technical provisions (and of its main components) at 31 December 2019 with breakdown by main lines of business.

SII Life technical provisions at 31.12.2019

(thsBGN)	BEL gross of reins.	Risk margin	SII TP gross of reins.
Life insurance other than index and unit linked	-4.668	1.099	-3.569
Index and unit linked	0	0	0
Health insurance similar to life	0	0	0
Total	-4.668	1.099	-3.569

Life Technical provisions of GPRe are composed only of Life insurance other than index and unit linked, covering accidental riders and CPI product underwritten in CEE subsidiaries.

SII Group life technical provisions: comparison with IFRS reserves

The following table compares IFRS reserves, which for Solvency II purposes are calculated using life techniques at 31 December 2019.

Life statutory reserves and SII technical provisions at 31.12.2019

(thsBGN)	Statutory reserves gross of reins.	SII TP gross of reins.
Life insurance other than index and unit linked	4.634	-3.569
Index and unit linked	0	0
Health insurance similar to life	0	0
Total	4.634	-3.569

The difference between IFRS reserves and Solvency II life technical provisions is due to the substantial methodological differences between their respective valuation approaches. The valuation of the IFRS reserves is based on technical provisions calculated in accordance with local accounting principles and thus generally uses demographic pricing assumptions, discounts the contractual flows at the technical interest rate defined at the issue of the contract. The Solvency II valuation, instead, is based on the projection of future cash flows performed using best estimate operating assumptions, and discounting using the current interest rate term structure. Moreover, under the Solvency II framework, the valuation of technical provisions includes the risk margin, whilst this component is not included in the valuation of IFRS reserves.

SII Group life technical provisions: source of uncertainty

In addition to methods, models and data used, the valuation of Solvency II life technical provisions depends on the assumptions made on a number of operating and economic factors whose future realization might differ from the expectations at the valuation date, regardless of how accurate these might be.

The main operating assumptions affecting GPRe business are mortality, morbidity and lapses. Among those operating factors, morbidity and surrenders are the most significant; in particular, a 10% increase in morbidity assumption produces a technical provisions variation of about 10,8% and a 10% increase in the surrender assumptions leads to a technical provision increase of about 7,8%.

NON-LIFE TECHNICAL PROVISIONS

The P&C technical provisions, both related to

- outstanding claims reported or not and occurred before the evaluation date, whose costs and related expenses have not been completely paid by that date (outstanding claims reserve)
- future claims of contracts that are either in force at the valuation date or for which a legal obligation to provide coverage exists (premiums reserve)

are calculated as the sum of the discounted best estimate of liabilities (BEL) and the risk margin (RM)

$$TP = BEL + RM$$

The discounted best estimate of liabilities (BEL) is calculated applying the methods and assumptions that are briefly described in the following paragraphs, separately for outstanding claims reserve and premiums reserve.

Outstanding Claims Reserve

The approach to derive the BEL for the outstanding claims reserve depends on the possibility to apply the actuarial methods

- The BEL of the unmodelled and semi-modelled business (the line of business or the part of a line of business that, due to different reasons such as, for example, lack of adequate, appropriate and complete data or inhomogeneity of the business herein included, has not been analyzed with actuarial methods) has been calculated using the IFRS figures. Unmodelled and semi-modelled business represents approximately 5% of IFRS provisions.
- The BEL of the modelled business (the business which, thanks to the availability of adequate, appropriate and complete data, has been analyzed in detail by means of actuarial methods) has been assessed through the following steps:

Claims and Grouping

To perform an appropriate actuarial analysis of the technical provisions and to carry out projections to ultimate cost, historical claims data on a paid and incurred basis (gross of contractual and facultative reinsurance) have been taken into account. Development data used for these purposes fulfil appropriate quality attributes of proportionality, materiality and completeness.

Each portfolio is selected to identify homogeneous groups of risks, type of coverage and other specificities, such as the length and the variability of the claims run-off. The minimum level of granularity adopted considers the split between types (direct business, proportional accepted business, non-proportional accepted business) and, in each category, identifies twelve lines of business (workers compensation; medical expense; income protection; motor vehicle liability; other motor; marine, aviation and transport; fire and other damage to property; general liability; credit and suretyship; legal expenses; assistance; miscellaneous financial loss). Where necessary, a more granular segmentation of the portfolio is used, especially in case of property, liability and motor insurance.

Expenses

The reserve for expenses directly arising from a particular compensation case (Allocated Loss Adjustment Expenses (ALAE)) is accepted as a part of data claims coming from QS RI treaties.

The reserve for expenses not directly arising from a particular compensation case constitutes the reserve for Unallocated Loss Adjustment Expenses (ULAE). The company doesn't have ULAE.

Inflation

The historical data on claims paid and outstanding provisions include the outcomes of the observed inflation, in its two components exogenous and endogenous. The inflation environment, where the major ceding companies operate (in particular, in the Czech Republic) is considered stable enough to project UBEL from historical data, which means that the inflation is already included in projections.

Actuarial Methods

The actuarial methods used for projecting the experienced history of claims and reserves are the ones implemented in the Group Reserving Tool (ResQ) and described in the Generali group methodology. In particular, the following methods have been considered:

- Link ratio methods on paid (or development factor models - DFM) are a generalization of the chain ladder method, based on an analysis of cumulative payments along the years. This class of methods is based on the hypothesis that the settlement process is stable across origin periods
- Link ratio methods on incurred technically work as the previous ones but are based on incurred developments, i.e. the sum of cumulative paid and outstanding amounts
- Bornhuetter-Ferguson methods on paid or incurred combine the projected ultimate (obtained, e.g., by means of a development factor method) with an alternative (a priori) value, using a weighted credibility approach
- Cape Cod methods on paid or incurred, which, similarly to the Bornhuetter-Ferguson method combines already emerged claims with expected claims to be paid or reported late, based on assumptions derived from the emerged proportion of claims
- Incremental loss ratio methods on paid or incurred, also known as the additive method, expect a stable development in the contribution to the loss ratio across the origin years.

An analysis using more than one of the methods listed above was done to confirm the results.

To obtain the final gross UBEL, all excluded or separately evaluated items (e.g. un-/semi-modelled parts) are added to the ultimate claims cost.

Net Evaluation

Almost all business is covered by XL treaties. Quota share covers only a negligible part of the portfolio (mainly Bonds).

For each homogeneous group of risks, the UBEL net of reinsurance is calculated adopting the following simplified approach:

$$UBEL_{net}^{OC} = UBEL_{gross}^{OC} \cdot \%NG$$

where %NG indicates the percentage of IFRS net outstanding claims reserve on IFRS gross outstanding claims reserve.

The valuation of the best estimate net of reinsurance is performed taking into account an adjustment for the expected losses due to default of the reinsurance counterparties (counterparty default risk adjustment).

Premiums Reserve

For contracts with premiums already written, the UBEL of the premium provisions is defined as the sum of the following two components (considering gross and net inputs to obtain gross and net results):

- claims related component: the amount of the unearned premium provisions derived from IFRS is multiplied by a specific measure of the current year loss ratio, aiming to take out the effect of the adequacy of the estimated UBEL of the outstanding claims reserve (OCR);
- administration expenses related component: the amount of the unearned premium provisions derived from IFRS is multiplied by a specific measure of the administration expense ratio to represent the expected part due to expenses stemming from existing contracts

For un-incepted (instalments included) and multi-year contracts, the UBEL of the premium reserve is defined as the sum of the following cash flows:

- cash in-flows arising from future premiums
- cash out-flows arising from future claims, net of salvage and subrogation, including allocated and unallocated claims
- cash out-flows arising from administration expenses in respect of claims occurring after the valuation date as well as costs arising from on-going administration of in-force policies and acquisition costs, insofar related to the considered portfolio.

Like the outstanding claims reserve, the net premiums reserve is also adjusted to take into account the default risk of the counterparties.

Discounting

The discounted Best Estimate of Liabilities (BEL), both related to outstanding claims reserve and premiums reserve, is derived by discounting the expected future payments of the UBEL by different reference basic risk free rate curves according to currency of liabilities.

Risk Margin

The risk margin is added to the BEL to derive a market-consistent value of liabilities. It captures the economic value of non-hedgeable risks (reserving, pricing, catastrophe, counterparty default and operational) to ensure that the value of technical provisions is equivalent to the amount that an insurance company would be expected to require to take over and meet the insurance obligations. The risk margin is calculated with a cost of capital (CoC) approach at the line of business level taking the diversification benefits between risk types and lines of businesses into account.

Overview of Technical Provisions

SII technical provisions - Claims provisions

(BGN thousand)	31.12.2019	31.12.2018
Best estimate of liabilities - gross of reinsurance	906.137	956.319
Risk margin	46.525	57.091
Technical provisions - gross of reinsurance	952.662	1.013.410
Reinsurance recoverables	(112.348)	(149.486)
Technical provisions - net of reinsurance	840.314	863.924

SII technical provisions - Premium provisions

(BGN thousand)	31.12.2019	31.12.2018
Best estimate of liabilities - gross of reinsurance	(289.061)	(253.536)
Risk margin	52.617	43.794
Technical provisions - gross of reinsurance	(236.444)	(209.742)
Reinsurance recoverables	15.624	14.623

Technical provisions - net of reinsurance	(220.820)	(195.119)
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The best estimate and reinsurance recoverables of claims provisions slightly decreased in line with IFRS reserves decrease. This movement is driven by one large claim accepted from Generali Serbia. This is also the reason for decrease of risk margin.

The increase in best estimate of premium provisions was driven by assumptions of lower loss ratios for CAT reinsurance.

Details by Line of Business

The claims provisions are allocated mainly to motor line of business. Large amount of un-incepted business cause that the liabilities of premium provisions are negative. The split of risk margin to SII LoBs is proportionate to the split of best estimate of liabilities. The part of BEL related to the investment management expenses is reported under simplified approach.

SII Non-life technical provisions - Claims provisions at 31/12/2019

(BGN thousand)	BEL net of reins. after CDA	Risk margin	SII TP net of reins.
Total	793.789	46.525	840.314
Direct and accepted proportional	740.046	23.598	763.643
Non-life motor	362.177	14.017	376.194
Non-life non motor excl. AHD	333.965	8.466	342.431
Accident, Health and Disability	43.904	1.115	45.018
Accepted non-proportional	48.578	22.928	71.505
Non-life motor	53.866	21.112	74.978
Non-life non motor excl. AHD	(8.111)	1.707	(6.404)
Accident, Health and Disability	2.823	109	2.931
Simplified approach	5.166	0	5.166

SII Non-life technical provisions - Premium provisions at 31.12.2019

(BGN thousand)	BEL net of reins. after CDA	Risk margin	SII TP net of reins.
Total	(273.437)	52.617	(220.820)
Direct and accepted proportional	(237.180)	26.367	(210.814)
Non-life motor	(67.938)	11.971	(55.968)
Non-life non motor excl. AHD	(158.427)	13.889	(144.538)
Accident, Health and Disability	(10.815)	507	(10.309)
Accepted non-proportional	(36.256)	26.250	(10.006)
Non-life motor	(18.682)	13.543	(5.139)
Non-life non motor excl. AHD	(14.006)	12.407	(1.600)
Accident, Health and Disability	(3.568)	300	(3.268)

Comparison with Statutory Reserves

Non-life statutory reserves and SII TP - Claims and premium provisions at 31/12/2019

(BGN thousand)	Statutory reserves net of reins.	SII TP net of reins.
Non-life motor	780.110	390.066
Non-life non motor excl. AHD	538.974	189.890
Accident, Health and Disability	72.901	34.373
Simplified approach	0	5.166
Total	1.391.986	619.494

Different actuarial methods are used for setting IFRS outstanding provisions and UBEL OC. The IFRS IBNR and IFRS RBNS mirror accepted parts from cedants while UBEL is calculated by GP Reinsurance EAD. The cedants use obvious prudence for setting IFRS IBNR and IFRS RBNS. Therefore, IFRS outstanding provisions are held at a higher level than UBEL in order to be able not only to cover the mean expected value of unsettled claims but also to be able to absorb possible negative deviations in claims run-off. Such deviations can be caused by higher counts of late reported claims, by a higher than average severity or by the unfavorable development of already reported claims in a given calendar year. The random behavior of the claims development requires keeping an uncertainty margin in IFRS provisions. Consequently, this margin represents the difference between UBEL and IFRS. The size of this margin is monitored and manages to be in the reasonable range, considering the risk appetite of the Company.

IFRS UP provisions are booked on the pro rata temporis accounting principle reflecting the unearned part of a written premium proportional to the undue part of the period for which the premium has been written. This is done individually for each reinsurance policy. Contrary to this, Solvency II principles require the evaluation of a premium provision as a difference between future outflows (claims and expenses) and future inflows (premium). This means that the IFRS approach is not strictly dependent on the profitability of the business (only in case of the premium's insufficiency) whilst the evaluation according to Solvency II principles is strictly driven by loss and expense assumptions. In addition, only the written part of the premium can serve as the basis for the recognition of unearned premiums in IFRS, but Solvency II principles require the inclusion of future premiums coming from contracted business, which have not yet been written. This includes future instalments of policies in force and premiums from already contracted policies with future inception.

Use of Long-term Guarantee Measures

Neither transitional measures nor matching adjustments were applied during the calculation of the best estimates of technical provisions. A volatility adjustment was not applied by the Company.

Source of Uncertainty and Sensitivity Analyses

Two kinds of sources of uncertainty are embedded in the technical provisions. The first emanates from the substance of the insurance business and is represented by the randomness of the process of claims occurrence and reporting. This is monitored by actuaries through the construction of stochastic scenarios resulting in distribution of possible claims run-off results. The highest uncertainty is experienced in the lines of business with long lasting settlement process. IFRS reserves are currently set on the level so that the Company was able to cover deviation from undiscounted BEL with return period higher than 1-in-20 years.

The second type of uncertainty is represented by external factors such as claims inflation, interest rates and changes in legislation. These factors are not driven by the Company, but their impact can be reduced by the ongoing monitoring of the market and legal environment and early identification or even anticipation of possible changes. Sensitivity analyses of external factors are performed by the Company. A decrease of the risk-free rate by 20 basis points would result in an increase of BEL by 1,3%.

The company reduces the risk of volatility by diversification and reinsurance. Providing reinsurance cover to many different companies and lines of businesses mitigates the relative impact of negative development results coming from run-off in individual sectors. Properly chosen structure of external reinsurance programs helps to limit the absolute impact of potential negative run-off. Current set-up of reinsurance mitigates the pricing risk by more than 36% and pricing CAT risk by more than 75%

D.3. OTHER LIABILITIES

In this chapter, an overall description of the SII valuation methods for Liabilities other than technical provision is given, complementary to the general Valuation for Solvency Purposes (paragraph D - introduction).

L2-DR, in accepting valuation methods defined in IFRS, anticipates that there are cases where IFRS valuation methods are not consistent with Art 75 requirements.

L2-DR states the exclusion of specific valuation methods such as cost or amortized cost and models where value is determined at the lower of the carrying amount and fair value less costs to sell.

This chapter outlines SII valuation methods for the main classes of liabilities other than technical provisions, reporting the following information:

- description of the valuation basis, methods and main assumptions used for solvency purposes
- quantitative and qualitative explanation of any material differences in the valuation basis, methods and main assumptions used by the undertaking for solvency purposes and those used in financial statement valuations.

A description of the SII valuation methods for the most relevant classes of liabilities other than technical provisions is given, complementary to the general valuation for Solvency purposes and the balance sheet template illustrated in the introduction.

CONTINGENT LIABILITIES

For the definition of contingent liabilities, Solvency II regulation (L2-DR Article 11) refers to IAS 37 § 10. A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; **or**
- a present obligation that arises from past events but is not recognized because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

In particular, contingent liabilities include present obligations, where the “contingency” implies uncertainty about the amounts and timing.

As far as Solvency II regulation is concerned, Article 75 L1-Dir and the L2 –DA, state that:

- insurance and reinsurance undertakings shall recognize as liabilities the contingent liabilities, as defined in international accounting standards and as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002, that are material
- contingent liabilities are material if information about the current or potential size or nature of that liability could influence the decision-making or judgment of the intended user of that information
- contingent liabilities shall be evaluated based on the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure. Moreover, when valuing liabilities, no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be applied.

Valuation

The recognition criteria for contingent liabilities on the Solvency II balance sheet are determined by the definition in IAS 37 for contingent liabilities.

While under IAS 37 an entity should not recognize a contingent liability but only disclose it under Solvency II if these contingent liabilities are material and the possibility of an outflow of resources embodying economic benefits is not remote, they have to be recognized on the Solvency II balance sheet.

Contingent liabilities are material if information about the current or potential size, or nature, of that liability could influence the decision-making or judgment of the intended user of that information⁷.

The Company does not have any contingent liabilities as at 31.12.2019.

PROVISIONS OTHER THAN TECHNICAL PROVISIONS

⁷ An exception to the requirement to recognize material contingent liabilities in the Solvency II balance sheet is where the contingent liability arises, for accounting purposes, as a result of no reliable estimate being possible for the valuation of a liability. In such instances, since the value of the contingent liability cannot be reliably measured, only a disclosure is required.

IAS 37 is regulating provision other than technical ones and it is deemed to be compliant with Art 75 L1 – Dir. For this reason, there are no differences on this item between IFRS statutory account and MVBS value being the valuation models adopted the same in both frameworks.

The amount recognized as provision represents the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time (best estimate approach). In reaching the best estimate of a non-technical provision, the following elements are considered:

- circumstances to be considered for the calculation of the amount to be recognized as a provision
- risks surrounding many events related to the obligation are included in the valuation model
- uncertainties as well as period of incurrence of the obligation and different expected cash-flows are estimated based on model assumptions
- discount rate used to determine the best estimate of provisions other than technical provisions (before tax impact) reflects market conditions of the time value of money and the risks specific to the liability at valuation date and does not include risks for which future cash flow estimates have been already adjusted.

No significant difference arises between IFRS statutory accounts and SII value being the valuation models adopted the same in both the frameworks.

Other current liabilities, retirement benefit obligations, reinsurance deferral and reinsurance contracts payables

Other current liabilities (BGN thousand)

	31.12.2019	31.12.2018
Corporate income tax liabilities	8.883	2.585
Payables to suppliers and to related parties	383	45
Payables to social security and other government authorities	368	88
Lease liabilities	140	0
Accruals for unused paid leave	26	17
Cash collateral under a contract	8.018	59
Payables to banks	3	5
Other accruals	2.580	2.137
Consultant contracts payables	467	673
Total	20.728	5.609

The fair value is close to the carrying amount of the other current liabilities due to their short-term nature.

PENSION BENEFIT OBLIGATIONS

Retirement provisions (BGN thousand)

	2019	2018
Amount recognized in the balance sheet:		
Present value of the liability	26	19
Carrying amount of the liability	26	19
Liability movements for the year		
At the beginning of the year	19	18

Income/Expense through the statement of comprehensive income	7	1
At the end of the year	26	19
Actuarial assumptions		
Discount rate (%)	0,2%	0,5%
Salaries increase	-	-

DEFERRED TAX LIABILITIES

Deferred taxes recognized on liability side follows the same assumptions of deferred taxes recognized on assets side. Consequently, the same consideration provided in D.1. Assets could be replied for liabilities purposes.

Although the IAS 12 principles are accepted in the current SII regulatory framework, in order to avoid any possible misunderstanding about IAS 12 interpretation and application, SII legislation clarifies explicitly that all the reference amounts on which determination of deferred taxes is based on should be calculated in accordance with SII valuation instead of IFRS rules.

Solvency II regulatory framework states that MVBS deferred tax liabilities, representing the amounts of income taxes payable in future periods in respect of taxable temporary differences, are recognized in respect of deductible temporary differences⁸ and determined on the basis of the difference between the values ascribed to assets and liabilities (recognized and valued in accordance with Articles 75-86 of L1 -Dir) and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

As the tax for local purposes is being calculated annually, we do assume that the expiration period is by the next year-end of 2019 year.

In the following table a detailed split by nature of taxes is shown by balance sheet item which is the source of deferred tax:

SII BS item (Thousand BGN)	DTA	DTL
Intangible assets	3.898	-
Land and buildings	48	-
Other investments	-	(78.069)
Receivables, payables	391	-
Insurance provisions and amount ceded to reinsurers from insurance provisions	-	(1)
Other provisions	(4.337)	4.337
Any other assets, liabilities, not elsewhere shown	-	(76.196)
Netting	3.898	-
Total	48	-

In the MVBS, deferred tax liabilities arise on differences between:

- the value ascribed to an asset or a liability for tax purposes, **and**
- its value in accordance to the Solvency II principles.

For calculating the amount of deferred taxes, any mismatch between the MVBS value of assets /liabilities under analysis and their related carrying value for tax purposes should be considered.

A deferred tax liability (DTL) is the recognition of a tax debt to be paid later on because of a future profit which is already anticipated in the economic balance sheet. A DTL will be recognized for unrealized taxable gains such as an increase of a financial asset value, or a decrease of the value of technical provisions when shifting from book value to market value.

With reference to taxable temporary differences, IAS 12 provides that the entity shall recognize a deferred tax liability for all taxable temporary differences with some exceptions.

⁸ A temporary difference is a difference between the carrying amount of an asset or liability in the balance sheet and its tax base.

In particular, with reference to investments in group subsidiaries, associated companies, joint ventures and investment vehicles and in accordance with IAS 12, para. 39, group entities recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the parent, investor or venture company is able to control the timing of the reversal of the temporary difference; **and**
- it is probable that the temporary difference will not reverse in foreseeable future.

Indeed, as a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed accounting profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent determines that those profits will not be distributed in the foreseeable future, the parent does not recognize a deferred tax liability in MVBS scenario.

In other words, group insurance and reinsurance undertakings generally do not recognize any deferred tax liability associated with investments in group entities if the participating entity deems that unrealized gains on group participations will not be realized in the foreseeable future⁹. This approach is generally adopted for all the group investments (subsidiaries, associated entities and joint ventures).

FINANCIAL LIABILITIES (INCLUDING SUBORDINATED LIABILITIES)

The recognition and valuation of financial liabilities of GP Re in SII is according to the following IFRS:

IAS 39 - Financial instruments: recognition and measurement states that financial liabilities have to be intended with the meanings specified in paragraph 11 of IAS 32 - Financial instruments: presentation, where it is defined that a financial liability is any liability that is:

- contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity
- contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The following paragraphs refer also to IFRS 9 – Financial Instruments that states the up-to-date principles to follow for the determination of the fair value of financial liabilities.

Valuation

In order to ensure compliance with Solvency II principles, L1 -Dir requires to evaluate the liabilities, including financial liabilities, at fair value without any adjustment for change in own credit standing of the insurance/reinsurance undertaking.

As far as the Fair value requirement of L1 valuation principle, to be consistent with IFRS 13, the valuation methodology of the Fair Value of an asset or liability shall be based on the following approaches:

- mark to market approach (default approach): this approach is based on readily available prices in orderly transactions that are sourced independently (quoted market prices in active markets);
- mark to model Approach: is any valuation technique which has to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input (maximize market inputs, minimize unobservable inputs).

As far as the liabilities are concerned, Solvency II introduces an additional requirement to adopt a fair value valuation without any adjustment for change in own credit standing of the insurance/reinsurance undertaking.

According to IFRS 9, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability¹⁰ should be determined either:

- as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk;

⁹ The same conclusions also apply to investments in branches.

¹⁰ In accordance with IFRS 9 paragraph B5.7.16 and following.

- using an alternative method that the entity considers to reflect more faithfully the amount of change in the liabilities' fair value (attributable to the changes in its credit risk).

The financial liabilities valued at amortized cost according to IAS 39 shall be valued at Fair Value for the Solvency II balance sheet according to art. 75 (1) of L1 - Dir.

For financial liabilities valuation purposes, IAS 39 Fair Value definition is consistent with Solvency II principle taking into account that:

- the fair value measurement approach in IAS 39 at recognition is a good representation of the economic value at recognition in the Solvency II balance sheet
- the fair value measurement approach in IAS 39 for subsequent measurements is a good representation of the economic value for Solvency II purposes if, and only if, changes in own credit standing have not been taken into account. **While changes in own credit standing influence the value under IAS 39, they shall be eliminated in the Solvency II valuation.**

GP Re has classified the currency SWAPs and forwards as financial liabilities as at 31.12.2019. The table below represents derivatives for hedging at fair value (thousand BGN).

	2019			2018		
	Asset	Liability	Nominal Value	Asset	Liability	Nominal Value
Currency short term swaps	10.575	(165)	718.825	2.513	(574)	636.812

GP Re uses derivative financial instruments designated as hedging instruments for the unexpected movements in the FX rates, in which they are denominated.

PAYABLES (INSURANCE, REINSURANCE, TRADE NOT INSURANCE)

Due to short duration and maturity and to the absence of expected interest cash-flows, reinsurance payables do not present relevant change to SII value from statutory to Solvency II accounts. As general assumption, the IFRS amortized cost is used for the SII valuation.

Reinsurance deferral

As at 31 December 2019 the reinsurance deferrals of the Company are in the amount of BGN 154 thousand (2018: BG 249 thousand) where the amount of BGN 25 thousand (2018: BGN 99 thousand) is related to Assicurazioni Generali S.P.A.

The fair value is close to the carrying amount of the reinsurance deferrals due to their short-term nature.

Reinsurance contracts payables (BGN thousand)

Reinsurance payables are as follows:

	31.12.2019	31.12.2018
Accepted reinsurance liabilities	122.717	66.303
Ceded reinsurance liabilities	7.582	9.324
Reinsurance brokerage liabilities	490	483
Reinsurance profit commission liabilities	1.919	172
Total	132.708	76.282

The fair value is close to the carrying amount of the reinsurance payables due to their short-term nature.

D.4. ALTERNATIVE METHODS FOR VALUATION

D.4.1. ASSETS

In respect of the official SII data valuation, there are no significant changes to valuation models used and to model inputs. In general terms, it has to be noticed that the vast majority of assets portfolio owned by GP Re is recognized at IFRS fair value. The determination of the fair value is mostly done by using the market quotes.

The Company does not apply any kind of the alternative methods of valuation on assets, different from the described in the relevant chapters earlier.

D.4.2. LIABILITIES

The Company does not apply any kind of the alternative methods of valuation on liabilities, different from the described in the relevant chapters above.

D.5. ANY OTHER INFORMATION

No other information to be disclosed in this section.

Annex**QRT TEMPLATES VALID FOR SOLO LOCAL PURPOSES (BGN THOUSAND)****Balance sheet – Assets**

(Thousand BGN)	Solvency II value
Assets	
Intangible assets	
Deferred tax assets	0
Pension benefit surplus	
Property, plant & equipment held for own use	163
Investments including assets held for index-linked and unit-linked contracts)	2.085.004
Property (other than for own use)	
Holdings in related undertakings, including participations	
<i>Equities</i>	260.782
Equities - listed	26.999
Equities - unlisted	233.783
<i>Bonds</i>	1.734.018
Government Bonds	1.170.635
Corporate Bonds	563.383
Structured notes	
Collateralised securities	
Collective Investments Undertakings	79.629
Derivatives	10.575
Deposits other than cash equivalents	
Other investments	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	267.632
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	267.632
Reinsurance recoverables from:	96.724
Non-life and health similar to non-life	96.724
Non-life excluding health	96.963
Health similar to non-life	-239
Life and health similar to life, excluding health and index-linked and unit-linked	
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	108.545
Insurance and intermediaries receivables	151.926
Ceded reinsurance receivables	51.957
Receivables (trade, not insurance)	1.439
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	32.172
Any other assets, not elsewhere shown	5.011
Total assets	2.800.573

Balance sheet – Liabilities

(Thousand BGN)	Solvency II value
Liabilities	
Technical provisions - non-life	716.218
Technical provisions - non-life (excluding health)	682.003
TP calculated as a whole	
Best estimate	584.891
Risk margin	97.112
Technical provisions - health (similar to non-life)	34.215
TP calculated as a whole	
Best estimate	32.185
Risk margin	2.030
TP - life (excluding index-linked and unit-linked)	-3.569
Technical provisions - health (similar to life)	
TP calculated as a whole	
Best estimate	
Risk margin	
TP - life (excluding health and index-linked and unit-linked)	-3.569
TP calculated as a whole	
Best estimate	-4.668
Risk margin	1.099
TP - index-linked and unit-linked	
TP calculated as a whole	
Best estimate	
Risk margin	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	73.733
Derivatives	165
Debts owed to credit institutions	3
Financial liabilities other than debts owed to credit institutions	140
(Re)insurance receivables & intermediaries receivables	122.717
Ceded reinsurance receivables	7.582
Payables (trade, not insurance)	20.460
Subordinated liabilities	
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	
Any other liabilities, not elsewhere shown	2.567
Total liabilities	940.016
Excess of assets over liabilities	1.860.557

Non-life Technical Provisions (1/2)

(Thousand BGN)	Direct business and accepted proportional reinsurance								
	Medical expense insurance	Income protection insurance	Workers' compensatio n insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
Technical provisions calculated as a whole									
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole									
Technical Provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross - Total	-2.993	-7.828		-42.005	-25.877	-12.533	-79.406	-66.279	894.000
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		-6		78	-21	-0	2.052	-2.754	582.000
Net Best Estimate of Premium Provisions	-2.993	-7.822		-42.082	-25.856	-12.533	-81.459	-63.525	311.999
Claims provisions									
Gross - Total	1.988	42.038		329.258	37.659	14.235	186.853	132.028	9.192
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		46		1.846		151	-1.507	1.465	7.888
Net Best Estimate of Claims Provisions	1.988	41.992		327.412	37.659	14.083	188.360	130.563	1.304
Total Best estimate - gross	-1.005	34.209		287.253	11.782	1.701	107.447	65.749	10.085
Total Best estimate - net	-1.005	34.170		285.329	11.803	1.550	106.901	67.037	1.615
Risk margin	139	1.482		22.101	3.886	2.150	8.326	11.269	415.000
Amount of the transitional on Technical Provisions									
TP as a whole									

GP Reinsurance EAD - **SOLVENCY AND FINANCIAL CONDITION REPORT**

Best estimate								
Risk margin								
Technical provisions - total								
Technical provisions - total	-866	35.691	309.355	15.668	3.851	115.773	77.019	10.500
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total		39	1.924	-21	151	545	-1.288	8.470
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	-866	35.652	307.431	15.689	3.700	115.228	78.307	2.029

GP Reinsurance EAD - Valuation for Solvency Purposes

Non-life Technical Provisions (2/2)

(Thousand BGN)	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance:				Total Non-Life obligations
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
Technical provisions calculated as a whole								
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole								
Technical Provisions calculated as a sum of BE and RM								
Best estimate								
Premium provisions								
Gross - Total		-1.785	564	-3.846	-15.926	-1.772	-30.266	-289.061
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				-278	-6.614	-367	-8.296	-15.624
Net Best Estimate of Premium Provisions		-1.785	564	-3.568	-9.313	-1.405	-21.970	-273.436
Claims provisions								
Gross - Total		152	781	2.827	82.662	8.087	58.378	906.137
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					27.894	7.976	66.588	112.348
Net Best Estimate of Claims Provisions		152	781	2.827	54.769	110	-8.210	793.789
Total Best estimate - gross		-1.633	1.345	-1.019	66.736	6.315	28.112	617.076
Total Best estimate - net		-1.633	1.345	-741	45.456	-1.295	-30.181	520.352
Risk margin		159	36	409	33.268	2.641	12.859	99.142
Amount of the transitional on Technical Provisions								
TP as a whole								0
Best estimate								0
Risk margin								0

GP Reinsurance EAD - **SOLVENCY AND FINANCIAL CONDITION REPORT**

Technical provisions - total							
Technical provisions - total	-1.474	1.381	-611	100.004	8.956	40.971	716.218
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total			-278	21.280	7.609	58.292	96.724
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	-1.474	1.381	-332	78.725	1.347	-17.321	619.494

Life Technical Provisions

(Thousand BGN)	Accepted reinsurance					Total (Life other than health insurance, incl. Unit-Linked)
	Accepted reinsurance	Insurance with profit participation on Accepted reinsurance (Gross)	Index-linked and unit-linked insurance on Accepted reinsurance (Gross)	Other life insurance on Accepted reinsurance (Gross)	Annuities stemming from non-life accepted insurance contracts and relating to insurance obligation other than health insurance obligations (Gross)	
Technical provisions calculated as a whole	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM						
Best Estimate						
Gross Best Estimate	-4.668	0	0	0	0	-4.668
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re	-4.668	0	0	0	0	-4.668
Risk Margin	1.099	0	0	0	0	1.099
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	0					0
Best estimate	0					0
Risk margin	0					0
Technical provisions - total	-3.569					-3.569

Gross Claims Paid (non-cumulative) (absolute amount)

(Thousand BGN)	Development year (absolute amount)											In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +			
Prior												2.910	2.910	2.107.048
2010	456.160	233.811	36.096	19.264	8.575	2.721	4.143	2.202	1.043	561			561	764.575
2011	298.623	112.293	21.938	6.411	5.097	3.603	- 1	2.635	1.889				1.889	452.489
2012	281.754	129.920	26.728	13.664	6.094	3.682	2.873	457					457	465.171
2013	358.825	143.770	31.465	10.607	8.666	3.275	1.932						1.932	558.539
2014	275.422	133.456	36.371	14.300	5.188	4.943							4.943	469.681
2015	319.670	148.990	33.391	19.226	13.003								13.003	534.280
2016	342.836	148.608	35.358	20.061									20.061	546.863
2017	357.990	177.530	36.747										36.747	572.267
2018	374.856	239.372											239.372	614.227
2019	409.796												409.796	409.796
Total													731.670	7.494.937

Gross undiscounted Best Estimate Claims Provisions (absolute amount)

[illegible]

E. Capital Management

E.1. OWN FUNDS

E.1.1. POLICIES AND PROCESSES RELATED TO OWN FUNDS MANAGEMENT, INFORMATION ON THE TIME HORIZON USED FOR BUSINESS PLANNING AND ON ANY MATERIAL CHANGES OVER THE REPORTING PERIOD

The Group and Local Capital Management Policy define principles for Capital Management activities the Assicurazioni Generali S.p.A. and the Group Legal Entities in scope must adhere.

Capital management activities refer to Own Funds management and control and in particular to procedures to:

- classify and periodically review Own Funds in order to guarantee that Own Funds items meet the requirements of the applicable capital regime both at issuance and subsequently
- regulate issuance of Own Funds according to the medium-term Capital Management Plan and Strategic Plan also to guarantee that Own Funds are not encumbered, that all actions required or permitted related to the governance of the Own Funds are timely completed, that ancillary Own Funds are timely called, that terms and conditions are clear and unambiguous, including instances in which distributions on an Own Funds item are expected to be deferred or cancelled
- ensure that any policy or statement in respect of ordinary share dividends is taken into account when analyzing the capital position
- establish driving principles and common standards to carry out these activities efficiently, in compliance with the relevant regulatory requirements and legislative frameworks at Group and Local level, and in line with the stated risk appetite and strategy of the Generali Group.

The Group Capital Management Policy after being approved by the Board of Directors of Assicurazioni Generali S.p.A. is applicable also for the Company once approved by the Management Board.

The Capital Management Plan (CMP) represents a part of overall three-year Strategic Plan and this ensures the consistency of the CMP with three-year Strategic Plan assumptions, which include inter alia:

- financial scenarios
- strategic asset allocation
- business mix. and includes a detailed description of the development of Own Funds and Regulatory Solvency Ratio from the latest available actual figures to the last plan year figures.

The Capital Management Plan includes a detailed description of the development of Own Funds and Regulatory Solvency Ratio from the latest available actual figures to the last plan year figures.

CEO is responsible to produce CMP and to submit it to the Management Board.

If extraordinary operations (i.e. M&A, Own Funds issuance) are foreseen in the plan period, their impact is explicitly included in the Own Funds and Regulatory Solvency Ratio development and further details are included in the relevant documentation. Own Funds issuances are explicitly included in the CMP with a detailed description of the rationale.

The description of the development of Own Funds explicitly includes the issuance, redemption or repayment (earlier or at maturity) of Own Funds items and their impacts on the limits on tiers. Any variation in the valuation of Own Funds items is also indicated, with additional qualitative details in terms of limits on tiers when needed.

The CMP is defined considering limits and tolerances set in the Risk Appetite Framework.

In case the three-year Strategic Plan needs to be resubmitted to the Head Office due to a significant variation of Own Funds or SCR also the CMP must be updated accordingly and sent to the GSPC&IR function.

E.1.2. AMOUNT AND QUALITY OF ELIGIBLE OWN FUNDS

The Company regularly evaluates its Own Funds, analyses their value and composition. Own Funds of the Company consist of Share Capital, Reconciliation Reserve and Foreseeable Dividend. All mentioned components are part of Tier 1 which represents the highest quality of the capital.

Difference between Company's IFRS equity and MVBS Own Funds is based on the revaluation of Technical Provisions, Intangible assets, Participations and Other items. Revaluations represent differences between the valuation according to IFRS accounting standards and valuation in accordance with the Solvency II Directive.

Technical Provisions valued for the solvency purposes are equal to the sum of a best estimate, risk margin and counterparty default adjustment. The best estimate corresponds to the probability-weighted average of future cash-flows, taking account the time value of money, using the relevant risk-free interest rate term structure. The risk margin is based mainly on the assumption that the whole portfolio of insurance and reinsurance obligations is taken over by another insurance or reinsurance undertaking. The counterparty default adjustment takes into account the expected losses due to the default of a reinsurance counterparty.

Intangible assets are revaluated to zero for the market value balance sheet purposes. Valuation of participations is based on the adjusted equity method of the undertakings in MVBS. The remaining part of the difference consists of the deferred taxes related to the revaluations mentioned above and other minor differences between the valuation for accounting and solvency purposes.

More details about valuation methods under Solvency II is described in Chapter D.

The Company has no restrictions in terms of the transferability of Own Funds.

ELIGIBLE OWN FUNDS TO MEET SCR

Available Own Funds to meet SCR are sum of all basic own fund items and Ancillary Own Fund items that meet the tier 1, tier 2 and tier 3 criteria and that are therefore available to meet SCR. The following table contains year to year comparison of the Available Own Funds split by Tiers.

Available Own funds by tiering

(BGN thousand)	Total available own funds to meet the SCR	Tier 1 – unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Current Year	1.514.930	1.514.930	0	0	0
Previous Year	1.419.353	1.419.353	0	0	0
Change	95.577	95.577	0	0	0

Available Own Funds increased which helps to improve solvency position of the company.

Eligible Own Funds to meet SCR are equal to the total amount of Available Own Funds that are eligible to cover the SCR. As all capital items are Tier 1 there is no eligibility restriction.

Eligible Own funds by tiering

(BGN thousand)	Total eligible own funds to meet the SCR	Tier 1 – unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Current Year	1.514.930	1.514.930	0	0	0
Previous Year	1.419.353	1.419.353	0	0	0
Change	95.577	95.577	0	0	0

Growth of the Eligible Own Funds has the same drivers as the increase of Available Own Funds.

At this stage, since eligibility filters are dependent from SCR, it is necessary to disclose it in terms of ratio.

Solvency Ratio

(BGN thousand)	Current year	Previous year	Change
Own Funds	1.514.930	1.419.353	95.577
Solvency Capital Requirement	636.997	591.498	45.499
Solvency Ratio	237,8%	240,0%	-2,1%

BASIC OWN FUNDS

The tables below contain a comparison of the Basic Own Funds in the current and previous year together with a split of Basic Own Funds by the tiers.

Own funds by Tiers

(BGN thousand)	Total	Tier 1 – unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital (gross of own shares)	53.400	53.400	0	0	0
Share premium account related to ordinary share capital	0	0	0	0	0
Surplus funds	0	0	0	0	0
Preference shares	0	0	0	0	0
Share premium account related to preference shares	0	0	0	0	0
Reconciliation reserve (see below table)	1.461.530	1.461.530	0	0	0
Subordinated liabilities	0	0	0	0	0
An amount equal to the value of net deferred tax assets	0	0	0	0	0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	0	0	0	0
Deductions for participations in financial and credit institutions	0	0	0	0	0
Total basic own funds after deductions	1.514.930	1.514.930	0	0	0

Reconciliation reserve

(BGN thousand)	Current year	Previous year	Change
Assets – Liabilities	1.860.557	1.666.369	194.188
Own shares	0	0	0
Foreseeable dividends and distributions	345.626	247.016	98.611

Other basic own fund items	53.400	53.400	0
Restricted own fund items due to ring fencing	0	0	0
Reconciliation Reserve	1.461.530	1.365.953	95.577

E.1.3. ELIGIBLE OF OWN FUNDS TO MEET THE MINIMUM CAPITAL REQUIREMENT

Eligible Own Funds to meet MCR are equal to the total amount of Own Funds that are eligible to cover the MCR. In case of the Company, they are equal to Eligible Own Funds to meet SCR because the whole amount of the capital is classified into Tier 1.

Eligible Own funds by tiering

(BGN thousand)	Total eligible own funds to meet the MCR	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
Current Year	1.514.930	1.514.930	0	0
Previous Year	1.419.353	1.419.353	0	0
Change	95.577	95.577	0	0

Year to year difference of Eligible Own Funds is consistent with the one provided in the section devoted to Eligible Own Funds to meet SCR.

E.1.4. EXPECTED PROFIT INCLUDED IN FUTURE PREMIUMS

The amount of EPIFP written by the Company has been calculated in accordance with article 260(2) of the Delegated Acts.

(BGN thousand)	Current Year	Previous year	Change
Expected Profit included in future premiums (EPIFP) - Life Business	8.463	0	8.463
Expected Profit included in future premiums (EPIFP) - Non-Life Business	296.952	270.370	26.582
Total Expected Profit included in future premiums (EPIFP)	305.415	270.370	35.045

E.1.5. RECONCILIATION BETWEEN STATUTORY SHAREHOLDER FUNDS AND OWN FUNDS FOR SOLVENCY PURPOSES

The main difference between IFRS statutory Equity and Eligible Own Funds is due to revaluation of net technical liabilities (more details are in Chapter D).

Reconciliation between Statutory Equity and Excess of Assets over Liabilities

(BGN thousand)	Current year	Previous year
Statutory Equity	1.157.668	961.909
Adjustment on Intangible	-23	-188
Adjustment on Investment	36.602	12.525
Adjustment on Net Technical Provision	780.694	768.274
Adjustment on Financial and Subordinated debt	0	0
Adjustment on Other Items	6.663	657
Adjustment on Deferred Taxes	-78.067	-76.809
Excess of Assets over Liabilities	1.860.557	1.666.369
Subordinated Liabilities	0	0
Foreseeable Dividend	-345.626	-247.016
Other deduction	0	0
Basic Own Funds	1.514.930	1.419.353
Ancillary Own Funds	0	0
Available Own Funds	1.514.930	1.419.353
Eligible Own Funds	1.514.930	1.419.353

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1. SCR AND MCR VALUES

Solvency Capital Requirement is calculated based on Standard Formula. Minimum Capital Requirement is calculated according to the relevant legislation and its value is significantly lower than the amount of Solvency Capital Requirement. Detailed inputs for MCR calculation are part of the annex to this chapter.

SCR Values

(BGN thousand)	Total
Current Year	636.997
Previous Year	591.498
Change	45.499

MCR Values

(BGN thousand)	Total
Current Year	215.511
Previous Year	199.376
Change	16.135

E.2.2. SCR BREAKDOWN

As far as the Company operates as NL reinsurer it is straightforward that the most important risk relates to NL UW business. The detailed results are presented in the following table.

Total SCR split by Risk before and after diversification

(BGN thousand)	Before Diversification 2019		Before Diversification 2018	
	Total	Impact (%)	Total	Impact (%)
nSCR before Diversification	862.140	100%	801.288	100%
Market Risks	293.875	34%	270.520	34%
Counterparty Default Risks	55.849	7%	54.488	7%
Life Underwriting Risks	3.914	0%	728	0%
Health Underwriting Risks	45.634	5%	43.376	5%
Non-Life Underwriting Risks	462.868	54%	432.177	54%
Diversification benefit	216.656		200.151	
nBSCR after Diversification	645.484		601.137	
Operational Risk	57.627		52.014	
Notional SCR arising from RFF	0		0	
Total SCR before Taxes	703.111		653.151	
Tax absorption	66.114		61.653	
Total SCR	636.997		591.498	

E.3. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company does not use duration-based equity risk sub-module in the calculation of the SCR.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The company does not use internal model for the calculation of regulatory SCR.

E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The Company has a sound solvency position. No inconsistencies were found related to the compliance with the Minimum Capital Requirements or the Solvency Capital Requirement.

E.6. ANY OTHER INFORMATION

E.6.1. SENSITIVITIES

The sensitivity testing analyses the impact of simple changes in specific risk drivers (e.g. Interest Rates, equity shock, credit spreads and Interest Rate volatility) on the variability of the Own Funds and Solvency Ratio.

The level of Eligible Own Funds was recalculated for each sensitivity and it is presented in the following table, together with the impact on the solvency ratio. SCR value is kept constant for the purposes of calculating the stressed Solvency Ratio.

Sensitivities

(BGN million)	Solvency Ratio	Delta
Base value	237,8%	
Real estates (-25%)	229,8%	-8,0%
Equity price (-25%)	233,6%	-4,2%
Risk free rates (+50bps)	234,9%	-2,9%
Risk free rates (-50bps)	240,8%	2,9%
Credit spread Corporate (+50bps)	236,1%	-1,7%
Credit spread Govies (+50bps)	233,8%	-4,0%

It can be seen that none of the sensitivities represents a significant threat to the solvency position of the Company.

Annex**QRT TEMPLATES VALID FOR SOLO PURPOSES**

Own funds – Solo (1/3)

(Thousand BGN)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	1.514.930	1.514.930	0	0	0
Ordinary share capital (gross of own shares)	53.400	53.400	0	0	0
Share premium account related to ordinary share capital	0	0	0	0	0
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0	0	0	0
Subordinated mutual member accounts	0	0	0	0	0
Surplus funds	0	0	0	0	0
Preference shares	0	0	0	0	0
Share premium account related to preference shares	0	0	0	0	0
Reconciliation reserve	1.461.530	1.461.530	0	0	0
Subordinated liabilities	0	0	0	0	0
An amount equal to the value of net deferred tax assets	0	0	0	0	0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	0	0	0	0
Deductions	0	0	0	0	0
Deductions for participations in financial and credit institutions	0	0	0	0	0
Total basic own funds after deductions	1.514.930	1.514.930	0	0	0

Own funds – Solo (2/3)

(Thousand BGN)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
Unpaid and uncalled preference shares callable on demand	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
Other ancillary own funds	0			0	0
Total ancillary own funds	0			0	0
Available and eligible own funds					
Total available own funds to meet the SCR	1.514.930	1.514.930	0	0	0
Total available own funds to meet the MCR	1.514.930	1.514.930	0	0	
Total eligible own funds to meet the SCR	1.514.930		0	0	0
Total eligible own funds to meet the MCR	1.514.930		0	0	

Own funds – Solo (3/3)

(Thousand BGN)		Total
SCR		636.997
MCR		215.511
Ratio of Eligible own funds to SCR		237,8%
Ratio of Eligible own funds to MCR		702,9%
Reconciliation reserve		
Excess of assets over liabilities		1.860.557
Own shares (held directly and indirectly)		0
Foreseeable dividends, distributions and charges		345.626
Other basic own fund items		53.400
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds		0
Reconciliation reserve		1.461.530
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business		8.463
Expected profits included in future premiums (EPIFP) - Non- life business		296.952
Total Expected profits included in future premiums (EPIFP)		305.415

Solvency Capital Requirement - for undertakings on Standard Formula

(Thousand BGN)	Gross solvency capital requirement	USP	Simplifications
Market risk	293.875	0	0
Counterparty default risk	55.849	0	0
Life underwriting risk	3.914	0	0
Health underwriting risk	45.634	0	0
Non-life underwriting risk	462.868	0	0
Diversification	-216.656	0	0
Intangible asset risk	0	0	0
Basic Solvency Capital Requirement	645.484	0	0

(Thousand BGN)

Calculation of Solvency Capital Requirement	
Operational risk	57.628
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	-66.114
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
Solvency capital requirement excluding capital add-on	636.997
Capital add-on already set	0
Solvency capital requirement	636.997
Other information on SCR	0
Capital requirement for duration-based equity risk sub-module	0
Total amount of Notional Solvency Capital Requirements for remaining part	636.997
Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
Diversification effects due to RFF nSCR aggregation for article 304	0

MCR Result for non-life activities

(Thousand BGN)	Non-life activities
MCRNL Result	191.893

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non-Life (Thousand BGN)	Non-life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	-1.005	10.940
Income protection insurance and proportional reinsurance	-476	22.298
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	285.329	395.621
Other motor insurance and proportional reinsurance	11.803	343.981
Marine, aviation and transport insurance and proportional reinsurance	1.550	48.116
Fire and other damage to property insurance and proportional reinsurance	106.901	388.051
General liability insurance and proportional reinsurance	67.037	175.569
Credit and suretyship insurance and proportional reinsurance	1.615	5.635
Legal expenses insurance and proportional reinsurance	0	0
Assistance and proportional reinsurance	-1.633	8.275
Miscellaneous financial loss insurance and proportional reinsurance	1.345	998
Non-proportional health reinsurance	-741	2.886
Non-proportional casualty reinsurance	45.456	10.713
Non-proportional marine, aviation and transport reinsurance	-1.295	509
Non-proportional property reinsurance	-30.181	80.326

MCR Result for life activities

(Thousand BGN)	Life activities
MCRL Result	23.618

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life (Thousand BGN)	Life activities	
	Net (of reinsurance/SPV and Finite Re) best estimate and TP calculated as a whole	Net (of reinsurance/SPV and Finite Re) total capital at risk
Obligations with profit participation - guaranteed benefits	0	0
Obligations with profit participation - future discretionary benefits	0	0
Index-linked and unit-linked insurance obligations	0	0

Other life (re)insurance and health (re)insurance obligations	-4.668	
Total capital at risk for all life (re)insurance obligations	0	16.127.875

Overall MCR

Overall MCR calculation (Thousand BGN)		
SCR		636.997
MCR cap		286.649
MCR floor		159.249
Combined MCR		215.511
Absolute floor of the MCR		2.347
Minimum Capital Requirement		215.511