GENERALI

GP REINSURANCE EAD

ANNUAL MANAGEMENT REPORT
FINANCIAL STATEMENTS
INDEPENDENT AUDITORS' REPORT

31 DECEMBER 2021

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GP REINSURANCE EAD
2021 COMPANY MANAGEMENT REPORT

GP Reinsurance EAD is a joint-stock company with main non-life reinsurance activity, for which it has license No 626-OZ from 18.06.2008. The Company was registered in the Commercial Register at the Registry Agency on 24.07.2008.

In 2017 the Company also received license No 1385-OZ from 31.10.2017 from the Financial Supervision Commission for reinsurance in life insurance.

The reinsurance market in 2021 and the result of GP Reinsurance EAD

Despite the serious catastrophic losses in 2021, according to rating agencies reinsurance capital has increased by about 3-4% and as a result of this growth, the market is sufficiently capitalized and it can even absorb greater demand for coverage. While the conclusion of traditional contracts is slower in 2021 compared to 2020, better yields help strengthen reinsurers' assets and the issuing of catastrophic bonds marked a record, providing a coverage for a wide range of risks and geographical areas.

As far as the CEE region and the Company in particular are concerned, in 2021 there was one significant catastrophic event which affected seriously the region. The storms in June affected most gravely Austria and the Czech Republic, but also hit Hungary, Poland, Slovakia and Croatia. Other catastrophic events, having impact on the result of GP Reinsurance in 2021, were the storms in August and September in Slovenia and in July in Austria. In spite of the considerable volume of catastrophic events, the effect for GP Reinsurance was almost completely reduced, due to the triggering of the passive reinsurance program and the retrocession of a large part of the losses.

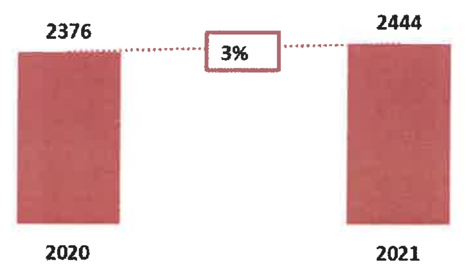
Apart from the critical impact of the catastrophic events in 2021, four serious property losses were reported as material both at the Group and Regional level – two in the Czech portfolio and one in each of the two portfolios - Poland's and Austria's.

The COVID-19 crisis affected Generali business in the region of Austria and the Central and Eastern Europe, causing an expected downturn in the premium income, mainly from unrealized gains and a decline in travel assistance and personal accident insurance, like in 2020. Other 2020 trends also persisted in 2021 - the loss ratio in non-motor insurance increased simultaneously due to business discontinuity and disruption losses, compensated however by improved gains from motor insurance, where the loss ratio for the lockdown period of a limited mobility during the COVID crisis had a crucial effect on the insurance profit.

The amount of the external reinsurance coverage purchased by the Company in 2021 increased to BGN 2,444 m compared to BGN 2,376 m in 2020. The main reason for that is the increased capacity of the external

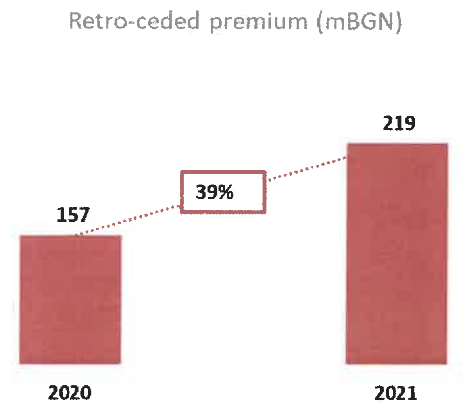
CAT XL treaty due to the new Layer 5 (Umbrella cover) introduced in 2021.

Available overall treaty limits - BGN M (Exclusive of MTPL unlimited layer)



In 2021 the amount of retroceded reinsurance premiums reached BGN 219 million, which represents an increase of 39% in comparison to 2020 (BGN 157 m). The main reason for the increase is the reinstatement premium related to ACEER related to the June Storm loss in 2021 covered by the CAT treaty.

Retro-ceded premiums (in BGN m)



The gross loss ratio in 2021 amounts to 60% (46% in 2020), whereas the Net Loss Ratio in 2021 is 46% (49% in 2020). The deterioration of the loss ratio on the gross side is mainly due to the few big CAT and Property losses occurred in 2021. In 2021 the retro-ceded losses also marked a slight deterioration. The net loss ratio in 2021 is mainly a result of the gross reinsurance business, and in ceded reinsurance both the retro-ceded premium and the losses that should be covered by the reinsurers are higher.

In 2021 GP Reinsurance EAD has continued its main reinsurance activities without material change to its portfolio structure and mix. In 2021 the company continued underwriting life business in relation to its life license acquired on 31.10.2017. The life business volumes in 2021 are still very small, compared to the overall non-life portfolio.

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

Until 2020 GP Reinsurance EAD provided reinsurance cover to a company from the Generali Group in Slovakia - Generali Pojistovna Slovakia. At the end of 2021, following a strategic decision for the Czech and the Slovakian market, Generali Ceska Pojistovna A.S. acquired almost the whole portfolio of Generali Pojistovna Slovakia. As from 21.12.2021 there is one main insurance company in the Czech and the Slovakian market named Generali Ceska Pojistovna A.S. as of 21.12.2021, the reinsurance portfolio of Generali Pojistovna Slovakia was transferred to Generali Ceska Pojistovna A.S.

In 2021 the Company continues to provide proportional reinsurance cover to Assicurazioni Generali S.P.A. – US Branch, which dates from 2016.

In 2021, external reinsurance contracts are concluded directly with Assicurazioni Generali S.P.A. The only non-proportional cover placed in the external market by the reinsurance broker AoN Benfield in 2020, has not been renewed in 2021.

The reinsurance contracts in the GP Reinsurance EAD portfolio can be subdivided into three main categories:

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

The structure of the internal reinsurance program of GP Reinsurance EAD in 2021 remains unchanged as compared to 2020.

On the retro-ceded side there were no significant changes in the structure of the external program in 2021. In 2021 the capacity of the external CAT XL treaty was changed (to EUR 900 m against EUR 865 m for 2020) and the Company's retention on the main CAT XL treaty has remained at the same level - EUR 40 m. The Euro and the retention on the CAT AGG XL reinsurance cover has remained unchanged as well - EUR 40 m in 2021.

All figures from 1 to 17 have legends arranged from the largest to the smallest value presented in the graph.

Operating results of GP Reinsurance EAD for 2021:

1) Accepted reinsurance (in thousand BGN)

Statement of comprehensive income	Gross amount	Change in reserve	Net amount disclosed in Statement of comprehensive income
Gross reinsurance premiums written	1,978,170	(1,007)	1,977,163
Reinsurance claims paid	883,079	308,256	1,191,335
Expenses for commissions, including:	572,091	Not applicable	572,091
- Acquisition commissions	561,039	Not applicable	561,039
- Profit-participation costs	11,052	Not applicable	11,052
Statement of financial position			
Unearned Premium Reserve (UPR) as of 31.12.2021	22,611		
Reserve for Reported but not settled insurance claims (RBNS) as of 31.12.2021	1,283,461		
Reserve for incurred but not reported insurance claims (IBNR) as of 31.12.2021	399,727		

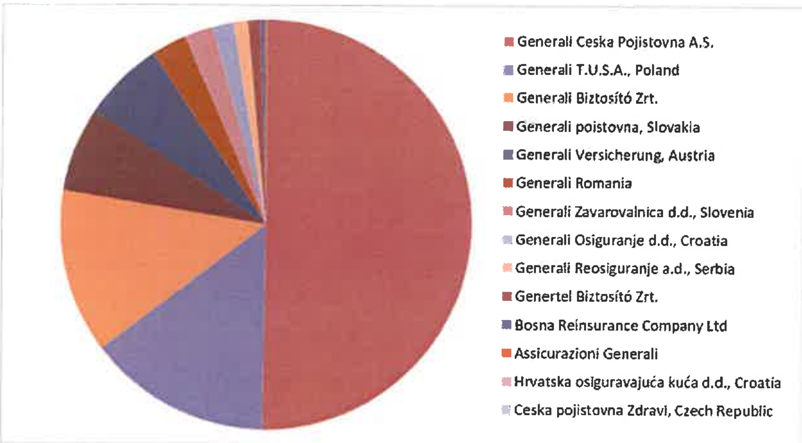
2) Ceded Reinsurance (in thousand BGN)

Statement of comprehensive income	Gross amount	Change in reserve	Net amount disclosed in Statement of comprehensive income
Ceded Reinsurance Premiums	218,917	(1,346)	217,571
Ceded Claims	131,971	Not applicable	131,971
Reinsurance commissions income	7,198	Not applicable	7,198
- Acquisition commissions	4,298	Not applicable	4,298
- Profit-participation costs	2,900	Not applicable	2,900
Statement of financial position			
Unearned Premium Reserve (UPR) as of 31.12.2021	32,479		
Ceded reserve for Reported but not settled insurance claims (RBNS) as of 31.12.2021	315,872		
Ceded reserve for Incurred but not reported insurance claims (IBNR) as of 31.12.2021	24,616		

I. Reinsurance premium income

I.1. Accepted reinsurance premium income

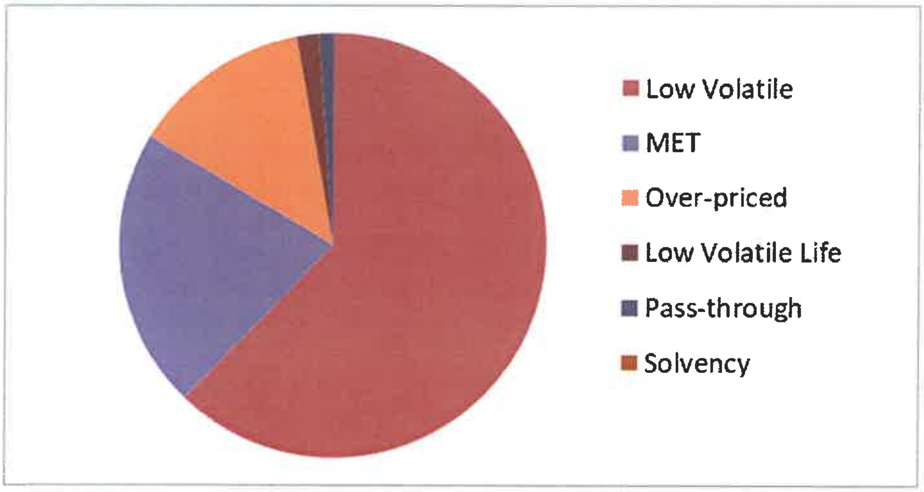
Fig.1. 2021 Premium income by ceding companies:



The total amount of the ceded premiums to GP Reinsurance in 2021 is BGN 1,978 m compared to BGN 1,827 m in 2020. Compared to 2020, there is an increase in the premium income of BGN 151 m, across the majority of companies.

The companies that contribute most significantly to the total volume are Generali Ceska Pojistovna, Generali Versicherung, Austria, Generali Biztosító Zrt., Hungary and Generali T.U.S.A., Poland. The company with the biggest ceded reinsurance premium share of BGN 993 m or 50% is Generali Ceska Pojistovna, Czech Republic, followed by Generali T.U.S.A, Poland with BGN 285 m (14%), Generali Biztosító Zrt., Hungary with BGN 258 m (13%), and Generali poistovna, Slovakia with BGN 133 m (7%).

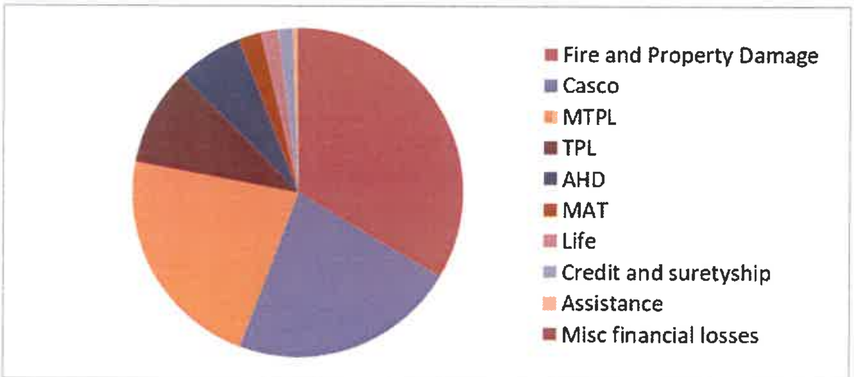
Fig.2. 2021 Premium income by type of reinsurance treaty category:



* The chart above contains an internal classification of the contract types of the company.
The types of reinsurance contracts are defined in Note III.A of the financial statements.

The structure of the premium income according to the treaty type remains similar to the one in 2020. The biggest share of premiums (62%) is ceded under the Low Volatile (LV) treaties followed by MET Treaties with 21%. Life reinsurance premiums are only 2% from the overall portfolio.

Fig.3. 2021 Premium income by type of reinsurance products:

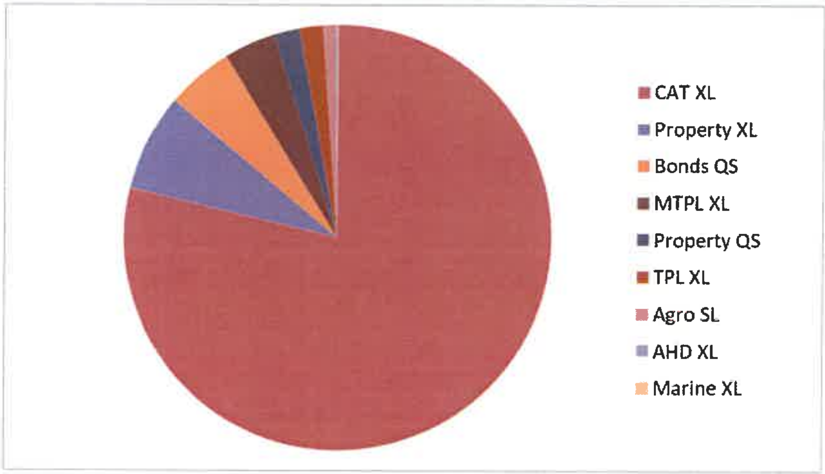


In 2021 the distribution of the premiums by line of business remains similar to previous years. The leading position remains the Motor Insurance with 44% share (including MTPL 22% and Motor Casco 22%), followed by Property (33%).

I.2. Premiums on ceded reinsurance

The total amount of the retroceded premiums in 2021 is BGN 219 m. This amount includes the minimum and deposit premiums and premium adjustment on non-proportional treaties, quota share treaty premiums, and additional premiums for reimbursement of reinsurance coverage. The biggest share of the ceded premiums belongs to CAT XL and CAT Annual Aggregate Protection XL reinsurance treaties (BGN 172 m or 79%).

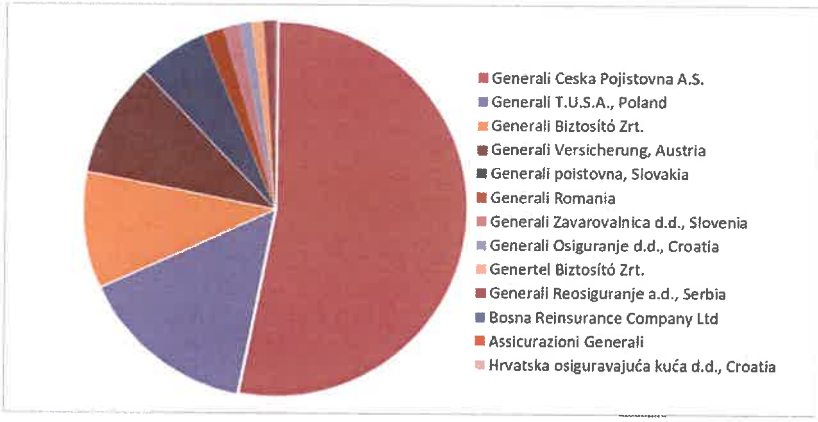
Fig.4. 2021 Ceded reinsurance premiums structure by type of reinsurance treaty:



II. Reinsurance Claims paid

II.1. Claims paid on accepted reinsurance

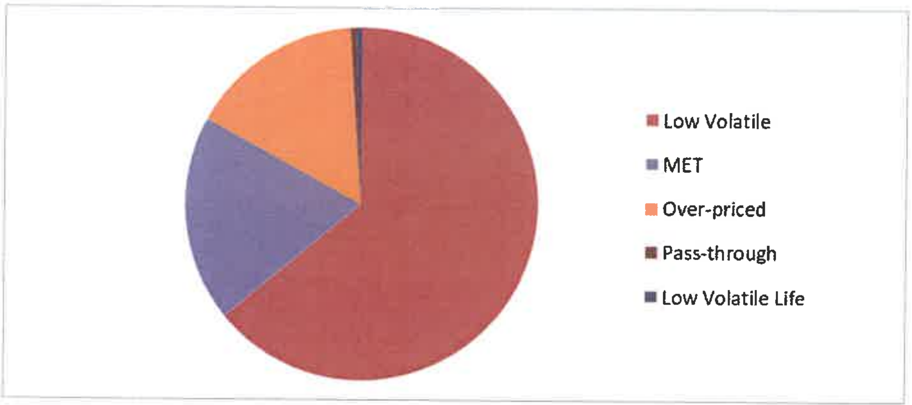
Fig.5. 2021 Claims paid by ceding companies:



The total amount of reinsurance claims paid by GP Reinsurance in 2021 is BGN 883 m, which represents BGN 36 m increase in comparison to 2020 (BGN 847 m). The main reason is the increased volume of claims paid under Excess of loss treaties related to Fire and Property Damage, Casco and it is partially compensated by decrease in MTPL under Low Volatile treaties.

The largest share of claims is paid under the treaties of Generali Ceska Pojistovna – BGN 468 m, followed by Generali T.U.S.A., Poland - BGN 133 m, Generali Biztosító Zrt., Hungary – BGN 88 m and Generali Versicherung, Austria– BGN 86 m. The volume of paid claims on a company level is relatively symmetric to the premium portfolio volumes.

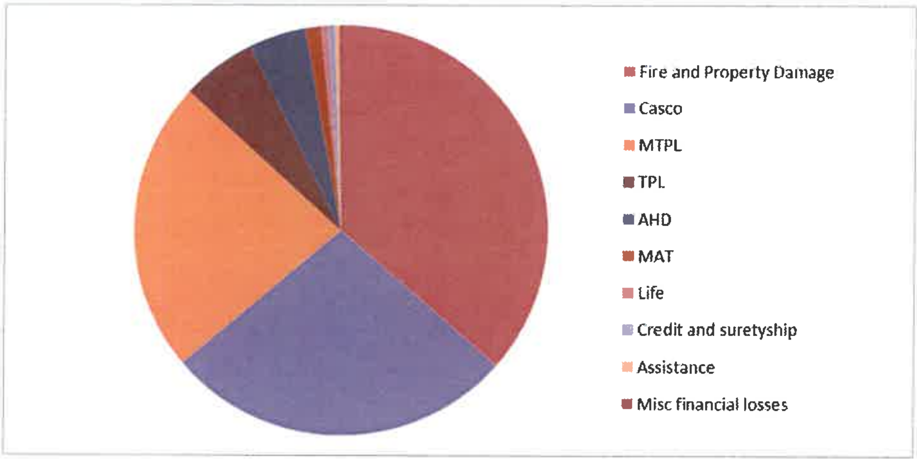
Fig.6. 2021 Reinsurance claims paid by types of reinsurance treaties:



* The chart above contains an internal classification of the contract types of the company

The predominant part of the claims paid is under quota share Low Volatile treaties 64%, followed by MET (19%) and Over-priced and Pass-through reinsurance treaties (16% and 1% respectively).

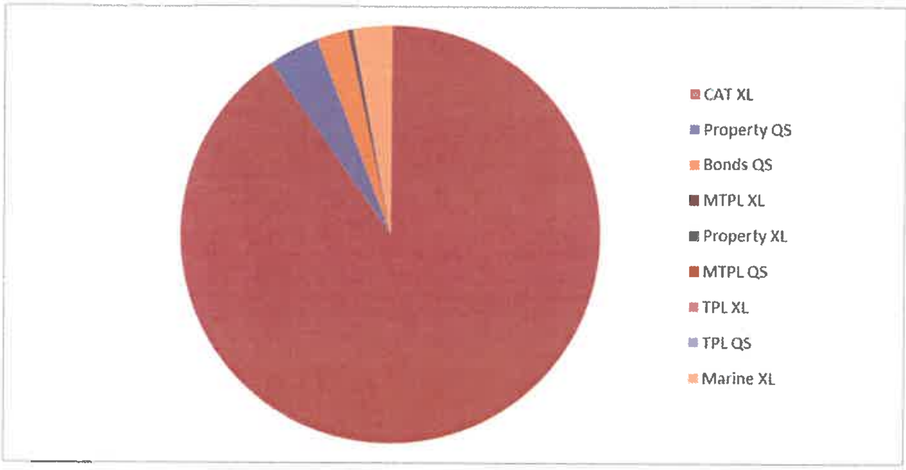
Fig.7. 2021 Reinsurance claims paid by reinsurance product type:



The claims paid for Property line of business make up for 36% of the overall claims paid or BGN 322 m, Motor Casco accounts for 27% or BGN 242 m and MTPL for 23% or BGN 203 m. Compared to 2020 the claims paid per line of business remain without significant change to the total volume of claims.

II.2. Retro-ceded reinsurance claims

Fig.8. 2021 Retro-ceded reinsurance claims paid by treaty type:



The total amount of the ceded claims paid in 2021 amounts to BGN 132 m (BGN 75 m in 2020). CAT XL treaty is taking 96% of the total claims paid or BGN 127 m.

III. Reinsurance commissions

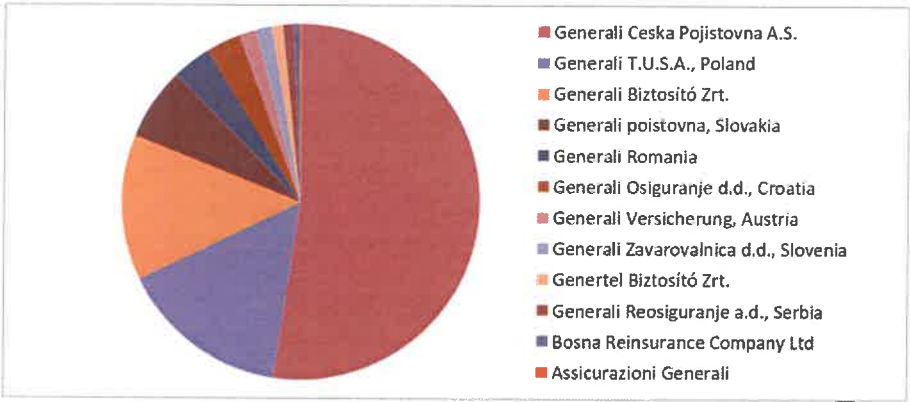
III.1. Expenses for commissions related to accepted reinsurance

The amounts, recognized as expenses by GP Reinsurance EAD in 2021 for commissions related to accepted reinsurance amount to BGN 572 m (BGN 526 m in 2020).

This amount includes the acquisition commission costs of BGN 561 m (BGN 507 m in 2020) and the profit commission costs of BGN 11 m (BGN 19 m in 2020).

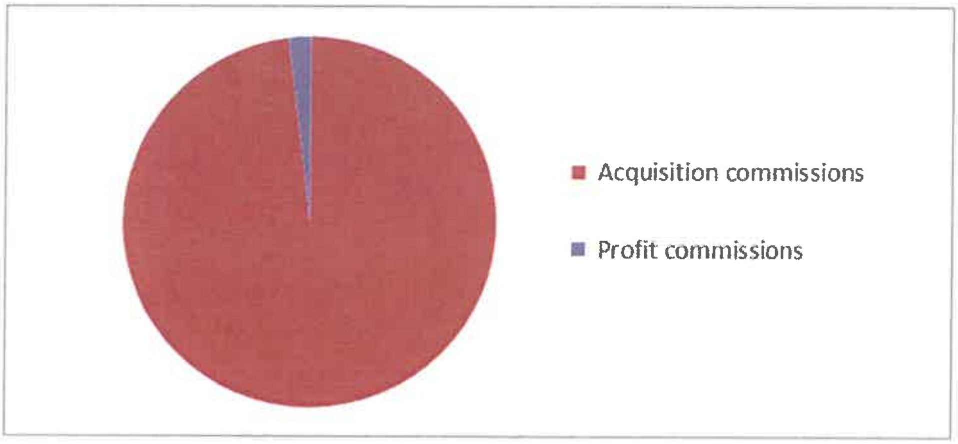
The increase in the volume of acquisition commissions is mainly due to the increase in the level of the commissions under a couple of LV treaties ceded, the most important increase being under the LV treaty ceded with by Generali Biztosito, Hungary, Genertel, Hungary and Generali Pojistovna, Slovakia. The profit commission is based on the technical result accounted under certain quota share treaties and for 2021 it decreases with BGN 8 m, which is s mainly due to the abolition of profit commission under the Low Volatile treaties of Hungarian entities in 2021.

Fig.9. 2021 Reinsurance commissions by ceding companies:



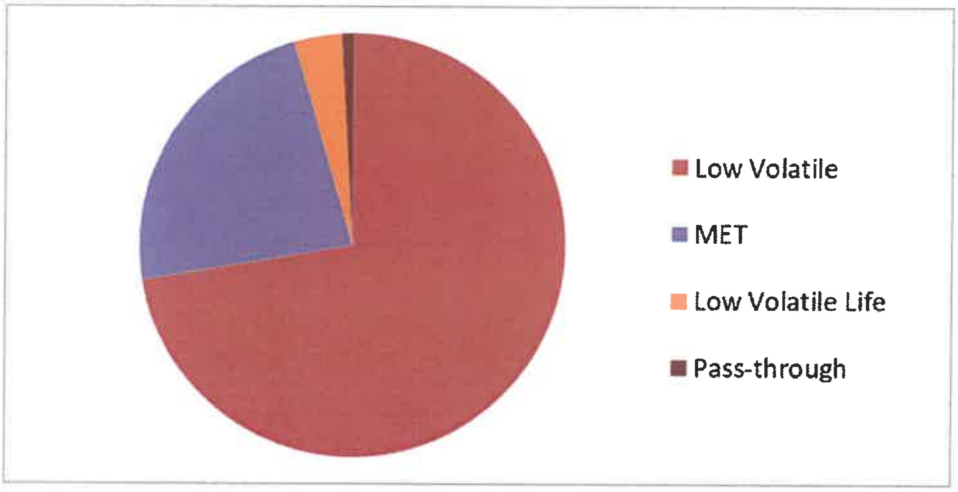
In 2021 the commissions paid are under quota-share reinsurance contracts and their structure is related to the structure of the premium income under those contracts. In 2021 the highest commissions are paid under the treaties ceded by Generali Ceska Pojistovna, Czech Republic with BGN 300 m (BGN 287 m in 2020), Generali T.U.S.A., Poland - BGN 88 m (BGN 82 m in 2020), Generali Biztosító Zrt., Hungary with BGN 75 m (BGN 65 m in 2020) and Generali Poistovna, Slovakia with BGN 37 m (BGN 31 m in 2020).

Fig.10. Structure of the reinsurance commissions on accepted reinsurance in 2021:



As in previous years, profit-sharing commission provisions were included in the terms of the of quota-share treaties. The method of calculation of the profit commissions is specified in the terms of the reinsurance contract and it is related to the reinsurance technical result.

Fig.11. 2021 Total paid commissions by reinsurance contract type:



* The chart above contains an internal classification of the contract types of the company

The structure of the reinsurance commissions in 2021 remains almost the same as in the previous years - 72% (73% in 2020) of the commissions are paid under Low Volatile Quota Share treaties, followed by MET treaties with 23% and 4% (3% in 2020) paid under Low Volatile reinsurance treaties in life insurance. The relative share of paid commissions under the Bond QS and Agro QS treaties is only approximately 1%.

III.2. Commissions received from ceded reinsurance

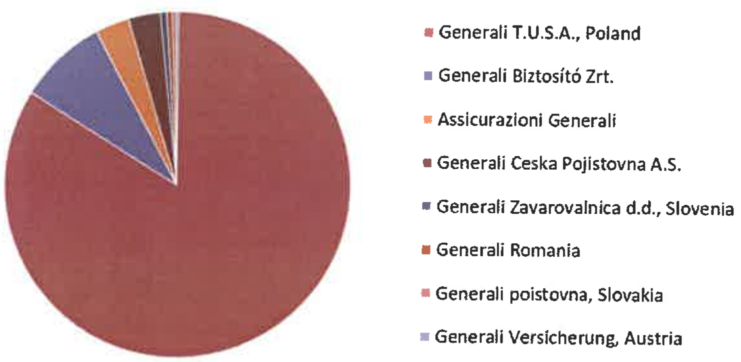
In 2021 GP Reinsurance EAD is collecting reinsurance commissions mainly under Bond, Property and TPL quota share treaties. The amount received as commissions is BGN 7 m. In 2021, the amount of profit commissions under the Bonds QS treaty is BGN 2,2 m and under MTPL XL treaties is BGN 651 thousand.

IV. Unearned premium reserve

IV.1. Unearned premium reserve for accepted reinsurance

The total amount of the unearned premium reserve as of 31 December 2021 is BGN 23 m (BGN 25 m for 2020). The unearned premium reserve is ceded to GP Reinsurance EAD under Bond and Directors and Officers Liability Quota Share Treaties and non-proportional contracts with Assicurazioni Generali - UK Branch.

Fig.12. Unearned premium reserve as of 31 December 2021, ceded to GP Reinsurance by ceding companies:



IV.2. Ceded unearned premium reserve

The total amount of the ceded UPR by GP Reinsurance EAD as of 31 December 2021 is BGN 32 m (BGN 31 m for 2020). The ceded UPR is formed by the outward Bond QS treaty, Directors and Officers Liability XL treaty, Property and Engineering XL, Marine XL and General Liability XL treaties, and the treaties with Assicurazioni Generali – the UK Branch.

V. Deferred acquisition costs reserve

The total amount of the deferred acquisition costs reserve as of 31 December 2021 is BGN 6 m. It is ceded towards GP Reinsurance EAD under the Bond QS treaties. As these treaties are fully retroceded, the amount of the deferred acquisition costs reserve on ceded reinsurance, ceded by GP Reinsurance as of 31 December 2021 is also BGN 6 m under the outward Bond QS treaty.

The Company presents the deferred acquisition costs reserve for accepted and ceded reinsurance net in total amount of 44 thousand BGN (Note V.8).

VI. Claims reserves

VI.1. Loss Reserves – accepted reinsurance

The total amount of claim reserves ceded towards GP Reinsurance EAD as of 31 December 2021 is BGN 1,683 m (BGN 1,373 m in 2020), including:

- Reported but Not Settled (RBNS) reserve of BGN 1,283 m (BGN 988 m as of 31.12.2020);
- Incurred but Not Reported (IBNR) reserve of BGN 400 m (BGN 385 m as of 31.12.2020).

Fig.13. RBNS reserve accepted by GP Reinsurance as of 31 December 2021 – by ceding companies:

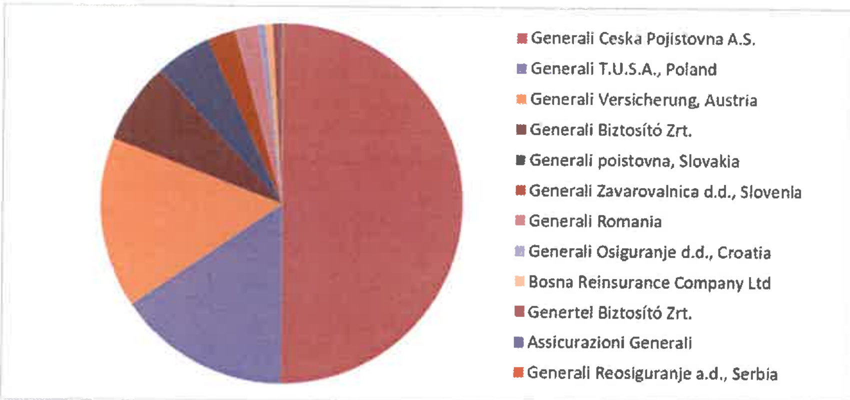
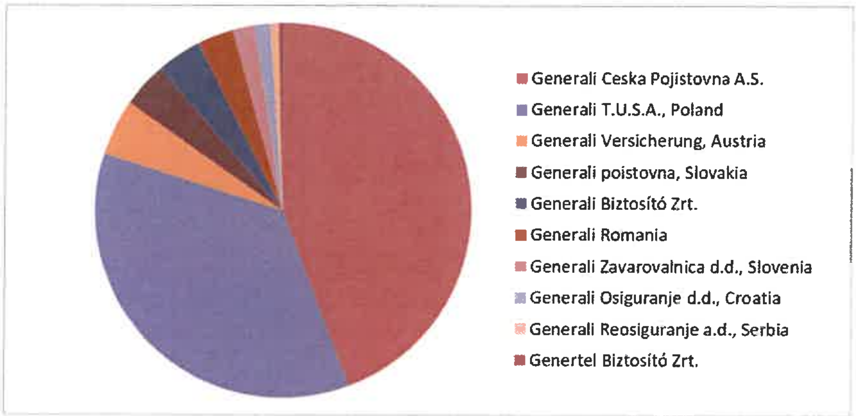


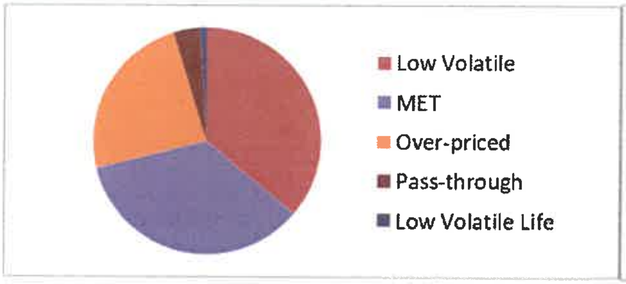
Fig.14. IBNR reserve accepted by GP Reinsurance as of 31 December 2021 by ceding companies:



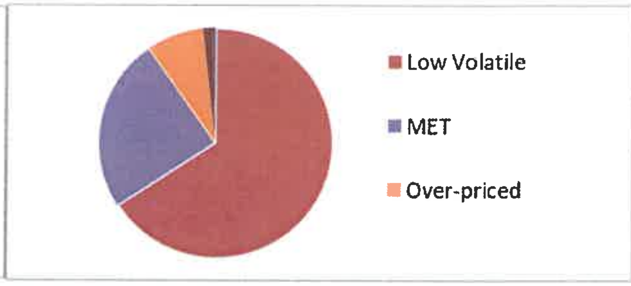
The companies with the highest claim reserves ceded towards GP Reinsurance EAD as of 31 December 2021 are Generali Ceska Pojistovna, Czech Republic – BGN 818 m (49%), Generali T.U.S.A., Poland – BGN 341 m (20%) and Generali Versicherung, Austria – BGN 216 m (13%). The overall increase of the reserves is mainly due to the big CAT event in Central and Eastern Europe, occurred in 2021 and to the better claim experience in 2020, predominantly in motor insurance as a result of the COVID-19 pandemic (lower claims due to the mobility restrictions imposed on people).

Fig.15. Claims reserve accepted by GP Reinsurance as of 31 December 2021 by type of reinsurance treaty:

RBNS

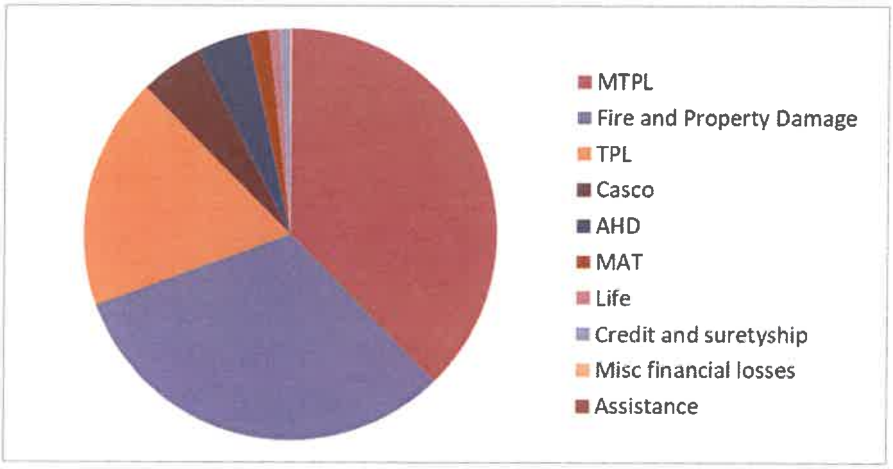


IBNR



The main share of the ceded damage reserves as of 31.12.2021 are under Low Volatile (reserve for claimed but outstanding damages 36% and reserve for damages incurred but not announced – 66%), MET (reserve for claimed but outstanding damages 44% and reserve for damages incurred but not reported – 69%).

Fig.16. Claims reserve accepted by GP Reinsurance EAD as of 31 December 2021 per type of reinsurance products:



The largest part of the ceded loss reserves belongs to the Motor insurance business - BGN 717 m or 43% including:

- MTPL – BGN 633 m (in 2020: BGN 625 m);
- Motor Casco – BGN 84 m (in 2020: BGN 50 m).

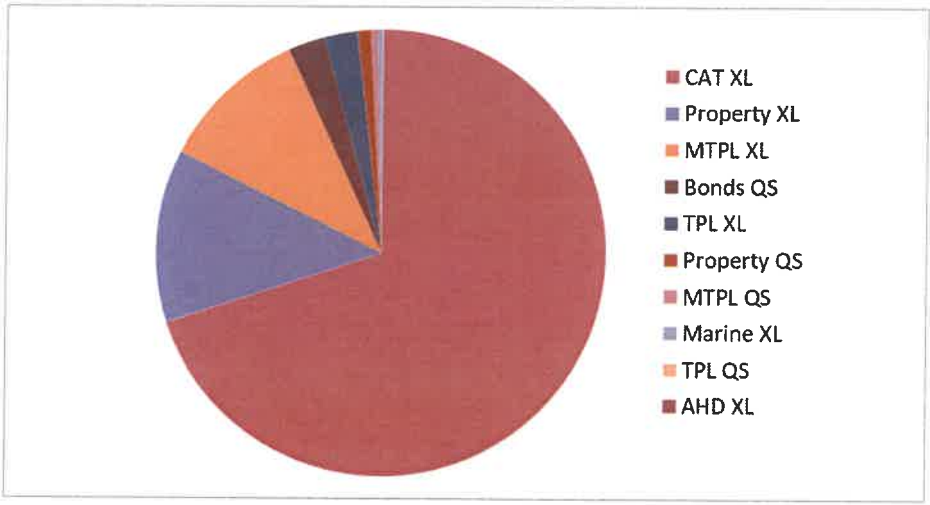
They are followed by loss reinsurance reserves for Property with BGN 535 m (32%) and TPL – BGN 307 m (18%).

VI.2. Ceded Loss Reserves

The total amount of the outstanding claims reserve, retroceded by GP Reinsurance EAD as of 31 December 2021 is BGN 340 m (BGN 82 m in 2020), small part of which is IBNR - BGN 25 m.

The main reason for the increase in the retro-ceded loss reserves compared to 2020 is one big individual loss under the Property line of business in assumed business and one big CAT event in Central and Eastern Europe occurred in 2021 that also triggered the outward reinsurance coverage of the Company.

Fig.17. Structure of outstanding claims reserve (RBNS) as of 31 December 2021, ceded by GP Reinsurance – per type of reinsurance treaty:



The main share of the retroceded loss reserve as of 31 December 2021 is under CAT XL (BGN 238 m), followed by reserves under Property XL (BGN 42 m) and the remaining part of (BGN 80 million) is allocated to the other types of reinsurance treaties.

The ceded IBNR reserves are mainly under outward Bond QS (BGN 5 m) and CAT XL (BGN 19 m) treaties.

VII. TECHNICAL RESULT

The gross technical result from inward reinsurance activity in 2021 is BGN 214 m (BGN 465 m in 2020). The technical result from the outward business is negative in the amount of BGN 177 m (negative BGN 134 m in 2020). The net technical result for the year is BGN 391 m (BGN 332 m in 2020).

Investment market in 2021 and the result of GP Reinsurance EAD

Accounting result was significantly influenced by bond yields which affected both the operating part and non-operating part.

MARKET ENVIRONMENT

The passed year was the second year of the COVID-19 pandemic. The overall economic and social environment was quite different from 2020 due to the continuing vaccination, the general progress in the treatment of COVID, as well the observed seasonality of the illness enable a gradual opening of economies, despite the great differences among countries.

This return to normality fully revealed the level of economic distortions caused by previous lockdowns and other restrictions. Previously underestimated disruptions of global supply chains led to lower and delayed deliveries. On the opposite side of basic economy equation consumer demand subdued in previous months could now burst out. These two factors were at aggregated macroeconomic level demonstrated by exceptionally high numbers for GDP growth but also very high inflation numbers both in consumer and production sectors.

Fiscal authorities could gradually abandon their supportive measures, on the monetary side it meant a gradual tightening of monetary conditions. However, local specifics, different situation at the beginning, different public indebtedness, different level of political independency of central banks, these and other factors led to various reactions and various development of local markets.

In general, risky assets performed very positively, risk-free assets delivered from zero to very negative numbers.

CEE region felt increasing pressure on prices before the Covid crisis. The pandemic caused a drastic change but normalization in 2021 reintroduced the local imbalances and amplified them by imported global inflation. That forced local central banks to tighten monetary conditions, cancel extraordinary tools and hike interest rates.

Geopolitical agenda wasn't a relevant factor until the last quarter when tensions in East Ukraine dramatically accelerated. The potential war conflict between Ukraine and Russia had materialized after the end of the reporting period and might have significant negative effects on the whole Europe including financial markets, the effect for the Company is disclosed in Note X "Events after the reporting period". On the local level of politics, the victory of right-oriented coalition in the Czech Republic is a positive news for markets as the new government should more focus on sustainability of public finances.

After rebounding to an estimated 5.5 percent in 2021, global growth is expected to decelerate markedly to 4.1 percent in 2022, reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks. The near-term outlook for global growth is somewhat weaker, and for global inflation notably higher, than previously envisioned, owing to pandemic resurgence, higher food and energy prices, and more pernicious supply disruptions.

Financial markets will further benefit from continuing post-Covid recovery. However, current global inflation pressures should be carefully watched by monetary authorities. Central banks in major economies have to consider their temporariness or risk of long-term elevated price levels. A more aggressive approach of the U.S. Federal reserve would definitely threaten risky assets and emerging markets. Geopolitics is still the traditional source of hope or disappointment.

Military conflict between Ukraine and Russia and consequent sanctions from the West on Russian assets are threat for European economic recovery the effects are disclosed in Note X "Events after the reporting period".

CEE countries are well ahead of the U.S. and the Euro-area in monetary tightening as inflation tensions came earlier to this region and are more pronounced. The differences in inflation outlook should determine performance of local fixed income markets. Czech Republic is the country where interest rates should reach their maximum at earliest followed by Hungary and Romania. Start of the U.S interest rate rise (expected in first half of 2022) will have a global effect and could increase the value of long-term CEE bonds.

In this section we discuss each asset class relevant for GP Re, its market performance in 2021 and its performance in portfolios.

CREDIT

While the COVID-19 pandemic in 2020 and the first half of 2021 has had a profound effect on the global economy and it led to wave of downgrades of credit ratings, more recently, rating dynamics among IG non-financial credit has turned more positive. This has largely been driven by the policy response to the pandemic, which included tax deferrals, cash transfers, furlough schemes, debt moratoriums and public guarantees.

Our approach did not change too much in comparison with previous years. Credit spreads remained very low due to existing support of central banks. Fundamental analysis is the most important part of investment process, especially under current market conditions when the period of ultra-low interest rates in ending. We again focused mainly on CEE region, Western Europe and United States.

EQUITIES

Following a record recovery from a bear market in 2020, driven by unprecedented monetary and fiscal stimulus measures, 2021 was marked by an environment of low interest rates, record profit margins and high valuations. In 2021, equity indices across the US, most of Western Europe and CEE posted modest double-digit returns that were driven by upbeat earnings results (mainly from cyclical and economy-sensitive sectors) amid improving global vaccination rates and increased consumer demand.

Towards the end of the year, returns in the equity markets started to ease on the back of increased risks of inflation and policy tightening, while the emergence of new Omicron coronavirus variant from South Africa forced numerous countries to reintroduce social restrictions and lockdowns – posing further pressure on the overall sentiment and outlook for 2022.

Therefore, with the tailwind from low interest rates missing, valuations at all-time highs, and with earnings having already reached a peak in 2021, equity returns are expected to increase only modestly throughout 2022, while increasing the importance of stock-picking and factor investing.

MONEY MARKET

Our outlook for 2021 did not see any inflation rate rise. However, as described above the combination of postponed consumer demand and obstacles on supply side created a perfect inflation storm and we got a series of rate hikes in many countries including central Europe. In CEE Czech National Bank adopted the most aggressive approach and increased their repo rate 5 times. Hungarians were the first CEE bank that had hiked their rate, but their total number of hikes was lower. Poland turned out to be the most hesitating actor risking long-term high inflation pressures. Romania cut to 1.25 % in January but then hiked twice in the second half of the year.

CEE central banks will continue with monetary tightening in 2022. Czech national bank seems to be close to the end and at least one additional hike should be delivered. Improving inflation numbers can allow a cautious interest rate cut in the last quarter. Hungary, Poland and Romania have to hike further their interest rates, where Hungary could cut rates in 2023. It is expected major economies and the U.S. Federal reserve to increase rates by 100 bp. ECB will further decrease size of their extraordinary measures, but a first hike should come in 2023.

GOVERNMENT BONDS

Our previous annual report called for higher yields and steeper yield curves in 2021. Yields heavily increased indeed but yield curves flattened in most relevant countries (Hungary, Poland, Romania) or even became inverted (Czechia) as the current sharp monetary tightening is believed to anchor future inflation expectations. The only important exception were Slovakia and Slovenia, members of the Euro-area. ECB does not hurry with rate hikes, bond increased less than in CEE and yield curves steepened.

Like in previous years we applied specific duration strategy in 2021. The most important and the most profitable tactical position throughout the whole year was the duration of Czech bonds in CZK. Hawkish approach of ECB caused a rapid increased of yields. ECB was able to surprise markets each monetary policy meeting as they always hiked more than expected. As a result, Czech bond yield curve flattened and have become inverted as longer tenors now offer lower annual yields then shorter ones.

Duration in HUF stayed below its benchmark since the end of May as a reaction to visible move of NBH opinion on inflation to a more hawkish stance. This tactical position turned out to be very profitable too. The PLN government bonds hadn't opened any significant duration position until August when rebalancing of benchmark "automatically" shifted relative duration to lower values. It's true that Polish central bank was ignoring rising prices for a too long time but eventually capitulated and began with rate hikes. Market participants reacted earlier than NBP and bond yields substantially, more than in Czechia and Hungary. In case of RON government bonds, we did not enter any significant underweight position. Romanian rates were traditionally the highest in CEE region reflecting existing macroeconomic imbalances and political risks. Nevertheless, they followed other CEE markets in the second half of the year as inflation began to rise.

We entered the new year 2022 with multi-year high inflation numbers in all countries relevant for the Company. Activity or inactivity of responsible monetary authorities in each country should lead to different inflation or disinflation trajectories. "Brutal" force applied by Czech National Bank should bring its fruit in a relatively quick fall of inflation and return to official inflation target at the beginning of 2023. Final rate hikes should come in 1st quarter and first-rate cuts in the last months of 2022. Bond market have priced such scenario (inverted yield curve) but we see risks for higher yields at longer end due to global environment. Current market pricing makes HUF bonds attractive for us, but PLN bonds seem to be riskier, and we would like to stay below benchmark target. In Romania other rate hikes are probable but pricing depends on the bond market. Money market rates stay negative in the Euro-area, but bond yields should increase as the mix of economic recovery and inflation pressures should force ECB to modestly tighten monetary conditions.

FX REPOS/SWAPS

Conditions for FX hedging were quite different from the year 2020. Liquidity remained solid throughout the year and pricing improved in favour of CZK or HUF investors as Czech and Hungarian central banks hiked their base rates. We also did not see a dramatic depreciation of Czech crown and thus there was no pressure on GP Re liquidity via collateral payments.

As a result, the summarized financial results net gains from investments in the income statement for 2021 amount to BGN 27 million (BGN 40 million in 2020). The overall decrease of BGN 13 million is distributed as follows: BGN 3 million decrease in income from bonds, BGN 6 million increase in dividend income, BGN 2 million lower income from loans, BGN 12 million lower result from realizations (-14 million BGN net realized losses for 2021 against 2 million BGN net realized profits in 2020) from financial instruments available for sale, BGN 2 million reduction in revenues from other financial instruments.

Overall result of GP Reinsurance EAD

The profit after tax of GP Reinsurance EAD for 2021 is BGN 372 m which is an increase by 12% as compared to 2020 (BGN 333 m). The profit of the Company was generated mainly from its reinsurance business.

Assessment of the COVID-19 effects

In the wider economic and financial context of continuing insecurity and high volatility, caused by the COVID-19 pandemic, the Company has launched mechanisms for constant monitoring of its financial position and solvency, enabling the timely analysis of the changing impacts and implementing prompt measures for addressing them, if necessary.

The Company has established a sound risk management system for constant monitoring of the situation and its effect on the capital adequacy.

In terms of possible shocks, the Company's exposure to underwriting losses coming from Coronavirus is rather limited. At the same time, the equity risk is insignificant due to the low SAA limit for equity investments of the Company.

GP Reinsurance EAD has adopted a prudent approach and performed a solvency assessment that considers the current level of insecurity and more specifically the depth, the significance and the duration of the COVID-19 impact on financial markets and the economy, as well as the consequences from this uncertainty for their liquidity and financial condition.

As of the end of 2021 the solvency ratio of the Company after the planned dividend distribution amounts to 211% and remains above the upper limit, set out in the Capital Management Policy. In this context the Company expects to preserve its capital adequacy even after the 2021 dividend payment, considering the COVID-19 consequences.

In review of the above and the performed assesments, as of the date of preparation of these financial statements, the capital adequacy and the solvency of the Company remain stable and above the defined limits, which leads us to consider, that the going concern assumption is applicable to these financial statements.

CORPORATE GOVERNANCE DECLARATION

This Declaration has been drawn up pursuant to Art. 40 of the Accountancy Act, pursuant to the provisions of the Public Offering of Securities Act, as well as pursuant to the provisions of the Code on Insurance.

I. General Provisions

GP Reinsurance EAD is a sole owner joint-stock company (the Company); its scope of business is reinsurance and pursuant to the Supplementary Provisions of the Accountancy Act, more specifically §1, p. 22, it is considered a public interest entity. As such and pursuant to art. 40 of the Accountancy Act, the Company submits this Declaration on Corporate Governance as part of its Activity Report.

The Company is registered in the Commercial Register of the Registry Agency, UIC 200270243, with a seat and registration address of: 1504 Sofia, Bulgaria, Oborishte region, 68 Knyaz Alexander Dondukov Blvd. The Company's corporate management and activity are governed by the Insurance Code and more specifically TITLE II Requirements to the Management and Operations of Insurers and Reinsurers.

As reinsurer having its seat in the Republic of Bulgaria, the Company is subject to the provisions of the Code on Insurance, promulgated, State Gazette, No 102/ 29.12.2015, effective on 1 January 2016, with additional issue 62 of 09.08.2016, effective as of 09.08.2016, amended, issue 95 of 29.11.2016, amended, issue 103 of 27.12.2016, amended, issue 8 of 24.01.2017, amended, issue 62 of 01.08.2017, amended, issue 63 of 04.08.2017, amended, issue 85 of 24.10.2017, amended, issue 92 of 17.11.2017, amended, issue 95 of 28.11.2017, amended, issue 103 of 28.12.2017., amended, issue 7 of 19/01/2018, amended issue 15 of 16/02/2018, amended issue 24 of 16/03/2018, amended issue 27 of 27/03/2018, amended issue 77 of 18/09/2018, amended issue 101 of 07/12/2018, amended issue 17 of 26/02/2019, amended issue 42 of 28/05/2019 amended, issue 83 of 22.10.2019, effective as of 22.10.2019; amended, issue 26 от 22.03.2020 г.; reference in the State of Emergency Measures and Actions Act, issue 28 of 24.03.2020 г., effective as of 13.03.2020 г.; amended, issue 34 of 09.04.2020, effective as of 09.04.2020; reference in the Amendments to the Health Act, issue 44 of 13.05.2020, effective as of 14.05.2020; amended, issue 64 of 18.07.2020, effective as of 18.07.2020, amended issue 21 of 12.03.2021, effective as of 12.03.2021. This legal act constitutes a corporate management code pursuant to art.100n, (8), (1) (b "b") of the Public Offering of Securities Act, as it establishes in detail the requirements for the management and activity of insurance and reinsurance undertakings in the country with a view to creating conditions for the development of a sustainable, transparent and efficient insurance market and securing the public interest, including the requirements to the management systems, the activity management, structure and organization, the fit and proper requirements for the members of the management and control bodies and of the key functions in the Company, risk management, internal audit, external audit (independent financial audit), general and specific requirements for the financial position and financial reporting of the insurance and reinsurance undertaking, the rules on the distribution of reinsurance products, etc. The Code on Insurance is a legal act, part of our national legislation, and it is generally accessible from all legal information systems in the country.

Furthermore, the Company is part of Generali Group. As such, and pursuant to item 5 of its Articles of Association, it implements the measures, adopted by Assicurazioni Generali S.p.A., with a seat in Italy as parent company of the Group, for compliance with the applicable legislation and the regulations of the Italian Institute for Supervision of Insurance companies (IVASS), with a view to the sustainable and efficient management of the Group. Therefore, as part of this Group the Company hereby declares that it fully complies with the Code of Ethics of Generali Group, which sets out the minimum ethical standards for the Company's employees, including the members of its management and control bodies, and also defines specific ethical rules on encouraging the diversity and social inclusion, protection of assets and business data, avoiding conflicts of interest, combatting corruption and abusive practices, protection of financial information, combatting insider dealings, money-laundering and terrorism financing and ensuring compliance with international sanctions. The Code of Ethics of Generali Group was adopted by the Company's senior management body for direct application by the Company.

II. General features of the Internal Control and Risk Management Systems of the Company in 2021

II.1. Control environment

The control environment in the Company was created in accordance with the personal values and the integrity of each member of the Company's management bodies and personnel. The efficiency of the controls reflects the integrity and the ethical values of the people who create, administer and monitor them. The Company's Compliance Policy defines integrity as a core value and describes the Company's activity as based on compliance with law, professional ethics, and internal rules. The Company strives to maintain the highest standards in business integrity and good reputation and requires from its managers and employees to be familiar and comply with the legal requirements, standards and best practices.

Integrity and ethical values are imposed by the senior management in line with the „Lead by example" policy, underlying the Compliance Policy. The communication of the integrity and ethical policy starts from the first working day, when the employees become familiar with the Code of Ethics of the Company, and continues with annual trainings, initiatives like Integrity weeks and special workshops.

- ***Organizational Structure***

The Company is a solely owned joint-stock company with non-life reinsurance as main scope of business and licenses for reinsurance in non-life and life insurance. The Company has a two-tier governance system as stipulated by its Articles of Association. The organizational structure, approved by the Management Board can be changed or supplemented, if necessary.

The control policy of the Company is largely shaped by those charged with the general governance. The Code on Insurance together with the Fit and Proper Policy define the minimum integrity and fit and proper requirements for the management and the key functions. "Fit" stands for professional qualification, skills and experience that ensure sound and prudent management. "Proper" is defined as good reputation. Section II of Chapter 7 of the Code on Insurance defines the persons who are subject to the fit and proper requirements, the method used to detect if they are met and the approval process by the Regulator. These requirements were further supplemented in the Internal Fit and Proper Guidelines where the assessment and periodic review mechanism is defined.

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 Sole Owner of the capital of the Company is Generali CEE Holding, registered in the Netherlands.

The Supervisory Board as of 31.12.2021 consists of the following members:

- Mr. Carlo Schiavetto – Chairman and member
- Mrs. Beáta Petrušová – member
- Mr. Werner Moertel – independent member
- Mrs. Anna Hegedűs - independent member.

The Management Board as of 31.12.2021 consists of the following members:

- Mrs. Nikolay Stanchev – Chairman and Chief Executive Officer
- Mrs. Zhaneta Dzhambazka – member and Executive Officer
- Mr. Encho Enchev – member and Executive Officer
- Mrs. Mihaela Stanimirova – member
- Mr. Giorgio d'Orlando – member.

Mode of representation

The Company is represented always jointly by two of the executive directors Nikolay Stanchev, Encho Enchev and Zhaneta Dzhambazka.

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

1) Audit Committee – Mr. Martin Mancik – Chairman, and Mr. Jakub Rezek and Mr. Roman Smetana – members.
2) Risk Committee – Mrs. Marcela Stredova - Chairman, and Mr. Tomas Gubanec, Mrs. Mihaela Stanimirova and Mr. Giorgio d'Orlando – members.

- ***Assignment of powers and responsibilities***

The members of the Management Board, i.e., the Executive Directors are elected by the Supervisory Board according to the procedure provided by law. 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 formal business rules for their activity.

The Company's employees become aware of their rights and responsibilities through their job descriptions, supplementing their employment contracts. Main communication and information flows are defined (vertical and horizontal) for every position in the Company.

- ***Obligations of those charged with governance***

All important decisions related to the Company's business are made by the Management Board, and some of them are approved by Supervisory Board or the Sole Owner of the capital.

Pursuant to the Independent Financial Audit Act there is a functional Audit Committee in the Company, whose powers are defined in the relevant Guidelines. All resolutions of the Audit Committee are recorded and signed by the members who attended the relevant meetings.

- ***Commitment to Competence***

The Company's management pays special attention to the level of competence of its employees. Every year the employees responsible for the financial reporting and the preparation of financial statements attend special training seminars, which help them acquire the necessary knowledge and skills, ensuring a high level of professional competence in finance and accounting. Depending on the relevant job requirements, special trainings are organized.

- ***Human Resources Policy***

This Policy identifies not only the personnel of the Company, but also the focus of its business. The selection/hiring standards include evaluation of the competence of the applicants, their ability to work in a team as well as their personal qualities that can add value, diversity, a different perspective and growth to the Company.

The Company has adopted a policy of continuous training for the personnel – a special Talent Program, a personnel exchange program, Generali Academy. These programs involve all employees irrespective of their position or geographic region. Employees are encouraged to improve their qualification by regular performance evaluations. Individual performance is evaluated based on personal scoring cards, regularly set targets and attestations. The evaluation includes material stimuli encouraging personal development, excellence drive and goal-oriented action.

- ***Human Resources Diversity Policy***

Generali Group and the Company as part of it encourage diversity in terms of personnel, administrative and management bodies. Diversity is regarded as a combination of visible and invisible differences. The Company's policy aims of creating organization and culture, encouraging respect for the differences and personal qualities of the individuals, enabling them to fully develop their capacities and potential. Diversity is encouraged by means of the following measures: transparent and non-discriminatory recruitment policy, equal working conditions, encouragement of multiculturalism, creation of a working environment, based on the unique contribution of each employee. The Diversity Policy is included in the Code of Ethics of Generali Group.

- ***Philosophy and operating management style***

The governance philosophy of the Company's management is based on honesty, integrity and maximum responsibility in the decision-making process and in business administration.

- ***Value and ethical conduct***

To promote the ethical and integrity values, the Company has adopted the Code of Ethics of Generali Group to be observed by all its employees. The Code identifies the minimum standards for conduct of the Company's employees, including its management and control bodies; it also stipulates the concrete rules of conduct for encouraging diversity and social inclusion, for protection of the assets and commercial data, for preventing conflicts of interest, for combatting corruption and dishonest practices, for securing financial information, for combatting insider dealings, money laundering and terrorism financing and for observation of international sanctions.

II.2. Company's Risk Assessment

The Company's risk assessment process includes the management's method for identification of the risks, essential for the business, evaluation of their importance, assessment of risk probability and decision-making prescribing how to address and manage these risks and how to evaluate their impact.

The process is managed by a special Risk Management unit.

II.2.1. Non-systematic Company-specific risks

1) Risks related to the structure of the investment portfolio of the Company.

As the business activity of the Company is strongly regulated by the Government, the reinsurance reserve coverage portfolio is formed mainly by financial instruments of quick liquidity, diversified in different countries, sectors and currencies, so that the outstanding claims can be quickly recovered.

2) Risks resulting from the development of the global economy and trade.

The Company operates in the insurance markets in Central and Eastern Europe and therefore it is directly exposed to the risks resulting from the development of the global economy and trade. The consumption of insurance services depends to a large extent on the economic conditions in the countries where the insurance companies operate and on the global situation, therefore the volumes ceded to the Company can be negatively affected by a possible decrease in consumption. The factors having impact on the global economy, trade and all business entities, are diverse.

3) Political Risk causing instability in traditional markets and regions, wars and/or sanctions.

The risk derives from possible changes in the economic policy, imposed by objective global economic or political circumstances. The negative impact of these processes comes from military actions or terrorist acts on the territory of states that are traditional markets of the Group.

4) Legal Risks related to the environmental legal framework.

Environmental legislation stipulates the implementation of certain measures related to prevention, control and reduction of the different types of environmental pollution. The Company pursues a policy compliant with all the relevant legal requirements, which involves permanent expenses for the operation and maintenance of the equipment in line with the required standards and regulations. As part of Generali Group, the Company has adopted the Group Climate Preservation Policy.

5) Risks related to the attracting and retaining of skilled and qualified personnel.

The problems related to the efficiency and relevance of the Bulgarian education system and the demographic decline in the country have resulted in a shortage of qualified personnel in many sectors of the national economy. The risk is augmented by the convertible character of certain professions, their shortage and demand worldwide. The management has adopted a long-term approach in the administration of human resources, including initial and subsequent training of the personnel. Reinsurance, credit, liquidity, currency and interest risks are described in detail in Note III to the financial statements of the Entity.

II.2.2. Systemic risks

The Company is exposed to systemic risks, related to the market and the macro environment, in which the companies operate. The development of these risks is regularly monitored by the management team and is subject to annual assessment. The overall risk management system is based on policies, rules and procedures to effectively monitor and manage the exposure of the Company to such risks.

1) Information system

The Company's information system is a combination of infrastructure (physical and hardware components), software, employees, procedures and data. It was developed according to the specific needs of the Company and is fully compliant with the business processes and with the needs of the business for information. The main system of the Company is SAP, the maintenance of which is carried out by Generali Versicherung A.G. and under the agreed conditions a system continuity plan exists and applies. The reliability of the data in the system and respectively of the decisions taken based on these data are based on the following principles:

- the system identifies and represents all valid transactions and operations;
- estimates the transactions and operations values in a way which allows their relevant monetary value to be reflected in the financial statements;
- determines the time during which the transactions and operations have occurred, so that it can allow their recognition in the appropriate accounting period;
- represents the transactions, operations and related disclosures in the financial statements.

2) Control activities

- ***Audit function***

There is a functional Audit Committee in the Company. The Audit Committee is an independent advisory body functioning pursuant to the Independent Financial Audit Act. It monitors the financial reporting processes in the Company; the effectiveness and efficiency of the internal control and risk management systems, makes recommendation to the Sole Owner of the capital regarding the selection of registered auditors for the independent financial audit of the Company and also reviews the independence of the registered auditor of the Company pursuant to the legal requirements and according to the Code of Ethics of professional accountants, and it also monitors the provision of additional services by the registered auditor. The Audit Committee makes recommendations about the internal control and risk management systems. The Audit Committee provides an opinion about the annual plan and the Annual Report of the Internal Audit Department. The Audit Committee reports its activity once a year to the Sole Owner of the capital.

As of 31.12.2021 the Audit Committee consists of the following members:

- Mr. Martin Mancik – Chairman
- Mr. Roman Smetana - member
- Mr. Jakub Rezek – member.

- ***Internal Audit Department***

The Internal Audit Department performs the internal audit key function pursuant to Art.95 of the CI. It assists the Company in achieving the defined goals by evaluating the effectiveness of risk management and control processes and providing its opinion on:

- the efficiency and effectiveness of the operations performed;
- the reliability and integrity of financial and operating information in the company;
- management systems and risk assessment methods;
- the protection of the Company's assets;
- compliance with legislative requirements, internal arrangements, contracts / agreements and Generali Group requirements.

The Internal Audit Department functions in compliance with the applicable legislation, the provisions of the Standards on internal auditors' professional practice (The IIA, USA) and the Code of Ethics of internal auditors, and also according to the internal audit methodology of Generali Group. The Internal Audit scope includes all systems, processes, operations, functions and activities, performed by the Company, as well as the outsourced activities. The Internal Audit function is appointed by the Management Board of the Company and is subject to approval by the Financial Supervision Commission. Mrs. Svilena Whitney, Bulgarian citizen, is Head of the Internal Audit Department as of 31.12.2021.

- ***Activities of the Compliance Function***

The Compliance key function pursuant to Art.93 of the CI is performed by the Compliance office. It carries out an ongoing evaluation and monitoring of the legal framework applicable to the business of the Company (pursuant to the internal guidelines on the organization and activity of the Directorate), of the expected changes in it and of the legal risk – it evaluates the adequacy and efficiency of the adopted organizational and procedural measures for prevention of the risk of non-compliance of the Company's business activities with the relevant legal framework. It drafts proposals for organizational and procedural changes aimed at ensuring adequate control over the legal risk. It supports the Management Board in the efficient management of the legal risk and the Company's structures in all spheres where such a risk exists by making assessments, proposals and by ongoing control of the legal risk. It ensures the relevant guidelines and procedures for the implementation of the anti-money laundering and terrorism financing measures in the Company and controls their implementation. The Compliance function is appointed by the Management Board of the Company and is subject to approval by the Financial Supervision Commission. Mr. Ivan Kolev, Bulgarian citizen, is Head of the Compliance office as of 31.12.2021.

- ***Activities of the Risk Management Function***

The Risk Management function according to Art.89 of the CI is performed by a separate structural unit – Risk Management. The unit implements the risk management concept and methodology in the Company in compliance with Generali Group's standards and risk management policy. It regularly analyses the risk exposure of the Company, the risk probability and its potential negative impact – more specifically in terms of operational risk, personnel risk, information risk, legal risk. It makes proposals and prescribes measures for risk minimization and determines risk margins for definite risks. It drafts regular risk management reports that are submitted to the Audit Committee and to the Management Board. It is responsible for the compliance with the Group risk management standards and for the due implementation of the relevant Group policies and their amendments in the Company. It makes the necessary calculations related to risk assessment and indicators pursuant to the provisions of Directive 2009/138/EC (Solvency II), according to the Group risk management policies and the local legislation. as of 31.12.2021 the Head of Risk Management Function (Chief Risk Officer) is the Tomas Gubanec, Czech citizen. The Chief Risk Officer is appointed by the Management Board of the Company.

- ***Actuarial function***

The appointed actuary performs the actuarial function pursuant to Art.97 of the CI. He is directly responsible for the calculation of adequate premiums and technical reserves, thus ensuring the correct calculation of the solvency margin for the Company and applying the proper actuarial methods to the operations of the Company. He analyses the available statistical information derived from the information system, ensures prevention as a prerequisite for the stability and financial security of the Company and the placement of insurance risks. The functions of the appointed actuary of the Company include making analyses, preparation of plans and forecasts for its development.

He draws up statistical references and actuarial reports, submitted to the Financial Supervision Commission and to the Shareholder in line with the Group requirements. He takes actions in case of established deviations that threatens directly or indirectly the financial stability of the company. The appointed actuary is elected and dismissed by the Sole Owner of the capital. as of 31.12.2021 Mr. Vit Sroller, Czech citizen, is appointed as Actuary of the Company on non-life reinsurance and Mr. Vladimir Ilievski, Bulgarian citizen, is appointed as Actuary of the Company on life reinsurance risks.

3) Controls - Ongoing Monitoring

The Group internal control system is subject to constant monitoring. The audits conducted by the Internal Audit Department check the compliance with the internal rules and procedures and evaluate their adequacy in the specific business environment where the entity operates. The results from the audits for the relevant period are reported by the Internal Audit Department at the Audit Committee meetings, held regularly during the year.

The control function is performed on several levels and along several lines. The first level of control in the Company includes the operating functions compliant with the legal and professional requirements. The second security level includes the Compliance function and all Company units having control functions. The third security level is represented by the internal audit function, which monitors simultaneously the performance and the related controls, their existence, efficiency and security.

In general terms, the control function includes regular performance reviews (performance control), automatic controls in the performance of activities (preferred due to the limited risk of human errors and manipulations) and physical controls over assets (property conservation measures, stocktaking, inspections). Segregation of duties among different persons is a key principle in the process. The aim of the segregation of duties is to prevent a person to be in the position of both making errors or frauds and concealing these errors or frauds during the fulfilment of their everyday obligations.

OTHER STATUTORY DISCLOSURES

The results from the annual reports on Solvency II of the Company showed that GP Reinsurance EAD shows that the Company is stable and the interests of the sole owner and the reinsured companies are secured with a coverage of 211% for the Solvency Capital Requirement (SCR) and 730% for the Minimum Capital Requirement (MCR). as of the date of the drawing up of the financial statements, the above SCR and MCR values are still unaudited.

- **Events after the statement of financial position date**

Detailed information about significant events after the date of the statement of financial position is disclosed in Note X to the financial statements.

- **Future business development**

The Company does not plan any significant change in its reinsurance portfolio in the next 3 years.

- **Research and development activities**

The Company has no operations and activities in the field of research and development because the reinsurance business in which it operates does not require it.

- **Information on acquisition of own shares**

The Company has no shares to be traded freely in the financial markets. At present the sole owner has no intention or has passed no resolution to list the Company's shares on an official market.

- **Branches of the Company**

The Company's activities are executed through its head office without need of branch network.

- **Financial instruments, valuation of assets and liabilities, financial position and result**

Detailed information of the Company's objectives and policies related to financial risk management, policy of hedging and exposure of the Company to price, credit and liquidity risk is disclosed in Notes III, V, VII and IX to the financial statements.

- **Non-audit services provided by registered auditors**

All non-audit services provided and/or contracted for the period of the financial statements (01.01.2021–31.12.2021) and for the period after the reporting date (31.12.2021) till the date of issuance of the audit opinion are as follows:

1) Review of the templates under Ordinance №53, as required by the Financial Supervision Commission.
2) Specific procedures over reporting under Solvency II for the purposes of the Financial Supervision Commission.
3) Specific procedures over reporting under Solvency II for the purpose of the Group reporting.

Information related to the members of the Management Board (MB) and the Supervisory Board (SB) pursuant to article 247 of the Commerce Act:

1) Total remuneration received by the MB and SB members for 2021 is disclosed in Note VIII.5 to the financial statements.
2) No shares or bonds in the Company are held, acquired or transferred by the members of the Management and the Supervisory Boards in 2021, and the latter have no right to acquire shares or bonds in the Company.
3) The following MB and SB members hold shares of the capital of third companies or participate in the management of third companies:

- Mrs. Zhaneta Dzhambazka (member of the MB and Executive Officer of the Company) is also Executive Officer of Generali Insurance AD.
- Mr. Nikolay Stanchev (member of the Management Board and Chief Executive Officer of the Company) is also Chief Executive Officer and member of the Management Board of Generali Insurance AD.
- Mr. Carlo Schiavetto (member of the SB of the Company) is also member of the Supervisory Boards of the following companies: Generali Investments CEE, Generali Biztosító, Genertel Biztosító, Generali Towarzystwo Ubezpieczeń S.A., Generali Życie Towarzystwo Ubezpieczeń S.A., Generali Zavarovalnica d.d. Ljubljana, Generali.Finance z.o.o. and member of the Management Board of Generali CEE Holding B.V.
- Mrs. Beata Petrusova (member of the SB of the Company) is also member of the Supervisory Board of Generali Insurance AD, member of the Audit Committee of Generali Cezka Poistovna A.S., member of the Audit Committee of Generali Pensiini Spolechnost A.S.
- Mr. Werner Moertel (member of the SB of the Company) is also member of the Supervisory Board of Generali Insurance AD.
- Mrs. Anna Maria Hegedus (member of the SB of the Company) is also member of the Audit Committee of Generali Voluntary Pension Fund, Hungary, and member of the Audit Committee of Generali Health and Mutual Fund, Hungary.

The rest of the MB and SB members hold no more than 25 percent of the capital of other companies and are not involved in the management of other companies or cooperatives as procurators or managers.

4) There are no contracts with MB and SB members or related persons thereto that go beyond the ordinary business of the Company or deviate substantially from the market regulations.

Executive Director: Senior Accountant:

/Encho Enchev/ /Mihail Filipov/

Executive Director:

/Zhaneta Dzhambazka/

GENERALI GP REINSURANCE

Date: 15 March 2022

KPMG Audit OOD
45/A Bulgaria Boulevard
Sofia 1404, Bulgaria
+359 (2) 9697 300
bg-office@kpmg.com
kpmg.com/bg

AFA OOD
38 Oborishte Street
Sofia 1504, Bulgaria
+359 (2) 9433 700
office@afa.bg
afa.bg/bg

Independent Auditors' Report

To the sole shareholder of GP Reinsurance EAD

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of GP Reinsurance EAD (the Company) as set out on pages 9 to 118, which comprise the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditors' Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian original shall prevail.

Key Audit Matters

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

We have determined the following key audit matters:

Measurement of non-life reinsurance reserves under reinsurance treaties and Liability adequacy test

Reinsurance reserves under reinsurance treaties in the statement of financial position amount to BGN 1,705,799 thousand as at 31 December 2021 (31 December 2020: BGN 1,397,646 thousand) which comprise of non-life reinsurance reserves at the amount of BGN 1,691,375 thousand and life reinsurance reserves at the amount of BGN 14,424 thousand (31 December 2020: non-life reinsurance reserves BGN 1,389,852 thousand and life reinsurance reserves at the amount of BGN 7,794 thousand).

See Note *II "Accounting policy" (II.15 Reinsurance reserves)*, Note *III "Financial and reinsurance risk management and fair value measurement" (III.A Reinsurance risk, III.B. Insurance risk concentration, III.C Insurance risk sensitivity)*, Note *IV "Critical accounting estimates and assumptions in applying the accounting policy"* and Note *VI.4 "Reinsurance reserves"* to the financial statements.

Key audit matter	*How this key audit matter was addressed in our audit*
The carrying amount of non-life reinsurance reserves as at 31 December 2021 is BGN 1,691,375 thousand (2020: BGN 1,389,852 thousand), as disclosed in Note VI.4 to the financial statements, which represents 93% of total liabilities as at 31 December 2021. The non-life reinsurance reserves are comprised of reserve for reported but not settled claims, reserve for incurred but not reported claims and unearned premium reserve. The Company measures them by applying the principle of "following the fortunes of the ceding companies", i.e. by reference to the value of outstanding claims for each reinsurance treaty, as estimated and communicated by the ceding companies. The Company performs liability adequacy test ("LAT") annually for its non-life reinsurance reserves, using estimations of future cash flows based on previous claims experience.	Our procedures, performed with the support from our internal actuarial specialists, where applicable, include, among others: — Obtaining an understanding of the Company's process of reinsurance reserving and its related controls, including the control activities of the Company related to this process; — Testing the design and implementation of internal controls over the reinsurance reserving process, including those over Company's recording and communication with the ceding companies, of the reinsurance reserves for claims provision for reinsurance treaties; — Obtaining confirmation letters from ceding companies and reconciling their estimate of ceded outstanding claims reserves to the reinsurance reserves reported by the Company, and

The measurement of the reinsurance reserves for claims provision involves multiple estimates and judgements, mainly related to the timing and the ultimate full settlement of the claims, which may vary as a result of subsequent information and events. This requires specific expertise and significant audit efforts. Due to the specific factors set out above and the significance of the amount of liabilities under non-life reinsurance reserves, we have considered the measurement and adequacy of the non-life reinsurance reserves as a key audit matter.	investigating any significant differences in order to assess the completeness, existence and accuracy of the accepted reinsurance reserves; — With the support from our own actuarial specialists, in terms of the liability adequacy test: - Assessing the results of Company's liability adequacy test of reinsurance reserves and in particular the relevance and reasonability of methods used for LAT test and of the key assumptions used as claim development factors of the significant reinsurance programs, with respect to the requirements of IFRS 4 *Insurance Contracts* and local regulations; - Performing an independent recalculation of LAT and comparing the results to the LAT results of the Company; — Assessing the Company's disclosures in the financial statements regarding non-life reinsurance reserves against the requirements of the relevant financial reporting standards.

Fair value measurement of available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy

Available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy in the statement of financial position amount to BGN 488,748 thousand as at 31 December 2021 (31 December 2020: BGN 416,769 thousand).

See Note *II "Accounting policy" (II.5 "Financial Assets")*, Note *III "Financial, resinruance risk management and fair value measurement"*, Note *IV "Critical accounting estimates and assumptions in applying the accounting policy"*, Note *V.1 "Debt securities available-for-sale" and Note V.2 "Equity securities, available-for-sale"* to the financial statements.

Key audit matter	*How this key audit matter was addressed in our audit*
The carrying amount of the available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy as at 31 December 2021 is BGN 488,748 thousand, which represents 16% of total assets as at that 31 December 2021.	Our procedures, performed with the support from our internal valuation specialists, where applicable, include, among others: — Obtaining an understanding of the process of management of the

The available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy comprise of quoted debt instruments as well as unquoted equity instruments (shares and units in funds). The fair value of these investments has been determined using valuation techniques utilizing observable, unobservable inputs or a combination of both, information on which is presented in Note III to the financial statements. Therefore, fair value measurement is characterised by an inherent uncertainty related to using various methods, assumptions and judgements.

Due to the magnitude of the amounts involved, and the inherent uncertainty in arriving at the fair value of available-for-sale financial assets categorized within Level 2 and Level 3, we considered this area as key audit matter.

Company's investment portfolios, including determining the fair value of the available-for-sale financial assets with a focus on such classified within Level 2 and Level 3 of the fair value hierarchy;

— Testing the design and implementation of selected controls within the process of valuation of the available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy;

— Assisted by our own valuation specialists, challenging the valuation of the available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy comprise. This included:

  - assessing the appropriateness of the valuation techniques applied;
  - developing an independent expectation of fair value ranges for the quoted debt instruments based on market prices of comparable quoted instruments;
  - assessing the fair value measurement of specific unquoted Level 3 equity instruments by testing the valuation of underlying assets on a sample basis, focusing on key inputs like forecasted cash flows, market yields, market prices for comparable assets and net asset value of investees;
  - obtaining a confirmation letter for the unit value of unquoted Level 3 equity instrument for a specific investment.

— Obtaining confirmation letters from respective custodians and reconciling the confirmed quantities and nominal values of the available-for-sale financial assets to the investment portfolio records of the Company;

— Assessing the Company's disclosures in the financial statements regarding the available-for-sale financial assets categorized within Level 2 and Level 3 of the fair value hierarchy against the requirements of the relevant financial reporting standards.

Other Matter relating to comparative information

The financial statements of the Company as at and for the year ended 31 December 2020, excluding the restatements described in Note XI to the financial statements were jointly audited by Baker Tilly Klitou and Partners OOD and AFA OOD who expressed an unqualified opinion on those financial statements on 6 April 2021.

As part of our audit of the financial statements as at and for the year ended 31 December 2021, KPMG Audit OOD and AFA OOD also audited the retrospective adjustments described in Note XI to the financial statements that were applied to restate the comparative information.

KPMG Audit OOD was not engaged to audit, review, or apply any procedures to the financial statements for the year ended 31 December 2020, other than with respect to the restatements described in Note XI to the financial statements. Accordingly, KPMG Audit OOD do not express an opinion or any other form of assurance on these financial statements as a whole. However, in our opinion, the restatements described in Note XI to the financial statements are appropriate and have been properly applied.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the annual management report and the corporate governance statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

- The information included in the management report for the financial year for which the financial statements have been prepared is consistent with those financial statements.
- The management report has been prepared in accordance with the

requirements of Chapter Seven of the Accountancy Act.

— The corporate governance statement for the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the

Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- KPMG Audit OOD and AFA OOD were appointed as statutory auditors of the financial statements of the Company for the year ended 31 December 2021 by the decision of the sole shareholder dated 21 May 2021 for a period of one year. The audit engagement was accepted by a Joint Audit Engagement Letter dated 15 October 2021.
- The audit of the financial statements of the Company for the year ended 31 December 2021 represents first statutory audit engagement for that entity carried out by KPMG Audit OOD and fifth total uninterrupted statutory audit engagement for that entity carried out by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Company.

Sofia, 6 April 2022

For KPMG Audit OOD:

Dobrina Kaloyanova
Authorised representative

Maria Peneva
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

For AFA OOD:

Renny Iordanova
Authorised representative

Valia Iordanova
Registered auditor, responsible for the audit

38 Oborishte Street
Sofia 1504, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

GP REINSURANCE EAD
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2021

(All amounts are in BGN thousand, unless otherwise stated)

	Note	31.12.2021	31.12.2020
ASSETS			
Cash and cash equivalents	V.11	41,248	33,535
Reverse repo receivables	V.3	14,244	86,133
Derivative financial instruments	V.4, V.5	16,044	15,113
Reinsurance receivables	V.8	218,780	132,355
Deposits in cedants	V.6	110,359	104,866
Reinsurers' share in reinsurance reserves	V.9	372,967	113,091
Available-for–sale investments:			
Debt securities	V.1, V.5	1,628,124	1,784,978
Equity securities	V.2, V.5	426,289	360,289
Receivables from loans granted	V.7	166,681	103,665
Deferred tax assets, net	VII.10	217	713
Right-of-use assets	V.12	4	57
Other assets	V.10	3,681	2,764
TOTAL ASSETS		**2,998,638**	**2,737,559**
LIABILITIES			
Derivative financial instruments	V.4	4,675	271
Trade and other current payables	VI.7	15,073	19,144
Reinsurance contracts payables	VI.5	89,723	173,157
Income tax payables	VI.6	10,731	2,312
Reinsurance reserves	VI.4	1,705,799	1,397,646
Lease liabilities	V.12	7	62
TOTAL LIABILITIES		**1,826,008**	**1,592,592**
EQUITY			
Share Capital	VI.1	53,400	53,400
Reserves	VI.2, VI.3	263,684	274,375
Retained earnings	VI.2	855,546	817,192
TOTAL EQUITY		**1,172,630**	**1,144,967**
TOTAL EQUITY AND LIABILITIES		**2,998,638**	**2,737,559**

Notes I to XI are an integral part of these financial statements. The financial statements are approved on 15 March 2022 and are signed as follows:

Executive Director:
/Encho Enchev/

Executive Director:
/Zhaneta Dzhambazka/

GENERALI
GP REINSURANCE
68 Dondukov Blvd., 1504 Sofia, Bulgaria
tel: (+359) 2 9420 601, fax: (+359) 2 9420 610

Prepared by:
/Mihail Filipov/

In accordance with an Independent Auditors' Report:

"KPMG Audit" OOD	"AFA" OOD
Dobrina Kaloyanova Authorised representative Maria Peneva Registered Auditor responsible for the audit	Renny Iordanova Authorised representative Valia Iordanova Registered Auditor responsible for of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

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GP REINSURANCE EAD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts are in BGN thousand, unless otherwise stated)

	Note	2021	2020
			Restated*
Gross earned reinsurance premiums	VII.1	1,977,163	1,831,698
Reinsurance premiums ceded	VII.1	(217,571)	(161,031)
Net earned reinsurance premiums		**1,759,592**	**1,670,667**
Net gains from investment operations	VII.2	26,959	40,039
Other reinsurance income	VII.6	7,198	6,481
Other operating revenue, net	VII.7	3,141	6,541
Total revenue		**1,796,890**	**1,723,728**
Claims and change in reinsurance reserves	VII.3	(1,191,335)	(840,544)
Claims and change in reinsurance reserves covered by reinsurers	VII.3	387,761	20,942
Net reinsurance expenses for claims		**(803,574)**	**(819,602)**
Acquisition expenses	VII.4	(561,039)	(506,813)
Administrative expenses	VII.5	(6,800)	(6,898)
Other reinsurance expenses	VII.6	(11,640)	(19,765)
Total other expenses		**(579,479)**	**(533,476)**
Finance expenses	VII.8	(277)	(120)
Total expenses		**(1,383,330)**	**(1,353,198)**
Profit before tax		**413,560**	**370,530**
Income tax expenses	VII.9	(41,885)	(37,209)
Profit for the year		**371,675**	**333,321**
Other comprehensive income			
Components of other comprehensive income subject to reclassification in profit or loss			
Revaluation of available-for-sale financial assets, net of tax	VI.3.1	(60,655)	24,474
Components of other comprehensive income not subject to reclassification in profit or loss			
Exchange differences on translation of foreign currency operations	VI.3.2	49,962	(24,877)
Other comprehensive income for the year, net of tax		**(10,693)**	**(403)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		360,982	332,918

**See Note XI*

Notes I to XI are an integral part of these financial statements. The financial statements are approved on 15 March 2022 and are signed as follows:

Executive Director
/Encho Enchev/

Prepared by:
/Mihail Filipov/

Executive Director:
/Zhaneta Dzhambazka/

GENERALI
GP REINSURANCE
68 Dondukov Blvd., 1504 Sofia, Bulgaria
(+359) 2 9420 601, fax: (+359) 2 9420 610

In accordance with an Independent Auditors' Report:

"KPMG Audit" OOD	"AFA" OOD
Dobrina Kaloyanova Authorised representative Maria Peneva Registered Auditor responsible for the audit	Renny Iordanova Authorised representative Valia Iordanova Registered Auditor responsible for the audit

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Одиторско дружество София Рег. № 015 АФА ООД

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GP REINSURANCE EAD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts are in BGN thousand, unless otherwise stated)

	Share Capital	Translation to presentation currency reserve	Fair value reserve on available-for-sale assets	General and additional reserves	Retained earnings	Total
Balance as of 1 January 2020	**53,400**	**20,363**	**72,960**	**181,448**	**829,497**	**1,157,668**
Profit for the year	-	-	-	-	333,321	**333,321**
Other components of comprehensive income, net of tax	-	(24,877)	24,474	-	-	**(403)**
Total comprehensive income for the year	**-**	**(24,877)**	**24,474**	**-**	**333,321**	**332,918**
Transactions with the sole shareholder	-	-	-	-	-	-
Profit distribution for dividends	-	-	-	-	(345,626)	**(345,626)**
Share based payments	-	-	-	(104)	-	**(104)**
Additional reserves	-	-	-	111	-	**111**
Balance as of 31 December 2020	**53,400**	**(4,514)**	**97,434**	**181,455**	**817,192**	**1,144,967**
Profit for the year	-	-	-	-	371,675	**371,675**
Other components of comprehensive income, net of tax	-	49,962	(60,655)	-	-	**(10,693)**
Total comprehensive income for the year	**-**	**49,962**	**(60,655)**	**-**	**371,675**	**360,982**
Transactions with the sole shareholder	-	-	-	-	-	-
Profit distribution for dividends	-	-	-	-	(333,321)	**(333,321)**
Share based payments	-	-	-	2	-	**2**
Balance as of 31 December 2021	**53,400**	**45,448**	**36,779**	**181,457**	**855,546**	**1,172,630**

Notes I to XI are an integral part of these financial statements. The financial statements are approved on 15th March 2022 and are signed as follows:

Executive Director:
/Encho Enchev/

Prepared by:
/Mihail Filipov/

Executive Director
/Zhaneta Dzambazka/

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian original shall prevail.

GP REINSURANCE EAD
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts are in BGN thousand, unless otherwise stated)

	Note	2021	2020
Cash flows from operating activities			Restated*
Proceeds from inwards reinsurance transactions	V.11	568,702	533,669
Payments for inwards reinsurance transactions	V.11	(224,774)	(92,743)
Proceeds from outwards reinsurance transactions	V.11	5,832	50,862
Payments for outwards reinsurance transactions	V.11	(110,497)	(93,595)
Payments to suppliers and employees		(7,120)	(6,516)
Paid income taxes		(25,938)	(44,707)
Other cash flows from operating activities	V.11	2,236	2,783
Net cash flows from operating activities		**208,441**	**349,753**
Cash flows from investing activities			
Purchases of available-for-sale investments	V.5	(882,368)	(500,590)
Proceeds from sale and maturity of available-for-sale investments	V.5	930,130	375,538
Interest received on debt instruments	V.5	41,043	44,131
Dividends received from equity investments		8,985	2,906
Proceeds from reverse repo, net		75,297	54,046
Proceeds from derivative instruments, net	V.5	32,831	3,649
Payments for loans granted		(58,223)	-
Proceeds from loans granted		2,434	3,340
Other proceeds/(payments)		(7,512)	4,877
Net cash flows from/(used in) investing activities		**142,617**	**(12,103)**
Cash flows from financing activities			
Dividends paid		(343,909)	(335,330)
Payments under lease agreements		(59)	(64)
Net cash flows used in financing activities		**(343,968)**	**(335,394)**
Net increase / (decrease) in cash and cash equivalents		**7,090**	**2,256**
Cash and cash equivalents at the beginning of the year		33,535	32,172
Effect of exchange rate changes on cash and cash equivalents		623	(893)
Cash and cash equivalents at the end of the year	V.11	**41,248**	**33,535**

*See Note XI

Notes I to XI are an integral part of these financial statements. The financial statements are approved on 15th March 2022 and are signed as follows:

Executive Director:
/Encho Enchev/

Executive Director
/Zhaneta Dzambazka/

Prepared by:
/Mihail Filipov/

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In accordance with an Independent Auditors' Report:

"KPMG Audit" OOD	"AFA" OOD
Dobrina Kaloyanova Authorised representative Maria Peneva Registered Auditor responsible for the audit	Renny Iordanova Authorised representative Valia Iordanova Registered Auditor responsible for of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

(all amounts are in BGN thousand, unless specified otherwise)

I. Business description

GP Reinsurance EAD (the Company) is a solely owned joint-stock company registered in the Commercial Register with the Registry Agency on 24 July 2008 under UIC 200270243.

Generali CEE Holding B.V. with registered office in the Kingdom of the Netherlands is the sole owner of the capital as of 31.12.2021. The ultimate owner of the company is Assicurazioni Generali S.p.A., registered in Republic of Italy.

The Company's seat is in Sofia, the Republic of Bulgaria, with registered address: Sofia 1504, Oborishte Region, 68, Kniaz Alexander Dondukov Blvd., and correspondence address: Sofia 1504, Oborishte Region, 79-81, Kniaz Alexander Dondukov Blvd, 5th floor.

The Company's scope of activity includes:

- non-life reinsurance, per license № 626-O3 from 18.06.2008, granted by the Financial Supervision Commission (FSC).
- life reinsurance, per license № 1385-O3 from 31.10.2017, granted by the Financial Supervision Commission (FSC).

The Company's reinsurance business in non-life insurance includes the following classes:

- Accident (including industrial harm and professional illnesses)
- Illness - fixed instalments, claims and a combination of both
- Motor vehicles (excluding rail vehicles)
- Rail vehicles
- Aircrafts
- Vessels
- Cargo
- Fire and Natural Disasters
- Other property damages
- Third party liability for motor vehicles
- Third party liability for aircrafts
- Third party liability for vessels
- General third-party liability
- Loans
- Guarantees
- Financial losses
- Legal costs (legal protection)
- Travel assistance.

(all amounts are in BGN thousand, unless specified otherwise)

I. Business description (continued)

Licensed for reinsurance in life insurance in 2017, the Company can provide reinsurance coverage for all life insurance classes. as of 31.12.2021 the life products accepted by the Company relate mainly to insurance of borrowers.

Company's Governance:

In 2021 the Company maintained a two-tier governance system, consisting of a Management Board and a Supervisory Board. According to this governance system the members of the Management Board and their number shall be approved by the Supervisory Board, and the members of the Supervisory Board and their number shall be approved by the Sole Owner of the capital.

As of 31.12.2021 the Company's Supervisory Board includes:

- Mr. Carlo Schiavetto - Chairman of the SB;
- Mrs. Beata Petrusova – member;
- Mr.Werner Moertel – independent member;
- Mrs. Anna Maria Hegedus – independent member.

In 2021 there were no changes in the structure of the Supervisory Board.

As of 31.12.2021 the Management Board of the Company consists of:

- Mrs. Nikolay Stanchev – Chief Executive Officer and Chairman of the Management Board;
- Mrs. Zhaneta Dzhambazka – member and Executive Director;
- Mr. Encho Enchev – member and Chief Financial Officer;
- Mrs. Mihaela Stanimirova – member;
- Mr. Giorgio d'Orlando – member.

The following important changes in the system of governance have occurred during 2021:

- With a resolution as of 16th August 2021, the Supervisory Board appointed Mr. Nikolay Stanchev as member of the Management Board of GP Reinsurance. With another resolution as of the same date, Mrs. Mihaela Stanimirova was dismissed as Chairperson of the Management Board but remained its member, and Mr. Nikolay Stanchev was the newly appointed Chairman of the Management Board.
- With resolution as of 16th August 2021, Mr. Nikolay Stanchev was appointed as Chief Executive Officer and Mr. Encho Enchev - as Executive Director. The company is always represented jointly by any two of the three Executive Directors - Mr. Nikolay Stanchev, Mrs. Zhaneta Dzhambazka and Mr. Encho Enchev according to the resolution adopted by the Supervisory Board on 6th August 2021.

Other persons, charged with the overall governance along with the Supervisory Board, are the members the Audit Committee of the Company, as follows:

- Mr. Martin Mancik – Chairman;
- Mr. Roman Smetana – member;
- Mr. Jakub Rezek – member.

I. Business description (continued)

The specific legislation governing the Company's activities is contained mainly in the Code on Insurance.

In 2021 the ongoing supervision over the reinsurance companies registered in the Republic of Bulgaria was carried out by the Financial Supervision Commission (FSC).

COVID-19 pandemic – impact, consequences, actions and measures taken

On 11 March 2020 the World Health Organization declared the COVID-19 outbreak as pandemic, and as a result a number of restrictive measures were implemented in Bulgaria and in all European countries, in which the Company operates. As a result of the imposed restrictions and measures in Bulgaria and worldwide the normal functioning of businesses in many sectors of economy was disrupted. The supplies of raw and other materials by suppliers were hampered, and so were the dispatches to customers, the free movement of goods and people and labor availability. Almost all companies, though to a different extent, had to take special actions and measures for readjustment of their businesses and modes of operation, for realigning business communication and other aspects of their relationship with counterparties, partners and government institutions.

Impact on the business activity and financial position of the Company

The Company operates in the insurance sector, which continued functioning in the pandemic context without suffering from the imposed restrictions that affected other businesses.

The business volumes of the Company in 2021 were not seriously affected by the pandemic situation in Bulgaria and in the countries, with which it has business connections and relationships. The Company is fulfilling its financial obligations as of 31 December 2021. The COVID-19 outbreak and the imposed restrictive measures had the following main consequences for the Company`s performance indicators: a) the premium income for several lines of business remains at the lower level of 2020 – mainly from unrealized gains and decreased volumes from insurance for tour operators and Personal assistance programs; and b) a definite growth in the loss ratio for non-motor insurance as part of its general movement throughout the year, mainly due to claims related to interruption of the business activity, which was however offset by the improved result from Motor insurance, where the levels of the loss ratio were similar, but the premium income increased (Notes III.A, VII.1. and VII.3).

The pandemic situation did not have a significant effect on the investment policy and the structure of the investment portfolio (Note V.I).

The Company has an adequate funding to meet its liquidity needs.

Similar trends are observed in the beginning of 2022.

(all amounts are in BGN thousand, unless specified otherwise)

I. Business description (continued)

Implemented measures

Regarding the possible adverse consequences from the pandemic on the Company`s operations, the Company has implemented all anti-COVID-19 measures for the protection of its employees and counterparties.

The management made an analysis and prepared forecasts for the next reporting year in the context of the continuing pandemic and the looming prospects of its persistence over the next accounting period. It concluded that no serious difficulties or changes in the business could be expected, i.e. no measures are planned, that would limit or change significantly the business model and the main business of the Company. The results of the three-year plan show a stable growth and sustainable results. The Company preserves stable solvency levels and liquidity ratio, taking into account the continuing pandemic situation.

The management continues to monitor on an ongoing basis the risks and respectively the pandemic impact on the business. For the purpose, it carries out ongoing analyses and measurements and develops possible scenarios/measures for addressing and management of potential risks.

Impacts on the elements of the financial statements

Based on the performed monitoring and analyses, and the implemented measures for limiting the effects of the pandemic, the management concludes that there are no uncertainties, especially regarding the Company's ability to continue its normal functioning, and the going concern assumption is valid.

The Company's management has not identified any areas of the financial statements on which the pandemic has direct or significant effects, including in respect of the valuation of individual assets and liabilities, apart from the ones, stated in Note III.A, VII.1, VII.2 and VII.3.

II. Accounting Policy

The principal accounting policies applied in the preparation of these financial statements are set out below. This policy has been consistently applied to all the years presented, unless otherwise is stated.

II.1. Basis for the preparation of the financial statements

These financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (IFRS as adopted by the EU). The 'IFRS as adopted by EU' reporting framework is essentially the 'International accounting standards adopted by EU' accounting framework as regulated in the Accountancy Act and as defined in p. 8 of its Additional provisions. The financial statements have been prepared on a historical cost basis, unless otherwise indicated.

The financial statements of the Company for the year ending on 31.12.2021 were prepared, based on the going concern assumption, which implies a continuation of the current business activity along with the realization of assets and settling of liabilities in the normal course of its operations. The future financial results of the Company depend on the wider economic environment, in which it operates.

The preparation of financial statements in compliance with the IFRS requires the use of estimates and assumptions that contain a certain approximation, so in the future the actual effects and results may differ from those estimates. The management is also required to use estimates and assumptions when applying the accounting policies.

The elements of the financial statements whose presentation includes a higher degree of subjective assessment or complexity, as well as those elements, for which the assumptions and estimates have a considerable impact on the financial statements, are separately disclosed in Note IV. The Company presents its statement of financial position on the basis of the principle of liquidity, presenting first its most liquid positions.

(a) New and amended standards, which are applied by the Company

The following new standards amended standards and interpretations approved for application by the EC are not mandatory for annual periods beginning on or after 1 January 2021 and have not been applied in the preparation of these financial statements. The company plans to implement these changes when they take effect.

Standards, clarifications, and changes in standards that have not been applied previously – approved for implementation by the EC:

Amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: Recognition and Measurement, IFRS 7 Financial instruments: Disclosures, IFRS 4 Insurance contracts and IFRS 16 Leases, relating to Phase 2 of the base interest rate reform (effective for annual periods beginning on or after 01.01.2021 г., adopted by the EC).

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

The amendments to the standards are related to Phase 2 of the base interest rate reform and provide two basic practical expedients. They supplement the ones issued in 2019 and focus on the effects on the financial statements, after the entity has replaced the old reference interest rate with an alternative reference rate because of the reform. The practical expedients at this final phase concern the following: a) if there are changes in the contractual cash flows of financial assets and liabilities and lease obligations – the entities will not have to derecognize or adjust the carrying amount of the financial instruments to make the changes required by the reform but they will adjust the effective interest rate instead, so that they can reflect the change in the alternative interest rate; б) in hedge accounting – the entities will not have to suspend the hedging relationship due to the reform requirement for a change in the definition (revision), the hedging documentation and the evaluation of the hedged item on cash flow basis, due and as a result of the replacement of the effective base interest rates with alternative ones. The adjustments will be applied retrospectively. Earlier application is allowed. The management carried out research and stated that the changes have no effect whatsoever for the accounting policy and for the prices, presentation and classification of the assets, liabilities, operations and results of the Company.

Amendments to IFRS 4 Insurance contracts (effective for annual periods beginning on or after 01.01.2021, adopted by the EC).

The amendments allow the entities, carrying out mainly reinsurance business to defer the effective dates of IFRS 9 Financial Instruments from 1st January 2021 to 1st January 2023, and these entities can continue to apply IAS 39 Financial Instruments: Recognition and Measurement. The purpose of the change is the harmonization of the date of application of IFRS Financial instruments with the new IFRS 17 Insurance contracts, so that the temporary accounting consequences from the different effective dates of the two standards can be overcome. The amendment introduces a temporary exemption from specific requirements of IAS 28 Investments in Associates and Joint Ventures regarding the implementation of a joint policy for entities, applying the equity method according to this standard. Such entities for annual periods beginning before 1st January 2023 have the right but not the obligation to preserve the accounting policy implemented by the associate or the joint venture, when they apply the equity method. The management continued to apply the temporary exemption from the obligation to apply IFRS 9 until the entry into force of IFRS 17. The Company meets the requirements for a temporary exemption from the obligation to apply the standard and has exercised this right, as the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 is considerable when compared to the total carrying amount of all its liabilities, and the percentage of the total carrying amount of its reinsurance liabilities compared to the total carrying amount of all its liabilities is higher than 90%.

II. Accounting Policy (continued)

Amendments to IFRS 16 Leases – COVID-19-related rent concessions after 30th June 2021.

Amendments to IFRS 16 Leases (effective for annual periods beginning on or after 01.04.2021, adopted by the EC). They provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. When initially issued, the practical facilitation was limited to rebates on rents for which the reduction in lease payments affects only payments originally due on or before 30 June 2021.The management made a review and stated that the changes had no impact on the accounting policy and on the value, presentation and classification of the assets, liabilities, operations and results of the Company.

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and Annual Improvements 2018-2020 effective for annual periods beginning on or after 1 January 2022.

- Amendments to IFRS 3 Business Combinations update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16 Property, Plant and Equipment prohibit companies from deducting from the value of property, plant and equipment amounts received from the sale of manufactured items while companies prepare the asset for its intended use. Instead, companies will recognize these revenues and related costs in profit or loss.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify which costs an entity includes when assessing whether a contract will incur a loss.
- Annual improvements lead to minor changes to IFRS 1 First-time Adoption of International Accounting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples to IFRS 16 Leasing.

The Company does not expect the amendment to have a material effect on the separate financial statements in the period of initial application.

II. Accounting Policy (continued)

(b) Standards and amendments that are effective but not yet adopted by the Company

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018), including amendments effective for annual periods including to 01.01.2021.

IFRS 9 Financial Instruments (IFRS 9) replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1st January 2018 and combines all three aspects of the accounting for financial instrument: a) recognition, derecognition and classification; b) measurement and impairment; and c) hedge accounting.

The amendments, effective for annual periods beginning on or after 1 January 2020, with early application permitted, introduce changes in IFRS 9 for specific financial assets, which would otherwise have contractual cash flows that are solely principal and interest payments, but do not meet the eligibility condition only due to prepayment features with negative compensation. More specifically, according to the amendments, the financial assets with prepayment features that could lead to a negative compensation should be measured at amortized cost or at fair value through other comprehensive income, depending on the measurement of the relevant business model in which it behaves.

The Company has not applied IFRS 9 based on IFRS 4. The amendments to IFRS 4 Insurance contracts (from 12th September 2016, effective as of 1st January 2018) set out a temporary exemption from IFRS 9 application for the insurance companies for periods up to 31st December 2020. On 25th June 2020 an amendment to IFRS 4 was published, prolonging the temporary exemption period until 31st December 2022 (adopted by the EU on 16th December 2020). For annual periods beginning before 1st January 2023, the amendments to IFRS 4 permit to the insurance companies to continue applying IAS 39, if their business activity includes mainly insurance as of the date of their financial statements, immediately preceding 1st April 2016, or as of the date of the next financial statements. The Company meets the temporary exemption conditions and has applied the exemption, as the carrying amount of its liabilities arising from contractual obligations falling within the scope of IFRS 4 is considerable as compared to the total carrying amount of all its liabilities and the percentage of the total carrying amount of its insurance related liabilities as compared to the total carrying amount of all its liabilities is higher than 90%.

The Management plans to adopt for application IFRS 9 together with the effective date of entering into force of IFRS 17, It will use the modified approach, and it will not recalculate the comparative data before the adoption of this standard. The Company has commenced a preliminary assessment of the impact of IFRS 9 application.

II. Accounting Policy (continued)

This assessment is based on currently available information, therefore changes may occur subsequently, when the Company adopts IFRS 9 and receives additional sound and substantiated information. As a result, it has concluded that no significant effects on its financial position and equity can be expected due to the initial application of IFRS 9, except for the impact from the application of the following provisions of IFRS 9:

- Impairment of trade receivables – updating of the used impairment percentages (according to the provision matrix) and including estimates and evaluations of macro factors and other estimates of future developments.
- Classification and measurement of the equity instruments classified as "available for sale" according to IAS 39.

c) Published standards and amendments that are not yet in force (and/or not adopted by the EC) and are not adopted for earlier application

The published standards that are not yet in force and were not adopted by the Company by the date of issuing of these financial statements are briefly described below, along with the analysis of the possible reasonable impact of their first application to the Company's disclosures, financial position or performance. This is expected to happen as soon as they come into force. The Company concluded that from the above standards the following ones could possibly affect its accounting policies:

IFRS 17 Insurance Contracts and further amendments (adopted by the EC on 19th November 2021)

IFRS 17 is an entirely new comprehensive accounting standard applying to all types of insurance contracts, including certain bonds and financial instruments, covering the principals for their recognition, measurement, presentation and disclosure. This standard will replace the currently effective standard for insurance contracts - IFRS 4 Insurance contracts. The general purpose of IFRS 17 is to provide a comprehensive accounting model for insurance contracts, covering all relevant accounting and reporting aspects.

The IASB published a new version of IFRS 17 on 26 June 2020. The implemented amendments do not affect the basic principles of the standard and do not reduce the value of information to stakeholders. The standard enters into force for annual periods beginning on or after 1 January 2023, with earlier application permitted. From the point of view of the other requirements of the standard, the main changes concern:

- the introduction of the option to change the assessments in the previous period.

II. Accounting Policy (continued)

- the recognition and evaluation of the reimbursement of acquisition costs related to the expected renewal of the contract.
- recognition of reimbursement under reinsurance contracts where they relate to major basic onerous contracts.
- the extension of the risk mitigation option for reinsurance contracts and fair value derivatives at fair value in the income statement.
- simplification of the presentation of liabilities and assets from insurance contracts in portfolios.
- easing of some requirements during the transition period to the new standard and other minor changes.

The Company is at the stage of active implementation of IFRS 17/ IFRS 9 and it is working according to the general implementation plan of the Generali Group. At present the Company takes an active part in the following activities:

- Implementation of the methodology for the application of the two standards and measurement of their impact on the Company's financial results.
- As part of the annual measurement of the financial effect from the application of IFRS 17/ IFRS 9, the Company tests the suitability of the application of the premium distribution approach as a premium reserve measurement model. The results so far indicate that this approach is suitable for application to the Company's entire business, including the reinsurance business.

- *Creation of a local closing operational model according to IFRS 17/ IFRS 9 and defining of the relevant control environment.*

The Company has designed a local closing model and is currently refining it together with the Generali experts. The essential activities that are related to the definition of the control environment were scheduled for 2022.

- *Creation of a local planning operational model according to IFRS 17/ IFRS 9, including impact assessment.*

Simultaneously with the annual measurement of the financial impact from the application of IFRS 17/ IFRS 9, the Company participates in similar planning exercises in connection with the new standards. The Company will take an active part in the planning process in 2022.

Implementation of the Generali Group technical model, which involves integration with the Group tools in the closing process according to the two standards and automation of the local processes for input of transaction data, their processing and accounting.

II. Accounting Policy (continued)

The Company has developed and uses a technical solution designed for the process of input of gross business data into the Group closing tools under IFRS 17. Work related to the automation of the reinsurance operation process is currently under way. The technical solution follows the underlying technical model of the Generali Group and is updated, when necessary. The Company has participated and is still part of technical tests of the implementation readiness of the above technical model. After the end of the tests, simultaneous closings were performed for each quarter of 2022 in line with the new standards. As regards IFRS 9, the Company is in a process of implementation of a new tool for financial instruments reporting.

The Company has created and is currently implementing a local chart of accounts for reporting of the accounting operations after the initial application of the two standards.

The accounting system is undergoing a restructuring after it has been updated in line with the growing technical requirements.

In summary, we expect the overall effect for the Company from the application of IFRS17 to be significant, unlike IFRS 9 application, having an insignificant influence over the internal processes and financial results of the Company so far.

In addition to the above implementation processes, the Company is preparing a formal assessment of the effects as from 1 January 2022 - the date of the initial application of IFRS 17/ IFRS 9. The Company will apply a simplified model if certain criteria are met by measuring the remaining coverage obligation using the premium allocation approach (PAA).

In view of the considerable workload, which is to be done for the implementation of IFRS17/ IFRS 9 in 2022, the Company does not yet consider that the initial quantitative estimates of the financial effects from the application of the two standards are sufficiently reliable.

The standard will be applicable to the Company. The transition will be following the fully retrospective approach. Currently, the entity is calculating the opening balances of the comparative period that precedes the process of accounting for transactions for 2022. The effects from transition to the new standards will be recorded at the equity account – retained earnings.

The following amendments and improvements to standards are not expected to have a material impact on the separate financial statements of the Company

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, effective for annual periods beginning on or after 1 January 2023

II. Accounting Policy (continued)

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective for annual periods beginning on or after 1 January 2023.
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021), effective for annual periods beginning on or after 1 January 2023.

Functional and presentation currency

GP Reinsurance EAD is a reinsurance company registered in Bulgaria with clients (ceding companies) from the region of Central and Eastern Europe. Functional currency of the parent company is CZK. Clients of the company are from the Central and Eastern Europe region and are mainly related parties. As a result, Company's activity can be considered as intragroup for the purposes of Generali CEE Holding B.V, which determines the choice of CZK for functional currency for GP Reinsurance EAD.

As regards the determining of the functional currency of the Company pursuant to IAS 21, the Management has considered many factors. As part of the strategic planning process, it measures the impact of the primary economic environment on determining the functional currency of the Company. The analyzed factors are based on historical data and expected future developments. The Management measures the impact of the dominant currency in the generation of income or expected expenses of the Company (technical results), the dominant currency, in which the transactions related to financial operations and the transactions related to investment operations are and will be carried out. Other factors considered in relation to the determining of the functional currency are the comprehensive risk management and the degree of autonomy from the parent company GICEE Holding in the Company's operations.

According to the Management's measurement, the Czech koruna is determined as the functional currency, based on the conclusion that the primary economic environment in which the Company operates, is the Czech Republic (pursuant to IAS 21, The Effects of Changes in Foreign Exchange Rates).

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

Use of closing exchange rates to the Czech crown

		As of 31.12.2021	As of 31.12.2020
1 BGN	BGN	12.711	13.417
1 Euro	EUR	24.860	26.245
1 British pound	GBP	29.585	29.190
1 Croatian cuna	HRK	3.307	3.477
100 Hungarian forint	HUF	6.734	7.211
1 Polish zlota	PLN	5.408	5.755
1 New Romanian Lea	RON	5.023	5.391
1 Serbian dinar	RSD	0.212	0.223
100 Russian roubles	RUB	29.147	28.692
1 US dollar	USD	21.951	21.387

II.2. Foreign currency transactions

GP Reinsurance EAD uses the Czech crown as functional currency and the Bulgarian lev as a presentation currency. Thus, GP Reinsurance EAD applies IAS 21, as follows:

Exchange differences arise when monetary items (as defined below) arise as a result of foreign currency transactions and there is a change in the currency rate between the date of the transaction and the date of payment, according to the exchange rate of the Czech Central Bank.

Exchange differences are recognised in the statement of comprehensive income (in profit or loss) for the period in which they arise. Transactions in BGN are also considered foreign currency transactions.

All exchange rate differences are recognised for the period when the payments are settled for the same reporting period in which they arise. When the payments of transactions are settled in the next reporting period, the exchange differences recognised for each period till the settlement date are determined by the currency exchange rate change for each separate period.

If the gain or loss on a non–monetary item is directly recognised in other comprehensive income, each currency exchange component of the profit or loss is also recognized directly in other comprehensive income.

When the profit or loss from a non-monetary item is directly recognised in the profit or loss, each component of the exchange rate difference of that gain or loss is also recognised in the annual profit or loss.

The translation of the results and the financial position of the Company in BGN is performed on each reporting date (at the end of the year) according to the following procedures:

II. Accounting Policy (continued)

Income and expenses in the statement of comprehensive income are restated applying the average exchange rate, as of 31.12.2021, the applicable average exchange rate being 13.111 CZK for 1 BGN (2020: 13.527 CZK/1 BGN).

Assets and liabilities (including comparatives) as of each reporting date are restated at the closing rate CZK/ BGN on the date of the preparation of the Statement of financial position. as of 31.12.2021, the applicable closing exchange rate being 12.705 CZK for 1 BGN (2020: 13.429 CZK/1 BGN).

The exchange rates used for the translation of functional currency to the Bulgarian leva (BGN) are those published by the ultimate parent - Assicurazioni Generali S.P.A., based on published actual market data for transactions. Difference between the exchange rates of the functional currency to BGN set by Assicurazioni Generali S.P.A and the CCB is insignificant.

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

All balancing exchange differences are recognised as a separate component in equity, named “Translation to presentation currency reserve” and the movement is carried to other comprehensive income.

The average rate CZK/BGN is used for the translation of the functional currency into presentation currency in the preparation of the cash flow, the average exchange rate being 13.111 CZK for 1 BGN As of 31.12.2021 (2020: 13.527CZK/1 BGN).

II.3. Plant and equipment

Initial recognition

Plant and equipment (tangible fixed assets) are measured at acquisition cost (cost) which includes their purchase price, customs duties and any other direct costs necessary to bring the asset into working condition. Historical cost includes all expenditure that is directly attributable to the acquisition and the implementation of the assets. Tangible fixed assets are presented in the "Other assets" in the statement of financial position.

Subsequent measurement

For the purposes of subsequent measurement of tangible fixed assets, the Company applies the cost model and presents the tangible fixed assets at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs

Subsequent costs for repairs and improvements are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only if future economic benefits associated with the item are expected for the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are recognized in the statement of comprehensive income (profit or loss) for the financial period, in which they have been incurred. At the date of capitalization, the remaining useful life of the assets concerned is usually revalued. At the same time, the non-depreciated part of the replaced components is written off from the carrying amount of the assets and is recognized in the current expenses for the period of enhancement.

Depreciation on assets is calculated according to the straight-line method for the purpose of allocation of the difference between their carrying amount and their residual value over their estimated useful lives. For this purpose, the following depreciation rates are used:

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

- Machinery, equipment 30%
- Computers, mobile phones 50%
- Vehicles 25%
- Others, including fittings, office equipment 15%.

The materiality level for recognition of fixed asset is BGN 700 otherwise the cost is expensed in the profit and loss.

The residual value and the useful life of assets are reviewed and, adjusted if appropriate at each date of preparation of the financial statements.

Impairment of assets

A tangible asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains or losses on disposals of assets

Gains and losses on disposals of tangible fixed assets are determined by comparing the proceeds with the carrying amount of these assets and are recognised in "Other operating income / (expense), net" in profit or loss.

An item of property, plant and equipment is derecognised upon disposal (sale) or when no future economic benefits are expected from its use.

II.4. Intangible assets

Software products

Acquired licenses for software products are capitalized based on the costs necessary to acquire the rights and commissioning of the software. Directly attributable costs to identifiable and unique software products controlled by the Company are recognised as intangible assets when the software product will generate probable future economic benefits that exceed the costs for a period of one year.

The software products are presented under "other assets" in the statement of financial position.

Intangible assets are amortized using a straight-line method over their expected useful lives.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

The amortisation expense on intangible assets with finite lives is recognised in the profit or loss.

The Company amortizes its intangible assets according to the straight-line method over their estimated useful lives:

The amortized rates of the intangible fixed assets are as follows:

- Software and right of its usage 20%

Intangible assets are subject to impairment testing whenever there are indicators of impairment, determining their recoverable amount. Impairment loss is reported as current expense in the statement of comprehensive income (profit or loss).

Their subsequent valuation is based on the historical cost of acquisition, reduced by accumulated amortization.

Other expenses

Costs associated with staff training regarding the use of computer software are recognised as an expense when they occur.

Computer software maintenance costs are recognized as an expense when they incur. Typically, these include the salary costs of employees who develop the software programs and the associated additional costs.

Gains and losses on derecognition

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

II.5. Financial assets

The Company has entered into an asset management agreement with a specialized asset management company, more precisely with Generali Investment CEE. It manages the investments on behalf of and at the expense of GP Reinsurance EAD.

The financial assets of the Company include debt and corporate securities for investment purpose, loans and receivables, cash and cash equivalents and derivative instruments.

Purchases and sales of financial assets are initially recognised on the settlement-date – the date on which the risks, rewards and control of the financial assets are formally transferred to the Company.

II. Accounting Policy (continued)

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value.

Financial assets are derecognised when the rights to receive cash flows from these assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

The changes in the fair value of the financial assets classified as available-for-sale are recognized in the other comprehensive income. When the financial assets classified as available-for-sale are sold or impaired, the accumulated changes in the fair value are included in the statement of comprehensive income as net realized gains and losses from financial assets available-for-sale. Gains and losses due to changes in the fair value of "the financial assets at fair value through profit or loss" are recognised in the statement of comprehensive income in the category „Net gains from investment operations".

Available-for-sale financial assets and financial assets of fair value through profit or loss are accounted in subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

The fair value of the quoted investments is defined on the base of the "bid" prices on the market. If the market of the financial assets is not active (also for non-quoted securities), the Company calculates the fair value by using other valuation techniques which include the use of most recent market transactions with analogous instruments, analysis of discounted cash flows and models for valuation of options, reflecting to a maximum extent the market conditions.

Classification of financial assets

The financial assets of the Company are classified as follows:

a) Financial assets carried at fair value through profit or loss.

The financial assets classified in this category are derivatives, equity and debt securities. Financial assets recognized at fair value through profit or loss are financial assets designated as such upon their initial recognition. A financial asset is classified also in this category if the main contract contains one or more embedded derivatives. In this case the Company designates the entire hybrid (combined) contract as a financial asset classified at fair value through profit or loss.

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

Gains and losses arising from a change in the fair value of financial assets measured at fair value through profit or loss are recognized in the current financial result.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or defined payments, which are not quoted on active markets. These financial assets are initially recognized at cost, which is the fair value of the consideration paid for their acquisition. All transaction costs that are directly related to the acquisition are also included in the cost of acquisition of the financial assets. After initial assessment, loans and receivables are measured at amortized cost using the effective interest rate method.

Gains and losses on loans and receivables are recognized in the statement of comprehensive income when loans and receivables are derecognised or impaired, as well as through the amortization process. They are classified as current assets excluding those with a maturity date later than 12 months after the date of the statement of financial position, which are classified as non-current and are carried at amortized cost.

c) Financial assets available-for-sale

Available-for-sale financial assets are non-derivative financial assets which are designed for this category or are not classified in any of the other categories. These include debt and equity securities that form a portfolio of the Company whose primary purpose is to secure the reinsurance reserves.

Derivatives

Derivatives are financial instruments:

a) Whose value changes as a result of the changes in a definite interest rate, price of financial instrument, exchange rate, price or interest index, credit rating or credit index or another variable;

b) Which do not require an initial investment, or the required initial investments is smaller than the one required for other types of contracts, which are expected to show similar market behaviour when the market factors change; and

c) Which are settled on a future date.

The derivatives as currency swaps, interest swaps, futures, options and currency forwards are initially recognised in the statement of financial position at their fair value, and subsequently they are revaluated at fair value.

II. Accounting Policy (continued)

The fair value is defined based on quoted market prices, according to the discounted cash flow method or other valuation models. The positive fair value of the derivatives is accounted as an asset and the negative - as a liability. The Company applies hedge accounting when derivative instruments are used to hedge the fair value of certain asset and liability items (Note II.27). The changes in the fair value of the derivatives are included in the statement of comprehensive income (in profit or loss) under "Other operating income / (expense), net".

Usually, the Company uses derivative instruments to hedge the currency risk.

Impairment of financial assets

The available debt securities have a different maturity depending on the investment policy of the Company and the need for collateral of the insurance technical reserves.

a) Loans and receivables

The Company analyses and assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets to be impaired. A financial asset or group of financial assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and this loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence of an impaired financial asset or a group of assets includes the available information in the Company about the following events:

1) Significant financial difficulties of the issuer of the financial asset or debtor
2) A breach of contract, such as a default or delinquency in payments
3) Probability for the issuer or debtor of the financial asset to go bankrupt or undergo another financial restructuring
4) Loss of an active market for the financial asset due to financial difficulties; or
5) Available information indicating a measurable decrease in the estimated future cash flow from group of financial assets after the initial recognition of these assets, although the decrease cannot yet be attributed to a definite financial asset in the Company, including:
   - Negative changes in the payment status of issuers of financial assets or debtors of the Company; or

II. Accounting Policy (continued)

- National or local economic conditions that correlate with defaults on the assets in the Company by the issuer of the financial asset and/or debtor.

First the Company assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses under loans) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced with the amount of the loss, and the amount of the impairment loss is recognised in the statement of comprehensive income (in profit or loss) under "Net gains on investment operations".

As a practical expedient, the Company may measure impairment based on an instrument's fair value using a comparable market price.

To make a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors).

Those characteristics are relevant to the estimation of the future cash flows for groups of such assets, because they are indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If the amount of the impairment loss decreases (recovers) over a subsequent period, and the decrease can be attributed objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is restored (reintegrated) by adjusting the corrective account and is presented under the item "Net gains from investment operations". The amount recovered is recognized in the statement of comprehensive income (profit or loss) to the extent that the carrying amount of the financial asset does not exceed its amortized cost at the date of impairment reversal.

When the receivable is uncollectible, it is written off against the allowance account for trade receivables or other receivables.

II. Accounting Policy (continued)

Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income under the item “Net gains from investment operations”.

b) Financial assets available for sale

On the date of the preparation of each set of financial statements, the Company determines if there is objective evidence indicating that equity and debt securities classified as available-for-sale are impaired.

The presence of significant or prolonged decline in fair value of equity securities below their cost of acquisition is considered as an indicator for impairment. According to internal criteria significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered to be objective evidence of impairment. Based on the internal criteria the Company considers prolonged decline to be 12 months. Unrealised loss higher than 30% is assessed as a significant decline.

The long-term decline criteria are consistent with Group Accounting policies of Generali Group.

Debt securities classified in category “available-for-sale” are impaired when all qualitative and quantitative characteristics related to the specific bond are analysed. If there is an evidence for impairment of debt securities available-for-sale, then the accumulated losses (calculated as the difference between the acquisition cost and current fair value less impairment losses recorded in prior periods in the statement of comprehensive income (in other comprehensive income) are written off from the corresponding reserve, a component of equity, and are recognized in the statement of comprehensive income (in profit or loss) under the item "Net gains from investment operations". Government securities are subject to impairment depending on the referential credit rating of the relevant country. At the end of each reporting period reference is made to the country's credit rating and, if necessary, impairment is recognized.

II.6. Securities sales and repurchase agreements.

Securities sold under the provisions of a binding repurchase agreement (”Repo”) shall be presented in the financial statements as securities at fair value through the profit or loss or as financial assets available-for-sale, and the liabilities to the counterparty under the agreement are presented as an obligation under a repurchase agreement. The resources granted under a “reverse repo” are presented as receivables under a repurchase agreement. The difference between the sale price and the purchase price in the repurchase is accounted for as interest and is calculated for the term of the repurchase agreement by using the effective interest rate method.

The acquired securities under the provision for repurchase on a future date are not recognized in the financial statement unless they are sold to third parties. The liability for their return shall be carried at fair value as liabilities under repurchase agreements.

II.7. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash in bank accounts, other high-liquid short-term investments, mainly bank deposits with original maturity up to 3 months.

II.8. Lease

Lessee

Leases falling within the scope of IFRS 16 are contracts that covey the right to use a third-party asset, where the lessee determines the way, the place and the period of time for its use.

Initial recognition and assessment

The Company follows the practical expedient provided by the standard, under which short-term leases having a lease term of twelve months or less or low value leases (up to BGN 5,000) shall be recorded and the lease payments shall be recognized as an expense in equal instalments over the lease term in the statement of comprehensive income (in profit or loss) and shall not be recognized as asset or liability in the financial statements. In case the lease is preliminary terminated, all payments due to the lessor as penalties are recognized as an expense in the period of termination of the lease.

Leases with a lease term of more than twelve months and high value leases shall be recognized in the statement of comprehensive income and in the statement of financial position as follows:

- The right-of-use asset is recognized at value equal to the sum of the lease liability, the payments made before the commencement date and the direct costs ensuing from the lease.
- Every following month the right-of-use asset is depreciated for the lease term using the linear method, and depreciation costs are recognized.
- A lease liability is recognized at value equal to the present value of the remaining lease payments, discounted by the implicit interest rate.
- Every month an interest expense is recognized, obtained by multiplying the carrying amount of the lease liability by the implicit interest rate of the lease, thus increasing the lease liability.
- With each lease payment the lease liability is decreased.

Judgments

- **Determining the lease term of contracts with renewal or termination options**

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. It also considers the availability and the significance of all economic stimuli and grounds for the extension of the lease contract.

- **Approximate estimate of the incremental borrowing rate**

The incremental borrowing rate is the interest rate that the Company would have to pay to borrow the funds necessary for the acquisition of an asset over with a similar value to the right of use asset, for a similar period of time a similar term, with a similar security, and a similar economic environment. The Company applies the lease interest rate calculated by the Group.

COVID-19-Related Rent Concessions

The Company does not account for COVID-19-related rent concessions as lease modifications pursuant to the amendments to IFRS 16 Leases - COVID-19-Related Rent Concessions. The practical expedient applies to rent concessions, occurring as a direct consequence of the pandemic and only if all the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- there is no substantive change to other terms and conditions of the lease.

The Company is prepared to apply the practical expedient to all leases meeting the above conditions, where rent concessions would be granted.

II.9. Recognition and estimation of the reinsurance contracts

Income and expenses related to reinsurance contracts

The reinsurance premiums are recognized as income based on the premiums from the ceding companies due for the respective period in accordance with the reinsurance treaty. The part of the premium due under effective treaties, which is related to unexpired risk as of the financial statement date, is recognized as unearned premium reserve. Premiums are disclosed gross, excluding commissions and other costs included in the premiums. When under reinsurance treaty, premiums are due in arrays each instalment due at the date of the statement of financial position is prorated and recognized as income and receivable.

II. Accounting Policy (continued)

Ceded premiums are recognised as an expense consistently with the accounting treatment for premium income and considering the terms of the respective reinsurance contract.

Reinsurance claims include the amount of the claims paid or due for the financial year, including expenses related to the claim settlement, and change in the reinsurance claims reserve.

Acquisition costs

Acquisition costs are recognized in the statement of comprehensive income in the period in which they arise. The Company defers acquisition costs for subsequent reporting periods based on the reinsurance contracts of the ceding companies.

Receivables related to reinsurance contracts

The outstanding amounts due to GP Reinsurance EAD as of the reporting date representing the positive for the Company net balances on the Quota Share treaties, the accepted premiums and the ceded claims on the Excess of Loss treaties are recognized as receivable. The Company does not discount its reinsurance receivables. If there is objective evidence for impairment of reinsurance receivables, the Company decreases the carrying amount of the reinsurance receivables to their recoverable amount and recognises impairment loss in the statement of comprehensive income. The company considers the objective evidence for impairment of reinsurance receivables in the same way as it does for the loans and receivables. The impairment loss is also calculated in the same way as for loans and receivables.

As of 31 December 2021 (and as of 31 December 2020) the Company does not have any overdue receivables.

Payables related to reinsurance contracts

The outstanding amounts due by the Company as of reporting date representing the negative for the Company net balances on the Quota Share treaties, the ceded premiums and the accepted claims on the Excess of Loss treaties are recognized as payable. The Company does not discount its reinsurance payables.

II.10. Deposits in cedants

Deposits in cedants represent receivables from cash deposits placed with "ceding companies" that are dependent on the terms defined in the respective reinsurance contract, are carried at amortized cost and the accrued interest income is recognized according to reinsurance treaties wordings directly into the statement of comprehensive income (in profit or loss).

II. Accounting Policy (continued)

II.11. Deferred acquisition costs

Acquisition costs are currently recognised in the statement of comprehensive income (profit or loss) for the period in which they have occurred. The Company defers acquisition costs for subsequent accounting periods, based on reinsurance contracts of the cedants. Since deferred acquisition costs are allocated on the unearned premium reserve under quota share contracts that include a fixed commission and are based on a written premium. Therefore, the impact for the Company is insignificant, since most of the quota share reinsurance contracts are based on the earned premium, i.e., the commissions under these contracts are ceded net of the deferred acquisition costs. The Company defers acquisition costs under Bond treaties, which are fully retro-ceded, and the net effect on the Company's results is equal to zero. Deferred acquisition costs are recorded under the "Reinsurance receivables" item in the Financial Statement.

II.12. Reinsurers' share in the technical reserves

The share of the reinsurers in the technical reserves in relation to the business ceded by the Company is defined according to the terms of the respective reinsurance contract under which the business is ceded and it is measured in the same way as the respective reserves. The Company accrues provisions for impairment in case there are signs of uncollectibility of the receivables from reinsurers.

II.13. Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans, and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

The Company's financial liabilities include payables related to reinsurance contracts (Note VI.5), trade and other current payables (Note VI.7) and derivative financial instruments (Note V.4).

Subsequent measurement

After their initial recognition, trade and other payables are subsequently measured at amortised cost.

II. Accounting Policy (continued)

Derecognition

The financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired.

II.14. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless stipulated or permitted by a specific accounting standard or interpretation, as specifically disclosed in the Company's accounting policies.

II.15. Reinsurance reserves (technical reserves or liabilities under reinsurance treaties)

The Company uses as basic reserving method the principle of following the fortune of the ceding companies. Reinsurance reserves include reported but not settled claims reserve (RBNS); incurred but not reported claims reserve (IBNR); and unearned premium reserve (UPR). The technical reserves are calculated for all reinsurance types and the reinsurers' share is not deducted.

Unearned premium reserve

Unearned premium reserve is calculated based on the recognised premium income in the statement of comprehensive income (in profit or loss). The portion of premium income under reinsurance contracts effective at the end of the reporting period covering risks that may materialize in the following years is recognized as an unearned premium provision.

The premium to be carried over to the next reporting period is determined by the date on which the contract enters into force and the expiry date. The part of the premium due under effective treaties, covering risks which can materialize in the following years, is recognized as unearned premium reserve. Unearned premium reserve is accrued only for Bond and Directors and Officers Liability treaties on assumed and ceded reinsurance and for Property, Engineering, Marine and TPL treaties on ceded reinsurance, based on the written premium. All other reinsurance contracts are based on earned premiums.

Outstanding claims reserve

The reserve for outstanding claims is formed to cover claims under reinsurance contracts in respect of claims arising from events that have occurred up to the end of the financial year, whether reported or not, less amounts already paid or due in respect of such claims, including the related claims settlement expenses. The basic reserving method comes from the principle of following the fortune of ceding companies ("follow the fortune").

The technical reserves are symmetric to the reinsurers' share of the reserves reported by them quarterly and at the reporting date.

The outstanding claims reserve includes reported but not settled claims reserve (RBNS) and incurred but not reported claims reserve (IBNR). When determining the reserve, no discounts or reduction are made as a result of determining the present values of clams, that are expected to be paid in the future.

The outstanding claims reserve is derecognized when the liability to pay claims expires, is terminated or is discharged. The outstanding claims reserve in the statement of financial position is presented with deduction of receivables from regressions and abandons assessed on a pre-emptive basis.

Liability adequacy test of the reinsurance reserves

In accordance with IFRS 4 (paragraph 15), at each reporting date, an adequacy test of reinsurance reserves under reinsurance contracts is performed. In performing these tests, the best current estimates of the future contractual cash flows and related expenses included in claims are used. Any deficiency is immediately charged to losses through accrual of loss reserve arising from reinsurance reserves adequacy tests.

II.16. Provisions

Provisions are recognized if a current court, constructive or legal obligation occurs for the Company as a result of past events, when outgoing cash flows are expected for the repayment of the obligation, provided that this obligation can be calculated precisely enough. Provisions for future operating losses are not recognized. If there are many similar obligations, the likelihood that an outflow will be required for the settlement is determined by considering the whole class of obligations. A provision can be recognized even if there is a small chance of an outflow related to each item of the same class of obligations. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

II.17. Employee benefits

a) Short-term employee benefits

Short-term employee benefits include salaries, wages, interim and annual bonuses, social and health insurance contributions, and annual compensated employee leaves that are expected to be fully settled within 12 months of the end of the reporting period. When the Company receives the service, it is recognized as an expense

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

for the personnel in the profit or loss or is capitalized in the cost of an asset. Short-term employee benefits are measured at the undiscounted amount of the expected settlement costs.

b) Long – term employee benefits

Long-term compensated absences are measured at the present value of expected payments for settling the unused entitlement to leave at the end of the reporting period, reflecting the expected settlement period, expected remuneration levels, yield on government bonds at the end of the reporting period. Other long-term benefits include compensated annual leave that the Company does not expect to settle fully within the next reporting period. They are recognized as an expense for personnel in profit or loss or capitalized in the value of an asset when the employees perform the work that leads to the entitlement to future compensated leave.

c) Pension obligations

The payment of pensions is an obligation of the National Social Security Institute. The Company pays personal income tax, social security and health insurance contributions and mandatory contributions to the Universal Pension Fund. Pension expenses are recognized in the statement of comprehensive income for the relevant period of the service rendered.

d) Retirement benefit liabilities to employees

The long-term retirement liability represents the present value of the liability as of 31 December 2021 upon the retirement of employees according to the actuarial calculations.

The Company has a defined benefit pension plan arising from its obligation under Bulgarian labour legislation to pay its employees 2 or 6 gross monthly salaries upon retirement, depending on length of service.

If an employee has worked for the Company for 10 years, he receives six gross monthly salary on retirement, and if he has worked - less than 10 years - two. The retirement benefit plan is not funded. The Company determines its liability to pay employee benefits upon retirement through the projected unit credit actuarial method. Revaluation of the defined benefit plan, including actuarial gains and losses, is recognized immediately in the financial position via a debit or credit of Retained earnings through other comprehensive income, in the period of their occurrence.

II. Accounting Policy (continued)

Remeasurements are not subject to reclassification in profit or loss in subsequent periods. Past-service costs are recognized in profit or loss of the earlier of:

- The date of addition or curtailment of the plan, and
- The date of recognition of restructuring costs accompanying the plan changes.

e) Termination benefits

According to the provisions of the local employment and social security legislation, the employer has the obligation to pay certain types of indemnities upon termination of the employment contract before retirement.

The Company recognizes termination indemnities obligations before the retirement age, if a binding commitment is declared in a publicly disclosed plan, including restructuring, to terminate irrevocably the employment contract with the persons concerned, or upon issuing of documents for voluntary departure. Postemployment benefits payable after more than 12 months, are discounted and presented in the statement of financial position at their present value.

II.18. Equity

Share capital

Share capital is recognised at the nominal value of the issued and paid shares. Excess contributed by the shareholder to the Company over the par-value price of a share issue is recognized in share premium reserve. The Reserve Fund of the Company is set aside under the requirements of Art. 246, para. 2, item 1 of the Commerce Act. The Reserve Fund can only be used to cover losses from the current and prior reporting periods. According to the Company's Articles of Association, an "Additional Reserve" Fund is formed, the funds of which are used to cover losses from the current and prior reporting periods and for the payment of dividends.

Dividends and ordinary share capital

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

Dividends approved after the date of issue of the financial statements are considered an event after the reporting period.

The liability for allocations different than cash is measured at fair value of the assets, subject to allocation, and the subsequent revaluations are recognized directly in the equity. During the actual allocation of assets different than cash the difference between the book value of the recognized liability and the value of the allocated assets is recognized in the profit or loss for the period.

II.19. Current and deferred taxes

a) Current taxes

The Company calculates the income tax in accordance with the Bulgarian legislation. The income tax is calculated based on the taxable profit that is the result of the transformation of the financial result and the unrealised gains and losses from other comprehensive income according to the requirements of the Corporate Income Tax Act. Current tax assets and liabilities are shown net in the statement of financial position.

Current tax assets and liabilities for the current and prior periods are recognized at the amount that is expected to be recovered or paid. When calculating current taxes, the tax rates and tax laws in force at the date of the statement of financial position apply.

According to the Corporate Income Tax Act, the nominal tax rate for 2021 and 2020 years is 10%. At the reporting date there are no preconditions for a legal change in the tax rate.

b) Deferred income tax

The deferred tax is charged by using the balance sheet method for all temporary differences arising between the tax values and the carrying amount of the assets and liabilities in the financial statements and the relevant values of their tax bases set for tax purposes. When calculating deferred taxes, the tax rates used under Bulgarian law are for the periods of expected reversal of the temporary tax differences.

The carrying amount of deferred tax assets is reviewed at each reporting date of the statement of financial position and reduced to the point when it is already possible to have enough taxable profit to allow for all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the point when it is already possible to have enough future taxable profits to allow for the deferred tax asset to be recovered. The deferred tax assets and liabilities are offset only if the Company has the right and intention to offset the current tax assets or liabilities by the same tax authority. The deferred tax assets and liabilities are directly recognized in the other comprehensive income (and not in the profit or loss) when the tax refers to items that have directly been recognized in the other comprehensive income. as of 31 December 2021, the deferred income taxes of the Company are measured at a nominal tax rate of 10% valid for 2022.

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

II.20. Trade and other liabilities to counterparties

Trade and other liabilities to counterparties are recognized initially at fair value. If, on the occurrence of the liability, the settlement term is expected to exceed 12 months, it is measured at amortized cost using the effective interest rate method.

Trade and other liabilities to counterparties are derecognized when they are extinguished, i.e., when the obligation has ceased or is cancelled, or its period has expired.

Liabilities are recognized gross, with value added tax (VAT). The VAT payable for services or assets used in the reinsurance business is recognized as part of the cost of the asset or as part of the relevant item of expenditure, as applicable.

II.21. Income recognition

a) Reinsurance premiums

The reinsurance premiums are recognized as income based on the premiums from the ceding companies due for the respective period in accordance with the reinsurance treaty. The part of the premium due under effective treaties, which is related to unexpired risk as of the financial statement date, is recognized as unearned premium reserve. Premiums are disclosed gross, excluding commissions and other costs included in the premiums. (Note II.9).

When under a reinsurance contract the premiums are due in arrays, each instalment due at the date of the statement of financial position is recognized as income and receivable.

b) Income from interest and dividends

Interest income from all interest-bearing financial instruments is disclosed as Net gains from investment operations in the statement of comprehensive income by using the effective interest rate method. Investment income includes dividends, which are recognized when the right of the Company to receive payment arises.

c) Realized gains/ (losses) from investment operations

Realized gains of investments recognised in the statement of comprehensive income, include gains and losses on financial assets. Gains and losses on sale of investments are calculated as the difference between the net sale proceeds and the initial or amortized cost and are recognized upon the settlement of transaction.

II. Accounting Policy (continued)

II.22. Recognition of expenses

Reinsurance claims

Claims expenses include all amounts paid and/or due on claims incurred for the financial year, the change in reinsurance reserves, external and internal costs associated with the processing and settlement of the claims, recoveries and any adjustments to unpaid claims from previous years (Note II.9 and Note II.11) Reinsurance claims are recognized according to the terms of the relevant contract.

Administrative expenses

These include personnel costs and depreciation costs for tangible and intangible fixed assets, hired services costs, advertising and marketing costs, and costs of materials, in so far as they are not to be presented as net commission expenses, claims, and financial charges.

Finance expenses

Interest expenses are recognized in the statement of comprehensive income on accrual basis by using the effective interest rate method. Accrued interests are included in the balance of the interest-bearing financial liabilities. Bank charges and commissions are recognized in the statement of comprehensive income when they arise.

II.23. Events after the date of preparation of the annual financial statements

The financial statements are adjusted to present events that occurred between the date of the statement of financial position and the date on which the financial statements are approved for publishing, provided they give evidence of conditions that existed at the financial statement issue date. Events that are indicative of conditions that arose after the statement of financial position are disclosed but cause no adjustments in the financial statements.

II.24. Comparative information

Apart from the cases when a certain standard or interpretation allows for or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 is applied, the comparative data have been adjusted to correspond to the changes in the presentation during the current year.

II.25. Accounting policies, changes in accounting estimates and errors

When a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to this item must be determined by applying the Standard or Interpretation

II. Accounting Policy (continued)

and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation.

An entity is permitted to change an accounting policy only if the change:

a) is required by a Standard or Interpretation; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

Using reasonable estimates is a basic element of preparing the financial statements and does not decrease their reliability. An estimate must be revised if the circumstances on which it is based are changed, or as a result of receiving new information or gaining further experience. In its essence, the revision of an estimate is not related to previous periods and is not a correction of error.

The general principle set out in IAS 8 is that an entity should retroactively correct material errors from prior periods in the first set of financial statements approved for publication after they have been detected by:

a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Disclosures relating to prior period errors include:

a) the nature of the prior period error,

b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and in case of applying IAS 33 to the Company - for basic and diluted earnings per share,

c) the amount of the correction at the beginning of the earliest prior period presented; and

d) if the retrospective restatement is impracticable for determined prior period, the circumstances which led to the existence of this condition should be made public and the manner and date on which the error was corrected should be described

(all amounts are in BGN thousand, unless specified otherwise)

II. Accounting Policy (continued)

In 2021 and 2020 the Company has not made any changes in its accounting policies, apart from the disclosures in II.1. a) New and amended standards, applied by the Company, and those in Note XI. The company had disclosed the relevant recalculations in Note XI.

II.26. Fair value measurement

Fair value (FV) is the price that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the asset sale transaction or the liability transfer take place either:

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

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

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

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

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

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

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

II. Accounting Policy (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis at fair value, the Company reviews their categorization at the appropriate level of the fair value hierarchy (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and decides if a transfer from one level to another is needed.

The Company's management determines the policies and procedures applied to regular measurements of fair value like the valuation of financial assets available-for-sale, and to irregular measurements of fair value like the valuation of assets held for sale/ allocation to the owners.

Normally the measurements of fair value of significant assets like financial assets available-for-sales, and of significant liabilities, like financial derivatives – currency swaps, involve internal valuation experts, and the need for them is assessed annually by the Company's management. After a discussion with the valuation experts, the management decides which measurement techniques and input data are the most appropriate for each specific case.

As of each reporting date, the management analyses the changes in the values of assets and liabilities, subject to revaluation pursuant to the Company's accounting policies. This includes a review of the key input data, used in the last valuation and their reconciliation with the relevant historic data like signed agreements and other relevant documents. The management together with the valuation experts reconciles the changes in the fair value of individual assets and liabilities with the relevant external sources, so that they can assess if these changes are reasonable.

For the purpose of fair value disclosures, the Company has determined different classes of assets and liabilities based on their nature, characteristics and risks and the level of the fair value hierarchy as explained above. The disclosures of the fair value hierarchy of the financial instruments are presented in Note III „Management of Financial and Insurance Risk and Fair Value measurement", point I "Fair value measurement and hierarchy".

II.27. Fair value hedge

The Company applies a fair value hedge to financial assets and reinsurance liabilities in relation to hedging the currency risk. At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

II. Accounting Policy (continued)

The documentation of a hedge shows the effectiveness throughout the reporting period and on an ongoing basis through performing the retrospective and prospective tests.

The hedge is expected to be highly effective if the changes in the fair value attributable to the hedged risk during the period for which the hedge is designated are expected to be offset in the range of 80% to 125%.

II.28. Share-based payments

The Company recognizes the goods and services received or acquired in share-based payment transactions when receiving the goods or receiving the services. The Company recognizes a corresponding increase in equity if the goods or services are received in a share-based payment transaction governed by the issuance of equity instruments of the Company or the parent, or an obligation if the goods or services are acquired in a transaction with cash-settled share-based payment.

Where the goods or services received or acquired in a share-based payment transaction are not eligible for recognition as assets, they are recognized as an expense.

The Company assesses the goods or services received and the corresponding increase in equity directly at the fair value of the goods or services received unless it is not possible to measure that fair value reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company assesses their value and the related increase in equity indirectly by reference to the fair value of the provided equity instruments of the Company or the parent. The fair value of these equity instruments is measured at the date of the arrangement.

III. Financial and insurance risk management and fair value measurement

The Company's investment activity from risk point of view is carried out according to The System of Investment Risk Limits (called the Rules hereinafter). The Rules include determining the interest rate limits, equity instruments limits, currency limits, concentration limits and cumulative limits. The Rules apply to investment risk management in accordance with the Investment policy, along with the diversification rules. The full application of the Rules also ensures the necessary liquidity and portfolio risk management. The following classes of assets are allowed for investments: money market instruments, sovereign and supranational debt instruments, bonds and other credit instruments not allowing leverage, structured financial instruments, shares, instruments related to real estate, with the nature of securities and derivatives.

The interest rate, currency, type of securities and credit ratings are the parameters that are regulated by the Rules and are taken into account when making investment decisions. Different type of instruments should be approved by the group risk management department.

The risks that the Company is exposed to due to its activity and the undertaken approach to manage those risks are described below.

A. INSURANCE RISK

REINSURANCE CONTRACTS

In 2021 GP Reinsurance EAD has been doing inward and outward reinsurance. The signed reinsurance contracts are proportional and non-proportional.

ACCEPTED REINSURANCE

The reinsurance contracts on accepted reinsurance are signed with the following cedents:

Generali Ceska pojistovna A.S., Czech Republic; Generali Insurance AD (ceded through Generali Ceska pojistovna A.S.); Generali Osiguranje d.d., Zagreb, Croatia; Generali Biztosito Zrt., Hungary; Genertel Biztosito Zrt., Hungary; Generali Reosiguranje, a.d., Belgrade, Republic of Serbia in respect of business written by Generali Osiguranje a.d., Podgorica, Montenegro and Generali Osiguranje a.d., Belgrade, Republic of Serbia; Generali T.U.S.A., Warsaw, Poland; Generali Pojistovna, Slovak Republic; Generali Zavarovalnica d.d., Slovenia; S.C. Generali Romania Asigurare Reasigurare S.A., Bucharest, Romania; Generali Versicherung, Austria; Concordia Polska T.U.S.A., Poland; Hrvatska osiguravajuća kuća d.d., Hrvatska; Assicurazioni Generali – U.S. Branch and Bosna Reinsurance Company Ltd. All, except for the last 3 companies are part of Austria and the CEE Region and are under Generali CEE Holding B.V.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

There are four main groups of reinsurance programs in GP Re's portfolio:

- Low volatile - The proportional contract (i.e., quota) reinsurance treaty (LV program) covers usually more lines of business. Typical examples of involved types of insurance policies or lines of business are Property insurance (both Personal lines and SME), MTPL, Motor hull, Travel and Personal Accident. Newly introduced low volatile in life insurance segment covers risks of Permanent/Temporary Disability, Death, Unemployment and hospitalization for CPI products. The main benefit of the LV is limitation of the risks due to diversification across the CEE region. LV program´s cover is devised mainly for relatively low insured values; which guarantees more stable results compared to the other reinsurance programs.
- MET-The Mutual Equalization Treaty is a combination of Q/S and XL mechanism with a loss mitigation program included and provides a two-level protection. The basic is the Q/S treaty which applies to business above so-called MET cession threshold defined to address attrition volatility issues in a given portfolio. The business accepted under MET treaties is commercial and industrial insurance. The typical lines of business where the MET program is applied are Property, Liability and Marine. The program is backed by external reinsurance.
- Over-priced - mainly non-proportional reinsurance of risks retained fully or partially by GP Reinsurance when the Reinsurance Market required Premium above "Fair Price".
- Pass through-is mainly non-proportional reinsurance devoted to fully retro-cede risks accepted by GP Re.

1) Proportional Treaties:

GP Reinsurance EAD provides proportional coverage for 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 Livestock), Directors and Officers (D&O) Liability and Bonds. The cedants retain between 0% (D&O QS treaty) and 60% (Low Volatile treaty) of the risk. The commission varies from 0% to 40%.

Since 2018 GP Reinsurance EAD has been offering proportional coverage for Life insurance.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

The cedants retain 20% of the risk and the level of the commission varies because it follows the direct business.

Country	Number of treaties	General limit (in thousand BGN)
Austria	2	68,454
Poland	10	281,502
Romania	6	136,804
Slovakia	6	168,201
Slovenia	5	121,261
Serbia	8	223,990
Hungary	7	161,729
Croatia	5	98,819
Czech Republic	13	273,875
Total	**62**	**1,534,635**

2) Non-proportional Treaties:

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

The minimum retention of a non-proportional treaty is EUR 46,256 (Personal Accident) (2020: EUR 48,837), and the maximum is EUR 200,000,000 (CAT) (2020: EUR 200,000,000). The limits of reinsurance programs vary between EUR 123,203 (Personal Accident) (2020: EUR 126,316) and Unlimited (MTPL). The minimum and deposit payments under the non-proportional treaties are done in instalments (one to four equal instalments on annual basis).

Country	Number of treaties	General limit (in thousand BGN)
Austria	3	577,752
Poland	7	2,247,492
Romania	3	1,117,409
Slovakia	4	1,140,640
Slovenia	3	1,122,255
Serbia	3	2,231,408
Hungary	6	2,241,995
Croatia	4	1,145,298
Czech Republic	9	2,420,035
Total	**42**	**14,244,284**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

CEDED (OUTWADS) REINSURANCE

For the purposes of managing insurance risk, the Company uses passive (outwards) reinsurance. . In 2021 and 2020 all external reinsurance treaties are retroceded directly to Assicurazioni Generali S.P.A with the exception of one proportional reinsurance contract for agricultural crops (from generali's portfolio Serbia) which are disposed of through Aon Benfield.

The Company reinsures part of the risk in order to decrease its exposure to losses and to preserve its capital resources. It has concluded a combination of proportional and non-proportionate reinsurance contracts with the aim of decreasing the net exposure to risk.

However, in case a reinsurer has not paid certain claim for some reason, the Company shall remain responsible for the amount due to the respective ceding company.

The main instrument for mitigation of the risk is to transfer part of the risk and premiums to reinsurers.

As a part of the credit risk management disclosed below, the Company continuously assesses the financial position of the reinsurers and periodically evaluates the recoverable amount of its reinsurance positions.

1) **Proportional Treaties:**

The ceded reinsurance proportional programs are Bonds QS, Cyber QS and the Company retains 30% (2020: 30%) of the premium under those treaties. The commission rates in 2021 are 30% for Cyber QS (2020: 30%), and 32% for Bond QS (2020: 34%).

2) **Non-proportional Treaties:**

GP Reinsurance has ceded reinsurance non-proportional treaties on 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 minimum retention is EUR 1,500,000 (Marine and MTPL) and the maximum one, EUR 40,000,000 (CAT), remaining unchanged in 2021. The MTPL treaty has an unlimited protection while the capacity of the remaining programs varies from EUR 16,000,000 (Marine and Cargo) (2020: EUR 16,000,000) to EUR 900,000,000 (CAT) (2020: EUR 865,000,000).

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

PREMIUM RISK

Premium risk is the risk of keeping too low premium rates taking into consideration the actual experience with claims. To lower that risk the Company uses generally accepted actuarial procedures in calculating the premium rates and the conditions of the reinsurance contracts, on which basis the premium income is transferred from the cedants to the Company.

The Company constantly monitors on an ongoing basis the claims development and defines premiums during the renewal of the reinsurance treaties, taking in to account all relevant variables, internal models as well as market prices.

RESERVING RISK

Reserving risk is the risk emerging when the amount of the accrued reserves is insufficient to cover the future liabilities. This is related to both the reported but not settled claims and to the incurred but not yet reported claims reserves.

In order to prove that the Company can cope with a risk that may occur with a certain level of probability, generally accepted methods are applied for the estimation of future liabilities from the current reinsurance portfolio and the latter are reconciled with the accrued reserves. The difference is called reserve adequacy, determining the "prudency margin", which allows the absorption of any fluctuations in the reserves. This is described in the LAT test.

Moreover, due to the fact that GP Reinsurance is part of Generali Group, GP Reinsurance has access to the special Group know-how and tools for precise quantitative measurement of the risk, which also help the Company fulfil Solvency II requirements. The Group Partial Internal model allows us not only to measure risk at an average level, but also enables us to make a full distribution of our reserves using stochastic simulation. As a result, we can ensure that the Company has adequate capital to fulfil its obligations with a very high (99.5%) probability.

Liability adequacy test showed that the accounting technical reserves of the Company as of 31 December 2021 are adequate. The reserve adequacy is based on calculation of GPRe Undiscounted Best Estimate (UBEL) from ceded parts of local companies' payables according to IFRS (International Financial Reporting Standards) and then simply by calculating the difference between GPRe IFRS and GPRe UBEL.

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

The analysis was based on ceded parts of the reserve for incurred events at least since accident year 2009. Necessary details regarding split by accident years were taken from local entities data which are available on Generali CEE Holding level.

The amount of analysed reserves BGN 1 569 m which represents 94% of GP Reinsurance outstanding claims reserves. The proportion of total analysed reserves stays stable throughout the last year (95%) and company`s actuary consider this amount as relevant for the analysis. The analysed reserve adequacy of GP Reinsurance is 29% of the overall analysed outstanding claims reserves. There is no significant assumption that would require an additional reserve of 5%.

In 2017, GP Reinsurance EAD took over a portfolio from Generali Holding Vienna covering losses incurred prior to 2008, with the cedants of this business being once again the insurance companies of the Generali Group from Central and Eastern Europe, with which the Company is already operating. Since the company accepts the reserves in this portfolio as of 01.01.2017 and does not have the historical development of these claims, this run-off business is not included in the tables below, so that consistent information could be provided on the development of claims in the remaining portfolio. Due to the portfolio duration and the almost fully ceded reinsurance coverage, the Company does not expect any serious developments and effects.

Since 2018 the Company has reinsurance contracts covering risks of credit protection insurance. Since this business is new for the portfolio of the Company, the reserves and the paid claims under these contracts are not included in the tables below, so that consistent information could be provided on the claim development in the rest of the portfolio.

The following tables show the cumulative claims payments, outstanding claims reserves (RBNS and IBNR) and the ultimate cost of claims on non-proportional reinsurance treaties by accident year from 2008-2011 (cumulative) to 2021 and their development from 2009 to 2021 and on proportional reinsurance treaties by accident year from 2003-2010 (cumulative) to 2021 and their development over the period 2012 – 2021.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

In the tables all amounts are recalculated using the exchange rates on 31 December 2021 and there might be insignificant differences, due to rounding.

Non-proportional reinsurance treaties (gross)

Claims payments on non-proportional treaties for the individual accident years (gross)

In BGN thousand	Accident year											
Calendar year	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
2009	59,604	-	-	-	-	-	-	-	-	-	-	59,604
2010	74,000	-	-	-	-	-	-	-	-	-	-	74,000
2011	73,317	-	-	-	-	-	-	-	-	-	-	73,317
2012	15,216	881	-	-	-	-	-	-	-	-	-	16,097
2013	8,744	2,220	72,167	-	-	-	-	-	-	-	-	83,131
2014	3,803	2,714	39,630	1,775	-	-	-	-	-	-	-	47,922
2015	1,643	645	9,301	4,090	889	-	-	-	-	-	-	16,568
2016	937	624	3,506	6,970	2,962	1,170	-	-	-	-	-	16,169
2017	2,283	613	1,738	1,858	2,013	1,516	4,158	-	-	-	-	14,179
2018	758	35	185	498	2,302	1,051	4,567	3,996	-	-	-	13,392
2019	1,061	211	336	2,227	26	719	11,410	24,087	6,966	-	-	47,043
2020	495	(146)	66	1,173	1,018	1,982	15,465	21,743	24,408	8,874	-	75,078
2021	943	4	5	496	614	(13)	1,265	(4,435)	6,006	6,323	129,357	140,565
Total	**242,804**	**7,801**	**126,934**	**19,087**	**9,824**	**6,425**	**36,865**	**45,391**	**37,380**	**15,197**	**129,357**	**677,065**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

Claims reserves on non-proportional treaties for the individual accident years at the respective reporting dates (gross)

In BGN thousand	Accident year											
Date	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2009	64,061	-	-	-	-	-	-	-	-	-	-	64,061
31.12.2010	119,202	-	-	-	-	-	-	-	-	-	-	119,202
31.12.2011	87,176	-	-	-	-	-	-	-	-	-	-	87,176
31.12.2012	58,174	10,941	-	-	-	-	-	-	-	-	-	69,115
31.12.2013	38,431	9,144	62,947	-	-	-	-	-	-	-	-	110,522
31.12.2014	37,239	9,481	28,885	13,860	-	-	-	-	-	-	-	89,465
31.12.2015	40,127	9,240	25,876	25,922	19,920	-	-	-	-	-	-	121,085
31.12.2016	37,386	5,899	18,661	15,011	21,597	19,916	-	-	-	-	-	118,470
31.12.2017	26,879	3,137	11,623	13,520	17,684	17,823	18,674	-	-	-	-	109,340
31.12.2018	27,475	3,040	10,620	13,165	15,478	15,913	28,670	39,323	-	-	-	153,684
31.12.2019	24,552	875	8,949	10,239	11,614	20,026	29,763	25,386	33,758	-	-	165,162
31.12.2020	25,051	1,134	11,815	10,467	13,689	20,210	17,928	2,920	18,754	24,465	-	146,433
31.12.2021	22,734	1,458	9,236	10,210	12,912	20,409	19,230	2,304	13,282	13,007	256,159	380,941

Ultimate loss for non-proportional treaties for the individual accident years on the respective reporting dates (gross)

In BGN thousand	Accident year											
Date	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2009	123,665	-	-	-	-	-	-	-	-	-		123,665
31.12.2010	252,806	-	-	-	-	-	-	-	-	-	-	252,806
31.12.2011	294,098	-	-	-	-	-	-	-	-	-	-	294,098
31.12.2012	280,311	11,822	-	-	-	-	-	-	-	-	-	292,133
31.12.2013	269,313	12,245	135,114	-	-	-	-	-	-	-	-	416,672
31.12.2014	271,924	15,296	140,681	15,635	-	-	-	-	-	-	-	443,536
31.12.2015	276,454	15,700	146,974	31,786	20,808	-	-	-	-	-	-	491,722
31.12.2016	274,651	12,984	143,265	27,845	25,447	21,085	-	-	-	-	-	505,277
31.12.2017	266,426	10,834	137,964	28,211	23,547	20,509	22,831	-	-	-	-	510,322
31.12.2018	267,780	10,772	137,146	28,355	23,643	19,650	37,395	43,319	-	-	-	568,060
31.12.2019	265,918	8,818	135,812	27,657	19,806	24,483	49,898	53,469	40,724	-	-	626,585
31.12.2020	266,912	8,932	138,744	29,058	22,899	26,648	53,528	52,745	50,128	33,339	-	682,933
31.12.2021	265,537	9,259	136,170	29,297	22,736	26,834	56,095	47,694	50,661	28,204	385,516	1,058,003

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

Non-proportional reinsurance treaties net from ceded reinsurance

Claims payments on non-proportional treaties for the individual accident years (net)

In BGN thousand	Accident year										
Calendar year	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
2009	10,536	-	-	-	-	-	-	-	-	-	-	10,536
2010	28,239	-	-	-	-	-	-	-	-	-	-	28,239
2011	11,167	-	-	-	-	-	-	-	-	-	-	11,167
2012	5,383	881	-	-	-	-	-	-	-	-	-	6,264
2013	4,372	2,220	27,432	-	-	-	-	-	-	-	-	34,024
2014	998	2,714	3,521	1,775	-	-	-	-	-	-	-	9,008
2015	1,125	645	(2,821)	3,552	889	-	-	-	-	-	-	3,390
2016	393	624	976	(7,660)	2,962	1,170	-	-	-	-	-	(1,535)
2017	286	613	575	(922)	1,822	1,516	644	-	-	-	-	4,534
2018	906	35	(1,736)	1,731	980	1,051	2,624	3,996	-	-	-	9,587
2019	1,033	211	(6,845)	9,285	278	719	943	(15,474)	6,966	-	-	(2,884)
2020	346	(146)	(6)	576	974	527	626	(15,160)	21,921	8,874	-	18,532
2021	605	4	(4)	496	659	(13)	1,042	358	6,006	6,323	(480)	14,996
Total	**65,389**	**7,801**	**21,092**	**8,833**	**8,564**	**4,970**	**5,879**	**(26,280)**	**34,893**	**15,197**	**(480)**	**145,858**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

Claims reserves on non-proportional treaties for the individual accident years at the respective reporting dates (net)

In BGN thousand	Accident year											
Date	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2009	20,252	-	-	-	-	-	-	-	-	-	-	20,252
31.12.2010	23,678	-	-	-	-	-	-	-	-	-	-	23,678
31.12.2011	38,941	-	-	-	-	-	-	-	-	-	-	38,941
31.12.2012	26,268	10,402	-	-	-	-	-	-	-	-	-	36,670
31.12.2013	17,777	9,133	9,739	-	-	-	-	-	-	-	-	36,649
31.12.2014	20,435	9,481	1,720	12,242	-	-	-	-	-	-	-	43,878
31.12.2015	25,540	9,149	12,717	5,508	16,207	-	-	-	-	-	-	69,121
31.12.2016	24,762	5,774	8,516	10,538	13,994	15,290	-	-	-	-	-	78,874
31.12.2017	19,552	2,938	8,574	10,937	10,302	12,457	18,628	-	-	-	-	83,388
31.12.2018	19,212	3,040	9,147	10,409	10,634	(1,355)	15,580	(34,002)	-	-	-	32,665
31.12.2019	17,844	875	7,857	9,428	7,007	(777)	15,183	(16,474)	27,061	-	-	68,004
31.12.2020	17,491	1,134	10,860	10,467	9,187	(2,216)	17,517	2,299	14,004	23,771	-	104,514
31.12.2021	(4,163)	1,458	7,997	9,440	7,275	(6,385)	17,567	2,302	8,544	12,289	(2,914)	53,410

Ultimate loss for non-proportional treaties for the individual accident years on the respective reporting dates (net)

In BGN thousand	Accident year											
Date	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2009	30,788	-	-	-	-	-	-	-	-	-	-	30,788
31.12.2010	62,453	-	-	-	-	-	-	-	-	-	-	62,453
31.12.2011	88,882	-	-	-	-	-	-	-	-	-	-	88,882
31.12.2012	81,592	11,284	-	-	-	-	-	-	-	-	-	92,876
31.12.2013	77,474	12,234	37,171	-	-	-	-	-	-	-	-	126,879
31.12.2014	81,130	15,296	32,674	14,017	-	-	-	-	-	-	-	143,117
31.12.2015	87,359	15,609	40,850	10,835	17,096	-	-	-	-	-	-	171,749
31.12.2016	86,975	12,858	37,625	8,204	17,845	16,460	-	-	-	-	-	179,967
31.12.2017	82,051	10,635	38,259	7,681	15,974	15,144	19,272	-	-	-	-	189,016
31.12.2018	82,617	10,772	37,095	8,884	17,287	2,382	18,848	(30,007)	-	-	-	147,878
31.12.2019	82,281	8,818	28,961	17,188	13,937	3,679	19,394	(27,952)	34,027	-	-	180,333
31.12.2020	82,275	8,932	31,957	18,803	17,091	2,767	22,354	(24,339)	42,892	32,646	-	235,378
31.12.2021	61,225	9,259	29,090	18,272	15,839	(1,415)	23,445	(23,978)	43,437	27,486	(3,394)	199,266

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

Proportional (quota share) reinsurance treaties (gross)

Claims payments on proportional treaties for the individual accident years (gross)

In BGN thousand						**Accident year**						
Calendar year	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
2013	58,014	157,392	363,248	-	-	-	-	-	-	-	-	578,654
2014	31,528	35,307	132,434	340,820	-	-	-	-	-	-	-	540,089
2015	16,419	15,352	32,552	158,911	361,569	-	-	-	-	-	-	584,803
2016	15,859	8,656	15,563	45,546	160,260	387,936	-	-	-	-	-	633,820
2017	9,129	4,701	10,130	22,091	36,520	167,925	403,291	-	-	-	-	653,787
2018	5,946	2,856	5,732	10,930	19,728	42,067	192,222	429,744	-	-	-	709,225
2019	4,225	272	1,649	5,702	17,278	24,390	42,653	237,812	477,197	-	-	811,178
2020	5,538	875	926	1,809	7,640	11,860	23,789	66,622	184,805	478,543	-	782,407
2021	4,669	999	1,990	2,043	(221)	4,720	20,723	25,138	34,444	158,890	496,999	750,394
Total	**151,327**	**226,410**	**564,224**	**587,852**	**602,774**	**638,898**	**682,678**	**759,316**	**696,446**	**637,433**	**496,999**	**6,044,357**

Claims reserves for proportional treaties for the individual accident years on the respective reporting dates (gross)

In BGN thousand						**Accident year**						
Calendar year	**2003-2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
31.12.2013	453,160	130,753	349,669	-	-	-	-	-	-	-	-	933,582
31.12.2014	361,883	72,652	169,839	363,588	-	-	-	-	-	-	-	967,962
31.12.2015	249,096	100,983	118,984	211,006	379,039	-	-	-	-	-	-	1,059,108
31.12.2016	234,434	80,932	111,785	167,970	230,355	439,613	-	-	-	-	-	1,265,089
31.12.2017	148,280	52,113	79,180	138,537	178,065	242,406	473,823	-	-	-	-	1,312,404
31.12.2018	113,801	42,184	39,190	99,435	166,278	153,501	277,680	528,674	-	-	-	1,420,743
31.12.2019	90,120	33,741	32,009	43,212	109,533	129,812	198,198	257,446	425,939	-	-	1,320,010
31.12.2020	75,980	29,019	28,098	31,044	46,400	51,321	167,570	168,374	221,182	411,448	-	1,230,436
31.12.2021	62,025	22,369	22,386	21,459	38,441	40,111	117,332	118,799	161,533	196,372	460,821	1,261,648

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

Ultimate loss for proportional treaties for the individual accident years on the respective reporting dates (gross)

In BGN thousand	Accident year											
Calendar year	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2013	511,174	288,145	712,917	-	-	-	-	-	-	-	-	1,512,236
31.12.2014	451,425	265,352	665,521	704,408	-	-	-	-	-	-	-	2,086,706
31.12.2015	355,057	309,034	647,218	710,737	740,607	-	-	-	-	-	-	2,762,653
31.12.2016	356,253	297,640	655,582	713,246	752,183	827,548	-	-	-	-	-	3,602,452
31.12.2017	279,228	273,521	633,108	705,904	736,414	798,266	877,114	-	-	-	-	4,303,555
31.12.2018	250,695	266,448	598,848	677,731	744,354	751,428	873,193	958,418	-	-	-	5,121,115
31.12.2019	231,238	258,277	593,316	627,211	704,888	752,129	836,364	925,003	903,136	-	-	5,831,562
31.12.2020	222,636	254,429	590,331	616,851	649,395	685,497	829,525	902,552	883,184	889,991	-	6,524,391
31.12.2021	213,350	248,779	586,609	609,309	641,216	679,008	800,010	878,115	857,979	833,805	957,820	7,306,000

Proportional (quota share) reinsurance treaties (net)

Claims payments on proportional treaties for the individual accident years (net)

In BGN thousand	Accident year											
Calendar year	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
2013	55,792	156,960	361,645	-	-	-	-	-	-	-	-	574,397
2014	27,547	32,009	130,809	340,148	-	-	-	-	-	-	-	530,513
2015	16,042	17,741	32,039	158,557	361,423	-	-	-	-	-	-	585,802
2016	14,693	8,636	15,471	43,369	160,246	387,840	-	-	-	-	-	630,255
2017	9,201	4,647	9,876	21,796	36,305	167,189	402,512	-	-	-	-	651,526
2018	6,043	2,854	5,578	10,689	19,641	41,715	190,764	420,793	-	-	-	698,077
2019	4,238	232	1,652	5,526	13,697	24,219	42,202	237,427	462,551	-	-	791,744
2020	5,536	867	915	1,801	7,313	11,844	19,656	67,198	184,861	466,750	-	766,741
2021	4,669	991	1,989	2,050	(121)	4,414	18,063	25,217	34,444	158,531	491,018	741,265
Total	**143,761**	**224,937**	**559,974**	**583,936**	**598,504**	**637,221**	**673,197**	**750,635**	**681,856**	**625,281**	**491,018**	**5,970,320**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

Claims reserves for proportional treaties for the individual accident years on the respective reporting dates (net)

In BGN thousand	Accident year											
Calendar year	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2013	448,963	130,531	348,659	-	-	-	-	-	-	-	-	3
31.12.2014	357,060	72,316	169,656	362,829	-	-	-	-	-	-	-	961,861
31.12.2015	244,231	100,326	118,756	207,634	378,209	-	-	-	-	-	-	1,049,156
31.12.2016	231,071	80,800	108,666	167,667	230,303	439,870	-	-	-	-	-	1,258,377
31.12.2017	147,993	51,740	76,613	136,299	177,476	240,520	458,776	-	-	-	-	1,289,417
31.12.2018	113,665	41,797	37,033	99,070	162,726	152,362	256,091	523,441	-	-	-	1,386,185
31.12.2019	90,035	33,428	28,826	42,588	106,648	129,319	193,660	252,155	424,879	-	-	1,301,538
31.12.2020	74,634	28,999	25,035	30,543	43,359	50,354	160,365	166,405	219,991	408,362	-	1,208,047
31.12.2021	61,982	22,318	19,411	21,500	35,936	39,645	114,860	117,542	160,336	193,367	459,810	1,246,707

Ultimate loss for proportional treaties for the individual accident years at the respective reporting dates (net)

In BGN thousand	Accident year											
Calendar year	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
31.12.2013	504,754	287,490	710,304	-	-	-	-	-	-	-	-	1,502,548
31.12.2014	440,399	261,286	662,110	702,977	-	-	-	-	-	-	-	2,066,772
31.12.2015	343,612	307,036	643,248	706,340	739,632	-	-	-	-	-	-	2,739,868
31.12.2016	345,145	296,147	648,630	709,741	751,972	827,710	-	-	-	-	-	3,579,345
31.12.2017	271,268	271,733	626,453	700,169	735,449	795,549	861,288	-	-	-	-	4,261,909
31.12.2018	242,983	264,644	592,451	673,629	740,340	749,106	849,367	944,234	-	-	-	5,056,754
31.12.2019	223,592	256,506	585,896	622,672	697,959	750,281	829,138	910,376	887,430	-	-	5,763,850
31.12.2020	213,726	252,944	583,021	612,429	641,983	683,161	815,499	891,824	867,403	875,112	-	6,437,102
31.12.2021	205,743	247,254	579,385	605,437	634,439	676,865	788,057	868,179	842,191	818,649	950,828	7,217,027

In total, the gross reserves in 2021 increasing compared to 2020. The decrease in reserves is driven by Excess of loss treaties - mainly CAT.

Regarding the COVID-19 effects on the insurance and respectively Company's reinsurance business, expected movements for certain lines of business were identified. Negative effects observed include a certain decline of the premium income, mainly from unrealized gains, and the decline in the insurance for tour operators and personal assistance remain as in 2020, and also Cargo and Marine programs. As their share in the Company portfolio is comparatively small, practically the total net written premium is only insignificantly affected. All the other lines of business marked a growth.

III. Financial and insurance risk management and fair value measurement (continued)

A. INSURANCE RISK (continued)

At the same time the lower volumes are offset by the reduced loss ratio, which even had a favourable effect for the Company (a decrease of the loss ratio by 3%).

Despite the catastrophic events in 2021, the net claims ratio in non-motor insurance decreases with 4 %, which is mainly due to the development of property reinsurance. The motor reinsurance claims ratio continues the trend from 2020 and continues to decrease, but at slower pace – it is 1% lower than in 2020. The total amount of claims incurred in property insurance, combined with the movement for old claims is 16 million BGN lower compared to the total amount in 2020. In motor reinsurance the Company recorded an increase in net premium income of 6 % compared to 2020, and in property reinsurance the growth is 4 %.

III. Financial and insurance risk management and fair value measurement

B. CONCENTRATION OF REINSURANCE RISK

A key issue for the Company is the degree of concentration of reinsurance risk, determining the degree to which certain event or a series of events might significantly affect the liabilities of the Company. Such concentrations can arise from an individual reinsurance contract or from several related contracts, where the liabilities could be material. Key to the concentration of reinsurance risk is the fact that it may result from the accumulation of risks within several different reinsurance categories.

The risk concentration can arise from events with a low frequency of occurrence, but with a high level of severity like natural disasters, in circumstances when the Company is exposed to unexpected trend deviations from what was expected or planned and calculated applying standard statistical methods and techniques. The underwriting policy of the Company aims to achieve diversification, to guarantee balanced portfolio and is based on large portfolio consisting of similar risks with continuance of several years which are expected to decrease the fluctuations in the calculated results.

As regards the lines of business, the biggest share in the reserves falls to motor vehicle insurance – 43% (including MTPL – 38% and Casco – 5%). The second position is held by Property with 32% followed by TPL with 18%.

The biggest share of the technical reserves (RBNS and IBNR) ceded to the Company as of 31 December 2021 is attributed to the Czech Republic – 49% (53% in 2020), Poland – 20% (23% in 2020), Austria – 13% (2% in 2020) and Hungary – 7% (9% in 2020).

C. REINSURANCE RISK SENSITIVITY ANALYSIS

The Company estimates the effect on the statement of comprehensive income and reinsurance reserves based on the change in key parameters that influence them. As of the end of 2021, the simulated increase in the claims ratio by 5% would result in a decrease of the annual profit after taxes by BGN 79,182 thousand (2020: 75,180 thousand), and an increase of net reinsurance reserves by BGN 5,744 thousand (2019: 4,853 thousand). Similarly, with a simulated increase in the calculated undiscounted best estimate (UBEL) by 10% there is a 22% adequacy of the Company's analysis reserve for upcoming payments.

Based on the analysed possible fluctuations of the base risk factors, it becomes clear that their effect on the profit and the reinsurance liabilities could be covered by the own capital of the Company, thus the Company has adequate level of capitalisation.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement

D. MARKET RISK

Unexpected fluctuations in the prices of shares, currencies and interest rates could affect the amount of the assets and liabilities of the Company. The financial investments are initiated in order to meet the liabilities to contractors and for realization of profitability on the capital, as expected from the shareholder.

The COVID-19 effects on the investment activity and results are presented in the Activity Report (section" Investment Market in 2021 and the result of GP Reinsurance EAD").

D.1. INTEREST RATE RISK

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Company is also exposed to an interest rate cash flow risk. The interest rate risk is managed by the management of the interest rate structure of the investments and with limits on the maximum duration of each portfolio as well. For the purposes of calculation of the effective duration it is assumed that the duration of hedge funds, shares and other non-fixed sources of income equals to zero.

Financial Assets

As of 31st December, 2021	Total	Fixed interest	Floating interest	Non-interest bearing
Cash and cash equivalents	41,248	-	-	41,248
Reverse repo receivables	14,244	14,244	-	-
Derivative financial instruments	16,044	-	-	16,044
Reinsurance receivables	218,780	-	-	218,780
Deposits in cedants	110,359	110,359	-	-
Reinsurers' share in technical reserves	372,967	-	-	372,967
Available-for-sale investment securities:				
-Debt securities	1,628,124	1,512,866	115,258	-
-Equity securities	426,289	-	-	426,289
Receivables from loans granted	166,681	44,734	121,947	-
Other assets	410	-	-	410
Total	**2,995,146**	**1,682,203**	**237,205**	**1,075,738**

Financial Liabilities

As of 31 December, 2021	Total	Fixed interest	Floating interest	Non-interest bearing
Derivative financial instruments	4,675	-	-	4,675
Reinsurance contracts payables	89,723	-	-	89,723
Reinsurance reserves	1,705,799	-	-	1,705,799
Lease liabilities	7	-	-	7
Trade and other current liabilities	12,108	-	-	12,108
Total	**1,812,312**	-	-	**1,812,312**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

D. MARKET RISK (continued)

Assets

As of 31st December, 2020	Total	Fixed interest	Floating interest	Non-interest bearing
Cash and cash equivalents	33,535		-	33,535
Reverse repo receivables	86,133	86,133	-	-
Derivative financial instruments	15,113	-	-	15,113
Reinsurance receivables	132,355	-	-	132,355
Deposits in cedants	104,866	104,866	-	-
Reinsurers' share in technical reserves	113,091	-	-	113,091
Available-for-sale investment securities:				
-Debt securities	1,784,978	1,648,935	136,043	-
-Equity securities	360,289	-	-	360,289
Receivables from loans granted	103,665	44,836	58,829	-
Other assets	358			358
Total	**2,734,384**	**1,884,770**	**194,872**	**654,742**

Liabilities

As of 31 December, 2020	Total	Fixed interest	Floating interest	Non-interest bearing
Derivative financial instruments	271	-	-	271
Reinsurance contracts payables	173,157	-	-	173,157
Reinsurance reserves	1,397,646	-	-	1,397,646
Lease liabilities	62	-	-	62
Trade and other current liabilities	15,473	-	-	15,473
Total	**1,586,609**	**-**	**-**	**1,586,609**

D.2. PRICE RISK

The Company is exposed to changes in the price of equity securities held as investments classified in the statement of financial position as financial assets available–for-sale and carried at fair value through profit or loss and other instruments that derive their value from certain equity securities or indices of prices of equity securities.

The Company manages its use of equity investments in response to changing market conditions using the following risk management tools:

a) The portfolio is diversified

b) The limits for investments are set and monitored.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

D. MARKET RISK (continued)

D.3. 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 limits for the total amount of investments denominated in foreign currency are observed according to internally established System of Investment Risks Limits.

The Company as a part of its strategy hedges the currency risk exposures in relation to financial assets and liabilities. The FX positions are regularly monitored, and the hedging instruments are reviewed and adjusted accordingly. Details about the hedging instruments could be found in Note IX.

As a result of the action taken, the Company has no significantly risky currency exposures.

The tables below disclose the distribution of the Company's financial assets and liabilities by currencies as of 31 December 2021 and 31 December 2020:

As of 31 December, 2021	Total	CZK	EUR	USD	PLN	RON	HUF	Other currencies
Cash and cash equivalents	41,248	12,596	26,498	770	489	32	333	530
Reverse repo receivables	14,244	14,244	-	-	-	-	-	-
Derivative financial instruments	16,044	-	15,647	119	76	63	139	-
Reinsurance receivables	218,780	53,539	128,739	691	5,493	5,125	5,582	19,611
Deposits in cedants	110,359	110,359	-	-	-	-	-	-
Reinsurers' share in technical reserves	372,967	31,032	284,896	3,269	18,507	111	14,982	20,170
Available-for-sale investment securities:								
-Debt securities	1,628,124	676,288	418,879	113,702	284,514	30,219	104,522	-
-Equity securities	426,289	155,701	203,737	28,446	29,861	2,876	5,296	372
Receivables from loans granted	166,681	62,180	104,501	-	-	-	-	-
Other financial receivables	410	-	410	-	-	-	-	-
Total	**2,995,146**	**1,115,939**	**1,183,307**	**146,997**	**338,940**	**38,426**	**130,854**	**40,683**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

D. MARKET RISK (continued)

As of 31 December, 2021	Total	CZK	EUR	USD	PLN	RON	HUF	Other currencies
Derivative financial instruments	4,675	-	1,277	3,322	37	-	39	-
Reinsurance contracts payables	89,723	-	48,708	865	18,698	3,870	-	17,582
Reinsurance reserves	1,705,799	760,452	381,596	3,269	331,849	34,656	118,117	75,860
Lease liabilities	7	-	7	-	-	-	-	-
Trade and other current liabilities	12,108	-	12,108	-	-	-	-	-
Total	**1,812,312**	**760,452**	**443,696**	**7,456**	**350,584**	**38,526**	**118,156**	**93,442**

As of 31 December, 2020	Total	CZK	EUR	USD	PLN	RON	HUF	Other currencies
Cash and cash equivalents	33,535	7,148	23,564	578	800	192	1,025	228
Reverse repo receivables	86,133	86,133	-	-	-	-	-	-
Derivative financial instruments	15,113	6,618	8,063	394	-	-	38	-
Reinsurance receivables	132,355	49,555	45,068	2,237	1,329	3,926	17,788	12,452
Deposits in cedants	104,866	104,866	-	-	-	-	-	-
Reinsurers' share in technical reserves	113,091	4,438	52,826	4,995	18,047	200	14,923	17,662
Available-for-sale investment securities:								
-Debt securities	1,784,978	611,564	539,677	108,400	375,616	32,580	117,141	-
-Equity securities	360,289	139,350	169,481	19,466	25,418	2,695	3,550	329
Receivables from loans granted	103,665	58,829	44,836	-	-	-	-	-
Other financial receivables	358	-	358	-	-	-	-	-
Total	**2,734,383**	**1,068,501**	**883,873**	**136,069**	**421,210**	**39,593**	**154,465**	**30,671**

As of 31 December, 2020	Общо	CZK	EUR	USD	PLN	RON	HUF	Other currencies
Derivative financial instruments	271	34	137	-	-	-	100	-
Reinsurance contracts payables	173,157	2,829	27,263	2,202	109,782	3,808	13,619	13,654
Reinsurance reserves	1,397,647	671,496	180,510	4,995	299,154	32,413	125,473	83,606
Lease liabilities	62	-	62	-	-	-	-	-
Trade and other current liabilities	15,473	-	15,473	-	-	-	-	-
Total	**1,586,610**	**674,359**	**223,445**	**7,197**	**408,936**	**36,221**	**139,192**	**97,260**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

D. MARKET RISK (continued)

D.4. MARKET RISK SENSITIVITY ANALYSIS

The sensitivity analysis illustrates how the changes in the fair value or the future cash flows of a specific financial instrument will vary due to the changes in the market interest rates, listed financial instruments quotes, exchange rate as of date of reporting. The sensitivity analysis uses the reasonably possible shift of the following risk factors:

What happens if the following possible adjustments are made:

Correction in the yield curve	100 bp
Change in the equity quotes	10%
Change in the exchange rate quotes	10%

Based on the assumptions used, the reasonably possible shift in the exchange rate is equal for all foreign currencies. The amounts, shown in the tables present the effect on the statement of comprehensive income and equity that would have been recognised at the reporting date if the scenario above had happened.

Sensitivity analysis of available-for-sale financial assets

	31.12.2021		31.12.2020	
	Effect on the statement of comprehensive Income	**Effect on the equity**	**Effect on the statement of comprehensive Income**	**Effect on the equity**
Negative change in the yeld curve	-	4,975	-	5,427
Negative change in price of equity instruments	-	(21,862)	-	(24,451)
Negative change in exchange rates	(15,115)	-	(28,581)	-
Positive change in yeld curve	-	(4,658)	-	(5,068)
Positive change in price of equity instruments	-	21,862	-	24,451
Positive change in exchange rates	15,115	-	28,581	-

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement

E. CREDIT RISK

Credit risk refers to the economic downturn impact, and defaults on payments of counterparties of the Company. Credit risk concerns also receivables arising from reinsurance contracts. Furthermore, a general rise in spread level, due to a credit or liquidity crisis, impacts the financial strength of any company.

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 low risk of nonfulfillment of the obligation by the counterpart or secured by a reliable guarantee. Also, the rules encourage diversification and dispersion of the portfolio.

Only in exceptional cases the Company invests in securities which issuers do not have investment rating. Investment instruments without investment credit rating can be purchased only after the approval of the Risk Management department. Along with the debt instruments the Company invests in reverse repo operations for short-term period with fixed interest rate. The short-term securities serve as collateral for repo agreements.

The credit limits set the rules for diversification, considering the complexity of the specific credit profiles of each investment instrument in the portfolio. The Company applies these limits for term deposits as well.

The maximum exposure to credit risk of the Company is equal to the carrying amount of financial and insurance assets.

The tables below disclose the distribution of the Company's financial and insurance assets, subject to credit risk, by rating as of 31 December 2021 and 31 December 2020:

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

E. CREDIT RISK (continued)

As of 31 December, 2021	**Total**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Not rated**
Cash and cash equivalents	41,248	-	-	38,019	3,229	-	-	-
Reverse repo receivables	14,244	-	-	-	14,244	-	-	-
Derivative financial instruments	16,044	-	-	11,888	4,156	-	-	-
Reinsurance receivables	218,780	-	515	156,770	-	-	-	61,495
Deposits in cedants	110,359	-	-	110,359	-	-	-	
Reinsurers' share in technical reserves	372,967	-	15,394	353,601	15	-	-	3,957
Available-for-sale investment securities:								
-Debt securities	1,628,124	14,267	628,300	309,094	568,623	100,681	7,159	-
Receivables from loans granted	166,681	-	-	-	166,681	-	-	-
Other financial receivables	410	-	-	-	-	-	-	410
Total	**2,568,857**	**14,267**	**644,209**	**979,731**	**756,948**	**100,681**	**7,159**	**65,862**

As of 31 December, 2020	**Total**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Not rated**
Cash and cash equivalents	33,535	-	-	26,167	19	7,348	-	1
Reverse repo receivables	86,133	-	-	45,343	40,790	-	-	-
Derivative financial instruments	15,113	-	-	11,130	3,983	-	-	-
Reinsurance receivables	132,355	-	481	69,818	2	-	-	62,054
Deposits in cedants	104,866	-	-	104,866	-	-	-	-
Reinsurers' share in technical reserves	113,091	-	16,285	92,691	15	-	-	4,100
Available-for-sale investment securities:								
-Debt securities	1,784,978	7,187	556,880	496,493	647,374	72,641	4,403	-
Receivables from loans granted	103,665	-	-	-	103,665	-	-	-
Other financial receivables	358	-	-	-	-	-	-	358
Total	**2,374,094**	**7,187**	**573,646**	**846,508**	**795,848**	**79,989**	**4,403**	**66,513**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

F. LIQUIDITY RISK (continued)

F. LIQUIDITY RISK

Liquidity risk exists when the Company fails to make payments arising from its financial obligations, when these obligations become due, due to the discrepancy in the payment dates or due to inadequate liquidity on the stock markets. The Company aims to maintain a balance between the average duration of the assets and flexibility by using liabilities with different maturity periods.

The Company holds a portfolio of liquid assets (investments available for sale) as part of the strategy for liquidity risk management. For reinsurance contracts the maturity refers to the estimated date on which contractual cash will flow out. This depends on factors such as the timing of insurance event and the probability for its cancelation.

The liquidity risk is also limited because of the highly liquid investments. The liquidity of the new investments is always considered by the management. This risk is further mitigated through long-term planning aiming to provide the needed cash flows generated by investments. Furthermore, a 12-month forecast is prepared on a regular basis.

The following table summarizes the liabilities of the Company according to their contractual maturity:

.As of 31 December 2021	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity
Derivative financial instruments	4,675	1,211	684	2,780	-	-	-
Reinsurance contracts payables	89,723	-	89,723	-	-	-	-
Reinsurance reserves	1,705,799	-	-	811,733	570,252	323,814	-
Lease liabilities	7	-	7	-	-	-	-
Trade and other current liabilities	12,108	-	-	12,108	-	-	-
Total	**1,812,312**	**1,211**	**90,414**	**826,621**	**570,252**	**323,814**	**-**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

F. LIQUIDITY RISK (continued)

As of 31 December, 2020	**Total**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**
Derivative financial instruments	272	66	206	-	-	-	-
Reinsurance contracts payables	173,157	-	173,157	-	-	-	-
Reinsurance reserves	1,397,646	-	-	595,417	524,433	277,796	-
Lease liabilities	62	-	62	-	-	-	-
Trade and other current liabilities	15,473	-	-	15,473	-	-	-
Total	**1,586,610**	**66**	**173,424**	**610,890**	**524,433**	**277,796**	**-**

The following table splits the assets between current and non-current according to their maturity.

As of 31 December, 2021	**Total**	**Current**	**Non-current**
Cash and cash equivalents	41,248	-	41,248
Reverse repo receivables	14,244	14,244	-
Derivative financial instruments	16,044	16,044	-
Reinsurance receivables	218,780	218,780	-
Deposits in cedants	110,359	110,359	-
Reinsurers' share in technical reserves	372,967	177,483	195,484
Available-for-sale investment securities:			
-Debt securities	1,628,124	112,287	1,515,837
-Equity securities	426,289	-	426,289
Receivables from loans granted	166,681	62,180	104,501
Deferred tax assets, net	217		217
Rights of use assets	4		4
Other assets	3,681	-	3,681
Total	**2,998,638**	**711,377**	**2,287,261**

In the table below, financial and insurance liabilities are divided between current and non-current according to their expected maturity.

As of 31 December, 2021	**Total**	**Current**	**Non-current**
Derivative financial instruments	4,675	4,675	-
Trade and other liabilities	15,073	15,073	-
Reinsurance contracts payables	89,723	89,723	-
Corporate income tax payables	10,731	10,731	-
Reinsurance reserves	1,705,799	811,733	894,066
Lease liabilities	7	7	-
Total	**1,826,008**	**931,942**	**894,066**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

F. LIQUIDITY RISK (continued)

As of 31 December, 2020	Total	Current	Non-current
Cash and cash equivalents	33,535	-	33,535
Reverse repo receivables	86,133	86,133	-
Derivative financial instruments	15,113	15,113	-
Reinsurance receivables	132,355	132,355	-
Deposits in cedants	104,866	-	104,866
Reinsurers' share in technical reserves	113,091	48,178	64,913
Available-for-sale investment securities:			
-Debt securities	1,784,978	141,146	1.643,832
-Equity securities	360,289	-	360,289
Receivables from loans granted	103,665	58,829	44,836
Deferred tax assets, net	713	-	713
Rights of use assets	57	-	57
Other assets	2,764	-	2,764
Total	**2,737,559**	**481,754**	**2,255,805**

In the table below, financial and insurance liabilities are divided between current and non-current according to their expected maturity.

As of 31 December, 2020	Total	Current	Non-current
Derivative financial instruments	271	271	-
Trade and other liabilities	19,144	19,144	-
Reinsurance contracts payables	173,157	173,157	-
Corporate income tax payables	2,312	2,312	-
Reinsurance reserves	1,397,646	595,417	802,229
Lease liabilities	62	62	-
Total	**1,592,592**	**790,363**	**802,229**

The table below presents the reinsurance reserves by expected maturity. It should be noted that the expected timing of payments from the claims reserves involves considerable uncertainty.

	2021	2020
up to 1 year	811,733	595,417
from 1 to 5 years	570,252	524,433
from 6 to 10 years	148,876	136,122
from 11 to 20 years	88,473	75,008
above 20 years	86,465	66,666
Total	**1,705,799**	**1,397,646**

III. Financial and insurance risk management and fair value measurement

G. CAPITAL RISK

Company's goals concerning its capital management include:

- To comply with the regulatory requirements for solvency margin according to "Solvency II" limits as set in the European and Bulgarian legislation
- To guarantee the Company's ability to continue operating as a going concern and providing return on capital; and
- To provide adequate return to the shareholders by determining the price of products and services proportionally to the risk level.

The Company is in line with the Solvency II requirements as of 31 December 2021.

Limits of Solvency II margin

The reinsurance risk is also managed by retroceding part of the business. The company retrocedes part of the risk so that it controls its loss exposure and protects its capital.

The Company enters a combination of proportionate and non-proportionate reinsurance treaties so that the net risk exposure can be decreased. This however does not relieve the Company of its responsibility as main reinsurer. Should a reinsurer fail to pay a certain claim, the Company remains responsible for the amounts due to the ceding companies. An essential method for mitigation of the risk is ceding of a premium portion to a reinsurer.

Ceded reinsurance involves credit risk, and the reinsurance assets are assessed for impairment in cases of insolvency and uncollectable receivables. The Company constantly reviews the financial position of the reinsurers and periodically assesses its own reinsurance arrangements.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

H. DISCLOSURE OF INFORMATION REQUIRED IN PARAGRAPH 39B (B) OF IFRS 4

Temporary exemption from IFRS 9

The Group applies the temporary exemption (deferral approach) from IFRS 9 in accordance with the amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Financial Instruments".

The Company qualifies for a temporary exemption from the application of IFRS 9. The carrying amount of the liabilities related to the reinsurance business as of 31 December 2021 is BGN 1,795,522 thousand (as of 31 December 2020 – BGN 1,570,803 thousand), which is almost 100% of the carrying amount of the total liabilities as of 31 December 2021 - BGN 1,825,907 thousand (as of 31 December 2020 - BGN 1,592,592thousand). Liabilities linked to reinsurance are listed below:

Reinsurance reserves as of 31 December 2021 - BGN 1,705,799 thousand (as of 31 December 2020 - BGN 1,397,646 thousand).

Reinsurance payables as of 31 December 2021 - BGN 89,723 thousand (as of 31 December 2020 – BGN 173,157thousand).

Please find below, in accordance to the amendment to IFRS 4, the disclosures related to financial instruments.

Fair value and change in fair value of financial assets within the scope of IFRS 9 by type of instruments that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding:

In BGN thousand, as of 31 December 2021

	Fair Value	Change in fair value compared to 31 December 2020
Available for sale financial assets and loans and receivables *	**2,069,459**	**(156,854)**
Financial assets that on specified dates give rise to cash flows that are solely payments of principal and interest		
- Debt Securities	1,628,124	(156,854)
- Cash, loans and receivables	222,555	-
- Reinsurance receivables	218,780	-
Financial assets that on specified dates do not give rise to cash flows that are solely payments of principal and interest	**426,289**	**66,000**
- Equity instruments	426,289	66,000
Total	**2,495,748**	**(90,854)**

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

H. DISCLOSURE OF INFORMATION REQUIRED IN PARAGRAPH 39B (B) OF IFRS 4 (continued)

In BGN thousand, as of 31 December 2020

	Fair Value	Change in fair value compared to 31 December 2019
Available for sale financial assets and loans and receivables *	**2,141,022**	**50,960**
Financial assets that on specified dates give rise to cash flows that are solely payments of principal and interest		
- Debt Securities	1,784,978	50,960
- Cash, loans and receivables	223,689	-
- Reinsurance receivables	132,355	-
Financial assets that on specified dates do not give rise to cash flows that are solely payments of principal and interest	**360,289**	**19,878**
- Equity instruments	360,289	19,878
Total	**2,501,311**	**70,838**

*reinsurance deposits are outside the scope

With reference to the credit risk, the carrying amounts in accordance with IAS 39 by risk rating grade of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are provided below.

Carrying amount of instruments by risk rating grade that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding:

In BGN thousand, as of 31 December 2021

Rating	**Debt Securities**	**Cash, loans and receivables**	**Total**
AAA	14,267	-	14,267
AA	628,300	-	628,300
A	309,094	38,019	347,113
BBB	568,623	184,151	752,774
BB	100,681	-	100,681
B	7,159	-	7,159
No rating	-	1	1
Total	**1,628,124**	**221,171**	**1,850,295**

III. Financial and insurance risk management and fair value measurement (continued)

H. DISCLOSURE OF INFORMATION REQUIRED IN PARAGRAPH 39B (B) OF IFRS 4 (continued)

In BGN thousand, as of 31 December, 2020

Rating	Debt Securities	Cash, loans and receivables	Total
AAA	7,187	-	7,187
AA	556,882	-	556,882
A	496,493	71,508	568,001
BBB	647,372	144,474	791,846
BB	72,641	7,348	79,989
B	4,403	-	4,403
No rating	-	359	359
Total	**1,784,978**	**238,446**	**2,008,667**

III. Financial and insurance risk management and fair value measurement (continued)

I. DETERMINING FAIR VALUE AND THE FAIR VALUE HIERARCHY

The fair value of loans, deposits and other financial instruments carried at amortised cost is approximately equal to their book value due to their short-term nature. As required by IFRS 7, all financial instruments that are measured at fair value are categorised into one of the three fair value hierarchy levels at year-end based on whether the inputs to their fair values are observable or non-observable.

Level 1 – includes financial instruments with quoted prices in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – includes financial instruments measured using valuation techniques where all significant inputs are market observable. This level includes OTC derivative contracts and structured assets and liabilities. The discounted cash flow technique is used for valuation of securities.

This method uses forecast future cash flows and a discount rate, derived from the levels of the risk-free quotations and adjusted with the credit spread. The credit spread is usually derived from investments with analogous terms (ideally from the same issuer, having similar maturity and structure), that reflect most adequately the market price.

The derivatives are valued by means of the discounted cash flows technique. It uses forecast future cash flows and monitored input market data like the levels of the risk-free exchange rate quotations.

Level 3 - includes financial instruments for which market prices are unavailable, and entity specific estimates are necessary. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant expert judgment or estimation. A general description of the valuation techniques used for Level 3 assets and liabilities is provided below.

- Independent evaluation by third party of the adequacy of the price results from evaluations, reports or fairness opinions issued by independent third parties.
- Price based on the amount of shareholders' equity
- Price which incorporates additional information about the value of an instrument (insufficient value of illiquid underlying assets in case of funds/hedge funds, not enough resources to finance junior tranches in case of structured products like CDO, default of an issuer and so on)

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

I. DETERMINING FAIR VALUE AND THE FAIR VALUE HIERARCHY (continued)

- Price where significant expert judgement is used for valuation.

Indicative price is provided by third party or significant expert judgment is incorporated in the discounted cash flow technique. Bonds are valued using discounted cash flow technique. It uses estimated future cash flows and the discount rate, which is constructed from risk-free rates adjusted by credit spread.

The spread is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.

Table below describes unobservable inputs of Level 3 (BGN thousand):

As of 31.12.2021

Description	Fair value as of 31.12.2021	Valuation technique(s)	Nonmarket observable input(s)	Range
Equity securities	274,641	Adjusted equity method	Value of underlying instruments	-
Bonds-Corporate	104,588	Discounted cash flow technique	Level of credit spread	35-429 bps
Bonds-Government	46,291	Discounted cash flow technique	Level of credit spread	111-429 bps

As of 31.12.2020

Description	Fair value as of 31.12.2020	Valuation technique(s)	Nonmarket observable input(s)	Range
Equity securities	243,888	Adjusted equity method	Value of underlying instruments	-
Bonds-Corporate	20,278	Discounted cash flow technique	Level of credit spread	155-400 bps
Bonds-Government	11,136	Discounted cash flow technique	Level of credit spread	155-400 bps

Based on the methodology outlined above and ranges specified in the table above, the Company can perform sensitivity analysis for BGN 425,520 thousand (2020: 275,302 thousand) of the Company's Level 3 investments.

III. Financial and insurance risk management and fair value measurement (continued)

I. DETERMINING FAIR VALUE AND THE FAIR VALUE HIERARCHY (continued)

For these Level 3 investments, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by BGN (20,466)/ 20,455 thousand (2020 BGN (23,533)/23,535 thousand).

The change in the amount of the securities classified at Level 3 for 2021, can be analysed as compared to the amount for 2020 as follows:

- newly purchased bonds in the amount of BGN 35,363 thousand, and
- bonds reclassified from Level 1 to Level 3 due to lower sensitivity of level of credit spread (BGN 11,350 thousand);
- bonds reclassified from Level 2 to Level 3 due to lower sensitivity of level of credit spread (BGN 81,086 thousand);
- bonds reclassified from Level 3 to Level 2 due to lower sensitivity of level of credit spread (BGN 8,335 thousand);
- newly purchased shares in a private equity fund (Fasanara Investments SA, SICAV-RAIF) for BGN 14,441 thousand.
- change in the value of securities with unchanged classification (classified at Level 3 in 2021 and 2020) in the amount of BGN 16,312 thousand, net.

The change in the amount of the securities classified within Level 3 for 2020, can be analysed as compared to the amount for 2019, more precisely as follows:

- newly purchased bonds in the amount of BGN 7,115 thousand, and
- bonds reclassified from Level 3 to Level 2 due to lower sensitivity of level of credit spread (BGN 12,473 thousand);
- newly purchased shares in a private equity fund (Lion River) for BGN 9,001 thousand and change of BGN 212 thousand in the value of the shares for the period 2020.
- change in the value of securities with unchanged classification (classified at Level 3 in 2020 and 2019) in the amount of BGN 273 thousand, net.

(all amounts are in BGN thousand, unless specified otherwise)

III. Financial and insurance risk management and fair value measurement (continued)

I. DETERMINING FAIR VALUE AND THE FAIR VALUE HIERARCHY (continued)

	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
i) Financial derivatives - currency swaps	-	16,044	-	16,044	-	15,113	-	**15,113**
Financial assets available-for-sale	**1,565,665**	**63,229**	**425,519**	**2,054,413**	**1,728,498**	**141,467**	**275,302**	**2,145,267**
i) Debt securities	1,414,016	63,229	150,879	**1,628,124**	1,612,097	141,467	31,414	**1,784,978**
ii) Equity securities	151,649		274,640	426,289	116,401	-	243,888	**360,289**
Total financial assets	**1,565,665**	**79,273**	**425,519**	**2,070,457**	**1,728,498**	**156,580**	**275,302**	**2,160,380**
Financial derivatives - currency swaps	-	(4,675)	-	(4,675)	-	(271)	-	**(271)**
Total financial liabilities	**-**	**(4,675)**	**-**	**(4,675)**	**-**	**(271)**	**-**	**(271)**

(all amounts are in BGN thousand, unless specified otherwise)

IV. Critical accounting estimates and assumptions in applying the accounting policy

The critical accounting estimates and assumptions are based on accumulated experience and on other factors including the outlook for future events given the current circumstances. The reliability of the accounting estimates and assumptions is regularly reviewed. The Company prepares critical accounting estimates and assumptions for the purposes of accounting and disclosure that may differ from the actual results.

a) Reinsurance contracts

The nature of the business requires the use of actuarial calculations in order to determine the expected claims losses resulting from the reinsurance contracts, entered into on the reporting date.

Each claim is reviewed based on the payment details and any information available to the claim's settlement specialists and is also based on historical trends for such claims.

The assessment of the claims is reviewed regularly and revised when new information is available. Reinsurance liabilities are presented using the accessible information and the statistical and practical estimates.

b) Reserve for Incurred but not reported insurance claims (IBNR)

The reserves for Incurred but not reported insurance claims (IBNR) are symmetrical to the reinsurance share of the reserves ceded by the companies. The companies use the standard mechanisms, applied in the whole Generali Group for evaluation of their liabilities. The analysis provided by the local companies has an exceptional quality, it is performed at a high expert level and is subject to review by the experts of Generali CIE Holding and the Generali headquarters. The reserves are measured by the ceding companies' actuaries who apply statistical techniques like the chain-pillar method of extrapolation of historical data to calculate the total claims cost.

c) Fair value of derivatives and other financial assets

The fair value of financial instruments that are not traded in active markets (e.g., OTC derivatives) is determined by using valuation techniques including forecasted future cash flows and observable market inputs. The Company applies judgment in the selection of the methods and makes assumptions based mainly on the market conditions as of the end of each accounting period.

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets

V.1. Debt securities available-for-sale

	31.12.2021	31.12.2020
Government securities (Note V.1.1.)	1,088,394	1,190,404
Corporate securities - quoted	539,245	592,457
Corporate securities - unquoted	485	2,117
Total	**1,628,124**	**1,784,978**

In the above amount of Government securities are included also securities issued by government agencies and bodies, as well as set of those beyond the borders of one country as an issuer, which can be seen as a difference from classic securities issued by central banks and financial ministries. As of 31.12.2021 this are international or government investment banks in the total value of these securities included in the value shown as Government securities is 60,981 thousand BGN (41,592 thousand BGN as of 31.12.2020)

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.1.1. Government securities, including banks by country exposure

	31.12.2021	31.12.2020
Czech Republic	591,200	533,541
Poland	226,916	329,817
Hungary	112,820	130,041
Romania	50,173	53,840
Bulgaria	7,715	15,555
Slovakia	10,568	18,959
Indonesia	13,245	13,725
Slovenia	1,845	7,736
Greece	2,902	9,178
Croatia	20,475	19,561
Luxembourg	14,267	7,187
Russia	-	2,213
Morocco	4,220	4,279
Mexico	12,659	11,810
Kazakhstan	8,247	10,583
Serbia	11,142	11,136
Chile	-	3,168
Israel	-	8,075
Total	**1,088,394**	**1,190,404**

There are no significant changes from the adopted investment policy (Note III.D) in the country-by-country expositions because of COVID-19.

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.2. Equity securities, available-for-sale

	31.12.2021	31.12.2020
Quoted shares	43,359	26,081
Accumulated impairment on shares	(4,512)	(4,268)
Shares in investment funds – quoted	113,265	95,096
Accumulated impairment on investment funds quoted	(463)	(508)
Unquoted shares	274,640	243,888
Total	**426,289**	**360,289**

Unquoted shares as of 31 December 2021 include mainly shares in private investment funds in the amount of BGN 260,199 thousand (2020: BGN 243,751 thousand), and the rest of BGN 14,441 thousand (2020: BGN 137 thousand) - shares in other companies.

There are no significant changes in the portfolio structure and the level of the equity securities from the adopted investment policy (Note III.D) because of COVID-19.

V.3. Reverse repo receivables

Reverse repo transactions are short-term and are used as an alternative to bank deposits in 2021 and 2020. as of 31.12.2021 they amount to BGN 14,244 thousand (2020: BGN 86,133thousand), with collateral deposited in Czech debt securities.

V.4. Derivative financial instruments

The table below represents derivatives for hedging of fair value.

	2021			2020		
	Asset	**Liability**	**Nominal amount**	**Asset**	**Liability**	**Nominal amount**
Currency swaps	15,914	(3,464)	757,213	15,113	(271)	710,213
Currency forward	130	(1,211)	(57,419)	-	-	-
Total	**16,044**	**(4,675)**	**699,794**	**15,113**	**(271)**	**710,213**

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.5. Movement of financial assets and liabilities available-for-sale and financial assets at fair value through profit or loss

	Debt securities available-for-sale	Available-for-sale equity securities	Financial instruments at fair value through profit or loss (derivative instruments)	Total
As of 1 January, 2021	**1,784,978**	**360,289**	**14,842**	**2,160,109**
Additions	826,872	55,496	4,887,400	5,769,768
Interest accrued	28,683	-	-	28,683
Coupon /interest/ received	(41,043)	-	-	(41,043)
Revaluation gains / (losses), net	(115,796)	31,675	-	(84,121)
Currency revaluation in accordance with IAS 21	45,938	8,983	29,358	84,279
Impairment	-	(1,532)	-	(1,532)
Matured and sold	(901,508)	(28,622)	(4,920,231)	(5,850,361)
As of 31 December, 2021	**1,628,124**	**426,289**	**11,369**	**2,065,782**

	Debt securities available-for-sale	Available-for-sale equity securities	Financial instruments at fair value through profit or loss (derivative instruments)	Total
As of 1 January, 2020	**1,734,018**	**340,411**	**10,410**	**2,084,839**
Additions	443,207	57,383	4,171,510	4,672,100
Interest accrued	31,784	-	-	31,784
Coupon /interest/ received	(44,130)	-	-	(44,130)
Revaluation gains / (losses), net	26,913	4,183	-	31,096
Currency revaluation in accordance with IAS 21	(63,623)	(8,245)	8,081	(63,787)
Impairment	-	(1,096)	-	(1,096)
Matured and sold	(343,191)	(32,347)	(4,175,159)	(4,550,697)
As of 31 December, 2020	**1,784,978**	**360,289**	**14,842**	**2,160,109**

In 2021 the Company has recognized income from dividends from equity securities available-for-sale in the amount of BGN 9,368 thousand (2019: BGN 2,869 thousand).

(all amounts are in BGN thousand, unless specified otherwise)

V.6. Deposits in cedants

	31.12.2021	31.12.2020
Generali Ceska Pojištovna - "Low Volatile"	110,359	104,866
Total	**110,359**	**104,866**

As of 31 December 2021, the accrued interest on the deposits is in the amount of BGN 167 thousand (2020: BGN 613 thousand).

The fair value of the deposit from Generali Česká pojišťovna - "Low Volatile" is close to its carrying amount. This is due to its short-term nature. As of 31 December 2021 and 31 December 2020 the reinsurance deposits in the ceding companies are neither overdue, nor impaired.

V.7. Receivables from loans granted

As of 31 December 2021, the Company has loans granted in the amount of BGN 166,681 thousand (2020: BGN 103,665 thousand). The carrying amount of loans granted includes:

- Investment loan granted to Generali Europe Income Holding S.A. with total amount of EUR 22,862 thousand (2020: EUR 22,743 thousand), including principal amount of EUR 22,743 thousand (2020: EUR 22,743 thousand), and accrued interest of EUR 119 thousand (2019: EUR 198 thousand), with maturity date: 31.12.2025 and carrying amount of the loan BGN 44,734,
- Investment loan granted to Generali Real Estate Fund with total amount of CZK 790,000 thousand, including principal of CZK 790,000 thousand (2020: CZK 790,000 thousand), with maturity date: 25.10.2022 and carrying amount of the loan BGN 62,180. The accrued interest due for 2021 was paid before the end of reporting period.
- Subordinated loan granted to Generali Zavarovalnica d.d. with total amount of 30,545 thousand EUR, , including a principal of EUR 30,000 thousand, accrued interest of EUR 545 thousand and maturity date 19.05.2031. The carrying amount of the loan BGN 59,767 thousand BGN.

As of 31 December 2021 and 31 December 2020 the receivables from loans granted are neither overdue, nor impaired.

V.8. Reinsurance receivables

	31.12.2021	31.12.2020
Receivables from accepted reinsurance	137,595	124,556
Receivables from ceded reinsurance	57,599	4,558
Other reinsurance receivables	23,586	3,241
Total	**218,780**	**132,355**

As of 31 December 2021, the deferred acquisition costs are included in the item "Other reinsurance receivables" in the amount of BGN 44 thousand (2020: zero). The fair value of the reinsurance receivables approximates their

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

carrying amount due to their short-term nature. as of 31 December 2021, and 31 December 2020 the reinsurance receivables are neither overdue, nor impaired.

As of 31 December 2021, and as of 31 December 2020, the Company applies the netting criteria in accordance with Annex II.14 regarding its receivables and payables from accepted and ceded reinsurance. The amounts not received as of the date of the report, reported as a positive net balance for the Company under quota agreements, unreceived premiums and retroceded claims under nonproportionate contracts, as well as some proportional contract commissions, are recorded as receivables in the assets of the statement of financial position. The effect of netting receivables and liabilities from accepted and ceded reinsurance is as follows:

	Note	Gross amount	Netting of receivables/ payables	Net amount
As 31 December 2021				
Receivables from accepted and ceded reinsurance	V.8	546,362	(351,168)	195,194
Payables from accepted and ceded reinsurance	VI.5	406,779	(351,168)	55,611

	Note	Gross amount	Netting of receivables/ payables	Net amount
As 31 December 2020				
Receivables from accepted and ceded reinsurance	V.8	382,010	(252,896)	129,114
Payables from accepted and ceded reinsurance	VI.5	421,155	(252,896)	168,259

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.9. Reinsurers' share in the technical reserves

Reinsurers' share in technical reserves as of 31 December 2021:

	In the unearned premium reserve	In the outstanding claims reserve	Total
As of 1 January, 2021	**31,011**	**82,080**	**113,091**
Change in reinsurance reserves	1,346	255,790	257,136
Currency translation effect	122	2,618	2,740
As of 31 December, 2021	**32,479**	**340,488**	**372,967**

Reinsurers' share in technical reserves as of 31 December 2020:

	In the unearned premium reserve	In the outstanding claims reserve	Total
As of 1 January, 2020	**34,809**	**137,616**	**172,425**
Change in reinsurance reserves	(3,917)	(53,692)	(57,609)
Currency translation effect	119	(1,844)	(1,725)
As of 31 December, 2020	**31,011**	**82,080**	**113,091**

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.10. Other assets

	31.12.2021	31.12.2020
Intangible assets (Note V.10.2)	-	1
Plant and equipment (Note V.10.1)	19	27
Withholding tax refundable	3,224	2,380
Other financial assets	310	285
Other non-financial assets	128	71
Total	**3,681**	**2,764**

V.10.1. Plant and equipment

	Office and other equipment	Total
Cost as of 1 January 2020	**84**	**84**
Movement related to the changes in currency rates - IAS 21	7	7
Additions	8	8
Disposals	(4)	(4)
Cost as of 31 December 2020	**95**	**95**
Accumulated depreciation as of 1 January 2020	**(62)**	**(62)**
Movement related to the changes in currency rates - IAS 21	2	2
Depreciation expense for the year	(12)	(12)
Depreciation written off	4	4
Accumulated depreciation as of 31 December 2020	**(68)**	**(68)**
Carrying amount as of 31 December 2020	**27**	**27**
Cost as of 1 January 2021	**95**	**95**
Movement due to the changes in currency rates - IAS 21	2	2
Additions	5	5
Disposals	(43)	(43)
Cost as of 31 December 2021	**59**	**59**
Accumulated depreciation as of 1 January 2021	**(68)**	**(68)**
Movement due to the changes in currency rates - IAS 21	(2)	(2)
Depreciation expense for the year	(13)	(13)
Depreciation written off	43	43
Accumulated depreciation as of 31 December 2021	**(40)**	**(40)**
Carrying amount as of 31 December 2021	**19**	**19**

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.10.2. Intangible assets

Cost or revaluated amount	Software	Total
Cost as of 1 January 2020	**2,230**	**2,230**
Movement related to the changes in currency rates - IAS 21	(72)	(72)
Cost as of 31 December 2020	**2,158**	**2,158**
Accumulated amortization as of 1 January 2020	**(2,207)**	**(2,207)**
Movement related to the changes in currency rates - IAS 21	71	71
Amortization expense for the year	(21)	(21)
Accumulated amortization as of 31 December 2020	**(2,157)**	**(2,157)**
Carrying amount as of 31 December 2020	**1**	**1**
Cost as of 1 January 2020	**2,158**	**2,158**
Movement related to the changes in currency rates - IAS 21	-	-
Cost as of 31 December 2021	**2,158**	**2,158**
Accumulated amortization as of 1 January 2021	**(2,157)**	**(2,157)**
Movement related to the changes in currency rates - IAS 21	**(1)**	**(1)**
Amortization expense for the year	-	-
Accumulated amortization as of 31 December 2021	**(2,158)**	**(2,158)**
Carrying amount as of 31 December 2021	-	-

V.11. Cash and cash equivalents

	31.12.2021	31.12.2020
Komerční banka a. s., Czech Republic	38,019	26,166
UniCredit Bulbank AD, Bulgaria	3,217	7,348
Raiffeisenbank Bulgaria EAD, Bulgaria	11	20
Cash in hand	1	1
Total	**41,248**	**33,535**

Bank deposits with original maturity of up to 3 months are classified as cash equivalents.

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

Details of the deducted receivables from premiums, liabilities for damages, acquisition costs, etc. which are calculated on a net basis during the year according to the requirements of the respective reinsurance contracts presented separately for active reinsurance and passive reinsurance:

	2021 г.	2020 г.
Proceeds from transactions from accepted reinsurance		
Premiums received	1,917,691	1,811,607
Claims paid	(787,662)	(753,532)
Paid acquisition commissions	(561,327)	(504,185)
Portfolio transfer	-	(52,868)
Reinsurance deposit	-	32,647
Total	**568,702**	**553,669**
Payments from transactions from accepted reinsurance		
Claims paid	(224,774)	(92,743)
Proceeds from transactions from ceded reinsurance		
Claims received	**5,832**	**50,862**
Payments from transactions from ceded reinsurance		
Premiums paid	(177,223)	(177,905)
Claims received	60,986	74,916
Received acquisition commissions	5,740	9,396
Total	**(110,497)**	**(93,595)**

Details about other cash flows from operating activities are presented in the following table.

	2021	2020
Cash flow from reinsurance deposits	1,024	2,356
Bank fees	(40)	(162)
Effect of currency differences	1,252	589
Total	**2,236**	**2,783**

(all amounts are in BGN thousand, unless specified otherwise)

V. Assets (continued)

V.12. Right-of-use assets and lease liabilities

As of 31.12.2021 the items under IFRS 16 are related to an office lease agreement and are presented as follows:

	31.12.2021	31.12.2020
Carrying amount of right-of-use assets at the beginning of the period	57	141
Disposals	-	(15)
Movement related to the changes in currency rates - IAS 21	1	(5)
Depreciation expense	(54)	(64)
Carrying amount of right-of-use assets	**4**	**57**
Lease liabilities at the beginning of the period	(62)	(140)
Payments under lease contracts	58	65
Movement related to the changes in currency rates - IAS 21	(3)	(1)
Disposals	-	15
Interest	-	(1)
Lease liabilities at the end of the period	**(7)**	**(62)**

The lease liabilities with a term of up to 12 months amount to BGN 7 thousand (2020: BGN 55 thousand) and there is no balance that can be classified as long-term (2020: BGN 7 thousand).

In 2021 the Company has not obtained or accounted for any Covid-19-related rent concession.

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities

VI.1. Share capital

As of 31 December 2021, and 2020 the Company's share capital amounts to BGN 53,400,000 (fifty-three million and four hundred thousand) and it is registered and fully paid. It is divided in 53,400 (fifty-three thousand and four hundred) voting shares with par value of BGN 1,000 (one thousand) each.

	31.12.2021	%	31.12.2020	%
Generali CEE Holding B.V.	53,400	100	53,400	100
Total	**53,400**	**100**	**53,400**	**100**

VI.2. Retained earnings, general and additional reserves

	31.12.2021	31.12.2020
Profit for the year	371,675	333,321
Profit from previous years	483,871	483,871
Retained earnings-Total	**855,546**	**817,192**
Additional reserves	153,523	153,523
General reserves	27,930	27,930
Share based payments reserve	4	2
General and additional reserves - Total	**181,457**	**181,455**
Total	**1,037,003**	**998,647**

The general reserves include the Reserve Fund, created under the art. 246, para. 2, Commercial Law and the Articles of Association of the Company. This reserve is formed by at least 1/10 of the profit that is allocated until the funds in the fund reach 1/10 or more of the capital determined by the Articles of Association.

On 6th April 2021 the Management Board adopted a resolution for the distribution of dividends from the net profit of GP Reinsurance EAD for 2020, which amounts to BGN 333,321 thousand (2019 – BGN 353, 588 thousand). The Company distributed dividend for 2020 in the amount of BGN 333,321 thousand (BGN 6,2 thousand per share) (2019 – BGN 345, 626 thousand and 6.5 per share). On 19th May 2021 the Company paid the whole dividend.

This decision was adopted considering the fact that the Reserve fund of the Company is significantly higher than the one required under Art. 246, Para. 2, p. 1 of the Trade Act. The Reserve Fund can only be used to cover losses from current or previous accounting periods. According to the Articles of Association the Company can create an Additional Reserve Fund that can be used for covering losses from the current and previous reporting periods and for payment of dividends.

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities (continued)

Additional Reserve fund is capital in nature and is usually formed at the expense of the distribution of profits by decision of the sole owner of the capital in accordance with Art.118, para.2 p.2 of the Insurance Code. The Additional Reserve fund can be used for capital increase, after a decision of the sole owner of the capital

VI.3. Other reserves

The other reserves of the Company consist of the available-for-sale revaluation reserve and the foreign currency translation reserve. The foreign currency translation reserve arises because the functional currency of the Company is different from its presentation currency (BGN). The other reserves cannot be distributed as dividends.

	31.12.2021	31.12.2020
Available-for-sale fair value reserve (Note VI.3.1)	36,779	97,434
Translation to presentation currency reserve (Note VI.3.2)	45,448	(4,514)
Reserve for Share-based payment	4	2
Total	**82,231**	**92,922**

VI.3.1. Fair value reserve on available-for-sale assets

Revaluation reserve	**2021**	**2020**
As of 1 January	**97,434**	**72,960**
Realized gains from financial assets available-for sale, before tax	(21,472)	(4,356)
Realized losses from financial assets-available-for sale, before tax	35,875	6,645
Impairment losses on financial assets available-for-sale, before tax	1,532	1,096
Revaluation of financial assets available-for- sale in the investment portfolio, before tax	(81,761)	27,635
Tax effect	5,171	(6,546)
As of 31 December	**36,779**	**97,434**

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities (continued)

VI.3.2. Translation to presentation currency reserve

As of 31 December 2021, the Company discloses as a separate component of equity the amount of BGN 45,448 thousand, which represents the effect from the translation of balances and transactions from functional currency to the presentation currency (2020: BGN (4,514) thousand). It is formed in compliance with the requirements of IAS 21.

Translation to presentation currency reserve	**2021**	**2020**
As of 1 January	**(4,514)**	**20,363**
Effect from translation to presentation currency	49,962	(24,877)
As of 31 December	**45,448**	**(4,514)**

VI.3.3. Share-based payments reserve

As of 31 December 2021, the Company shows in the equity section of the statement of financial position the amount of BGN 4 thousand, which represents the reserve for share-based payments (2020: 2 thousand). It is formed in accordance with the requirements of IFRS 2. The reserve is linked to 540 shares of the ultimate parent company Assicurazioni Generali S.P.A. where:

- Share-based payments are made only when certain indicators are met;
- Linking the payment to the average share price for the last three months before management approves the annual individual and consolidated statements of the Group;
- Setting a three-year continuous working period for the Generali Group;
- Definition of specific malus clauses and reimbursement clauses.

The amount of the shares allocated in 2020 plan will be allowed for payment after the end of each three-year period and after an assessment of the performance of the set objectives, taking into account their implementation throughout the three-year period, and not separately for each year.

VI.4. Reinsurance reserves

Unearned premium reserve

		2021		
	Note	**Gross**	**Ceded part**	**Nett**
As of 1 January		**24,515**	**31,011**	**(6,496)**
"Clean cut" movements		(2,936)	-	(2,936)
Gross premiums written	VII.1	1,978,170	218,917	1,759,253
Earned premiums		(1,977,163)	(217,571)	(1,759,592)
Currency translation effect		25	122	(97)

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities (continued)

As of 31 December		**22,611**	**32,479**	**(9,868)**

		2020		
	Note	**Gross**	**Ceded part**	**Net**
As of 1 January		**29,106**	**34,809**	**(5,703)**
"Clean cut" movements		-	-	-
Gross premiums written	VII.1	1,827,035	157,114	1,669,921
Earned premiums		(1,831,698)	(161,031)	(1,670,667)
Currency translation effect		72	119	(47)
As of 31 December		**24,515**	**31,011**	**(6,496)**

Outstanding claims reserves

Outstanding claims reserves include the reserve for incurred but not reported claims (IBNR) and the reserve for reported but not settled claims (RBNS) which movement are as follows:

	2021		
	Gross	**Ceded part**	**Net**
As of 1 January	**1,373,131**	**82,080**	**1,291,051**
"Clean cut" movements	(36,246)	-	(36,246)
Expenses for and changes in the reinsurance claim reserves	1,191,335	387,761	803,574
Claims paid	(883,079)	(131,971)	(751,108)
- for the current year	(620,758)	(133,048)	(487,710)
- for previous years	(262,321)	1,077	(263,398)
Currency translation effect	38,047	2,618	35,429
As of 31 December	**1,683,188**	**340,488**	**1,342,700**

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities (continued)

	2020		
	Gross	Ceded part	Net
As of 1 January	**1,540,225**	**137,616**	**1,402,609**
"Clean cut" movements	(109,382)	-	(109,382)
Expenses for and changes in the reinsurance claim reserves	840,544	20,942	819,602
Claims paid	(846,622)	(74,634)	(771,988)
- for the current year	(477,851)	(11,527)	(466,324)
- for previous years	(368,771)	(63,107)	(305,664)
Currency translation effect	(51,634)	(1,844)	(49,790)
As of 31 December	**1,373,131**	**82,080**	**1,291,051**

Clean-cut and "Portfolio withdrawal" are clauses in part of the proportional reinsurance contracts of the company, which in combination allows the parties to the contract to pay the reserves or part of them at the end of the year by mutual agreement. The clauses are part of the "Low Volatile" and "MET" contracts of the Company.

Outstanding claims reserves, gross	**31.12.2021**	**31.12.2020**
Reserve for reported but not settled insurance claims (RBNS)	1,283,461	988,483
Reserve for incurred but not reported insurance claims (IBNR)	399,727	384,648
Total	**1,683,188**	**1,373,131**

Allocation of reinsurance reserves by type of business, gross

	31.12.2021	**31.12.2020**
Non-life reinsurance reserve	1,691,375	1,389,852
Life reinsurance reserve	14,424	7,794
Total	**1,705,799**	**1,397,646**

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities (continued)

VI.5. Reinsurance contracts payables

Reinsurance payables are as follows:

	31.12.2021	31.12.2020
Payables for accepted reinsurance	49,059	162,310
Payables for ceded reinsurance	6,552	5,949
Other reinsurance payables	34,112	4,898
Total	**89,723**	**173,157**

As of 31 December 2021, and as of 31 December 2020, the Company applies the netting criteria in accordance with Note II.14 regarding its receivables and liabilities from active and passive reinsurance. For more details on netting effects, see Note V.8.

The fair value of the reinsurance payables approximates their carrying amount due to their short-term nature. In "Other reinsurance liabilities" are presented mainly liabilities under non-proportionate contracts (reinstatements) in the amount of BGN 25,738 thousand (2020: BGN 303 thousand) and reserve for participation in the positive financial result in the amount of BGN 7,837 thousand. 2020: BGN 4,121 thousand).

VI.6. Income tax payables

Corporate income tax payables of the Company amount to BGN 10,731 thousand (2020 - BGN 2,312 thousand), where a large part of the increase is due to the projected advance payment made in November 2021, which accounts for 66% of the income tax due as compared to 96% in 2020.

(all amounts are in BGN thousand, unless specified otherwise)

VI. Equity and liabilities (continued)

VI.7. Trade and other payables, retirement benefit provision

	31.12.2021	31.12.2020
Cash collateral under contract for derivative instruments (FX forwards and swaps)	11,349	15,127
Payables to social security and other government authorities	630	260
Payables to related parties	340	513
Consultant contracts payables	196	637
Payables to suppliers	126	166
Accruals for unused annual paid leave	52	50
Retirement benefit provision	38	25
Payables to banks	2	2
Other accruals	2,340	2,364
Total	**15,073**	**19,144**

Other accruals include amounts for IT activities, audit services and personnel. The fair value of the trade and other current liabilities approximates their carrying amount due to their short-term nature.

Payables to employees under defined benefit plans

	2021	2020
Amount recognised in the statement of financial position:		
Present value of the liability	38	25
Carrying amount of the liability	**38**	**25**
Liability movements for the year		
At the beginning of the year	25	26
(Income)/Expense in the statement of comprehensive income	13	(1)
At the end of the year	**38**	**25**
Main actuarial assumptions		
Discount rate (%)	0,3%	0,2%
Salaries increase	-	-

The amount of the provision for retirement is immaterial to the Company and the whole movement for the period is recognized directly in the profit or loss for the current period without calculating actuarial gains and losses in other comprehensive income. There are no reasonably expected changes in the key assumptions that might influence significantly the payable under the retirement provisions as of the end of the reporting period. The average term of the retirement liabilities is approximately 6 years.

(all amounts are in BGN thousand, unless specified otherwise)

VII. Statement of comprehensive income

VII.1. Gross reinsurance premium revenue

	2021	2020
Reinsurance premiums written, gross (Note VI.4)	1,978,170	1,827,035
Changes in the gross unearned premium reserve (UPR)	(1,007)	4,663
	1,977,163	**1,831,698**
Premiums ceded to reinsurers (Note VI.4)	(218,917)	(157,114)
Changes in the reinsurers' share in the unearned premium reserve (UPR) (Note VI.4)	1,346	(3,917)
	(217,571)	**(161,031)**
Net reinsurance premium revenue	**1,759,592**	**1,670,667**

The COVID-19 pandemic effects are disclosed in Note III.A.

VII.2. Net gains from investment operations

	2021	2020
Accrued income from bonds	28,683	31,784
Income from dividends	9,369	2,869
Income from loans granted and reverse repo receivables	4,005	6,129
Realized gains upon sale of financial instruments available-for-sale	21,472	4,356
Realized losses upon sale of financial instruments, available-for-sale	(35,875)	(6,646)
Impairment on financial instruments, available-for-sale	(1,532)	(1,096)
Income from other financial instruments	837	2,643
Total	**26,959**	**40,039**

Income from other financial instruments include mainly interest income from deposits in cedants in the amount of BGN 649 thousand (2020: BGN 2,433 thousand).

The COVID-19 pandemic effects on the investment activity and results are presented in the Activity Report (section "Investment Market in 2021 and the result of GP Reinsurance EAD).

(all amounts are in BGN thousand, unless specified otherwise)

VII. Statement of comprehensive income (continued)

VII.3. Claims and change in reinsurance reserves

Claims paid and changes in reserves for accepted and ceded reinsurance are presented below:

	2021	2020
Gross		
Claims paid throughout the year (Note VI.4)	(883,079)	(846,622)
Change in reserves for outstanding claims (Note VI.4)	(308,256)	6,078
Gross claims paid	**(1,191,335)**	**(840,544)**
Ceded share		
Claims paid, ceded to reinsurers throughout the year (Note VI.4)	131,971	74,634
Change in reserves for outstanding claims, ceded to reinsurers (Note VI.4)	255,790	(53,692)
Claims and change in reinsurance reserves covered by reinsurers	**387,761**	**20,942**
Net reinsurance expenses for claims	**(803,574)**	**(819,602)**

The COVID-19 pandemic effects are disclosed in Note III.A.

VII.4. Acquisition expenses

	2021	2020
Acquisition commissions on accepted reinsurance, gross	(561,039)	(506,813)
Total	**(561,039)**	**(506,813)**

The change in the acquisition costs amounts to BGN (49) thousand (2020: BGN (1) thousand).

VII.5. Administrative expenses

	2021	2020
Asset Management expenses	**(2,288)**	**(2,315)**
Salaries expenses	(1,524)	(1,287)
Software maintenance and IT Services	(1,317)	(1,554)
Hired services	(1,301)	(1,364)
Depreciation and amortization expenses	(68)	(97)
Business trips expenses, alternative taxes, representative expenses and other related expenses	(24)	(9)
Expenses for materials	(5)	(5)
Other administrative expenses	(273)	(267)
Total	**(6,800)**	**(6,898)**

(all amounts are in BGN thousand, unless specified otherwise)

VII. Statement of comprehensive income (continued)

Expenditures on hired services include the following amounts with VAT:

1. Independent financial audit services provided jointly by the registered auditors in the amount of BGN (121) thousand (2020: BGN (48) thousand);
2. Other non-audit services for the Balance Sheet Review provided jointly by the registered auditors in the amount of BGN (96) thousand (2020: BGN (131) thousand);
3. Audit services related to the Group consolidated reporting package in the amount of BGN (35) thousand (2020: BGN (134) thousand).

VII.6. Other reinsurance revenue / (expenses)

Other reinsurance expenses

	2021	2020
Expenses for profit participation (accepted reinsurance)	(11,052)	(19,163)
Other reinsurance expenses	(588)	(602)
Total	**(11,640)**	**(19,765)**

Other reinsurance revenue

	2021	2020
Expenses for profit participation (ceded reinsurance)	2,900	805
Commissions ceded from the reinsurers (ceded reinsurance)	4,298	5,676
Total	**7,198**	**6,481**

VII.7. Other operating revenue/ (expenses), net

	2021	2020
Foreign exchange gains/(loss)	(25,524)	(2,013)
Foreign exchange gains/(loss) from derivatives	28,644	8,383
Other income	21	171
Total	**3,141**	**6,541**

The company uses FX derivatives to hedge currency risk (See Note IX).

(all amounts are in BGN thousand, unless specified otherwise)

VII. Statement of comprehensive income (continued)

VII.8. Finance expenses

Financial expenses include bank charges and commissions for BGN (277) thousand (2020: BGN (120) thousand), which are related to the reinsurance and investment business of the Company.

VII.9. Income tax expenses

The next table is a summary of taxes recognised in the statement of profit and loss:

	2021 г.	2020 г.
Current income tax	41,249	33,509
Foreign tax	140	78
Deferred income tax	496	3,622
Total tax recognized in the statement of Profit and Loss for the period	**41,885**	**37,209**

The next table is a summary of taxes recognised in other comprehensive income during the period:

	2021 г.	2020 г.
Current income tax in other comprehensive income	(5,171)	6,546
Total expense/(income) of tax in other comprehensive income (Note. VI.3.1. и Note. VI.3.2.)	**(5,171)**	**6,546**

Tax on the accounting profit differs from the theoretical amount that would be arising in case that the basic tax rate is applied as follows:

	2021	2020
Profit before tax	**413,560**	**370,530**
Tax at the applicable tax rate of 10 %	41,356	37,053
Effect of expense/(income) unrecognized for tax purposes, net	645	(414)
Foreign tax	140	78
Effect of currency differences	(256)	492
Income tax expense on profit	**41,885**	**37,209**
Effective tax rate	**10.13%**	**10.04%**

(all amounts are in BGN thousand, unless specified otherwise)

VII. Statement of comprehensive income (continued)

The official tax rate for 2021 is 10% (2020: 10%) on the taxable profit under the Law on Corporate Income Tax. The tax authorities may at any time inspect the books and records of the Company within 5 years after the reported tax year and may impose additional taxes and penalties. The latest audited tax period of the Company is 2013.

VII.10. Deferred tax assets, net

	Retirement benefit provisions – IAS 19	Unrealized net gain in AFS reserve	Provision for trade liabilities	Intangible assets	Total
As of 1 January, 2020	**3**	**3,898**	**436**	**(2)**	**4,335**
(Expense)/Savings in the statement of comprehensive income	(1)	(3,731)	108	2	(3,622)
As of 31 December, 2020	**2**	**167**	**544**	**-**	**713**
(Expense)/Savings in the statement of comprehensive income	2	(1,077)	579	-	(496)
As of 31 December, 2021	**4**	**(910)**	**1,123**	**-**	**217**

VIII. Related party transactions

Related parties of the Company

The sole owner of the Company is Generali CEE Holding B.V. Netherlands which holds 100% of the Company's shares. The shares 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 other related parties for GP Reinsurance EAD are the following:

All ceding companies (Note III, p.A);
- 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 oil and energy fund;
- Generali fund Emerging Europe Bond Y EUR;
- Generali fund Emerging Europe Y EUR;
- Generali fund GMPS SICAV EM Currencies Supranat Fd-3YH EUR;
- Generali fund „GENERALI NEW ECONOMIES A EUR" (previously „New Economies Fund, Generali Invest CEE plc");
- Generali fund „GENERALI FUND SFIO-GEN PROFIT PL";
- Generali fund „GENERALI CORPORATE BONDS B EUR";
- Generali fund „Generali Fond nemovitostních akcií";
- Generali fund „APERTURE-SHRT DUR H/Y-AY EUR".
- Generali fund„Fasanara Investments SA, SICAV-RAIF"
- Generali Zavarovalnica d.d.

Related party transactions

The related party transactions of the Company for 2021 and 2020 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;
- Transactions related with purchased equity shares from Generali Real Estate Investment Fund;

(all amounts are in BGN thousand, unless specified otherwise)

VIII. Related party transactions (continued)

- Transactions related with a loan granted to Generali Real Estate Investment Fund;
- 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 purchased shares of Generali oil and energy fund;
- Transactions related with purchased shares of Generali fund Emerging Europe Bond Y EUR;
- Transactions related with purchased shares of Generali fund Emerging Europe Y EUR;
- Transactions related with purchased shares of Generali fund GMPS SICAV EM Currencies Supranat Fd-3YH EUR;
- Transactions related with a loan granted to Generali Europe Income Holding S.A.;
- Transactions related with purchased shares of „GENERALI NEW ECONOMIES A EUR“ (previously „New Economies Fund, Generali Invest CEE plc“);
- Transactions related with purchased shares of „GENERALI FUND SFIO-GEN PROFIT PL“;
- Transactions related with purchased shares of „GENERALI CORPORATE BONDS B EUR“;
- Transactions related with purchased shares of „Generali Fond nemovitostních akcií“;
- Transactions related with purchased shares of „APERTURE-SHRT DUR H/Y-AY EUR“;
- Transactions related with purchased shares of Generali Zavarovalnica d.d.;
- Transactions related with purchased shares of „Fasanara Investments SA, SICAV-RAIF“

(all amounts are in BGN thousand, unless specified otherwise)

VIII. Related party transactions (continued)

All transactions with related parties of the Company are based on contract terms.

VIII.1. Income from/ (expenses to) related parties

	2021	2020
Parent company:	**2021**	**2020**
Generali CEE Holding B.V. - service agreement	(670)	(681)
Other related parties:	**2021**	**2020**
ASSICURAZIONI GENERALI S.P.A – premium ceded	(218,845)	(156,908)
ASSICURAZIONI GENERALI S.P.A – claims paid under ceded reinsurance	131,577	74,069
ASSICURAZIONI GENERALI S.P.A – changes in the reinsurer's share in technical reserves (ceded reinsurance)	259,182	(58,642)
ASSICURAZIONI GENERALI S.P.A – commissions under ceded reinsurance	7,403	6,439
ASSICURAZIONI GENERALI S.P.A – deferred acquisition costs under ceded reinsurance	419	32
ASSICURAZIONI GENERALI S.P.A – premium accepted	2,714	8,957
ASSICURAZIONI GENERALI S.P.A – claims paid under accepted reinsurance	(908)	(33,694)
Other related parties:	**2021**	**2020**
ASSICURAZIONI GENERALI S.P.A – changes in the reinsurer's share in technical reserves (accepted reinsurance)	3,288	30,190
ASSICURAZIONI GENERALI S.P.A – commissions under accepted reinsurance	(1,100)	(1,888)
Legal entities which are controlled by the parent company – net written premium	1,965,331	1,812,702
Legal entities which are controlled by the parent company – claims paid	(880,496)	(811,072)
Legal entities which are controlled by the parent company – acquisition commissions	(556,849)	(503,311)
Legal entities which are controlled by the parent company – other reinsurance expenses	(11,052)	(19,163)
Legal entities which are controlled by the parent company – reserves net	(306,242)	(16,228)
Legal entities which are controlled by the parent company – interest income on reinsurance deposits	649	2,433
Generali Investment CEE – management commission	(1,899)	(1,929)
Generali Development – depreciation expense	-	(20)
Generali Versicherung A.G – service agreement	(148)	(152)
Generali Insurance EAD – Bulgaria – service agreement	(16)	(15)
Generali Zakrila MDC OOD - service agreement	(59)	(71)
Generali Česká pojištovna a.s. – service agreement	(152)	(152)
Generali Real Estate Fund – dividend income	507	654
Generali Real Estate Fund – interest income	1,281	2,011
Generali Osiguranje, Republic of Serbia – dividend income	19	20
Generali Europe Income Holding SA – interest income	1,380	1,546
Generali Europe Income Holding SA – dividend income	1,295	463

(all amounts are in BGN thousand, unless specified otherwise)

VIII. Related party transactions (continued)

Lion River Investment fund - dividend income	4,323	27
Generali fund GMPS SICAV EM Currencies Supranat Fd 3YH EUR- dividend income	205	232
GENERALI CORPORATE BONDS B EUR – dividend income	129	-
„APERTURE-SHRT DUR H/Y-AY EUR – dividend income	222	-
Fasanara Investments SA, SICAV-RAIF – dividend income	294	-
Generali Zavarovalnica d.d. – interest income	1,033	-

VIII.2. Payables to/receivables from related parties

Parent company:	**31.12.2021**	**31.12.2020**
Generali CEE Holding B.V. – payables under service agreement	340	340
Generali CEE Holding B.V – other receivables	-	63
Other related parties:	**31.12.2021**	**31.12.2020**
ASSICURAZIONI GENERALI S.P.A – reinsurance payables for premium ceded	6,370	5,797
ASSICURAZIONI GENERALI S.P.A – other payables under ceded reinsurance	25,636	201
ASSICURAZIONI GENERALI S.P.A – receivables under ceded claims paid	56,556	3,508
ASSICURAZIONI GENERALI S.P.A – reinsurer's share in technical reserves (ceded reinsurance)	348,310	86,484
ASSICURAZIONI GENERALI S.P.A – reinsurance receivables under premium accepted	3,664	1,121
Other related parties:	**31.12.2021**	**31.12.2020**
ASSICURAZIONI GENERALI S.P.A – payables for claims paid under accepted reinsurance	108	15,750
ASSICURAZIONI GENERALI S.P.A – other receivables under accepted reinsurance	1	184
ASSICURAZIONI GENERALI S.P.A – reinsurer's share in technical reserves (accepted reinsurance)	3,992	6,944
ASSICURAZIONI GENERALI S.P.A – other receivables	81	176
Legal entities which are controlled by the parent company – reinsurance receivables	132,888	122,363
Legal entities which are controlled by the parent company – reinsurance payables	48,769	146,533
Legal entities which are controlled by the parent company – other reinsurance payables	23,629	3,058
Legal entities which are controlled by the parent company – other payables	7,873	4,121
Legal entities which are controlled by the parent company – reinsurance reserves	1,693,172	1,386,836
Legal entities which are controlled by the parent company – reinsurance deposits	110,359	104,866
Payable to Generali Investment CEE	160	173
Generali Real Estate Investment Fund a.s. – AFS investment	140,327	130,503

(all amounts are in BGN thousand, unless specified otherwise)

VIII. Related party transactions (continued)

Generali Real Estate Investment Fund a.s. – loan granted	62,180	58,829
Generali Osiguranje, Republic of Serbia - AFS investment	139	136
Generali Reosiguranje, Republic of Serbia - AFS investment	1	1
Generali Europe Income Holding S.A. – AFS investment	60,606	60,721
Generali Europe Income Holding S.A. – loans granted	44,734	44,836
Lion River Investment fund – AFS investment	59,127	52,527
Generali fund „EMERGING EUROPE BOND Y EUR“ - AFS investment	12,334	12,866
Generali fund „EMERGING EUROPE Y EUR“ – AFS investment	9,989	-
Generali fund „GMPS SICAV EM Currencies Supranat Fd 3YH EUR“ – AFS investment	3,485	3,609
Generali fund „GENERALI NEW ECONOMIES A EUR“-AFS investment	4,379	4,194
Generali fund „GENERALI FUND SFIO-GEN PROFIT PL“-AFS investment	20,032	20,101
Generali fund „GENERALI CORPORATE BONDS B EUR“ - AFS investment	5,876	6,106
Generali fund „Generali Fond nemovitostních akcií“ - AFS investment	3,893	3,029
Generali fund „APERTURE-SHRT DUR H/Y-AY EUR“ - AFS investment	7,981	7,944
Generali fund„Fasanara Investments SA, SICAV-RAIF“ – AFS investment	14,441	-
Generali Zavarovalnica d.d. – subordinated loan	59,767	-

VIII.3. Dividends paid

Based on a resolution of the Management Board from 6th April 2021 and a decision of the sole owner Generali CEE Holding B.V, the Company has paid dividends to the parent company for year 2020 in the amount of BGN 333,321 thousand (BGN 6,2 thousand per share) (in 2019 BGN 345,626 thousand or BGN 6,5 thousand per share).

VIII.4. Remuneration to key management personnel

The remunerations to key management personnel for the year ending on 31st December 2021 amount to BGN 556 thousand (2020: BGN 427 thousand) and have a short-term nature. The distribution among the management bodies is described below:

(In BGN thousand)	2021	2020
Supervisory Board	16	16
Audit Committee	20	20
Management Board	520	391
Remunerations - Total	**556**	**427**

(all amounts are in BGN thousand, unless specified otherwise)

IX. Hedge accounting

Starting 1 January 2012, the Company has been applying hedge accounting to foreign currency risks (FX risk). The objective of the investment and hedging strategy is to manage the overall FX risk position on a continuous basis. The Company reflects changes in the fair value of hedging instruments together with foreign exchange gains or losses arising from hedged items in the statement of comprehensive item. The Company holds its reinsurance liabilities (primarily reinsurance reserves) in the same currencies as the currency of the reinsurance treaty. The net reinsurance reserves are covered by investment portfolios on the asset side, 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 uses FX derivatives and cross-currency repo deals to hedge the asset against movements in the asset's currency against the liabilities' currency. The portfolios described above therefore represent an 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.

For CZK portfolios the Company's strategy is to hedge against changes in fair value of non-derivative instruments as a result of changes in FX rate against the functional currency of the Company (CZK). The hedge relationship is designated as a fair value hedge.

For Non-CZK portfolios the Company's strategy is to hedge against changes in fair value of the reinsurance liabilities' portfolio. The Company hedges the fair value changes as a result of changes in FX rate of the given liabilities' portfolio. The hedge relationship is designated as a fair value hedge.

The FX difference on reinsurance liabilities and debt financial instruments classified as available-for-sale is reported in the profit or loss. FX revaluation on AFS equities is included within the hedge accounting reported in the income statement either as other operative income – gains on foreign currencies or other operative expenses – losses on foreign currencies.

Hedged items

The Company designates as the hedged items the group of non-derivative assets in CZK portfolios denominated in currency other than the portfolio currency (CZK). As for non-CZK portfolios the Company designates as the hedged item the specified part of the portfolios of reinsurance liabilities in the given currency.

The designation depends on the actual amount of economically hedged FX position and on the achievement of the hedge accounting objective to reflect the hedging strategy in the financial statements.

(all amounts are in BGN thousand, unless specified otherwise)

IX. Hedge accounting (continued)

Hedging instruments

The Company designates as the hedging instruments in CZK portfolios all FX derivatives and cross-currency repo deals that economically hedge the fair value of assets denominated in currency other than the portfolio currency against movements in FX rate.

As for non-CZK portfolios the Company designates as hedging instruments all assets in the given portfolios except the monetary items (debt financial instruments, bank and reinsurance deposits, cash and cash equivalents) denominated in the portfolio currency.

The Company applies a materiality threshold of 0.1% to the result of hedging instruments, below which the inefficiency of hedging transactions is not disclosed as such. The scope of this analysis includes the results of efficiency in the range of 80% - 125%.The results of the retrospective tests as of 31 December 2021 are as follows:

CZK portfolios	**Notes**	**Fair value as of 31.12.2021**	**FX gains and losses for 2021**
Hedged positions			
Equities, bonds and shares in investment funds	V.1 V.2	602,226	30,451
Bank deposits and cash and cash equivalents	V.11	21,767	(302)
Hedging instruments			
Financial derivatives	V.4	12,388	(28,511)
Nominal value of derivatives		709,378	
Repo transactions		-	(586)
Hedging effectiveness			**97%**

non-CZK portfolios	**Notes**	**Fair value as of 31.12.2021**	**FX gains and losses for 2021**
Hedging instruments			
Equities, bonds and shares in investment funds	V.1 V.2	928,118	(279)
Bank deposits and cash and cash equivalents	V.11	6,951	43
Financial derivatives	V.4	(1,020)	1,865
Nominal value of derivatives		101,686	
Hedged positions			
Reinsurance liabilities		935,069	1,663
Hedging effectiveness			**98%**

(all amounts are in BGN thousand, unless specified otherwise)

IX. Hedge accounting (continued)

Foreign exchange differences mentioned above are part of Other operating revenue/expense, net VII.7

The results of the retrospective tests as of 31 December 2020 are as follows:

CZK portfolios	**Notes**	**Fair value as of 31.12.2020**	**FX gains and losses for 2020**
Hedged positions			
Equities, bonds and shares in investment funds - quoted	V.1 V.2	458,059	14,061
Bank deposits and cash and cash equivalents	V.11	6,642	2,209
Hedging instruments			
Financial derivatives	V.4	8,640	2,104
Nominal value of derivatives		911,920	
Repo transactions		-	(18,733)
Hedging effectiveness			**102%**

non-CZK portfolios	**Notes**	**Fair value as of 31.12.2020**	**FX gains and losses for 2020**
Hedging instruments			
Equities, bonds and shares in investment funds - quoted	V.1 V.2	76,536	(870)
Bank deposits and cash and cash equivalents	V.11	320	(102)
Financial derivatives		402	1,062
Nominal value of derivatives	V.4	19,914	
Hedged positions			
Reinsurance liabilities		76,856	(97)
Hedging effectiveness			**92%**

Foreign exchange differences mentioned above are part of Other operating revenue/expense, net VII.7

X. Events after end of the reporting period

At the end of February (on 24 February 2022) a military conflict began on the territory of Ukraine with Russia, which continues at the date of issue of this financial report. As a result, the world's leading financial markets are experiencing shocks, and problems with supply chains caused by the COVID-19 pandemic are expected to further complicate this conflict on the territory of Ukraine. The Russian Federation is being imposed on ever broader economic sanctions by the European Union, the US, UK, Canada, Australia, Japan and other countries. Therefore, predictions are made for a significant increase in the prices of oil, gas, electricity and other raw materials, as well as increased inflation at global level, which in turn would have an effect on the decisions of central banks around the world for an upward adjustment of key interest rates. This, in turn, would have an immediate effect on global financial asset prices. The first indications are beginning to settle. The development and outcome of this military conflict cannot be predicted at this stage, and it is difficult to predict its long-term effects on global economic and social development, including and for Bulgaria.

The management of the company has defined this event as non-adjusting event within the meaning of IAS10. Therefore, there are no reported effects in this financial statement for 2021.

At this stage, management monitors and makes ongoing analyses and assessments of possible consequences and effects of the conflict for the Company, its operations, assets and prospects. To this end:

- the Company has developed and implemented a crisis mmanagement model through which the necessary assessments and influences are carried out;
- the Company has defined the approach and identified the actions to be taken to recalibrating the main business processes in the event of a crisis situation or other incident;
- the Company communicates with Generali ACEE on the investment portfolio, its management and ongoing valuations;
- The Risk Management Department currently monitors changes in valuations and prices of portfolios of financial assets and provides information to the Management board and key personnel;

In the short term, management's assessment is that, in so far as the company does not maintain close economic links and a significant volume of investments related to Russia and Ukraine, there are no material direct effects and seriously affected exposures, except for certain investments in securities. Specifically, as of 31.12.2021, the Company holds investments in the form of securities (equity and debt) of companies related to Russia in total amounting to 94,016 thousand BGN. They represent 4,6% of the total value of the company's entire portfolio of securities (equity and debt). As of 28.02.2022 the securities related to Russia are in total amount of 41,345 thousand BGN and represent 2,1% of the total value of the company's portfolio. As of 7.03.2022 the securities related to Russia according to data from Risk department of Generali CEE Holding are in total amount of 34,404 thousand BGN. For the period 31.12.2021 to 7.03.2022 their value has changed by 63,41% * (decrease) in absolute value there is a loss in the amount of 59,612 thousand BGN.

X. Events after end of the reporting period (continued)

* For the period 01.01.2022 to 31.01.2022 there are sales of securities related to Russia in the amount of 6,645 thousand BGN. For the period 01.02.2022 to 28.02.2022 there are sales of securities related to Russia in the amount of 377 thousand BGN. As of March 15, 2022, all expected coupon payments in March 2022 on items related to Russia have been received by the Company.

The indirect impact on the company's activities, assets and markets is assessed by the expected significant increase in the prices of oil, gas and other commodities, which have a wide-ranging impact on the economy, as well as rising inflation at global level This would have an immediate effect on global financial asset prices, including uncertainty related to the prices of fixed-income instruments (Government securities and corporate bonds).

The development and outcome of the conflict cannot be predicted at this stage, as it is still at an early stage, with many uncertainties, and it is very difficult to predict its long-term effects on both the global economic and social development of the European Union and the world at large, and Bulgaria and the company in particular.

No other events occurred between the date of the statement of financial position and the date of its approval, that require additional adjustments and/or disclosures in the financial statements of the Company for the year ending on 31 December 2021.

(all amounts are in BGN thousand, unless specified otherwise)

XI. Restatements of comparative information

In 2021 the Management performed an analysis and identified the need to restate previous periods with regards to identified errors in the presentation of income and expense items in the statement of comprehensive income and cash inflows and outflows in the statement of cash flows for the comparative period. The company had performed restatement on the basis of IAS 8 "Accounting Policies, changing in accounting estimates and errors" and the values are corrected.

A. As of 31.12.2020 the Company disclosed investment management expenses amounting to BGN 2,315 thousand as part of "Net investments income" in the statement of comprehensive income. In 2021 after analysis, those amounts were reclassified as part of "Administrative expenses" with a corresponding change in comparative information.

B. As of 31.12.2020 the Company disclosed profit participation income of BGN 805 thousand and commission income from outwards reinsurance of BGN 5,676 thousand as a decrease of "Acquisition expenses" and "Other reinsurance expenses" in the statement of comprehensive income respectively. In 2021 after analysis, those amounts were presented as part of "Other reinsurance income". The comparative information for 2020 is also recalculated to correct the error for net presentation.

C. As of 31.12.2020 the Company erroneously presented the following positions within the statement of cash flows with regards to cash flows from operating activities:

- Received reinsurance premiums for the amount of BGN 1,811,606;
- Paid reinsurance premiums for the amount of BGN 177,906;
- Claims paid for the amount of BGN 899,143;
- Amounts recovered from reinsurers for the amount of BGN 125,778;
- Paid acquisition expenses for the amount of BGN 494,789;
- Proceeds from reinsurance deposits for the amount of BGN 32,647;

In 2021 after analysis of the actual cashflows the above-mentioned positions for the year ending at 31 December 2020 were presented within the statement of cash flows as follows:

- Receipts from inwards reinsurance activities for the amount of BGN 533,669;
- Payments for inwards reinsurance activities for the amount of BGN 92,743;
- Receipts from outwards reinsurance activities for the amount of BGN 50,862;
- Payments for outwards reinsurance activities for the amount of BGN 93,595

(all amounts are in BGN thousand, unless specified otherwise)

XI. Restatements of comparative information (continued)

The following tables are summarizing the effects of the restatements:

Statement of comprehensive income

In thousands of BGN	*Note*	2020		2020
For the year ended 31 December 2020		**As previously reported**	**Reclassification**	**Restated**
Decrease/(increase) in:				
Net investments income	VII.2	37,724	2,315	40,039
Administrative expenses	VII.5	(4,583)	(2,315)	(6,898)
Other reinsurance income	VII.6	-	6,481	6,481
Other reinsurance expenses	VII.6	(18,960)	(805)	(19,765)
Acquisition expenses	VII.4	(501,137)	(5,676)	(506,813)
Result for the period		**333,321**	-	**333,321**

There is no effect on the result from the operating activities for the year ended 31st December 2020.

Statement of Cash flows

In thousands of BGN	*Note*	2020		2020
For the year ended 31 December 2020		**As previously reported**	**Correction of misstatement**	**Restated**
Decrease/(increase) in:				
Receipts from inwards reinsurance activities	V.11	-	533,669	533,669
Payments for inwards reinsurance activities	V.11	-	(92,743)	(92,743)
Receipts from outwards reinsurance activities	V.11	-	50,862	50,862
Payments for outwards reinsurance activities	V.11	-	(93,595)	(93,595)
Received reinsurance premiums	V.11	1,811,606	(1,811,606)	-
Paid reinsurance premiums	V.11	(177,906)	177,906	-
Claims paid	V.11	(899,143)	899,143	-
Amounts recovered from reinsurers	V.11	125,778	(125,778)	-
Paid acquisition expenses	V.11	(494,789)	494,789	-
Proceeds from reinsurance deposits	V.11	32,647	(32,647)	-
Net cash from operating activities		**349,753**	-	**349,753**

There is no effect on the net cash from operating activities the period ended 31st December 2020.