

ANNUAL REPORT ON ACTIVITY
AND STATEMENT OF SOLVENCY AND FINANCIAL CONDITION
ON
IC "LEV INS" JSC

1. Activity and results

The current annual activity report contains the necessary information according to Art. 39 of the Accounting Act and is in accordance with the provisions of art. 127, paragraphs 4 and 5 and art. 129 from the Insurance Code, IC "LEV INS" JSC for the preparation of a solvency report and financial status, as part of the company's annual financial report.

1.1. Activity

IC "Lev ins" JSC is a joint-stock company registered in the Sofia City Court under company case No. 12744 of 2001 with headquarters and address of management in Sofia, Cherni Vrah Blvd. No. 51D. The National Insurance Board gives permission for carrying out insurance activities of the Company under No. 98 of 06.01.2000. The company has a capital of 43,300,000 (forty-three million and three hundred thousand) BGN, distributed in 43,300,000 registered shares with a nominal value of BGN 1 every one. The company has a two-tier management system - Supervisory Board and Management Board, according to Art. 241 - 243 of the Commercial Law. The company is represented by the executive directors, together with two of the three executive directors.

IC "Lev Ins" JSC was founded in 1996 and is among the first companies in the industry with a fully private capital. The equity capital was formed by Israeli and Bulgarian investors. The company is part of a financial group operating in the field of general insurance, Life Insurance, Health Insurance and Supplementary Pension Insurance.

The sustainable development of IC "Lev Ins" JSC is due to the anticipatory approach at risk management by applying the philosophy of "Active Corporate security". This makes it possible to realize growth and profitability. the key to the success of the company is also good communication with the client.

The main shareholder in IC "Lev Ins" JSC is "Lev Corporation" JSC - an economic group with over 90 companies from various sectors of the Bulgarian economy. "Lev Corporation" is a member of Union for Citizens' Business Initiative, the Bulgarian Chamber of Commerce and Industry and is a partner of leading Bulgarian manufacturing and trading companies.

Among the other main shareholders in IC "Lev Ins" JSC are the Bulgarian company "AS BG" Ltd., as well as the Israeli "Rahiti Meir Classic", which in partnership with Italian entrepreneur, was named the #1 investor in Bulgaria for 2003.

Since 2007 with two of its funds in IC "Lev Ins" JSC, the shareholder is Julius Baer Investment Management, now Artio International Equity Fund, one of the world's largest asset management companies. Julius Baer Investment Management is also known as one of the largest private banks in Switzerland, managing assets in Germany, Austria, Luxembourg, the Caymans, etc.

Since 2010 IC "Lev Ins" JSC attracted the interest of new Israeli shareholders with great experience in insurance, with the current capital structure as follows:

| Shareholder | Number of shares | Relative share (%) |
|--|-------------------------|---------------------------|
| "LEV CORPORATION" JSC | 19 190 467 | 44,32% |
| "RAHITI MEIR CLASSIC" LTD | 10 899 546 | 25,17% |
| "AS-BG" EOOD | 6 387 301 | 14,75% |
| GROUP OF NATURAL PERSONS | 4 806 300 | 11,10% |
| "PELA" EOOD | 1 769 576 | 4,09% |
| EUZHENIA II Investment Holding Limited | 246 810 | 0,57% |

Pursuant to Appendix No. 1 to Article 29, Paragraph 1, Item 2 of the Insurance Code, the Company has permission to carry out insurance operations under the following insurances:

- Accident insurance;
- Insurance of land vehicles, excluding rail vehicles funds;
- Vessel insurance;
- Cargo insurance during transport;
- "Fire" and "Natural disasters" insurance;
- Property Damage Insurance;
- Liability insurance related to owning and the use of motor vehicles;
- Liability insurance related to owning and the use of vessels;
- General civil liability insurance;
- Credit insurance;
- Guarantee insurance;
- Insurance of various financial losses;
- Travel assistance insurance.

The scope of the Company's activities according to the license issued by the Commission for Financial Supervision includes offering almost the entire spectrum of insurance products and services in the field of general insurance. The company is a leader in the introduction and confirmation of trends in insurance, a high culture of service and non-conventional insurance protection. The offered insurance products also correspond to the company's strategy, mission and vision, which are permanently tied to the philosophy of active security.

IC Lev Ins JSC has focused its efforts on attracting an ever-increasing number of people individual customers. Although they are the most important part of the portfolio structure of the company serves and is in partnership with quite a number of corporate ones customers. Our goal is to build partnership and friendly relations with customers, based on mutual respect and cooperation.

The team of IC "Lev Ins" JSC, working on security issues, analyzes, recommends, takes measures and supports the development of insurance products and the determination of optimal insurance solutions, taking into account the needs of the individual customer. In their work, our specialists use the research and analysis of internationally recognized security experts.

IC "Lev Ins" JSC has won the trust and support of the world's majors reinsurers and maintains high-capacity reinsurance programs by the main lines of business. Main reinsurers we work with are Swiss Re, Lloyds, Sirius, Scor, etc.

Over the past few years, IC "Lev Ins" JSC has been the undisputed market leader in car insurance, which makes up the largest share of the portfolios of general insurance companies in Bulgaria. The company's market share in the non-life insurance portfolio is 13.50% (according to FSC data for realized direct general insurance income).

1.2. Results of signing activity

During the reporting period, the gross premium income from insurance premiums amounted to BGN 280,229,215, which represents a 36.91% growth compared to 31.12.2017. The Company strengthened its positions as a market leader amid the uncertainty of the national insurance market, instability in the economy and the manifestation of catastrophic risks, which led to the deterioration of the financial indicators of the majority of the insurers. The table below shows the amount of premium income in BGN and its dynamics over the past three years:

| Type of insurance | 2015 year | 2016 year | Increment | 2016 year | 2017 year | Increment | 2017 year | 2018 year | Increment |
|---|--------------------|--------------------|---------------|--------------------|--------------------|--------------|--------------------|--------------------|---------------|
| An accident | 1 167 237 | 1 400 169 | 19.96% | 1 400 169 | 1 123 729 | -19.74% | 1 123 729 | 1 460 143 | 29.94% |
| Casco - motor vehicles | 35 074 735 | 42 528 959 | 21.25% | 42 528 959 | 45 529 959 | 7.06% | 45 529 959 | 43 442 742 | -4.58% |
| Casco - marine dishes | 28 564 | 53 439 | 87.09% | 53 439 | 30 567 | -42.80% | 30 567 | 31 241 | 2.20% |
| Loads during carriage | 78 134 | 54 695 | -30.00% | 54 695 | 40 989 | -25.06% | 40 989 | 135 895 | 231.54 % |
| Fire and natural disasters | 3 746 820 | 3 749 699 | 0.08% | 3 749 699 | 2 398 657 | -36.03% | 2 398 657 | 3 275 524 | 36.56% |
| Property damage | 1 591 537 | 1 633 254 | 2.62% | 1 633 254 | 1 835 011 | 12.35% | 1 835 011 | 1 779 594 | -3.02% |
| Civil responsibility of motorists | 119 189 008 | 143 443 212 | 20.35% | 143 443 212 | 150 513 256 | 4.93% | 150 513 256 | 225 653 317 | 49.92% |
| Civil responsibility of sailing vessels | 3 474 | 7 429 | 113.87% | 7 429 | 5 869 | -21.00% | 5 869 | 5 562 | -5.23% |
| General civil responsibility | 1 489 168 | 1 612 927 | 8.31% | 1 612 927 | 2 026 891 | 25.67% | 2 026 891 | 2 238 486 | 10.44% |
| Insurance of credits | 0 | 0 | - | 0 | 0 | - | 0 | 0 | - |
| Insurance "Guarantees" | 0 | 0 | - | 0 | 0 | - | 0 | 972 014 | - |
| Various financial lost | 0 | 1 168 | - | 1 168 | 216 598 | 18444.35 % | 216 598 | 515 886 | 138.18 % |
| Travel assistance | 506 852 | 996 867 | 96.68% | 996 867 | 958 966 | -3.80% | 958 966 | 718 811 | -25.04% |
| TOTAL | 162 875 528 | 195 481 818 | 20.02% | 195 481 818 | 204 680 492 | 4.71% | 204 680 492 | 280 229 215 | 36.91% |

The main product line - "Civil Liability" grew by 49.92%. IN medium-term plan, the company's goals are to maintain a leading market position and yes the market share of the most popular voluntary insurances increased. Take aim achieve a sustainable growth of at least 10% per year, through an increase in the premium income from optional insurances.

The relative shares of individual insurance products in the portfolio vary in broad limits. The main reason is related to the economic crisis in the country market trends towards a reduction in voluntary premium income insurances. Under these circumstances, the negative result of the manifestation of the risk

under insurances with a large relative share, cannot be offset by the positives financial results under other types of insurance with a smaller share.

To balance the portfolio, it is necessary, on the one hand, a significant increase in the scope of insurance with a small relative share, and on the other hand the provision of adequate reinsurance coverage under insurance with a large relative share. The first task can be implemented through constant training of the company's agent network with a goal stronger offering of the voluntary insurances that the company offers. The other option is related to the development of new attractive products that respond to consumer demand for insurance services and offer non-standard solutions in the field of prevention and insurance.

On the occasion of the second task, the company builds a good image in front of its partners in the field of reinsurance through correct and timely exchange of information, payment documents and payment of obligations.

A more conservative policy can be noted as a positive trend offering some types of insurance, for example, Loan and Miscellaneous insurance Financial losses, which is related to risk assessment, through a scoring system and limiting the amount of risks taken.

It can be seen that in the last year under the "Civil Liability" insurance of motorists, there is a growth that is greater than the average realized for the company, which is mainly due to the increase in the mandatory price insurance.

The realized premium income in the last year orders IC "Lev Ins" JSC to first place among insurance companies in the local market. Thanks to efforts made in the last 3 years, the company has established itself as a leader in the market.

Amount of premium income for the last four years by types of insurance:

| Type of insurance | Gross premium income (BGN) | | | |
|----------------------------|----------------------------|------------|------------|------------|
| | 2015 year | 2016 year | 2017 year | 2018 year |
| An accident | 1 167 237 | 1 400 169 | 1 123 729 | 1 460 143 |
| Casco - motor vehicles | 35 074 735 | 42 528 959 | 45 529 959 | 43 442 742 |
| Casco - vessels | 28 564 | 53 439 | 30 567 | 31 241 |
| Loads in transit | 78 134 | 54 695 | 40 989 | 135 895 |
| Fire and natural disasters | 3 746 820 | 3 749 699 | 2 398 657 | 3 275 524 |

| | | | | |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| Property damage | 1 591 537 | 1 633 254 | 1 835 011 | 1 779 594 |
| Civil liability of motorists | 119 189 008 | 143 443 212 | 150 513 256 | 225 653 317 |
| Civil liability of vessels | 3 474 | 7 429 | 5 869 | 5 562 |
| General civil liability | 1 489 168 | 1 612 927 | 2 026 891 | 2 238 486 |
| Credit insurance | 0 | 0 | 0 | 0 |
| Insurance "Guarantees" | 0 | 0 | 0 | 972 014 |
| Miscellaneous financial losses | 0 | 1 168 | 216 598 | 515 886 |
| Travel assistance | 506 852 | 996 867 | 958 966 | 718 811 |
| TOTAL | 162 875 528 | 195 481 818 | 204 680 492 | 280 229 215 |

Of the premiums received during the reporting period, BGN 26,507,058 are under contracts concluded in the previous year. This shows a good collectability of receivables related to deferred payment under insurance contracts.

From the total BGN 280,229,215 gross insurance premiums charged during the reporting period period, BGN 207,987,835 were collected, or a collection ratio of 0.74. This one value decreases, as a result of the large growth that marked the company during the year. However, this value is higher than the market average. This is mainly due to introduced innovations in the field of service. Multiple insurance Intermediaries also introduced various systems (SMS notification) to remind about due installments. However, this is not a sufficient guarantee of collectability deferred receivables. For this reason, an automatic system has been introduced termination of concluded insurance contracts in case of non-payment of the next one installment for deferred payment of the premium. The system is built in accordance with the requirements of the Insurance Code and its provisions.

1.3. Investment results

In 2018, the income from investments for the reporting period amounted to 7 BGN 378 thousand, and the expenses - BGN 3,500 thousand. The realized return on investment for 2018 is a positive value in the amount of BGN 3,878 thousand.

1.4. Results of other activities

INFORMATION ON ENVIRONMENTAL AND EMPLOYEE ISSUES

The activity of IC Lev Ins JSC has no relation to ecology and does not have a negative effect impact on environmental protection.

In 2018, IC Lev Ins JSC employed 636 persons, of whom 365 are women. 29 persons have been appointed to management positions, of which 17 are women. During the year the number of newly appointed employees is 129. The persons employed under a management and control contract are 8, of which 4 women.

One of the aspects of the company's social policy is related to the project "Active care". The "Active Care" project was launched in June 2014. The project is a public-private partnership of the Bulgarian Red Cross and the Association "Active Security Club", with the financial support of IC "Lev Ins" JSC. "Active care" was developed in order to support the activities of the state in the field of the first medical and medical help through actions of medical teams on the European model. The project aims to provide opportunities to access first aid to a wider range of people, across the country, yes ensure the maximum number of incidents with the necessary and adequate assistance, as well as already existing capabilities are built upon. "Active care" provides air and ground transport assistance using helicopters, a network of ambulances throughout country and drivers who have gone through a first aid training course at the BRC.

"Active Care" teams respond to traffic and work accidents accidents, domestic incidents, illness and incidents on the Bulgarian mountain and sea resorts.

The medical helicopter used by "Lev Ins" was involved in a number of heavy rescues operations, and his participation was crucial in saving the life of the victims.

As a continuation of the "Active care" project, insurance was also created with the same name, which is priced at BGN 6 and provides an opportunity for a larger group of people to receive adequate assistance in the event of an accident.

2. Management system

2.1. General information about the management system

The company has a two-tier management system. Governing bodies of Lev Ins Insurance Company JSC are the General Meeting of Shareholders /GMS/, Supervisory Board /SB/ and Management Board /MB/.

2.1.1. General Meeting of Shareholders /GMS/ - It consists of all shareholders holding dematerialized registered shares with voting rights, presented in person or by proxy. The members of the SB and the MB can take participation in the work of the GMS. They have no voting rights unless they are shareholders. A representative of the company's employees can also take part in the GMS. He does not have the right to an advisory vote.

Powers:

- amends and supplements the Articles of Association of the Company;
- increases and decreases the capital of the Company;
- transforms and terminates the Company;
- elects and dismisses the members of the Supervisory Board and determines the remuneration them, including their right to receive part of the company's profits, as well as acquire shares and bonds of the company;
- appoints and dismisses the registered auditors;
- approves the annual accounting report after certification by the appointed auditors, takes profit distribution decision, incl. replenishment of the funds and reserves of it and for the payment of a dividend;
- decides on the issuance of bonds;
- appoints liquidators upon termination of the Company, except in the case of an announced one bankruptcy;
- exempts the members of the Supervisory Board and the Management Board from liability;
- elects the head of the Specialized Service for Internal Control;
- chooses a responsible actuary;
- solves other issues provided in its competence by the law and the Statute;

The general meeting is regular or extraordinary. It can be convened by the MB, SB or by request of shareholders holding for more than three months at least five percent of the capital. The regular meeting shall be convened at least once a year, no later from 6 months after the end of the reporting year and takes place at the headquarters of the company.

The extraordinary general meeting is convened in case of urgent need of making a decision that is within the competence of the GMS. In case you lose exceed one second of the capital, an extraordinary general meeting is held no later than three months after the losses are established.

2.1.2. The Supervisory Board /SB/ - The Supervisory Board is a body of the company, authorized to carry out prior, ongoing and subsequent control over the activity of the company. The SB has the right to inspect all books, documents and reports concerning the activities of the company and to require written or oral information on all matters from all members of the MB and all employees of the company. In its activity, the SB can be assisted by external experts, the remunerations of which are at the expense of the company. The SB cannot rule the company. He represents the company only in relations with the SB. SB consists of three to seven members elected by the General Assembly. The mandate is five years. The members of the National Assembly may be re-elected without limitation.

The SB selects its chairman and deputy chairman from among its members. The Chairman convenes the sessions of the SB at his own discretion, as well as at the request of a member of the SB or members of the MB. Meetings are held at least once each two months. The meetings can be attended by the chairman and the members of The MB, as well as other experts, if they are previously invited by the chairman of the SB. In case they are invited to attend, the chairman, the members of the MB and experts do not have the right to an advisory vote in decision-making.

Powers of the SB:

- The supervisory board cannot participate in the management of the company. He represents the company only in relations with the management board;
- elects and dismisses the members of the Management Board, concludes contracts with them for management and representation, and determines their remuneration;
- approves the Rules of Procedure of the Management Board;
- convenes the General Assembly and proposes appropriate measures to the General Assembly when the interests of the Company require this;
- makes proposals to the General Assembly for the release of responsibility of the members of the Management Board;
- through a designated member represents the Company in disputes with the Management Board or individual members thereof;
- gives prior consent for the Management Board to make decisions on:
 - o transfer or grant the use of the entire commercial enterprise;
 - o disposal of assets whose total value in the current year exceeds half of the value of the assets of the company according to the latter certified annual accounting report;
 - o assuming obligations or providing collateral to a person or to related parties, the amount of which in the current year exceeds half from the value of the company's assets according to the last certified annual report accounting report;

- o significant internal organizational changes, including but not limited to: changes in staffing; opening, closing, merging directorates and other structural units, change in their functions;
- o long-term cooperation essential for the Company or termination of such cooperation;
- o acquisition of real estate, encumbrance and sale thereof, sale or lease of a significant part of the Company's assets;
- o taking loans and securing obligations of third parties;
- o establishment or acquisition of subsidiaries;
- o acquisition or disposal of shares and shares of other commercial companies in accordance with the law;
- o all investment projects of the Company;
- o increasing the company's capital and issuing bonds.

- approves the decisions of the Management Board for:

- o the distribution of functions between the members of the Management Board and the authorization of one or more persons from the composition of the Management Board to represent the Company;
- o the authorization of the Company's Procurator/s and conclusion of a contract for prosecutor;
- o acceptance of the forecast for the company's activity; the program for investing the temporarily free funds; general terms and conditions insurances and their rates, other forecasts and programs;
- o the Company's internal rules containing provisions regarding the scope and the procedure for carrying out the operations and the internal organization and the Regulations for the internal rules of the Company;

The Supervisory Board can also rule on any other issue raised before him by the Board of Directors.

2.1.3. The Management Board /MB/ - The MB resolves all issues that do not are of the exclusive competence of the GMS or the SB, subject to the provisions of the law and the Statute, in accordance with the decisions of the GMS and under the control of the SB. It's the MB a collective governing body consisting of three to nine elected members by the SB for a period of five years and after prior approval of a proposed application by the Deputy Chairman of the Financial Supervision Commission, "Insurance Supervision" department. The members of the MB can be reselected without restriction.

The MB reports on its activities at least once every three months to the SB. MB immediately informs the SB of all circumstances that are essential importance to the company. The MB holds regular meetings at least once monthly. The Chairman of the MB convenes the meetings at his own discretion or at the request of another member of the council or a member of the SB.

Powers of the MB:

- the company is managed and represented by a management board, which carries out its activity under the control of a supervisory board;
- determines the general guidelines in the Company's activity;
- organizes and directs the implementation of the decisions of the General Assembly of The Company;
- adopts internal rules for claims settlement activity;
- adopts internal rules for the procedure for disclosure of conflict of interest and ensuring confidentiality;
- adopts internal rules for the organization and activity of the service for internal control;
- with the prior consent of the Supervisory Board decides on the taking of loans and securing obligations of third parties;
- with the prior consent of the Supervisory Board, makes decisions regarding investment projects of the Company.
- with the prior consent of the Supervisory Board, makes acquisition decisions or disposition of shares and shares of other commercial companies compliance with the law;
- develops and adopts with the prior consent of the Supervisory Board the organizational structure, the staff list, the officials characteristics and the Rules for determining labor remunerations and the holidays of the Company's employees;
- with the prior consent of the Supervisory Board, makes decisions on material matters change in the Company's activity or for essential organizational ones changes;
- with the prior consent of the Supervisory Board, makes long-term decisions cooperation essential to the Company or termination of such cooperation;
- with the prior consent of the Supervisory Board, makes acquisition decisions, encumbrance and alienation of real estate of the Company or of real rights to them;
- adopts the internal rules for the Company's activities and Regulations for their work, which are approved by the Supervisory Board;
- with the approval of the Supervisory Board authorizes one or more of its members - executive members, to represent the Company and implement its operational management. When the authorization is for more than one executive member, the Company is represented by two executives members - together;
- with the approval of the Supervisory Board, makes a decision on the authorization of Procurator/s and concluding a contract for a procurator;

- with the approval of the Supervisory Board, accepts forecasts for the Company's activities and programs for investing temporarily free cash;
- with the approval of the Supervisory Board, decides on the selection of others monetary funds not specified in this Statute and in the law;
- develops other forecasts, programs and plans for the Company's activities and organizes and coordinates their implementation;
- accepts the general terms and conditions of the insurances and their tariffs;
- prepares and proposes for approval by the Supervisory Board of the annual accounting report, the report on the company's activities, the distribution proposal of the profit, which he will make before the General Meeting of Shareholders and the annual report on the set aside insurance reserves;
- hears and accepts the reports of the managers of the territorial structures;
- coordinates and controls relations with insurance companies intermediaries, the insurance agents, with the partners and with the customers of The Company;
- determines the form, content and periodicity of the financial statements; is responsible for the timely preparation and content of the annual report financial statement, as well as for its publication in accordance with the requirements of the law; if necessary, adopts measures related to financial recovery of the company;
- performs other functions assigned to him by the General Meeting of Shareholders, The Supervisory Board and this statute.

2.1.4. Executive member/s – Executive Director/s of the MB chooses from among its members to whom it entrusts the management and representing the Company. Lev Ins Insurance Company JSC performs a preliminary and ongoing check for compliance with the requirements of the law and the Articles of Association of the persons, members of the MB and the persons occupying key functions in the company.

The company is represented by executive member(s), elected by the MB, after prior approval of the application by the Deputy Chairman of the FSC, head of the "Insurance Supervision" department and after approval of the decision decision of the MB regarding the manner of representation by the SB.

The powers of the Executive Member/s are:

- represents the Company in its relationships with other physical and legal entities, public organizations and state bodies in the country and in abroad;
- organizes the activities of the Company, carries out its operational activities management, ensures management and protection of property;
- debits the Company's accounts with his signature;

- appoints the Company's employees and terminates their employment legal relations with them;
- delegates rights, authorizes individual employees to carry out actions related to their official functions, secondment in the country and in abroad, exercises disciplinary authority in the Company;
- performs other functions granted to him/her by the law, this Statute, the decisions of the General Meeting of Shareholders, the Rules of Procedure of The Board of Directors and the Rules of Procedure of the Company.

2.1.5. Audit Committee

The Audit Committee of Insurance Company "Lev Ins" JSC consists of three members elected by the General Meeting of Shareholders on the basis of Art. 40 is from The Independent Financial Audit Act. The audit committee helps raise of the quality of the financial reporting process in the company and for the minimization of financial and operational risk, as well as the risk of non-compliance of the legislation.

The audit committee performs the following functions:

- monitors financial reporting processes in the company;
- monitors the effectiveness of the company's internal control systems;
- monitors the effectiveness of the company's risk management systems;
- supervises the independent financial audit in the company;
- reviews the independence of the company's registered auditor in compliance with the requirements of the law on the independent financial audit and the Ethics Code of Professional Accountants.

2.1.6. Security Council

The general management of the company's activities in emergency situations carried out by the Management Board, assisted by a Security Council, called hereinafter "Council". The composition of the Council is determined by order of the executive director, works and includes the directors of the following directorates in the company: "ACS" Directorate; Actuarial, risk statistics, risk monitoring and analysis'; Directorate "Information Technologies" and Directorate "Financial and Accounting".

The advice:

- assists the Management Board in the management of emergency activities situations;
- examines projects of normative, planning and reference documents, related to the company's activities in emergency situations;

- analyzes the probability of occurrence of emergency situations and decides taking preventive measures;
- proposes to the Management Board the creation of temporary bodies for direct supporting the activities of the company's management for each specific in the event of an emergency;
- adopts an annual report on the company's activities in emergency situations.

2.2. Qualification and reliability requirements

The company selects its employees according to the data received the educational and qualification degree, the completed specialty, the acquired professional experience in the specialty and their relevance to the position and related to it functional responsibilities applied for. The Company considers whether the person is competent and can demonstrate, through his experience and training, that he is able to perform basic functions.

The management team includes all persons directly engaged in management functions and control of the company's activities. Specifically, the management team of the company consists of all members of the Management Board, all members of the Supervisory Board and all other persons who hold positions with significant influence on the activities of the company, as well as the performing key functions. Society requires advance information and data as well as evidence regarding compliance of each application for a position, part of the management team. In pursuance of this obligation the company collects evidence in advance regarding professional qualifications, acquired knowledge and experience, as well as reliability of each application. Before submission of a candidacy for the position of head of the "Human Resources" department prepares an assessment of compliance of the submitted application with the requirements of the law. In the prepared assessment examines all the requirements of the law for borrowing the relevant one position and the compliance documents submitted by the applicant, as well as being entered the results of the performed inspection. The company regularly collects additional information regarding compliance with the requirements of the law of the persons holding the position part of the management team, requiring them to have up-to-date criminal records, as well as a new declaration of the circumstances for which the law has provided proof, through declaration. In case of changes in the regulatory framework or in other circumstances of a repeat the reliability of persons occupying management positions is subject to assessment, part of the management team.

The qualification of the persons who actually lead the company - members of the management team is judged on the basis of:

- acquired educational and qualification degree;
- specialty;
- additional courses/specializations to increase the professional qualification;
- professional experience – positions held and related functions performed;

- participations in the management of other commercial companies, including open ones bankruptcy or liquidation proceedings, as well as those with revoked license for performing an activity subject to a licensing regime;
- family status from the point of view of preventing conflict of interest;
- occupying other paid positions under employment law/for the executive members/;
- CV signed by the candidate.

The reliability of the management positions, part of the management team, is assessed in relation to the requirements of the law and on the basis of documents required for proving the stated circumstances. The assessment of reliability also includes teamwork skills, analytical abilities in evaluating information, the ability to make adequate decisions, as well as the results shown at conducted stress tests.

The reliability of the persons who actually lead the company - members of the management team is judged on the basis of:

- criminal record data;
- right to occupy a materially responsible position;
- dismissal from office on the basis of a coercive administrative measure;
- participations in the management of other commercial companies, including open ones bankruptcy or liquidation proceedings, as well as those with revoked license for performing an activity subject to a licensing regime;
- CV signed by the candidate.

2.3. Risk management system including own risk assessment and solvency

In 2015, the Company took measures to introduce the management function of the risk. A risk management manager should report to the MB on risks, which have been identified as potentially material. The report can be own initiative or at the express request of the MB. It is attributed to the manager of risk management the obligation to implement the risk implementation policy.

Characteristics of performed duties:

- Performs analysis and assessment of risk related to investments managed by IC "Lev Ins" JSC and approved by the Financial Supervision Commission (FSC);
- Performs analysis and assessment of the risk associated with the underwriting activity carried out by IC "Lev Ins" JSC, approved by the Commission for Financial Supervision (FSC);
- Assists in the implementation of investment transactions with securities and deposits with the assets of the Company;
- Participates in the preparation of the reports for the FSC concerning its main activity;

- Participates in working groups and committees within IC "Lev Ins" JSC;
- Assists in the implementation of the risk management system by being responsible for compliance with a risk management policy in the company's activities;
- Monitors the enterprise's risk profile and reports on cases of deviation from assumptions;
- Protects the official secret to which he has access in the performance of the tasks set his tasks;
- Performs other professional duties arising from the assigned his function, as well as when required by management.

Responsibilities:

- Responsible for the identification, assessment and monitoring of risks related to the signing activity;
- Responsible for the identification, assessment and monitoring of risks related to investments and for the correctness and legality of those given by him opinions and consultations in this regard;
- Responsible for the accuracy and timely presentation of information in connection with its activity, required by the Executive Director, the authorities of management of the company, the supervisory authorities, etc., including the FSC and Deputy — the chairman, managing the "Insurance Supervision" department;
- Responsible for the protection of official and commercial secrecy.

The company is exposed to risks in relation to its activity. The general definition risk is the uncertainty that an expected event or forecast will come true. The accepted one risk management approach makes it possible to implement some of them the effect of their implementation is minimized or they are completely removed, whichever is the case ensure the financial condition of the company.

The market on which the company realizes the packages of insurance services is characterized by a high degree of competition. This means that in the short term the company may fail to realize previously expected results and yes lost part of its market positions. Success depends on the company's ability to withstand the competitive pressure by improving the quality of the products offered insurance services, additional diversification of the product portfolio, through expanding the scope of the already issued license and expanding the market presence as well as a fully built and well managed system to control all risks inherent in it.

2.4. Internal control system

The internal control system includes the overall policy and procedures for internal control to achieve the following objectives to a reasonable extent: to ensure order and efficiency in carrying out the activity with economical and efficient use of resources, including adherence to management policy, asset protection of the company, detection and prevention of fraud and errors, completeness and correctness of accounting documentation, as well as timely preparation of reliable Financial information.

Control is a comprehensive and continuous process integrated into the company's activities, including the management bodies, the persons in managerial positions, the specialized control

bodies and all other persons who work under a contract with the insurer, for the purpose to reasonably ensure:

- achievement of goals and performance of tasks;
- economical and efficient use of resources;
- assessment of the various risks and their management;
- protection of assets;
- reliability and comprehensiveness of financial and management information;
- performing the transferred insurance activities according to the requirements, established by the insurer;
- compliance with measures to prevent money laundering and financing of terrorism;
- legality of the activity, compliance with the programs, plans, the company's internal rules and procedures.

Each person in the company has a certain responsibility in relation to the internal control. The role of managers at all management levels is key, as according to their functions and the hierarchy in the company, they manage those they lead units and organize their internal control.

All employees of the company also participate and have specific roles in the implementation of internal control according to its functional competences.

Internal control is a management activity that ensures and ensures that objectives of the company will be achieved through:

- compliance with legislation, internal acts and contracts;
- reliability and comprehensiveness of financial and operational information;
- economy, effectiveness and efficiency of the activities;
- protection of assets and information.

2.4.1. The internal control system of IC "Lev Ins" JSC

The control activity has been implemented at all levels of the activity carried out by IC "Lev Ins" JSC. Processes, methods and interactions in the company in connection with the implementation of internal control.

2.4.1.1.1. Head Compliance Function

The compliance function is objective and independent of other functions and is expressed as:

- advising the management and supervisory bodies of the company regarding compliance with the laws, by-laws, immediately applicable acts of competent bodies of the European Union and internal acts of the company;

- assessment of the possible effect of changes in the legal environment on the activity of the company;

- identification and assessment of the risk arising from non-compliance with the laws, the by-laws, the directly applicable acts of the competent authorities of The European Union and the internal acts of the company.

The head of the compliance function is appointed by the management board. All directorates and territorial structures assist the Head of the Compliance Function at carrying out its assigned activity.

The head of the compliance function:

- immediately informs the management authorities about the violations he finds in the activity of the Company;

- prepares an annual report and presents it to the Management Board, the Supervisory Board and WASP;

- immediately informs the deputy chairman of the Financial Supervision Commission in the cases where, as a result of an inspection, violations were found and weaknesses in the Company's management that have led or may lead to significant damages and for which he believes that the governing bodies have not taken action sufficient measures for their removal;

- the legality and effectiveness of the company's policy under human resource Management;

- the effectiveness of actions to eliminate identified gaps and violations;

- the legality and expediency of the concluded contracts and their performance;

- the adequacy and compliance with the internal rules and procedures for concluding insurance contracts, for acceptance and consideration of claims that have occurred insurance events and to determine payments for them;

2.4.1.1.2. Head of the internal audit function

- The internal audit function is objective and independent from other operatives functions.

- prepares an annual report on the activities of the unit performing internal audit and presents it to the Supervisory Board, the Audit Committee and the GMS

- prepares and submits an annual plan for the audits that are accepted by Administrative board;

- After completion of the procedure for the implementation of each audit engagement with the conclusions of the internal auditors, the audit report is presented with the applications before the company's MB.
- In case of detected violations and damages, the representative of the company issues an order to take action to remove them. The order is served against the signature of the head of the inspected object.
- A copy of the order is attached to the materials on the audit engagement and at necessity is also handed over to other officials who are responsible for its implementation.
- Prepares quarterly reports to the Audit Committee on the results of the activity;
- In case of significant violations, a copy of the relevant audit a report is submitted to the MB, the SB and the Audit Committee of the company.
- In cases where no measures have been taken by the governing bodies of the company, the report is submitted to the FSC, Department "Insurance supervision".
- Compiles an annual activity report to the MB, containing information on:
 - the main results of the implementation of audit engagements;
 - the measures taken and their implementation;
 - the problems of the organization;
- the main tasks to solve in the next year or in the future.

2.4.2. Managers of the company

Approve the enterprise's individual chart of accounts; organize the current accounting reporting in accordance with the provisions of the law on accounting; approve the form of accounting that ensures synchronized implementation of chronological and systematic (analytical and synthetic) accounting reporting; are responsible for the compilation, content and publication of the financial statements and of the annual reports required under this accounting law; determine the periodicity of financial statements for the needs of the enterprise's management; is responsible for performing an independent financial audit by registered auditors; determine the order and method of carrying out an inventory; are responsible for the storage of the accounting information according to the order and within the terms of section III; determine the order and the movement of accounting documents from the moment of their creation or receipt in the enterprise until the moment of their destruction or handover according to the

law on accounting. The head and members of the management and supervisory body of the company is responsible for compiling, performing an independent financial audit from registered auditors and the publication of the annual financial statements, consolidated financial statements and the annual reports under chapter seven in accordance with the requirements of the accounting law and according to their powers under the Commercial Law.

2.4.2.1. Chief Accountant

Controls the overall financial and accounting activities of the company. Controls and organizes the accounting reporting, in accordance with the requirements of the Law on accounting, International Financial Reporting Standards, Code of insurance and related regulations. Responsible for the financial status discipline and does not allow the creation of conditions for waste and abuse of the company. The Chief Accountant is directly subordinate to the Executive Director and to him reports on detected violations and non-conformities with the current legislation.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.2. Head of the "Human Resources" Department

Performs periodic and ongoing internal control in relation to compliance with labor discipline and labor safety requirements. He is responsible for compliance with labor and insurance legislation and updating of internal documents in accordance with upcoming legislative changes. Also carries out internal control over the fulfillment of the requirements for safe conditions of labor and fire protection of the working environment. In case of detected violations and inconsistencies with the current legislation, reports to the Executive Director.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.3. Head of "Administrative" Directorate

Controls compliance with internal requirements for working with documents and supervises the activity of the administration for the exact observance of the internal rules of the company in relation to the document flow. He exercises control over the storage of the documents in the administration and monitors compliance with the deadlines at implementation of the administrative service. Also implements internal control over the implementation of assigned administrative tasks. When found violations and inconsistencies with the internal rules of the company and the current one legislation, reports to the Chief Accountant.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.4. Director of the Main Directorate "Acquisition"

Monitors the accurate determination of risk factors in the underwriting activity. Complies the internal rules of the company and carries out internal control over the activity of The directorate. Monitors compliance with money laundering prevention measures. At establishing customers and objects of insurance with increased risk, to place on discussion with your subordinate department heads, the risk manager and the actuary the expediency of signing the insurance contract. When identifying direct and indirect risks and prerequisites for generating losses from the activity report to the risk management manager, the members of the management board and the executive director.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.5. Director of the Directorate "Regional Structures"

Performs internal control over the sales system and reporting of insurance intermediaries. In case of detected violations and non-conformities with the internal rules of the Company and the current legislation the Director of the "Regional Structures" Directorate reports to the Executive Director and the Managing Director advice.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.6. The Head of the "PR and Advertising" Department

Controls and monitors the reliability of the information provided to the media in connection with the company's activity. Controls and monitors to identify direct and indirect risks in providing information and its perception by users of insurance services. In case of detected violations, the head of the department reports to the director of the Regional Structures Directorate, the management board and the executive director.

2.4.2.7. The Director of the General Directorate "Compensation"

Monitors for accurate application of Internal rules for the organization of the activity settlement of insurance claims. Identifies and reports on opportunities for allowing insurance fraud. Monitors strict compliance with the measures for money laundering prevention. In identifying direct and indirect risks and prerequisites for generating losses from the department's activity reports to the manager of risk management, the members of the Management Board and the Executive Director.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.8. Director of the Legal Department

Monitors for accurate application of the norms of domestic and European legislation. Follow up on the legality of internal normative documents and their implementation. Identifies and reports on insurance

fraud opportunities and helps to overcome them. Monitors strict compliance with the measures for money laundering prevention. In identifying direct and indirect risks and prerequisites for generating losses from the company's activities report to the members of the Management Board, the Executive Directors and the Risk Manager.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.9. Director of the Reinsurance Directorate

Prepares and proposes a project of the company's reinsurance program. At reported violations and inconsistencies with the current rules to Risk - the manager and the Executive Director.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.10. Director of the Information Technology Directorate

Prepares references, appendices to the periodic and annual accounting reports of the company. Monitors compliance with the system of internal rules and implements internal control over the activity of the personnel engaged in the information service of the company, controls access levels and monitors compliance with archiving rules of the documentation and electronic archives of the database. In case of detected violations and reports discrepancies with the current rules to the Risk Manager and the Executive director.

Follow-up control is carried out during inspections of the Specialized Service for internal control.

2.4.2.11. Directorate "Actuarial, risk statistics, risk monitoring and analysis"

Main activities and functions of the directorate: to prepare references, annexes to the periodic and annual accounting reports of the company; to prepare periodically analyzes and assessment of the company's risk; to prepare proposals to the Executive director for changes in the general and special conditions for insurance, tariffs and the insurance-technical plans, depending on the development of the risk and the market ones conditions, as well as for new products; to perform other tasks assigned by The executive director.

Director of the Directorate "Analyses, forecasts and information services"/Risk Manager/. Basic functions:

plans, manages and coordinates the activities of the Directorate;

proposing management decisions, controlling their implementation and following up on getting results;

performs analysis and risk assessment related to the investments managed by the company;

performs an analysis and assessment of the risk associated with the signing activity carried out by the company;

assists in the implementation of the risk management system by being responsible for compliance with risk management policy in the company's activities;

monitors the enterprise's risk profile and reports on cases of deviation from the assumptions.

Responsibilities:

responsible for the identification, assessment and monitoring of risks related to the signing activity;

responsible for the identification, assessment and monitoring of risks related to the investments and for the correctness and legality of the opinions given by him and consultations in this regard;

responsible for the accuracy and timely presentation of information in connection with its activity required by the Executive Director, the governing bodies of the company, the supervisory authorities, etc., including the FSC and the Deputy Chairman, head of the "Insurance Supervision" Department;

responsible for the protection of official and commercial secrecy; Organizational-management connections, relationships and contacts.

Manager of risk management is directly subordinated to the Executive Director;

maintains relationships with all managers and employees in the Company;

2.5. Actuarial function

The actuarial function in IC Lev Ins JSC should be effective and is carried out by responsible actuary. Main functions, responsibilities and relationships of the responsible actuary:

- organizes, manages and is responsible for the actuarial services of the company;
- develops premiums sufficient in size, with the exception of premiums under insurance of major risks;
- forms sufficient technical reserves for the correct calculation of the limit of solvency, as well as for the correct use of actuaries methods in the company's practice;
- monitors the correctness of the scheme for the distribution of income from investments the assets between the insured and the company;
- prepares and certifies the company's reports in connection with the actuarial activity;
- to prepare and submit to the FSC an annual actuarial report - by March 31 of the year, following the year to which the report refers;
- to immediately notify the FSC of any circumstance that has become known to him in the performance of his functions and which relates to the company and constitutes a material violation of the IC or the acts on its implementation or may adversely affect the performance of the business of the company.
- The responsible actuary is responsible to the GMS, MB and SB.

2.6. Outsourcing activities

The company proceeds to entrust third parties with the implementation of activities and the functions for which it does not have the necessary capacity and resource, as well as prepared personnel, including the implementation of activities that it would perform through self-employed personnel would lead to a conflict of interest to the detriment of the rights of the insured persons. Accompanying activities are subject to outsourcing to third parties the provision of an adequate insurance service, which essentially represent other commercial activity, other than the activity of providing insurance coverage of risks under contracts, expressed in raising and spending funds intended for the payment of benefits, etc. sums of money, upon occurrence of events or fulfillment of conditions. No transfer of key functions or other important functions or activities of outsiders:

- when the quality of the management system significantly deteriorates;
- when operational risk increases unreasonably,
- when insurance supervision is hindered,
- when the interests of users of insurance services are threatened.

Activities subject to outsourcing to third parties are:

- activities of reception and processing of primary information about incidents insurance events (call center);
- insurance service provision activities – specialized medical transport (air and ground);
- activity of providing an additional service for providing road traffic assistance and primary technical assistance (tyre change, power supply, repatriation);
- activities to restore damages in kind (auto repair shops, suppliers of auto parts and equipment);
- insurance claims settlement activity on behalf of the insurer;
- activity of assigning expert evaluations to independent external experts in connection with the settlement of insurance claims;
- any other activity at the discretion of the Management Board of the company, which is not related to insurance risk assessment, determination of the insurance premium, management of the insurer's assets.

The outsourcing of activities is done on the basis of a contract in which the rights and obligations of the parties are clearly defined. Before concluding a contract for awarding an activity with an external contractor must be checked for compliance of the applicant's activity with the specific regulatory requirements, for example, does it hold a license in case it is subject to a licensing regime, company and professional reputation, execution of contracts with other counterparties, value of the required service with a view to protecting the interest of users of insurance services, availability of sufficient personnel capacity and technical security of the external contractor with a view to the possibility of performing the assigned functions in the interest of users of insurance services Results and quality are assessed on an ongoing basis through feedback from users of insurance services - analysis of data from objections, reports, requests; through analysis of risk manifestations – execution quarterly review of customer service and value/performance of the service provided by comparing it with the prices and quality of other external ones contractors; through an internal study using the "pretend customer" method - an employee of the company takes on the role of a user of insurance services for the purpose of checking the service provided; by checking the subcontractors, if any are used by the external contractors through the methods described above

2.7. Other information

3. Risk profile

3.1. Underwriter's risk

This risk is associated with the activity of concluding new contracts, manifested as incorrect assessment of the risk to which the client is exposed and incorrect determination of the price of insurance policy for a specific product. The measures for its minimization are lead to a unified approach in assessing the risk profile of the application client of medical and financial criteria by

the company, various declarations (health, tax, financial and others) on a certain scale, including for the older ones sums insured. The company reserves the right to refuse the conclusion of a given insurance product in the presence of high medical or financial risk that is not ready to accept. Ongoing training is also provided to agents at locations, as well as specializations of officials in order to increase their qualifications and reducing the risk of an improperly conducted evaluation and pricing process at issuing new policies.

In connection with the management of this risk, the company adopts mechanisms in its activity and procedures to limit underwriter risk. There are rules for signature limits of company employees directly involved in the assessment of the insurance risk, the commercial structure of the company – employees in agencies, sales related and insurance intermediaries brokers and agents compliant with relevant insurance products.

The adopted rules are applied in insurance agency contracts and insurance brokerage. Depending on the professional qualification of the insurance intermediary is approved limits of insurance sums up to can be offered, respectively conclude an insurance contract. Centrally management of the company takes over the methodical control and management of the conclusion of insurance contracts above certain amounts.

There is a mandatory authorization procedure for concluding insurance policies contracts above certain sums insured, including advance collection of information about the customer's individual risk profile, damage and expected amount of the probability of the realization of damage in the future. Mandatory part of this procedure is a specification of the provided insurance coverage corresponding to the risk customer profile.

Insurance contracts above a certain sum insured or by specific classes insurances are offered and concluded only by Central Management according to the authorization table.

In the case of high risk data, the conclusion of an insurance contract may be refused or an insurance contract is concluded in the event of a tariff increase or they are given mandatory prescriptions to limit a specific risk. On each of insurance contracts are practiced a different set of measures representing preventive measures.

The present severely limits the risk in terms of competence in the issuance of policies and realization of losses from occurrence of insurance risk which was underestimated or misjudged.

Underwriter risk is also related to the risk of loss in connection with the conclusion of insurance and reinsurance contracts, given the conditions agreed upon, in case of incorrect assessment of the risk profile, found during reassessment of issued contracts. To limit this manifestation of this risk is necessary most strictly compliance with the insurance tariffs and adherence to the relevant General Terms and Conditions type of insurance.

Current control of concluded insurance contracts, such as The "Acquisition" Directorate at the Central Office has been assigned an inspection of insurance contracts at the time of their

reporting. The check includes: full reassessment of the client's risk profile, compliance of the concluded insurance with the effective tariff for the given risks, justification of the discounts provided, as well as writing out the specific insurance contract in accordance with the current ones rules. In case of detected violations, the prescribed sanctions are imposed in the contracts and internal regulations of the company, including but not limited to termination of the insurance contract.

3.2. Risk of cancellation

For the company, we assume that this risk is expressed in the early termination of insurance by customers. The measures we take to reduce this risk are: flexible insurance premium rescheduling schemes agreed with the client, reduction of the insured amount or the number of covered risks, etc. the measures described above are aimed at keeping the client in the group of insured, keeping the the level of risk equalization in this aggregate, ensuring the adequacy of the separate reserves for this type of insurance, from there and reducing the risk of realization of future losses in relation to the main business.

The risk of cancellation is the result of other attractive insurance products or promotional packages /lower price/ offered by other participants of the insurance market, negative feelings in relation to benefits, from disloyal market practices or the result of a customer's personal decision.

To manage this risk, the company maintains a feedback communication channel relationship with its customers, built at all levels and structures in the company. The opposite communication from the client regarding his needs and wants is collected by the insurance intermediary, being sent to the Central Office for making an adequate decision and building an attractive insurance product or overcoming another problem, led to the cancellation. A special structure was also built - a call center for servicing incoming signals from customers in connection with service under their policies.

3.3. Investment risk

It is related to the probability of realizing a negative result from the investment of given assets in certain investment products and their management. In case of manifestation of this risk the company realizes losses as a result of changes related to market quantities such as inflation, exchange rates, interest rates, badly made and managed investment, nationalization or the collapse of an economy. To what extent a large part of the company's technical reserves are invested in government securities papers and bonds issued by the Bulgarian state and by issuers with headquarters in Bulgaria, the general risks for repayment of the debts and the Bulgarian economy have a direct impact on the risk of the investments made. That is why rules have been adopted for valuation of the company's assets corresponding to the market situation.

The financial instruments owned by the Company are determining for investment risk. Some of the following data, factors and analyses:

- Issue value announced in the issuer's public offering prospectus of similar securities;
- Decisions to increase or decrease the issuer's capital;
- Decisions on conversion of the issuer and announced in the conversion plan, value or exchange ratio of the securities;
- Any changes in the commercial activity of the issuer that affect the price of its securities;
- Changes in the issuer's articles of association;
- Formed claim, security or enforcement proceedings, on which the issuer is the defendant;
- Analysis of the economic sector in which the issuer operates;
- Analysis of the general state of the securities market;
- Availability of option contracts for the given securities;
- Data regarding the trading and quotations of the securities of a regulated domestic or foreign market.

Sources of information for valuation of financial instruments held by the company are:

- Register of public companies in the FSC;
- The official bulletin of the Bulgarian Stock Exchange;
- Three-year national and international reports of the issuers;
- Prospectuses for public offering of issuers' securities;
- Official quotations of the primary dealers of securities;
- Official bulletins of NSI and BNB;
- Quotations, bulletins and analyzes of Bulgarian and foreign regulated markets and investment intermediaries;
- Ratings of internationally recognized rating institutions.

The Company has adopted and maintains specific rules for the valuation of its assets which updates periodically in order to fully respond to developments or the emergence of new ones risk circumstances in connection with the realization of this risk.

3.4. Currency risk

It arises from the risk associated with the price of the currency in which the instruments are issued constituting the investment portfolio of the company and the probable loss of difference in the exchange rate. We accept this risk as part of the investment risk.

Currency risk is largely negligible due to the fact that the company's investments are mainly in deposits and securities in BGN euro at a fixed rate. This circumstance limits the possibility of currency losses, associated with a downward movement of exchange rates or a collapse in economies associated with investment currencies.

As a safeguard against this risk, the company maintains a balance sheet of diversification in terms of investment, both in terms of type and where.

Regular monitoring is carried out related to the development of investments and at detection of negative trends, corrective measures are applied.

3.5. Interest rate risk

It is associated with the change in the value of debt securities as a result of a change in interest rates and is part of the pool of risks associated with investment risk. The price of debt securities is affected by interest rates, such as the increase in interest rates lead to a decrease in their price. The company manages interest risk through an active investment policy, as the effective duration of the portfolio se changes depending on expected changes in interest rates. To minimize the negative effect of the expected rise in interest rates in the country, the company prefers to invest in medium-term debt securities maturity.

The company is exposed to price risk regarding price changes of valuables papers listed on the Bulgarian Stock Exchange. That is why we perceive it as part of investment. The market value of each security changes in the direction of increase or decrease, sometimes very quickly and unpredictably. Price risk can affect a certain issuer, a sector of the economy, as well as the entire economy. The price the risk of individual securities in the company's portfolio is minimized through its diversification.

3.6. Liquidity risk

It arises from the inability of the company to meet certain monetary obligations with available assets. In order to manage this risk, the management of the company maintains sufficient free cash reserves in order to ensure permanent liquidity.

As a mechanism for controlling this risk, the company carries out periodic controls on the liquidity of your financial means by preparing a report on liquidity ratio. The liquidity ratio shows that the Company is in able to cover its current liabilities with available short-term assets. At a trend in the development of the ratio indicating a problem in liquidity and impossibility to cover counter costs, measures related to providing the necessary means to meet them.

The company applies as another measure related to liquidity control, the implementation of measures under the Solvency II Directive. Regular ones are prepared reports by the audit functions of the company leading to certain corrective measures if necessary.

3.7. Risk from the realization of major insurance events, resp. the payment of substantial benefits

It is minimized by a correctly performed acquisition process, correctly assessed risk customer profile and risk cession through reinsurance and co-insurance contracts. As specific measures related to this risk, the company carries out regular monitoring of the damage quota by

products, channels of distribution and certain intermediaries and when concentrations are found, it performs corrective measures described under the risks above. Such measures are: conduct of additional training in relation to the risk profile of clients, integration of risk prevention systems, raising the level of qualification of assessors of insurance claims, etc.

3.8. Risk of insurance fraud

The Company assumes that manifestations of this risk are fraud at the entrance (ie fraud at initial conclusion of an insurance contract), fraud during the operation of insurance contract and liquidation fraud. As the main sources of this risk we accept: the insured, resp. insurance applicants, insurers and insurance intermediaries.

After a regular risk assessment, the company has adopted the division described above, which includes:

- Risk of fraud at the entrance - we mainly associate the manifestation of this risk with providing inaccurate and incomplete information regarding the circumstances, related to the risk profile of the insurance applicant or himself insured. The main bearers of this risk are, in addition to the listed and insurance intermediaries, as a major part of the evaluation process of the risk.

The consequence of realizing the risk is an inaccurate risk assessment, underestimation or overestimation of the risk, incorrect pricing and wrongful payment of insurance compensation.

The measures that the company applies in relation to limiting this risk are: training to improve the professional skills of mediators, subsequent control when issuing the policies and regular monitoring of the insured population.

- In respect of the risk during the term of the policy, the company is considered its manifestations to be minor as they are primarily related with sudden changes in risk circumstances. That's why we take it as a risk, subject to relatively good control. We also foresee a follow-up management. The Company through its overall service policy of the client assumes that this risk has been minimized and overcome.
- In connection with the risk caused by fraud during insurance liquidation claims, the company applies conservative, preventive measures and subsequent overall control by means of process mechanization and authorization table entered.

An organizational unit was introduced in the company - a separate directorate, directly engaged in the prevention and control of insurance fraud. In the imputed duties of the employees of the directorate include the activity when checking before conclusion of an insurance contract, verification of applicants for insurance at insurances with a high insurance amount, verification of the validity of the claims circumstances when realizing insurance events and subsequent verification including the value of the compensation paid.

To reduce this risk, strict control is applied to the movement of blanks under strict accountability of the company and monitoring of insurance fraud and by Specialized Service "Internal Control", Directorate "Financial and Accounting", Directorate "Acquisition" and Directorate "Information Service". The impact of this risk is also limited by the established organization for internal control in the company, which is part of the policy for modern methods of risk management.

3.9. Reputational risk

This is the risk of realization of which the influence of the name is reduced and the positive reputation of the company on the insurance market. From the reduction of this one reputation, expressed in the accumulation of negative attitude on the part of users of insurance services, the company mainly realizes financial lost.

Bearers of this risk are all the main units in the company, having access to work with customers and outsiders as well as management itself through its actions or inaction in certain situations. As the main units related to this risk, the company accepts and defines: the units related to sales, the units related to the examination of insurance claims, as well as engaged in servicing of customers in general. The impact of this risk in management decisions is related to the overall management regarding the customer service policy.

Result of the incorrect attitude of the customers during the conclusion of the policy, incorrectly and inaccurately submitted pre-contractual information, created wrong expectations, unsatisfactory liquidation of claims, "administrative" approach at service, reputational risk manifests itself in negative media appearances, negative rumours, campaigns and more.

As a mechanism for limiting this risk, the company has adopted a completely new and customer-oriented service policy with training of intermediaries, change in the forms of customer communication and gathering feedback about the service.

Regular reports are prepared and periodic trainings related to communicating with the client, resolving conflict situations, etc.

3.10. Risk in connection with the performance of activities assigned to external contractors

This risk is mainly related to the company's counterparties, to whom it assigns part of its main activities - call center, round-the-clock insurance assistance and trusted repair shops. The manifestations of this risk are: incorrect execution of the assigned activity, delay in time and non-compliance with deadlines, misleading payments. The minimization of manifestations of this risk leads to a reduction in costs, opportunities for fraud and increases revenue. The activities that the company carries out in relation to this risk are related to a uniform policy for all levels of working with external suppliers, theirs check and verify. Regular monitoring of the services provided by external contractors, as in case of non-compliance with the established rules contracts are subject to termination.

3.11. Intermediate risk

It is related to the overall work of insurance intermediaries, and mainly from this part from the own network over which the company has control and for whose work it carries responsibility. Risk arises as bad training, bad attitude towards customers, non-compliance with company rules and regulations, insurance attempts fraud and misuse of cash funds, all leading to financial losses and manifestation of reputational risk. The company applies as optimization measures continuous training, control at several levels and periodic conferences (national meetings), related to the legal framework and the management system of the company.

3.12. Risk of changes in the regulatory framework

The company considers this risk as one whose manifestation it cannot influence, but can be minimized through the application of all legal acts in the specified terms, thereby reducing possible losses from administrative acts and others.

3.13. Other information

4. Assessment for solvency purposes

4.1. Regulatory framework

The company is working on building its own risk assessment and management model with purpose of making an adequate management decision on the occasion of the possibilities of implementation of the Solvency II directive – whether to apply a standard formula or in-house model for calculating key indicators.

The performed analysis aimed to determine the correlational dependence of risk profile of IC "Lev Ins" JSC from main factors and to assess the level of security of the results obtained when applying the standard formula. Therefore to calculate of the Solvency Capital Requirement representing the starting point for own assessment of risk and solvency are embedded models of standard formula.

4.2. Legal requirements

The general assessment of capital adequacy is carried out in accordance with the assessment rules laid down in the Solvency II directive and all norms, related to her. This assessment is based on an equity calculation and the financial results for 2018. Development scenarios (stresses) are attached according to the predictions of the standard formula.

The results of the own assessment of risk and solvency allow the the management of the company to make an approximate assessment of the main and secondary risks that it will face in the future in pursuit of both its own strategic goals, as well as short- and medium-term tasks.

The forecasts are in accordance with the regulatory requirements, and such assessment is performed annually.

4.3. Risky situation

The company's activity is developing with a healthy growth, as this will allow fulfillment of both the solvency requirements and the stipulated pre the company's short- and medium-term tasks, which will ensure sustainability in adverse environment. In any case, it will be necessary to examine and analyze them systematically the attitudes of all those involved in the external economic environment for the company – customers, shareholders, competitors, regulatory authorities, partners, including distribution channels, etc.

The main indicators for determining the risk situation are:

- The financial result;
- Return on capital;
- Amount of own funds;
- The requirement for own funds (requirement for solvency of capital) and solvency ratio.

4.4. Risk profile and adequacy of the risk profile against the standard formula

The risk profile summarizes the main risk factors that can significantly to affect the solvency of the company. These are – market risk, risk related to receivables from counterparties, underwriter risk, operational risk, catastrophic risk and currency risk.

Risk factors are assessed quantitatively or qualitatively, taking into account and their correlation. The main risks applicable to the company are technical and financial risks: these risks are modeled in the standard formula. At this stage, IC Lev Ins JSC considers that the standard formula corresponds to the risk profile in view of the assessment of equity needs.

4.5. Execution

Results in this research are based on actual company data for 2018, and the same have been audited and disclosed to the Financial Supervision Commission. They cover the entire portfolio of products offered by the company, having been fully evaluated of its assets and liabilities, in order to establish the actual (according to the requirements of Solvency II) excess of assets over liabilities, i.e. evaluation of own funds according to Solvency II requirements Regarding Solvency II calculations, they are based on the standard formula as described in the "Technical Specification for Preparatory Phase".

4.6. Research results

Above in this report we have described the main risk factors that affect and determine the required solvency of the company according to the requirements of the Solvency II directive. The specific elements making up the requirements for solvency in relation to the company's activities are placed in the report of the auditor under Art. 126 of the CC.

Each of the risk factors is a combination of certain specific risks to which the company is exposed in carrying out its activity. For example, the market one risk as a factor is a combination of interest rate risk, equity risk, risk associated with real estate, spread risk, currency risk and concentration risk. By grouping of risks and the application of a correlation matrix for individual dependencies risks on the example of the standard formula is determined the general requirement for own funds, according to the Solvency II directive.

The company's own funds are like the difference between the assets and liabilities of the company. For this purpose, a revaluation of all tangible and intangible assets was carried out assets, receivables and liabilities of the company. Revaluations have been made accordingly with the technical specifications for the implementation of the Solvency II Directive. The specific results are included in the auditor's report under Art. 126 of the IC.

The excess of assets over liabilities of the company covers the financial requirements, according to Solvency II. This is a sufficient guarantee for the long-term stability of the company at the end of 2018.

5. Capital management

5.1. Equity, Solvency Capital Requirement and Minimum capital requirement

The realized financial results of the company, own funds, the minimum capital requirement, the capital requirement for solvency and their respectively coatings, are included in the auditor's report under Art. 126 of the IC.

5.2. Differences between the standard formula and each in-house model used

To calculate the Solvency Capital Requirement representing starting point for own risk assessment and solvency are set standard formula patterns.

5.3. Violations of the minimum capital requirement and violations of the capital solvency requirement

In 2018, the company did not report violations of the minimum capital requirement and violations of the Solvency Capital Requirement.

6. Prospects for the development of the company for 2018.

The last three years have seen a steady, healthy growth, esp. for voluntary insurance, which enables the company to place ambitious goals ahead. In the short term, they are associated with preservation and increasing the company's market share in the most advocated insurances and achieving of growth within 10-15% per year.

The development of new products, unique for the Bulgarian market, is planned European model to meet changing consumer demand. Growth is predicted in property and personal insurance. In this way it will be resorted to towards balancing the insurance portfolio and reducing dependence on the insurance company with a large stake in its portfolio.

7. Events that occurred after the date on which the annual financial statement was drawn up - there is no.

8. Actions in the field of research and development - none;

9. Information on the acquisition of own shares, required pursuant to Art. 187d of The commercial law - none.

10. Branch network

On the territory of the country in 2018, 117 agencies were active and exported territorial structures to them. Traditionally for the company in order to maintain the active activity of insurance intermediaries has been organized and carried out a number of times targeted trainings - current and periodic. The purpose of these trainings is on the one hand prompt familiarization of insurance intermediaries with the changes and innovations in the insurance products and accompanying internal regulatory acts and documents, as well as motivation to activate sales, adequate and urgent solving of questions asked and cases arising in the process of work with the help and participation of the branch Directorates at the Central Management of IC "Lev Ins" JSC.