BARENTS

INSURANCE EAD

❖ SOLVENCY AND FINANCIAL CONDITION REPORT

As at 31 DECEMBER 2024

Summary

This Solvency and Financial Condition Report (SFCR) of Barents Insurance EAD is published in accordance with the requirements of Articles 51 to 56 of Directive 2009/138/EC Solvency II (Solvency II), which are mandatory for every insurance company with its head office in an EU Member State. Solvency II is a harmonized regulatory regime within the EU, which aims to improve the protection of insurance service users and modernize the supervision of insurance companies by national supervisory authorities. The SFCR is a report with a standardized structure and contains descriptive information in quantitative and qualitative form, supplemented by templates with quantitative data. The SFCR consists of five sections, which together provide a clear overview of the Company's business strategy, its implementation and results, the system of governance, the risk profile, the Solvency II assessments, the capital management approach and the current capital position.

The data in the report is based on information as at 31 December 2024.

The Solvency and Financial Condition Report for 2024 has been approved by the Company's Board of Directors in accordance with Solvency II. It is not always possible to make a straightforward comparison between the amounts presented in the annual financial statements and in this report due to the different methods used in IFRS and Solvency II.

1. Operations and results

1.1. Activity

Barents Insurance EAD is a single-member joint-stock company registered in the Commercial Register of the Registry Agency, Ministry of Justice, with UIC 207459862. The registered office and address of the company are in Sofia, 7-9 Uzundzhovska Street.

The Financial Supervision Commission issued a license for insurance activities with Decision No. 474-OZ of July 16, 2024. The company is licensed for the following classes of insurance in accordance with Annex No. 1, Section II, Letter A of the Insurance Code:

Under item 1: Accident

Under item 2: Illness

Under item 3: Land vehicles (excluding rail vehicles)

Under item 4: Rail vehicles

Under item 5: Aircraft

Under item 6: Watercraft

Under item 7: Cargo during transport

Under item 8: Fire and natural disasters

Under item 9: Other damage to property

Under item 10: Civil liability related to the ownership and use of a motor vehicle

Under item 11: Civil liability related to the ownership and use of aircraft

Under item 12: Civil liability related to the ownership and use of watercraft

Under item 13: General civil liability

Under item 14: Loans

Under item 15: Guarantees

Under item 16: Miscellaneous financial losses

Under item 17: Legal expenses

Under item 18: Travel assistance.

The company has a capital of BGN 19,600,000 (nineteen million six hundred thousand), divided into 19,600,000 registered dematerialized shares with a nominal value of BGN 1 each. The company has a single-tier management system – a Board of Directors, in accordance with Article 244 of the Commercial Act. The company is represented jointly by two executive directors.

The company will carry out insurance and reinsurance activities.

The sole shareholder of the Company is Barents Re Reinsurance Company Inc., Cayman Islands ("Barents Re").

Barents Re is a leading independent reinsurance company established in 1996, providing a wide range of niche and specialty reinsurance products designed primarily for insurers offering financial risk insurance. In 2016, Barents Re participated in the establishment of the reinsurance company Barents Reinsurance, Luxembourg, in which it holds 51% of the capital, and in 2023, Barents Re established the Company. Barents Re plans to divest its majority interest in Barents Reinsurance, Luxembourg, and transfer part of its reinsurance business to the Company, while the Company intends to develop and expand its business in the areas of corporate and retail insurance.

1.2. Results of underwriting activity

The Company commenced its effective insurance operations in December 2024. During this period, two contracts were concluded – a co-insurance contract and a retrocession contract, both in the "Guarantees" insurance class.

Insurance class	**Premium**
Credit and surety insurance	1,765,556

In addition to developing its reinsurance business in 2025, the Company intends to commence insurance activities under the freedom to provide services within the European Union. In each Member State, the Company will use local distributors who meet the requirements for qualification and reliability. For the selection of its distributors and partners, the Company will rely primarily on the assistance of Barents Re and the underwriting agencies and brokers that are part of the group. The Company will offer well-established products created, managed, and distributed in accordance with the highest standards and practices of the international insurance market.

1.3. Investment results

In 2024, investment income for the reporting period amounted to BGN 5 thousand, while expenses amounted to BGN 85 thousand, the majority of which were revaluations of financial assets at fair value. The realized return on investment for 2024 was negative in the amount of BGN 80 thousand.

In accordance with the investment policy of Barents Insurance EAD, the Company seeks to invest only in assets and instruments whose risks it is able to properly identify, measure, monitor, control, and report, and to take them into account in an appropriate manner when assessing its overall solvency needs. The Company invests in a manner that ensures the security, quality, liquidity, and profitability of the overall portfolio. The Company localizes its assets in a manner that ensures their availability.

1.4. Results from other activities

INFORMATION ON ENVIRONMENTAL AND EMPLOYEE MATTERS

The activities of Barents Insurance EAD are not related to the environment and do not have a negative impact on environmental protection.

1.5. In 2024, Barents Insurance EAD had 4 employees, 2 of whom were women. Three people were in management positions , including one woman. Four new employees were hired during the year. Four people were hired under management and control contracts, including one woman.

2. Management system

2.1. General information about the management system

The company has a single-tier management system. The management bodies of the company are the sole owner of the capital (SOC) and the Board of Directors (BD).

2.1.1. **The Sole Owner of the Capital** (**SOC**) decides on matters within the competence of the General Meeting of Shareholders under the Commercial Act.

Powers:

- Adopts, 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 Board of Directors of the Company;
- Determines the remuneration of the members of the Board of Directors who will not be entrusted with management;
- Appoints and approves two audit companies that are registered auditors under the Independent Financial Audit Act to perform a joint audit and certification of the Company's Annual Financial Report;
- Approves the Company's Annual Financial Report after it has been audited and certified by the registered auditors;
- Decides on the distribution of profits and payment of dividends;
- Decides on the issuance of bonds;
- Decides on the transfer or granting of the use of the entire commercial enterprise;
- Decides on the disposal of assets whose total value during the current year exceeds half of the value of the Company's assets, according to the last certified Annual Financial Report;
- Decides on the assumption of liabilities or the provision of collateral to a person or related persons, the amount of which in the current year exceeds half of the value of the Company's assets, according to the last certified Annual Financial Report;
- Appoint one or more liquidators upon termination of the Company, except in the event of insolvency;
- Discharges the members of the Board of Directors from liability;
- Elect one or more proxies of the Company;
- Adopts a decision on the acquisition or transfer of an insurance portfolio of insurance contracts;
- Decides on other matters within its competence as provided by law or the Articles of Association.

2.1.2. Board of Directors (BD) - The BD decides on all matters that are not within the exclusive competence of the ESC, in compliance with the provisions of the law and the Articles of Association, in accordance with the decisions of the ESC. The BD is a collective management body consisting of five members appointed by decision of the ESC for a term of five years and after prior approval of the proposed candidate by the Deputy Chair of the Financial Supervision Commission, Insurance Supervision Department. Members of the BD may be re-elected without restriction.

The Board of Directors shall meet at least once every three months to discuss the state and development of the Company. Each member of the Board of Directors may convene a meeting to discuss specific issues.

Powers of the Board of Directors:

- The Board of Directors is the competent body under Article 77, paragraph 1 of the Insurance Code and is responsible for adopting the rules and policies of the Company;
- The Board of Directors adopts rules for its work and elects a Chair and Deputy Chair of the Board of Directors;

2.1.3. Audit Committee

The Audit Committee of Barents Insurance EAD consists of three members elected by the ESC pursuant to Article 107 of the Independent Financial Audit and Assurance Act (IAASB). The Audit Committee helps improve the quality of the financial reporting process in the Company and minimizes financial and operational risk, as well as the risk of non-compliance with legislation.

The Audit Committee performs the following functions:

- monitors the financial reporting processes in the Company;
- monitors the effectiveness of the Company's internal control systems;
- monitors the effectiveness of the risk management systems in the Company;
- oversees the independent financial audit in the Company;
- reviews the independence of the Company's registered auditor in accordance with the requirements of the Independent Financial Audit Act and the Code of Ethics for Professional Accountants.

2.2. Qualification and reliability requirements

The Company verifies the qualifications and reliability of persons performing management and control functions, both upon appointment or election and during ongoing checks. Qualifications and reliability are subject to ad hoc checks in cases where questions arise regarding the qualifications and/or reliability of the person. In accordance with the requirements of the CAA, the selection/appointment of members of the Board of Directors and key function managers requires the prior approval of the FSC, and the qualifications and reliability of these persons are verified in the procedure before the FSC.

The Company ensures that persons in management positions and key function managers have sufficient qualifications, taking into account the relevant duties assigned to each person, to ensure an appropriate diversity of qualifications, knowledge, and experience so that the Company is managed and controlled in a professional manner.

Human Resources Management shall implement the rules and procedures relating to compliance with the requirements for Qualification and Reliability of Employees.

Members of the Board of Directors must at all times, including after changes in composition, as a whole possess appropriate qualifications, knowledge, and experience at least for:

- insurance and financial markets;
- business strategy and business model;
- the management system;
- financial and actuarial analysis;
- regulatory and supervisory requirements.

Each member of the Board of Directors, the Chief Executive Officer and any person authorised to manage and/or represent the Company as a proxy or commercial representative must:

- have a higher education degree with a master's degree and possess the appropriate professional qualifications necessary to manage the Company's activities;

- have professional experience in the field of economics or finance.

Requirements for the Qualification of Persons in Management Positions outside the Members of the Management Board: Persons in management positions outside the Management Board must possess the Qualification specified in the job description or functional characteristics for the respective position.

Requirements for the Qualification of Key Function Holders of the Company: Each Key Function Holder must possess the Qualification required to perform the duties assigned to them, the internal acts of the Company, the KZ, and Regulation No. 71.

2.3. Risk management system, including own risk assessment and solvency

The risk management system is the system of effective strategies and activities that the Company applies in the processes of identifying, measuring, analyzing, managing, controlling, and reporting the risks to which it is or could be exposed. These risks are subject to continuous monitoring, both individually and at an aggregate level. The factors of probability of occurrence, degree of impact on results, and time horizons for the manifestation of the risk are taken into account.

The risk management system is consistent with the Company's overall business strategy and is fully integrated into its organizational structure and decision-making process. A set of policies related to risk management has been established and adopted.

The risks monitored by the Company include all risks that may affect the Company's results and reduce its own funds available to meet regulatory capital requirements for solvency. The specific policies included in the scope of the risk management system (its areas of application) are policies for the management of:

- underwriting and the allocation of technical provisions;
- operational risk;
- risk through reinsurance and other risk mitigation techniques;
- assets and liabilities;
- investment risk;
- liquidity and concentration;

The Company uses various techniques to identify and assess risk, as well as to reduce and mitigate its manifestations. These techniques cover all risks identified by the Company that threaten its operations and the achievement of its objectives.

The risk management policy includes all of the above-mentioned key functions and committees in the management system.

The head of the risk management function is responsible for reporting to the Board of Directors on risks that have been identified as potentially material to the Company. The report may be submitted on his own initiative or at the express request of the Board of Directors. The head of the risk management function also has the following duties, namely to:

- perform analysis and assessment of the risk associated with the investments managed by the Company;
- analyze and assess the risks associated with the signing activities carried out by the Company;
- assist in the execution of investment transactions with securities and deposits with the Company's assets;
- participate in the preparation of reports for the FSC concerning the Company's main activity;
- participates in the preparation of reports on the Company's own risk assessment and solvency and on the solvency and financial condition of the Company;
- participates in working groups and committees within the Company;
- assists in the implementation of the risk management system, being responsible for compliance with the risk management policy in the Company's activities;
- monitors the Company's risk profile and reports any deviations from the assumptions;
- protects the professional secrecy to which he/she has access in the performance of his/her duties;
- performs other professional duties arising from his assigned function, as well as when requested by management.

As part of the plan for implementing the provisions of the Solvency II Directive, Barents Insurance EAD prepares a report on its own risk and solvency assessment at least once a year, including the following required regulatory elements:

- Assessment of overall capital adequacy in accordance with the requirements of the Solvency II Directive;
- Analysis and assessment of the risk profile through the application of the standard formula;
- Management and control system over the overall activity of the Company.

2.4. Internal control system

The internal control system includes the overall internal control policy and procedures to achieve the following objectives to a reasonable extent: to ensure order and efficiency in the performance of activities with economical and efficient use of resources, including adherence to management policy, protect the Company's assets, detect and prevent fraud and errors, ensure the completeness and accuracy of accounting records, and ensure the timely preparation of reliable financial information. Control is a comprehensive and continuous process integrated into the Company's activities, involving the management bodies, persons in management positions, specialized control bodies, and all other persons working under contract with the insurer, in order to ensure, to a reasonable extent:

- the achievement of objectives and the performance of tasks;
- the economical and efficient use of resources;
- assessment of various risks and their management;
- protection of assets;
- reliability and completeness of financial and management information;
- performing the transferred insurance activities in accordance with the requirements established by the insurer;
- compliance with measures to prevent money laundering and terrorist financing;
- legality of activities, compliance with the Company's programmes, plans, internal rules and procedures.

Each person in the Company has specific responsibilities with regard to internal control. The role of managers at all levels of management is key, as they manage the units they lead and organize internal control within them in accordance with their functions and the hierarchy of the Company. All employees of the Company also participate and have specific roles in the implementation of internal control in accordance with their functional competencies.

Internal control is a management activity that ensures and guarantees that the Company's objectives will be achieved through:

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

2.4.1. The internal control system of Barents Insurance EAD

Control activities are implemented at all levels of Barents Insurance EAD's operations. Processes, methods, and interactions within the Company in relation to the implementation of internal control.

2.4.1.1. Compliance function

The main responsibilities of this function are:

- ongoing monitoring and assessment of the adequacy and effectiveness of the measures and procedures adopted and implemented by the Company to comply with regulatory requirements, including those for preventing non-compliance;
- identifying and assessing the risk of non-compliance related to the Company's activities, including self-assessment of the function's activities, and taking timely measures to eliminate them (special attention is paid to identifying compliance risks in relation to anti-money laundering and personal data protection measures);

- compliance with the requirements of the applicable Bulgarian and European legislation and their compliance with the Company's activities;
- timely notification of the Board of Directors and persons performing other key functions in the Company of any changes in the regulatory framework that affect the Company's activities and require the necessary changes to be made to its internal acts;
- monitoring the activities of EIOPA and promptly notifying the Board of Directors of any acts and opinions that affect the Company's activities;
- consulting and assisting Employees on ongoing compliance issues;
- advising and assisting the relevant Employees in fulfilling the Company's regulatory obligations;
- notifying the Board of Directors of the implementation and effectiveness of compliance risk monitoring mechanisms, including any measures that need to be taken;
- developing and performing its activities in accordance with an annual compliance plan. The plan sets out the activities planned for the Compliance function for the year, covering all key areas of the Company's activities, including their exposure to compliance risk.

2.4.1.2. Internal audit function

In performing its audit engagements, the Internal Audit function reviews, evaluates, and makes recommendations on:

- compliance with applicable legislation, regulatory requirements, and internal acts;
- the implementation of the Activity Program under Article 33 of the Company's Articles of Association;
- the protection of the Company's assets and compliance with preventive measures against misuse thereof;
- the quality and effectiveness of the reporting systems, the reliability of the Company's information system, and the keeping of the Company's accounting and commercial books;
- the accuracy, completeness, and timeliness of the accounting system, its reliability, and information accessibility;
- the accuracy, completeness, and timeliness of the accounting, financial, and other documents and reports prepared;
- the risk management and assessment systems;
- the performance and reporting of outsourced activities in accordance with the requirements of the CA and the Company's Internal Acts;
- the lawful distribution and exercise of the powers of persons in management positions and employees.
- the adequacy and compliance with the adopted internal acts for the conclusion of insurance contracts, the acceptance and consideration of claims and the determination of compensation thereunder, the consideration of complaints, etc.;
- the effectiveness of the activities related to the conclusion of insurance contracts;
- the accurate performance of the insurance contracts concluded and the commitments undertaken by the Company under them.

2.4.1.3. Actuarial function

The main responsibilities of the actuarial function are:

- coordinating the calculation of technical provisions;

- ensuring the suitability of the methodologies and basic models used, as well as the assumptions made in calculating the technical provisions;
- assessing the adequacy and quality of the data used in the calculation of technical provisions;
- comparing the best estimates with actual results;
- informs the Board of Directors on the reliability and adequacy of the calculation of Technical provisions;
- controls the calculation of Technical provisions by means of approximations and individual approaches for specific cases where there is insufficient data to apply reliable actuarial methods;
- expresses an opinion on the overall underwriting policy;
- expresses an opinion on the adequacy of reinsurance contracts;
- assisting in the effective implementation of the risk management system, including by participating in the development of risk models underlying the calculation of the solvency capital requirement and the minimum capital requirement and in the ICAAP.
- Preparation of the annual actuarial report
- Preparation of an annual written actuarial report pursuant to Article 272, paragraph 8 of Delegated Regulation 2015/34
- Preparation and certification of reports to the FSC.

For the purposes of good governance, the Company maintains a system of Auxiliary Bodies (committees) which are established by decision of the Board of Directors or by decision of the Executive Director. The committees relevant to the ORSA process are:

Executive Committee

The Executive Committee proposes and submits to the Board of Directors for approval matters concerning:

- the Company's future strategies and policies;
- the Company's annual budget and three/five-year business plan, provided by the Operations Committee and the Signatory Committee;
- job descriptions of employees, competencies required for specific positions, remuneration levels;
- contractual commitments with third parties – suppliers;
- delegation of powers and competency matrix.

Reserves Committee

The Reserves Committee is responsible for technical reserves and reviewing the audit and actuarial recommendations in this regard. The Committee makes recommendations to the Board of Directors for the adoption of the relevant decisions.

Signatory Committee

The Signatory Committee:

- assists the Board of Directors in determining the general signing policy and product policy of the Company;
- develops the Company's annual budget and three/five-year business plan in close cooperation with the Operations Committee.
- prepares the internal acts necessary for the Company's activities in relation to the signing policy and products;
- approves in advance the insurance products (general and special conditions, insurance policy templates, questionnaires, etc.) of the Company before they are submitted for approval by the Board of Directors ;
- approves the insurance technical plan, the Tariff for each class of insurance or Product;
- exercises control over the Company's underwriting activities by:
- submitting for approval by the Board of Directors the general principles and rules for the organization of the underwriting activity and the management of the Company's Products;
- ensuring coordination with the Company's Risk Management function and with the Board of Directors in cases where prior approval is required for certain coverages under insurance and reinsurance contracts;
- approves the annual reports of the Head of the Company's Product Function on the status of the products and provides an assessment of the products and recommendations for their improvement;
- promptly (early) alerts the Company's Risk Management function on management issues related to risk in the course of normal business activities.
- makes decisions regarding the Company's underwriting strategy, such as:
- analyzing global underwriting trends that may lead to policy changes;
- discussing business cases for strategic opportunities/risks for the main lines of business and geographical locations.

Operations Committee

The Operations Committee:

- monitors the performance of services provided by the IT function;
- manages and oversees business transfer agreements;
- develops the Company's Annual Budget and three/five-year business plan in close cooperation with the Signatory Committee.
- establishes policies and rules in the area of operations;
- creates operational controls that are incorporated into processes and implemented regularly and in a timely, structured, accurate, and consistent manner;
- coordinates with the Remuneration and Nomination Committee on key performance indicators for employees, including performance appraisal, remuneration, and career development;
- identifies and monitors, together with the Signatory Committee, each product and its pricing based on market research and interaction with insurance brokers and agents.

Investment Committee

The Committee performs advisory functions and assists the Board of Directors in:

- monitoring the Company's risk profile based on reports and information provided by the Risk Management function;
- determining the Company's risk appetite and overall risk limits, including defining the Company's risk targets and relevant capital levels;
- adjusting the Company's strategic decisions and risk management policies;
- monitoring and controlling the Company's investment activities as a whole;
- determining the strategic asset allocation at least once a year or when there is a significant change in the market environment, including setting target weights for major asset classes and permissible limits for deviation from them;
- determining specific investment strategies and making policy decisions regarding the financial risks to be hedged;
- approving transactions with a significant effect on the Company's investment portfolios;
- approving contracts for brokerage and custody services;
- monitoring of investment results and making decisions on changes to the strategy where necessary;
- analyzing investment options by preparing financial analysis and justification, including with regard to investment risk and the components included in that risk;
- providing an opinion to the Board of Directors on proposals for a significant restructuring of the Company's investment portfolio;
- monitoring all of the Company's investments, regardless of their size and type, and reporting the results to the Board of Directors.

2.5. Outsourcing of activities to external contractors

The Company shall outsource to third parties the performance of activities and functions for which it does not have the necessary capacity and resources, as well as trained personnel, including the performance of activities which, if performed by its own staff, would result in a conflict of interest to the detriment of the rights of the insured persons. No transfer of key functions or other important functions or activities to external persons shall be permitted:

- where this would significantly impair the quality of the management system;
- when it unreasonably increases operational risk;
- when it hinders insurance supervision;
- when the interests of insurance service users are jeopardized.

The outsourcing of activities to external contractors shall be based on a contract that clearly defines the rights and obligations of the parties. Before concluding a contract for the outsourcing of activities to an external contractor, a check must be carried out to ensure that the candidate's activities comply with the specific regulatory requirements, in accordance with the rules of Barents Insurance EAD's outsourcing policy.

3. Risk profile

3.1. Underwriting risk

This risk is associated with the activity of concluding new contracts. It manifests itself in an incorrect assessment of the risk to which the customer is exposed and an incorrect determination of the price of an insurance policy for a specific product offered by the

Company. Measures to minimize this risk include a uniform approach to assessing the customer's risk profile, risk assessment questionnaires, the application of medical and financial criteria by the Company, and various declarations (health, tax, financial, and others). The Company reserves the right to refuse to conclude an insurance product in the event of a high risk that it is unable to assume or that exceeds the capacity of its reinsurance contracts. The levels of underwriting risk assumed are in line with the financial capacity of the Company and the reinsurance contracts concluded. When assuming risks outside the scope of binding contracts, optional cover must be sought for them.

The rules for underwriting limits cover the Company's employees directly involved in the assessment of insurance risk. Underwriting limits are consistent with the relevant insurance products and hierarchical levels within the Company.

In order to manage the signing risk, a mandatory authorization procedure is provided for the conclusion of insurance contracts above certain levels of the insured amount, including the prior collection of information on the individual risk profile of the customer, its damage potential, and the expected probability of damage occurring in the future. A mandatory part of this procedure is to specify the insurance coverage provided, corresponding to the customer's risk profile.

In the event of increased risk, the conclusion of an insurance contract may be refused, an insurance contract may be concluded at a higher rate, or mandatory requirements to limit a specific risk may be imposed, upon fulfillment of which the insurance contract may be concluded. A different set of preventive measures will be applied to each insurance contract.

The above actions by the Company are expected to significantly limit the risk in terms of competence in issuing policies and realizing losses from the occurrence of an insurance risk that has been incorrectly assessed. To this end, strict compliance with insurance tariffs and adherence to the general or special conditions for the relevant type of insurance is required and checked.

When the Company participates in public procurement, the assessment of the underwriting risk and the preparation of specific price offers shall be carried out solely by the Board of Directors, after a detailed assessment of the risk of the contracting authority, the technical specifications of the contract, the financial resources provided by the contracting authority to cover the risk, and the capacity of the Company's reinsurance contracts.

Additional follow-up control of the underwriting activity is carried out by the internal audit unit.

By providing appropriate training to employees directly involved in the distribution of insurance products, the Company will strive to develop their qualifications and risk culture and to strengthen prevention with regard to individual types of risk.

Under the Solvency II regulatory regime, underwriting risk will be reported in two main areas:

- General insurance underwriting risk;
- Health underwriting risk.

When classifying and reporting a particular risk in these risk categories, the nature of the risk is taken into account.

3.2. Cancellation risk

This risk is expressed in the early termination of insurance contracts by customers. The measures we apply to reduce the risk of termination are:

- flexible insurance premium payment plans agreed with the customer;
- reduction of the sum insured;
- reduction in the number of risks covered, etc.

The measures described are aimed at retaining the customer in the insurance portfolio, maintaining the level of risk equalisation in the portfolio, ensuring the adequacy of the reserves set aside for this type of insurance, and thereby reducing the risk of future losses in relation to the core business.

We expect the risk of cancellation for the Company to result from:

- insurance products or promotional packages (lower prices) offered by other participants in the insurance market;
- negative perceptions regarding compensation;
- unfair market practices;
- personal decision of a customer.

To manage this risk, the Company maintains a communication channel for feedback from its customers, established at all levels and structures within the Company. Customer feedback on their needs and requirements is analyzed in order to take an appropriate decision to overcome the problem that led to the cancellation or to improve the existing insurance product.

When assessing this risk for Solvency II purposes, the Company has determined that it is not exposed to this risk and that it does not participate in determining the projected solvency capital requirements, as the Company will have a system for automatic termination of insurance contracts in accordance with the provisions of Article 368, paragraph 2 of the Insurance Code.

3.3. Investment risk

This is related to the probability of a negative result from investing certain assets in specific investment products and their management. When this risk materialises, the Company incurs losses as a result of changes related to market variables such as inflation, exchange rates, interest rates, poorly made and managed investments, nationalisation or collapse of a given economy.

The financial instruments held by the Company are decisive for the investment risk. Some of the following data, factors, and analyses are used in their assessment:

- The issue value of similar securities announced in the issuer's public offering prospectus;
- Decisions to increase or decrease the issuer's capital;
- Decisions to transform the issuer and the value or exchange ratio of the securities announced in the transformation plan;
- Any changes in the issuer's business activities that affect the price of its securities;
- Changes in the issuer's articles of association;
- Any legal proceedings, security proceedings or enforcement proceedings in which the issuer is a defendant;
- An analysis of the economic sector in which the issuer operates;
- Analysis of the overall condition of the securities market;
- Existence of option contracts for the securities in question;
- Data on the trading and quotations of the securities on a regulated local or foreign market.

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

- Register of public companies with the FSC;
- Official bulletin of the Bulgarian Stock Exchange;
- Three-year national and international reports of issuers;
- Prospectuses for public offering of securities of issuers;
- Official quotations of primary dealers in securities;
- Official bulletins of the National Statistical Institute and the Bulgarian National Bank;
- Quotations, bulletins, and analyses of Bulgarian and foreign regulated markets and investment intermediaries;
- Ratings from internationally recognized rating agencies.

The Company has adopted and maintains specific rules for the valuation of its assets, which it updates periodically to fully reflect developments or the emergence of new risk circumstances in relation to the realization of this risk.

3.4. Currency risk

This arises from the risk associated with the price of the currency in which the instruments comprising the Company's investment portfolio are denominated and the probable loss from exchange rate differences. 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 and EUR at a fixed exchange rate. This circumstance limits the possibility of currency losses related to downward movements in exchange rates or economic downturns in economies related to the currencies of the investments.

As a precautionary measure against this risk, the Company maintains a diversified investment portfolio in terms of both type and location. Regular monitoring of investment performance is carried out and corrective measures are taken when negative trends are identified.

3.5. Interest rate risk

This is related to changes in the value of debt securities as a result of changes in interest rates and is part of the overall risks associated with investment risk. The price of debt securities is affected by interest rates, with an increase in interest rates leading to a decrease in their price. The Company manages interest rate risk through an active investment policy, with the effective duration of the portfolio changing in line with expected changes in interest rates. In order to minimize the negative effect of the expected increase in interest rates in the country, the Company prefers to invest in debt securities with medium-term maturities.

The Company is exposed to price risk in relation to changes in the prices of securities. That is why we consider it part of the investment risk. The market value of each security changes in the direction of increase or decrease, sometimes very quickly and unpredictably. Price risk may affect a particular issuer, sector of the economy, or the entire economy. The price risk of individual securities in the Company's portfolio is minimized through diversification.

3.6. Liquidity risk

This arises from the inability of the Company to meet certain monetary obligations with its available assets. In order to manage this risk, the Company's management maintains sufficient cash reserves to ensure constant liquidity.

As a control mechanism for this risk, the Company periodically monitors the liquidity of its financial resources by preparing a liquidity ratio report. The liquidity ratio shows that the Company is able to cover its current liabilities with its available current assets. If the ratio shows a trend indicating a liquidity problem and an inability to cover counterparty costs, measures are taken to secure the necessary funds to meet them.

As another measure related to liquidity control, the Company applies the measures under the Solvency II Directive. Regular reports are prepared by the Company's audit functions, leading to specific corrective measures when necessary.

3.7. Risk of major insurance events occurring, or significant claims being paid

Minimized through a properly executed acquisition process, correctly assessed customer risk profile, and risk transfer through reinsurance and co-insurance agreements. As specific measures related to this risk, the Company regularly monitors the loss ratio by product, distribution channel, and certain intermediaries, and when concentrations are identified, it takes corrective measures as described in the risks above.

3.8. Risk of insurance fraud

The Company accepts that manifestations of this risk are fraud at entry (i.e., fraud when initially concluding an insurance contract), fraud during the term of the insurance contract, and fraud during liquidation. We consider the main sources of this risk to be: the insured, or insurance applicants, the policyholders, and insurance intermediaries.

Following a regular risk assessment, the Company has adopted the above classification, which includes:

Risk of fraud at entry – we associate this risk mainly with the submission of inaccurate and incomplete information regarding circumstances related to the risk profile of the insurance applicant or the insured person. In addition to those listed above, insurance intermediaries, as a key part of the risk assessment process, are also major carriers of this risk.

The consequences of this risk materialising are inaccurate risk assessment, underestimation or overestimation of risk, incorrect pricing and unlawful payment of insurance claims.

The measures applied by the Company to mitigate this risk include training to improve the professional skills of intermediaries, follow-up control when issuing policies, and regular monitoring of the insurance pool.

Risk of fraud during the term of the policy - The Company has accepted that its manifestations are insignificant, as they are mainly related to sudden changes in risk circumstances. Therefore, we consider it a risk that is subject to relatively good control. We also provide for follow-up management. Through its overall customer service policy, the Company considers this risk to be minimized and overcome.

Risk of fraud in the settlement of insurance claims - The Company applies conservative, preventive measures and comprehensive follow-up control through process automation and authorization procedures.

The impact of this risk is limited by the internal control organization established within the Company, which is part of the policy for modern risk management methods.

3.9. Reputational risk

This risk accompanies every company throughout its existence. At the stage the Company is currently at, its reputation is still being built. The integration of the Company's business model into the social and economic environment is still being designed by economic entities. Perceptions of corporate culture are still being formed in society and among consumers of this information. At this point, reputation risk is extremely vulnerable to negative factors.
The realization of reputational risk reduces the influence of the Company's name and positive reputation in the insurance market. The reduction of this reputation, expressed in the accumulation of negative attitudes on the part of consumers of insurance services, will result in financial losses for the Company.

This risk is borne by all key units within the Company that have contact with customers and external parties, as well as by the management itself through its actions or inaction in certain situations. The Company identifies the following as the main units associated with this risk: sales units, units involved in the handling of insurance claims, and units involved in customer service in general. The impact of this risk on management decisions is related to the overall management of customer service policy.

3.10. Risk related to the performance of activities outsourced to external contractors

This risk is mainly related to the Company's counterparties to whom it outsources part of its core activities. The manifestations of this risk are: incorrect performance of the assigned activity, delays and failure to meet deadlines, and payment defaults. Minimizing the manifestations of this risk leads to a reduction in costs, opportunities for fraud, and an increase in revenue. The activities that the Company carries out in relation to this risk are related to a uniform policy for working with external suppliers, their inspection, and verification. Regular monitoring of the services provided by external contractors is carried out, and in the event of non-compliance with the established rules, the contracts are subject to termination.

An activity outsourced to an external contractor is the settlement of claims under "Travel Assistance" insurance policies. This activity will be assigned to an external contractor, a company acting as an assistant company for the settlement of claims on behalf of and for the account of the insurer under "Travel assistance abroad with assistance provided" insurance policies.

No key functions are outsourced to external contractors.

3.11. Intermediary risk

This risk is related to the overall work of insurance intermediaries, mainly from that part of the Company's own network over which it has control and for whose work it is responsible. The risk arises from poor training, poor customer service, non-compliance with the Company's rules and regulations, attempts at insurance fraud and misuse of funds, all of which lead to financial losses and reputational risk. The Company implements measures to optimize control at several levels and holds regular meetings related to the regulatory framework and the Company's management system.

3.12. Risk of changes in the regulatory framework

New regulations and changes in the regulatory environment in which the Company operates expose it to the risk of non-compliance. The Company recognizes this risk as one over which it has no influence, but it can be minimized by applying all regulatory acts within the specified time limits, thereby reducing potential losses from administrative acts and others. Significant regulations requiring significant resources include AML, IDD, IFRS 17, IFRS 9, Solvency II, GDPR, and others.

4. Assessment for solvency purposes

4.1. Assets

The value of the Company's assets as at 31 December 2024 is presented in the following table:

Assets	Value under Solvency II in BGN	Value according to the mandatory financial statements in BGN
Intangible	0	828
Real estate, machinery and equipment owned for own use	34 658	34 658
Equity interests in related undertakings, including participating interests	3 920	3 920
Government bonds	11 672 717	11 625 880
Receivables (trade, non-insurance)	18 650	18 650
Cash and cash equivalents	8 854 513	8 854 513
Total assets	**20 584 458**	**20 538 449**

4.2. Insurance liabilities / Technical provisions

The value of the Company's technical provisions as at 31 December 2024 is presented in the following table:

Technical provisions	Value under Solvency II in BGN	Value according to the mandatory financial statements in BGN
Technical provisions — general insurance	**516 262**	**525 217**
Liability for residual coverage — premium allocation approach	0	251 226
Best estimate	147 742	0
Liability for incurred losses		273 991
Provisions for claims	231 267	0
Best estimate		0
Risk allowance	137 253	0

4.3. Other liabilities

The value of the Company's other liabilities as at 31 December 2024 is presented in the following table:

Liabilities	Value under Solvency II in BGN	Value according to the mandatory financial statements in BGN
Liabilities (trade, non-insurance)	350 859	350 859
Total liabilities and technical provisions	**867 121**	**876 076**

Excess of assets over liabilities	**19 717 337**	**19 661 373**

4.4. Alternative valuation methods

The overall assessment of capital adequacy is carried out in accordance with the valuation rules set out in the Solvency II Directive and all related standards. This assessment is based on the calculation of own funds and financial results for 2024. Development scenarios (stress scenarios) have been applied in accordance with the provisions of the standard formula.

4.5. Other information

The Company is new to the market but has the ambition to establish itself in the underdeveloped market niche of active reinsurance in local markets. The strong support of related parties, combined with the professional experience of the management team, will be key to achieving these objectives.

Our development strategy includes activities related to the use of the Company's potential, as well as measures to protect against threats. In this regard, the Company's future goals are related to:

- increasing sales by developing all possible distribution channels and direct sales;
- promoting the brand;
- gaining competitive advantages in the field of active reinsurance;
- diversifying the insurance portfolio by expanding the range of products offered;
- maintaining investments in line with capital requirements, investment policy, and actual financial risks;
- attracting high-quality personnel and specialists in the specific field of newly offered insurance products;
- realization of profits and optimization of expenses.

The results in this study are based on the Company's actual data for 2024, which has been audited and disclosed to the Financial Supervision Commission. They cover the entire portfolio of products offered by the Company, with a full assessment of its assets and liabilities in order to determine the actual (according to the requirements of Solvency II) excess of assets over liabilities, i.e. assessment of own funds in accordance with Solvency II requirements

The Solvency II calculations are based on the standard formula.

Above in this report, we described the main risk factors that influence and determine the Company's required solvency in accordance with the requirements of the Solvency II Directive.

Each of the risk factors is a combination of specific risks to which the Company is exposed in the course of its business. For example, market risk as a factor is a combination of interest rate risk, equity risk, real estate risk, spread risk, currency risk, and concentration risk. By grouping the risks and applying a correlation matrix for the dependencies of the individual risks, as per the standard formula, the total capital requirement has been determined in accordance with the Solvency II Directive.

The Company's own funds are the difference between the Company's assets and liabilities. For this purpose, all tangible and intangible assets, receivables, and liabilities of the Company have been revalued. The revaluations have been carried out in accordance with the technical specifications for the implementation of the Solvency II Directive.

The excess of the Company's assets over its liabilities covers the financial requirements under Solvency II. This is a sufficient guarantee for the long-term stability of the Company at the end of 2024.

5. Capital management

5.1. Own funds, solvency capital requirement, and minimum capital requirement

Own funds, minimum capital requirement, solvency capital requirement and their coverage:

	31.12.2024 SCR in BGN
Market risk	**1 655 794**
Counterparty default risk	**1 085 084**
Life insurance underwriting risk	**0**
Health insurance underwriting risk	**8 140**
Total insurance underwriting risk	**1 557 653**
Diversification	**(1 107 505)**
Intangible asset risk	**0**
Basic capital requirement	**3 199 166**
Operational risk	**49 011**
Ability of technical provisions to cover losses	**0**
Ability of deferred taxes to cover taxes	**(327 191)**
Solvency capital requirement (SCR)	**2 920 985**

Minimum capital requirement (MSR)	**7 823 320**

SCR coverage	**675%**
MCR coverage	**252%**

The analysis of the data shows that the components affecting the Company's capital adequacy requirement are the general insurance underwriting risk, market risk, and counterparty default risk.

As at 31 December 2024, the capital adequacy requirement coverage was 675%, and the minimum capital adequacy requirement was 252%. These coverage ratios indicate that the Company is well capitalized and capable of withstanding the adverse risks identified in the Solvency II scenarios.

5.2. Differences between the standard formula and each internal model used

Standard formula models are used to calculate the solvency capital requirement, which is the starting point for the own risk and solvency assessment.

5.3. Breaches of the minimum capital requirement and breaches of the solvency capital requirement

In 2024, the Company did not report any breaches of the minimum capital requirement or breaches of the solvency capital requirement.