

**JSIC OZK - INSURANCE AD**

ANNUAL SEPARATE REPORT  
ON THE ACTIVITIES,  
INDEPENDENT AUDITOR'S REPORT,  
AND SEPARATE FINANCIAL STATEMENTS

31 December 2013

JSIC OZK-INSURANCE AD

SEPARATE STATEMENT OF FINANCIAL POSITION

AS OF 31 December 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

	Notes	As of 31.12.2013	As of 31.12.2012
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	4	2,483	2,483
Financial assets available for sale	5	10,440	9,812
Financial assets held for trading	6	7,028	8,284
Property, plant and equipment	7	5,306	4,865
Intangible assets	8	812	956
Investments in subsidiaries	9	2,428	-
Deferred tax assets	10	34	34
<b>Total non-current assets</b>		<b>28,531</b>	<b>26,434</b>
<b>Current assets</b>			
Inventories	15	313	281
Receivables for insurance activities	12	25,109	22,676
Other receivables	13	1,004	1,130
Prepaid expenses	11	88	103
Cash	14	7,756	4,261
<b>Total current assets</b>		<b>34,270</b>	<b>28,451</b>
<b>TOTAL ASSETS</b>		<b>62,801</b>	<b>54,885</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	16	7,067	7,067
Reserves	17	4,213	3,943
Retained earnings		102	445
<b>TOTAL EQUITY</b>		<b>11,382</b>	<b>11,455</b>
<b>Non-current liabilities</b>			
Unearned premiums reserve	18	19,027	15,768
Outstanding claims reserve	18	17,449	13,666
Equalization reserve		128	128
Other technical reserves	18	3,436	3,586
Retirement benefits		38	48
Long-term lease liabilities	20	309	274
Deferred tax liabilities	10	339	328
<b>Total non-current liabilities</b>		<b>40,726</b>	<b>33,798</b>
<b>Current liabilities</b>			
Liabilities on insurance activities	19	8,971	8,026
Other liabilities	20	1,722	1,606
<b>Total current liabilities</b>		<b>10,693</b>	<b>9,632</b>
<b>TOTAL LIABILITIES</b>		<b>51,419</b>	<b>43,430</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>62,801</b>	<b>54,885</b>

These separate financial statements are approved by the Management Board and signed on 31 March 2014 on behalf of JSIC OZK – INSURANCE AD by:

\_\_\_\_\_  
Aleksandar Lichev  
Chief Executive Director

\_\_\_\_\_  
Rumen Dimitrov  
Executive Director

\_\_\_\_\_  
Aneliya Pashaliyska  
Chief Accountant

The accompanying notes form an integral part of these separate financial statements.

\_\_\_\_\_  
Sylvia Peneva  
Registered Auditor  
Date: 31 March 2014

\_\_\_\_\_  
Vasko Raichev  
Registered Auditor

JSIC OZK-INSURANCE AD

SEPARATE INCOME STATEMENT

For the year ended 31 December 2013

All amounts are in thousand Bulgarian leva, unless otherwise stated

	Notes	Year ended 31.12.2013	Year ended 31.12.2012
Premiums earned	21	52,581	49,517
Ceded reinsurance premiums	21	(5,123)	(4,308)
Change in unearned premium reserve	18	(3,997)	(5,579)
Change in reinsurers' share in unearned premiums reserve	18	738	112
Premiums earned, net of reinsurance		44,199	39,742
Claims paid	22	(22,343)	(19,033)
Reinsurers' share in claims paid	22	3,144	1,333
Change in outstanding claims reserve	18	(5,082)	986
Change in reinsurers' share in outstanding claims reserve	18	1,299	112
Claims paid, net of reinsurance		(22,982)	(16,602)
Change in other insurance reserves	18	150	(2,294)
Acquisition expenses	22	(14,927)	(13,557)
Administrative expenses	24	(2,867)	(2,782)
Reinsurers' commissions and participation in result, net	25	985	1,090
Other insurance expenses, net	26	(4,641)	(6,146)
Insurance activity expenses		(44,282)	(40,291)
Result of insurance activity		(83)	(549)
Net investment income	27	388	1,276
Other expenses, net	28	(191)	(240)
PROFIT BEFORE TAXES		114	487
Tax expense	10	(12)	(42)
NET PROFIT FOR THE PERIOD		102	445

These separate financial statements are approved by the Management Board and signed on 31 March 2014 on behalf of JSIC OZK – INSURANCE AD by:

\_\_\_\_\_  
Aleksandar Lichev  
Chief Executive Director

\_\_\_\_\_  
Rumen Dimitrov  
Executive Director

\_\_\_\_\_  
Aneliya Pashaliyska  
Chief Accountant

The accompanying notes for an integral part of these separate financial statements

\_\_\_\_\_  
Sylvia Peneva  
Registered Auditor  
Date: 31 March 2014

\_\_\_\_\_  
Vasko Raichev  
Registered Auditor

JSIC OZK-INSURANCE AD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

	Year ended 31.12.2013	Year ended 31.12.2012
NET PROFIT FOR THE PERIOD	102	445
Other components of comprehensive income, net of taxes	-	-
<b><i>Components which will not be reclassified in profit or loss</i></b>		
Revaluation of property used in operations	-	(40)
<b><i>Components which could be reclassified in profit or loss</i></b>		
Revaluation of investments available for sale	(175)	192
Total other comprehensive income	(175)	152
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(73)	597

These separate financial statements are approved by the Management Board and signed on 31 March 2014 on behalf of JSIC OZK – INSURANCE AD by:

\_\_\_\_\_  
Aleksandar Lichev  
Chief Executive Director

\_\_\_\_\_  
Rumen Dimitrov  
Executive Director

\_\_\_\_\_  
Aneliya Pashaliyska  
Chief Accountant

The accompanying notes for an integral part of these separate financial statements.

\_\_\_\_\_  
Sylvia Peneva  
Registered Auditor  
Date: 31 March 2014

\_\_\_\_\_  
Vasko Raichev  
Registered Auditor

JSIC OZK-INSURANCE AD

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

	Share capital	Revaluation reserve	Common reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2012	7,067	2,378	494	862	57	10,858
Distribution of retained earnings to reserves	-	-	-	57	(57)	-
Comprehensive income for the period	-	152	-	-	445	597
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>7,067</b>	<b>2,530</b>	<b>494</b>	<b>919</b>	<b>445</b>	<b>11,455</b>
Distribution of retained earnings to reserves	-	-	45	400	(445)	-
Comprehensive income for the period	-	(175)	-	-	102	(73)
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>7,067</b>	<b>2,355</b>	<b>539</b>	<b>1,319</b>	<b>102</b>	<b>11,382</b>

These separate financial statements are approved by the Management Board and signed on 31 March 2014 on behalf of JSIC OZK – INSURANCE AD by:

\_\_\_\_\_  
Aleksandar Lichev  
Chief Executive Director

\_\_\_\_\_  
Rumen Dimitrov  
Executive Director

\_\_\_\_\_  
Aneliya Pashaliyska  
Chief Accountant

The accompanying notes form an integral part of these separate financial statements.

\_\_\_\_\_  
Sylvia Peneva  
Registered Auditor  
Date: 31 March 2014

\_\_\_\_\_  
Vasko Raichev  
Registered Auditor

SEPARATE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian leva, unless otherwise stated

	Year ended 31.12.2013	Year ended 31.12.2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Premiums received	47,250	37,565
Amounts recovered by reinsurers	1,420	689
Subrogation recoveries	682	566
Amounts paid to reinsurers	(1,481)	(1,481)
Claims paid	(21,986)	(19,019)
Payments to suppliers	(7,092)	(4,742)
Payments to employees	(3,710)	(3,272)
Acquisition costs paid	(7,647)	(7,076)
Amounts paid for guarantee fund	(1,794)	(1,451)
Interest received	162	169
Payment of corporate tax	(30)	(6)
Other cash flow from operating activities	(457)	(916)
<b>NET CASH FLOW RECEIVED FROM OPERATING ACTIVITIES</b>	<b>5,317</b>	<b>1,026</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Sales of government bonds	6,884	-
Received interest from investment securities	705	571
Received rents	22	23
Purchase of shares	(1,161)	(1,364)
Purchase of fixed yield securities	(7,879)	(309)
Other cash flows used in investment activities	(3)	(30)
<b>NET CASH FLOWS USED IN INVESTMENT ACTIVITIES</b>	<b>(1,432)</b>	<b>(1,109)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Other payments for financing activities	(390)	(133)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(390)</b>	<b>(133)</b>
Change in cash during the period	3,495	(216)
CASH AT BEGINNING OF PERIOD	4,261	4,477
CASH AT END OF PERIOD (note 14)	7,756	4,261

These separate financial statements are approved by the Management Board and signed on 31 March 2014 on behalf of JSIC OZK – INSURANCE AD by:

\_\_\_\_\_  
Aleksandar Lichev  
Chief Executive Director

\_\_\_\_\_  
Rumen Dimitrov  
Executive Director

\_\_\_\_\_  
Aneliya Pashaliyska  
Chief Accountant

The accompanying notes form an integral part of these separate financial statements.

\_\_\_\_\_  
Sylvia Peneva  
Registered Auditor  
Date: 31 March 2014

\_\_\_\_\_  
Vasko Raichev  
Registered Auditor

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian levs, unless otherwise stated

## **1. Organization and activity**

JSIC OZK-Insurance AD (“The Company”) is a joint-stock company, registered under company file No. 15636/1996 by Sofia City Court. The registered office of the Company is Sofia City, 7 St. Sofia Str., 5<sup>th</sup> Floor.

The main business activity of the Company is insurance covering the following types of insurance products: “Accident insurance”; “Disease insurance”; “Insurance of land vehicles excluding rail vehicles”; “Insurance of rail transportation vehicles”; “Insurance for goods in transit”; “Fire and Natural disasters insurance”; “Property damages insurance”; “MTPL (Motor Third Party Liability)”; “General MTPL”; “Insurance of miscellaneous Financial losses”; “Travel Insurance”; “Insurance covering legal fees, as an additional coverage to the insurance of other material interests.

The specific legislature governing the Company’s activity is the Insurance Code. Based on the latter, the Company is regulated by the Financial Supervision Commission (FSC).

## **2. Base for preparation of the separate financial statements**

### **2.1. Applicable accounting legislation and standards**

#### **2.1.1 Common framework for financial reporting**

These separate financial statements have been prepared in accordance with statutory accounting legislation, applicable for insurance companies in Bulgaria. The Company prepares and presents its financial statements in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the Commission) and applicable in the Republic of Bulgaria.

In addition, the Insurance Code requires insurance companies to establish and maintain insurance reserves, complying with the order and methodology, set by the Financial Supervision Commission in its regulation. In accordance with the Insurance Code, these reserves are booked as an expense in the financial statements. In the preparation of the accompanying separate financial statements, the Entity has considered the requirements of the Financial Supervision Commission, outlined in ordinance regarding the recognition of income from insurance premiums and the related receivables and impairment loss.

These separate financial statements have been prepared for general purposes under the going concern principle and on accrual basis and provide information for the financial position, operations and cash flows of the Company as of and for the year ended 31 December 2013.

During 2013 the Company acquires control over OZOK – Health Insurance AD, Sofia, Bulgaria. In compliance with the requirements of IAS 27 Consolidated and Separate financial statements, the Company prepares consolidated financial statements, which will be issued after the issue date of the current separate financial statement.

## **Changes in IFRS**

### **Standards and Interpretations effective in the current period**

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IFRS 13 “Fair Value Measurement”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**2. Base for preparation of the separate financial statements (continued)**

**2.1 Applicable accounting legislation and standards (continued)**

**2.1.1 Common framework for financial reporting (continued)**

**Changes in IFRS (continued)**

*Standards and Interpretations effective in the current period (continued)*

- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013)
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these new standards or amendments to the existing standards has not led to any changes in the Company’s accounting policies.

*Standards and Interpretations issued by IASB and adopted by the EU but not yet effective*

At the date of authorisation of these separate financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 10 “Consolidated Financial Statements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 11 “Joint Arrangements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014);



NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**2. Base for preparation of the separate financial statements (continued)**

**2.1. Common framework for financial reporting (continued)**

**Changes in IFRS (continued)**

*Standards and Interpretations effective in the current period (continued)*

- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

*Standards and Interpretations issued by IASB but not yet adopted by the EU*

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at the date of publication of separate financial statements:

- IFRS 9 “Financial Instruments” and subsequent amendments (effective date was not yet determined),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1, 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the separate financial statements in the period of initial application, except for the one noted below which might have material effect on the financial statements:

- IFRS 9 Financial Instruments uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Company’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not significantly impact the separate financial statements, if applied as at the reporting date.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

## 2. Base of preparation of the separate financial statements (continued)

### 2.1.2 Accounting convention (continued)

These separate financial statements are prepared on the basis of historical prices, apart from land and buildings, investment properties, financial assets available for sale and financial assets held for trading (note 3.11, 3.16 and 3.17) which are prepared on the basis of fair value.

The preparation of these financial statements in accordance with IFRS requires that the Company's management apply certain assumptions and accounting estimates, which reflect on the carrying amounts of the assets, liabilities, and the disclosures regarding the contingent assets and liabilities as well as revenues and expenses as at the end of the current accounting period. All these are made on the basis of best professional judgment by the management as of the date of the financial statements preparation. The actual results could be different from those presented in these separate financial statements.

The accounting assumptions and the approximate accounting estimates, which are critical for the Company, are mostly related to technical reserves, impairment of receivables from uncollected premiums as well as receivables from insurance contracts and the value of financial assets available for sale and held for trading.

### 2.1.3 Functional and presentation currency

#### 2.1.3 Functional and presentation currency

In accordance with Bulgarian accounting legislation the Company maintains its accounting records and prepares financial statements in Bulgarian levs (BGN), the national currency of the Republic of Bulgaria which is the functional and presentation currency as well. As of 1 January 1999 the Bulgarian lev is fixed to the Euro in the ratio 1.95583 BGN : EUR 1.00.

These separate financial statements have been prepared and presented in BGN thousands.

### 2.1.4 Foreign currency transactions

The foreign currency transactions are reported in their BGN equivalent based on the foreign currency exchange rate as at the date of the transaction and are being revalued monthly whereby the official foreign currency exchange rates quoted by the Bulgarian National Bank (BNB) as at the last working date of the month are applied. The monetary assets and liabilities in foreign currency are revalued in BGN at the closing exchange rate of the BNB at the end of the reporting period.

The exchange rate gains and losses from operations and revaluation of monetary assets and liabilities, denominated in foreign currencies are considered as current income and expenses and are included in the income statement in the period when they arise.

The exchange rates of the main foreign currencies as of 31 December 2013 and 2012 are as follows:

Foreign currency	<u>December 31, 2013</u>	<u>December 31, 2012</u>
EUR	1.95583	1.95583
USD	1.41902	1.4836

## 2.2. Insurance contracts (policies)

The Company enters into contracts under which it assumes insurance risk to compensate the policyholder in the occurrence of an insurance event, which leads to a negative effect on the policyholder.

The insurance contracts are the contracts, which transfer significant insurance risk from the policyholder to the insurer. For the classification of its insurance contracts the Company reviews the terms of the contract and determines whether those terms transfer significant insurance risk.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**2. Base of preparation of the separate financial statements (continued)**

**2.2. Insurance contracts (policies) (continued)**

The Company considers for transfer of significant insurance risk if the occurrence of covered risk is a random event as well as if the probability of its occurrence is significant or if the insurance compensations paid on the occurrence of the covered risk represent significant additional compensation.

The Company classifies its insurance contracts as of the date of the start of the contract and continues to present them as insurance contracts during the period of their existence even in the cases where the insurance risk has been significantly reduced.

**3. Summary of significant accounting policies**

**3.1. Premiums earned**

Premiums earned comprise the amount due from the policyholder for the whole period of coverage, which the insurer is entitled to receive under insurance contracts, signed during the reporting period irrespective of whether the period of coverage extends partially or fully to a subsequent reporting period. The premiums earned include earned premiums booked and adjusted with the change in the unearned premium reserve, net of reinsurance.

**3.2. Claims paid**

Claims paid consist of claims and claims handling expenses paid, less subrogation recoveries and less claims recovered from re-insurers, all adjusted for the change in the outstanding claims reserve, net of reinsurance for the financial year.

**3.3. Technical reserves**

Technical reserves represent the amount of the assumed liabilities, which are expected to be realized in future according to valid insurance contracts, the expenses related to the execution of these liabilities and the amount of the possible adverse diversion from this expectation.

Technical reserves are calculated in accordance with the Ordinance regulating the order and methodology for formation of insurance reserves, issued by FSC.

The Entity has the following technical reserves:

- Unearned premium reserve
- Outstanding claims reserve
- Equalization reserve
- Other technical reserves

**3.3.1 Unearned premium reserve**

The Company establishes unearned premium reserve aiming to cover the claims and administrative expenses, which are expected to be incurred under the respective insurance contracts after the end of the reporting period. The Unearned premium reserve includes the portion of premium income under the contracts effective at the end of the reporting period, less the provided in the insurance - technical plan acquisition costs, taxes, fees and other charges, related to the period between the end of the reporting period and the date of expiration of the insurance contract or the end of the period covered by the premium.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.3. Technical reserves (continued)**

**3.3.1 Unearned premium reserve (continued)**

The base for estimation of the unearned premium reserve corresponds to the base for the recognition of the premium income. When the unearned premium reserve is estimated, the returned and due, but not paid on-time premiums on suspended contracts, as well as the premiums under expired contracts, are deducted from the premium income.

The amount of the unearned premium reserve is calculated by applying the method of the “exact date” based on a 360 days in year.

**3.3.2 Reserve for outstanding claims**

Outstanding claims reserve represents the amount provided to cover the estimated ultimate cost of settling claims arising from events, which have occurred by the end of the reporting period including claims incurred but not reported and increased by the expected claims handling expenses.

The reserve for incurred, but unredeemed claims is calculated individually for each claim, based on the general data base, of the incurred, but not paid claims. The expected amount of payments is estimated by the Company’s employees responsible for damages liquidation in accordance with the “Liquidation Rules” by types of insurances that are adopted by the Company. Claims raised through court proceedings are included in the reserve with the amount of the raised partial or full claims whereby the according interest due is calculated as well. The Entity applies Art. 8, paragraph 3 to paragraph 8 from the Ordinance on the Procedures and Methods of Setting up technical reserves by the Insurers and Reinsurers, and the Health Insurance reserves, issued by the Financial Supervision Commission, promulgated in SG 36/02.05.2006, amended and supplemented in SG 3/ 11.01.2008 and applies a coefficient that adjusts claims raised through court.

**3.3.3. Reserve for incurred, but not reported claims**

The additional reserve for incurred, but not reported claims on direct insurance as of 31 December 2013 is calculated by using statistical methods, according to Art. 9, paragraph 2, item 2 of the Ordinance on the Procedures and Methods of Setting up technical reserves by the Insurers and Reinsurers, and Health Insurance reserves issued by FSC promulgated in SG 36/02.05.2006, amended and supplemented in SG 89/ 12.11.2010, methods of setting up insurance reserves by the insurers. The applied methods for calculation of the reserve for incurred, but not reported claims are approved by the Financial Supervision Commission.

**3.3.4. Additional reserve for incurred but not reported claims**

The additional reserve for incurred, but not reported claims on direct insurance as of 31 December 2012 is calculated in accordance with Art. 8a of the Ordinance on the Procedures and Methods of Setting up technical reserves by the Insurers and Reinsurers, and Health Insurance reserves issued by FSC promulgated in SG 36/02.05.2006, amended and supplemented in SG 89/ 12.11.2010, methods of setting up insurance reserves by the insurers.

**3.3.5. Additional unearned premium reserve**

The additional unearned premium reserve relates to the “MTPL” and as of 31.12.2013 it is calculated in accordance with Art. 11a from the Ordinance on the Procedures and Methods of Setting up technical reserves by the Insurers and Reinsurers, and Health Insurance reserves issued by FSC promulgated in SG 36/02.05.2006, amended and supplemented in SG 89/ 12.11.2010, methods of setting up insurance reserves by the insurers.

The change in the technical reserves is accounted for as revenue/expense in the relevant period.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.4. Reinsurance**

The Company cedes insurance premiums to limit its exposure to significant risks. Premiums of passive reinsurance and reinsurers' share in claims are included in the result from insurance operations. Ceded reinsurance premiums are reported at gross values along with the received reinsurance commissions. Under the existing reinsurance contracts the Company is liable for any amounts not recovered by the reinsurers.

The reinsurance assets constitute outstanding as at the end of the reporting period receivables from reinsurance operations, recognized as an income based on the due throughout the reporting period premiums, claims paid, participation in the result and commissions under the active reinsurance contracts of the Entity. The reinsurance assets are measured at their fair value and the valid exchange rate as of the end of the reporting period. The reinsurance asset is written-off when the contractual rights are ceased or have expired, or if the contract is transferred to a third party.

The reinsurance liabilities constitute outstanding payables from reinsurance operations, recognized as an expense based on the due throughout the reporting period premiums, claims paid, participations in the result and commissions under the active reinsurance contracts of the Company. The reinsurance liabilities are measured at their fair value and the valid exchange rate as of the end of the reporting period.

As of the reporting date a review is made for any indications for impairment occurred during the reporting period. Impairment exists if there are fair evidences for not receiving the due amounts under contracts as well as when the effect on the amounts to be received from the reinsurer can be reliably estimated. Impairment losses are accounted for in the income statement.

In 2013 the contracts with reinsurers from 2012 have been continued until 31.03.2013. From 01.04.2013 the Company has signed proportional reinsurance contracts for "Property" – with Munich Re, SKOR, Koln, Vienna Insurance Group, Prague, Partner Re and Sava Re, „Cargo and responsibility of the transporter"- with Munich Re and SKOR.

With the proportional contracts part of the accepted by the Entity risk is transferred to the reinsurers, based on the contract requirements. The limits as per the contracts are applicable for every single risk and insured person. In 2014 additional limits are negotiated in the proportional contracts for several insurance policies – up to the insurance sum.

In 2013 the Company has signed contracts for facultative reinsurance on proportional base of property insurance of separate insured properties and risks, exceeding the contract limits or those not covered by the contract, with JSIC "Bulstrad Vienna Insurance Group" and JSIC "Armeec" AD.

With the non-proportional contracts the Company reinsures excess-loss claims over certain limit. The excess-loss protection contracts are concluded with leading reinsurers like Munich Re and Swiss Re. With excess-loss protection contracts the Entity reinsures MTPL, the self-retaining on quota contract related with Property damages and Catastrophic risks.

Foreign contracts are traded off through one of the biggest reinsurance brokers- Willis Re and JLT Re.

### **3. Summary of significant accounting policies (continued)**

#### **3.5. Estimates of the insurance liabilities**

Insurance liabilities are based on the current assumptions or assumptions as of the launch of the contract, representing the best estimates as of the moment, increased by the risk margin and the adverse diversions. Liability adequacy test is applied to all contracts, in order to reflect the best present estimates in respect to the future cash flow generation.

The assumptions related to the future expenses are based on the current expense levels adjusted for the expected inflation-expense corrections, if applicable.

The discount percentages are based on the current industry-related risk levels adjusted for the risk exposure.

#### **3.6. Incurred claims, net of reinsurance**

Insurance claims, net of reinsurance (indemnities and insurance amounts) include all payments made during the financial year reduced by the reimbursed amounts by reinsurers and the change in the claims outstanding reserve during the period. The change in the claims outstanding reserve for reported but unpaid claims as well as for the incurred but unreported claims is adjusted for the share of the reinsurer. From the moment of registration of the claims until their payment, they are accounted for as a reserve for claims outstanding. There is an established register for insurance claims, where the date of making the claim and the date of occurrence of the insurance event are recorded.

#### **3.7. Commissions for insurance agents**

The Company has signed contracts for insurance brokerage with individuals and legal entities. The remunerations of the insurance agents are accounted for on a monthly basis and based on sales realised. The amount, conditions and the order for payment of the commission remuneration are defined under the contracts for insurance brokerage.

The commission for the reinsurer is set according to the reinsurance contract on the base of a percentage of the ceded premium. For certain types of reinsurance contracts a percentage for participation in the favourable financial result is also added.

#### **3.8. Acquisition expenses**

Acquisition expenses include direct commissions for signing or renewing of insurance contracts and indirect expenses, related to advertising, administrative expenses for processing of documents and offers for contracts, their inclusion in the insurance portfolio and the renewal of already signed contracts.

Acquisition expenses are accounted for as an expense in the reporting period in which they are incurred.

#### **3.9. Administrative expenses**

The administrative expenses include the Company's management expenses, depreciation expenses and other expenses for encashment and servicing the insurance portfolio.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.10. Payroll**

**3.10.1. Paid annual leave and retirement**

The Company recognizes as an expense in the income statement, as well as a liability in the statement of financial position the undiscounted amount of the estimated expenses for annual paid leave expected to be paid to employees in exchange for the service rendered by the employee during the reporting period.

**3.10.2. Other long-term employee benefits**

The Company owes to its employees retirement benefits under article 222, paragraph 3 of the Labor Code (LC). According to the provisions of LC, at the event of termination of the labour contract of an employee qualifying for pension, the Company is to pay to the employee a compensation of two gross salaries, if the employee has length of service more than two years or six gross salaries if he/she has accumulated length of service more than ten years within the Company.

The present value of the future liabilities of the Company for retirement benefits is recognized in the financial statements.

**3.10.3. Defined benefits plans**

Under the Bulgarian legislature JSIC OZK-Insurance AD is obliged to make payments to health and social security funds. This obligation is related to employees on labour contracts and is in the form of payments due from the employer for an amount defined as a percentage of the employee's gross salary. Further, the Company is entitled to make payments on behalf of its employees for the amount of the statutory defined percentages of the gross salary into social security funds. The Government of Republic of Bulgaria is responsible for providing the pensions under the defined benefits plans. The expenses of the Company arising from the payments under the defined benefits plans are accounted for in the income statement when incurred.

**3.11. Non-current assets**

**Intangible assets**

Intangible assets are initially valued at the cost of acquisition. After initial recognition, intangible assets are valued at cost, less the accumulated depreciation and the impairment losses, if any.

Intangible assets are amortized over the term of their useful life and are tested for impairment when impairment indications exist. Useful life of the intangible assets and the applied amortization methods are reviewed at each financial year end. The changes in the expected useful life or the pattern of consumption of the future economic benefits which are to be derived from the intangible asset are accounted for through a change in the amortization period and method and are treated as a change in the approximate accounting estimates.

Profit or loss, resulting from write-offs of intangible assets, being the difference between the net proceeds from sale, if any, and the carrying amount of the asset are included in the income statement, when the asset is written-off.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)****3.11. Non-current assets (continued)****Property, plant and equipment**

Items of property, plant and equipment are recognized when the economic benefits arising from their usage for a period over one year are expected to be received and their value can be estimated reliably.

Property, plant and equipment are initially recognized in the statement of financial position at acquisition cost. The subsequent accounting of the property plant and equipment, excluding the groups of the lands and buildings is made at historical cost less the accumulated depreciation and the impairment loss, if any. Land and buildings are accounted for at fair value, less accumulated depreciation. As of 31 December 2013, their fair value is determined by licensed valuers. Due to the inherent uncertainty of the valuation, especially in the current market circumstances, where the real estate market has considerably declined and deals are difficult to execute, it is possible that the disclosed fair value differs from the values, that would have been used in the existence of active real estate market and these differences might be significant. Therefore, uncertainty exists as to the market prices of similar real estates and the fair value of the real estates, used by the Company, might differ from the value, determined by the independent licensed valuator.

**Subsequent expenses**

Subsequent expenses related to the maintenance of property, plant and equipment are capitalized, only when the future economic benefits from the asset have increased. All other expenses are recognized as an expense in the income statement at the time when incurred.

**Depreciation and amortization**

Depreciation/amortization is accounted for based on the straight-line depreciation method using predetermined rates for writing off the value of the non-current assets over their expected useful life. No depreciation is charged on the lands and assets are under construction.

Annual depreciation/amortization rates and the useful life in years 2013 and 2012 of the main groups of non-current assets are as follows:

	Depreciation/ amortization rate per annum %	Useful life in years
Buildings	1.25	80
Computer equipment	12.25	8
Office equipment	7.5	13
Vehicles	12.25	8
Fixtures and fittings	7.5	13
Software products	10 – 12.5	10 – 8

**3.12. Inventories**

Inventories are valued at the lower of their acquisition cost and net realizable value. The acquisition cost of materials is formed by the purchase price and other costs incurred in bringing the materials to condition ready for use.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.13. Receivables from insurance operations**

Receivables from insurance operations are initially recognized as of the date of maturity, and are measured at fair value increased by additional expenses. The value of the receivables is reviewed for impairment in the occurrence of events or conditions, which are indicative of the receivable being non-collectable. The impairment loss is accounted for in the income statement.

The insurance receivables are written-off at the presence of criteria for financial assets write-offs. The receivables, with accumulated delays, are impaired in the following way: from 90 to 180 days – 25%, from 181 to 365 days – 75%, over 365 days and after contract expiry or after early termination of the insurance contract - 100%.

**3.14. Cash and cash equivalents**

For the purposes of the statement of cash flows presentation, cash and cash equivalents include cash at current and deposit bank accounts in BGN and foreign currency.

**3.15. Taxation**

Taxes due for 2013 and 2012 are calculated in accordance with the Bulgarian tax legislation.

The Law on the Insurance Premium Tax is effective as of January 1, 2011, which was promulgated in the State Gazette, No. 86 dated November 2, 2010. This law introduces a tax on the insurance premiums for taxable insurance contracts under which the risks are assumed by the insurers. The tax rate for the tax on the insurance premiums is 2 %.

Insurance companies are liable for corporate income tax on the taxable profit for the reporting period whereby the financial result is adjusted in accordance with the Bulgarian Tax Legislation. The corporate tax for 2013 and 2012 is 10%.

Deferred taxes are calculated for all temporary differences between the carrying amount of assets and liabilities as of the date of the financial statements and the corresponding tax basis by using the liability method. Deferred taxes are calculated at tax rates, at which those taxes are expected to be realized in future reporting periods.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available, against which the deductible temporary differences can be utilized.

Current and deferred taxes are recognized as income or expense and are included in the income statement for the current period except when the tax arises from transactions or events that are recognized in the same or prior period directly in the statement of changes in equity.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.16. Investment properties**

Investment properties consist of land and buildings, held to earn rentals or for capital appreciation.

The investment properties are initially recognized at acquisition cost. The acquisition expenses are added to the initial valuation. Subsequent initial recognition the Company recognizes the investment properties at fair value, which is determined by independent valuers every year if after the last valuation a change of more than 10/100 points takes place in the REMI index of the National Association "Nedvijimi Imoti", member of FIABCI (International Real Estate Federation) which indicates the changes in the real estate prices.

Fair value reflects the actual circumstances of the investment property and the market state as of the end of the reporting period and not as of past or future date.

Transfers to, or from investment properties should only be made when there is a change in use. If an owner-occupation property, recognized under IAS 16 Property, plant and equipment is transferred to an investment property, carried at fair value, the Company applies IAS 16 up to the date of change in use. Any difference between the carrying amount of the property at the transfer date and its fair value is accounted for as a revaluation in accordance with IAS 16. When the carrying amount of an asset increases as a result of revaluation, such increase is credited to equity. When the carrying amount of an asset decreases as a result of revaluation, such decrease is recognized in the income statement. Reductions from revaluation are recognized directly in equity in the revaluation reserve to the extent that they do not exceed the amount of the revaluation reserve for the specified asset. After the date of the transfer of the assets into investment properties, subsequent profits or losses resulting from the changes in their fair values are included in the net profit for period in which they occur.

As of 31 December 2013 investment properties owned by the Company, are revalued up to their fair value determined by licensed valuers. As a result of the revaluation, the carrying amount of the properties has not been changed.

**3.17. Financial instruments**

Financial assets and liabilities are recognized in the Company's statement of financial position in case the Company becomes a party under the contractual terms of the respective instrument.

The effective interest rate method is the method of calculation of the amortized value of a financial asset/liability and the distribution of interest income/expense for the respective period. The effective interest rate is the rate that discounts the estimated cash receipts/payments to the net carrying amount of the financial asset/liability on the basis of their estimated useful life or a shorter-period, if more appropriate.

*Financial assets available for sale* are those financial assets that are not classified as held for trading, held to maturity or loans and receivables. Those assets are initially recognized at fair value. Subsequent to initial recognition financial assets available for sale are valued at fair value on the basis of quoted bid prices. In case market quotes are not available, fair value is assessed using appropriate valuation models, which reflect the specific circumstances of the issuer of the financial instrument. Gains and losses arising on revaluation of the cost of acquisition and the redemption price are recognized as interest and reported on accrual basis in the income statement for the residual term to maturity. This inclusion in the result is performed on the basis of the effective interest rate with the effective rate of return at acquisition as a starting point. Gains and losses arising on revaluation of the fair value and the amortized cost are reported as adjustment to the fair value and are recognized in equity, revaluation reserve is allocated and the foreign exchange rate differences from changes in their amortized cost are recognized in the income statement, according to IAS 39 - Financial Instruments: Recognition and measurement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.17. Financial instruments (continued)**

Investments that do not have quoted market prices on an active market, and for which other methods of reasonably estimating fair value are not appropriate, are measured at amortized cost if they have a fixed maturity, or at cost, if they have no fixed maturity.

*Financial assets at fair value through profit or loss* are these, which the Company has classified as financial assets held for trading. These are financial assets that are held for obtaining profit from short-term price fluctuations. Those assets are initially measured at fair value. Subsequent to initial recognition financial assets held for trading are monthly measured at fair value on the basis of quoted bid prices. In case market quotes are not available, fair value is assessed using appropriate valuation models, which reflect the specific circumstances of the issuer of the financial instrument. Gains and losses on revaluation of financial assets to their fair value are recognized in the income statement.

*Investments in subsidiaries*

A subsidiary is an entity over which the Company directly or indirectly has control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

It is assumed that control exists, when the Parent company owns directly or indirectly through its subsidiaries, more than half of the voting rights in a given enterprise, with the exception of cases where there are extraordinary circumstances and when it is not possible to show clearly, that such ownership indicates the existence of control. Control exists when the Parent company owns half or less than half of the voting rights in an enterprise and when it:

- a) owns more than half of the voting rights by virtue of an agreement with other investors;
- b) has the power to govern the financial and operating policy of the enterprise by virtue of articles of association or agreement;
- c) has the power to appoint or dismiss the majority of the members of the Board of Directors or another equivalent managing body and control over the enterprise is through this board or body; or
- d) has the power to exercise the majority of the votes at meetings of the Board of Directors or another equivalent managing body and control over the enterprise is through this board or body.

In the separate financial statements of the Company the shares in its subsidiary are initially recognized at cost. Subsequently, the Company performs periodic reviews for impairment. If impairment exists, it is recognized in the statement of comprehensive income as impairment loss of investments in subsidiaries.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are deposits in financial institutions and loans. At their initial recognition they are stated at fair value, to which are added the expenses, related to their acquisition. Subsequently, loans and receivables are measured at amortized cost, using the effective interest method. Assets that do not have fixed maturity are measured at cost. The Company charges impairment losses on loans and receivables when their recoverable amount is lower than their carrying amount.

Purchases and sales of financial instruments are reported on a settlement date basis in the separate statement of financial position.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)**

**3.18. Fair value of financial assets and liabilities**

IFRS 7 Financial Instruments: Disclosure requires disclosure in the notes to the financial statements of information about the fair value of financial assets and liabilities. Fair value for this purpose is defined as the amount, for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The policy of the Company is to disclose the fair value of financial assets and liabilities, for which reliable market information about their fair value is readily available.

**3.19. Leases**

A lease is classified as a financial lease if it transfers to the lessee substantially all the risks and rewards incident to ownership of the assets. All other leases are classified as operating leases.

The assets acquired through financial lease are recognized at the lower of fair value as of the date of acquisition or the present value of the minimal lease payments. The initial direct expenses, incurred by the lessee are included in value of the asset. The existing liability to the lessor is recognized in the statement of financial position of the Company as a liability under lease agreements.

Lease payments are allocated between interest and principal payments so as to produce a constant rate of interest on the remaining balance of the lease liability.

**3.20. Finance income and costs**

Interests on deposits and financial instruments are accrued on an on-going basis and proportionally to the time basis, which relates to the effective income from the financial asset. Interest on financial instruments, classified as "available for sale" is accounted for and recognized in the income statement by applying effective interest rate method.

**3.21. Claims covered by reinsurers**

The claims (indemnities) covered by reinsurers under reinsurance contracts are recognized as an income in the income statement at the time of settling the claim.

**3.22. Guarantee Fund**

The payments to guarantee funds are payments made to specialized, state-controlled funds for obligatory insurance. All insurers offering the obligatory Motor Third Party Liability (MTPL) insurance and/or Motor passenger personal accident insurance in Republic of Bulgaria make payments to Guarantee Fund under article 287 of Insurance Code and payments to the Indemnity Fund under article 311, paragraph 1 of the Law for the Amendment of the Insurance Code. Financial Supervision Commission following the guidance of the Council of the Guarantee Fund annually sets the amount of the payments and when they are due. This decision is published in the State Gazette. From the Guarantee Fund payments for indemnities are made when in an occasion of road accident the liable driver does not have the mandatory MTPL. The collected amounts under policies for guarantee and security fund are recognized as premium revenue and are expensed in the separate income statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**3. Summary of significant accounting policies (continued)****3.23. Rental income**

The rental income from the investment properties is recognized in the income statement on a straight-line basis for the term of the rent agreement.

**3.24. Ceded premiums**

Premiums ceded to reinsurer under the reinsurance contracts signed are recognized as an expense in the separate income statement.

**3.25. Claims incurred, net of reinsurance**

Insurance claims, net of reinsurance (indemnities and insurance amounts) include all payments during the financial year decreased with the reimbursed amounts by reinsurers and the change in the awaiting payments reserve during the period. The change in the awaiting payments reserve is corrected for the part due from the reinsurer. In the period between the registration of the claims and their payment, they are accounted for as an awaiting payments reserve. The claims are included in a register with the date of bringing the claim and the date of the occurrence of the insurance event.

**3.26. Errors from prior reporting periods**

Prior period errors are omissions from and misstatements in the Company's financial statements in prior periods resulting from the failure to use, or the misuse of reliable information. This is information, which was available at the date the separate financial statements are authorised for issue or information that could reasonably be expected to have been obtained and taken into account at the time of preparation and presentation of these financial statements. Prior period errors may occur at recognition, measurement, presentation or disclosure of items of the financial statements. They are corrected retrospectively as comparative data or the opening balances of assets, liabilities and equity are restated (if they occurred in prior periods for which no data in the financial statements is presented). Correction is recognized in the first set of financial statements authorized for issue after their discovery.

**4. Investment property**

	As of 31.12.2013	As of 31.12.2012
Balance at 1 January	2,483	2,789
New acquisitions in period	-	337
Disposals in the period	-	(643)
Revaluation to fair value	<u>2,483</u>	<u>2,483</u>

As an investment property are classified offices spaces owned by the Company in administrative buildings. Investment properties are rented out to legal entities.

The Company has recorded rental income from investment property at the amount of BGN 29 thousand for 2013 and BGN 37 thousand for 2012.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian leva, unless otherwise stated

**5. Financial assets available for sale**

	As of 31.12.2013	As of 31.12.2012
Government securities, denominated in EUR	10,225	9,207
Shares from investment funds	215	-
Corporate bonds	-	605
<b>TOTAL</b>	<b>10,440</b>	<b>9,812</b>

**6. Financial assets held for trading**

As of 31 December 2013 and 2012 financial assets held for trading consist of equity investments at the amount of BGN 7,028 thousand and BGN 8,284 thousand, respectively.

**7. Property, plant and equipment**

	Land and buildings	Computer equipment	Motor vehicles	Fixtures and fittings	Other	Total
<b>Cost</b>						
Balance at 1 January 2012	3,265	363	1,155	332	4	5,119
Revaluation	(39)	-	-	-	-	(39)
Acquisitions	-	73	606	63	1	743
Disposals	-	(3)	(8)	(23)	-	(34)
At 31 December 2012	<u>3,226</u>	<u>433</u>	<u>1,753</u>	<u>372</u>	<u>5</u>	<u>5,789</u>
Revaluation						
Acquisitions	-	61	621	115	1	798
Disposals	-	(4)	(22)	(5)	-	(31)
At 31 December 2013	<u>3,226</u>	<u>490</u>	<u>2,352</u>	<u>482</u>	<u>6</u>	<u>6,556</u>
<b>Accumulated depreciation</b>						
Balance at 1 January 2012	-	(116)	(404)	(164)	-	(684)
Charges for the period	(41)	(47)	(165)	(20)	-	(273)
Written off depreciation from disposals	-	2	8	23	-	33
At 31 December 2012	<u>(41)</u>	<u>(161)</u>	<u>(561)</u>	<u>(161)</u>	<u>-</u>	<u>(924)</u>
Charges for the year	(40)	(55)	(239)	(23)	-	(357)
Written off depreciation from disposals	-	4	22	5	-	31
At 31 December 2012	<u>(81)</u>	<u>(212)</u>	<u>(778)</u>	<u>(179)</u>	<u>-</u>	<u>(1,250)</u>
<b>NET BOOK VALUE</b>						
At 1 January 2012	<u>3,265</u>	<u>247</u>	<u>751</u>	<u>168</u>	<u>4</u>	<u>4,435</u>
At 31 December 2012	<u>3,185</u>	<u>272</u>	<u>1,192</u>	<u>211</u>	<u>5</u>	<u>4,865</u>
At 31 December 2013	<u>3,145</u>	<u>278</u>	<u>1,574</u>	<u>303</u>	<u>6</u>	<u>5,306</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**8. Intangible assets**

	Insurance license	Software	Other	Total
Cost				
Balance at 1 January 2012	128	1,409	22	1,559
Acquisitions	-	98	-	98
Balance at 31 December 2012	128	1,507	22	1,657
Acquisitions	-	6	-	6
Disposals	-	(8)	-	(8)
Balance at 31 December 2013	128	1505	22	1655
Accumulated amortization				
Balance at 1 January 2012	(119)	(432)	(2)	(553)
Charged during the year	-	(147)	(1)	(148)
Balance at 31 December 2012	(119)	(579)	(3)	(701)
Charged during the year	-	(148)	(2)	(150)
Written off from disposals	-	8	-	8
Balance at 31 December 2013	(119)	(719)	(5)	(843)
NET BOOK VALUE				
At January 2012	9	977	20	1,006
At 31 December 2012	9	928	19	956
At 31 December 2013	9	786	17	812

**9. Investment in subsidiaries**

In 2013 the Comapny acquires control over the subsidiary OZOK - Health Insurance AD. As of December 31, 2013 the Comapny holds 45.71% of the share capital of the subsidiary. As of December 31, 2013 the carrying amount of the investment in subsidiary is BGN 2,428 thousand.

Investments in subsidiaries are stated at cost (acquisition cost) in these separate financial statements.

The summarized financial information of the subsidiary as of 31 December 2013 is as follows:

OZOK – Health Insurance AD	As of 31.12.2013
Total assets	5,553
Total liabilities	(516)
Net assets	5,037
Entity's share in the net assets of the subsidiary	45.71%

**10. Taxation**

Tax expenses are as follows:

	Year ended 31.12.2013	Year ended 31.12.2012
Current tax expense	1	31
Deferred tax expenses from temporary differences, utilized during the period	11	11
TOTAL TAX EXPENSE	12	42

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**10. Taxation (continued)**

Current tax expense represents the amount of tax calculated under the Bulgarian legislation based on tax rate of 10% for 2013 and 2012.

Deferred tax assets and liabilities are as follows:

	As of 31.12.2013	As of 31.12.2012
Deferred tax assets		
Retirement benefits	4	5
Unused paid leave	20	19
Investment property	10	10
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>34</b>	<b>34</b>
Deferred tax liabilities		
Property, plant and equipment	(197)	(186)
Investment properties	(142)	(142)
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>(339)</b>	<b>(328)</b>
<b>DEFERRED TAX LIABILITIES, NET</b>	<b>(305)</b>	<b>(294)</b>

The relationship between tax expense and accounting profit is as follows:

	Year ended 31.12.2013	Year ended 31.12.2012
Profit before taxes	114	487
Income tax, calculated at the applicable tax rate (10% for 2013 and 2012)	11	49
Unrecognized tax expense	2	-
Unrecognized tax effect of deferred tax asset	(1)	(7)
<b>TOTAL TAX EXPENSE</b>	<b>12</b>	<b>42</b>
Effective tax rate	10.5%	9%

As of December 31, 2011 the Company has not recognized deferred tax asset related to tax loss amounting to BGN 80 thousand which can be carried forward during the next five years.

In 2012 tax loss amounting to BGN 66 thousands has been carried forward. In 2013 the residual tax loss amounting to BGN 14 thousand has been carried forward.

**11. Prepaid expenses**

	As of 31.12.2013	As of 31.12.2012
Software maintenance subscription expense	13	13
Advertising expense	57	56
Property insurance	1	1
Contributions to state health fund	-	31
Office rent	17	2
<b>TOTAL</b>	<b>88</b>	<b>103</b>

**12. Receivables from insurance transactions**

	As of 31.12.2013	As of 31.12.2012
Receivables from direct clients	24,041	23,236
Impairment on uncollected premiums receivable	(3,385)	(3,910)
Receivables from reinsurance transactions	4,393	3,350
Prepaid minimal deposit premium to reinsurer	60	-
<b>TOTAL</b>	<b>25,109</b>	<b>22,676</b>



NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**12. Receivables from insurance transactions (continued)**

The Company accounts for the income from insurance premiums on accrual basis, as it recognizes them based on the amounts due for the whole period of coverage under the signed during the reporting period insurance contracts. Latter are recognized in the statement of financial position as receivables. After contract expiry, the premiums due but not collected during the reporting period are recognized as an impairment of receivables on uncollected premiums.

**13. Other receivables**

	As of 31.12.2013	As of 31.12.2012
Receivables on guarantees	269	340
Interest receivable	337	525
Receivables from legal disputes	25	13
Advance to suppliers	176	104
From loss and deficit	35	28
From co-insurance contracts	76	80
Receivables from the budget for income tax	35	-
Others	51	40
<b>TOTAL</b>	<b>1,004</b>	<b>1,130</b>

**14. Cash**

	As of 31.12.2013	As of 31.12.2012
Deposits in banks	6,836	3,504
Current bank accounts in BGN	362	275
Current bank accounts in foreign currency	72	40
Cash on hand	486	442
<b>TOTAL</b>	<b>7,756</b>	<b>4,261</b>

**15. Inventories**

Inventories as of 31 December 2013 represent forms for insurance policies in stock, office supplies, and stickers at the total amount of BGN 313 thousand (31 December 2012: BGN 281 thousand).

**16. Share capital**

As of 31 December 2013 the share capital is at the total amount of BGN 7,067 thousand distributed into 7,066,678 ordinary shares with a nominal value BGN 1.00 each. The owners of these shares have rights to receive dividend and one voting right per share at the Shareholders' General meeting. Registered capital is fully paid in.

Major shareholders	2013		2012	
	Shares	%	Shares	%
El-Em Impex EOOD	4,644,772	65.73	4,644,772	65.73
Toplofikacia-Sofia AD	658,930	9.32	658,930	9.32
Municipal Bank AD	339,034	4.80	339,034	4.80
Toplofikacia-Burgas EAD	250,885	3.55	250,885	3.55
Toplofikacia-Pleven EAD	250,885	3.55	250,885	3.55
Mina Stanyanci AD	250,885	3.55	250,885	3.55
Coinvest EOOD	318,861	4.51	318,861	4.51
Alexander Petrov Lichev	352,426	4.99	352,426	4.99
	<b>7,066,678</b>	<b>100.00</b>	<b>7,066,678</b>	<b>100.00</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**17. Reserves**

	As of 31.12.2013	As of 31.12.2012
Legal reserves – Reserve fund – under Commercial law	539	494
Other reserves	1,319	919
Revaluation reserves	2,355	2,530
<b>TOTAL</b>	<b>4,213</b>	<b>3,943</b>

The revaluation reserve contains changes in the fair values of the buildings owned by the Company as well as revaluation reserves of available for sale financial assets. In Other reserves is recorded the profit for 2012 approved by the Annual General Meeting of the Shareholders.

**18. Technical reserves**

Technical reserves, gross are as follows:

	Unearned premium reserve	Outstanding claims reserve	Other Technical Reserves	Total reserves
Balance as of January 1, 2012	11,023	15,175	1,292	27,490
Change in 2012	5,579	(986)	2,294	6,887
Balance as of December 31, 2012	16,602	14,189	3,586	34,377
Change in 2013	3,997	5,082	(150)	8,929
Balance at December 31, 2013	20,599	19,271	3,436	43,306

The share of the reinsurers in technical reserves is as follows:

	Unearned premium reserve	Outstanding claims reserve	Total reserves
Balance as of January 1, 2012	722	411	1,133
Change in 2012	112	112	224
Balance as of December 31, 2012	834	523	1,357
Change in 2013	738	1,299	2,037
Balance at December 31, 2013	1,572	1,822	3,394

Technical reserves by types of insurance policies as of December 31, 2013 are as follows:

Insurance Type	Unearned premium reserve	Outstanding claims reserve	Other Technical reserves	Total reserves- general insurance
Accident in public transportation vehicles	69	-	-	69
Accident	251	363	-	614
Illness	46	13	-	59
Automobile casco insurance	2,433	1,957	-	4,390
Cargo	3	1	-	4
Fire and natural disasters	1,108	513	3	1,624
Property	277	47	-	324
MTPL	15,396	16,200	3,403	34,999
General MTPL	726	157	30	913
Other financial loss	276	9	-	285
Travel insurance	14	11	-	25
Gross amount	20,599	19,271	3,436	43,306
Reinsurers' share	(1,572)	(1,822)	-	(3,394)
Reserve, net of reinsurance	19,027	17,449	3,436	39,912

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**18. Technical reserves (continued)**

Technical reserves by types of insurance policies as of December 31, 2012 are as follows:

Type of insurance	Unearned premium reserve	Outstanding claims reserve	Other technical reserves	Total reserves- general insurance
Accident in public transportation vehicles	89	3	-	92
Accident	413	158	-	571
Illness	54	4	-	58
Automobile casco insurance	2,822	1,915	65	4,802
Cargo	3	1	-	4
Fire and natural disasters	1,380	148	4	1,532
Property	254	37	-	291
MTPL	10,959	11,621	3,513	26,093
General MTPL	461	261	4	726
Other financial loss	152	30	-	182
Travel insurance	15	11	-	26
Gross amount	16,602	14,189	3,586	34,377
Reinsurers' share	(834)	(523)	-	(1,357)
Reserve, net of reinsurance	15,768	13,666	3,586	33,020

The reserves are not discounted, because of the fact that they are due in one year period from the reporting date and the discount effect will not be material.

**19. Insurance liabilities**

	As of 31.12.2013	As of 31.12.2012
Liabilities on reinsurance operations	5,431	4,860
Liabilities to intermediaries	3,540	3,166
TOTAL	8,971	8,026

**20. Other liabilities**

	As of 31.12.2013	As of 31.12.2012
Paid leave liabilities	182	175
Payables to employees	10	-
Social security payables	64	12
Tax payables-individuals' income	59	34
Health benefits payable	23	4
Budget payables	179	159
Suppliers	303	435
Payables to Guarantee fund	535	532
Payables to FSC	5	-
Payables to NBBMI	63	-
Dividends payable	57	57
Current portion of the financial lease liability	198	149
Liabilities on co-insurance operations	4	9
Other	40	40
TOTAL	1,722	1,606

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**20. Other liabilities (continued)**

Lease liabilities as of December 31, 2013 and 2012 are as follows:

	Total value of the minimum lease payments		Present value of the minimum lease payments	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Not later than 1 year	223	172	198	149
Later than 1 year and not later than 5 years	330	299	309	274
<b>Total</b>	<b>553</b>	<b>471</b>	<b>507</b>	<b>423</b>
Reduced with future financial expenses	(45)	(48)	-	-
Present value of the minimum lease payments	508	423	507	423
Current portion of the liabilities under lease contracts			198	149
Non-current portion of the liabilities under lease contracts			309	274

The agreements are for finance lease of vehicles. In 2012 there are 11 vehicles acquired under financial lease: 2 for term of 36 months and annual interest rate as follows: (1 vehicle – 6.50%, 1 vehicle – 5.67%), 2 for term 60 months and annual interest rate 5.25% and 7 for term 48 months and annual interest rate 8.25%. In 2013 there are 8 vehicles acquired under financial lease: 7 for term of 36 months and annual interest rate 8.67% for 6 of them and 8.33% for 1 of them, and 1 for term of 48 months and annual interest rate 6.90%.

**21. Premiums written**

	Year ended 31.12.2013	Year ended 31.12.2012
Accident in public transportation	328	438
Accident	920	2,427
Illness	252	256
Road motor vehicles	7,886	9,705
Cargo	153	185
Fire and natural disasters	4,285	5,170
Property	674	1,080
MTPL	35,133	27,160
General MTPL	2,567	2,268
Various financial losses	237	676
Travel insurance	146	152
<b>TOTAL PREMIUMS WRITTEN</b>	<b>52,581</b>	<b>49,517</b>

**Premiums ceded to reinsurers**

	Year ended 31.12.2013	Year ended 31.12.2012
Road motor vehicles		-
Fire and natural disasters	(2,216)	(2,601)
Property	(323)	(442)
MTPL	(1,709)	(552)
Cargo	(134)	(161)
General MTPL	(741)	(552)
<b>TOTAL PREMIUMS CEDE TO REINSURERS</b>	<b>(5,123)</b>	<b>(4,308)</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**22. Claims paid**

	Year ended 31.12.2013	Year ended 31.12.2012
Accident	(1,123)	(839)
Illness	(137)	(8)
Road motor vehicles	(5,850)	(4,201)
Fire and natural disasters	(1,100)	(1,052)
Property	(456)	(74)
MTPL	(13,383)	(12,539)
General MTPL	(249)	(117)
Cargo	(18)	-
Various financial losses	-	(146)
Travel insurance	(27)	(57)
<b>TOTAL CLAIMS PAID</b>	<b>(22,343)</b>	<b>(19,033)</b>

**Reinsurers' share in claims paid**

	Year ended 31.12.2013	Year ended 31.12.2012
Road motor vehicles	28	102
Cargo	15	-
Fire and natural disasters	593	483
Property	321	19
General MTPL	202	62
MTPL	1,985	667
<b>TOTAL REINSURER'S SHARE IN CLAIMS PAID</b>	<b>3,144</b>	<b>1,333</b>

**23. Acquisition expenses**

	Year ended 31.12.2013	Year ended 31.12.2012
Commissions to intermediaries	(8,130)	(8,255)
Liquidation expenses	(1,128)	(609)
Advertising expenses	(638)	(417)
Payroll	(2,438)	(2,035)
Other indirect acquisition expenses	(2,593)	(2,241)
<b>TOTAL</b>	<b>(14,927)</b>	<b>(13,557)</b>

**24. Administrative expenses**

	Year ended 31.12.2013	Year ended 31.12.2012
Materials	(132)	(111)
Office rent	(144)	(133)
Office maintenance expenses	(126)	(139)
External services	(796)	(623)
Depreciation/amortization	(127)	(105)
Payroll, including management board	(1,316)	(1,333)
Other	(226)	(338)
<b>TOTAL</b>	<b>(2,867)</b>	<b>(2,782)</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**25. Reinsurers' commissions and participation in the result, net**

	Year ended 31.12.2013	Year ended 31.12.2012
Income from commissions of reinsurers	1,007	1,103
Expenses for participation in profit	(65)	(14)
Income for participation in profit of reinsurer	43	1
<b>NET REINSURANCE INCOME</b>	<b>985</b>	<b>1,090</b>

**26. Other insurance expenses, net**

	Year ended 31.12.2013	Year ended 31.12.2012
Expenses for guarantee fund and Security fund under FSC	(1,641)	(1,591)
Expenses for guarantee fund of National bureau of automobile insurers	(218)	-
Impairment of receivables	(745)	(2,007)
Reversed impairment of receivables	1,270	-
Expenses for preventive measure related to State Fund Agriculture	(8)	(3)
Expenses, related to reversed premiums from prior years	(3,958)	(3,162)
Income related to commissions and ceded premiums for insurers under recognized policies from prior years	87	84
Income from regresses	807	465
Other income	67	113
Other expenses	(302)	(45)
<b>TOTAL OTHER INSURANCE EXPENSES, NET</b>	<b>(4,641)</b>	<b>(6,146)</b>

**27. Net investment income**

	Year ended 31.12.2013	Year ended 31.12.2012
Interest income	539	737
Rent income	29	37
Income from sale of investments	(99)	119
Income from revaluation of available for sale financial assets, net	-	383
Expenses for revaluation of investments, net	(292)	-
Income from investment in subsidiaries	211	-
<b>TOTAL NET INVESTMENT INCOME</b>	<b>388</b>	<b>1,276</b>

Interest income includes:

	Year ended 31.12.2013	Year ended 31.12.2012
Interest on government bonds	398	568
Interest on bonds	3	15
Interest on bank deposits	138	154
<b>TOTAL INTEREST INCOME</b>	<b>539</b>	<b>737</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian leva, unless otherwise stated

**28. Other expenses, net**

	Year ended 31.12.2013	Year ended 31.12.2012
Other financial expenses	(103)	(96)
Income on lease agreement	(31)	(23)
Penalty interest	(82)	(78)
Impairment of receivables	-	(40)
Other	25	(3)
<b>TOTAL OTHER EXPENSES, NET</b>	<b>(191)</b>	<b>(240)</b>

**29. Risk management****Insurance risk**

The main risk for the Company in connection with insurance contracts is derived from the fact that real claims and the related payments may be timed differently from the expectations. This is influenced by the frequency of the claims, the nature of the claims, if the actually paid claims are more than the initial estimate and the subsequent development of the long-term claims. Therefore, the aim of the Company is to form a reserve which is enough to cover these liabilities. The risk development analysis and the estimated insurance premiums are made based on the available statistical data. In the premiums is included surplus for certainty, for evading the consequences of unfavourable risk development.

Reinsurance contracts are signed for the main types of insurance, which limit the liability of the Company in case of insurance events. Considering the enlargement of the territorial coverage of the auto insurance, as well as its different limit in the EU countries, suitable reinsurance coverage for damages exceeding 100,000 EUR and with unlimited liability is taken into account. On this basis unfavourable risk development will be limited at incidence of very big damages.

For evading the risk of reporting unreal claims for indemnities, especially the ones that happened abroad (for MTPL insurance), there is a contract signed with the correspondent company with offices in all EU countries and member states of the Council of the Bureaus Green Card, which will monitor the compliance with the working legal norms of each country.

**As of 31.12.2013**

Type of insurance	Premium earned	Reserves	Reserves quote
All other insurances	14,991	7,653	51%
Insurance of responsibilities	29,208	35,782	123%
<b>Total</b>	<b>44,199</b>	<b>43,434</b>	<b>98%</b>

**As of 31.12.2012**

Type of insurance	Premium earned	Reserves	Reserves quote
All other insurances	19,351	7,653	40%
Insurance of responsibilities	20,391	26,852	132%
<b>Total</b>	<b>39,742</b>	<b>34,505</b>	<b>87%</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**29. Risk management (continued)****Insurance risk (continued)**

As the information in the tables presents a historical view of the sufficiency of the estimates of unpaid claims incurred in previous years, an insufficiency from prior years should not be extrapolated on the present reserve for outstanding claims. The Company believes that the reserves for outstanding claims are adequate as of December 31, 2013 and 2012.

Year of event	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
In the year of event	846	893	1,164	1,272	1,091	1,269	2,204	3,813	4,251	5,736	7,728	30,267
1 year later	242	589	284	748	831	857	2,201	5,574	7,559	4,757	-	23,642
2 years later	123	56	122	257	299	157	928	3,878	2,435	-	-	8,255
3 years later	113	54	61	90	367	376	1,211	4,933	-	-	-	7,205
4 years later	18	81	21	224	246	369	1,395	-	-	-	-	2,354
5 years later	12	440	9	67	213	425	-	-	-	-	-	1,166
6 years later	17	3	16	18	117	-	-	-	-	-	-	171
7 years later	1	153	45	439	-	-	-	-	-	-	-	638
8 years later	-	-	0	-	-	-	-	-	-	-	-	-
9 years later	5	114	-	-	-	-	-	-	-	-	-	119
10 years later	-	-	-	-	-	-	-	-	-	-	-	-
Total payments	1,377	2,383	1,722	3,115	3,164	3,453	7,939	18,198	14,245	10,493	7,728	73,817
Total amount of claims reported as of 31.12.2013	1,377	2,382	1,722	3,118	3,164	3,464	7,996	18,532	15,158	12,001	13,220	82,134
Outstanding claims reserves as of 31.12.2013	-	-	-	3	1	10	58	334	914	1,508	5,491	8,319

  

Year of event	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
In the year of event	755	846	893	1,164	1,272	1,091	1,269	2,204	3,813	4,251	5,736	23,294
1 year later	170	242	589	284	748	831	857	2,201	5,574	7,559	-	19,055
2 years later	40	123	56	122	257	299	157	928	3,878	-	-	5,860
3 years later	28	113	54	61	90	367	376	1,211	-	-	-	2,300
4 years later	24	18	81	21	224	246	369	-	-	-	-	983
5 years later	1	12	440	9	67	213	-	-	-	-	-	742
6 years later	34	17	3	16	18	-	-	-	-	-	-	88
7 years later	2	1	153	45	-	-	-	-	-	-	-	201
8 years later	-	-	-	-	-	-	-	-	-	-	-	-
9 years later	-	5	-	-	-	-	-	-	-	-	-	5
10 years later	-	-	-	-	-	-	-	-	-	-	-	-
Total payments	1,054	1,377	2,269	1,722	2,676	3,047	3,028	6,544	13,265	11,810	5,736	52,528
Total amount of claims reported as of 31.12.2012	1,054	1,377	2,269	1,722	2,681	3,047	3,208	6,751	13,886	13,066	10,520	59,581
Outstanding claims reserves as of 31.12.2012	-	-	-	-	5	1	179	207	622	1,256	4,785	7,055

**Financial risk**

In 2013 the Company continued its conservative policy in the area of investment management. 97.94% from the financial assets available for sale are invested in foreign debt bonds of European Union countries and 2.06% in corporate bonds and shares in investment funds.

In 2013 the financial assets held for trading represent equity investments in companies.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**29. Risk management (continued)****Financial risk (continued)**

In 2013 the main investment policy of the Company was to secure the technical reserves of the insurance portfolio as well as achieving of adequate return and protection of the funds at moderate risk.

As a result of the global economic crisis various sectors of the Bulgarian economy deteriorated in their development, which is significant uncertainty and risk for their development in the near future. The declining growth rates lead to significant uncertainty and as a result generated income levels, impairment losses, as well as management's estimates in the subsequent periods may differ from the present levels. In addition to this, there is a risk of a change in the prices of financial assets and properties, which may adversely affect the financial statements.

**Credit risk**

JSIC OZK- INUSRANCE AD has a significant exposure to receivables on insurance operations. The analysis of these receivables show that 84.99% from them are paid on time, and 15.01% are overdue. The receivables which are overdue between 90 and 180 days are 1.06%, between 180 and 360 days – 0.53% and over 360 days – 13.42 % as in such occasions the policies are terminated.

The above stated relationships are common for the insurance market.

**Liquidity risk**

The Company is not exposed to significant liquidity risk in 2013. As of December 31, 2013 the cash and cash equivalents and available for sale securities accounts up to BGN 25,224 thousands cover 63% of the reserves.

In the following table analysis of the assets and liabilities of the Company in terms of their maturity is made:

As of 31.12.2013	Up to one year	1-5 years	Over 5 years	Not defined maturity	Total:
<b>ASSETS</b>					
Investment properties	-	-	-	2,483	2,483
Deposits in financial institutions	6,836	-	-	-	6,836
Financial assets available for sale	-	-	-	10,440	10,440
Financial assets held for trading	-	-	-	7,028	7,028
Investment in subsidiaries	-	-	-	2,428	2,428
Non-current tangible and intangible assets	-	-	-	6,118	6,118
Deferred tax assets	20	-	4	10	34
Receivables and advances	26,113	-	-	-	26,113
Other assets	401	-	-	-	401
Cash	920	-	-	-	920
<b>TOTAL ASSETS</b>	<b>34,290</b>	<b>-</b>	<b>4</b>	<b>28,507</b>	<b>62,801</b>
<b>LIABILITIES</b>					
Short term liabilities	10,693	-	-	-	10,693
Deferred tax liabilities	-	-	-	339	339
Unearned-premium reserve	19,027	-	-	-	19,027
Outstanding claims reserve	17,449	-	-	-	17,449
Reserve fund	128	-	-	-	128
Other technical reserves	3,436	-	-	-	3,436
Retirement obligations	-	-	-	38	38
Non-current portion on liabilities under lease agreements	-	309	-	-	309
<b>TOTAL LIABILITIES</b>	<b>50,733</b>	<b>309</b>	<b>-</b>	<b>377</b>	<b>51,419</b>
Maturity Gap	(16,443)	(309)	4	28,130	11,382

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**29. Risk management (continued)****Financial risk (continued)***Liquidity risk (continued)*

As of 31.12.2012	Up to one year	1-5 years	Over 5 years	Not defined maturity	Total:
<b>ASSETS</b>					
Investment properties	-	-	-	2,483	2,483
Deposits in financial institutions	3,504	-	-	-	3,504
Financial assets available for sale	6,191	-	3,621	-	9,812
Financial assets held for trading	-	-	-	8,284	8,284
Non-current tangible and intangible assets	-	1,013	4,803	5	5,821
Deferred tax assets	19	-	5	10	34
Receivables and advances	23,806	-	-	-	23,806
Other assets	384	-	-	-	384
Cash	-	-	-	757	757
	<u>33,904</u>	<u>1,013</u>	<u>8,429</u>	<u>11,539</u>	<u>54,885</u>
<b>TOTAL ASSETS</b>					
<b>LIABILITIES</b>					
Short term liabilities	9,632	-	-	-	9,632
Deferred tax liabilities	-	-	-	328	328
Unearned-premium reserve	15,768	-	-	-	15,768
Outstanding claims reserve	13,666	-	-	-	13,666
Reserve fund	-	-	-	128	128
Other technical reserves	3,586	-	-	-	3,586
Retirement obligations	-	-	-	48	48
Non-current portion on liabilities under lease agreements	-	274	-	-	274
<b>TOTAL LIABILITIES</b>	<u>42,652</u>	<u>274</u>	<u>-</u>	<u>504</u>	<u>43,430</u>
<b>Maturity Gap</b>	<u>(8,748)</u>	<u>739</u>	<u>8,429</u>	<u>11,035</u>	<u>11,455</u>

*Currency risk*

The Company faces minimum currency risk, as the exposures in foreign currencies different from BGN and Euro are not material. The exposures to currency risk when conducting transactions lead to exchange rate gains and losses recognized in the income statement. These exposures include the cash which is not denominated in the reporting currency or euro.

The tables below summarize the currency risk of the Company as of December 31, 2013 and 2012. It shows the carrying values of the Company's assets and liabilities according to original currency.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian leva, unless otherwise stated

**29. Risk management (continued)****Financial risk (continued)***Currency risk (continued)*

As of 31.12.2013	BGN and EUR	USD	Total:
<b>ASSETS</b>			
Investment properties	2,483		2,483
Deposits in financial institutions	6,825	11	6,836
Financial assets available for sale	10,440		10,440
Financial assets held for trading	7,028		7,028
Investment in subsidiaries	2,428		2,428
Non-current tangible and intangible assets	6,118		6,118
Deferred tax assets	34		34
Receivables and advances	26,113		26,113
Other assets	401		401
Cash	920		920
<b>TOTAL ASSETS</b>	<b>62,790</b>	<b>11</b>	<b>62,801</b>
<b>LIABILITIES</b>			
Short term liabilities	10,693	-	10,693
Deferred tax liabilities	339	-	339
Reserve fund	128	-	128
Unearned-premium reserve	19,027	-	19,027
Outstanding claims reserve	17,449	-	17,449
Other technical reserves	3,436	-	3,436
Retirement obligations	38	-	38
Non-current portion on liabilities under lease agreements	309	-	309
<b>TOTAL LIABILITIES</b>	<b>51,419</b>	<b>-</b>	<b>51,419</b>
<b>Net currency position</b>	<b>11,371</b>	<b>11</b>	<b>11,382</b>
<b>As of 31.12.2012</b>	<b>BGN and EUR</b>	<b>USD</b>	<b>Total:</b>
<b>ASSETS</b>			
Investment properties	2,483	-	2,483
Deposits in financial institutions	3,493	11	3,504
Financial assets available for sale	9,812	-	9,812
Financial assets held for trading	8,284	-	8,284
Non-current tangible and intangible assets	5,821	-	5,821
Deferred tax assets	34	-	34
Receivables and advances	23,806	-	23,806
Other assets	384	-	384
Cash	757	-	757
<b>TOTAL ASSETS</b>	<b>54,874</b>	<b>11</b>	<b>54,885</b>
<b>LIABILITIES</b>			
Short term liabilities	9,632	-	9,632
Deferred tax liabilities	328	-	328
Reserve fund	128	-	128
Unearned-premium reserve	15,768	-	15,768
Outstanding claims reserve	13,666	-	13,666
Other technical reserves	3,586	-	3,586
Retirement obligations	48	-	48
Non-current portion on liabilities under lease agreements	274	-	274
<b>TOTAL LIABILITIES</b>	<b>43,430</b>	<b>-</b>	<b>43,430</b>
<b>Net currency position</b>	<b>11,444</b>	<b>11</b>	<b>11,455</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**29. Risk management (continued)****Financial risk (continued)****Interest rate risk**

The Company faces interest rate risk in respect to the non-trading portfolio. The sensitivity of the non-trading portfolio to interest rate risk as of December 31, 2013 and 2012 is as follows:

<b>As of 31.12.2013</b>	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Not interest bearing</b>	<b>Total</b>
<b>ASSETS</b>					
Investment properties	-	-	-	2,483	2,483
Deposits in financial institutions	6,836	-	-	-	6,836
Financial assets available for sale	-	-	10,225	215	10,440
Financial assets held for trading	-	-	-	7,028	7,028
Investment in subsidiaries	-	-	-	2,428	2,428
Non-current tangible and intangible assets	-	-	-	6,118	6,118
Deferred tax assets	-	-	-	34	34
Receivables and advances	-	-	-	26,113	26,113
Other assets	-	-	-	401	401
Cash	-	-	-	920	920
<b>TOTAL ASSETS</b>	<b>6,836</b>	<b>-</b>	<b>10,225</b>	<b>45,740</b>	<b>62,801</b>
<b>LIABILITIES</b>					
Short term liabilities	198	-	-	10,495	10,693
Deferred tax liabilities	-	-	-	339	339
Reserve fund	-	-	-	19,027	19,027
Unearned-premium reserve	-	-	-	17,449	17,449
Outstanding claims reserve	-	-	-	128	128
Other technical reserves	-	-	-	3,436	3,436
Retirement obligations	-	-	-	38	38
Non-current portion on liabilities under lease agreements	-	309	-	-	309
<b>TOTAL LIABILITIES</b>	<b>198</b>	<b>309</b>	<b>-</b>	<b>50,912</b>	<b>51,419</b>
<b>Net interest exposure</b>	<b>6,638</b>	<b>(309)</b>	<b>10,225</b>	<b>(5,172)</b>	<b>11,382</b>
<b>As of 31.12.2012</b>					
	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Not interest bearing</b>	<b>Total</b>
<b>ASSETS</b>					
Investment properties	-	-	-	2,483	2,483
Deposits in financial institutions	3,504	-	-	-	3,504
Financial assets available for sale	6,191	-	3,621	-	9,812
Financial assets held for trading	-	-	-	8,284	8,284
Non-current tangible and intangible assets	-	-	-	5,821	5,821
Deferred tax assets	-	-	-	34	34
Receivables and advances	-	-	-	23,806	23,806
Other assets	-	-	-	384	384
Cash	-	-	-	757	757
<b>ASSETS</b>	<b>9,695</b>	<b>-</b>	<b>3,621</b>	<b>41,569</b>	<b>54,885</b>
<b>LIABILITIES</b>					
Short term liabilities	149	-	-	9,483	9,632
Deferred tax liabilities	-	-	-	328	328
Unearned-premium reserve	-	-	-	15,768	15,768
Outstanding claims reserve	-	-	-	13,666	13,666
Reserve fund	-	-	-	128	128
Other technical reserves	-	-	-	3,586	3,586
Retirement obligations	-	-	-	48	48
Non-current portion on liabilities under lease agreements	-	274	-	-	274
<b>TOTAL LIABILITIES</b>	<b>149</b>	<b>274</b>	<b>-</b>	<b>43,007</b>	<b>43,430</b>
<b>Net interest exposure</b>	<b>9,546</b>	<b>(274)</b>	<b>3,621</b>	<b>(1,438)</b>	<b>11,455</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are in thousand Bulgarian levs, unless otherwise stated

**30. Related parties**

Related parties refer to entities, where one can control the other or have significant influence when making financial decisions or decision related to current operations.

For 2013 and 2012 the transactions with related parties can be classified in the following groups:

	Transaction volume for 2013 income/ (expense)	Balance as of 31.12.2013 receivables/ (payables)	Transaction volume for 2012 income/ (expense)	Balance as of 31.12.2012/ receivables/ (payables)
<b>Transactions with Municipal Bank AD</b>				
Insurance premiums	29	-	98	18
Claims paid	(40)	-	(76)	-
Insurance commissions	(6)	-	(142)	75
Cash in deposits accounts	(64)	311	646	375
Cash in current bank accounts	(7)	170	(46)	162
Interest received	1	-	13	-
Paid rents	(52)	-	(105)	-
<b>Transactions with EL EM Impex EOOD</b>				
Insurance premiums	-	69	3	69
Claims paid	-	-	-	-
<b>Transactions with Toplofikacia Burgas EAD</b>				
Insurance premiums	40	27	17	28
Claims paid	-	-	(3)	-
<b>Transactions with Toplofikacia Pleven EAD</b>				
Insurance premiums	152	114	288	352
Claims paid	(378)	-	(1)	-
<b>Transactions with Mina Stanyanci EAD</b>				
Insurance premiums	16	76	22	69
Claims paid	-	-	(5)	-
<b>Transactions with OZOK – Health Insurance AD</b>				
Insurance premiums	3	5	3	2
Additional health insurance	(79)	(13)	(78)	-
Rents	(13)	-	(12)	-
<b>Transactions with Coinvest EOOD</b>				
Insurance commissions	(587)	(410)	(971)	(99)
<b>Management</b>				
Board of directors	(151)	-	(147)	-
Managers	(257)	-	(339)	-

The transactions shown are made at normal market conditions and do not differ from the transactions conducted with parties which are not related parties to the Company.

**31. Contingent assets and liabilities**

As of 31 December, 2013 the Company has a valid bank guarantee issued by a Bulgarian bank in favour of the National Bureau of Bulgarian automobile insurers to the amount of EUR 600 thousand. As collateral of the guarantee there is a mortgage on one of the real estates owned by the Company in Sofia, 7 Sveta Sofia str., 5<sup>th</sup> floor.