JSIC OZK - INSURANCE AD

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

31 December 2012

Unofficial translation of the original in Bulgarian

STATEMENT OF FINANCIAL POSITION
AS OF 31 December 2012
All amounts are in thousand Bulgarian levs, unless otherwise stated

	Notes	As of 31.12.2012	As of 31.12.2011
Assets			
Non-current assets			
Investment properties	4	2,483	2,789
Financial assets available for sale	5	9,812	9,311
Financial assets held for trading	6	8,284	5,775
Property, plant and equipment	7	4,865	4,435
Intangible assets	8	956	1,006
Deferred tax assets	9	34	27
Total non-current assets		26,434	23,343
Current assets			
Inventories	14	281	115
Receivables for insurance activities	11	22,676	15,598
Other receivables	12	1,130	834
Prepaid expenses	10	103	80
Cash	13	4,261	4,477
Total current assets		28,451	21,104
TOTAL ASSETS		54,885	44,447
Equity and liabilities			
Equity			
Share capital	15	7,067	7,067
Reserves	16	3,943	3,734
Retained earnings		445	57
TOTAL EQUITY		11,455	10,858
Non-current liabilities			
Unearned premiums reserve	17	15,768	10,301
Outstanding claims reserve	17	13,666	14,764
Equalization reserve		128	128
Other technical reserves	17	3,586	1,292
Retirement benefits		48	48
Long-term lease liabilities	19	274	98
Deferred tax liabilities	9	328	310
Total non-current liabilities		33,798	26,941
Current liabilities			
Liabilities on insurance activities	18	8,026	5,511
Other liabilities	19	1,606	1,137
Total current liabilities		9,632	6,648
TOTAL LIABILITIES		43,430	33,589
TOTAL EQUITY AND LIABILITIES		54,885	44,447

These financial statements are approved by the Management Board and signed on 29 March 2013 on behalf of JSIC OZK – INSURANCE AD by:

Aleksandar Lichev	Rumen Dimitrov	Aneliya Pashaliyska
Chief Executive Director	Executive Director	Chief Accountant

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

Sylvia Peneva	Vasko Raichev
Registered Auditor	Registered Auditor

Date: 29 March 2013

INCOME STATAMENT
For the year ended 31 December 2012
All amounts are in thousand Bulgarian levs, unless otherwise stated

	Notes	Year ended 31.12.2012	Year ended 31.12.2011
Premiums earned	20	49,517	32,809
Ceded reinsurance premiums	20	(4,308)	(4,110)
Change in unearned premium reserve	17	(5,579)	632
Change in reinsurers' share in unearned premiums reserve	17	112	(903)
Premiums earned, net of reinsurance		39,742	28,428
Claims paid	21	(19,033)	(11,616)
Reinsurers` share in claims paid	21	1,333	1,104
Change in outstanding claims reserve	17	986	(1,849)
Change in reinsurers' share in outstanding claims reserve	17	112	(683)
Claims paid, net of reinsurance		(16,602)	(13,044)
Change in other insurance reserves	17	(2,294)	(886)
Acquisition expenses	22	(13,557)	(8,625)
Administrative expenses	23	(2,782)	(2,348)
Reinsurers' commissions and participation in result, net	24	1,090	890
Other insurance expenses, net	25	(6,146)	(6,422)
Insurance activity expenses		(40,291)	(30,435)
Result of insurance activity		(549)	(2,007)
Net investment income	26	1,276	2,169
Other expenses, net	27	(240)	(86)
PROFIT BEFORE TAXES		487	76
Tax expense	9	(42)	(19)
NET PROFIT FOR THE PERIOD		445	57

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The accompanying notes for an integral part of these financial statements

Sylvia Peneva Registered Auditor Date: 29 March 2013	Vasko Raichev Registered Auditor

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
All amounts are in thousand Bulgarian levs, unless otherwise stated

	Year ended 31.12.2012	Year ended 31.12.2011
NET PROFIT FOR THE PERIOD	445	57
Other components of comprehensive income, net of taxes	-	-
Revaluation of investments available for sale	192	(250)
Revaluation of property used in operations	(40)	27
Total other comprehensive income	152	(223)
TOTAL COMREHENSIVE INCOME FOR THE PERIOD	597	(166)

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Chief Accountant

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

Sylvia Peneva
Registered Auditor
Date: 29 March 2013

Vasko Raichev
Registered Auditor

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
All amounts are in thousand Bulgarian levs, unless otherwise stated

	Share capital	Revaluation reserve	Common reserve	Other reserves	Retained earnings	Total
Balance at 1January 2011	7,067	2,601	398	-	958	11,024
Distribution of retained earnings to reserves	-	-	96	862	(958)	-
Comprehensive income for the period	-	(223)	-	-	57	(166)
BALANCE AT 31 DECEMBER 2011	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
BALANCE AT 31 DECEMBER 2012	7,067	2,530	494	919	445	11,455

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Sylvia Peneva
Registered Auditor
Date: 29 March 2013

Vasko Raichev
Registered Auditor

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
All amounts are in thousand Bulgarian levs, unless otherwise stated

	Year ended 31.12.2012	Year ended 31.12.2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	37,565	23,163
Amounts recovered by reinsurers	689	243
Subrogation recoveries	566	298
Amounts paid to reinsurers	(1,481)	(2,276)
Claims paid	(19,019)	(10,253)
Payments to suppliers	(4,742)	(3,072)
Payments to employees	(3,272)	(3,083)
Acquisition costs paid	(7,076)	(4,555)
Amounts paid for guarantee fund	(1,451)	(622)
Interest received	169	236
Payment of corporate tax	(6)	(89)
Other cash flow from operating activities	(916)	(141)
NET CASH FLOW RECEIVED FROM/(PAID FOR) OPERATING ACTIVITIES	1,026	(151)
CASH FLOW FROM INVESTMENT ACTIVITIES		
Sales of government securities	-	1,564
Received interest from investment securities	571-	593
Received rents	23	14
Purchase of shares	(1,364)	(150)
Purchase of fixed yield securities	(309)	(2,824)
Other cash flows used in investment activities	(30)	(530)
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES	(1,109)	(1,333)
CASH FLOWS FROM FINANCING ACTIVITIES		
Other payments for financing activities	(133)	(186)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(133)	(186)
Change in cash during the period	(216)	(1,671)
CASH AT BEGINNING OF PERIOD	4,477	6,148
CASH AT END OF PERIOD (note 13)	4,261	4,477

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Sylvia Peneva	Vasko Raichev
Registered Auditor	Registered Auditor
Date: 29 March 2013	

1. Organization and activity

JSIC OZK-Insurance AD ("The Entity") 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., 5th Floor.

The main business activity of the Entity 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 Entity`s activity is the Insurance Code. Based on the latter, the Entity is regulated by the Financial Supervision Commission (FSC).

2. Base for preparation of the financial statements

2.1. Applicable accounting legislation and standards

2.1.1 Common framework for financial reporting

These financial statements have been prepared in accordance with statutory accounting legislation, applicable for insurance companies in Bulgaria. The Entity 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 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 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 2012.

Changes in IFRS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current period:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets, adopted by the EU on November 22, 2011 (effective for annual periods beginning on or after July 1, 2011).

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

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

2.1. Applicable accounting legislation and standards (continued)

2.1.1 Common framework for financial reporting (continued)

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

At the date of authorisation of these 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);
- IFRS 13 "Fair Value Measurement", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- 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 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of financial statements" -Presentation of Items of Other Comprehensive Income, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after January 1, 2013);
- 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);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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

2.1. Applicable accounting legislation and standards (continued)

2.1.1 Common framework for financial reporting (continued)

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 financial statements:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on May 17, 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application, with the exception of the following standard, which may have significant influence over the financial statements:

- IFRS 9 „Financial instruments", which uses a method for determination whether a financial asset is measured at amortized or fair value replacing many various rules in IAS 39. The approach in IFRS 9 is based on the way the company manages its financial instruments (business model) and the specific cash flows for financial assets. The new standard required the use of a single method for impairment replacing the various 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 financial statements, if applied as at the reporting date.

2.1.2 Accounting convention

These financial statements are prepared using the historical cost principle with the exception of land and buildings, investment properties, financial assets available for sale and held for trading (notes 3.11, 3.16 и 3.17), which are presented at fair value.

2. Base of preparation of the annual individual financial statements (continued)

2.1.2 Accounting convention (continued)

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 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

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 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 2012 and 2011 are as follows:

Foreign currency	31 December 2012	31 December 2011
EUR	1.95583	1.95583
USD	1.4836	1.51158

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.

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.

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. Summary of significant accounting policies (continued)

3.3. Technical reserves (continued)

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 2012 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 31.12.2012 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.

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3. Summary of significant accounting policies (continued)

3.4. Reinsurance

The Company cedes insurance premiums to limit its exposure to significant risks. Ceded reinsurance premiums 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 Entity. 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.

The Company has proportional reinsurance contracts for 2012 for "Property" – with Munich Re, SKOR and Sava Re, „Cargo and responsibility of the transporter", the validity of which was extended to 31.03.2013 г. are going to be renewed on 01.04.2013 г.
In 2012 there are signed contracts related to facultative reinsurance for property insurances for separate insurance objects and risks that exceed the limits under the contract or that are not covered by it with ZAD „Vienna Insurance Group", ZAD "Armeec" AD and "Vienna Insurance Group" – Czech Republic. "AIG Europe S.A" (Bulgarian branch), leading reinsurers on the London reinsurance market for unproportional contracts with reinsurers - Munich Re, Swiss Re, Hannover Re, SKOR Deutsche Rueck, Sava Re, Lloyds' syndicates etc. With the proportional contracts, the Entity transfers part of its assumed risk to reinsurers, in the ratios agreed under the contract whereby the limits on them are applicable for each separate risk and insured subject. Preponderance of claim over a certain limit is insured with the unproportional contracts. The reinsurance programme decreases the possible losses through diversification of the risk while it does not revoke the direct liability to the insured subject.

The reinsurance contracts include reinsurance for the following types of insurances: Fire and Natural disasters and Property damages on quota and accident basis, and Cargo and Responsibility of the transporter on a quota basis; MTPL, protection of self-retaining under the quota contract and catastrophic risks on an excess-loss basis.

The self-retaining is estimated based on the previous results of the Entity, the average insurance amount and the type of the insured subjects. The foreign contracts are placed with one of the biggest reinsurance intermediaries – Willis Re, JLT Re and Aon Benfield.

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.

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 labor 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 OZK-Insurance AD is obliged to make payments to health and social security funds. This obligation is related to employees on labor 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.

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 2012, their fair value is determined by licensed valuators. 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 2012 and 2011of 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.

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 2012 and 2011 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 2012 and 2011 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.

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 valuators 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 2012 investment properties owned by the Company, are revalued up to their fair value determined by licensed valuators. 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.

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.

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 statement of financial position.

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. Summary of significant accounting policies (continued)

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 income statement.

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 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 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.

All amounts are in thousand Bulgarian levs, unless otherwise stated

4. Investment property

	As of 31.12.2012	As of 31.12.2011
Balance at 1 January	2,789	2,349
New acquisitions in period	337	510
Disposals in the period	(643)	-
Revaluation to fair value	-	(70)
Balance 31 December	2,483	2,789

As an investment property are classified offices spaces owned by the Company in administrative buildings as well as one stores in Sofia acquired in 2012. Investment properties are rented out to legal entities. In 2012 two of the investment properties are transferred as contribution in kind in the capital of Municipal Bank AD.

5. Financial assets available for sale

	As of 31.12.2012	As of 31.12.2011
Government securities, denominated in EUR	9,207	8,702
Corporate bonds	605	609
TOTAL	9,812	9,311

6. Financial assets held for trading

As of 31 December 2012 and 2011 financial assets held for trading consist of equity investments at the amount of BGN 8,284 thousand and BGN 5,775 thousand, respectively.

7. Property, plant and equipment

	Land and buildings	Computer equipment	Motor vehicles	Fixtures and fittings	Other	Total
Cost						
Balance at 1 January 2011	3,359	314	972	299	4	4,948
Revaluation	(94)					(94)
Acquisitions		62	216	34	-	312
Disposals	-	(13)	(33)	(1)	-	(47)
At 31 December 2011	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	3,226	433	1,753	372	5	5,789
Accumulated depreciation						
Balance at 1 January 2011	(83)	(89)	(306)	(145)	-	(623)
Charges for the period	(42)	(40)	(121)	(19)	-	(222)
Written off depreciation from revaluation of fixed assets	125	-	-	-	-	125
From disposals	-	13	23	-	-	36
At 31 December 2011	-	(116)	(404)	(164)	-	(684)
Charges for the year	(41)	(47)	(165)	(20)	-	(273)
Written off depreciation from revaluation of fixed assets	-	2	8	23	-	33
At 31 December 2012	(41)	(161)	(561)	(161)	-	(924)
NET BOOK VALUE						
At 1 January 2011	3,276	225	666	154	4	4,325
At 31 December 2011	3,265	247	751	168	4	4,435
At 31 December 2012	3,185	272	1,192	211	5	4,865

All amounts are in thousand Bulgarian levs, unless otherwise stated

8. Intangible assets

	Insurance license	Software	Other	Total
Cost				
Balance at 1 January 2011	128	1,327	22	1,477
Acquisitions	-	82	-	82
Balance at 31 December 2011	128	1,409	22	1,559
Acquisitions	-	98	-	98
Balance at 31 December 2012	128	1,507	22	1,657
Accumulated amortization				
Balance at 1 January 2011	(119)	(300)	(1)	(420)
Charged during the year	-	(132)	(1)	(133)
Balance at 31 December 2011	(119)	(432)	(2)	(553)
Charged during the year	-	(147)	(1)	(148)
Balance at 31 December 2012	(119)	(579)	(3)	(701)
NET BOOK VALUE				
At January 2011	9	1,027	21	1,057
At 31 December 2011	9	977	20	1,006
At 31 December 2012	9	928	19	956

9. Taxation

Tax expenses are as follows:

	Year ended 31.12.2012	Year ended 31.12.2011
Current tax expense	31	-
Deferred tax expenses from temporary differences, utilized during the period	11	19
TOTAL TAX EXPENSE	42	19

Current tax expense represents the amount of tax calculated under the Bulgarian legislation based on tax rate of 10% for 2012 and 2011.

Deferred tax assets and liabilities are as follows:

	As of 31.12.2012	As of 31.12.2011
Deferred tax assets		
Retirement benefits	5	5
Unused paid leave	19	12
Investment property	10	10
TOTAL DEFERRED TAX ASSETS	34	27
Deferred tax liabilities		
Property, plant and equipment	(186)	(244)
Investment properties	(142)	(66)
TOTAL DEFERRED TAX LIABILITIES	(328)	(310)
DEFERRED TAX LIABILITIES, NET	(294)	(283)

All amounts are in thousand Bulgarian levs, unless otherwise stated

9. Taxation (continued)

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

	Year ended 31.12.2012	Year ended 31.12.2011
Profit before taxes	487	76
Income tax, calculated at the applicable tax rate (10% for 2012 and 2011)	49	8
Unrecognized tax expense	-	3
Unrecognized tax effect of deferred tax asset	(7)	8
TOTAL TAX EXPENSE	42	19
Effective tax rate	9%	25%

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.

10. Prepaid expenses

	As of 31.12.2012	As of 31.12.2011
Software maintenance subscription expense	13	12
Advertising expense	56	27
Property insurance	1	5
Contributions to state health fund	31	34
Office rent	2	2
TOTAL	103	80

11. Receivables from insurance transactions

	As of 31.12.2012	As of 31.12.2011
Receivables from direct clients	23,236	14,737
Impairment on uncollected premiums receivable	(3,910)	(1,903)
Receivables from reinsurance transactions	3,350	2,691
Prepaid minimal deposit premium to reinsurer	-	73
TOTAL	22,676	15,598

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.

All amounts are in thousand Bulgarian levs, unless otherwise stated

12. Other receivables

	As of 31.12.2012	As of 31.12.2011
Receivables on guarantees	340	85
Interest receivable	525	511
Receivables from legal disputes	13	7
Advance to suppliers	104	143
Social security institutions	-	11
From loss and deficit	28	28
From co-insurance contracts	80	-
Other	40	49
TOTAL	1,130	834

13. Cash

	As of 31.12.2012	As of 31.12.2011
Deposits in banks	3,504	3,505
Current bank accounts in BGN	275	352
Current bank accounts in foreign currency	40	8
Cash on hand	442	612
TOTAL	4,261	4,477

14. Inventories

Inventories as of 31 December 2012 represent stock forms, office supplies, and stickers at the total amount of BGN 281 thousand (31 December 2011: BGN 115 thousand)

15. Share capital

As of 31 December 2012 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	2012		2011	
	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	318,862	4.51
Alexander Petrov Lichev	352,426	4.99	352,425	4.99
	7,066,678	100.00	7,066,678	100.00

All amounts are in thousand Bulgarian levs, unless otherwise stated

16. Reserves

	As of 31.12.2012	As of 31.12.2011
Legal reserves – Reserve fund – under Commercial law	494	494
Other reserves	919	862
Revaluation reserves	2,530	2,378
TOTAL	3,943	3,734

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 2011 approved by the Annual General Meeting of the Shareholders.

17. Technical reserves

Technical reserves, gross are as follows:

	Unearned premium reserve	Outstanding claims reserve	Other Technical Reserves	Total reserves
Balance as of January 1, 2011	11,655	13,326	406	25,387
Change in 2011	(632)	1,849	886	2,103
Balance as of December 31, 2011	11,023	15,175	1,292	27,490
Change in 2012	5,579	(986)	2,294	6,887
Balance at December 31, 2012	16,602	14,189	3,586	34,377

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

	Unearned premium reserve	Outstanding claims reserve	Total reserves
Balance as of January 1, 2011	1,625	1,094	2,719
Change in 2011	(903)	(683)	(1,586)
Balance as of December 31, 2011	722	411	1,133
Change in 2012	112	112	224
Balance at December 31, 2012	834	523	1,357

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

All amounts are in thousand Bulgarian levs, unless otherwise stated

17. Technical reserves (continued)

Technical reserves by types of insurance policies as of December 31, 2011 are as follows:

Type of insurance	Unearned premium reserve	Outstanding claims reserve	Other technical reserves	Total reserves-general insurance
Accident in public transportation vehicles	79	2	-	81
Accident	248	60	-	308
Illness	18	2	-	20
Automobile casco insurance	2,015	844	8	2,867
Cargo	10	2	-	12
Fire and natural disasters	1,170	66	-	1,236
Property	226	9	1	236
MTPL	6,583	14,110	1,283	21,976
General MTPL	542	61	-	603
Other financial loss	121	-	-	121
Travel insurance	11	19	-	30
Gross amount	11,023	15,175	1,292	27,490
Reinsurers' share	(722)	(411)	-	(1,133)
Reserve, net of reinsurance	10,301	14,764	1,292	26,357

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.

18. Insurance liabilities

	As of 31.12.2012	As of 31.12.2011
Liabilities on reinsurance operations	4,860	3,698
Liabilities to intermediaries	3,166	1,813
TOTAL	8,026	5,511

19. Other liabilities

	As of 31.12.2012	As of 31.12.2011
Paid leave liabilities	175	112
Social security payables	12	11
Tax payables-individuals' income	34	33
Health benefits payable	4	8
Budget payables	159	94
Suppliers	435	225
Payables to Guarantee fund	532	403
Dividends payable	57	57
Current portion of the financial lease liability	149	105
Liabilities on co-insurance operations	9	66
Other	40	23
TOTAL	1,606	1,137

All amounts are in thousand Bulgarian levs, unless otherwise stated

19. Other liabilities (continued)

Lease liabilities as of December 31, 2012 and 2011 are as follows:

	Total value of the minimum lease payments		Present value of the minimum lease payments	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Not later than 1 year	172	118	149	105
Later than 1 year and not later than 5 years	299	108	274	98
Total	471	226	423	203
Reduced with future financial expenses	(48)	(23)		-
Present value of the minimum lease payments	423	203	423	203
Current portion of the liabilities under lease contracts			149	105
Non-current portion of the liabilities under lease contracts			274	98

The agreements are for finance lease of vehicles. In 2010 there are 5 vehicles acquired under financial lease for term of 36 months and annual interest rate 8.60%. In 2011 there are 2 vehicles acquired under financial lease: 1 for term of 36 months and annual interest rate 10.8% and 1 for term of 60 months and annual interest rate of 8.35%. 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%.

20. Premiums written

	Year ended 31.12.2012	Year ended 31.12.2011
Accident in public transportation	438	272
Accident	2,427	1,761
Illness	256	62
Road motor vehicles	9,705	8,281
Cargo	185	137
Fire and natural disasters	5,170	4,626
Property	1,080	1,110
MTPL	27,160	14,166
General MTPL	2,268	1,931
Various financial losses	676	359
Travel insurance	152	104
TOTAL PREMIUMS WRITTEN	49,517	32,809

Premiums ceded to reinsurers

	Year ended 31.12.2012	Year ended 31.12.2011
Road motor vehicles	-	(3)
Fire and natural disasters	(2,601)	(2,467)
Property	(442)	(486)
MTPL	(552)	(399)
Cargo	(161)	
General MTPL	(552)	(755)
TOTAL PREMIUMS CEDE TO REINSURERS	(4,308)	(4,110)

All amounts are in thousand Bulgarian levs, unless otherwise stated

21. Claims paid

	Year ended 31.12.2012	Year ended 31.12.2011
Accident	(839)	(252)
Illness	(8)	(9)
Road motor vehicles	(4,201)	(3,869)
Fire and natural disasters	(1,052)	(835)
Property	(74)	(117)
MTPL	(12,539)	(6,470)
General MTPL	(117)	(50)
Cargo	-	(3)
Various financial losses	(146)	-
Travel insurance	(57)	(11)
TOTAL CLAIMS PAID	(19,033)	(11,616)

Reinsurers' sare in claims paid

	Year ended 31.12.2012	Year ended 31.12.2011
Road motor vehicles	102	479
Fire and natural disasters	483	425
Property	19	47
General MTPL	62	-
MTPL	667	153
TOTAL REINSURER'S SHARE IN CLAIMS PAID	1,333	1,104

22. Acquisition expenses

	Year ended 31.12.2012	Year ended 31.12.2011
Commissions to intermediaries	(8,255)	(4,438)
Liquidation expenses	(609)	(319)
Advertising expenses	(417)	(414)
Payroll	(2,035)	(1,846)
Other indirect acquisition expenses	(2241)	(1,608)
TOTAL	(13,557)	(8,625)

23. Administrative expenses

	Year ended 31.12.2012	Year ended 31.12.2011
Materials	(111)	(86)
Office rent	(133)	(115)
Office maintenance expenses	(139)	(78)
External services	(623)	(593)
Depreciation/amortization	(105)	(89)
Payroll, including management board	(1,333)	(1,191)
Other	(338)	(196)
TOTAL	(2,782)	(2,348)

All amounts are in thousand Bulgarian levs, unless otherwise stated

24. Reinsurers' commissions and participation in the result, net

	Year ended 31.12.2012	Year ended 31.12.2011
Income from commissions of reinsurers	1,103	889
Expenses for participation in profit	(14)	(11)
Income for participation in profit of reinsurer	1	12
NET REINSURANCE INCOME	1,090	890

25. Other insurance expenses, net

	Year ended 31.12.2012	Year ended 31.12.2011
Expenses for guarantee fund and Security fund under FSC	(1,591)	(709)
Impairment of receivables	(2,007)	(1,903)
Recovered impairment of receivables	-	1,370
Expenses for preventive measure related to State Fund Agriculture	(3)	(12)
Expenses, related to reversed premiums from prior years	(3,162)	(5,994)
Income related to reversed intermediaries commissions from prior years	-	279
Income related to commissions and ceded premiums for insurers under recognized policies from prior years	84	115
Income from regresses	465	416
Other income	113	20
Other expenses	(45)	(4)
TOTAL OTHER INSURANCE EXPENSES, NET	(6,146)	(6,422)

26. Net investment income

	Year ended 31.12.2012	Year ended 31.12.2011
Interest income	737	786
Rent income	37	23
Income from sale of investments	119	21
Income from revaluation of available for sale financial assets, net	383	1,409
Expenses of revaluation of investment properties , net	-	(70)
TOTAL NET INVESTMENT INCOME	1,276	2,169

Interest income includes:

	Year ended 31.12.2012	Year ended 31.12.2011
Interest on government bonds	568	536
Interest on bonds	15	21
Interest on bank deposits	154	229
TOTAL INTEREST INCOME	737	786

All amounts are in thousand Bulgarian levs, unless otherwise stated

27. Other expenses, net

	Year ended 31.12.2012	Year ended 31.12.2011
Other financial expenses	(96)	(64)
Income on lease agreement	(23)	(17)
Penalty interest	(78)	-
Impairment of receivables	(40)	-
Other	(3)	(5)
TOTAL OTHER EXPENSES, NET	(240)	(86)

28. 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.

For the main types of insurance are signed reinsurance contracts, which limit the liability of the Company at 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 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 31.12.2011

Type of insurance	Premium earned	Reserves and equalization reserve	Reserves quote
All other insurances	12,941	4,249	33%
Insurance of responsibilities	15,487	22,549	146%
Total	28,428	26,798	94%

As of 31.12.2012

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

All amounts are in thousand Bulgarian levs, unless otherwise stated

28. 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, 2012 and 2011.

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	23,293
1 year later	170	242	589	284	748	831	857	2201	5574	7559	-	19,054
2 years later	40	123	56	122	257	299	157	928	3878	-	-	5,860
3 years later	28	113	54	61	90	367	376	1211	-	-	-	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	-	-	-	-	-	-	-	200
8 years later	-	-	-	-	-	-	-	-	-	-	-	-
9 years later	-	5	-	-	-	-	-	-	-	-	-	5
10 years later	0	-	-	-	-	-	-	-	-			-
Total payments	1,054	1,377	2,269	1,722	2,676	3,046	3,029	6,544	13,264	11,810	5,736	52,526
Total amount of claims reported as of 31.12.2012	1 054	1,377	2,292	1,734	2,793	3,093	3,083	7,043	14,418	13,704	8,990	59,581
Outstanding claims reserves as of 31.12.2012	-	-	24	12	118	47	54	499	1,153	1,894	3,254	7,055

Year of event	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total:
In the year of the event	234	755	846	893	1,164	1,272	1,091	1,269	2,204	3,813	4,251	17,792
1 year later	122	170	242	589	284	748	831	857	2,201	5,574	-	11,618
2 years later	17	40	123	56	122	257	299	157	928	-	-	1,999
3 years later	9	28	113	54	61	90	367	376	-	-	-	1,098
4 years later	100	24	18	81	21	224	246	-	-	-	-	714
5 years later	1	1	12	440	9	67	-	-	-	-	-	530
6 years later	16	34	17	3	16	-	-	-	-	-	-	86
7 years later	3	2	1	153	-	-	-	-	-	-	-	159
8 years later	5	-	-	-	-	-	-	-	-	-	-	5
9 years later	-	-	-	-	-	-	-	-	-	-	-	-
10 years later	6	-	-	-	-	-	-	-	-	-	-	6
Total payments	513	1,054	1,372	2,269	1,677	2,658	2,834	2,659	5,333	9,387	4,251	34,007
Total amount of reported claims as of 31.12.2011	513	1,054	1,372	2,299	1,682	2,897	2,936	2,814	5,729	12,367	8,454	42,117
Outstanding claims reserve as of 31.12.2011	-	-	-	30	5	239	102	155	396	2,980	4,203	8,110

Financial risk

In 2012 the Company continued its conservative policy in the area of investment management. 93, 83% from the non-current assets available for sale are invested in foreign debt bonds of Republic of Bulgaria and European Union and 6, 17% in corporate bonds.

In 2012 the non-current assets available for sale are stocks of different trade companies.

All amounts are in thousand Bulgarian levs, unless otherwise stated

28. Risk management (continued)

Insurance risk (continued)

In 2012 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 JSC has a significant exposure to receivables on insurance operations. The analysis of these receivables show that 75.14% from them are paid on time, and 24.86% are overdue. The receivables which are overdue between 90 and 180 days are 9.32%, between 180 and 360 days – 4.17% and over 360 days – 11.37 % 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 risk in 2012.As of December 31, 2012 the cash and cash equivalents and available for sale securities accounts up to BGN 22,357 thousands cover 67% 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 31.12.2012	Up to one year	1-5 years	Over 5 years	Not defined maturity	Total:
ASSETS					
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
Reinsurers share of reserves	1,357	-	-	-	1,357
Receivables and advances	23,806	-	-	-	23,806
Other assets	384	-	-	-	384
Cash	-	-	-	757	757
TOTAL ASSETS	35,261	1,013	8,429	11,539	56,242

All amounts are in thousand Bulgarian levs, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

LIABILITIES	Up to one year	1-5 years	Over 5 years	Not defined maturity	Total:
Short term liabilities	9,632	-	-	-	9,632
Deferred tax liabilities	-	-	-	328	328
Unearned-premium reserve	14,934	-	-	-	14,934
Outstanding claims reserve	13,143	-	-	-	13,143
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
TOTAL LIABILITIES	41,925	274	-	504	42,073
Maturity gap	(6,034)	739	8,429	11,035	14,169

As of 31.12.2011	Up to one year	1-5 years	Over 5 years	Not defined maturity	Total:
ASSETS					
Investment properties	-	-	-	2,789	2,789
Deposits in financial institutions	3,505	-	-	-	3,505
Financial assets available for sale	-	6,399	2,912	-	9,311
Financial assets held for trading	-	-	-	5,775	5,775
Non-current tangible and intangible assets	-	1,010	4,427	4	5,441
Deferred tax assets	-		5	22	27
Reinsurers share of reserves	1,133	-	-	-	1,133
Receivables and advances	16,432	-	-	-	16,432
Other assets	195	-	-	-	195
Cash	-	-	-	972	972
TOTAL ASSETS	21,265	7,409	7,344	9,562	45,580
LIABILITIES					
Current liabilities	6,648	-	-	-	6,648
Deferred tax liabilities	-	-	-	310	310
Unearned –premium reserve	11,023	-	-	-	11,023
Outstanding claims reserve	15,175	-	-	-	15,175
Reserve fund	-	-	-	128	128
Other technical reserves	1,292	-	-	-	1,292
Retirement obligations	-	-	-	48	48
Non-current portion of liabilities under lease agreements	-	98	-	-	98
TOTAL LIABILITIES	34,138	98	-	486	34,722
Maturity gap	(12,873)	7,311	7,344	9,076	10,858

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.

All amounts are in thousand Bulgarian levs, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

Currency risk (continued)

The tables below summarize the currency risk of the Company as of December 31, 2012 and 2011. It shows the carrying values of the Company's assets and liabilities according to original currency.

As of 31.12.2012	BGN and EUR	USD	Total:
ASSETS			
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
Reinsurers' share in reserves	1,357	-	1,357
Receivables and advances	23,806	-	23,806
Other assets	384	-	384
Cash	757	-	757
TOTAL ASSETS	56,231	11	56,242
LIABILITIES			
Short term liabilities	9,632	-	9,632
Deferred tax liabilities	328	-	328
Reserve fund	128	-	128
Unearned-premium reserve	14,934	-	14,934
Outstanding claims reserve	13,143	-	13,143
Other technical reserves	3,586	-	3,586
Retirement obligations	48	-	48
Non-current portion on liabilities under lease agreements	274	-	274
TOTAL LIABILITIES	42,073	-	42,073
Net currency position	14,158	11	14,169

As of 31.12.2011	BGN and EUR	USD	Total:
ASSETS			
Investment properties	2,789	-	2,789
Deposits in financial institutions	3,494	11	3,505
Financial assets available for sale	9,311	-	9,311
Financial assets held for trading	5,775	-	5,775
Non-current tangible and intangible assets	5,441	-	5,441
Deferred tax assets	27	-	27
Reinsurers' share in reserves	1,133	-	1,133
Receivables and advances	16,432	-	16,432
Other assets	195	-	195
Cash	972	-	972
TOTAL ASSETS	45,569	11	45,580
LIABILITIES			
Short term liabilities	6,648	-	6,648
Deferred tax liabilities	310	-	310
Reserve fund	11,023	-	11,023
Unearned-premium reserve	15,175	-	15,175
Outstanding claims reserve	128	-	128
Other technical reserves	1,292	-	1,292
TOTAL LIABILITIES	34,576	-	34,576
Net currency position	10,993	11	11,004

All amounts are in thousand Bulgarian levs, unless otherwise stated

28. 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, 2012 and 2011 is as follows:

As of 31.12.2012	Up to 1 year	1-5 years	Over 5 years	Not interest bearing	Total
ASSETS					
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
Reinsurers' share in reserves	-	-	-	1,357	1,357
Receivables and advances	-	-	-	23,806	23,806
Other assets	-	-	-	384	384
Cash	-	-	-	757	757
TOTAL ASSETS	9,695	-	3,621	42,926	56,242
LIABILITIES					
Short term liabilities	-	-	-	9,632	9,632
Deferred tax liabilities	-	-	-	328	328
Unearned-premium reserve	-	-	-	14,934	14,934
Outstanding claims reserve	-	-	-	13,143	13,143
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
TOTAL LIABILITIES	-	274	-	41,799	42,073
Net interest exposure	9,695	(274)	3,621	1,127	14,169

As of 31.12.2011	Up to 1 year	1-5 years	Over 5 years	Not interest bearings	Total:
ASSETS					
Investment properties	-	-	-	2,789	2,789
Deposits in financial institutions	3,505	-	-	-	3,505
Financial assets available for sale	-	6,399	2,912	-	9,311
Financial assets held for trading	-	-	-	5,775	5,775
Non-current tangible and intangible assets	-	-	-	5,441	5,441
Deferred tax assets	-	-	-	27	27
Reinsurers' share in reserves	-	-	-	1,133	1,133
Receivables and advances	-	-	-	16,432	16,432
Other assets	-	-	-	195	195
Cash	-	-	-	972	972
TOTAL ASSETS	3,505	6,399	2,912	32,764	45,580
Short term liabilities	-	-	-	6,648	6,648
Deferred tax liabilities	-	-	-	310	310
Unearned-premium reserve	-	-	-	11,023	11,023
Outstanding claims reserve	-	-	-	15,175	15,175
Reserve fund	-	-	-	128	128
Other technical reserves	-	-	-	1,292	1,292
TOTAL LIABILITIES	-	-	-	34,576	34,576
Net interest exposure	3,505	6,399	2,912	(1,812)	11,004

All amounts are in thousand Bulgarian levs, unless otherwise stated

29. 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 2012 and 2011 the transactions with related parties can be classified in the following groups:

	Transaction volume for 2012 income/ (expense)	Balance as of 31.12.2012	Transaction volume for 2011 income/ (expense)	Balance as of 31.12.2011
Transactions with Municipal Bank AD				
Insurance premiums	98	18	237	29
Claims paid	(76)		(50)	
Insurance commissions	(142)	75	(99)	69
Cash in deposits accounts	646	375	3,467	1021
Cash in current bank accounts	(46)	162		205
Interest received	13		13	-
Paid rents	(105)		(191)	-
Transactions with EL EM Impex EOOD				
Insurance premiums	3	69	3	66
Claims paid			-	-
Transactions with Toplofikacia Burgas EAD				
Insurance premiums	17	28	85	12
Claims paid	(3)		(91)	-
Transactions with Toplofikacia Pleven EAD				
Insurance premiums	288	352	160	136
Claims paid	(1)		(1)	-
Transactions with Mine Stanyanci EAD				
Insurance served	22	69	35	55
Claims paid	(5)		(1)	-
Transactions with OZOK AD				
Insurance premiums	3	2	4	-
Additional health insurance	(78)		(103)	-
Rents	(12)		(12)	-
Transactions with Coinvest EOOD				
Insurance commissions	(971)	99	-	-
Management				
Board of Directors	(147)		(129)	-
Managers	(339)		(409)	-

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.

30. Contingent assets and liabilities

As of 31 December 2012 there are some legal cases in progress against the Company. The management believes that no provision should be accrued since according to legal advisors significant losses are unlikely.
As of 31 December, 2012 the Company has the following valid bank guarantees issued by Municipal Bank AD:
- Bank guarantee issued 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, Sveta Sofia str.7, 5th floor.