JSIC OZK - INSURANCE AD

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

31 December 2011

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

STATEMENT OF FINANCIAL POSITION
As of 31 December 2011
All amounts in thousand Bulgarian levs, unless otherwise stated

	Notes	As of 31.12.2011	As of 31.12.2010
Assets			
Non-current assets			
Investment properties	4	2,789	2,349
Financial assets available for sale	5	9,311	8,283
Financial assets held for trading	6	5,775	4,216
Property, plant, and equipment	7	4,435	4,325
Intangible assets	8	1,006	1,057
Deferred tax assets	9	27	15
Total non-current assets		23,343	20,245
Current assets			
Inventories	14	115	202
Receivables from insurance activity	11	15,598	13,482
Other receivables	12	834	715
Prepaid expenses	10	80	25
Cash and cash equivalents	13	4,477	6,148
Total current assets		21,104	20,572
TOTAL ASSETS		44,447	40,817
Equity and liabilities			
Equity			
Share capital	15	7,067	7,067
Reserves	16	3,734	2,999
Retained earnings		57	958
TOTAL EQUITY		10,858	11,024
Non-current liabilities			
Unearned premiums reserve	17	10,301	10,030
Outstanding claims reserve	17	14,764	12,232
Equalization reserve		128	128
Other technical reserves	17	1,292	406
Retirement benefits		48	20
Long-term lease liabilities	19	98	64
Deferred tax liabilities	9	310	276
Total non-current liabilities		26,941	23,156
Current liabilities			
Liabilities on insurance activities	18	5,511	5,818
Other liabilities	19	1,137	819
Total current liabilities		6,648	6,637
TOTAL LIABILITIES		33,589	29,793
TOTAL EQUITY AND LIABILITIES		44,447	40,817

These financial statements are approved by the Management Board and signed on 30 March 2012 on behalf of JSIC OZK - INSURANCE AD by:

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

(signed) Sylvia Peneva Registered Auditor	(signed) Dimitar Bazlyankov Registered Auditor

Date: 31 March 2012

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

INCOME STATEMENT
For the year ended 31 December 2011
All amounts in thousand Bulgarian levs, unless otherwise stated

	Notes	Year ended 31.12.2011	Year ended 31.12.2010
Premiums earned	20	32,809	34,745
Ceded reinsurance premiums	20	(4,110)	(5,796)
Change in unearned premium	17	632	(2,048)
Change in reinsurers’ share in unearned premiums reserve	17	(903)	(530)
Premiums earned, net of reinsurance		28,428	26,371
Claims paid	21	(11,616)	(6,785)
Reinsurers’ share in claims paid	21	1,104	1,612
Change in outstanding claims reserve	17	(1,849)	(4,603)
Change in reinsurers’ share in outstanding claims reserve	17	(683)	(276)
Claims paid, net of reinsurance		(13,044)	(10,052)
Change in other insurance reserves	17	(886)	(406)
Acquisition expenses	22	(8,625)	(11,135)
Administrative expenses	23	(2,348)	(1,832)
Reinsurers’ commissions and participation in result, net	24	890	1,469
Other insurance expenses, net	25	(6,422)	(4,166)
Insurance activity expenses		(30,435)	(26,122)
Result of insurance activity		(2,007)	249
Net investment return	26	2,169	867
Other income and expenses, net	27	(86)	(50)
PROFIT BEFORE TAXES		76	1,066
Tax expenses	9	(19)	(108)
NET PROFIT FOR THE PERIOD		57	958

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STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011
All amounts in thousand Bulgarian levs, unless otherwise stated

	Year ended 31.12.2011	Year ended 31.12.2010
NET PROFIT FOR THE PERIOD	57	958
Other components of comprehensive income, net of taxes	-	-
Revaluation of investments available for sale	(250)	(58)
Revaluation of property used in operations	27	-
Total other comprehensive income	(223)	(58)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(166)	900

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Date: 31 March 2012

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JSIC OZK-INSURANCE AD

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2011
All amounts in thousand Bulgarian levs, unless otherwise stated

	Share capital	Revaluation reserve	Common reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2010	6,400	2,659	344	-	540	9,943
Changes in shareholder's equity for 2010	-	-	-	-	-	-
Distribution of retained earnings to reserves	-	-	54	-	(54)	-
Distribution of retained earnings to increase capital	486	-	-	-	(486)	-
Increase of capital at expense of owners	181	-	-	-		181
Comprehensive income for period	-	(58)	-	-	958	900
Balance at 31 December 2010	7,067	2,601	398	-	958	11,024
Changes in shareholders' equity in 2011	-	-	-	-	-	-
Distribution of retained earnings to reserves	-	-	96	862	(958)	-
Comprehensive income for period	-	(223)	-	-	57	(166)
Balance at 31 December 2011	7,067	2,378	494	862	57	10,858

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(signed)
Sylvia Peneva
Registered Auditor

(signed)
Dimitar Bazlyankov
Registered Auditor

Date: 31 March 2012

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

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STATEMENT OF CASH FLOWS
For the year ended 31 December 2011
All amounts in thousand Bulgarian levs, unless otherwise stated

	Year ending on 31.12.2011	Year ending on 31.12.2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	23,163	28,982
Amounts recovered by reinsurers	243	167
Subrogation recoveries	298	206
Amounts paid to reinsurers	(2,276)	(2,875)
Claims paid	(10,253)	(6,711)
Payments to suppliers	(3,072)	(3,475)
Payments to employees	(3,083)	(2,537)
Acquisition costs paid	(4,555)	(7,906)
Amounts paid for guarantee fund	(622)	(926)
Interest received	236	331
Payment of corporate tax	(89)	(20)
Other cash flow from operating activities	(141)	(42)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(151)**	**5,194**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Sales of government securities	1,564	-
Received interest from investment securities	593	372
Received rents	14	99
Purchase of shares	(150)	(1,952)
Purchase of fixed yield securities	(2,824)	(2,913)
Other cash flows used in investment activities	(530)	(76)
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES	**(1,333)**	**(4,470)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash flow from new shares issue	-	181
Cash flow from financing	-	31
Dividends paid	-	(176)
Other payments for financing activities	(186)	(180)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(186)**	**(144)**
Change in cash during the period	(1,671)	580
CASH AT BEGINNING OF PERIOD	6,148	5,568
CASH AT END OF PERIOD (Note 13)	4,477	6,148

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Date: 31 March 2012

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

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., 5th Floor.

The main business activity of the Company is insurance covering the following types of insurance products: "Accident insurance," "Disease insurance," "Insurance of road vehicles excluding rail transport," "Insurance of rail transportation vehicles," "Cargo insurance," "Fire and Natural disasters insurance," "Property insurance," "Auto Insurance,", "General Third Party Liability", "Financial loss insurance," "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 it the Company is regulated by the Financial Supervision Commission (FSC).

2. Basis 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 Company prepares and presents its financial statements in accordance with 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 charged as an expense in the financial statements. In the preparation of the accompanying financial statements, the Company 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 2011.

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:

- Amendments to IAS 24 Related Party Disclosures - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on July 19, 2010 (effective for annual periods beginning on or after January 1, 2011),
- Amendments to IAS 32 Financial Instruments: Presentation – Accounting for rights issues, adopted by the EU on December 23, 2009 (effective for annual periods beginning on or after February 1, 2010),

2.1.1 Common framework for financial reporting (continued)

Standards and Interpretations effective in the current period (continued)

- Amendments to IFRS 1 First-time Adoption of IFRS - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on June 30, 2010 (effective for annual periods beginning on or after July 1, 2010),
- Amendments to various standards and interpretations Improvements to IFRSs (2010) resulting from the annual improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on February 18, 2011 (amendments are to be applied for annual periods beginning on or after July 1, 2010 or January 1, 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction - Prepayments of a Minimum Funding Requirement, adopted by the EU on July 19, 2010 (effective for annual periods beginning on or after January 1, 2011),
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, adopted by the EU on July 23, 2010 (effective for annual periods beginning on or after July 1, 2010).

The adoption of these 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 financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- 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 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.

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 International Accounting Standards Board (IASB) except from 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),
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013),
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1, 2013),
- IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after January 1, 2013),

2.1.1 Common framework for financial reporting (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU (continued)

- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013),
- IAS 27 (revised in 2011) Separate Financial Statements (effective for annual periods beginning on or after January 1, 2013),
- IAS 28 (revised in 2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 1 First-time Adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011),
- Amendments to IFRS 7 Financial Instruments: Disclosures **-** Offsetting Financial Assets and Financial Liabilities (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 IAS 1 Presentation of financial statements -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),
- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012),
- Amendments to IAS 19 Employee Benefits - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IAS 32 Financial instruments: presentation - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective 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 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 is the first part of the project of the IASB for replacing IAS 39. The project aims to improve the understanding of investors and other users of financial information regarding the presentation of financial assets in 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 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, and 3.17), which are presented at fair value.

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 recording of assets, liabilities, and disclosures regarding the conditional 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 as of the date of the finanancial statements preparation. The actual results could be different from those presented in these financial statements.

The assumptions and 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. As of 1 January 1999 the Bulgarian lev is pegged 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

Transactions denominated in foreign currency are converted into BGN at the rates as of the date of the transaction and are revalued on a monthly basis at the exchange rate of the BNB on the last working day of the month. 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.

Exchange rate gains and losses and revaluation of monetary assets and liabilities, denominated in forign 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 USD and the Euro to the BGN as of 31 December 2011 and 2010 are as follows:

Foreign currency	31 December 2011	31 December 2010
EUR	1.95583	1.95583
USD	1.51158	1.47276

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.

Insurance contracts are those 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 their starting date and continues to present them as insurance contracts during the period of their existence even in situations 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, concluded during the reporting period irrespective of whether the period of coverage extends partially or fully to a subsequent reporting period. The premiums earned include subscribed premiums 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 according to the Ordinance for order and methodology for formation of insurance reserves, issued by FSC.

The Company 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. 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 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, from the premium income are deducted the returned and due, but not paid on-time premiums on suspended contracts, as well as the premiums under expired contracts.

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

3. Summary of significant accounting policies (continued)

3.3.2 Outstanding claims reserve

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 claims handling expenses.

3.3.3.1 Reserve for reported, but not redeemed claims

The reserve for incurred, but unredeemed claims is calculated based on the general data base, individually for each claim in accordance with 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 adopted by the Company "Liquidation Rules" by line of insurance business. Claims raised through court are included in the reserve with the amount of the raised partial or full claims as interest due is calculated as well. The Company applies Art. 8, from paragraph 3 to paragraph 8 from Ordinance on the Procedures and Methods of Setting up Insurance and 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 adjusts claims raised through court with coefficient.

3.3.3.2 Reserve for incurred, but not reported claims

Reserve for incurred, but not reported claims on direct insurance as of 31 December 2011 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 Insurance 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 . 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 2011 is calculated, according to Art. 8a, of the Ordinance on the Procedures and Methods of Setting up Insurance 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 technical insurance reserves.

3.3.5 Additional unearned premium reserve

Reserve for incurred, but not reported claims on direct insurance as of 31 December 2011 is calculated, according to Art. 11a, of the Ordinance on the Procedures and Methods of Setting up Insurance 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 technical insurance reserves.

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

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 gross of received reinsurance commissions. Under the existing reinsurance contracts the Company is liable for any amounts not recovered by the reinsurers.

Reinsurance assets are outstanding receivables from reinsurance operations, recognized as revenue on the basis of due premiums during the reporting period, claims paid, participations in the result and commissions under active reinsurance contracts of the Company as of the end of the reporting period 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.

Reinsurance liabilities are outstanding payables under reinsurance operations, recognized as expense on the basis of due premiums during the reporting period, claims paid, participations in the result and commissions under active reinsurance contracts of the Company as of the end of the reporting period. 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 loss is accounted for in the income statement.

The Company has proportional reinsurance contracts for 2011 for "Property" with Munich Re, SCOR and Sava Re, Faculties by separate insurance objects and risks exceeding the contract limits or not covered by it, with ZAD Allianz-Bulgaria AD, Chartis Europe S.A. (branch Bulgaria), ZAD Bulstrad Vienna Insurance Group, ZAD Armeec AD, leading reinsurers on the London reinsurance market and unproportional contracts with reinsurers Munich Re, Swiss Re, Hannover Re, SCOR, Deutsche Rueck, Sava Re and Lloyds' syndicates. In this way the Company transfers part of the assumed risk on insurance contracts to a reinsurer in accordance with the contract proportions, as 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 risks: "Fire and natural disasters" and "Property damages" on quota and accident basis, auto insurance on quota basis, protection of self-retaining under quota contract Property and catastrophic risks on excess-loss basis.

The self-retaining is estimated based on the previous results of the Company, the mean insurance amount and the type of the insured subjects. The foreign contracts are placed with one of the biggest reinsurance intermediaries – Willis Re and Aon Benfield. In 2011 there are signed contracts for optional reinsurance on property insurance with ZPAD Bulstrad Vienna Insurnace Group, Allianz Bulgaria AD, Chartis Europe C.A. (branch in Bulgaria) and ZAD Armeec AD.

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 present expense levels corrected for the expected inflation-expense corrections if adequate.

The discount percentages are based on the present industry-related risk levels corrected for the risk exposure.

3.6. Incurred claims, 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 adjusted for incurred but not reported claims and reported but not redeemed claims by the part due from the reinsurer. In the period between the registration of the claims and their serving, 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.

3.7. Commissions for insurance agents

The Company has contracts for insurance intermediation with individuals and legal entities. The payments to the insurance agents are accounted for on monthly basis based on the realized sales. The amount, conditions and the order for settling the payment of commissions are set in accordance with the insurance intermediation contracts.

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

3.8. Acquisition expenses

In the acquisition expenses are included direct acquisition 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

In the administrative expenses are included the 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 includes 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 paid annual leave expected to be paid to the employees as a consideration for their work 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 LC, at the event of termination of the labor contract of an employee qualifying for pension, the Company is to pay to the employee as a compensation two gross salaries, if the employee has worked for more than two years in the Company or six gross salaries if he/she has worked for more than ten years for the Company.

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

3.10.3. Defined benefits plans

Under the Bulgarian legislature OZK-Insurance AD is obliged to make payments into 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. The Company is, also, bound 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 cost. After initial recognition intangible assets are valued at cost, less accumulated amortization and impairment loss, if any.

Intangible assets are amortized over the term of their useful life and are tested for impairment at the presence of any indications that they have decreased in value. At the end of each financial year the useful life of the intangible assets and the applied amortization methods are reviewed. 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 accounting estimate.

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

All amounts are in thousand BGN, 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 use for a period over one year are expected to be received, their value can be reasonably estimated.

Property, plant and equipment are initially recognized in the statement of financial position at cost. Upon subsequent recognition property, plant and equipment with the exception of groups of land and buildings are accounted for at cost, less accumulated depreciation and impairment loss, if any. Land and buildings are accounted for at fair value, less accumulated depreciation. As of 31 December 2011 the Company's land and buildings were revalued to fair value by licensed appraisors. Due to the inherent uncertainty of the evaluation, 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 case of active market conditions and these differences might be significant. Therefore, uncertainty exists regarding 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 evaluator.

Subsequent expenses

Additional 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 expensed in the income statement when incurred.

Depreciation and amortization rates

Depreciation is provided on a straight-line basis at predetermined rates to write off the cost of non-current assets over their expected useful lives. No depreciation is charged on land and assets under construction.

Annual depreciation/amortization rates for 2011 and 2010 on the major asset groups are as follows:

	Depreciation rate per annum %	Useful life in years
Buildings	1.25	80
Computer equipment	12.25	8
Office equipment	7.5	13
Motor vehicles	12.25	8
Fixtures and fittings	7.5	13
Software	10 – 12.5	8 - 10

3.12. Inventories

Inventories are valued at the lower of cost or net realizable value. Acquisition cost of materials is formed from the purchase price, plus other expenses incurred to bring the materials in condition ready for use.

3. Summary of significant accounting policies (continued)

3.13. Insurance receivables

Insurance receivables are initially recognized at maturity date at fair value, plus additional expenses. The value of the receivables is reviewed for impairment in the occurrence of events or conditions, which are indicative of uncollectability of the receivable. 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 imaired in the following way: from 90 to 180 days – 25%, from 181 to 365 days – 75%, over 365 days and after the term has expired or after ahead of term termination of the insurance contract– 100%.

3.14. Cash and cash equivalents

For the purpose of the cash flow statement presentation cash and cash equivalents include cash in current and deposit bank accounts in BGN and foreign currency.

3.15. Taxation

Taxes due for 2011 and 2010 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 for the risks 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, as the financial result is adjusted in compliance with the Bulgarian tax legislation. Income tax rate for 2011 and 2010 is at the amount of 10%.

Deferred taxes are accounted 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 to the extent that the tax arises from transactions or events that are recognized in the same or different period, directly in equity.

3. Summary of significant accounting policies (continued)

3.16. Investment properties

Investment properties consist of land and buildings, held for renting or increase in value.

Investment properties are initially stated at cost. Acquisition expenses are included in the initial measurement. Subsequent measurement is made at fair value, which is estimated each year by independent valuers, if after the last valuation occurs a change with more than 10 out of 100 points of the REMI index of the National cooperation "Nedvijimi imoti," member of FIABCI (International Real Estate Federation), which shows the changes in prices of real estate. The fair value shows the real condition of the investment property and the market conditions as of the reporting date, not at any past or future date.

Transfers to, or from investment property are made only 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. The Company treats any difference between the carrying amount of the property as of the transfer date and its fair value in the same way 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 in equity. When the carrying amount of an asset decreases as a result of revaluation, such decrease is recognized in the income statement. In fact, the 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 the subsequent profits or losses resulting from the changes of their fair values are included in the net profit for period in which they occur.

As of 31 December 2011 investment properties owned by the Company, are revalued up to their fair value determined by licensed appraisors. As a result of the revaluation the carrying amount of the properties has 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, used for discounting the expected cash inflows/outflows 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, stated 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, which are not listed on 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.

Financial instruments transactions are recorded 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 information on the fair value of these financial assets and liabilities, for which reliable market information is readily available.

3.19. Lease agreements

A lease agreement is classified as a financial lease when the risks and benefits related to the ownership of the asset to a significant degree are transferred to the lessee. All other lease agreements 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 distributed between interest payments and payments of principal, to arrive to a fixed interest percentage on the remaining lease liability.

3. Summary of significant accounting policies (continued)

3.20. Financial income and expenses

Interest on deposits and financial instruments are accrued currently and proportionally to the time basis, which relates to the effective income from the financial asset. The interest on financial instruments classified as “available for sale” is accounted for and recognized in the income statement by applying the method of the effective interest rate.

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 auto insurance. 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 period 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.

All amounts are in thousand BGN, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.26. Errors from prior periods

Prior period errors are omissions and misstatements in the Company's financial statements for prior periods arising from failure to use, or misuse of reliable information. This is information, which was available at the date of issue of the financial statements or information that could reasonably be expected to have been obtained and taken into account in 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 by retrospective restatement of comparative data or the opening balances of assets, liabilities and equity (if they occurred in prior periods for which no data in the financial statements is presented). Corrections are recognized in the first set of financial statements authorized for issue after their discovery.

4. Investment property

	As of 31.12.2011	As of31.12.2010
Balance at 1 January	2,349	2,349
New acquisitions in period	510	-
Revaluation to fair value	(70)	-
Balance 31 December	2,789	2,349

As investment property are classified offices owned by the Company in administrative buildings as well as two stores in Sofia acquired in 2011. The investment properties are rented out to legal entities.

5. Financial assets available for sale

	As of 31.12.2011	As of 31.12.2010
Government securities, denominated in EUR	8,702	8,283
Corporate bonds	609	-
TOTAL	9,311	8,283

6. Financial assets held for trading

As of 31 December 2011 and 2010 financial assets held for trading consist of equity investments at the amount of BGN 5,775 thousand and BGN 4,216 thousand, respectively.

All amounts are in thousand BGN, unless otherwise stated

7. Property, plant and equipment

	Land and buildings	Computer equipment	Motor vehicles	Fixtures and fittings	Other	Total
Cost						
Balance at 1 January 2010	3,359	240	741	272	4	4,616
Acquisitions		81	276	34	-	391
Disposals	-	(7)	(45)	(7)	-	(59)
Transferred from investment properties	-	-	-	-	-	-
At 31 December 2010	3,359	314	972	299	4	4,948
Revaluation	(94)					(94)
Acquisitions		62	216	34	-	312
Disposals	-	(13)	(33)	(1)	-	(47)
Transferred from investment properties	-	-	-	-	-	-
At 31 December 2011	3,265	363	1,155	332	4	5,119
Accumulated depreciation						
Balance at 1 January 2010	(41)	(65)	(255)	(135)	-	(496)
Charges for the period	(42)	(31)	(95)	(17)	-	(185)
From disposals	-	7	44	7	-	58
At 31 December 2010	(83)	(89)	(306)	(145)	-	(623)
Charges for the year	(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)
NET BOOK VALUE						
At 1 January 2010	3,318	175	486	137	4	4,120
At 31 December 2010	3,276	225	666	154	4	4,325
At 31 December 2011	3,265	247	751	168	4	4,435

All amounts are in thousand BGN, unless otherwise stated

8. Intangible assets

	Insurance license	Software	Other	Total
Cost				
Balance at 1 January 2010	128	853	-	981
Acquisitions	-	474	22	496
Balance at 31 December 2010	128	1,327	22	1,477
Acquisitions	-	82	-	82
Balance at 31 December 2011	128	1,409	22	1,559
Accumulated amortization				
Balance at 1 January 2010	(119)	(181)	-	(300)
Charged during the year	-	(119)	(1)	(120)
Balance at 31 December 2010	(119)	(300)	(1)	(420)
Charged during the year	-	(132)	(1)	(133)
Balance at 31 December 2011	(119)	(432)	(2)	(553)
NET BOOK VALUE				
At January 2010	9	672	-	681
At 31 December 2010	9	1,027	21	1,057
At 31 December 2011	9	977	20	1,006

9. Taxation

Tax expenses are as follows:

	Year ending 31.12.2011	Year ending 31.12.2010
Current tax expense	-	70
Deferred tax expenses from temporary differences, utilized during the period	19	38
TOTAL TAX EXPENSE	19	108

Current tax expense represents the amount of tax calculated under the Bulgarian legislation based on tax rate of 10% for 2010 and 2011.

Deferred tax assets and liabilities are as follows:

	As of 31.12.2011	As of 31.12.2010
Deferred tax assets		
Deferred tax for retirement	5	2
Deferred tax for unused paid leave	12	13
Investment property	10	-
TOTAL DEFERRED TAX ASSETS	27	15
Deferred tax liabilities		
Fixed assets	(244)	(210)
Investment properties	(66)	(66)
TOTAL DEFERRED TAX LIABILITIES	(310)	(276)
DEFERRED TAX LIABILITIES, NET	(283)	(261)

All amounts are in thousand BGN, unless otherwise stated

9. Taxation (continued)

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

	Year ending 31.12.2011	Year ending 31.12.2010
Profit before taxes	76	1,066
Income tax, calculated at the applicable tax rate (10% for 2011 and 2010)	8	107
Unrecognized tax expense	3	1
Recognized deferred tax effect	8	-
TOTAL TAX EXPENSE	19	108
Effective tax rate	25%	9.94%

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

Deferred tax assets amounting to BGN 3 thousand related to revaluation of property, plant and equipment are reported directly in equity.

10. Prepaid expenses

	As of 31.12.2011	As of 31.12.2010
Software maintenance subscription expense	12	13
Advertising expense	27	5
Property insurance	5	4
Bank guarantee servicing	-	1
Contributions to state health fund	34	-
Office rent	2	2
TOTAL	80	25

11. Receivables from insurance transactions

	As of 31.12.2011	As of 31.12.2010
Receivables from direct clients	14,737	12,553
Impairment on uncollected premiums receivable	(1,903)	(1,370)
Receivables from reinsurance transactions	2,691	2,242
Prepaid minimal deposit premium to reinsurer	73	57
TOTAL	15,598	13,482

The Company accounts for the income from insurance premiums on accrual basis, as it recognizes them based on the due amounts for the whole period of coverage under the signed during the reporting period insurance contracts. The same are recognized in the statement of financial position as receivables. After expiration of the contract, 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 BGN, unless otherwise stated

12. Other receivables

	As of 31.12.2011	As of 31.12.2010
Receivables on guarantees	85	79
Interest receivable	511	488
Receivables from legal disputes	7	7
Receivables from suppliers	143	98
From social security institutions	11	11
From loss and deficit	28	12
Other	49	20
TOTAL	834	715

13. Cash and cash equivalents

	As of 31.12.2011	As of 31.12.2010
Deposits in banks	3,505	5,201
Current bank accounts in BGN	352	298
Current bank accounts in foreign currency	8	-
Cash on hand	612	649
TOTAL	4,477	6,148

14. Inventories

The inventories as of 31 December 2011 represent stock forms, office supplies, and stickers for BGN 115 thousand (31 December 2010: BGN 202 thousand)

15. Share capital

As of 31 December 2011 the share capital stood at BGN 7,067 thousand distributed into 7,066,678 ordinary shares with nominal value BGN 1.00 each. The owners of these shares have rights to receive dividend and one vote per share at the shareholders' general meeting. All share capital is fully paid in.

Major shareholders	2011		2010	
	Shares	%	Shares	%
Ll-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
Brikel EAD	-	-	318,861	4.51
Toplofikacia-Burgas EAD	250,885	3.55	250,885	3.55
Toplofikacia-Gabrovo EAD	-	-	250,885	3.55
Toplofikacia-Pleven EAD	250,885	3.55	250,885	3.55
Mina Stan.0yanci AD	250,885	3.55	250,885	3.55
Coinvest EOOD	318,862	4.51	-	-
Alexander Petrov Lichev	352,425	4.99	94,761	1.34
SCS Franchise AD	-	-	6,780	0.10
	7,066,678	100.00	7,066,678	100.00

All amounts are in thousand BGN, unless otherwise stated

16. Reserves

	As of 31.12.2011	As of 31.12.2010
Legal reserves – Reserve fund – under Commercial law	494	398
Other reserves	862	-
Revaluation reserves	2,378	2,601
TOTAL	3,734	2,999

Revaluation reserve contains changes on fair value 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 of 2010 approved on Regular Annual General meeting of 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, 2010	9,607	8,723	-	18,330
Change in 2010	2,048	4,603	406	7,057
Balance as of December 31, 2010	11,655	13,326	406	25,387
Change in 2011	(632)	1,849	886	2,103
Balance at December 31, 2011	11,023	15,175	1,292	27,490

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

	Unearned premium reserve	Outstanding claims reserve	Total reserves
Balance as of January 1, 2010	2,155	1,370	3,525
Changes in 2010	(530)	(276)	(806)
Balance as of December 31, 2010	1,625	1,094	2,719
Changes in 2011	(903)	(683)	(1,586)
Balance as of December, 31 2011	722	411	1,133

All amounts are in thousand BGN, 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

Technical reserves by types of insurance policies as of December 31, 2010 are as follows:

Type of insurance	Unearned premium reserve	Outstanding claims reserve	Other technical reserves	Total reserves-general insurance
Accident in public transportation vehicles	58	84	3	145
Accident	311	2	-	313
Illness	3	5	-	8
Automobile casco insurance	2,048	1,365	35	3,448
Cargo	1	3	-	4
Fire and natural disasters	1,171	140	-	1,311
Property	341	69	35	445
MTPL	7,459	11,626	333	19,418
General MTPL	198	31	-	229
Other financial loss	53		-	53
Travel insurance	12	1	-	13
Gross amount	11,655	13,326	406	25,387
Reinsurers' share	(1,625)	(1,094)	-	(2,719)
Reserve, net of reinsurance	10,030	12,232	406	22,668

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.

All amounts are in thousand BGN, unless otherwise stated

18. Insurance liabilities

	As of 31.12.2011	As of 31.12.2010
Liabilities on reinsurance operations	3,698	3,744
Liabilities to intermediaries	1,813	2,074
TOTAL	5,511	5,818

19. Other liabilities

	As of 31.12.2011	As of 31.12.2010
Paid leave liabilities	112	120
Social security payables	11	13
Tax payables-individuals' income	33	33
Health benefits payable	8	9
Budget payables	94	74
Suppliers	225	91
Payables to Guarantee fund	403	316
Dividends payable	57	57
Current portion of the financial lease liability	105	94
Liabilities on co-insurance operations	66	-
Other	23	12
TOTAL	1,137	819

Lease liabilities as of December 31, 2011 and 2010 are as follows:

	Total value of the minimum lease payments		Present value of the minimum lease payments	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Not later than 1 year	118	102	105	94
Later than 1 year and not later than 5 years	108	68	98	64
Total	226	170	203	158
Reduced with future financial expenses	(23)	(12)	-	-
Present value of the minimum lease payments	203	158	203	158
Current portion of the liabilities under lease contracts			105	94
Non-current portion of the liabilities under lease contracts			98	64

The agreements are for finance lease of vehicles. In 2009 there are 5 vehicles acquired under financial lease. . The term of the lease agreement is 36 months and the annual interest rate is 8.90%. 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 10.8% and 1 for term of 60 months and annual interest rate of 8.35%.

All amounts are in thousand BGN, unless otherwise stated

20. Premiums written

	Year ended 31.12.2011	Year ended 31.12.2010
Accident in public transportation	272	238
Accident	1,761	1,717
Illness	62	15
Road motor vehicles	8,281	6,128
Cargo	137	28
Fire and natural disasters	4,626	4,327
Property	1,110	1,250
MTPL	14,166	19,615
General MTPL	1,931	1,156
Various financial losses	359	147
Travel insurance	104	124
TOTAL PREMIUMS WRITTEN	32,809	34,745

Premiums ceded to reinsurers

	Year ended 31.12.2011	Year ended 31.12.2010
Road motor vehicles	(3)	(1,716)
Fire and natural disasters	(2,467)	(2,486)
Property	(486)	(576)
MTPL	(399)	(279)
General MTPL	(755)	(739)
TOTAL PREMIUMS CEDE TO REINSURERS	(4,110)	(5,796)

21. Claims paid

	Year ended 31.12.2011	Year ended 31.12.2010
Accident	(252)	(238)
Illness	(9)	(7)
Road motor vehicles	(3,869)	(2,524)
Fire and natural disasters	(835)	(456)
Property	(117)	(186)
MTPL	(6,470)	(3,346)
General MTPL	(50)	(23)
Cargo	(3)	-
Travel insurance	(11)	(5)
TOTAL CLAIMS PAID	(11,616)	(6,785)

Reinsurers’ sare in claims paid

	Year ended 31.12.2011	Year ended 31.12.2010
Road motor vehicles	479	1,123
Fire and natural disasters	425	217
Property	47	89
MTPL	153	183
TOTAL REINSURER’S SHARE IN CLAIMS PAID	1,104	1,612

All amounts are in thousand BGN, unless otherwise stated

22. Acquisition expenses

	Year ended 31.12.2011	Year ended 31.12.2010
Commissions to intermediaries	(4,438)	(6,916)
Liquidation expenses	(319)	(297)
Advertising expenses	(414)	(929)
Payroll	(1,846)	(1,591)
Other indirect acquisition expenses	(1,608)	(1,402)
TOTAL	(8,625)	(11,135)

23. Administrative expenses

	Year ended 31.12.2011	Year ended 31.12.2010
Materials	(86)	(76)
Office rent	(115)	(96)
Office maintenance expenses	(78)	(59)
External services	(593)	(647)
Depreciation/amortization	(89)	(76)
Payroll, including management board	(1,191)	(764)
Other	(196)	(114)
TOTAL	(2,348)	(1,832)

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

	Year end 31.12.2011	Year end 31.12.2010
Income from commissions of reinsurers	889	1,414
Expenses for participation in profit	(11)	-
Income for participation in profit of reinsurer	12	55
NET REINSURANCE INCOME	890	1,469

25. Other insurance expenses, net

	Year ended 31.12.2011	Year ended 31.12.2010 (pre calculated)
Expenses for guarantee fund and Security fund under FSC	(709)	(842)
Impairment of receivables	(1,903)	(3,112)
Recovered impairment of receivables	1,370	2,396
Expenses for preventive measure related to State Fund Agriculture	(12)	(8)
Expenses, related to reversed premiums from prior years	(5,994)	(3,042)
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	115	211
Regresses	416	240
Other income	20	2
Other expenses	(4)	(11)
TOTAL OTHER INSURANCE EXPENSES, NET	(6,422)	(4,166)

All amounts are in thousand BGN, unless otherwise stated

26. Net investment income

	Year ended 31.12.2011	Year ended 31.12.2010 Pre calculated
Interest income	786	780
Rent income	23	87
Income from sale of investments	21	-
Income from revaluation of available for sale financial assets, net	1,409	-
Expenses of revaluation of investment properties , net	(70)	-
TOTAL NET INVESTMENT INCOME	2,169	867

Interest income includes:

	Year ended 31.12.2011	Year ended 31.12.2010
Interest on government bonds	536	445
Interest on bonds	21	-
Interest on bank deposits	229	335
TOTAL INVESTMENT INCOME	786	780

27. Other expenses, net

	Year ended 31.12.2011	Year ended 31.12.2010
Other financial expenses	(64)	(69)
Income on lease agreement	(17)	(14)
Income from financing for ST human resources	-	31
Other	(5)	2
TOTAL OTHER EXPENSES, NET	(86)	(50)

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 unfavorable risk development.

For the main types of insurance are signed reinsurance contracts, which limit the liability of the Company at insurance event. 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 unfavorable 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 auto 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.

All amounts are in thousand BGN, unless otherwise stated

28. Risk management (continued)

Insurance risk (continued)

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	97%

As of 31.12.2010

Type of insurance	Premium earned	Reserves and equalization reserve	Reserves quote
All other insurances	8,747	5,836	67%
Insurance of responsibilities	17,624	19,679	112%
Total	26,371	25,515	97%

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, 2011.

Year of event	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
In the year of 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	-	-	-	-	-	-	-	-	-	-		0
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 claims reported 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 reserves as of 31.12.2011				30	5	239	102	155	396	2,980	4,203	8,110

All amounts are in thousand BGN, unless otherwise stated

28. Risk management (continued)

Insurance risk (continued)

Year of event	Up to 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
In the year of the event	220	234	755	846	893	1,164	1,272	1,091	1,269	2,204	3,813	13,761
1 year later	84	122	170	242	589	284	748	831	857	2,201		6,128
2 years later	20	17	40	123	56	122	257	299	157	-		1,091
3 years later	55	9	28	113	54	61	90	367	-	-		777
4 years later	85	100	24	18	81	21	224	-	-	-		553
5 years later	5	1	1	12	440	9	-	-	-	-		468
6 years later	-	16	34	17	3	-	-	-	-	-		70
7 years later	2	3	2	1	-	-	-	-	-	-		8
8 years later	-	5	-	-	-	-	-	-	-	-		5
9 years later	-	-	-	-	-	-	-	-	-	-		0
10 years later	9											9
Total payments	480	507	1,054	1,372	2,116	1,661	2,591	2,588	2,283	4,405	3,813	22,870
Total amount of reported claims as of 31.12.2010	480	507	1,054	1,373	2,233	1,688	2,808	2,914	2,756	5,625	8,550	29,988
Outstanding claims reserve as of 31.12.2010				1	117	27	217	326	473	1,220	4,737	7,118

Financial risk

In 2011 the Company its conservative policy in the area of investment management. 93, 46% from the non-current assets available for sale are invested in foreign debt bonds of Republic of Bulgaria and European Union and 6, 54% in corporate bonds.

In 2011 the non-current assets available for sale are stocks of different trade companies.

In 2011 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 83.32% from them are paid on time, and 16.68% are overdue. The receivables which are overdue between 90 and 180 days are 4.31%, between 180 and 360 days – 2.05% and over 360 days – 10.32 % as in such occasions the policies are terminated.

The above stated relationships are common for the insurance market.

All amounts are in thousand BGN, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

Liquidity risk
The Company is not exposed to significant risk in 2011.As of December 21, 2011 the cash and cash equivalents and available for sale securities accounts up to BGN 19,563 thousandcover over 74% 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 31.12.2011	Up to 1 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	-	386	34,722
Maturity gap	(12,873)	7,409	7,344	9,176	10,858

All amounts are in thousand BGN, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

As of 31.12.2010	Up to 1 year	1-5 years	Over 5 years	Not defined maturity	Total
ASSETS					
Investment properties	-	-	-	2,349	2,349
Deposits in financial institutions	5,201	-	-		5,201
Financial assets available for sale	-	8,283	-	-	8,283
Financial assets held for trading	-	-	-	4,216	4,216
Non-current tangible and intangible assets	-	1,427	3,951	4	5,382
Deferred tax assets	-	-	2	13	15
Reinsurers' share of reserves	2,719	-	-	-	2,719
Receivables and advances	14,197	-	-	-	14,197
Other assets	227	-	-	-	227
Cash	-	-	-	947	947
TOTAL ASSETS	22,344	9,710	3,953	7,529	43,536
LIABILITIES					
Short term liabilities	6,637	-	-	-	6,637
Deferred tax liabilities	-	-	-	276	276
Unearned-premium reserve	11,655	-	-	-	11,655
Outstanding claims reserve	13,326	-	-	-	13,326
Reserve fund	-	-	-	128	128
Other technical reserves	406	-	-	-	406
Retirement obligations	-	-	-	20	20
Non-current portion on liabilities under lease agreements	-	64	-	-	64
TOTAL LIABILITIES	32,024	64	-	424	32,512
Maturity gap	(9,680)	9,646	3,953	7,125	11,108

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, 2011 and 2010. It shows the carrying values of the Company's assets and liabilities according to original currency.

All amounts are in thousand BGN, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

Currency risk (continued)

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 BGN, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

As of 31.12.2010	BGN and EUR	USD	Total
ASSETS			
Investment properties	2,349	-	2,349
Deposits in financial institutions	5,190	11	5,201
Financial assets available for sale	12,499	-	12,499
Non-current tangible and intangible assets	5,382	-	5,382
Deferred tax assets	15	-	15
Reinsurers' share reserves	2,719	-	2,719
Receivables and advances	14,197	-	14,197
Other assets	227	-	227
Cash	947	-	947
TOTAL ASSETS	43,525	11	43,536
LIABILITIES			
Short term liabilities	6,637	-	6,637
Deferred tax liabilities	276	-	276
Reserve fund	128	-	128
Unearned-premium reserve	11,655	-	11,655
Outstanding claims reserve	13,326	-	13,326
Other technical reserves	406	-	406
TOTAL LIABILITIES	32,428	-	32,428
Net currency position	11,097	11	11,108

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, 2011 is as follows:

All amounts are in thousand BGN, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

As of 31.12.2011	Up to 1 year	1-5 years	Over 5 years	Not interest bearing	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
LIABILITIES					
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 BGN, unless otherwise stated

28. Risk management (continued)

Financial risk (continued)

As of 31.12.2010	Up to 1 year	1-5 years	Over 5 years	Not interest bearing	Total
ASSETS					
Investment properties	-	-	-	2,349	2,349
Deposits in financial institutions	5,201	-	-		5,201
Financial assets available for sale	-	8,283	-	-	8,283
Financial assets held for trading				4,216	4,216
Non-current tangible and intangible assets	-	-	-	5,382	5,382
Deferred tax assets	-	-	-	15	15
Reinsurers' share in reserves	-	-	-	2,719	2,719
Receivables and advances	-	-	-	14,197	14,197
Other assets	-	-	-	227	227
Cash	-	-	-	947	947
TOTAL ASSETS	5,201	8,283	-	30,052	43,536
LIABILITIES					
Short term liabilities	-	-	-	6,637	6,637
Deferred tax liabilities	-	-	-	276	276
Unearned-premium reserve	-	-	-	11,655	11,655
Outstanding claims reserve	-	-	-	13,326	13,326
Reserve fund	-	-	-	128	128
Other technical reserves	-	-	-	406	406
TOTAL LIABILITIES	-	-	-	32,428	32,428
Net interest exposure	5,201	8,283	-	(2,376)	11,108

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.

All amounts are in thousand BGN, unless otherwise stated

29. Related parties (continued)

For 2011 and 2010 the transactions with related parties can be classified in the following groups:

	Transaction volume for 2011 income/ (expense)	Balance as of 31.12.2011	Volume of transaction for 2010 income/ (expense)	Balance as of 31.12.2010
Transactions with Municipal Bank AD				
Insurance premiums	237	29	242	29
Claims paid	(50)		(43)	
Insurance commissions	(99)	69	(112)	60
Cash in deposits accounts	3467	1021	2,802	740
Cash in current bank accounts		205	-	170
Interest received	13	-	22	1
Paid rents	(191)	-	(134)	-
Transactions with EL EM Impex EOOD				
Insurance premiums	3	66	11	65
Claims paid	-	-	(1)	-
Transactions with Toplofikacia Burgas EAD				
Insurance premiums	85	12	56	20
Claims paid	(91)	-	(50)	-
Transactions with Toplofikacia Pleven EAD				
Insurance premiums	160	136	167	63
Claims paid	(1)	-	(1)	-
Transactions with Mine Stanyanci EAD				
Insurance served	35	55	36	36
Claims paid	(1)	-	-	-
Transactions with OZOK EAD				
Insurance served	4	-	-	-
Additional health insurance	(103)	-	-	-
Rents	(12)	-	-	-
Management				-
Board of Directors	(129)	-	(137)	-
Managers	(409)	-	(123)	-

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 2011 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, 2010 the Company has the following valid bank guarantees issued by Municipal Bank AD:

- Bank guarantee issued in favor 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.