

JSIC OZK - INSURANCE AD

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

31 December 2014

Unofficial translation from the original in Bulgarian

JSIC OZK-INSURANCE AD

SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

	Notes	As of 31.12.2014	As of 31.12.2013
Assets			
Non-current assets			
Investment properties	4	3,892	2,483
Financial assets available for sale	5	12,448	10,440
Financial assets held for trading	6	7,028	7,028
Property, plant and equipment	7	4,991	5,306
Intangible assets	8	931	812
Investments in subsidiaries	9	4,348	2,428
Deferred tax assets	10	23	34
Total non-current assets		33,661	28,531
Current assets			
Inventory	15	412	313
Receivables from insurance activities	12	31,242	25,109
Other receivables	13	1,273	1,004
Prepaid expenses	11	179	88
Cash	14	9,842	7,756
Total current assets		42,948	34,270
TOTAL ASSETS		76,609	62,801
Equity and liabilities			
Equity			
Share capital	16	7,067	7,067
Reserves	17	5,847	4,213
Retained earnings		490	102
TOTAL EQUITY		13,404	11,382
Non-current liabilities			
Unearned premium reserve	18	24,185	19,027
Outstanding claims reserve	18	24,895	17,449
Guarantee fund		128	128
Other technical reserves	18	2,688	3,436
Retirement benefits		44	38
Long-term lease liabilities	20	167	309
Deferred tax liabilities	10	356	339
Total non-current liabilities		52,463	40,726
Current liabilities			
Liabilities on insurance activities	19	8,885	8,971
Other liabilities	20	1,857	1,722
Total current liabilities		10,742	10,693
TOTAL LIABILITIES		63,205	51,419
TOTAL EQUITY AND LIABILITIES		76,609	62,801

These separate financial statements are approved by the Management Board and signed on 31 March 2015 on behalf of JSIC OZK – INSURANCE AD by:

Aleksandar Lichev
Chief Executive Director

Rumen Dimitrov
Executive Director

Aneliya Pashaliyska
Chief Accountant

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

Assen Dimov
Registered Auditor
Date: 31 March 2015

Vasko Raichev
Registered Auditor

JSIC OZK-INSURANCE AD

SEPARATE INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

	Notes	Year ended 31.12.2014	Year ended 31.12.2013
Premiums earned	21	70,363	52,581
Ceded reinsurance premiums	21	(6,551)	(5,123)
Change in unearned premium reserve	18	(5,396)	(3,997)
Change in reinsurers' share in unearned premiums reserve	18	238	738
Premiums earned, net of reinsurance		<u>58,654</u>	<u>44,199</u>
Claims paid	22	(31,063)	(23,471)
Reinsurers' share in claims paid	22	3,929	3,144
Change in outstanding claims reserve	18	(15,253)	(5,082)
Change in reinsurers' share in outstanding claims reserve	18	7,807	1,299
Claims paid, net of reinsurance		<u>(34,580)</u>	<u>(24,110)</u>
Change in other insurance reserves	18	748	150
Acquisition expenses	23	(16,664)	(13,799)
Administrative expenses	24	(3,459)	(2,867)
Reinsurers' commissions and participation in result, net	25	962	985
Other insurance expenses, net	26	(5,808)	(4,641)
Insurance activity expenses		<u>(58,781)</u>	<u>(44,282)</u>
Result of insurance activity		<u>(127)</u>	<u>(83)</u>
Net investment income	27	637	388
Other revenues/expenses, net	28	40	(191)
PROFIT BEFORE TAXES		<u>550</u>	<u>114</u>
Tax expense	10	(60)	(12)
NET PROFIT FOR THE PERIOD		<u><u>490</u></u>	<u><u>102</u></u>

These separate financial statements are approved by the Management Board and signed on 31 March 2015 on behalf of JSIC OZK – INSURANCE AD by:

Aleksandar Lichev
Chief Executive Director

Rumen Dimitrov
Executive Director

Aneliya Pashaliyska
Chief Accountant

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

Assen Dimov
Registered Auditor

Vasko Raichev
Registered Auditor

Date: 31 March 2015

„JSIC OZK-INSURANCE AD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

	Year ended 31.12.2014	Year ended 31.12.2013
NET PROFIT FOR THE PERIOD	490	102
Other components of comprehensive income, net of taxes	-	-
<i>Components which will not be reclassified in profit or loss</i>		
Revaluation of property used in operations	-	-
<i>Components which could be reclassified in profit or loss</i>		
Revaluation of financial assets available for sale	1,532	(175)
Total other comprehensive income	1,532	(175)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,022	(73)

These separate financial statements are approved by the Management Board and signed on 31 March 2015 on behalf of JSIC OZK – INSURANCE AD by:

Aleksandar Lichev
Chief Executive Director

Rumen Dimitrov
Executive Director

Aneliya Pashaliyska
Chief Accountant

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

Assen Dimov
Registered Auditor

Vasko Raichev
Registered Auditor

Date: 31 March 2015

„JSIC OZK-INSURANCE AD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

	Share capital	Revaluation reserve	Common reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2013	7,067	2,530	494	919	445	11,455
Distribution of retained earnings to reserves		-	45	400	(445)	-
Comprehensive income for the period	-	(175)	-	-	102	(73)
BALANCE AT 31 DECEMBER 2013	7,067	2,355	539	1,319	102	11,382
Distribution of retained earnings to reserves			10	92	(102)	-
Comprehensive income for the period		1,532			490	2,022
BALANCE AT 31 DECEMBER 2014	7,067	3,887	549	1,411	490	13,404

These separate financial statements are approved by the Management Board and signed on 31 March 2015 on behalf of JSIC OZK – INSURANCE AD by:

Aleksandar Lichev
Chief Executive Director

Rumen Dimitrov
Executive Director

Aneliya Pashaliyska
Chief Accountant

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

Assen Dimov
Registered Auditor

Vasko Raichev
Registered Auditor

Date: 31 March 2015

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

	Year ended 31.12.2014	Year ended 31.12.2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	61,223	47,250
Amounts recovered by reinsurers	1,039	1,420
Subrogation recoveries	606	682
Amounts paid to reinsurers	(3,633)	(1,481)
Claims paid	(29,298)	(21,986)
Payments to suppliers	(5,845)	(7,092)
Payments to employees	(4,621)	(3,710)
Acquisition costs paid	(9,878)	(7,647)
Amounts paid for guarantee fund	(2,416)	(1,794)
Interest received	178	162
Payment of corporate tax	(6)	(30)
Other cash flow for operating activities	(1,834)	(457)
NET CASH FLOW RECEIVED FROM OPERATING ACTIVITIES	5,515	5,317
CASH FLOW FROM INVESTMENT ACTIVITIES		
Sales of government bonds	-	6,884
Received interest from investment securities	417	705
Received rents	37	22
Purchase of shares	(1,927)	(1,161)
Purchase of fixed yield securities	(475)	(7,879)
Other cash flows used in investment activities	(1,336)	(3)
NET CASH FLOWS USED IN INVESTMENT ACTIVITIES	(3,284)	(1,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Other payments for financing activities	(304)	(390)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(304)	(390)
Change in cash during the period	1,927	3,495
CASH AT BEGINNING OF PERIOD	7,756	4,261
CASH AT END OF PERIOD (note 14)	9,683	7,756

These separate financial statements are approved by the Management Board and signed on 31 March 2015 on behalf of JSIC OZK – INSURANCE AD by:

Aleksandar Lichev
Chief Executive Director

Rumen Dimitrov
Executive Director

Aneliya Pashaliyska
Chief Accountant

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

Assen Dimov
Registered Auditor

Vasko Raichev
Registered Auditor

Date: 31 March 2015

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

1. Organization and activity

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

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

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

2. Base for preparation of the separate financial statements

2.1. Applicable accounting legislation and standards

2.1.1 Common framework for financial reporting

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

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

These separate financial statements have been prepared for general purposes under the going concern principle and on accrual basis and provide information for the financial position, financial performance and cash flows of the Company as of and for the year ended 31 December 2014.

During 2013 the Company acquires control over OZOK Ins AD, Sofia, Bulgaria. In compliance with the requirements of IFRS 10 Consolidated financial statements, the Company prepares consolidated financial statements, which will be issued after the issue date of the current separate financial statement.

Changes in IFRS

Standards and Interpretations effective in the current period

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

- IFRS 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);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

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

2.1 Applicable accounting legislation and standards (continued)

2.1.1 Common framework for financial reporting (continued)

Changes in IFRS (continued)

Standards and Interpretations effective in the current period (continued)

- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

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

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

- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015).
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013) resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 December 2014. (amendments are to be applied for annual periods beginning on or after 1 February 2015).
- Amendment to IAS 19 Employee Benefits – Defined benefit plans: Contributions from employees- adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
- IFRIC 21 Levies, adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

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

2.1 Applicable accounting legislation and standards (continued)

2.1.1 Common framework for financial reporting (continued)

Changes in IFRS (continued)

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

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

- IFRS 9 Financial instruments (effective for annual periods beginning on or after 01 January 2018)
- IFRS 14 Estimates for regulatory deferred accounts (effective for annual periods beginning on or after 1 January 2016);
- IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures - sale or contribution of assets between the investor and his associate or joint venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 28 Investments in associates and joint ventures: Application exception of consolidation (effective for annual periods beginning on or after 1 January 2016);
- Amendment to IFRS 11 Joint Arrangements - Accounting for acquisition of shares in joint venture (effective for annual periods beginning on or after 1 January 2016);
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of the eligible methods of depreciation (effective for annual periods beginning on or after 1 January 2016);
- Amendment to IAS 1 Presentation of Financial Statements - Initiative for Disclosure (effective for annual periods beginning on or after 1 January 2016);
- Amendment to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture (effective for annual periods beginning on or after 1 January 2016);
- Amendment to IAS 27 Separate Financial Statements - Equity method in the separate financial statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards Improvements to IFRS (2012-2014 cycle), resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments applicable for annual periods beginning on or after 1 January 2016).

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

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

2.1.2 Accounting convention

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

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

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

2.1.3 Functional and presentation currency

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

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

2.1.4 Foreign currency transactions

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

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

The exchange rates of the main foreign currencies as of 31 December 2014 and 2013 are as follows:

Currency	December 31, 2014	December 31, 2013
EUR	1.95583	1.95583
USD	1.60841	1.41902

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.

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

2.2. Insurance contracts (policies) (continued)

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

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

3. Summary of significant accounting policies

3.1. Premiums earned

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

3.2. Claims paid

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

3.3. Technical reserves

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

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

The Entity has the following technical reserves:

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

3.3.1 Unearned premium reserve

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.3. Technical reserves (continued)

3.3.1 Unearned premium reserve (continued)

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

The amount of the unearned premium reserve is calculated by applying the method of the “exact date” based on a 365 days in year.

3.3.2 Reserve for outstanding claims

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

The reserve for reported, but not settled claims is calculated individually for each claim, based on the general data base, of the reported, but not settled 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 2014 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 2014 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 31.12.2014 it is calculated in accordance with Art. 11a from the Ordinance on the Procedures and Methods of Setting up technical reserves by the Insurers and Reinsurers, and Health Insurance reserves issued by FSC promulgated in SG 36/02.05.2006, amended and supplemented in SG 89/ 12.11.2010, methods of setting up insurance reserves by the insurers.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.4. Reinsurance

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

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

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

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

Reinsurance program of JSIC "OZK-Insurance" AD for 2014 is renewed on 01.04.2014.

The Company has signed proportional reinsurance contracts for "Property" – Quota-share and Excess-of-loss reinsurance with leading reinsurer Swiss Re and Quota-share reinsurance contract „Cargo and responsibility of the transporter" with leading reinsurer Munich Re.

With the proportional contracts part of the accepted by the Entity risk is transferred to the reinsurers, based on the contract requirements. The limits as per the contracts are applicable for every single risk and insured person.

In 2014, in accordance with the portfolio of the Company, additional limits are negotiated in the Property proportional reinsurer contract.

The Company has signed contract with JSIC "Armeec" AD and contract for facultative reinsurance on proportional basis on "Industrial fire" policies, exceeding the limits of the contract.

With the non-proportional contracts, with leading reinsurer Swiss Re, the Company reinsures the following excess-loss claims:

- Excess-loss protection on MTPL
- In two section excess-loss protection of the self-retaining on quota contract related with "Property damages" and "Catastrophic risks".

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

3. Summary of significant accounting policies (continued)

3.5. Estimates of the insurance liabilities

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

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

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

3.6. Incurred claims, net of reinsurance

Insurance claims, net of reinsurance (indemnities and insurance amounts) include all payments made during the financial year reduced by the reimbursed amounts by reinsurers and the change in the outstanding claims reserve during the period. The change in the outstanding claims reserve for reported but not settled claims as well as for the incurred but not reported 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 outstanding claims reserve. 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 labour contract of an employee qualifying for pension, the Company is to pay to the employee a compensation of two gross salaries, if the employee has length of service more than two years or six gross salaries if he/she has accumulated length of service more than ten years within the Company.

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

3.10.3. Defined benefits plans

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

3.11. Non-current assets

Intangible assets

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014, their fair value is determined by licensed valuers. Due to the inherent uncertainty of the valuation, especially in the current market circumstances, where the real estate market has considerably declined and deals are difficult to execute, it is possible that the disclosed fair value differs from the values, that would have been used in the existence of active real estate market and these differences might be significant. Therefore, uncertainty exists as to the market prices of similar real estates and the fair value of the real estates, used by the Company, might differ from the value, determined by the independent licensed valuator.

Subsequent expenses

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

Depreciation and amortization

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

Annual depreciation/amortization rates and the useful life in years 2014 and 2013 of the main groups of non-current assets are as follows:

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

3.12. Inventories

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.13. Receivables from insurance operations

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

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

3.14. Cash and cash equivalents

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

3.15. Taxation

Taxes due for 2014 and 2013 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 2014 and 2013 is 10%.

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.16. Investment properties

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

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

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

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

As of 31 December 2014 investment properties owned by the Company, are revalued up to their fair value determined by licensed valuers. As a result of the revaluation, the carrying amount of some 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 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.17. Financial instruments (continued)

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.

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

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

Investments in subsidiaries

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

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

- a) owns more than half of the voting rights by virtue of an agreement with other investors;
- b) has the power to govern the financial and operating policy of the enterprise by virtue of articles of association or agreement;

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

3. Summary of significant accounting policies (continued)

3.17. Financial instruments (continued)

Investments in subsidiaries (continued)

c) has the power to appoint or dismiss the majority of the members of the Board of Directors or another equivalent managing body and control over the enterprise is through this board or body; or

d) has the power to exercise the majority of the votes at meetings of the Board of Directors or another equivalent managing body and control over the enterprise is through this board or body.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are deposits in financial institutions and loans. At their initial recognition they are stated at fair value, to which are added the expenses, related to their acquisition. Subsequently, loans and receivables are measured at amortized cost, using the effective interest method. Assets that do not have fixed maturity are measured at cost. . At each reporting date, the Company reviews the existence of objective evidence for impairment. The Company charges impairment losses on loans and receivables when their recoverable amount is lower than their carrying amount. The amount of impairment is recognized in the income statement. An impairment loss recognized in prior periods for an asset shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of the asset due to the reversal of the impairment loss should not be more than what the depreciated historical cost would have been if no impairment loss had been previously recognized for the asset.

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

3. Summary of significant accounting policies (continued)

3.18. Fair value of financial assets and liabilities

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

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

3.19. Leases

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

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

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

3.20. Finance income and costs

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

3.21. Claims covered by reinsurers

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

3.22. Guarantee Fund

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

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

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

3.24. Ceded premiums

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

3.25. Claims incurred, net of reinsurance

Insurance claims, net of reinsurance (indemnities and insurance amounts) include all payments during the financial year decreased with the reimbursed amounts by reinsurers and the change in the outstanding claims reserve during the period. The change in the outstanding claims 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 outstanding claims reserve. The claims are included in a register with the date of bringing the claim and the date of the occurrence of the insurance event.

3.26. Errors from prior reporting periods

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

4. Investment property

	As of 31.12.2014	As of 31.12.2013
Balance at 1 January	2,483	2,483
New acquisitions in period	464	-
Reclassified from own property	875	
Reevaluation	70	
Balance at 31 December	<u>3,892</u>	<u>2,483</u>

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

The Company has recorded rental income from investment property at the amount of BGN 28 thousand for 2014 and BGN 29 thousand for 2013.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

5. Financial assets available for sale

	As of 31.12.2014	As of 31.12.2013
Government securities, denominated in EUR	12,215	10,225
Shares from investment funds	233	215
TOTAL	12,448	10,440

6. Financial assets held for trading

As of 31 December 2014 and 2013 financial assets held for trading consist of equity investments at the amount of BGN 7,028 thousand.

7. Property, plant and equipment

	Land and buildings	Computer equipment	Motor vehicles	Fixtures and fittings	Other	Acquisition cost for fixed assets	Total
Balance at 1 January 2013	3,226	433	1,753	372	5	-	5,789
Acquisitions	-	61	621	115	1	-	798
Disposals	-	(4)	(22)	(5)	-	-	(31)
Balance at 31 December 2013	<u>3,226</u>	<u>490</u>	<u>2,352</u>	<u>482</u>	<u>6</u>	<u>-</u>	<u>6,556</u>
Balance at 1 January 2014	3,226	490	2,352	482	6	-	6,556
Acquisitions	-	110	665	140	83	46	1,044
Reclassified	-	-	-	-	22	-	22
Disposals	-	(6)	(149)	(3)	-	-	(158)
Reclassified to investment properties	(875)	-	-	-	-	-	(875)
Balance at 31 December 2013	<u>2,351</u>	<u>594</u>	<u>2,868</u>	<u>619</u>	<u>111</u>	<u>46</u>	<u>6,589</u>
Accumulated depreciation							
Balance at 1 January 2013	(41)	(161)	(561)	(161)	-	-	(924)
Charges for the period	(40)	(55)	(239)	(23)	-	-	(357)
Written off depreciation from disposals	-	4	22	5	-	-	31
Balance at 31 December 2013	<u>(81)</u>	<u>(212)</u>	<u>(778)</u>	<u>(179)</u>	<u>-</u>	<u>-</u>	<u>(1,250)</u>
Charges for the period	(38)	(65)	(305)	(33)	(4)	-	(445)
Written off depreciation from disposals	-	6	62	3	-	-	71
Written off depreciation from reclassified assets	-	-	-	-	(5)	-	(5)
Written off depreciation from transferred to investment properties	31	-	-	-	-	-	31
Balance at 31 December 2014	<u>(88)</u>	<u>(271)</u>	<u>(1,021)</u>	<u>(209)</u>	<u>(9)</u>	<u>-</u>	<u>(1,598)</u>
NET BOOK VALUE							
At 1 January 2013	<u>3,185</u>	<u>272</u>	<u>1,192</u>	<u>211</u>	<u>5</u>	<u>-</u>	<u>4,865</u>
At 31 December 2013	<u>3,145</u>	<u>278</u>	<u>1,574</u>	<u>303</u>	<u>6</u>	<u>-</u>	<u>5,306</u>
At 31 December 2014	<u>2,263</u>	<u>323</u>	<u>1,847</u>	<u>410</u>	<u>102</u>	<u>46</u>	<u>4,991</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

8. Intangible assets

	Insurance license	Software	Other	Total
Cost				
Balance at 1 January 2013	128	1,507	22	1,657
Acquisitions	-	6	-	6
Disposals	-	(8)	-	(8)
Balance at 31 December 2013	128	1,505	22	1,655
Acquisitions	-	296	-	296
Reclassified	-	-	(22)	(22)
Balance at 31 December 2014	128	1,801	-	1,929
Accumulated depreciation				
Balance at 1 January 2013	(119)	(579)	(3)	(701)
Charges for the period	-	(148)	(2)	(150)
Written off depreciation from disposals	-	8	-	8
Balance at 31 December 2013	(119)	(719)	(5)	(843)
Charges for the period	-	(160)	-	(160)
Written-off depreciation from disposals	-	-	5	5
Balance at 31 December 2014	(119)	(879)	-	(998)
NET BOOK VALUE				
At January 2013	9	928	19	956
At 31 December 2013	9	786	17	812
At 31 December 2014	9	922	-	931

9. Investment in subsidiaries

In 2013 the Company acquires control over the subsidiary OZOK - INS AD.

As of December 31, 2014 the Company's share in the subsidiary is 57.35% with carrying amount of BGN 4,348. As of December 31, 2013 the Company holds 45.71% of the share capital of the subsidiary and the carrying amount of the investment in subsidiary is BGN 2,428 thousand.

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

The summarized financial information of the subsidiary as of 31 December 2014 and 2013 is as follows:

OZOK-INS AD	As of 31.12.2014	As of 31.12.2013
Total assets	7,943	5,553
Total liabilities	(604)	(516)
Net assets	7,339	5,037
Share in the net assets of the subsidiary	57.35%	45.71%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

10. Taxation

The tax expense is presented as follows:

	Year ended 31.12.2014	Year ended 31.12.2013
Current tax expense	33	1
Deferred tax expenses from temporary differences, utilized during the period	27	11
TOTAL TAX EXPENSE	60	12

Current tax expense represents the amount of tax calculated under the Bulgarian legislation based on tax rate of 10% for 2014 and 2013.

Deferred tax assets and liabilities are as follows:

	As of 31.12.2014	As of 31.12.2013
Deferred tax assets		
Retirement benefits	4	4
Unused paid leave	9	20
Investment property	10	10
TOTAL DEFERRED TAX ASSETS	23	34
Deferred tax liabilities		
Property, plant and equipment	(207)	(197)
Investment properties	(149)	(142)
TOTAL DEFERRED TAX LIABILITIES	(356)	(339)
DEFERRED TAX LIABILITIES, NET	(333)	(305)

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

	Year ended 31.12.2014	Year ended 31.12.2013
Profit before taxation	550	114
Income tax, calculated at the applicable tax rate (10% for 2014 and 2013)	55	11
Unrecognized tax expense	5	2
Unrecognized tax effect of deferred tax asset	-	(1)
TOTAL TAX EXPENSE	60	12
Effective tax rate	10.9%	10.5%

11. Prepaid expenses

	As of 31.12.2014	As of 31.12.2013
Software maintenance subscription expense	25	13
Advertising expense	116	57
Property insurance	3	1
Personnel insurances	8	-
Office rent	27	17
TOTAL	179	88

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

12. Receivables from insurance transactions

	As of 31.12.2014	As of 31.12.2013
Receivables from direct clients	28,090	24,041
Impairment on uncollected premiums receivable	(3,722)	(3,385)
Receivables from reinsurance transactions	5,279	4,393
Receivables from agents	1,084	-
Receivables from subrogation recoveries	99	-
Prepaid minimal deposit premium to reinsurer	412	60
TOTAL	31,242	25,109

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

13. Other receivables

	As of 31.12.2014	As of 31.12.2013
Receivables on guarantees	296	269
Interest receivables	347	337
Receivables on legal disputes	31	25
Advances to suppliers	293	176
From loss and deficit	31	35
From co-insurance contracts	81	76
Receivables from the budget for income tax	-	35
Other	194	51
TOTAL	1,273	1,004

14. Cash

	As of 31.12.2014	As of 31.12.2013
Deposits in banks	8,795	6,836
Current bank accounts in BGN	685	362
Current bank accounts in foreign currency	68	72
Cash on hand	294	486
TOTAL	9,842	7,756
Restricted cash	(159)	-
Included in the statement of Cash Flow	9,683	7,756

As of 31.12.2014 there is restricted cash of BGN 159 thousand in a Bulgarian bank, related to legal cases.

15. Inventories

Inventories as of 31 December 2014 represent forms for insurance policies in stock, office supplies, and stickers at the total amount of BGN 412 thousand (31 December 2013: BGN 313 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

16. Share capital

As of 31 December 2014 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	2014		2013	
	Capital	%	Capital	%
El-Em Impex EOOD	4,644,772	65.73	4,644,772	65.73
Toplofikacia-Sofia AD	658,930	9.32	658,930	9.32
Municipal Bank AD	339,034	4.80	339,034	4.80
Toplofikacia-Burgas EAD	250,885	3.55	250,885	3.55
Toplofikacia-Pleven EAD	250,885	3.55	250,885	3.55
Mina Stanyanci AD	250,885	3.55	250,885	3.55
Coinvest EOOD	318,861	4.51	318,861	4.51
Alexander Petrov Lichev	352,426	4.99	352,426	4.99
	<u>7,066,678</u>	<u>100.00</u>	<u>7,066,678</u>	<u>100.00</u>

17. Reserves

	As of 31.12.2014	As of 31.12.2013
Legal reserves – Reserve fund – under Commercial law	549	539
Other reserves	1,411	1,319
Revaluation reserves	<u>3,887</u>	<u>2,355</u>
TOTAL	<u>5,847</u>	<u>4,213</u>

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 2014 approved by the Annual General Meeting of the Shareholders, after deduction of 10% of it for the Reserve fund – in accordance with the Trade Law.

18. Technical reserves

Technical reserves, gross are as follows:

	Unearned premium reserve	Outstanding claims reserve	Other technical reserves	Total reserves
Balance as of January 1, 2013	16,602	14,189	3,586	34,377
Change in 2013	<u>3,997</u>	<u>5,082</u>	<u>(150)</u>	<u>8,929</u>
Balance as of December 31, 2013	20,599	19,271	3,436	43,306
Change in 2014	<u>5,396</u>	<u>15,253</u>	<u>(748)</u>	<u>19,901</u>
Balance at December 31, 2014	<u>25,995</u>	<u>34,524</u>	<u>2,688</u>	<u>63,207</u>

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

	Unearned premium reserve	Outstanding claims reserve	Total
Balance as of January 1, 2013	834	523	1,357
Change in 2013	<u>738</u>	<u>1,299</u>	<u>2,037</u>
Balance as of December 31, 2013	1,572	1,822	3,394
Change in 2014	<u>238</u>	<u>7,807</u>	<u>8,045</u>
Balance at December 31, 2014	<u>1,810</u>	<u>9,629</u>	<u>11,439</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

18. Technical reserves (continued)

Technical reserves by types of insurance policies as of December 31, 2014 are as follows:

Insurance Type	Unearned premium reserve	Outstanding claims reserve	Other technical reserves	Total reserves – general insurance
Accident in public transportation vehicles	60	21	-	81
Accident	138	577	4	719
Illness	42	44	-	86
Road motor vehicles	1,746	3,052	302	5,100
Cargo	4	1	-	5
Fire and natural disasters	905	298	-	1,203
Property	179	61	1	241
MTPL	22,031	29,903	2,360	54,294
General MTPL	661	543	19	1,223
Other financial loss	215	9	-	224
Travel insurance	14	15	2	31
Gross amount	25,995	34,524	2,688	63,207
Reinsurers' share	(1,810)	(9,629)	-	(11,439)
Reserve, net of reinsurance	24,185	24,895	2,688	51,768

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

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

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

19. Insurance liabilities

	As of 31.12.2014	As of 31.12.2013
Liabilities on reinsurance operations	5,508	5,431
Liabilities to intermediaries	3,377	3,540
TOTAL	8,885	8,971

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

20. Other liabilities

	As of 31.12.2014	As of 31.12.2013
Paid leave liabilities	83	182
Payables to employees	-	10
Social security payables	67	64
Tax payables-individuals' income	64	59
Health benefits payable	25	23
Budget payables	331	179
Suppliers	162	303
Payables to Guarantee fund	709	535
Payables to FSC	-	5
Payables to NBBMI	83	63
Dividends payable	57	57
Current portion of the financial lease liability	197	198
Liabilities on co-insurance operations	4	4
Other	75	40
TOTAL	1,857	1,722

Lease liabilities as of December 31, 2014 and 2013 are as follows:

	Total value of the minimum lease payments		Present value of the minimum lease payments	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Not later than 1 year	212	223	197	198
Later than 1 year and not later than 5 years	173	330	167	309
Total	385	553	364	507
Reduced with future financial expenses	(21)	(45)	-	-
Present value of the minimum lease payments	364	508	364	507
Current portion of the liabilities under lease contracts			197	198
Non-current portion of the liabilities under lease contracts			167	309

The agreements are for finance lease of vehicles. In 2014 there is 1 vehicle acquired under financial lease for term of 36 months and annual interest rate 4.75%.

21. Written premium

	Year ended 31.12.2014	Year ended 31.12.2013
Accident in public transportation	279	328
Accident	997	920
Illness	238	252
Road motor vehicles	5,824	7,886
Cargo	84	153
Fire and natural disasters	3,492	4,285
Property	780	674
MTPL	55,430	35,133
General MTPL	2,558	2,567
Various financial losses	527	237
Travel insurance	154	146
TOTAL PREMIUMS WRITTEN	70,363	52,581

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

21. Written premium (continued)**Premiums ceded to reinsurers**

	Year ended 31.12.2014	Year ended 31.12.2013
Fire and natural disasters	(2,050)	(2,216)
Property	(352)	(323)
MTPL	(3,318)	(1,709)
Cargo	(76)	(134)
General MTPL	(755)	(741)
TOTAL PREMIUMS CEDE TO REINSURERS	(6,551)	(5,123)

22. Claims paid

	Year ended 31.12.2014	Year ended 31.12.2013
Accident	(2,088)	(1,123)
Illness	(144)	(137)
Road motor vehicles	(7,507)	(5,850)
Fire and natural disasters	(2,257)	(1,100)
Property	(210)	(456)
MTPL	(16,880)	(13,383)
General MTPL	(178)	(249)
Cargo	(1)	(18)
Various financial losses	-	-
Travel insurance	(33)	(27)
TOTAL CLAIMS PAID	(29,298)	(22,343)

Paid costs of liquidation

	As of 31.12.2014	As of 31.12.2013
Accident	(15)	(19)
Illness	-	-
Road motor Vehicles	(150)	(116)
Fire and natural disasters	(108)	(55)
Property	-	(10)
MTPL	(1,432)	(921)
General MTPL	(51)	-
Cargo	-	-
Various financial losses	-	-
Travel insurance	(9)	(7)
Total Claims paid	(1,765)	(1,128)

Reinsurers' share in claims paid

	Year ended 31.12.2014	Year ended 31.12.2013
Road motor vehicles	1,012	28
Cargo	1	15
Fire and natural disasters	1,229	593
Property	33	321
General MTPL	157	202
MTPL	1,497	1,985
TOTAL REINSURER'S SHARE IN CLAIMS PAID	3,929	3,144

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

23. Acquisition expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Commissions to intermediaries	(10,360)	(8,130)
Advertising expenses	(579)	(638)
Payroll	(2,736)	(2,438)
Other indirect acquisition expenses	(2,969)	(2,593)
TOTAL	(16,644)	(14,927)

24. Administrative expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Materials	(139)	(132)
Office rent	(175)	(144)
Office maintenance expenses	(128)	(126)
External services	(1,075)	(796)
Depreciation/amortization	(151)	(127)
Payroll, including management board	(1,583)	(1,316)
Other	(208)	(226)
TOTAL	(3,459)	(2,867)

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

	Year ended 31.12.2014	Year ended 31.12.2013
Income from commissions of reinsurers	974	1,007
Expenses for participation in profit	(12)	(65)
Income for participation in profit of reinsurer	-	43
NET REINSURANCE INCOME	962	985

26. Other insurance expenses, net

	Year ended 31.12.2014	Year ended 31.12.2013
Expenses for guarantee fund and Security fund under FSC	(2,194)	(1,641)
Expenses for guarantee fund of National bureau of automobile insurers	(441)	(218)
Impairment of receivables	(337)	(745)
Reversed impairment of receivables	-	1270
Expenses for preventive measure related to State Fund Agriculture	(12)	(8)
Expenses, related to reversed premiums from prior years	(3,681)	(3,958)
Income related to commissions and ceded premiums for insurers under recognized policies from prior years	111	87
Income from regresses	757	807
Other income	97	67
Other expenses	(108)	(302)
TOTAL OTHER INSURANCE EXPENSES, NET	(5,808)	(4,641)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

27. Net investment income

	Year ended 31.12.2014	Year ended 31.12.2013
Interest income	539	539
Rent income	28	29
Income from sale of investments	-	(99)
Income from revaluation of investment properties, net	70	-
Expenses for revaluation of investments, net	-	(292)
Income from investment in subsidiaries	-	211
TOTAL NET INVESTMENT INCOME	637	388

Interest income includes:

	Year ended 31.12.2014	Year ended 31.12.2013
Interest on government bonds	425	398
Interest on bonds	-	3
Interest on bank deposits	114	138
TOTAL INTEREST INCOME	539	539

28. Other income/expenses, net

	Year ended 31.12.2014	Year ended 31.12.2013
Other financial expenses	(116)	(103)
Interest on lease agreement	(26)	(31)
Penalty interest	(13)	(82)
Revenue on financing from Operation program Human Resources	147	-
Other	48	25
TOTAL OTHER EXPENSES, NET	40	(191)

29. Risk management**Insurance risk**

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

29. Risk management (continued)**Insurance risk (continued)****As of 31.12.2014**

Type of insurance	Premium earned	Reserves and guarantee fund	Reserves quote
All other insurances	11,044	7,784	70%
Insurance of responsibilities	47,610	55,551	117%
Total	58,654	63,305	108%

As of 31.12.2013

Type of insurance	Premium earned	Reserves and guarantee fund	Reserves quote
All other insurances	14,991	7,489	50%
Insurance of responsibilities	29,208	35,945	123%
Total	44,199	43,434	98%

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, 2014 and 2013.

Year of event	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Общо
In the year of event	893	1164	1272	1091	1269	2204	3813	4251	5736	7728	12947	42 367
1 year later	589	284	748	831	857	2201	5574	7559	4757	6091		29 491
2 years later	56	122	257	299	157	928	3878	2435	2432	-		10 563
3 years later	54	61	90	367	376	1211	4933	1706	-	-		8 799
4 years later	81	21	224	246	369	1395	4756	-	-	-		7 092
5 years later	440	9	67	213	425	1279	-	-	-	-		2 434
6 years later	3	16	18	117	6	-	-	-	-	-		160
7 years later	153	45	439	80	-	-	-	-	-	-		717
8 years later	-	0	0	-	-	-	-	-	-	-		1
9 years later	114	0	-	-	-	-	-	-	-	-		114
10 years later	0											0
Total payments	2382	1722	3115	3244	3460	9218	22953	15951	12924	13820	12947	101736
Total amount of claims reported as of 31.12.2014	2382	1734	3123	3312	3472	9274	23179	16889	14006	15533	24289	117194

Outstanding claims reserves as of 31.12.2014

	0	12	8	68	11	56	226	938	1 081	1 713	11 342	15 458
--	---	----	---	----	----	----	-----	-----	-------	-------	--------	--------

Year of event	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Общо
In the year of event	846	893	1164	1272	1091	1269	2204	3813	4251	5736	7728	30 267
1 year later	242	589	284	748	831	857	2201	5574	7559	4757		23 641
2 years later	123	56	122	257	299	157	928	3878	2435	-		8 254
3 years later	113	54	61	90	367	376	1211	4933	-	-		7 206
4 years later	18	81	21	224	246	369	1395	-	-	-		2 354
5 years later	12	440	9	67	213	425	-	-	-	-		1 166
6 years later	17	3	16	18	117	-	-	-	-	-		171
7 years later	1	153	45	439	-	-	-	-	-	-		637
8 years later	-	-	0	-	-	-	-	-	-	-		0
9 years later	5	114	-	-	-	-	-	-	-	-		118
10 years later	0											0
Total payments	1377	2382	1722	3115	3163	3454	7938	18198	14245	10493	7728	73815
Total amount of claims reported as of 31.12.2013	1377	2382	1722	3118	3164	3464	7996	18532	15158	12001	13220	82134
Outstanding claims reserves as of 31.12.2013	0	0	0	3	1	10	58	334	914	1 508	5 491	8 319

29. Risk management (continued)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

Financial risk

In 2014 the Company continued its conservative policy in the area of investment management. 98.13% from the financial assets available for sale are invested in foreign debt bonds of European Union countries and 1.87% in corporate bonds and shares in investment funds.

In 2014 the financial assets held for trading represent equity investments in companies.

In 2014 the main investment policy of the Company was to secure the technical reserves of the insurance portfolio as well as achieving of adequate return and protection of the funds at moderate risk.

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

Credit risk

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

The above stated relationships are common for the insurance market.

Liquidity risk

The Company is not exposed to significant liquidity risk in 2014. As of December 31, 2014 Cash and Financial assets available for sale and held for trading with amount of 29,318 thousand cover 56.5% of allocated reserves

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

As of 31.12.2014	Up to one year	1-5 years	Over 5 years	Not defined maturity	Total:
ASSETS					
Investment properties				3,892	3,892
Deposits in financial institutions	8,795				8,795
Financial assets available for sale			12,448		12,448
Financial assets held for trading				7,028	7,028
Investment in subsidiaries				4,348	4,348
Non-current tangible and intangible assets				5,922	5,922
Deferred tax assets	23				23
Receivables and advances	32,515				32,515
Other assets	591				591
Cash	1,047				1,047
TOTAL ASSETS	42,971		12,448	21,190	76,609
LIABILITIES					
Short term liabilities	10,742				10,742
Deferred tax liabilities				356	356
Unearned-premium reserve	24,185				24,185
Outstanding claims reserve	24,895				24,895
Guarantee fund	128				128
Other technical reserves	2,688				2,688
Retirement obligations				44	44
Non-current portion on liabilities under lease agreements	-	167	-	-	167
TOTAL LIABILITIES	62,638	167	-	400	63,205
Maturity Gap	(19,667)	(167)	12,448	20,790	13,404

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

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

As of 31.12.2013	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	6,836	-	-	-	6,836
Financial assets available for sale	-	-	10,440	-	10,440
Financial assets held for trading	-	-	-	7,028	7,028
Investment in subsidiaries	-	-	-	2,428	2,428
Non-current tangible and intangible assets	-	-	-	6,118	6,118
Deferred tax assets	20	-	4	10	34
Receivables and advances	26,113	-	-	-	26,113
Other assets	401	-	-	-	401
Cash	920	-	-	-	920
TOTAL ASSETS	34,290	-	10,444	18,067	62,801
LIABILITIES					
Short term liabilities	10,693	-	-	-	10,693
Deferred tax liabilities	-	-	-	339	339
Unearned-premium reserve	19,027	-	-	-	19,027
Outstanding claims reserve	17,449	-	-	-	17,449
Reserve fund	128	-	-	-	128
Other technical reserves	3,436	-	-	-	3,436
Retirement obligations	-	-	-	38	38
Non-current portion on liabilities under lease agreements	-	309	-	-	309
TOTAL LIABILITIES	50,733	309	-	377	51,419
Maturity Gap	<u>(16,443)</u>	<u>(309)</u>	<u>10,444</u>	<u>17,690</u>	<u>11,382</u>

Currency risk

The Company faces minimum currency risk, as the exposures in foreign currencies different from BGN and EUR 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, 2014 and 2013. It shows the carrying values of the Company's assets and liabilities according to original currency.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

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

As of 31.12.2014	BGN and EUR	USD	Total:
ASSETS			
Investment properties	3,892		3,892
Deposits in financial institutions	8,782	13	8,795
Financial assets available for sale	12,448		12,448
Financial assets held for trading	7,028		7,028
Investment in subsidiaries	4,348		4,348
Non-current tangible and intangible assets	5,922		5,922
Deferred tax assets	23		23
Receivables and advances	32,515		32,515
Other assets	591		591
Cash	1,047		1,047
TOTAL ASSETS	76,596	13	76,609
LIABILITIES			
Short term liabilities	10,742		10,742
Deferred tax liabilities	356		356
Guarantee fund	128		128
Unearned-premium reserve	24,185		24,185
Outstanding claims reserve	24,895		24,895
Other technical reserves	2,688		2,688
Retirement obligations	44		44
Non-current portion on liabilities under lease agreements	167		167
TOTAL LIABILITIES	63,205		63,205
Net currency position	13,391	13	13,404
As of 31.12.2013			
	BGN and EUR	USD	Total:
ASSETS			
Investment properties	2,483		2,483
Deposits in financial institutions	6,825	11	6,836
Financial assets available for sale	10,440		10,440
Financial assets held for trading	7,028		7,028
Investment in subsidiaries	2,428		2,428
Non-current tangible and intangible assets	6,118		6,118
Deferred tax assets	34		34
Receivables and advances	26,113		26,113
Other assets	401		401
Cash	920		920
TOTAL ASSETS	62,790	11	62,801
LIABILITIES			
Short term liabilities	10,693	-	10,693
Deferred tax liabilities	339	-	339
Guarantee fund	128	-	128
Unearned-premium reserve	19,027	-	19,027
Outstanding claims reserve	17,449	-	17,449
Other technical reserves	3,436	-	3,436
Retirement obligations	38	-	38
Non-current portion on liabilities under lease agreements	309	-	309
TOTAL LIABILITIES	51,419	-	51,419
Net currency position	11,371	11	11,382

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian leva, unless otherwise stated

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

The Company faces interest rate risk in respect to the non-trading portfolio. The sensitivity of the non-trading portfolio to interest rate risk as of December 31, 2014 and 2013 is as follows:

As of 31.12.2014	Up to 1 year	1-5 years	Over 5 years	Not interest bearing	Total
ASSETS					
Investment properties				3,892	3,892
Deposits in financial institutions	8,795				8,795
Financial assets available for sale			12,215	233	12,448
Financial assets held for trading				7,028	7,028
Investment in subsidiaries				4,348	4,348
Non-current tangible and intangible assets				5,922	5,922
Deferred tax assets				23	23
Receivables and advances				32,515	32,515
Other assets				591	591
Cash				1,047	1,047
TOTAL ASSETS	8,795		12,215	55,599	76,609
LIABILITIES					
Short term liabilities	197			10,545	10,742
Deferred tax liabilities				356	356
Unearned-premium reserve				24,185	24,185
Outstanding claims reserve				24,895	24,895
Guarantee fund				128	128
Other technical reserves				2,688	2,688
Retirement obligations				44	44
Non-current portion on liabilities under lease agreements		167			167
TOTAL LIABILITIES	197	167		62,841	63,205
Net interest exposure	8,598	(167)	12,215	(7,242)	13,404
As of 31.12.2013					
	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	6,836	-	-	-	6,836
Financial assets available for sale	-	-	10,225	215	10,440
Financial assets held for trading	-	-	-	7,028	7,028
Investment in subsidiaries	-	-	-	2,428	2,428
Non-current tangible and intangible assets	-	-	-	6,118	6,118
Deferred tax assets	-	-	-	34	34
Receivables and advances	-	-	-	26,113	26,113
Other assets	-	-	-	401	401
Cash	-	-	-	920	920
TOTAL ASSETS	6,836	-	10,225	45,740	62,801
LIABILITIES					
Short term liabilities	198	-	-	10,495	10,693
Deferred tax liabilities	-	-	-	339	339
Unearned-premium reserve	-	-	-	19,027	19,027
Outstanding claims reserve	-	-	-	17,449	17,449
Guarantee fund	-	-	-	128	128
Other technical reserves	-	-	-	3,436	3,436
Retirement obligations	-	-	-	38	38
Non-current portion on liabilities under lease agreements	-	309	-	-	309
TOTAL LIABILITIES	198	309	-	50,912	51,419
Net interest exposure	6,638	(309)	10,225	(5,172)	11,382

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in thousand Bulgarian levs, unless otherwise stated

30. Related parties

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

For 2014 and 2013 the transactions with related parties can be classified in the following groups:

	Transaction volume for 2014 income/ (expense)	Balance as of 31.12.2014 receivables/ (payables)	Transaction volume for 2013 income/ (expense)	Balance as of 31.12.2013/ receivables/ (payables)
Transactions with Municipal Bank AD				
Insurance premiums	33	3	29	-
Claims paid	(32)	-	(40)	-
Insurance commissions			(6)	-
Cash in deposits accounts	(46)	265	(64)	311
Cash in current bank accounts	296	465	(7)	170
Interest received	2	-	1	-
Paid rents	(32)	-	(52)	-
Transactions with EL EM Impex EOOD				
Insurance premiums	12	55	-	69
Claims paid		-	-	-
Transactions with Toplofikacia Burgas EAD				
Insurance premiums	77	70	40	27
Claims paid	(7)		-	-
Transactions with Toplofikacia Pleven EAD				
Insurance premiums	147	233	152	114
Claims paid	(6)		(378)	-
Transactions with Mina Stanyanci EAD				
Insurance premiums	33	82	16	76
Claims paid			-	-
Transactions with OZOK Ins AD				
Insurance premiums	3	6	3	5
Additional health insurance	(90)	(17)	(79)	(13)
Rents	(14)	(1)	(13)	-
Transactions with Coinvest EOOD				
Insurance commissions	(130)	(28)	(587)	(410)
Management				
Board of directors	(191)		(151)	-
Managers	(298)		(257)	-

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

31. Contingent liabilities

As of 31 December, 2014 the Company has a valid bank guarantee issued by a Bulgarian bank in favour of the National Bureau of Bulgarian automobile insurers to the amount of EUR 600 thousand. As collateral of the guarantee there is a mortgage on one of the real estates owned by the Company in Sofia, 7 Sveta Sofia str., 5th floor.