EUROINS INSURANCE GROUP AD

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

December 31, 2014

(Unofficial translation of the original in Bulgarian)

ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES

FOR 2014

ANNUAL CONSOLIDATED DIRECTOR'S REPORT

of

Euroins Insurance Group JSC, city of Sofia

2014

This Annual Consolidated Director's Report is prepared in compliance with the provisions of article 33 of the Accounting Act.

CONTENTS

1. General information about Euroins Insurance Group JSC

Euroins Insurance Group JSC (EIG) was established at the end of 2007 as a 100% subsidiary of Eurohold Bulgaria JSC where the whole insurance business of the holding is concentrated.
During the recent years the Group expands its operations by acquiring insurance companies in Romania, Macedonia, Serbia and Turkey. The Group's insurance companies have more than 300 regional offices and more than 1 million clients in the region.
At the end of 2013, the Group holds majority number of shares in companies in Bulgaria, Macedonia, Turkey and Romania.

2. Review of operations and status of the Group companies

The last 2014 was a very important period for EIG development and for its establishment as a regional leader in non-life insurance. The efforts and investments made during the recent years ensure stabilisation of market positions of the Bulgarian, Romanian and Macedonian companies.

2.1. Some financial indicators

Premium income of EIG on consolidated base in 2014 is BGN 311.1 million in comparison to BGN 320.6 million for 2013. IC Euroins realizes decrease in premium income for 2014 in comparison to 2013, whereas the realized insurance premium income is BGN 82.9 million in comparison to BGN 118.9 million for 2013. We should note the fact that in 2013 Euroins Bulgaria reported the acquisition of Interamerican Non-Life Insurance AD. Euroins Romania Asigurare shows decrease of realized income for 2014 – BGN 211.8 million in comparison to BGN 225.4 million for 2013. Euroins Macedonia achieves growth in the amount of insurance premiums and for 2014 the gross amount is BGN 16.2 million in comparison to the gross amount of premiums for 2013 – BGN 14.5 million.
The subsidiary Euroins Health Assurance JSC reports insurance premiums in the amount of BGN 3.6 million for 2014 in comparison to BGN 4.76 million for 2013.
The main part of the Group's premium income is realised by Euroins Romania and by Euroins Bulgaria forming 68.08% and 26.6% of the total EIG's premium income, respectively. Written premiums of Euroins – Macedonia are 5.22% of consolidated income, and those written by Euroins – Health Assurance JSC are 1.17%. Euroins Life JSC writes 0.82% of the group's premium income.

At the end of 2014, the total consolidated assets of the company are BGN 607.4 million in comparison to BGN 536.3 million at the end of 2013. Insurance reserves, on consolidated base, as an element of the company's liability, increase from BGN 247.8 million at the end of 2013 to BGN 293.8 million for 2014.
EIG realises consolidated loss in the amount of BGN 8.2 million for 2014 in comparison to the consolidated profit in the amount of BGN 0.421 million for 2013. Such loss is due to the results of Euroins Romania, and namely loss of BGN 4.9 million and the results of

EIG JSC of BGN 3.96 million /this result is due to the impairment of the shares held in Takovo Serbia/.
Euroins Bulgaria closes the year with positive result after tax in the amount of BGN 297 thousand, Euroins Macedonia closes the year with positive result of BGN 214 million. Euroins – Health Assurance JSC closes the year with positive result of BGN 51 thousand, and Euroins Life JSC – with positive result of BGN 152 thousand.

2.2. Capital structure and investment structure

As at 31.12.2014, the registered capital of EIG amounts to BGN 268.3 million. The Company's registered capital is fully paid and comprises 76,981,791 materialized, registered, preferred shares and 191,281,000 materialized, registered, non-preferred shares, with nominal value of BGN 1 each.

On 10.04.2009, 51,460,500 shares of the company are transferred from Eurohold Bulgaria JSC to Basildon Holding LTD. These shares form 19.18% of EIG's total capital, and after being transferred, the shareholder structure of the capital as at 31.12.2013 and 31.12.2014 is as follows:

- Eurohold Bulgaria JSC – 80.82%
- Basildon Holding LTD 19.18%

In 2013, EIG JSC takes part in the capital increase of Euroins Romania Asigurare Reasigurare S.A. with a contribution of BGN 8,694 thousand, thus increasing its share from 93,21% at the end of 2012 to 93,27% as at the end of the reporting period. The capital of Euroins Romania consists of 118,495,787 shares, and the percentage share of EIG is 93.27%, respectively. In 2014 a new increase of the Company's capital is subscribed and paid-in in the amount of BGN 36,330 thousand at the expense of EIG JSC and thus the share of EIG JSC as at 31.12.2014 is 96.64%. The investment in Euroins Osigurovanje AD Skopje – Macedonia, is made in 2008. In 2013 EIG increases the capital of Euroins Skopje with monetary contribution in the amount of BGN 732 thousand. After the increase, the total share of EIG's shareholding increases from 92,65% to 93,36%. In 2014, there is no change in the capital and the shareholding of EIG JSC.

At the beginning of August 2013, in relation to the amendments in the Health Assurance Act adopted by the National Assembly in 2012, providing that the health assurance companies should make their operations compliant with the Insurance Code and should start a procedure to apply to the regulator for issuing non-life insurance license, Euroins – Health Assurance obtains insurance company license issued by the Financial Supervision Commission. The name of the company is changed to Insurance company Euroins – Health Assurance JSC, registered in the Business Register on 20 August 2013. In 2014 there is no change in the capital and ownership of the Company.

At the beginning of 2009, EIG acquires 90.75% of the capital of the Turkish insurance company Inter Sigorta AD. There are no changes in the amount of invested funds for 2014.

EUROINS
INSURANCE GROUP

In 2014, Euroins Insurance Group started negotiations for acquisition of the companies of the German company Talanx Holding in Bulgaria (HDI Zastrahovane) and in Ukraine (HDI Strakhuvannya). At the beginning of 2015, the transaction was completed, and the final regulatory permits are expected. By acquiring the two companies, the EIG group companies will significantly increase their market presence in Bulgaria and in Eastern Europe, and along with the increased clients base, further diversification of the portfolio of insurances, except motor insurances, is expected. Furthermore, Euroins gains stable positions among the biggest market players, with a huge branch network and exclusive number of qualified insurance specialists with know-how of different insurance markets.

In 2015, the expansion of EIG in Central and Eastern Europe is expected to continue, in order to establish one stable capital base ready to meet the requirements of Solvency II.

As at 31.12.2014, the number of shares held by EIG in each subsidiary and the percentage of its share in the total capital is as follows:

Company	Country	Number of shares held by EIG	Number of shares in the subsidiaries' capital	Percentage of ownership
Insurance Company Euroins JSC	Bulgaria	9 183 486	11 753 556	78.13%
Euroins – Health Assurance JSC	Bulgaria	4 653 000	4 653 000	100.00%
Euroins Osiguruvaje Skopje AD	Macedonia	7 095	7 600	93.36%
Euroins Romania Asigurare Reasigurare S.A.	Romania	212 075 769	219 449 264	96.64%
Inter Sigorta	Turkey	90 750 500	100 000 000	90.75%
Euroins Life JSC	Bulgaria	1 012 507	1 012 507	100%
Takovo Osiguruvanje	Serbia	55 075	573 324	9.61%

3. Major risks the Group companies are exposed to

3.1. Macroeconomic risk

The main risk is related to the world financial crisis and the drop in consumption that could reduce the GDP and could result in budget deficit in each of the countries where EIG is presented. The theoretic sudden liberalisation of the fiscal policy that might result in further serious increase of the deficit in the respective country remains potential internal risk.

3.1.1. Currency risk

The currency risk is related to the possibility to affect the income and expenses of the economic entities in the respective country as a result of the changes in the exchange rate of the national currency to other currency. In Bulgaria, the fixed BGN exchange rate to the common European currency (EUR) limits the BGN exchange rate fluctuations to major foreign currencies within the range of fluctuations of such major currencies to euro. On the other hand, the fluctuations in the Macedonian and Romanian currencies may generate currency risk, which could affect the entire group. In general, the operations of the Group companies do not generate material currency risk, as the major cash flows within the Group, at consolidated level, are denominated in levs and euro.

3.1.2. Inflation risk

Inflation risk is related to the possibility the inflation to affect the actual rate of return of investments. To this end, despite positive trends relevant to the inflation indexes in different countries, the Group companies are exposed to the risk of inflation.

3.1.3. Interest risk

The interest risk is related to the possibility net revenue of the companies to be reduced due to increase of the interest levels at which the companies may finance their operations. Interest risks fall in the category of macroeconomic risks due to the fact that the main prerequisite for change in interest levels is the occurrence of instability of the financial system in general and due to the influence of the global financial crisis. Within the current economic situation, the interest risk is one of the risks that might affect the holding companies' operations.

3.2. Sector risk

Sector risk originates from the condition and development trends within the insurance sector. Major risks that affect the sector's operations are as follows:

- Change in demand of insurance services and products;
- Presence of big competition and market fragmentation;
- Lack of opportunities for expansion of the market in proportion to the increase of the gross domestic product;
- Innovation risk – low frequency of new product development;
- Risks from amendments in regulations – the main operations of EIG Group companies are based on the applicable legislation and the established international practices for insurance risk management.

The Group companies try to restrict the impact of the sector non-systematic risks on their operations by maintaining a wide range of insurance and health assurance products in widely diversified portfolio and by supplying new products according to the changes in market demand. They try to enrich the range of offered insurance and health assurance products, and at the same time, to establish flexible pricing policy corresponding to the client's risk profile.

3.3. Corporate risk

Corporate risk unifies the business and the financial risks. The business risk is related to the company's specific operations. This risk is defined as uncertainty related to the obtaining of revenue inherent to the sector the companies operate in. The nature of the non-life insurance business is based on pricing and management of risk in its different forms by means of insurance product portfolio management.

The company's business risk is characterised by:

- The inability to assess the time of occurrence and the size of the damages caused by events, such as natural disasters, major failures and acts of terrorism;
- The presence of liquidity risk;
- The presence of operational risks

3.3.1. Business risk related to occurrence of huge damages

Due to the representative nature of the product structure in EIG subsidiaries' insurance portfolio in comparison to the structure of the insurance sector in the respective countries, there are no business risks specific only for the companies in comparison to the other representatives of the sector.

Natural disasters – such events may cause significant damages to the insured property of individuals and companies, as well as to motor vehicles (MV).

In relation to the size of damages that natural disasters might cause to MV insured in the EIG Group companies, it is considered minimal due to the following factors:

- The companies hold a large portfolio of cars insured against natural disasters on the territory of several countries, which ensures distribution of the risk of such disasters over a large set and thus minimizes the effect of disasters due to the fact that they affect very restricted territory.
- Insured cars move easily and thus the risk of damages due to natural disasters is partially reduced, having in mind the fact that some natural disasters are foreseeable, and their territorial cover is relatively slow and limited.

The size of damages to insured immovable property the companies might suffer as a result of natural disasters is limited by the reinsurance program maintained by EIG. In order to monitor the companies' portfolio exposition to risk of natural disasters, the risk of such events accumulated by the companies is assessed on quarterly basis by CRESTA[1] areas.

[1] CRESTA – (Catastrophe Risk Evaluation and Standardizing Target Accumulations). For the purposes of allocation and aggregation of risks undertaken by the insurance companies, which is used for further modelling of the insurance portfolio, the territories of the countries are classified in the so called "accumulation areas" or CRESTA areas.

Major failures – huge industrial risks that might contribute to such events are extremely limited within the companies' portfolio, and their impact is very limited due to the fact that such failures are fully covered by the purchased reinsurance protection of the companies.

Acts of terrorism – up to now, no acts of terrorism have been committed in Bulgaria, Romania and Macedonia, that might probably endanger the risks covered by the insurance companies operating in the field of non-life insurance. According to Euroins' general conditions, terrorism is excluded risk pursuant to international clause G51.

3.3.2. Liquidity risk

Liquidity risk is related to the possibility the EIG Group companies not to cover their obligations within the agreed amount and/or term. This risk is minimised by implementing well developed policy for insurance reserve and current cash flow management and by maintaining adequate level of companies' solvency and liquidity.

3.3.3. Operational risk

Operational risks are related to the insurance portfolio structure comprising the scope of insurance products, level of risk diversification, concentration of products by types, markets, clients and regions; the availability of risk assessment, analysis and management policy consisting of: reinsurance program; risk management at individual product and client level; operational risk management by acceptance of limits, introduction of adequate information technologies, system of internal control and independent audit; and insurance reserve formation policy.

Operational risks are related to the company's management, for example: making inappropriate decisions when defining the insurance portfolio structure; making inappropriate decisions when defining the insurance reserving policy; lack of common management information system; lack of adequate internal control system; resignation of key staff and inability to appoint staff with the required skills. The impact of operational risks on the companies' operations is limited through the established internal system of operational controls, the introduced integrated information system, as well as through the established internal control and independent audit organisation, which is an element of the risk management policy, as well as through the implementation of modern staff management approaches.

4. Important events that have occurred after the date of the 2014 annual consolidated financial statements

In 2014 the procedure for capital increase of Euroins Insurance Group AD has started for the purposes of stabilizing its financial indications, and during the first 3 months of 2015 contributions for increase of the Company's capital have been made in the amount of BGN 17,515 thousand.

On 19th of February, 2015 EIG JSC acquired controlling shareholding in "HDI Zastrahovane", Bulgaria and HDI Strakhuvannya, Ukraine.

5. Possible future development of the company

As a leading Bulgarian insurance group, the company continues expanding its operations in Central and Eastern Europe. In mid-term plan EIG's main purpose is to achieve, through its subsidiaries, a market share exceeding 5% for the CEE region in the Non-Life Insurance sector. The company is interested in tangible penetration on the markets in Slovakia, Czech Republic and Hungary, and in improvement of existing companies' technical indicators.

6. Research and development

The EIG Group companies do not carry out research and development.

7. Financial instruments used by the Group companies

The Group companies invest mainly in the following financial instruments: debentures, stock, shares in investment companies and contractual funds, co-shareholdings of the company in the capitals of associate and other companies, and deposits in financial institutions.

The companies' investment policy is moderately conservative and the major share of investments comprises deposits, debentures and equity securities.

The financial instruments used by the Group companies are exposed to the following risks:

- Market risk – where the value of a financial instruments fluctuates as a result of changes in the market prices, whether such changes are due to factors specific for the respective securities or for their issuer, or due to factors related to all securities traded on the market.
- Credit risk – the credit risk occurs where one of the financial instrument parties does not perform any of its obligations thus causing financial loss to the other party.
- Interest risk – where the value of a financial instrument fluctuates due to changes in the market interest rates.

8. Information under article 187д and article 247 of the Commerce Act about Euroins Insurance Group JSC

Members:

- Kiril Ivanov Boshov – Chairman of the Board of Directors since 06.11.2007
- Dominique Victor Francois Joseph Boduen – Member of the Board of Directors since 2014
- Velislav Milkov Hristov – Member of the Board of Directors since 06.11.2007

In 2014 the members of the Board of Directors have not acquired, held or transferred shares or bonds of Euroins Insurance Group PLC.

The articles of association of Euroins Insurance Group JSC do not stipulate special rights or restrictions for the members of the Board of Directors in relation to the acquisition of shares or bonds of the Company.

Information under article 247, paragraph 2, item 4 of the Commerce Act in relation to the participation of the members of the Board of Directors in business companies as general partners, holding of more than 25 per cent of the capital of another company, as well as their participation in other companies or cooperative societies as prokurists (administrators), managers or members of boards:

Kiril Ivanov Boshov – Chairman of the Board of Directors

- Avto Union JSC – member of the Board of Directors;
- Alcommerce LTD – sole owner of the capital and manager;
- Euroauto LTD – Manager;
- Euroins – Health Assurance JSC – member of the Board of Directors;
- Euroins Osiguruvaje AD, Skopje – member of the Board of Directors;
- Euroins Insurance Group JSC – Chairman of the Board of Directors;
- Euroins Romania Asigurare Reasigurare S.A., Romania – Chairman of the Board of Directors;
- Eurolease Auto IFN S.A., Romania – member of the Board of Directors;
- Euro – Finance JSC – member of the Board of Directors and Executive Director;
- Eurohold Bulgaria AD – Chairman of the Board of Directors and Executive Director;
- Inter Sigorta JSC – member of the Board of Directors;
- Capital – 3000" JSC – Chairman of the Board of Directors;
- Nissan Sofia JSC – member of the Board of Directors;
- Starcom Hold JSC – member of the Board of Directors;
- Starcom Holding JSC – Chairman of the Board of Directors.

  - ***Dominique Josef Boduen – Deputy Chairman of the Board of Directors***
  - IC Euroins Life JSC – member of the Board of Directors;
  - SCI Solar Bulgaria LTD - Manager.

Velislav Milkov Hristov – member of the Board of Directors

- Euroins Insurance Group JSC – member of the Board of Directors;
- Inter Sigorta JSC – member of the Board of Directors;
- Starcom Holding JSC – member of the Board of Directors;
- Eurohold Bulgaria JSC – member of the Managing Board;
- IC Euroins AD – Chairman of the Board of Directors;
- VM24.BG LTD – sole owner of the capital

In 2014 the members of the board of directors of Euroins Insurance Group JSC have not entered into contracts under article 240б of the Commerce Act that fall outside the principle activity of the company or that have been entered in contradiction with the market conditions.

29.05.2015, city of Sofia

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Kiril Boshov
Executive Director
Euroins Insurance Group JSC

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

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Euroins Insurance Group AD

Report on the Financial Statements

1. We have audited the accompanying consolidated financial statements of Euroins Insurance Group AD (the "Parent company") and its subsidiaries (together referred to as „the Group"), which comprise the consolidated statement of financial position as of December 31, 2014 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

6. As disclosed in note 25 to the accompanying consolidated financial statements, the Group has reported goodwill on acquisition at total amount of BGN 165,466 thousand, BGN 154,296 thousand of which refer to the acquisition of companies under common control in prior reporting periods. Business combinations of entities under common control fall outside the scope of IFRS, and consequently we were not able to determine if the treatment of the transactions and the reporting of goodwill comply with IFRS. Accordingly, due to the matter described above, we were not able to satisfy ourselves and we do not confirm as to whether the reported goodwill is fairly presented in these consolidated financial statements.

7. As of December 31, 2014 and December 31, 2013, the gross claims reserves of the Group amount to BGN 193,568 thousand and BGN 145,710 thousand, respectively. Because of the fact that the historical analysis shows a possible insufficiency of the reserves, we were not able to satisfy ourselves whether the claims reserves of the Group, are fairly valuated as of December 31, 2014 and December 31, 2013.

8. As of December 31, 2014 and December 31, 2013 the share of reinsurers in the insurance reserves of the Group amounts to BGN 145,721 thousand and BGN 77,741 thousand, respectively. As of December 31, 2014 the Group is a party to material proportional reinsurance contracts of the net retention for Motor Third Party Liability and Green Card insurances, the recorded and disclosed result under which shall be neutral. Based on the above, as well as because in the beginning of the period the reinsurers' share in the insurance reserves under an intragroup reinsurance contract is not entirely eliminated, we were not able to determine whether the reinsurers' share in the insurance reserves as of December 31, 2014 and their change during the period is fairly calculated.

9. As of December 31, 2014, the Group reported receivables and other assets at a total amount of BGN 39,345 thousand, for which indications of impairment losses exist. We were not provided with an analysis of the recoverability of these receivables and assets, and therefore we were not able to confirm as to whether these receivables and assets have been reliably valued and presented in the consolidated financial statements of the Group as of December 31, 2014.

Qualified Opinion

10. In our opinion, except for the possible effect of the matters described in paragraphs 6 to 9 above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union

Emphasis of matter

11. We draw attention to the fact, as disclosed in note 3.8 of the accompanying consolidated financial statements, that the main activity of the Group related to rendering of insurance services, including health insurance services, is subject to strict regulation in terms of solvency and liquidity. The ability of the Group to continue as a going concern depends on the support of the shareholders. As disclosed in note 24 to the consolidated financial statements, in 2014 and 2015 procedures for capital increase of Euroins Insurance Group AD have been started aiming at stabilization of the financial performance of the Group. Our opinion is not modified in respect of this matter.

12. Because of the volume of trade with securities owned by the Group on Sofia Stock Exchange, we consider that there is a significant uncertainty whether the fair values of corporate securities, determined on the basis of market quotations, including quotations of investment intermediaries, will be supported by the market in future transactions. Our opinion is not modified in respect of this matter.

Reports on Other Legal and Regulatory Requirements - Annual consolidated report on the activities of the Group, according to article 33 of the Accountancy Act

13. Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual consolidated report on the activities of the Group, prepared by the management. The Annual consolidated report on the activities is not a part of the consolidated financial statements. The historical financial information presented in the Annual consolidated report on the activities of the Group, prepared by the management is consistent, in all material respects, with the annual financial information disclosed in the consolidated financial statements of the Group as of December 31, 2014, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual consolidated report on the activities of the Group, dated May 29, 2015.

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva
Registered Auditor
Statutory Manager

0448 Силвия Пенева
Регистриран одитор

Vasko Raichev
Registered Auditor

0007 Васко Райчев
Регистриран одитор

June 18, 2015
Sofia

Специализирано одиторско предприятие
София
Рег. №033
"Делойт Одит" ООД

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2014	Year ended 31.12.2013
Gross written premiums	4	311,119	320,638
Premiums ceded to reinsurers	4	(13,657)	(21,874)
Net written premiums		297,462	298,764
Change in the gross unearned premium reserve and unexpired risk reserve	4	1,698	511
Reinsurers' share in changes in the unearned premium reserve	4	4,676	33,991
Net earned premiums		303,836	333,266
Fees and commission income	5	2,815	2,898
Finance income	6	15,922	8,950
Other operating income	7	2,633	3,921
Net income		325,206	349,035
Claims incurred, net of reinsurance	8	(183,717)	(208,026)
Acquisition costs	9	(85,243)	(86,629)
Administrative expenses	10	(22,450)	(19,103)
Finance costs	11	(16,575)	(6,250)
Other operating expenses	12	(25,135)	(31,486)
Operating loss		(7,914)	(2,459)
Other net income	13	28	5,129
(Loss)/profit for the year		(7,886)	2,670
Income tax expense	14	(313)	(2,249)
Net (loss)/profit for the year		(8,199)	421
Other comprehensive income			
Exchange differences on translating foreign operations		(238)	(41)
Change in fair value reserve (assets available for sale)		(323)	(32)
Other comprehensive income for the year, net of tax		(561)	(73)
Total comprehensive income for the year		(8,760)	348

All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2014	Year ended 31.12.2013
Net (loss)/profit, attributable to:			
Owners of the Parent company		(8,114)	(411)
Non-controlling interest		(85)	832
Net profit for the year		(8,199)	421
Total comprehensive income, attributable to:			
Owners of the Parent company		(8,782)	(482)
Non-controlling interest		22	830
Total comprehensive income for the year		(8,760)	348

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2015.

EUROINS INSURANCE GROUP Bulgaria

Kiril Boshov
Executive Director

Katrin Petkova
Chief Accountant

Sylvia Peneva
Registered Auditor
Statutory Manager
Deloitte Audit OOD
June 18, 2015

0448 Силвия Пенева Регистриран одитор

Vasko Raichev
Registered Auditor

0007 Васко Райчев Регистриран одитор

June 18, 2015

The consolidated financial statements are to be read together with the accompanying notes set out on pages 7 - 64, which are an integral part of these consolidated financial statements.

Специализирано одиторско предприятие София Рег. №033 "Делойт Одит" ООД

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	As of 31.12.2014	As of 31.12.2013
Assets			
Goodwill	25	165,466	165,466
Intangible assets	15	1,426	1,288
Property, plant and equipment	16	3,515	3,991
Investment properties	17	15,624	14,666
Financial assets	18	97,038	117,259
Reinsurers' share in technical reserves	21	145,721	77,741
Deferred tax assets	14	378	646
Receivables and other assets	19	118,338	122,541
Cash and cash equivalents	20	59,867	32,743
Total assets		607,373	536,341
Liabilities			
Insurance reserves	21	293,837	247,839
Reinsurance and other payables	22	32,729	51,775
Loans	23	54,308	3,431
Deferred tax liabilities	14	52	30
Total liabilities		380,926	303,075
Equity			
Share capital	24	268,263	268,263
Revaluation and other reserves		3,589	1,535
Foreign currency translation reserve		(4,667)	(4,288)
Accumulated loss		(47,402)	(38,628)
Total equity attributable to the owners of the Parent company		219,783	226,882
Non-controlling interest	26	6,664	6,384
Total equity		226,447	233,266
Total liabilities and equity		607,373	536,341

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2015.

Kiril Boshov
Executive Director

Katrin Petkova
Chief Accountant

EUROINS INSURANCE GROUP Bulgaria

Sylvia Peneva
Registered Auditor
Statutory Manager
Deloitte Audit OOD
June 18, 2015

0448 Силвия Пенева Регистриран одитор

Vasko Raichev
Registered Auditor

0007 Васко Райчев Регистриран одитор

June 18, 2015

The consolidated financial statements are to be read together with the accompanying notes set out on pages 7 - 64, which are an integral part of these consolidated financial statements.

Специализирано одиторско предприятие София Рег. №033 "Делойт Одит" ООД

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2014	Year ended 31.12.2013
Operating activities			
(Loss)/Profit before tax		(7,886)	2,670
Change in insurance reserves		(21,818)	6,825
Increase in impairment loss on receivables		12,433	19,133
Depreciation, amortization charged for the period		1,513	1,141
Revaluation of investments, incl. investment properties		(237)	(1,032)
(Profit) / loss on sale of investments		(1,411)	731
(Profit) on transfer of property, plant and equipment		(46)	(122)
Other cash flows used in operating activities		1,846	(9,355)
Net investment income		(172)	(2,177)
Net cash flows from operating activities before changes in assets and liabilities		(15,778)	17,814
(Increase) in receivables		(7,937)	(24,659)
(Decrease) / increase in payables		(2,701)	18,714
Net cash flows from/(used in) operating activities		(26,416)	11,869
Investing activities			
(Increase)/ decrease in financial assets, net		21,185	(7,155)
(Acquisition) of property, plant and equipment, net		(1,224)	(423)
Sale of investment properties		-	2,033
Investment income received, net		65	108
Net cash flows from/(used in) investing activities		20,026	(5,437)
Financing activities			
Received financing		62,592	7,050
Repayment of principle and interest on received financing		(28,386)	(25)
Payments on finance lease		(491)	(579)
Net cash flows from financing activities		33,715	6,446
Net increase in cash and cash equivalents		27,325	12,878
Effect of fluctuations in exchange rates on the available cash and cash equivalents		(202)	581
Cash and cash equivalents at the beginning of year	20	32,743	19,284
Cash and cash equivalents at the end of year	20	59,867	32,743

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2015.

Kiril Boshov
Executive Director

Katrin Petkova
Chief Accountant

EUROINS INSURANCE GROUP Bulgaria

Sylvia Peneva
Registered Auditor
Statutory Manager
Deloitte Audit OOD
June 18, 2015

0448 Силвия Пенева Регистриран одитор

Vasko Raichev
Registered Auditor

0007 Васко Райчев Регистриран одитор

June 18, 2015

Специализирано одиторско предприятие София Рег. №033 "Делойт Одит" ООД

The consolidated financial statements are to be read together with the accompanying notes set out on pages 7 - 64, which are an integral part of these consolidated financial statements.

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
All amounts are in thousand Bulgarian levs, unless otherwise states

	Share capital	Revaluation and other reserves	Foreign currency translation reserve	Accumulated loss	Total equity attributable to the Group	Non-controlling interest	Total equity
Balance as of January 1, 2013	268,263	2,109	(4,246)	(37,071)	229,055	5,094	234,149
Current year result	-	-	-	(411)	(411)	832	421
Other comprehensive income							
Revaluation reserve from foreign currency translation	-	-	(42)	-	(42)	3	(39)
Change in fair value of assets available for sale and revaluation of tangible assets	-	(25)	-	-	(25)	(2)	(27)
Total other comprehensive income	-	(25)	(42)	-	(67)	1	(66)
Total comprehensive income	-	(25)	(42)	(411)	(478)	833	355
Transactions with owners, recorded directly in equity							
Contributions and distributions to the owners							
Other changes in equity, including the transfer of retained earnings of subsidiaries to equity	-	(549)	-	(1,146)	(1,695)	457	(1,238)
Total transactions with owners, recorded directly in equity	-	(549)	-	(1,146)	(1,695)	457	(1,238)
Balance as of December 31, 2013	268,263	1,535	(4,288)	(38,628)	226,882	6,384	233,266

All amounts are in thousand Bulgarian levs, unless otherwise states

	Share capital	Revaluation and other reserves	Foreign currency translation reserve	Accumulated loss	Total equity attributable to owner of the Parent company	Non-controlling interest	Total equity
Balance as of January 1, 2014	268,263	1,535	(4,288)	(38,628)	226,882	6,384	233,266
Current year result	-	-	-	(8,114)	(8,114)	(85)	(8,199)
Other comprehensive income							
Revaluation reserve from translations of the currency of presentation of foreign activities	-	-	(379)	-	(379)	141	(238)
Change in fair value of assets available for sale and revaluation of tangible assets	-	(289)	-	-	(289)	(34)	(323)
Total other comprehensive income	-	(289)	(379)	-	(668)	107	(561)
Total comprehensive income	-	(289)	(379)	(8,114)	(8,782)	22	(8,760)
Transactions with owners, recorded directly in equity							
Contributions and distributions to the owners							
Other changes in equity, including the transfer of retained earnings of subsidiaries to equity	-	2,343	-	(660)	1,683	258	1,941
Total transactions with owners, recorded directly in equity	-	2,343	-	(660)	1,683	258	1,941
Balance as of December 31, 2014	268,263	3,589	(4,667)	(47,402)	219,783	6,664	226,447

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2015.

Kiril Boshov
Executive Director

Katrin Petkova
Chief Accountant

Sylvia Peneva
Registered Auditor
Statutory Manager
Deloitte Audit OOD
June 18, 2015

Vasko Raichev
Registered Auditor

June 18, 2015

EUROINS INSURANCE GROUP Bulgaria

0448 Силвия Пенева Регистриран одитор

0007 Васко Райчев Регистриран одитор

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №033 "Делойт Одит" ООД

The consolidated financial statements be read together with the accompanying notes set out on pages 7 - 64, which are an integral part of these consolidated financial statements.

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

1. Basis for preparation of the consolidated financial statements

1.1. Information about the economic Group

Euroins Insurance Group AD (the Parent company, the Group or EIG) is a joint-stock company, registered under company file No. 1302/2007 in Sofia City Court, Identification number 175394058, with seat and management address 1797 Sofia, Izgrev district, 16, G. M. Dimitrov Blvd.

Scope of activities of the Group include: Consulting, commercial representation and factoring, and any other activity not expressly prohibited by law.

The Parent company of the Group is Eurohold Bulgaria AD with a seat and management address 1592 Sofia, 43, Christopher Columbus Blvd.

The Parent company is managed by a Board of Directors and is represented by Kiril Ivanov Boshov.

1.2 Economic group structure

Euroins Insurance Group AD is a holding joint-stock company.

Subsidiaries

As of December 31, 2013 Euroins Insurance Group AD owns controlling interest in the following six subsidiaries:

ZD Euroins AD
Seat and management address: Sofia, 43, Christopher Columbus Blvd.
Main activity: Insurance services
Registration: The company is registered under company file No. 9078/1998 in Sofia City Court and has an insurance license No. 8/15.06.1998.
Euroins Insurance Group AD directly owns 9,183,486 (nine million one hundred and eighty-three thousand four hundred eighty-six) shares, which represents 78.13% of the Company's share capita

Euroins Romania Insurance-Reinsurance AD
Main activity: Insurance services
Registration: Registered in the Trade register of Bucharest under No. J40/2241/February 9, 1994, insurance license No. 13/October 23, 2001, registered in the insurance register under No.RA-010/04.10.2003.
Seat and management address: Bucuresti-Nord, nr.10,Global City Business P, Bucharest, Romania.
Euroins Insurance Group AD directly owns 96.64% of the share capital of Euroins Romania or 129,182,666 (one hundred twenty-nine million one hundred and eighty-two thousand six hundred sixty-six) shares.

Euroins Osiguruvanje Skopje AD, Republic of Macedonia
Main activity: Insurance services
Registration: Registered in the Ministry of Finance of the Republic of Macedonia under company file No.9126/20.07.1995 and has an insurance license by the Ministry of Finance No.18-25799/15-02 dated April 29, 2003.
Seat and management address: Skopje, Macedonia, TC Soravia, 5 kat
Euroins Insurance Group AD directly owns 93.36% of the share capital of Euroins Osiguruvanje AD, Macedonia, or 7,095 (seven thousand ninety-five) shares.

1. Basis for preparation of the consolidated financial statements (continued)

1.2. Economic group structure (continued)

Euroins – Health assurance EAD
Seat and management address: Sofia, 43, Christopher Columbus Blvd.
Registration: The company is registered under company file No.12203/2004 in Sofia City Court and has a voluntary health assurance license by the Financial Supervision Commission No.7-ZOD/03.11.2004.
Main activity: voluntary health assurance
Euroins Insurance Group AD directly owns 100% of the share capital of Euroins – Health Assurance EAD, or 3,805,002 (three million eight hundred and five thousand and two) shares.

In 2013, United Health Assurance EAD, owned by EIG, registered under company file № 13 629/1997, and licensed by the Financial Supervision Commission № 07-ZOD/03.11.2004 for the performance of voluntary health assurance has merged into Euroins - Health assurance EAD.

Inter Sigorta AD, Republic of Turkey
Main activity: insurance services
Registration: The company is registered in Commercial registration office in Commercial chamber – Istanbul under company file No. 373809 – 321391.
Seat and management address: Istanbul, Hoca Hanı Sokak Str., Diri Han №18/80. Euroins Insurance Group AD directly owns 90.75% of the share capital of Inter Sigorta AD, Turkey, or 90,750,500 (ninety million seven hundred fifty thousand and five hundred) shares. As of December 31, 2014 the Company is non-operating.

ZD Euroins Life EAD (former name Interamerican Bulgaria Life Insurance EAD)
Seat and management address: 1592 Sofia, 43, Christopher Columbus Blvd.
Registration: The company is registered under company file № 13 629/1997 and owns an insurance license by the Financial Supervision Commission No.1601 GZ /12.12.2007.
Main activity: Life insurance and annuity, Marriage and children's insurance, Life insurance linked to an investment fund, supplementary insurance.
Euroins Insurance Group AD directly owns 100% of the share capital of ZD Euroins Life EAD, or 1,012,507 (one million twelve thousand five hundred and seven) shares.

1.3. Foreign currency transactions

The consolidated financial statements are presented in Bulgarian levs (BGN), which is the functional and presentation currency of the Group. Foreign currency transactions are initially are reported in the functional currency at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currency are translated in the functional currency at the closing foreign exchange rate of the Bulgarian National Bank at the end of reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are reported at fair value are reported in the functional currency at the foreign exchange rate at the date at which the fair value is determined.

Foreign exchange differences arising from retranslation to the functional currency are recognized in the statement of comprehensive income, except for differences arising from retranslation to the functional currency of equity instruments classified as available for sale. Since 1999 the exchange rate of the Bulgarian lev (BGN) is pegged to the Euro (EUR).

All amounts are in thousand Bulgarian levs, unless otherwise states

1. Basis for preparation of the consolidated financial statements (continued)

1.3. Foreign currency transactions (continued)

Exchange rates of the major foreign currencies as of December 31, 2014 and 2013 are, as follows:

Currency	December 31, 2014	December 31, 2013
EUR	1.95583	1.95583
USD	1.60841	1.441902
ROM	2.2930	2.2858
MKD	31.4349	31.4502
TRY	1.4616	1,50048

1.4. Principles for preparation of the consolidated financial statements and applicable standards

The Group prepares and presents its consolidated 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 adopted by the European Union (the "EU") and applicable in the Republic of Bulgaria.

The Group has disclosed the effects of the application of published International Financial Reporting Standards that are not yet effective at the date of the consolidated financial statements and may be relevant to the Group's activities.

IFRS does not yet contain specific guidance on the recognition and measurement of insurance and health insurance contracts. For these cases, the Group has applied the Bulgarian legislation requirements with the appropriate modifications to comply with the IFRS principles.

These consolidated financial statements are general purpose financial statements, prepared on a going concern assumption and under the historical cost convention, except for the following assets and liabilities designed to be measured at fair value: investment properties and assets held for trading and assets available for sale.

1.5. Accounting estimates and assumptions

The preparation of the consolidated financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets and liabilities, income and expenses. The estimates and related assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Accounting estimates adjustments are made in the year in which the estimate is revised if the adjustment affects only that year; or in the year of the adjustment and in future years if the adjustment affects both current and future years. Accounting estimates that have material effect on the financial statements and accounting assumptions with significant risk of material adjustments in the following year are presented in note 2 Significant accounting policies. Significant accounting policies are applied consistently by the Group.

1. Basis for preparation of the consolidated financial statements (continued)

1.5. Accounting estimates and assumptions (continued)

Accounting estimates related to general insurance

The Group's estimates for reported and unreported claims and establishment of insurance reserves and related reinsurance share in reserves are reviewed and updated on an on-going basis, and related adjustments are recorded in the statement of comprehensive income of the Group. The process is based on the assumption that past experience, adjusted for the effect of current circumstances and likely trends, is an appropriate basis for predicting the effect of future events.

1.6. Basis for consolidation

Subsidiaries

Subsidiaries are the companies, controlled by the Parent company. Control exists when the Parent company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Financial statements of the subsidiaries are included in the consolidated financial statements from the date when control commences until the date of termination.
All receivables and payables, income and expenses, as well as intragroup profits as a result of intercompany transactions within the Group are eliminated, except when they are immaterial. The part of income/expenses of the subsidiaries of the Parent company that correspond to the proportional share of the non-controlling shareholders is presented separately from equity in line „Non-controlling interest".

With respect to business combinations including companies under common control, the Group has chosen to apply the purchase method according to IFRS 3 – Business Combinations. The Group has chosen this accounting policy regarding these transactions, because at the end of reporting period they are outside the scope of IFRS 3 and there are no instructions about them in the existing IFRSs. As per IAS 8 in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management must use its judgment in developing and applying an accounting policy.

These financial statements represent consolidated financial statements of the Group and are prepared on the basis of control and the subsidiaries' share in equity, on the basis of management and by decision of the General meeting of shareholders.

2. Significant accounting policies

2.1. Recognition and measurement of contracts

2.1.1. Premiums written on insurance contracts

Gross written premiums comprise premiums on direct insurance or co-insurance contracts signed during the year, regardless of the fact that such premiums may relate wholly or partially to a later reporting period. Premiums are reported gross of commission payable to intermediaries. The portion earned on written premiums, including unexpired insurance contracts, is recognized as revenue. Written premiums are recognized as of the date of signing of the insurance contract. Outward reinsurance premiums are recognized as an expense in accordance with the contracts for the reinsurance service received.

2. Significant accounting policies (continued)

2.1. Recognition and measurement of contracts (continued)

2.1.2. Premiums written on health insurance contracts

Premiums written on health insurance contracts are recognized as income based on the annual premium due by the insured persons for the premium period starting during the financial year, or one-off premium due for the entire covered period for annual health insurance contracts that are written during the financial year. Gross premiums written from health insurance business are not recognized when future revenue from them is not probable. Premiums written from health assurance are stated gross of commissions due to intermediaries.

2.1.3.. Premiums written on life insurance contracts

Premiums written on life insurance contracts are recognized as income based on the annual premium of the insured persons for the premium period beginning in the financial year or a single premium payable for the entire period of coverage for policies issued during the financial year. Gross written premiums are not recognized when estimated future cash receipts thereof are not probable. Premiums written are recorded gross of commissions due to intermediaries.

2.2. Unearned premium reserve

The unearned premiums reserve comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial reporting periods. The unearned premium reserve comprises premiums accrued and recognized as revenue in the current period, adjusted with the ceded premiums to reinsurers, which must be recognized in the next financial year or in subsequent financial reporting periods. The unearned premium reserve is calculated on a case by case basis using the daily pro rata method. The unearned premium reserve is calculated net of commissions to intermediaries, advertising and other acquisition costs.

2.3. Unexpired risk reserve

The reserve is formed to cover the risks for the time between the end of the reporting period and the end date of insurance/health insurance contract, in order to cover payments and expenses that are expected to exceed the unearned premium reserve formed.

2.4. Deferred acquisition costs

Deferred acquisition costs represent the amount of acquisition costs deducted in the calculation of unearned premium reserve. They are defined as the part of the acquisition costs under the contracts in force at the end of the period determined as a percentage in the insurance-technical plan and relating to the time between the end of the reporting period and the date of expiry of the insurance/health insurance contract. Current acquisition costs are recognized in full as an expense during the reporting period.

2. Significant accounting policies (continued)

2.5. Claims incurred on general insurance, life assurance and health insurance activities and outstanding claims reserves

Claims incurred on general insurance, life insurance and health insurance activities consist of claims and claims handling expenses payable during the financial year adjusted for the movement in outstanding claims reserve.

The Management believes that the gross outstanding claims reserve and the related share of the reinsurance reserve are fairly stated on the basis of the information currently available, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of outstanding claims reserve established in prior years are reflected in the financial statements for the period in which the adjustments are made, and are disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

2.6. Reinsurance

The insurance companies within the Group cede insurance risk in the normal course of their business for the purpose of limiting their net loss potential through the diversification of their risks. Reinsurance arrangements do not relieve the corresponding company from its direct obligations to its policyholders. Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policies.

Premiums and claims on assumed reinsurance contracts are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct activity, taking into account the product classification of the reinsured business.

Premiums ceded (or accepted) and benefits reimbursed (or paid claims) are presented in the statement of comprehensive income and statement of financial position of the respective company on a gross basis. Contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognized in the same year as the related claim.

The premiums of long-term contracts are accounted over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Receivables recoverable from reinsurance contracts are reviewed for impairment at the end of each reporting date. Such assets are deemed impaired if there is objective evidence result of an event that occurred subsequent the initial recognition, that the Group may not recover all amounts due and the effect of events on the amount receivable by the Group from the reinsurer can be reliably measured.

2. Significant accounting policies (continued)

2.7. Acquisition costs

Acquisition costs include intermediary commissions expenses, profit participation expenses, which are paid to the insured/health insured persons in case of low claims ratio, as pay back. Indirect acquisition expenses include advertising expenses and costs arising from the writing or renewing of insurance/health insurance contracts. Acquisition costs are recognized when incurred.

2.8. Administrative expenses

Administrative expenses consist of personnel remuneration expenses, depreciation charges for property, plant and equipment, intangible assets and other administrative expenses.

2.9. Finance income and costs

Finance income and costs consist of investment and other finance income and costs.

Investment income and costs comprise gains or losses realized from trading of financial assets, unrealized gains or losses on revaluation of financial assets, as well as rentals received from investment properties, interest income on investments in debt securities and time deposits and dividends Interest income on deposits and financial instruments is recognized when earned proportionally to the time basis and effective interest rate.

Dividends from equity investments are recognized when received.

2.10. Other operating income and expenses

Other operating income represents income from certificates. Other operating expenses represent expenses for guarantee fund in accordance with the local insurance legislation, as well as written-off receivables.

2.11. Income tax

The companies within the Group calculate current and deferred taxes in accordance with the local legislation. Current tax is calculated on the basis of the financial result.
The deferred tax is calculated by applying the liability method over all deferred temporary differences, calculated for tax purposes. The amount of the deferred tax provision is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities and uses the tax requirements effective as of the reporting date. Effect of tax rate changes on the deferred tax is accounted in the statement of comprehensive income except in cases when it relates to amounts accrued in advance or accounted directly in equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which tax losses carried forward and tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.
Deferred tax assets and liabilities are offset if there is legal ground the current tax assets to compensate with current tax liabilities and they are related to current tax charge to the same tax authority taxable persons.

2. Significant accounting policies (continued)

2.12 Goodwill

Goodwill represents the amount that exceeds the price paid for the acquired company over the fair value of identified net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is reported in the statement of financial position as an intangible asset.

Upon acquisition of an additional share in a subsidiary, including non-controlling interest, goodwill, as the difference between the value of the additional investment and the carrying amount of the additional share of the net assets of the subsidiary acquired at the date of exchange, is recognized.
Goodwill on acquisition of associate is recognized in the statement of financial position as part of the investment in the associate.
Goodwill is tested annually for impairment and is carried at carrying amount, less any accumulated impairment losses. Profit or loss on sale of subsidiary/associate includes the carrying amount of goodwill on the company sold.
Goodwill is measured at cost less any expenses for impairment.

2.13 Property, plant and equipment

Land, buildings, machinery and equipment

Land and buildings are carried at fair value determined by using a valuation prepared by an external independent licensed valuation expert at the date of the statement of financial position. Items of property, plant and equipment are stated at cost less accumulated depreciation.

In cases where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenses

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized only if it is probable that the future economic benefits will flow to the Group and its value can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expenses as incurred.

2.14 Intangible assets

Intangible assets, acquired by the Group, are presented at acquisition cost less any amortization accrued and allowances for impairment.

2. Significant accounting policies (continued)

2.15. Depreciation/amortization

Depreciation/amortization is reported in the income statement and it is accrued on the basis of the straight line method during the expected useful life. Land is not depreciated. The expected useful lives are as follows:

Buildings	25-46 years
Computers	2-4 years
Vehicles	4-5 years
Fixtures and fittings	7-19 years
Software	4-5 years
Licenses	5 years
Other	7 years

2.16. Investment properties

Investment properties represent land and buildings, kept with the intention to receive rental income or capital profit, or both, but not to be sold under the normal activities of the Group, or to be used for rendering of services or administrative needs. Investment properties are initially recognized at acquisition cost. After their initial recognition they are measured at fair value and every change is reflected as a profit or loss in the statement of comprehensive income.

The investment properties of the Group are valuated every year by two external independent appraisers, who have professional qualifications and experience in the valuation of properties of such a type and location. The fair value represents the actual condition of the investment property as of the end of the reporting period. The current fair value is based on a market value, which is the amount at which the property could be exchanged at the date of the valuation between a buyer and a seller in a sales transaction between knowing and reliably informed counterparties, see also note 3.5.1.

2.17. Financial instruments

Financial assets are classified as financial assets reported at fair value, financial assets available-for-sale, financial assets held-to-maturity, loans and receivables, other investments in equity instruments.

2.17.1. Recognition and measurement of financial assets

The Group recognizes a financial asset, when it becomes a party under its contractual arrangements. All purchases and sales of financial assets are recognized at the date of the trade, i.e. the date on which the Group commits to purchase or sell an asset.

(i). *Financial assets reported at fair value*

Financial assets reported at fair value are financial assets, which the Group keeps mainly with the intention to gain short-term profit as a result from fluctuations in the fair value of the asset. In this group of assets are included acquired interest-bearing government securities and corporate bonds, as well as investments in equity instruments of entities in which the Group does not have control or significant participation. Upon their initial recognition they are measured at fair value which is equal to the acquisition cost of the asset.

2. Significant accounting policies (continued)

2.17. Financial instruments (continued)

2.17.1. Recognition and measurement of financial assets (continued)

(i). ***Financial assets reported at fair value (continued)***

The subsequent measurement of financial assets, reported at fair value through profit and loss is also at fair value, determined as of the date, as of which the financial statements are prepared. Gains and losses, incurred from the difference in the fair values of these assets are recognized in the income statement.

Any interest received over the period of ownership of the asset is recognized in the income statement as interest income.

(ii). ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and receivables are recognized at the actual disbursement of the funds or when the right to claim the receivable has occurred. They are initially recognized at fair value. Subsequently, they are measured at amortized cost. The amortized cost is the cost at which the financial assets are initially measured less principal payments, plus or less any amortization of the difference between the acquisition cost and the value at maturity, using the effective interest rate method and less any decrease resulting from impairment and uncollectibility. Gains and losses, incurred at writing-off, impairment and amortization of loans and receivables are recognized in the income statement in the period of their occurrence.

The right of the Group of refunding a disbursed compensation under insurance contract against the insured person or third party who is responsible for destruction or damage, is recognized as a recourse receivable on the date on which such right is established.

The Group assesses at each reporting date whether there is an objective evidence for impairment. The allowance for impairment is determined as the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted with the initial effective interest rate for the financial asset. The allowance for impairment is recognized in the statement of comprehensive income. If in a subsequent period the allowance for impairment decreases and the decrease may objectively be connected to an event, occurred after the impairment recognition, the prior impairment losses are recovered. Every recovery of impairment is recognized in the income statement to the extent to which the carrying amount of the asset does not exceed its amortized cost, which would have had at the date of the recovery, if impairment loss had not been recognized.

(iii). ***Financial assets held-to-maturity***

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity.
These assets are recognized initially at fair value, including directly attributable transaction costs. Their subsequent measurement is at amortized cost. Profit and loss, arising upon their derecognition, impairment and amortization, is recognized in the statement of comprehensive income in the period of its occurrence.

2. *Significant accounting policies (continued)*

2.17 *Financial instruments (continued)*

2.17.1 *Recognition and measurement of financial assets (continued)*

(iii) *Financial assets held-to-maturity (continued)*

The Group assesses at each reporting date whether there is objective evidence for impairment. If the evidence exists, the impairment is recognized in the income statement. The allowance for impairment is determined as the difference between the carrying amount of the financial assets held-to-maturity and the present value of the expected future cash flows, discounted with the initial effective interest rate for the financial asset. If in a subsequent period the allowance for impairment decreases and the decrease may objectively be connected to an event, occurred after the impairment recognition, the prior impairment losses are recovered. Every recovery of impairment is recognized in the statement of comprehensive income to the extent to which the carrying amount of the asset does not exceed its amortized cost, which would have had at the date of the recovery, if impairment lost had not been recognized.

(iv) *Financial assets available-for-sale*

Financial assets available-for-sale are non-derivative financial assets, which are not classified as loans and receivables, investments held to maturity, or financial assets stated at fair value. These assets include interest-bearing government and corporate securities, as well as investments in equity instruments of entities, in which the Group does not have control or significant participation.

Upon initial recognition, they are measured at fair value, which includes the acquisition cost of the asset, including directly attributable transaction costs. After initial recognition, financial assets available-for-sale are measured at fair value based on market prices. Gains and losses, arising as a result of a change in the fair values of these assets are recognized as a separate item in other comprehensive income, with exception of impairment losses, which are recognized in the income statement. Upon writing off or impairment of the investment, the accumulated gain or loss, initially recognized in the equity, is recognized in the statement of comprehensive income.

The Company assesses at each reporting date whether there is an objective evidence that a financial asset or group of financial assets is impaired. When there is objective evidence of impairment and the financial asset is impaired, all impairment gains and losses, accrued up to the time of impairment in equity, are recognized in the income statement. The amount of the accumulated profit or loss, which is subtracted from the equity and recognized in the income statement, is the difference between the acquisition cost (net of principal payments and depreciation) and the current fair value less allowance for impairment of the financial asset, recognized prior in profit or loss. Impairment losses, initially recognized in the income statement as financial assets available-for-sale, are recovered in different ways depending whether the investment is in equity or debt instruments. If in a subsequent period the fair values of these assets are increased and the increase may objectively be connected to an event, occurred after the impairment loss recognition, the impairment loss on equity instruments is recovered in other comprehensive income, and on debt instruments – in the statement of comprehensive income.

2. Significant accounting policies (continued)

2.17. Financial instruments (continued)

2.17.1. Recognition and measurement of financial assets (continued)

(v). ***Other investments in equity instruments***

As other investments in equity instruments, the Group classifies investments in equity instruments, which do not have quoted price on an active market. Investments in financial instruments, which fair value cannot be reliably measured, are initially and subsequently measured at acquisition cost, less recognized impairment loss.

2.17.2. Principle of fair value measurement

When possible the Group measures the fair value of an instrument using quoted prices on active market for that instrument. Market is considered active if market prices are regular and easy accessible and represent actual and regular direct market deals. If the market for a particular financial instrument is not active, the Group determines its fair value by using pricing models or the method of discounted cash flows. The selected method for valuation relies as less as possible on specific for the Group valuations and should include all factors, which the market participants would consider when determining the price and the method should be compatible with the widely accepted economic methods for pricing of financial instruments. The data for the pricing method accurately represent the market expectations and measurement of factors of risk and return, typical for the financial instruments, see also note 3.5.1.

2.17.3. Derecognition of financial assets

The Group derecognizes financial assets (or part of financial asset, when this is applicable), when:

- The contractual rights on receiving cash flows of the financial asset have expired;
- The Group has retained the contractual rights on receiving cash flows from the asset, but has also undertaken contractual obligation to pay these cash flows, without significant delay, to a third party under a transfer agreement;
- The Group has transferred the contractual rights on receiving cash flows from the asset, and also:
  - The Group has transferred substantially all risks and rewards, deriving from the ownership of the financial asset; or
  - The Group has neither transferred, nor retained substantially all risks and rewards, deriving from the ownership of the financial asset and has not retained control over it.

When derecognizing financial asset available for sale, the accumulated revaluation reserve is subtracted from the equity and recognized in the statement of comprehensive income.

2.17.4. Presentation on a net basis

Financial assets and liabilities can be presented net in the statement of comprehensive income then and only then, when the Company has the legal ground to net the amounts and has the intention either to settle them on a net basis, or to realize the asset and to settle the liability simultaneously.
Gains and losses can be presented on a net basis, only if it is allowed by the accounting standards or if they emerge from similar transactions.

2. Significant accounting policies (continued)

2.18 Equity and Non-controlling interest

Share capital is presented at its nominal value in accordance with the court decisions for its registration.

Equity that does not belong to the economic group - non-controlling interest, represents part of the Group net assets, including the annual net result of subsidiaries, which relates to shares that are not directly or indirectly owned by the Parent company.

2.19 Insurance / health insurance and other receivables

Insurance / health insurance and other receivables are stated at their cost less impairment losses. The impairment losses for uncollectible receivables are recognized in the statement of comprehensive income.

2.20 Cash and cash equivalents

Cash and cash equivalents include cash at hand, cash in current bank accounts and deposits with maturity up to 90 days.

2.21 Impairment of non-financial assets

The carrying amount of the group's non-financial assets, including goodwill, originating as a result of the investments in subsidiaries, is reviewed for impairment at each reporting date. If there are such indications, the recoverable amount of the assets is calculated. Goodwill and other intangible assets with indefinite useful life, or other assets that are not ready to use are tested for impairment on annual basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and the fair value, reduced with costs to sell. When determining value in use, the future cash flows are discounted to their current value by using discount rate, which reflects the current value of money in time and the risks specific to the asset. For the purpose of test of goodwill impairment, the cash generating units where the goodwill is included, are grouped in a way that the level of test for impairment will reflect the lowest level at which the goodwill is observed for internal reporting purposes (it may not be greater than an operative segment). Goodwill arising from business combination is allocated to objects that generate cash flows that are expected to benefit from synergies resulting from business combinations. To perform test for impairment the assets that may not be tested separately, are divided into the smallest identifiable group of assets that generate cash flows that are largely independent of the cash flows from other assets or group of assets (cash generating units). Goodwill arising from business combination is allocated to objects that generate cash flows (subsidiaries) that are expected to benefit from synergies resulting from business combinations.

Impairment is recognized if the carrying amount of an asset or cash generating unit exceeds the expected recoverable amount. Impairment expenses are recognized in the statement of comprehensive income. Impairment expenses of cash generating units firstly reduce the goodwill of the units and then proportionally the carrying amount of other assets in the group.

2. Significant accounting policies (continued)

2.21 Impairment of non-financial assets (continued)

Impairment losses related to goodwill are not recoverable in future periods. For other assets the impairment recognized in prior periods is reviewed whether it has decreased or does not exist as of the end of each period. Impairment expenses are recovered in subsequent period only when a change in the estimates used for establishing the recoverable amount of the asset has occurred after recognizing the impairment loss. The impairment loss is recovered only to the extent to which the carrying amount of the asset should not exceed the carrying amount (less depreciation) the asset has had before being impaired.

2.22 Provisions

The Group recognizes provisions when it has present legal or constructive obligation, which has arisen as a result of a past event and it is probable that an outflow of resources will be required to settle that obligation. If the effect is significant, provisions are estimated using discounted future cash flows with a before taxation discount rate, which represents the current market value of the amount of money over time and the specific risk for the respective liability.

2.23 Trade and other payables

Trade and other payables are initially recognized at the date of their origination and measured at cost, which the Group considers that most accurately reflects their fair value.

2.24 Employee benefits

2.24.1. *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. Obligations for contributions to defined contribution pension plans are recognized in profit and loss on a current basis.

2.24.2 *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art. 222, § 3 of the Labour Code (LC) in Bulgaria. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounting to two gross monthly salaries.

2. Significant accounting policies (continued)

2.24 Employee benefits (continued)

2.24.2 *Defined benefit plans (continued)*

In case the employee's length of service in the company equals to or is greater than 10, as at retirement date, then the compensation amounts to six gross monthly salaries. As at the statement of financial position date the Management of the Group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method.

The Group recognizes actuarial gains and losses, arising from the Defined benefit plans in Personnel expenses in profit and loss.

2.24.3 *Termination benefits*

Termination benefits are recognized as an expense when the Group is clearly committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer for voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

2.24.4. *Short term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Group recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

2.25 Accounting for finance lease agreements

A lease is considered to be a finance lease when substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. All other agreements are considered as operating lease.

Assets, acquired under finance lease agreements, are recognized at the lower value of their fair value as of the date of the acquisition or the present value of the minimum lease payments. An existing liability of the lessor is stated in the statement of financial position of the Group in other liabilities. After initial recognition, the asset is accounted for in accordance with the accounting policy, applicable for this asset.

2. Significant accounting policies (continued)

2.26 Changes in IFRS

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) 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);
- 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 April 4, 2013 (effective for annual periods beginning on or after January 1, 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 November 20, 2013 (effective for annual periods beginning on or after January 1, 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 December 19, 2013 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on December 19, 2013 (effective for annual periods beginning on or after January 1, 2014).

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

2. Significant accounting policies (continued)

2.26 Changes in IFRS (continued)

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

At the date of authorisation of these consolidated financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and 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 December 17, 2014 (amendments are to be applied for annual periods beginning on or after February 1, 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 December 18, 2014 (amendments are to be applied for annual periods beginning on or after January 1, 2015);
- Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions - adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015),
- IFRIC 21 Levies, adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the date of publication of these consolidated financial statements:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);

2. Significant accounting policies (continued)

2.26 Changes in IFRS (continued)

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

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 27 Separate Financial Statements - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to various standards Improvements to IFRSs (cycle 2012-2014) 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 are to be applied for annual periods beginning on or after January 1, 2016).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application, except for the following standard, which might have a material impact 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 Group'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 consolidated financial statements, if applied as at the reporting date.

3. Management of insurance and financial risks

3.1. Risk management objectives and policies for mitigating insurance / health insurance risk

The main insurance activity carried out by the Group is assuming the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, life, health damage, financial or other risks that may arise from an insurance event. The Group is exposed to the uncertainty associated with the timing and severity of claims under the contract. The Group is also exposed to market risk through its insurance and investment activities. The Group manages its insurance and health insurance risk through underwriting insurance limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralized management of reinsurance and monitoring of emerging issues.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and general risks. The probability theory is applied to the pricing and provisioning of insurance contracts portfolio. The principal risk is that the frequency and severity of claims exceed the expected. Insurance/health insurance events are random by nature and the actual number and size of events during a year could vary from those estimated using established statistical techniques.

3.2. Underwriting strategy

Group's underwriting strategy aims to achieve diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks for several consecutive years, and as such is expected to reduce the variations in the outcome.

The underwriting strategy is set out in an annual business plan which includes classes of business to be insured which are offered by the subsidiaries of the Group. This strategy is applied to individual underwriters through detailed underwriting instructions that include limits set out for each underwriter by the class and size of business, territory and industry sector, in order to achieve an appropriate level of risk within the portfolio. General insurance contracts and health insurance contracts are annual in their majority and the underwriters have the right to refuse renewal or to change the terms and conditions of contract renewal.

3. Management of insurance and financial risks (continued)

3.3. Reinsurance strategy

The general insurance subsidiaries in Euroins Insurance Group (Health Insurance company Euroins Bulgaria, Euroins Romania Insurance and Reinsurance, Euroins Insurance Skopje) separately or through ZD Euroins Bulgaria, reinsure a portion of the risks they underwrite in order to control their exposures to losses and protect capital resources. The companies enter into proportional reinsurance contracts for the main business lines and non-proportional reinsurance contracts for large liabilities and catastrophic risks to reduce the net exposure. Further, underwriters are allowed to enter into facultative reinsurance in certain specified circumstances. All contracts for facultative reinsurance are subject to pre-approval and the total amount of facultative reinsurance is monitored by the management.

The Life insurance subsidiary of the Group uses two types of reinsurance contracts: excess-loss reinsurance, covering traditional saving and mixed type products and proportional reinsurance including quota and excess-loss covering the portfolio "Life Insurance of the borrower".

Outward reinsurance contains credit risk and reinsurance assets are accounted for by subtracting the allowance for impairment as a result of insolvencies and bad debts. The Companies enter into insurance contracts with non-affiliated reinsurers to control their exposure to potential losses resulting from a single event.

In the previous period the Group signed agreement between QBE International Insurance Limited (QBE), EIG AD, Euroins Bulgaria and Euroins Romania for inward reinsurance and subsequent transfer/merge, subject to certain conditions, of the insurance portfolios of QBE Bulgaria and QBE Romania. As of December 31, 2014 the reinsurance contracts, signed by Euroins Bulgaria and Euroins Romania are in force until expiring of initially assumed risks without making new cessions of premiums.

3.4. Terms and conditions of insurance contracts

Terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are disclosed below.

The Group operates with authorized insurances set out in list approved by the Financial Supervision Commission, which are grouped into 18 groups. Assessment of the main products of the Group and the insurance products related risks management methods are presented below:

3. Management of insurance and financial risks (continued)

3.4.1. General insurance – Motor hull / Casco

The Group underwrites Casco insurance of motor vehicles. Casco insurance indemnifies the policyholder against damage to their own vehicle from traffic event, natural disaster, malicious third party act and theft. The return on capital under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group.

The event giving rise to a claim for damage to a vehicle usually occurs suddenly (as crash, natural disaster, theft etc.) and the cause is easily determined. The Group is promptly notified and the claim is settled without delay. Casco business is therefore classified as „short-tailed□, meaning that expense deterioration and investment return will be of negligible importance. This contrasts with the „long-tailed□ classes where the ultimate claim cost takes longer to determine, making expenses and investment return considerably more material.

Risk management – *Casco*

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk (including the variable incidence of influence of ability of driver and other players in the traffic). The insurance companies within the Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the companies do not charge premiums appropriate for the different vehicles it insures. The risk on a policy will vary according to many factors such as – brand of the vehicle, region where used, driver's skills. For Casco insurance it is expected that there will be large numbers of insured objects with similar risk profiles. Calculating a premium corresponding to the risk for these policies will be subjective, and hence risky.

The insurance companies are exposed to the risk that the insured person may make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a Casco portfolio.

Insurance risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The companies therefore monitor and react to changes in the general economic and commercial environment in which they operate.

3. Management of insurance and financial risks (continued)

3.4. Terms and conditions of insurance contracts (continued)

3.4.2. General insurance contracts – General third party liability

The general insurance companies, part of Euroins Insurance Group underwrites General third party liability insurance. Under these contracts monetary compensation awards are paid for bodily injury suffered by employees or members of the public.

General third party liability is generally considered a long tail line of business, as it takes a relatively long period of time to finalize and settle claims for a given accident year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and specific policy provisions such as self-insured retentions. There are numerous components underlying the general liability product line.

This line is typically the largest source of uncertainty regarding claim provisions. Major contributors to this provision estimate uncertainty include the reporting lag (i.e. the length of time between the event triggering coverage and the actual reporting of the claim), the number of parties involved in the underlying tort action, whether the "event" triggering coverage is confined to only one time period or is spread over multiple time periods, the potential amounts involved (in the individual claim actions), whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written (i.e., coverage dispute potential), and the potential for mass claim actions. Claims that have longer reporting lags result in greater inherent risk. This is especially true for alleged claims with a latency feature, particularly where courts have ruled that coverage is spread over multiple policy years, hence involving multiple defendants (and their insurers and reinsurers) and multiple policies (thereby increasing the potential amounts involved and the underlying settlement complexity). Claims with long latencies also increase the potential recognition lag, i.e., the lag between writing a type of policy in a certain market and the recognition that such policies have potential mass tort and/or latent claim exposure.

Risk management - General third party liability

The key risks related to this product are underwriting risk, competitive risk and claims experience risk (including the variable incidence of risk claims). The companies are also exposed to the risk of dishonest actions by policyholders.

Insurance risk is managed primarily through reasonable pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The companies therefore monitor and react to changes in the overall economic and business environment in which they operate.

3. Management of insurance and financial risks (continued)

3.4. Terms and conditions of insurance contracts (continued)

3.4.3. General insurance contracts – Property

Insurance companies underwrite property insurance on a countrywide basis. Property insurance indemnifies, subject to any limits or excesses cover, the policyholder against loss or damage to their own material property and business interruption arising from this damage.

The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the respective company.

The event giving rise to a claim for damage of buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easy to determine. The claim will thus be reported promptly and can be settled without delay. Property business is therefore classified as „short-tailed□, meaning that expense deterioration and investment return will be of negligible importance. This contrasts to the „long-tailed□ classes where the ultimate claim cost takes longer to determine, making expenses and investment return considerably more important.

The key risks associated with this product are underwriting risk, competitive risk, and claims risk (including the variable incidence of natural disasters). The Company will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums attributable to different properties it insures. The risk under a policy will vary in accordance with many factors such as location, safety measures in place, age of property etc. For domestic property insurance it is expected that there will be large number of properties with similar risk profiles. For commercial business, however, this will not be the case.

Many commercial property proposals comprise of a unique combination of location, type of business, and safety measures in place. Calculating a premium which corresponds to the risk of these policies will be subjective, and hence risky. Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed when a loss is incurred. This, to some extent, explains why economic conditions correlate with the profitability of a property portfolio. Insurance risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. Each company therefore monitors and reacts to changes in general economic and commercial environment where it operates.

Concentration of insurance risks

Property is subject to a number of risks, including theft, fire, business interruption and weather. Claims inducing perils such as storms, floods, subsidence, fires, explosions, and rising crime levels will occur on a regional basis, meaning that each company has to manage its geographical risk dispersion very carefully. In the event of an earthquake, each company expects the property portfolio to see high claims for structural damage to properties, and high claims for business interruption while transport links are inoperable and business properties are closed for repair. Each company sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes.

3. Management of insurance and financial risks (continued)

3.4. Terms and conditions of insurance contracts (continued)

3.4.3. General insurance contracts – Property (continued)

Concentration of insurance risks (continued)

The current aggregate position is monitored at the time of underwriting the risk, and monthly reports are produced which show the key aggregations to which each company is exposed. Each insurance company of Euroins Insurance Group AD uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programs and the net exposure to which the Company is exposed. A number of stress and scenario tests are run using these models during the year.

The greatest likelihood of significant losses to each company arise from catastrophe events, such as flood damage, storm or earthquake damage. Each company manages these risks through obtaining reinsurance coverage.

With respect to concentration of risk the management of Euroins Insurance Group AD believes that appropriate efforts have been made in order to split, uniformly and territorially, insured properties. Risk assessment is performed periodically by Reinsurance manager and insured sums accumulation is observed by regions. Management does not consider that there is a significant insurance risk concentration in the portfolio of the insurance companies part of Euroins Insurance Group AD as of the end of the reporting period.

3.4.4. Health insurance contracts – Health insurance

The health insurance company insures compensation of preventive activities, activities for outpatient and hospital treatment of ill insured persons, rehabilitation and sanatorium treatment after hospital treatment, public services during hospital treatment, recovery of expenses for purchased medicines and outpatient dental treatment of assured persons.

Health insurance risk management

An analysis of main risks that are inherent in the terms of the health insurance contracts is performed annually. The main risk is illness and its compensation.

3.5. Financial risk

Financial instruments transactions may result in that the Group bears additional financial risks. They include market risk, credit risk, liquidity risk and reinsurance risk. Each of these financial risks is described below.

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.1. Market risk

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, prices of equity instruments or foreign currency exchange rates.

Key sources of estimation uncertainty

Fair value estimation

The Group applies IFRS 13 "Fair value measurement" for fair value measurement of its assets and liabilities where fair value measurement or fair value measurement disclosure is required. IFRS 13 is applied when other IFRS requires or allows fair value measurement or fair value measurement disclosure of both financial instruments and non-financial items. The standard is not applicable to transactions with share-based payments that are within the scope of IFRS 2 "Share-based payment", lease transactions that are within the scope of IAS 17 "Leases", as well as measurements that have some similarities to fair value but are not a fair value - net realizable value for the purposes of measuring inventories in accordance with IAS 2 "Inventories" or value in use for impairment assessment purposes, in accordance with IAS 36 "Impairment of assets".

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

The Group determines the fair value using the following hierarchy which reflects the significance of factors used to determine the fair value:

- Level 1: quoted prices (unadjusted) in active markets with similar assets or liabilities;
- Level 2: input data different from quoted prices included in Level 1 which can be found for the asset or liability, either directly (e.g. as quotations) or indirectly (e.g. derived from quotations);
- Level 3: input data for asset and liability which is not based on available market information (unavailable input data).

The following table shows an analysis of financial instruments accounted for at fair value by level of the fair value hierarchy:

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.1. Market risk (continued)

As of December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Deposits at banks	8,014	4,742	-	12,756
Government securities at fair value through profit and loss	515	203	-	718
Government securities available for sale	2,296	-	-	2,296
Corporate bonds at fair value through profit and loss	2,957	14,366	-	17,323
Government securities held to maturity	-	-	2,836	2,836
Shares in mutual funds	330	10,890	-	11,220
Other equity investments	8,551	32,867	4,389	45,807
Receivables on direct insurance	-	-	63,378	63,378
Other receivables	-	-	4,082	4,082
Reinsurance receivables	-	-	7,283	7,283
Recourse receivables	-	-	28,606	28,606
Other receivables	-	-	18,778	18,778
Total	22,663	63,068	129,352	215,083

As of December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Deposits at banks	11,262	5,323	1,962	18,547
Government securities at fair value through profit and loss	2,643	2,438	-	5,081
Government securities available for sale	7,631	-	-	7,631
Corporate bonds at fair value through profit and loss	1,365	8,515	-	9,880
Corporate bonds available for sale	-	13,654	-	13,654
Shares in mutual funds	1,485	10,788	-	12,273
Other equity investments	3,018	35,575	8,260	46,853
Other receivables	-	-	64,553	64,553
Receivables on direct insurance	-	-	3,340	3,340
Reinsurance receivables	-	-	14,428	14,428
Recourse receivables	-	-	32,536	32,536
Other receivables	-	-	10,608	10,608
Total	27,404	76,293	135,687	239,384

The valuation techniques used in the fair value measurement of investment properties owned by the Group correspond to Level 2 of the hierarchy of valuation techniques established by IFRS 13. The fair value of the properties is estimated on the basis of external and internal appraisals, assigning weights to outcomes of the used valuation techniques based on the presumed higher and best use of the assets in accordance with the guidelines for fair valuation set in IFRS 13. In accordance the estimation methods with the most significant weight are the method of comparative sales and the income valuation approach, see also note 2.16.

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.1. Market risk (continued)

Asset/liability matching

Each company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimize risk-adjusted investment income, ensuring that assets and liabilities are managed on cash flow and duration basis.

Each company manages cash flow and investments by determining approximately the amounts and time of proceeds from the insured/health assured persons and payments of insurance/health assurance liabilities. The process is subjective and may influence the respective company's ability to achieve the assets and liability management.

Interest rate risk

The Group's exposure to market risk for changes in interest rate is concentrated in its investment portfolio, and to a lesser extent, its debt obligations. Changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance reserves and debt obligations. The Group monitors this exposure through periodic reviews of its asset and liability positions. Estimates of cash flows, as well as impact of interest rate fluctuations relating to investment portfolio and insurance reserves, are modelled and reviewed semi-annually. Overall objective of these strategies is to limit net changes in assets and liabilities value arising from interest rate fluctuations. Although it is more difficult to evaluate interest rate sensitivity of insurance liabilities than that of related assets to extent, in which such sensitivity is assessed, fluctuations in interest rate will lead to changes in value of assets, which will compensate changes in liabilities values, related to general products. The Group is also exposed to risk of future changes in cash flows from fixed income securities arising from changes in market interest rates.

As of December 31, 2014	Floating interest	Fixed interest	Not bearing interest	Total
Cash and cash equivalents	42,354	15,137	2,376	59,867
Deposits in financial institutions	-	12,756	-	12,756
Government bonds at fair value through profit or loss	-	718	-	718
Government securities available for sale	18	2,278	-	2,296
Corporate bonds at fair value through profit or loss	335	16,905	83	17,323
Government securities held to maturity	-	2,836	-	2,836
Other financial receivables	-		4,082	4,082
Receivables from direct insurance	-		63,378	63,378
Reinsurance receivables	-		7,283	7,283
Recourse receivables	-		28,606	28,606
Other receivables	-		17,908	17,908
Total	42,707	50,630	123,716	217,053

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.1. Market risk (continued)

Interest rate risk (continued)

As of December 31, 2013	Floating interest	Fixed interest	Not bearing interest	Total
Cash and cash equivalents	23,751	6,250	2,742	32,743
Deposits in financial institutions	-	18,008	539	18,547
Government bonds at fair value through profit or loss	-	3,173	-	3,173
Government securities available for sale	-	7,631	-	7,631
Corporate bonds at fair value through profit or loss	-	23,534	-	23,534
Corporate bonds available for sale	-	-	-	-
Government securities held to maturity		1,908		1,908
Shares in mutual funds	-	-	12,273	12,273
Other financial receivables	-	3,298	42	3,340
Receivables from direct insurance	-	-	64,553	64,553
Reinsurance receivables	-	-	14,428	14,428
Recourse receivables	-	-	32,536	32,536
Other receivables	-	-	10,608	10,608
Total	23,751	63,802	137,721	225,274

Currency risk

The Group is exposed to currency risk through its payments in foreign currency and its assets and liabilities denominated in foreign currency. Gains and losses reported in the statement of comprehensive income arise as a result of the Group's exposures in foreign currency. These exposures comprise Group's cash assets which are not denominated in currency used in the financial statements of the local companies. The Group has no significant investments in countries other than the countries in which it operates - Bulgaria, Romania, Macedonia and Turkey. Where local currency is exposed to significant currency risk, the risk is managed through investments in assets denominated in Euro.

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.1. Market risk (continued)

Interest rate risk (continued)

As of December 31, 2014	BGN	EUR	MKD	RON	Other	Total
Cash and cash equivalents	31,403	20,226	305	7,185	748	59,867
Deposits in financial institutions	5,175	3,466	4,115	-	-	12,756
Government securities at fair value through profit or loss	718	-	-	-	-	718
Government securities available for sale	127	2,169	-	-	-	2,296
Corporate bonds at fair value through profit or loss	13,701	3,622	-	-	-	17,323
Government securities held to maturity	-	-	2,836	-	-	2,836
Shares in mutual funds	9,926	160	1,134	-	-	11,220
Other equity investments	44,788	-	77	942	-	45,807
Other financial receivables	4,082	-	-	-	-	4,082
Receivables from direct insurance	31,312	-	4,144	27,922	-	63,378
Reinsurance receivables	3,735	-	3	3,545	-	7,283
Recourse receivables	5,935	-	449	22,222	-	28,606
Other receivables	5,861	-	3,002	8,993	52	17,908
Total	**156,763**	**29,643**	**16,065**	**70,809**	**800**	**274,080**
Payables on reinsurance agreements and other payables	16,387	-	1,540	6,450	159	24,536
Loans received	6,054	44,963	796	2,495	-	54,308
Total	**22,441**	**44,963**	**2,336**	**8,945**	**159**	**78,844**

As of December 31, 2013	BGN	EUR	MKD	RON	Other	Total
Cash and cash equivalents	17,542	6,682	203	7,705	611	32,743
Deposits in financial institutions	8,733	6,148	3,666	-	-	18,547
Government securities at fair value through profit or loss	2,714	459	-	-	-	3,173
Government securities available for sale	1,752	5,879	-	-	-	7,631
Corporate bonds at fair value through profit or loss	23,134	400	-	-	-	23,534
Government securities held to maturity			1,908	-	-	1,908
Shares in mutual funds	11,049	152	1,072	-	-	12,273
Other equity investments	45,819	-	89	945	-	46,853
Other financial receivables	2,668	615	57	-	-	3,340
Receivables from direct insurance	33,115	-	3,555	27,883	-	64,553
Reinsurance receivables	5,667	-	-	8,761	-	14,428
Recourse receivables	6,844	-	844	24,848	-	32,536
Other receivables	3,299	-	2,034	5,265	10	10,608
Total	**162,336**	**20,335**	**13,428**	**75,407**	**621**	**230,973**
Payables on reinsurance agreements and other payables	14,902	12,009	473	24,236	155	51,775
Loans received	5	2,714	712	-	-	3,431
Total	**14,907**	**14,723**	**1,185**	**24,236**	**155**	**55,206**

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.2. Credit risk

The Group holds assets in trading portfolio in order to manage the credit risk.
Credit risk is the risk that one of the party on the financial instrument will cause a financial loss for the other party because it will fail to perform specific obligation. The Group has introduced policies and procedures for reducing the Group exposure to credit risk.
The Group investment policy requires strict application of the rules for diversification regarding the limits of exposure for each type of financial instrument and each contracting party as determined by the insurance legislation of each country. The Group does not perform derivative transactions. The Group invests its insurance reserves and own funds mainly in bank deposits, government securities of countries members of the European Union, corporate bonds of financial or other institutions with high credit rating. To implement its investment policy the Group uses the professional services of investment intermediaries licensed to operate in the country and abroad.
Reinsurance contracts are signed with counterparties with high credit rating. Management reviews the reinsurance policy on regular basis.

Type of investment and rating	**As of 31.12.2014**	**As of 31.12. 2013**
Government securities		
Rating BB-	2,836	-
Rating BBB	845	5,082
Rating BAA3		5,417
Rating AA	848	790
Rating A	1,321	1,424
Corporate bonds		
Rating A	-	-
Rating BBB+	997	-
No rating	16,346	23,534
Mortgage bonds		
Rating BB+	-	-
Shares		
Rating aA3	-	4,301
Rating bgBaa3	22	-
No rating	57,005	54,825
Total	**80,200**	**95,373**

During the year ended December 31, 2014 there is still uncertainty regarding the credit risk of government debt in countries within the European Union. The Group carefully manages this risk and as a result the quality of the government debt portfolio is good.

3.5.3 Liquidity risk

The Group should meet its day-to-day needs of cash, especially for payments of claims on insurance policies. Consequently, a risk exists that the Group would not be able to meet its obligations when they come due. The Group manages this risk by imposing minimum restrictions over assets approaching maturity which are to be available to settle these liabilities, as well as by setting minimum level of borrowing funds which may be used to cover claims and maturities.

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5.3. Liquidity risk (continued)

Maturity structure of financial assets

The maturity structure of the financial assets of the Group presented below is based on residual term to maturity:

As of December 31,2014	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5-10 years	No maturity	Total
Cash and cash equivalents	57,623	1,075	37	70	-	-	-	1,062	59,867
Deposits in financial institutions	1,337	477	1,806	5,843	2,448	-	293	552	12,756
Government bonds held to maturity	-	-	1,600	318	918	-	-	-	2,836
Government bonds available for sale	-	-	-	-	109	1,339	848	-	2,296
Corporate bonds at fair value through profit or loss	-	-	20	20	13,340	1,011	-	2,932	17,323
Government bonds for trading	-	-	-	-	718	-	-	-	718
Shares in mutual funds	-	-	-	-	-	-	-	11,220	11,220
Other equity investments	-	-	-	-	1,195	-	-	44,612	45,807
Other financial receivables	-	-	3,902	180	-	-	-	-	4,082
Receivables from direct insurance	13,588	21,532	17,320	10,938	-	-	-	-	63,378
Reinsurance receivables	-	4,047	3,236	-	-	-	-	-	7,283
Recourse receivables	2,002	5,751	6,801	14,052	--	-	-	-	28,606
Other receivables	7,787	10,121	-		-	-	-	-	17,908
Total	**82,337**	**43,003**	**34,722**	**31,421**	**18,728**	**2,350**	**1,141**	**60,378**	**274,080**

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5.3. Liquidity risk (continued)

Maturity structure of financial assets (continued)

As of December 31, 2013	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5-10 years	No maturity	Total
Cash and cash equivalents	25,857	5,999	142	68	-	-	-	677	32,743
Deposits in financial institutions	795	5,086	4,708	6,930	-	-	489	539	18,547
Government bonds at fair value through profit or loss	-	-	-	-	2,924	250	-	-	3,173
Government bonds available for sale	-	83	800	-	687	-	6,061	-	7,631
Corporate bonds at fair value through profit or loss	-	-	399	-	15,590	7,544	-	-	23,534
Government bonds held to maturity	-	-	795	-	1,113	-	-	-	1,908
Shares in mutual funds	-	-	-	-	-	-	-	12,273	12,273
Other equity investments	-	-	-	-	-	-	-	46,853	46,853
Other financial receivables	42	2,009	-	1,219	-	70	-	-	3,340
Receivables from direct insurance	18,887	12,818	12,010	20,838	-	-	-	-	64,553
Reinsurance receivables	-	-	5,667	8,761	-	-	-	-	14,428
Recourse receivables	2,002	4,842	844	24,848	-	-	-	-	32,536
Other receivables	833	1,942	2,391	5,442	-	-	-	-	10,608
Total	**48,416**	**32,779**	**27,756**	**68,106**	**20,314**	**7,864**	**6,550**	**60,342**	**272,127**

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.5.3. Liquidity risk (continued)

Maturity structure of the liabilities

An analysis of financial liabilities and technical insurance reserves based on residual term to maturity is presented below:

As of December 31, 2014	Up to 1 year	1 - 3 years	3 – 5 years	5 - 10 years	Over 10 years	Total
Unearned premium reserve	94,615	-	-	-	-	94,615
Unexpired risk reserve	897	-	-	-	-	897
Reserve for reported but not settled claims	124,978	-	-	-	-	124,978
Reserve for incurred but not reported claims	42,847	14,448	7,421	3,874	-	68,590
Other technical reserves	1,414	-	-	-	2,661	4,075
Liabilities from direct insurance	1,414	-	-	-	608	2,022
Liabilities for reinsurance contracts	8,563	-	-	-	48	8,611
Lease liabilities	151	137	390	-	-	678
Loan payables	9,520		5,672	39,116		54,308
Other liabilities	13,065	-	160	-	-	13,225
Deferred tax liabilities	-	-	52	-	-	52
Total	297,464	14,585	13,695	42,990	3,317	372,051

As of December 31, 2013	До 1 година	1 – 3 години	3 – 5 години	5 - 10 години	Над 10 години	Общо
Unearned premium reserve	93,697	-	-	-	-	93,697
Unexpired risk reserve	4,218	-	-	121	-	4,339
Reserve for reported but not settled claims	98,230	-	-	-	-	98,230
Reserve for incurred but not reported claims	26,024	11,201	6,640	3,540	75	47,480
Other technical reserves	1,682	-	-	-	2,411	4,093
Liabilities from direct insurance	3,058	-	-	-	-	3,058
Liabilities for reinsurance contracts	19,583	-	-	-	-	19,583
Lease liabilities	307	313	45	-	-	665
Loan payables	3,431	-	-	-	-	3,431
Other liabilities	28,470	-	-	-	-	28,470
Deferred tax liabilities	-	-	30	-	-	30
Total	278,700	11,514	6,715	3,661	2,486	303,076

3. Management of insurance and financial risks (continued)

3.5. Financial risk (continued)

3.5.4. Reinsurance risk

The companies of the Group cede insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, group risks or defined lines of business, on co-insurance, on yearly renewable term. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on Company's assessment of specific risk, which under certain circumstances reaches limits based on characteristics of coverage. In terms of reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in case claim is paid.
Each company, however, remains liable to its policyholders in respect to ceded insurance in case reinsurer fails to meet the obligations he assumes. In non-life business, the predominant use of reinsurance is intended to manage exposure to weather-related events, natural catastrophes, events involving multiple casualties, catastrophic fires and general and motor third party liability. When selecting a reinsurer each company of the Group considers its relative reliability. Assessment of reinsurer's reliability is based on public rating information and internal researches.

3.6. Claims development

Claims development table, shown below, is disclosed in order to allow for the unpaid claims estimates included in the consolidated financial statements to be compared with the development of claims reserves in previous years. In effect, the table highlights the subsidiaries' ability to provide an estimate of the total value of claims. The estimate is increased or decreased as losses are paid and more information becomes available about the frequency and the amount of unpaid claims. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimate of incurred claims.

The information in the table provides a historical review on adequacy of estimates of unpaid claims; the users of these financial statements are alert for extrapolating redundancies or deficiencies from the past on current unpaid claim balances. Due to the inherent uncertainty in the process of determining reserves, it cannot be confirmed that ultimately such balances will be adequate.

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Management of insurance and financial risks (continued)

3.6. Claims development (continued)

Accident year	Before 2010	2010	2011	2012	2013	2014	Total
Estimate of cumulative claims at the end of accident year	217,330	120,983	123,108	175,900	179,133	141,158	141,158
1 year later	191,617	130,007	128,083	187,500	224,212	-	224,212
2 year later	212,288	144,230	149,763	218,460	-	-	218,460
3 year later	230,056	158,387	163,305	-	-	-	163,305
4 year later	241,501	174,244	-	-	-	-	174,244
5 year later	253,064	-	-	-	-	-	253,064
Current measurement	**253,064**	**174,244**	**163,305**	**218,460**	**224,212**	**141,158**	**1,174,443**
Cumulative payments	(244,625)	(167,007)	(151,786)	(188,880)	(175,676)	(52,901)	(980,875)
Estimate of cumulative claims	(8,439)	(7,237)	(11,519)	(29,580)	(48,536)	(88,257)	(193,568)
*** Liability value recognized in the statement of financial position**	-	-	-	-	-	-	(193,568)

* The liability in the consolidated statement of financial position includes reserve for incurred but not reported claims and reserve for reported but not settled claims. Intragroup eliminations are not presented in the table for claims development.

The table presents only data on general insurance.

3.7. Test for adequacy of the reserves

Liability adequacy tests are performed to determine if the insurance/health insurance provisions, less deferred acquisition cost and any related intangible assets, such as those acquired in a business combination or portfolio transfer are adequate. If a shortfall is identified the related deferred acquisition cost and related intangible assets are impaired and, if necessary, an additional unexpired risk reserve provision is established. The deficiency is recognised in profit or loss for the year.

A deficiency exists when unearned premium at the balance sheet date and expected future premium are not sufficient to cover future estimated losses (incl. claims handling costs), commissions and other acquisition costs, dividends to policyholders and policy maintenance costs.

As of December 31, 2014 the subsidiaries of the Group carried out a liability adequacy test, in accordance with the Group policies and under the local requirements. No deficiency of the insurance liabilities was identified, except for the health insurance company which had provided reserve for unexpired risks.

3. Management of insurance and financial risks (continued)

3.9. Capital adequacy

The regulators of the various entities within the Group set the rules for and monitor the level of solvency margin and the amount of own funds. According to the regulators, the own funds of the insurance undertaking should be at least equal to the required level of solvency margin. The policy of the entities within the Group is to maintain stable level of capital adequacy and the balance between high return and risk.

During the year ended December 31, 2014 the entities within the Group observe all requirements related to the mandatory capital set by the respective regulators.

3.10. Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The definition of the operational risk accepted at Group level is the following: the operational risk is the risk of recording loses or failure in obtaining of the estimated profits, which is determined by the inadequate or failed internal processes, people and systems or by external factors (economic conditions, changes in the banking environment, technical progress, etc.). Legal risk is a component of the operational risk, which emerges as a consequence of the bad application or incompliance with the legal or contractual requirements, which tend to produce a negative impact on the operations. The definition does not include the strategic and reputational risk

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

All amounts are in thousand Bulgarian levs, unless otherwise states

4. Gross written premiums

General insurance	Year ended 31.12.2014	Year ended 31.12.2013
Motor CASCO insurance	27,006	29,249
Motor TPL and Green card	235,032	245,669
Property insurance	17,864	20,303
Agricultural Insurance	1,978	2,802
Accidents and health	13,741	10,159
Cargo	6,082	5,632
Liabilities	4,985	4,501
Other	4,431	2,323
Gross written premiums - General insurance	**311,119**	**320,638**
Change in the gross provision for unearned premium reserve and Unexpired risks reserve	1,698	511
Gross earned premiums	**312,817**	**321,149**
less: written premiums ceded to reinsurers	(13,657)	(21,874)
Change in the provision for unearned premiums reinsurer's share	4,676	33,991
Earned premiums ceded	**8,981**	**12,117**
Net earned premiums	**303,836**	**333,266**

All amounts are in thousand Bulgarian levs, unless otherwise states

4. Gross written premiums (continued)

The technical result of the Group by business lines for the year ended 31 December 2014 is shown in the table below:

	Gross premiums written	Gross premiums earned	Disbursed claims, gross*	Incurred claims, gross*	Acquisition and administrative expenses*	Other technical income (expenses)*	Reinsurance result	Technical profit (loss)
Motor CASCO insurance	27,006	27,994	(20,830)	(22,640)	(9,587)	(3,194)	(2,911)	(10,338)
Motor TPL and Green card	235,032	234,984	(173,497)	(218,448)	(77,689)	(16,656)	76,644	(1,165)
Property insurance	17,864	19,916	(6,370)	(8,058)	(7,598)	(1,169)	(374)	2,717
Agricultural Insurance	1,978	2,145	(1,977)	(2,271)	(848)	(310)	(1,029)	(2,313)
Accidents and health	13,741	12,560	(6,463)	(6,342)	(3,312)	(384)	(160)	2,362
Cargo	6,082	6,094	(1,186)	(1,453)	(2,153)	(917)	(678)	893
Liabilities	4,985	4,841	(1,085)	(496)	(1,536)	(341)	(465)	2,003
Other	4,431	4,283	(863)	(920)	(4,970)	469	(282)	(1,420)
Total – General Insurance	**311,119**	**312,817**	**(212,271)**	**(260,628)**	**(107,693)**	**(22,502)**	**70,745**	**(7,261)**

*Paid claims, gross do not include regress income.
*Claims incurred, gross do not include received recoveries from reinsurers and change in reinsurer's share in the future claims reserve.
*Acquisition and administrative expenses do not include administrative expenses of Inter Sigorta – Turkey and Euroins Insurance Group AD.
*Other technical income (expenses) include distributed investment income of insurance reserves and other net insurance expenses.

All amounts are in thousand Bulgarian levs, unless otherwise states

5. Fees and commission income

	Годината, приключваща на 31.12.2014	**Годината, приключваща на 31.12.2013**
Commissions received from reinsurers	2,537	2,469
Other income from reinsurers	278	429
Total fees and commission income	**2,815**	**2,898**

6. Financial income

	Годината, приключваща на 31.12.2014	**Годината, приключваща на 31.12.2012**
Interest income from investments in securities and deposits	2,222	2,403
Dividend income from investments in equities	65	108
Rental income from investments in properties	359	333
Income from revaluation of assets at fair value	8,914	3,064
Income from sale of financial assets	3,176	315
Other financial income	1,186	2,727
Total financial income	**15,922**	**8,950**

7. Other operating income

Other operating income includes income from MTPL Insurance stickers and fees for intermediary services on Green Card as well and other.

8. Claims incurred, net of reinsurance

	Year ended 31.12.2014	**Year ended 31.12.2013**
Current year claims paid, claims handling and prevention expenses	(216,498)	(217,094)
Change in the outstanding claims provision	(48,243)	(6,133)
Change in other technical reserves	(114)	(1,332)
Received recoveries from reinsurers	14,024	11,159
Change in the reinsurers' share in the outstanding claims reserve	62,887	(6,660)
Resource income	4,227	12,034
Total incurred claims, net of reinsurance	**(183 717)**	**(208,026)**

Claims handling expenses include part of administrative expenses that are directly related to the activity.

All amounts are in thousand Bulgarian levs, unless otherwise states

9. Acquisition expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Commissions and result participation	(66,990)	(66,204)
Change in reserve for bonuses and rebates and management insurance	254	(273)
Bonuses expenses	(270)	-
Advertising and marketing expenses	(1,132)	(1,254)
Other acquisition expenses (indirect)	(17,105)	(18,898)
Total acquisition expenses	**(85,243)**	**(86,629)**

Other acquisition expenses include part of administrative expenses that are directly related to sales department operations of the Group.

10. Administrative expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Materials expenses	(555)	(589)
Expenses for hired services	(8,339)	(7,356)
Depreciation and amortization expenses	(1,513)	(1,141)
Personnel expenses	(9,028)	(7,805)
Other	(3,015)	(2,212)
Total administrative expenses	**(22,450)**	**(19,103)**

At the end of the reporting period the average number of employees in the Group is 1,015 (2013:1,112), by companies as follows:

- 10 (2013: 10) in Euroins Insurance Group AD,
- 390 (2013: 434) in Euroins Insurance AD,
- 428 (2013: 494) in Euroins Romania Insurance-Reinsurance AD,
- 140 (2013: 133) in Euroins Osiguruvanje Skopje AD Macedonia,
- 25 (2013: 33)in Euroins Health Insurance EAD,
- 20 (2013: 6) in Euroins Life Insurance EAD,
- 2 (2013: 2) in Inter Sigorta AD

11. Financial expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Interest expense	(1,577)	(226)
Loss on revaluation of financial assets	(8,966)	(2,062)
Loss on sale of financial assets	(1,765)	(1,046)
Expenses for investment management	(874)	(148)
Other finance cost	(3,393)	(2,768)
Total finance expenses	**(16,575)**	**(6,250)**

All amounts are in thousand Bulgarian levs, unless otherwise states

12.. Other operating expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Expenses for Guarantee fund	(8,961)	(8,851)
Other statutory expenses and license fees	(479)	(458)
Bad debt provision	(3,550)	(6,140)
Receivables written off on insurance policies	(8,883)	(12, 993)
Other	(3,262)	(3,044)
Total other operating expenses	(25,135)	(31,486)

13.. Other net income

	Year ended 31.12.2014	Year ended 31.12.2013
Net income from sale of assets	46	122
Income from acquisition of Euroins Life Insurance EAD	-	5,025
Other non-operating income	158	141
Other non-operating expenses	(176)	(159)
Total other net income	28	5,129

14.. Taxation

Tax expenses are presented as follows:	Year ended 31.12.2014	Year ended 31.12.2013
Income tax expense for the current year	(51)	(48)
Deferred tax	(262)	(2,201)
Total taxation	(313)	(2,249)

Current tax expenses represent the amount of tax payable according to the local legislation at tax rates in force at the end of 2014 and 2013.

All amounts are in thousand Bulgarian levs, unless otherwise states

14. Taxation (continued)

Balances of deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net assets/liabilities	
	As of 31.12.2014	As of 31.12.2013	As of 31.12.2014	As of 31.12.2013	As of 31.12.2014	As of 31.12.2013
Property, plant and equipment	-	24	(52)	(30)	(52)	(6)
Payables to personnel for unused paid leaves and retirement compensations	32	28	-	-	32	28
Accrued personal income	15	19	-	-	15	19
Deferred tax assets	331	575	-	-	331	575
Net deferred tax assets / liabilities	**378**	**646**	**(52)**	**(30)**	**326**	**616**

The movement of deferred tax assets and liabilities is shown below:

	Balance as of December 31, 2014	Changes in profit and loss	Changes in share capital, reported in Other comprehensive income	Changes in share capital, reported in Натрупана загуба	Balance as of December 31, 2014
Property, plant and equipment	(30)		(46)	-	(76)
Payables to personnel for unused paid leaves and retirement compensations	28		4	-	32
Accrued personal income	19		(4)	-	15
Deferred tax assets	575		(216)	-	359
Net deferred tax assets / liabilities	**592**		**(262)**	**-**	**330**

All amounts are in thousand Bulgarian levs, unless otherwise states

15. Intangible assets

	Software	Other	Total
Cost			
Balance as of January 1, 2013	2,489	40	2,529
Additions	393	3	396
Additions from business combination	954	-	954
Disposals	(545)		(545)
Exchange differences	(19)	-	(19)
Balance as of December 31, 2013	3,272	43	3,315
Amortization and impairment losses			
Balance as of January 1, 2013	(1,836)	(40)	(1,876)
Charged for the year	(187)	-	(187)
Disposal amortization	20	-	20
Exchange differences	16	-	16
Balance as of December 31, 2013	(1,987)	(40)	(2,027)
Carrying amount			
Balance as of January 1, 2013	653	-	653
Balance as of December 31, 2013	1,285	3	1,288
Cost			
Balance as of January 1, 2014	3,272	43	3,315
Additions	571	-	571
Additions from business combination	-	-	-
Disposals	(58)	(3)	(61)
Exchange differences	(6)	-	(6)
Balance as of December 31, 2014	3,779	40	3,819
Amortization and impairment losses			
Balance as of January 1, 2014	(1,987)	(40)	(2,027)
Charged for the year	(526)	-	(526)
Disposal amortization	58	-	58
Exchange differences	102	-	102
Balance as of December 31, 2014	(2,353)	(40)	(2,393)
Carrying amount			
Balance as of January 1, 2014	1,285	3	1,288
Balance as of December 31, 2014	1,426	-	1,426

All amounts are in thousand Bulgarian levs, unless otherwise states

16. Property, plant and equipment

	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Total
Cost					
As of January 1, 2013	1,486	3,612	7,513	1,331	13,942
Additions	-	-	-	-	-
Transfer to investment property	-	-	-	-	-
Disposals	(50)	(27)	(783)	-	(862)
Revaluation	-	-	-	-	-
Additions from business combination	19	402	465	326	1,212
Exchange differences	(8)	(6)	(3)	(2)	(19)
Balance as of December 31, 2013	1,447	3,981	7,192	1,653	14,273
Depreciation					
As of January 1, 2013	(171)	(3,268)	(5,226)	(1,115)	(9,780)
Charged for the year	(102)	(165)	(584)	(102)	(953)
Depreciation of buildings transferred to investment properties	32	-	-	-	32
Disposal depreciation	-	22	372	-	394
Transfer from intangible assets	-	-	-	-	-
Exchange differences	2	7	13	1	23
Balance as of December 31, 2013	(239)	(3,404)	(5,425)	(1,214)	(10,282)
Carrying amount					
Balance as of January 1, 2013	**1,315**	**344**	**2,287**	**216**	**4,162**
Balance as of December 31, 2013	**1,208**	**577**	**1,767**	**439**	**3,991**
Cost					
As of January 1, 2014	1,447	3,981	7,192	1,653	14,273
Additions	8	220	621	29	878
Additions from business combination					
Disposals	(94)	(587)	(734)	(11)	(1,426)
Revaluation	40	-	-	-	40
Transfer from intangible assets	-	-	-	-	-
Exchange differences	(4)	(3)	(5)	(1)	(13)
Balance as of December 31, 2014	1,397	3,611	7,074	1,670	13,752
Depreciation					
As of January 1, 2014	(239)	(3,404)	(5,425)	(1,214)	(10,282)
Charged for the year	(76)	(244)	(569)	(97)	(987)
Depreciation of buildings transferred to investment properties	-	-	-	-	-
Disposal depreciation	63	551	399	6	1,019
Transfer from intangible assets	-	-	-	-	-
Exchange differences	1	2	8	1	12
Balance as of December 31, 2014	(251)	(3,095)	(5,587)	(1,304)	(10,238)
Carrying amount					
Balance as of January 1, 2014	**1,208**	**577**	**1,767**	**439**	**3,991**
Balance as of December 31, 2014	**1,146**	**516**	**1,488**	**366**	**3,515**

All amounts are in thousand Bulgarian levs, unless otherwise states

17. Investment properties

	2014	2013
Balance as of January 1, 2014	14,666	16,517
Additions	-	-
Sold/written-off	-	(2,033)
Transfer to Land and buildings	-	32
Revaluation	1,040	209
Exchange differences	(82)	(57)
Balance as of December 31, 2014	**15,624**	**14,666**

18. Financial assets

Year ended December 31, 2014	**Held to maturity**	**Available for sale**	**For trading**	**Loans and receivables**	**Total**
Registered for trading on stock exchange	-	-	40,399	-	40,399
Not registered for trading on stock exchange	-	942	4,466	-	5,408
Equity securities	-	**942**	**44,865**	-	**45,807**
Government bonds	2,836	2,296	718	-	5,850
Corporate bonds			17,323	-	17,323
Debt securities	**2,836**	**2,296**	**18,041**	-	**23,173**
Open investment funds	-	-	11,220	-	11,220
Private (limited) investment funds	-	-	-	-	-
Investment funds	-	-	**11,220**	-	**11,220**
Equity securities – quoted	-	-	-	-	-
Deposits in banks	-	-	-	12,204	12,204
Restricted deposits	-	-	-	552	552
Other receivables	-	-	-	4,082	4,082
Deposits and other receivables	-	-	-	**16,838**	**16,838**
Total financial assets	**2,836**	**3,238**	**74,126**	**16,838**	**97,038**

Securities with fair value of BGN 5,065 thousand are used for securing of REPO deals as of December 31, 2014.

As of December 31, 2014 securities with fair value of BGN 897 thousand are restricted by contract for custody services.

All amounts are in thousand Bulgarian levs, unless otherwise states

18. Financial assets, continued

Year ended December 31, 2013	Held to maturity	Available for sale	For trading	Loans and receivables	Total
Registered for trading on stock exchange	-	-	45,854	-	45,854
Not registered for trading on stock exchange	-	999	-	-	999
Equity securities	-	999	45,854	-	46,853
Government bonds	1,908	7,631	3,173	-	12,712
Corporate bonds	-	-	23,534	-	23,534
Debt securities	1,908	7,631	26,707	-	36,246
Open investment funds	-	-	12,273	-	12,273
Private (limited) investment funds	-	-	-	-	-
Investment funds	-	-	12,273	-	12,273
Capital securities –quoted	-	-	-	-	-
Equity securities – quoted	-	-	-	18,008	18,008
Restricted deposits	-	-	-	539	539
Other receivables	-	-	-	3,340	3,340
Deposits and other receivables	-	-	-	21,887	21,887
Total financial assets	1,908	8,630	84,834	21,887	117,259

Restricted deposits comprise the deposit of Euroins Macedonia in the National Insurance Bureau under the provisions of Macedonian Law on Insurance Supervision. Members' deposits are kept in separate bank account. The Bureau is not allowed to invest the assets and is obliged to return the deposits if the members cease providing Motor vehicle insurances.

19. Receivables and other assets

	As of 31.12.2014	As of 31.12.2013
Receivables from direct insurance	63,378	64,553
Receivables from reinsurers or cedants	7,283	14,428
Recourse receivables	28,606	32,536
Other receivables	17,908	10,608
Current assets	1,163	416
Total receivables and other assets	118,338	122,541

Other receivables include receivables on court proceedings, receivables from clients, not insured individuals and receivables from Guarantee fund.

All amounts are in thousand Bulgarian levs, unless otherwise states

20. Cash and cash equivalents

	As of 31.12.2014	As of 31.12.2013
Cash on hand	1,811	1,875
Current accounts	14,653	2,589
Deposits up to 90 days	43,403	28,279
Total cash and cash equivalents	**59,867**	**32,743**

21. Insurance reserves

Insurance reserves, including health and life insurance reserves:

	As of December 31, 2014			As of December 31, 2013		
	Gross amount	Reinsurance	Gross amount	Reinsurance	Gross amount	Reinsurance
Unearned premium reserve	95,297	(52,089)	43,208	93,697	(46,814)	46,883
Unexpired risk reserve	897	-	897	4,339	-	4,339
Claims reserves, incl.:	193,568	(93,632)	99,936	145,710	(30,927)	114,783
Reserves for incurred, but not reported claims	68,590	*(33,397)*	*35,193*	*47,480*	*(14,140)*	*33,340*
Reserves for reported, but not settled claims	124,978	*(60,235)*	*64,743*	*98,230*	*(16,787)*	*81,443*
Other technical reserves, incl.:	4,075	-	4,075	4,093	-	4,093
Mathematical reserves	*2,487*	-	*2,487*	*2,239*	-	*2,239*
Total insurance reserves	**293,837**	**(145,721)**	**148,116**	**247,839**	**(77,741)**	**170,098**

Insurance reserves excluding health and life insurance reserves:

	As of December 31, 2014			As of December 31, 2013		
	Gross amount	Reinsurance	Gross amount	Reinsurance	Gross amount	Reinsurance
Unearned premium reserve	92,646	(51,267)	41,379	91,169	(46,814)	44,355
Unexpired risk reserve	747	-	747	4,028	-	4,028
Claims reserves, incl.:	192,690	(93,480)	99,210	144,780	(30,927)	113,853
Reserves for incurred, but not reported claims	*68,064*	*(33,290)*	*34,774*	*47,223*	*(14,140)*	*33,083*
Reserves for reported, but not settled claims	*124,626*	*(60,190)*	*64,436*	*97,557*	*(16,787)*	*80,770*
Other technical reserves	1,414	-	1,414	1,682	-	1,682
Total insurance reserves	**287,497**	**(144,747)**	**142,750**	**241,659**	**(77,741)**	**163,918**

21 Insurance reserves (continued)

Assumptions for determination of the insurance/ health insurance reserves

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are reviewed to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and in cases where there is insufficient information to make a reliable estimate of claims development, more prudent assumptions are made.

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of advanced claims. Each advanced claim is assessed on a separate, case by case basis due to circumstances, information available from claims settlement specialists and historical evidence for the size of similar claims. Claims estimates are reviewed and updated regularly when new information is available. Reserves are based on currently available information.

Final amount of liabilities may, however, differ as a result of subsequent events and catastrophic events. Impact of many circumstances, which determine final expense of claims settlement, is difficult to predict. Difficulties in estimating provisions differ in different classes of business in accordance to insurance contracts, claim complexity, volume and significance of claims, determining occurrence date of a claim, and reporting lags.

Claims outstanding reserve is calculated on "case-by-case" method.

Reserve for incurred but not reported claims is calculated by statistical methods. The key method used, or a combination of methods, depend on class of business and observed historical level of claims/ illness ratio. As a base for the calculations are used the "claims paid" and "claims outstanding" for the insurance companies, and for the health assurance company – a percentage of the amount of reported claims during the financial year.

As of the end of the reporting period the reserve for incurred but not reported claims for third party liability insurance in ZD Euroins AD is calculated on the basis of a minimum amount provided by the Financial Supervisory Commission for the market weighted with the company's share in the insured vehicles on yearly basis, provided by the Commission. The application of the chain-ladder method for estimating the incurred but nor reported reserve for third party liability insurance using own statistical data produces unreliable results due to the high volatility in the development factors.

Incurred but not reported claims (IBNR) provisions of the Group's companies are initially estimated gross and then an additional calculation is performed for determining reinsurer's share in reserves. The Group's companies cover insurance risks by a quota reinsurance contract for the major business lines and excess of loss contract for big claims and catastrophic risks, which provides secure protection of the insurer upon occurrence of large number of small claims as well as single large claims. Method used by the companies is based on historical data, expected gross level of IBNR and reinsurance programme information, so that receivables from reinsurers can be calculated.

All amounts are in thousand Bulgarian levs, unless otherwise states

21 Insurance reserves (continued)

Assumptions for determination of the insurance/ health insurance reserves (continued)

As of December 31, 2014 ZD Euroins signed proportional reinsurance contract through the agent AON Benfield with Hanover RE (Germany, credit rating from AM Best „A+", stable prospects) through which 35% quota share of the premium and insurance reserves are ceded. The contract's term is until December 31, 2015 and the Group reports reinsurer's share in the reserves resulting from the contract provisions at the amount of BGN 26.3 million. Similar contract with another reinsurer (Everest Re – credit rating A+ from Am Best and Anadolu Sigorta) and ceded quota share from the premium at the amount of 50% identical with the share in the insurance reserves is signed as of December 31, 2014 by Euroins Romania as well. The Group reports reinsurer's share in the reserves resulting from the contract provisions at the amount of BGN 77.7 million. The Group expects the contracts to be extended in the following reporting periods.

22 Payables to reinsurers and other payables

	As of 31.12.2014	As of 31.12.2013
Payables from direct insurance	2,022	3,058
Payables to reinsurers	8,611	19,583
Payables under lease contracts	678	655
Payables to suppliers	8,202	3,177
Payables to personnel	1,652	1,939
Payables to Guarantee fund	2,030	2,509
Other payables	9,534	20,854
Total payables	32,729	51,775

23 Payables on loans

	As of 31.12.2014	As of 31.12.2013
Payable on bond loan	19,558	-
Payable on loan from the owner Eurohold AD	19,616	-
Payable on loan from Global Investment	5,789	-
Payable on loan from Starcom	57	-
Other payables on loans	9,288	3,431
Total payables on loans	54,308	3,431

As of December 31, 2014 payables on loans comprise mainly loans under the following agreements signed by EIG AD:

- Agreement with Eurohold AD for loan granted on December 18, 2014 with agreed maximum amount up to EUR 15,000 thousand (BGN 29,337 thousand), maturity date December 18, 2021 and floating interest rate of 3M-EURIBOR plus margin. According to the agreed terms and conditions repayment of the loan begins in 2017. As of December 31, 2014 utilized portion of the loan amounts to EUR 10,000 thousand (BGN 19,558 thousand). The purpose of the loan is to increase the capital of Euroins Romania and Euroins Bulgaria. The loan is unsecured.
- Agreement with Global Investment for loan granted on June 5, 2014 at the amount of EUR 2,900 thousand (BGN 5,672 thousand) with maturity date June 5, 2017 and fixed interest rate. The loan is unsecured.
- Bond loan (with requisites of subordinated debt) from December 18, 2014 with contracted amount of EUR 10,000 thousand (BGN 19,958 thousand) and maturity date 18.12.2021. The interest rate consists of floating and fixed interest component. The bond loan is issued in the form of 100 materialized, unsecured as of the emission date bonds with nominal value of EUR 100 thousand each.

All amounts are in thousand Bulgarian levs, unless otherwise states

24. Equity

	As of 31.12.2014	As of 31.12.2013
Share capital	268,263	268,263
Revaluation and other reserves	3,589	1,535
Revaluation reserve from recalculations in the presentation currency in the consolidated financial statements	(4,667)	(4,288)
	267,185	**265,510**
Accumulated loss	**(39,288)**	**(38,217)**
Financial result for the current year	**(8,114)**	**(411)**
Total equity and reserves	**219,783**	**226,882**
Non-controlling interest	6,664	6,384

There are no changes in the shareholders' capital of Euroins Insurance Group AD in 2014.
The registered capital is fully paid-in by Eurohold Bulgaria AD and comprises 268,262,791 shares with nominal value of BGN 1 for each share as follows:

Type of shares:
1. Materialized, registered, unprivileged – 191,281,000 shares, with a nominal value of BGN 1, each.
2. Materialized, registered, privileged – 76,981,791 shares, with a nominal value of BGN 1, each.

Shareholders' structure	**As of December 31, 2014**		**As of December 31, 2013**	
	Share capital	Percentage	Share capital	Percentage
„Eurohold Bulgaria" АД	216,802,291	80.82	216,802,291	80.82
„Basildon Holding " OOD	51,460,500	19.18	51,460,500	19.18
	268,262,791	100.00	**268,262,791**	100.00

The ultimate Parent company is Starcom Holding AD.

As of December 31, 2014 30% of the Company's shares are pledged in favour of third party.

Shareholders' support is the key for the Group to continue its activity. As a result in 2014 a procedure was started for capital increase of Euroins Insurance Group AD aiming to stabilize its financial ratios, and in the first quarter of 2015 the paid-in capital of Euroins Insurance Group AD was increased by BGN 17,515 thousand.

All amounts are in thousand Bulgarian levs, unless otherwise states

25. Goodwill

	As of 31.12.2014	As of 31.12.2013
„ZD Euroins" AD	101,395	101,395
„Euroins – Health Insurance" AD	186	186
„Euroins Romania Insurance – Reinsurance" AD	52,715	52,715
„Euroins Osiguruvanje Skopje" AD	10,368	10,368
„Inter Sigorta" AD	802	802
Total	**165,466**	**165,466**

Business combinations

On December 30, 2013 Euroins Insurance Group AD acquires control over ZD Euroins Life EAD through purchase of 100% of the Company's shares. The excess of the net amount of identifiable assets and assumed liabilities over the transferred consideration in the transaction at the amount of BGN 5,025 thousand is recognized in the consolidated profit or loss for 2013.

In accordance with the accounting policy, the Group recognized positive goodwill resulting from business combinations that cover the following subsidiaries under common control in 2007 and 2008: ZD Euroins AD and Euroins – Health Insurance AD in 2007 and Euroins Romania Insurance Reinsurance AD in 2008. The control over these companies is acquired through in-kind contribution of shares at fair value by parent company against increase in the equity. The goodwill formed by these transactions amounts to BGN 150,915 thousand after impairment as of 31.12.2008 ZD Euroins AD – BGN 98,164 thousand, Euroins – Health Insurance AD– BGN 36 thousand and Euroins Romania Insurance Reinsurance AD– BGN 52,715 thousand). At acquisition of additional share of the share capital of ZD Euroins AD and Euroins – Health Insurance AD in 2008 goodwill at the amount of BGN 6,355 thousand and BGN 150 thousand respectively was recognised.

EIG acquired 83.60% of Euroins Romania Insurance Reinsurance AD in February 2008 when the amount of net assets of the foreign subsidiary were at the amount of BGN 14,862 thousand. For the purpose of consolidation, the management accepts that the parent company controls the activity of the subsidiary since January 1, 2008.

Other significant business combination that generates goodwill recognised at acquisition of control over 91.39% of the equity of Euroins Osiguruvanje Skopje plc and the management of the Group accepts that the parent company controls the activity of the subsidiary since January 1, 2008.

At the beginning of 2009 the Group has acquired 90.75% of the share capital of insurance company Inter Sigorta AD, registered in Turkey.

All amounts are in thousand Bulgarian levs, unless otherwise states

25. Goodwill (continued)

As of December 31, 2014 EIG consolidates the following subsidiaries:

Subsidiary	As of 31.12.2014	As of 31.12.2013
	% of equity	*% of equity*
„ZD Euroins" AD	78.13%	78.13%
„Euroins – Health insurance" AD	100.00%	100.00%
„Euroins Romania Insurance Reinsurance" AD	96.64%	93.275%
„Euroins Osiguruvanje Skopje" AD	93.36%	93.36%
„Inter Sigorta" AD	90.75%	90.75%
ZD Euroins Life EAD	100.00%	100.00%

26. Non-controlling interest

Subsidiary	As of 31.12.2014	As of 31.12.2013
„ZD Euroins" AD	4,161	4,096
„Euroins – Health insurance" АД	-	-
„Euroins Romania Insurance – Reinsurance" AD	2,013	1,859
„Euroins Osiguruvanje Skopje" AD	507	449
„Inter Sigorta" AD	(17)	(20)
ZA Euroins Life EAD	-	-
„United Health Insurance" AD	-	-
Total non-controlling interest	6,664	6,384

27. Related parties

Parties are considered related when one of them is able to control the other or to exercise significant influence over decision making related to the Group's activity.

All significant inter-company transactions with related parties and directors are classified as related parties transactions. The related parties transactions as of and for the year ended December 31, 2014 may be classified in the following groups:

27 Related parties (continued)

27.1.Directors

	Year ended 31.12.2014	Year ended 31.12.2013
Payments to directors and executive directors	736	687
Total	736	687

Velislav Milkov Hristov	Member of Board of Directors	„Euroins Insurance Group" AD
Dominic Joseph Boduen	Deputy Chairman of Board of Directors of Euroins Life	„Euroins Life" EAD
Kiril Ivanov Boshov	Chairman of Board of Directors	„Euroins Insurance Group" AD
	Member of Board of Directors	„Euroins – Health Insurance" EAD
	Member of Board of Directors	"Euroins Osiguruvanje Skopje" AD
	Chairman of Board of Directors	„Euroins Romania Insurance Reinsurance" AD
Violeta Vasileva Darakova	Chairman of Supervisory board	„ZD Euroins" AD
Todor Atanasov Danailov	Member of Supervisory board	„ZD Euroins" AD
Radi Georgiev Georgiev	Member of Supervisory board	„ZD Euroins" AD
Joanna Tzvetanova Hristova	Executive Director	„ZD Euroins" AD
Anton Yotov Pironski	Executive Director	„ZD Euroins" AD
Dimitar Stoyanov Dimitrov	Procurer	„ZD Euroins" AD
Ilonka Nikolaeva Mitkova-Chernas	Executive Director	„Euroins – Health Insurance" EAD
Kalin Orlinov Kostov	Executive Director	„Euroins – Health Insurance" EAD and „Euroins Life" EAD
Minko Hristov Gerdjikov	Member of Board of Directors	„Euroins Life" EAD
Milena Milchova Gencheva	Executive member of Board of Directors	„Euroins Romania Insurance-Reinsurance" AD
Kristiana-Viorela Basgan	Member of Board of Directors	
Asen Milkov Hristov	Member of Board of Directors	
	Chairman of Board of Directors	"Euroins Osiguruvanje Skopje" AD
Alexandar Nikolovski	Independent member of the BD	
Yanko Georgiev Nikolov	Executive member of the BD	
Violeta Popvasileva	Executive member of the BD	"Euroins Osiguruvanje Skopje" AD

All amounts are in thousand Bulgarian levs, unless otherwise states

27 Related party (continued)

27.2. Related parties transaction

Related party	Type of transactions	Volume of transactions in 2014	Balance as of 31.12.2014
„Euroins Insurance Group " AD		**Parent-company**	
Autoplaza	Hired services	(1)	(1)
Eurolease Rent A Car EOOD	Hired services	(98)	(9)
Bulvaria Holding	Hired services	(6)	(11)
Star Motors EOOD	Hired services	(3)	(3)
Nissan Sofia АД	Hired services	(3)	(3)
Eurolease auto AD	Interest expense	-	-
Daru car	Hired services – consumables	-	(2)
Eurolease auto AD	Finance lease payables	(9)	(99)
Auto Union Service AD	Hired services	(3)	(9)
Eurohold Bulgaria	Loan granted		3,646
Eurohold Bulgaria	Interest income	6	5
Eurohold Bulgaria	Loan received	(293)	(19,558)
Eurohold Bulgaria	Interest expense	(919)	(58)
Eurofinance	Finance services	(20)	-
Euroins Osiguruvanje AD Skopje		**Subsidiary**	
Eurolease Rent A Car EOOD	Hired services	(15)	-
Eurolease Auto Skopje	Written gross premium	218	6
Eurolease Auto Skopje	Other revenue	17	-
Eurolease Auto Skopje	Commissions and participation in result	(33)	-
Eurolease Auto Skopje	Finance lease payables/ non-current	(17)	343

All amounts are in thousand Bulgarian levs, unless otherwise states

27 Related party (continued)

27.2. Related parties transaction (continued)

Related party	Type of transactions	Volume of transactions in 2014	Balance as of 31.12.2014
Euroins Romania / Asitrans		**Subsidiary**	
Bulvaria Varna	Expenses on rent	31	17
Delta Credit ADSIC	Carrying amount of owned shares	-	9,756
Eurolease Auto Romania	Finance lease payables / principal		156
Eurolease Auto Romania	Finance lease payables / interest		27
Eurolease Auto AD	Sale of vehicle	10	10
Eurolease Rent A Car	Rent of vehicle	9	9
Auto Union Service AD	Hired services	116	170
Auto Union Group AD	Dividend	40	-
Eurohold Bulgaria	Consulting services	459	40
Eurofinance AD	Expenses for investment management	196	-
Strarcom	Corporate bonds		5,240
ZD Euroins Life EAD		**Subsidiary**	
Eurofinance	Written gross premium	9	-
	Receivable on investment portfolio	-	1
	Expenses for investment management		(52)
Auto Union	Corporate bonds	-	82
	Interest on corporate bonds	27	-
Autoplaza	Sale of vehicle	14	-
Eurolease Auto	Finance lease payables	26	71
	Finance lease interest	(6)	-
Starcom Holding	Carrying amount of owned bonds		2,248
Delta Credit ADSIC	Carrying amount of owned shares		2,543
Eurolease Rent A Car	Rent of vehicles	(6)	3
Bulvaria Holding	Hired services	(1)	1
Auto Italia	Hired services	1	1

All amounts are in thousand Bulgarian levs, unless otherwise states

27 Related party (continued)

27.2. Related parties transaction (continued)

Related party	Type of transactions	Volume of transactions in 2014	Balance as of 31.12.2014
„Euroins Health Insurance" AD		**Subsidiary**	
Eurofinance AD	Expenses for investment management	(13)	-
Eurohold Imoti EOOD	Hired services	-	1
Eurolease Auto АД	Written gross premium	1	1
Eurolease Auto АД	Interest expense	(5)	-
Eurolease Auto АД	Hired services	(62)	51
Auto Union AD	Written gross premium	-	1
Auto Italia EAD	Written gross premium	-	11
Eurohold	Written gross premium	1	-
Auto Italia EAD	Hired services	-	1
Star Motors EOOD	Written gross premium	-	4
Motobul EOOD	Written gross premium	-	4
Bulvaria Holding AD	Written gross premium	-1	5
Starcom Holding	Written gross premium	-	300
Bulvaria Holding AD	Hired services	(6)	8
Motobul express	Written gross premium	-	1
Eurolease Rent A Car EOOD	Hired services	(1)	1
Star Motors EOOD	Hired services / CO	(1)	1
Nissan Sofia AD	Hired services / CO	-	1
Daru Car	Written gross premium	(1)	3
Auto Union	Interest on bonds	14	-
Bulvaria Varna	Written gross premium	6	1
Autoplaza	Sale of vehicle	2	2
Motobul express	Hired services	-	2
Delta Credit ADSIC	Carrying amount of owned shares	-	874
Starcom Holding AD	Carrying amount of owned bonds	-	60
Auto Union AD	Carrying amount of owned bonds	-	149

All amounts are in thousand Bulgarian levs, unless otherwise states

27 Related party (continued)

27.2. Related parties transaction (continued)

Related party	Type of transactions	Volume of transactions in 2014	Balance as of 31.12.2014
ZD Euroins AD		**Subsidiary**	
Nissan Sofia EAD	Commissions and participation in result	(6)	-
	Claims paid during the year	(36)	(33)
	Purchased vehicle for prize	(26)	-
Auto Italia EAD	Insurance services	9	28
	Claims paid during the year and Reserve for (RBNS)	(287)	(136)
Eurolease Auto AD	Commissions and participation in result	(437)	-
	Finance lease agreements	-	(140)
	Interest expense	(30)	-
	Gross written premium	30	-
	Insurance reports (net of commissions)	-	173
Espace Auto EOOD	Claims paid during the year and change in reserve for reported but not settled claims (RBNS)	(241)	(335)
Eurohold Bulgaria AD	Invoices for services	(2)	-
Eurofinance AD	Expenses for investment management	(140)	-
Auto Union Service EOOD	Claims paid during the year and reserve	(3,477)	(1,618)
Auto Union AD	Commissions and participation in result	(480)	-
	Receivable on cession	-	942
	Insurance services	-	5
	Accrued interest coupon	113	-
	Other receivables/prepaid commissions	-	173
Bulvaria Varna EOOD AD	Insurance services	9	4
	Claims paid during the year and reserve	(510)	(228)
	Commissions and participation in result	(3)	-
Eurolease Rent A Car EOOD	Operational lease	(124)	(48)
	Hired services	(3)	-
	Receivable on tripartite agreement with Eurolease Auto EOOD	-	332
	Insurance services	9	-
Star Motors EOOD	Claims paid during the year	(475)	(118)
	Purchased vehicle for prize	(32)	-
	Insurance services	-	28
Motobul EOOD	Hired services	(7)	(21)
	Insurance services	6	-
Auto plaza EAD	Insurance services		7
	Hired services	(3)	(1)
Starcom Holding	Carrying amount of owned bonds	-	624
	Interest on bonds	269	-
Delta Credit ADSIC	Carrying amount of owned shares	-	8,456

All amounts are in thousand Bulgarian levs, unless otherwise states

27 Related party (continued)

27.2. Related parties transaction (continued)

Related party	**Type of transactions**	**Volume of transactions in 2014**	**Balance as of 31.12.2014**
Eurofinance AD	Hired services	(140)	-
Espace Auto EOOD	Commissions and participation in result	(35)	-
Bulvaria Holding AD	Written gross premium		
	Claims paid during the year and change in reserve for reported but not settled claims (RBNS)	(20)	(58)
	Commissions and participation in result	(6)	
	Insurance services	-	54
Daru Car AD	Claims paid during the year	(152)	-
	Insurance services	3	-

28. Events after the reporting period

In 2014 Euroins Insurance Group started negotiations for the acquisition from the German company Talanx Holding of its operations based in Bulgaria (HDI Insurance Bulgaria) and in Ukraine (HDI Strakhuvannya). On February 19, 2015 the deal is enacted and obtaining of final regulatory approvals is expected. With the acquisition of the two companies, the EIG Group companies will significantly increase their market presence in Bulgaria and Eastern Europe.