EUROINS INSURANCE GROUP AD

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

December 31, 2015

(Unofficial translation of the original in Bulgarian)

ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES

FOR 2015

ANNUAL CONSOLIDATED MANAGEMENT REPORT

of

EUROINS INSURANCE GROUP AD

For the year ended 31 December 2015

EUROINS
INSURANCE GROUP

CONTENTS

EUROINS
INSURANCE GROUP

1. General information about Euroins Insurance Group AD

Euroins Insurance Group AD (EIG, the Company) was established at the end of 2007 as a 100% subsidiary of Eurohold Bulgaria AD where the whole insurance business of the holding is concentrated.

Since its establishment up to the present day the Company constantly expands its operations by acquiring insurance companies in Bulgaria as well as in Romania and Macedonia. At the end of 2015 the insurance companies in the Group have more than 200 regional offices and more than 1 million clients.

At the end of 2013, the Group holds majority number of shares in companies in Bulgaria, Romania and Macedonia.

2. Capital structure and status of the Group

As of December 31, 2015 the registered capital of Euroins Insurance Group AD amounts to BGN 287,863 thousand. The Company's registered capital is fully paid in and comprises 287,862,791 out of which 76,981,791 are materialized, registered, preference shares and 210,881,000 are materialized, registered, ordinary, with nominal value of BGN 1 each.

The share capital's structure of Euroins Insurance Group AD is as follows:

Eurohold Bulgaria AD	– 82.12%;
Bazildon Holding OOD	– 17.88%.

Euroins Romania Insurance –Reinsurance AD (Euroins Romania)

The acquisition of shares of Euroins Romania Insurance – Reinsurance AD was completed by Eurohold Bulgaria AD in 2008. In the period from 2009 to 2012 the share of Euroins Insurance Group AD in the share capital of Euroins Romania Insurance – Reinsurance AD was increased through cash contributions of up to BGN 102,682 thousand as of December 31, 2012. In 2013 Euroins Insurance Group AD participated in the increase of Euroins Romania's share capital with cash contributions at the amount of BGN 8,693 thousand. Thus, the percentage share in the share capital of the subsidiary increased to 93.275%. In 2014 Euroins Romania increased its share capital with BGN 36,331 thousand fully at the expense of EIG and thus the parent company's share increased to 96.54%.

In 2015 a decision was taken to increase the capital of Euroins Romania Insurance – Reinsurance AD by RON 200 000 thousand. As of the date of this report this amount is fully paid in. Currently Euroins Romania Insurance – Reinsurance AD is in the process of obtaining approval of the capital increase from the Romanian insurance regulator.

ZD Euroins AD (Euroins Bulgaria) and Euroins –Health Insurance AD (Euroins Health)

The control of ZD Euroins AD and Euroins Health Insurance AD was acquired through a contribution in kind from Eurohold Bulgaria AD in the share capital of Euroins Insurance Group AD. As of December 31, 2013 Euroins Insurance Group's share in the share capital of Euroins Bulgaria was 78.13 %, and the share in Euroins Health share capital is

100%. In 2013 EIG AD participated in the increase of the share capital of Euroins Health Insurance AD with a cash contribution of BGN 1,500 thousand. Also in the same year following a decision by EIG's Board of Directors a procedure has been started for merging of the acquired in 2012 100%-owned company United Health Insurance EAD into Euroins Health Insurance EAD. In 2012 EIG AD acquired 100% of United Health Insurance's share capital with the investment amounting to BGN 355 thousand. In 2013 the investment was transferred to Euroins Health Insurance AD as United Health Insurance was merged into it.

In 2015 the share capital of ZD Euroins AD was increased by BGN 5,659 thousand through cash contribution.

Euroins Insurance AD, Skopje (Euroins Macedonia)

The investment in Euroins Insurance AD, Skopje was made in 2008 through an initial cash contribution amounting to BGN 14,389 thousand. Then the amount of the investment in the subsidiary was increased to BGN 17,320 thousand as of December 31, 2012. In 2013 EIG participated in the increase of the share capital of Euroins Macedonia with a cash contribution amounting to BGN 732 thousand. In 2014 and 2015 there were no changes in the share of EIG. As of 31 December 2015 the share of the Company in Euroins Insurance AD, Skopje amounts to 93.36%.

ZD Euroins Life EAD (Euroins Life)

In 2013 EIG AD acquired 100% of Interamerican Bulgaria Life Insurance EAD's share capital and renamed it to ZD Euroins Life EAD. The amount of investment was BGN 3,576 thousand. In 2014 and 2015 there were no changes in the share of EIG in the subsidiary.

ZD EIG Re AD (previously HDI Zastrahovane AD)

In 2015 EIG acquired 94% of the share capital of HDI Zastrahovane AD, the amount of the investment being BGN 8,398 thousand. As of 31 December 2015 the investment was impaired by BGN 4,036 thousand to the amount of the net assets of the subsidiary. The transaction for acquisition of HDI Zastrahovane AD was approved by the Financial Supervisory Commission in December 2015 when the Company acquired control over the subsidiary. In 2016 the name of HDI Zastrahovane AD has been changed to ZD EIG Re AD.

Inter Sigorta AD

At the beginning of 2009 the Group acquired control over 90.75% of the shares of Inter Sigort AD, an insurance company registered in Turkey. In 2015 EIG sold its shares in the company and Inter Sigorta AD is not part of the 2015 consolidated statements of the Group.

As at 31 December 2015 Euroins Insurance Group AD is a majority shareholder in:

ZD Euroins AD	– 79.82%;
Euroins Romania Insurance –Reinsurance AD	– 96.54%;
Euroins - Health Insurance AD	– 100.00%;
Euroins Insurance AD, Skopje	– 93.36%;
ZD Euroins Life EAD	– 100.00%;
ZD EIG Re AD	– 94.00%.

3. Review of operations, financial indicators and one-off effects

The premium income of Euroins Insurance Group AD on a consolidated basis in 2015 amounts to BGN 452.8 million as compared to BGN 311.2 million in 2014. The impressive growth of 46% is mainly down to the growths of 50% and 47% generated by Euroins Romania and Euroins Bulgaria respectively. In addition, Euroins Macedonia has registered growth of 6%.

The main share of the premium income of the Group comes from Euroins Romania, Euroins Bulgaria and Euroins Macedonia, which account for 70.2%, 25.1% и 4% of the total premium income of the Group respectively, i.e. more than 99% of total written business.

Total consolidated assets of the Group at the end of 2015 amount to BGN 761.4 million compared to BGN 585.3 million at the end of 2014. Gross technical reserves on a consolidated basis as part of Total liabilities increased from BGN 290.5 million in 2014 to BGN 474.3 million in 2015.

In spite of the growth of nearly 50% in 2015 Euroins Insurance Group AD reports consolidated loss of BGN 100.8 million.

There are three main reasons for this loss:

The first one is the significant growth of gross premiums written by Euroins Romania. This created the need to update the gross technical reserves. In 2015 the reserves for group purposes have been increased from BGN 163.6 million to BGN 307.2 million, i.e. by 88%. In total the gross reserves have increased by 63% from BGN 290.5 million to BGN 474.3 million. The nature of the business is such that at the end of 2015 the growth in reserves is ahead of the growth in premiums earned. 2016 will be the first year to experience the positive effect of the significant business growth.

The second one is related to Solvency II. As part of the preparation for Solvency II Euroins Romania submitted and obtained approval from the Romanian insurance regulator of its business plan, which contains a set of measures aimed at the improvement of the main financial indicators of the Romanian company.

The third one is a result of the management decision to implement new group reserving policy applicable for all subsidiaries. This calculation is only for group purposes and therefore impacts only the consolidated financial statements of the Group. This policy is also part of the preparation for Solvency II. As it is a change in the accounting policy this new methodology triggered the requirement to restate the financial statements of the Group for 2014 and 2013.

In the table shown below the management of EIG has calculated the effect arising from one-off events, which impacted the performance of Euroins Insurance Group AD. The calculations are based on unaudited management information, which is not part of the consolidated financial statements. The purpose of the analysis presented below is to provide additional information, which is out of the IFRS scope.

Consolidated statement of comprehensive income (amended with one-off effects based on the assessment of the management)	**Year ended 31.12.2015**[1]	**Year ended 31.12.2014**
Gross written premiums	452,815	311,183
Premiums ceded to reinsurers	(184,741)	(13,657)
Net written premiums	268,074	297,526
Change in the gross unearned premium reserve and unexpired risk reserve	(37,702)	(4,654)
Reinsurers' share in changes in the unearned premium reserve	16,199	5,984
Net earned premiums	246,571	298,856
Fees and commission income	5,614	2,815
Finance income	18,507	11,417
Other operating income	2,735	2,711
Net income	273,427	315,799
Claims incurred, net of reinsurance	(121,764)[2]	(166,873)
Acquisition costs	(112,857)	(85,243)
Administrative expenses	(23,123)	(22,450)
Finance costs	(16,263)	(12,070)
Other operating expenses	(7,283)[3]	(46,598)
Operating loss	(7,863)	(17,435)
Other net income	338	68
Loss for the year	(7,525)	(17,367)
Taxes	1,204[4]	(326)
Net operating loss for the year	(6,321)	(17,693)
One-off effects	(109,651)	-
Taxes	15,220	-
Net loss for the year	(100,752)	(17,693)

[1] 2015 result has been recalculated with all of the one-effects taken into account by the management.

[2] Claims incurred, net of reinsurance have been corrected by BGN 87,550 thousand. These corrections impact net RBNS (reported but not settled) and net IBNR (incurred but not reported) reserves.

[3] Other operating expenses have been corrected by BGN 22,101 thousand. These corrections impact the provisions put on receivables from direct insurance and from recources.

[4] Income tax expense has been corrected by BGN 15,220 thousand. The correction impacts the deferred tax asset.

The main conclusion at the end of the year is that the loss of the Group is down to the loss of Euroins Romania Insurance –Reinsurance AD, which in itself is a combination of the one-off effects caused by the events described above.

Ultimately, all these one-off effects, which are not typical of the business environment, are for a fact and they do impact the performance of Euroins Romania Insurance – Reinsurance AD and from there the performance of the Group as well. Their impact, however, put both companies in a very good starting position for 2016.

After the increase of the reserves Euroins Romania Insurance –Reinsurance AD is one of the best reserved companies on the Romanian market. This would allow for the company to start 2016 with a well structured balance, which would contribute to the future positive results unharmed by eventual past events.

4. Major risks the Group and its subsidiaries are exposed to

4.1. Macroeconomic risk

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

4.1.1. Currency risk

Currency risk is related to the probability changes in the exchange rate of the national currency to other currency to affect incomes and expenses of the economic entities in the respective country. 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 these currencies to the euro currency. On the other hand, the fluctuations of 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 on a consolidated level are denominated in levs and euro.

4.1.2. Inflation risk

Inflation risk is the probability for the inflation to affect the actual rate of return on investments. In this respect despite the positive trends relevant to the inflation indices in respective countries, the Group companies are exposed to inflation risk.

4.1.3. Interest risk

The interest risk is related to the probability that the net incomes of the companies decrease as a result of increase of interest rates, at which the companies could finance their operations. Interest risks fall in the category of macroeconomic risks due to the fact that the main prerequisites for change in interest rate levels are the occurrence of instability of the financial system in general and the influence of the global financial crisis. Given the current economic situation, interest risk is one of the risks that might affect the Group companies' operations.

4.2. Sector risk

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

- Change in the demand for insurance services and products;
- Presence of intense competition and market fragmentation;
- Lack of opportunities for a market expansion that is in line with the growth in gross domestic product;
- Innovation risk – low frequency of new product development;
- Risks related to changes in the legislation – EIG main business is subject to the applicable legislation and the established international practices for insurance risk management.

Companies in the Group aim to restrict the impact of sector non-systematic risks on their operations by maintaining a wide range of insurance and health assurance products in a wide diversified portfolio and by offering new products in line with the changes of the market demand. The idea is to extend the range of insurance and health assurance products on offer and at the same time to establish flexible pricing policy corresponding to the risk profile of the client.

4.3. Corporate risk

Corporate risk combines business and financial risks. Business risk is related to the specific operations of a company. It is defined as uncertainty of getting revenues inherent to the sector the companies operate in. The nature of the non-life insurance business is based on pricing and management of risks in its different forms by means of insurance portfolio management.

Business risk can be described as:

- 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.

4.3.1. Business risk related to large claims

Due to the representative nature of the product structure of the insurance portfolios of EIG subsidiaries in comparison with the structure of the insurance sector in the respective countries there are no business risks specific only to the EIG 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 entities as well as to motor vehicles (MV).

With regard to the claim amounts that natural disasters might inflict to MV insured with EIG subsidiaries it is considered to be minimal due to the following factors:

- The companies hold large portfolios of cars insured against natural disasters on territories 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 can be easily moved and thus the risk of damages from natural disasters is partially reduced, having in mind the fact that some natural disasters are foreseeable and their territorial occurrence is relatively slow and limited.

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

Major breakdowns – large industrial risks that might contribute to such events are extremely limited within the companies' portfolios. Their impact is very limited due to the fact that such breakdowns are fully covered by the purchased reinsurance protection of the companies.

Acts of terrorism – up to now there has been only one act of terrorism committed in Bulgaria, Romania and Macedonia that might have endangered risks covered by the insurance companies operating in the non-life insurance sector. According to Euroins' general conditions, terrorism is excluded risk pursuant to international clause G51.

4.3.2. Liquidity risk

Liquidity risk is the probability that an EIG company would not be able to cover its obligations within the agreed amount and/or term. This risk is minimised by implementing an effective policy for insurance reserve and current cash flow management and by maintaining adequate level of solvency and liquidity of the companies.

[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.

4.3.3. Operational risk

Operational risks are related to the insurance portfolio structure, comprising of 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 risk management policy consisting of: reinsurance program; risk management at an individual product and client level; operational risk management by acceptance of limits, implementation of adequate information systems, system of internal control and independent audit; and reserving policy.

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

5. Significant events after the date of the annual consolidated financial statements for 2015

At the end of 2015 a procedure to increase the share capital of Euroins Insurance Group has been started as part of the preparation for Solvency II that comes into force in 2016. The General Meeting of Shareholders of EuroHold Bulgaria AD, the parent company of EIG, took a decision to increase the share capital of EIG to BGN 483,445,791 by issuing 195,583,000 new materialized, registered, ordinary shares with nominal value of BGN 1 for each one. As at 31 December 2015 the amounts of BGN 40,153 thousand have been paid in by the majority shareholder.

At the date of the approval of the consolidated financial statements the share capital increase has been registered with the Trade Register. The share capital consists of 483,445,791 shares with nominal value of BGN 1 for each share, divided into:

1. Materialized, registered, preference – 76,981,791 shares with nominal value of BGN 1 of each share;

2. Materialized, registered, ordinary – 406,464,000 shares with nominal value of BGN 1 of each share.

The share capital's structure of Euroins Insurance Group AD at the date of approval of the consolidated financial statements is as follows:

EuroHold Bulgaria AD	– 89.36%;
Basildon Holding OOD	– 10.64%.

6. Possible future development of Euroins Insurance Group AD

As a leading Bulgarian insurance group, the EIG continues expanding its operations in Central and Eastern Europe. In mid-term plan EIG's main target 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, the Czech Republic and Hungary, and in improvement of the technical indicators of its current subsidiaries.

7. Research and development

EIG subsidiaries do not carry out research and development.

8. Financial instruments held by the Group companies

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

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

- Market risk – where the value of a financial instrument fluctuates as a result of changes in the market prices, irrespective of 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 – credit risk occurs when 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.

9. Disclosure of information as per Art. 187e and 247 of the Commerce Act

Members:

- Assen Milkov Hristov – Chairman of the Board of Directors since 10 September 2015;
- Kiril Ivanov Boshov – Executive Director and Member of the Board of Directors since 6 November 2007;
- Dominique Victor François Joseph Bauduin – Deputy Chairman of the Board of Directors since 7 July 2014.

In 2015 the members of the Board of Directors have not acquired, held or transferred shares or bonds of the Company.

The articles of association of the Company 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, related to the participation of the members of the Board of Directors in business companies as unlimited liability partners, the holding of more than 25 per cent of the share capital of another company, as well as their participation in other companies or cooperative societies as procurators, managers or board members:

Assen Milkov Hristov – Chairman of the Board of Directors

As of 31 December 2015, Mr. Assen Milkov Hristov holds more than 25 per cent of the share capital of the following business companies:

- Starcom Holding AD, Etropole;
- Alfa Euroaktiv EOOD, Sofia;
- Bokan International Basketball League OOD;
- Eurohold Bulgaria AD, Sofia;
- Euro – Finance AD, Sofia;
- Auto Union AD, Sofia
- Eurolease Group EAD, Sofia.

As of 31 December 2015, Mr. Assen Milkov Hristov participates in the management of the following business companies:

- Auto Union AD – Chairman of the Board of Directors;
- Alfa Euroaktiv EOOD – General Manager;
- Bokan International Basketball League OOD – General Manager;
- Euroins Insurance Group AD – Chairman of the Board of Directors;
- Euroins Insurance AD, Skopje – Chairman of the Board of Directors;
- Euroins Romania Insurance – Reinsurance AD – Member of the Board of Directors;
- Euro – Finance AD – Chairman of the Board of Directors;
- Eurohold Bulgaria AD – Chairman of Supervisory Board;
- Smartnet EAD – Chairman of the Board of Directors;
- Starcom Hold AD – Executive member of the Board of Directors;
- Starcom Holding AD – Executive member of the Board of Directors;
- Formoplast 98 AD – Chairman of the Board of Directors.

Kiril Ivanov Boshov – Executive Director and Member of the Board of Directors

As of 31 December 2015, Mr. Kiril Ivanov Boshov holds more than 25 per cent of the capital of the following business companies:

- Starcom Holding AD, Etropole;

> Alcommerce EOOD, Sofia.

As of 31 December 2015, Mr. Kiril Ivanov Boshov participates in the management of the following business companies:

- Auto Union AD – Deputy Chairman of the Board of Directors;
- Euroins Insurance Group AD – Executive Director and Member of the Board of Directors;
- Euroins –Health Insurance AD – Chairman of the Board of Directors;
- Euroins Romania Insurance – Reinsurance AD – Chairman of the Board of Directors;
- Euroins Insurance AD, Skopje – Member of the Board of Directors;
- Eurolease Auto EAD, Romania – Member of the Board of Directors;
- Euro – Finance AD – Member of the Board of Directors;
- Eurohold Bulgaria AD – Chairman of the Board of Directors;
- Inter Sigorta AD – Member of the Board of Directors;
- Capital – 3000 AD – Chairman of the Board of Directors;
- Nissan Sofia AD – Member of the Board of Directors;
- Starcom Holding AD – Chairman of the Board of Directors;
- Starcom Hold AD – Chairman of the Board of Directors.

Dominique Victor François Joseph Bauduin – Deputy Chairman of the Board of Directors

As of 31 December 2015, Mr. Dominique Bauduin does not hold more than 25 per cent of the capital of any business companies.

As of 31 December 2015, Mr. Dominique Bauduin participates in the management of the following business companies:

- ZD Euroins Life EAD – Member of the Board of Directors;
- S C I Solar Bulgaria OOD – General Manager.

In 2015 the members of the Board of Directors of the company have not entered into contracts under article 240b of the Commerce Act that fall outside of the principle activity of the Company or which have been agreed in contradiction with the market conditions.

Sofia,
29 May 2016

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Kiril Boshov
Executive Director
Euroins Insurance Group AD

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Deloitte.

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ДДС/VAT No BG121145199

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Euroins Insurance Group AD

Report on the Consolidated 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, 2015, and the 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 consolidated 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's 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 164,664 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 and valued in these consolidated financial statements.

Qualified opinion

7. In our opinion, except for the possible effect of the matter described in paragraphs 6 above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015, 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

8. We draw attention to note 28 of the consolidated financial statements, which discloses that the financial assets, reported at fair value in the profit and the loss, owned by the Group, represent mainly securities that are traded on the Bulgarian stock exchange (BSE) and as of the end of the reporting period are valued on the basis of market quotations of BSE. Because of limitation in the trading volume and the specifics of the trade of these securities, there is an uncertainty if the securities fair value established on the basis of market quotations would be supported by the market in future transactions. Our opinion is not modified with respect to this matter.

9. We draw attention to note 1.5.5 of the consolidated financial statements, which discloses that the the Group has adopted accounting policy for reporting of quota share reinsurance contracts, according to which the Group recognizes reinsurance share in the technical reserves as an asset and the respective change in the reinsurer's share in the technical reserves in the statement of comprehensive income at the date of inception of the contract and payables to reinsurers under these contracts are reported during the subsequent periods in which the contracts are effective. The amount of recognized assets and the positive effect on the statement of comprehensive income at inception of the contracts in 2015 and 2014 is at the amount of BGN 12,523 thousand and BGN 104,013 thousand. Our opinion is not modified with respect to this matter.

10. In 2015 the Group has changed its accounting policy in relation to technical reserves for insurance contracts by applying a new method for determining the technical reserves at group level, based on specific assumptions and accounting estimates as described in note 1.5.1. Due to the short observation period of the actual behaviour of estimates made it is uncertain how the actual results could differ from those estimates. Our opinion is not modified with respect to this matter.

11. We draw attention to note 29, which discloses that a subsidiary of the Group is under financial recovery plan imposed by a regulator. As of December 31, 2015, the subsidiary is in breach of regulatory financial requirements and the financial recovery plan that foresees possibility for noncompliance until finalization of the financial recovery plan until November 20, 2016 through the application of different financial and operational measures, including capital increase of the subsidiary. The subsidiary's ability to continue its operations depends on the implementation of the financial recovery plan. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements - Annual consolidated report on the activities of the Group according to the Accountancy Act

12. Pursuant to the requirements of the Bulgarian Accountancy Act, we have read the accompanying Annual consolidated report of the activities of the Group. The Annual consolidated report on the activities of the Group, prepared by the management, 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, 2015, 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, 2016.

Deloitte Audit

Deloitte Audit OOD

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

Sylvia Peneva
Statutory Manager
Registered Auditor

Vasko Raichev
Registered Auditor

June 23, 2016
Sofia

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2015	Year ended 31.12.2014 (restated)
Gross written premiums	4	452,815	311,183
Premiums ceded to reinsurers	4	(184,741)	(13,657)
Net written premiums		268,074	297,526
Change in the gross unearned premium reserve and unexpired risk reserve	4	(37,702)	(4,654)
Reinsurers' share in changes in the unearned premium reserve	4	16,199	5,984
Net earned premiums		246,571	298,856
Fees and commission income	5	5,614	2,815
Finance income	6	18,507	11,417
Other operating income	7	2,735	2,711
Net income		273,427	315,799
Claims incurred, net of reinsurance	8	(209,314)	(166,873)
Acquisition costs	9	(112,857)	(85,243)
Administrative expenses	10	(23,123)	(22,450)
Finance costs	11	(16,263)	(12,070)
Other operating expenses	12	(29,384)	(46,598)
Operating loss		(117,514)	(17,435)
Other net income	13	338	68
Loss for the year		(117,176)	(17,367)
Income tax expense	14	16,424	(326)
Net loss for the year		(100,752)	(17,693)
Other comprehensive income			
Other comprehensive income subject to reclassification to profit or loss in subsequent periods			
Exchange differences on translating foreign operations		(596)	(242)
Change in fair value reserve (assets available for sale)		73	(172)
Other comprehensive income subject to reclassification to profit or loss in subsequent periods		(523)	(414)
Total comprehensive income for the year		(101,275)	(18,107)

All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2015	Year ended 31.12.2014 (restated)
Net (loss)/profit, attributable to:			
Owners of the Parent company		(95,622)	(18,152)
Non-controlling interest		(5,130)	459
Net loss for the year		(100,752)	(17,693)
Total comprehensive income, attributable to:			
Owners of the Parent company		(96,101)	(18,824)
Non-controlling interest		(5,174)	717
Total comprehensive income for the year		(101,275)	(18,107)

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2016.

Kiril Boshov
Executive Director

EUROINS INSURANCE GROUP Bulgaria

Katrin Petkova
Chief Accountant

Sylvia Peneva
Registered Auditor
Statutory Manager
Deloitte Audit OOD

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

Vasko Raichev
Registered Auditor

The consolidated financial statements are to be read together with the accompanying notes, which are an integral part of these consolidated financial statements.

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	As of 31.12.2015	As of 31.12.2014 (restated)	As of 01.01.2014 (restated)
Assets				
Goodwill	25	164,664	165,466	165,466
Intangible assets	15	1,775	1,426	1,288
Property, plant and equipment	16	3,468	3,515	3,991
Investment properties	17	14,435	15,624	14,666
Financial assets	18	114,605	97,038	117,259
Reinsurers' share in technical reserves	21	265,337	146,316	93,147
Deferred tax assets	14	16,809	365	646
Receivables and other assets	19	121,463	95,731	121,429
Cash and cash equivalents	20	58,805	59,867	32,743
Total assets		761,361	585,348	550,635
Liabilities				
Insurance reserves	21	474,318	290,512	270,041
Reinsurance and other payables	22	93,844	33,066	51,775
Loans	23	26,033	53,839	3,431
Deferred tax liabilities	14	72	52	30
Total liabilities		594,267	377,469	325,277
Equity				
Share capital	24	287,863	268,263	268,263
Revaluation and other reserves		41,465	1,246	1,535
Foreign currency translation reserve		(5,216)	(4,671)	(4,288)
Accumulated loss		(160,414)	(64,332)	(46,386)
Total equity attributable to the owners of the Parent company		163,698	200,506	219,124
Non-controlling interest	26	3,396	7,373	6,234
Total liabilities and equity		167,094	207,879	225,358
Total liabilities and equity		761,361	585,348	550,635

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2016.

EUROINS INSURANCE GROUP Bulgaria

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Executive Director

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

Vasko Raichev
Registered Auditor

The consolidated financial statements are to be read together with the accompanying notes, which are an integral part of these consolidated financial statements.

„EUROINS INSURANCE GROUP " AD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2015	Year ended 31.12.2014
Operating activities			
Loss before tax		(117,176)	(17,367)
Change in insurance reserves, net of reinsurance		62,816	(12,011)
Increase in impairment loss on receivables		11,154	12,433
Depreciation, amortization charged for the period		1,467	1,513
Revaluation of investments, incl. investment properties		7,469	(237)
Profit on sale of investments		(11,902)	(1,411)
Profit on transfer of property, plant and equipment		(13)	(46)
Other cash flows used in operating activities		2,771	1,520
Net investment income		(2,646)	(172)
Net cash flows (used in) from operating activities before changes in assets and liabilities		(46,060)	(15,778)
Increase in receivables		(28,419)	(7,937)
(Decrease) / increase in payables		41,081	(2,701)
Net cash flows used in operating activities		(33,398)	(26,416)
Investing activities			
(Increase)/ decrease in financial assets		(15,881)	21,185
Acquisition of property, plant and equipment		(1,756)	(1,224)
Net cash flow from the sale of shares		(678)	-
Net cash flow from the acquisition of shares		(7,805)	-
Investment income received		1,918	942
Net cash flows from/(used in) investing activities		(24,202)	20,903
Financing activities			
Increase in equity		59,753	-
Received financing		-	62,592
Repayment of principle and interest on received financing		(3,231)	(29,263)
Payments on finance lease		-	(491)
Net cash flows from financing activities		56,522	32,838
Net increase in cash and cash equivalents		(1,078)	27,325
Effect of fluctuations in exchange rates		16	(201)
Cash and cash equivalents at the beginning of year	20	59,867	32,743
Cash and cash equivalents at the end of year	20	58,805	59,867

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2016.

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Executive Director

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EUROINS INSURANCE GROUP Bulgaria

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

The consolidated financial statements are to be read together with the accompanying notes, 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, 2015
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, 2014 before restatements	268,263	1,535	(4,288)	(38,628)	226,882	6,384	233,266
Effect from restatements – note 30	-	-	-	(7,758)	(7,758)	(150)	(7,908)
Balance as of January 1, 2014 (restated)	268,263	1,535	(4,288)	(46,386)	219,124	6,234	225,358
Result for 2014	-	-	-	(18,152)	(18,152)	459	(17,693)
Other comprehensive income							
Revaluation reserve from foreign currency translation	-	-	(383)	-	(383)	141	(242)
Change in fair value of assets available for sale and revaluation of tangible assets	-	(289)	-	-	(289)	117	(172)
Total other comprehensive income	-	(289)	(383)	-	(672)	258	(414)
Total comprehensive income	-	(289)	(383)	(18,152)	(18,824)	717	(18,107)
Contributions and distributions to the owners							
Changes in non-controlling interest without change in control	-	-	-	206	206	422	628
Total transactions with owners, recorded directly in equity	-	-	-	206	206	422	628
Balance as of December 31, 2014	268,263	1,246	(4,671)	(64,332)	200,506	7,373	207,879

„EUROINS INSURANCE GROUP " AD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015	268,263	1,246	(4,671)	(64,332)	200,506	7,373	207,879
Current year result	-	-	-	(95,622)	(95,622)	(5,130)	(100,752)
Other comprehensive income							
Revaluation reserve from translations of the currency of presentation of foreign activities	-	-	(545)	-	(545)	(51)	(596)
Change in fair value of assets available for sale and revaluation of tangible assets	-	66	-	-	66	7	73
Total other comprehensive income	-	66	(545)	-	(479)	(44)	(523)
Total comprehensive income	-	66	(545)	(95,622)	(96,101)	(5,174)	(101,275)
Contributions and distributions to the owners							
Increase of capital	19,600	-	-	-	19,600	-	19,600
Capital reserves	-	40,153	-	-	40,153	-	40,153
Sale of subsidiary	-	-	-	185	185	17	202
Change in non-controlling interest on acquisition of subsidiary	-	-	-	-	-	253	253
Change in non-controlling interest due to transactions without change in control	-	-	-	(645)	(645)	927	282
Total transactions with owners, recorded directly in equity	19,600	40,153	-	(460)	59,293	1,197	60,490
Balance as of December 31, 2015	287,863	41,465	(5,216)	(160,414)	163,698	3,396	167,094

These consolidated financial statements are approved by the Board of directors of "Euroins Insurance Group" AD on May 29, 2016.

Kiril Boshov
Executive Director

Katrin Petkova
Chief Accountant

Sylvia Peneva
Registered Auditor
Statutory Manager

Vasko Raichev
Registered Auditor

The consolidated financial statements are to be read together with the accompanying notes, 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

All amounts are in thousand Bulgarian levs, unless otherwise states

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 subsidiaries:

Investments in subsidiaries	Country	Share	
		As of 31.12.2015	As of 31.12.2014
Euroins Romania Insurance-Reinsurance AD	Romania	96.54%	96.37%
ZD Euroins AD – Bulgaria	Bulgaria	79.82%	78.13%
Euroins Osiguruvanje Skopje AD, Republic of Macedonia	Macedonia	93.36%	93.36%
Euroins – Health assurance EAD	Bulgaria	100%	100%
Inter Sigorta AD, Republic of Turkey	Turkey	-	90.75%
ZD Euroins Life EAD	Bulgaria	100%	100%
ZD EIG Re AD (former name HDI Insurance AD)	Bulgaria	94%	-

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 13,146,354 (thirteen million one hundred and forty six thousand three hundred fifty-four) or 79.82% of the Company's share capital.

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 96.54% of the share capital of Euroins Romania or 222,557,541 (two hundred twenty-two million five hundred and fifty-seven thousand five hundred forty-one) shares.

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

1.2 Economic group structure (continued)

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 7,095,360 (seven million ninety-five thousand three hundred and sixty) shares.

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.

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.

Insurance Company EIG Re AD (former name HDI Insurance AD)

Seat and management address: 1592 Sofia, 43, Christopher Columbus Blvd.
Registration: The company is registered under company file № 14023/2000 and owns an insurance license by the Financial Supervision Commission No. 100/20.11.2000.

At the beginning of 2015 "Euroins Insurance Group" Ltd. acquired 9.40% of the capital of HDI Insurance AD through the purchase of shares of Talanx International AG. On December 29, 2015, after authorization by the Financial Supervision Commission, Euroins Insurance Group AD acquired the remaining shares of Talanx International AG in the capital of HDI Insurance AD. On March 31, 2016, the name of the company was changed to Insurance Company EIG Re AD.

As of December 31, 2015 Euroins Insurance Group AD directly owns 94% of the share capital of EIG Re Insurance company AD, or 7,732,440 (seven million seven hundred and thirty-two thousand four hundred and forty) shares.

All amounts are in thousand Bulgarian levs, unless otherwise states

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

1.2. Economic group structure (continued)

In 2015 the parent company sold its stake in Inter Sigorta AD, Republic of Turkey.

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).

Exchange rates of the major foreign currencies as of December 31, 2015 and 2014 are, as follows:

Currency	**December 31, 2015**	**December 31, 2014**
EUR	1.95583	1.95583
USD	1.79007	1.60841
ROM	0.43179	0.43611
MKD	31.49340	31.43580

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 in note 2.26 the effects of the changes in published International Financial Reporting Standards that are effective from the current reporting period and such that are not yet effective at the date of the consolidated financial statements

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

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 below.

1.5.1 Valuation of outstanding claims reserve

Outstanding claims reserves include liability for Reported but not settled insurance claims (RBNS) as of the date of the financial statements, as well as Reserves for incurred but not reported losses (IBNR).

The liability for reported but not settled claims is calculated on case-by-case basis, based on the best estimate of expected cash outflows for them.

The assessment of liabilities for IBNR is based on the assumption, that the Group's experience in development of claims from prior years can be used for forecasting of the future development of claims and of the total liabilities thereon. The claims development is analyzed by year of event. An additional quality estimation is made for assessment of the degree to which past trends may not be applicable in the future. The amount of the IBNR reserve is determined by an experienced actuary, licensed by the FSC.

The nature of the business makes difficult the exact determination of the outcome of a certain claim and the total amount of reported claims. Each reported claim is reviewed separately due to the circumstances, the available information from claims experts and the historical data of the size of similar claims. The claims valuations are reviewed and updated on a regular basis upon any new information. The reserves are allocated based on current available information.

The final amount of assets, however, may differ as a result of subsequent events and catastrophic incidents. The impact of many circumstances, which determine the ultimate expense for claims settlement is difficult to be foreseen. The difficulties in reserves valuation vary for different types of business depending on the insurance contracts, their complexity, value and significance of claims, determination of the origination date of the claim and the delay of reporting..

The reserve for incurred but not reported claims is calculated using statistical methods. The key method used, or a the combination of methods, depends on the class of business and the observable historical level of claims ratio. The biggest share in this reserve is for Motor Third Party Liability (MTPL).

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

1.5. Accounting estimates and assumptions (continued)

1.5.1 Valuation of outstanding claims reserve (continued)

In 2015 the Group has changed its accounting policy in relation to technical reserves for insurance contracts by applying a new method for determining the technical reserves at group level, based on specific assumptions and accounting estimates as described below. Due to the short observation period of the actual behaviour of estimates made it is uncertain how the actual results could differ from those estimates.

The new method of determining technical reserves targets unified approach to assessing reserve for incurred and not reported claims liability insurance for all companies in the Group. The methodology applies chain ladder method, which is based on the number of claimed damages for a period not less than three years. The amount of the reserve for incurred but not reported claims is calculated based on the expected number of claimed damages and the average size of claims.

The number of claims that are expected to be submitted with delay is calculated by chain ladder method based on actuarial triangles Incurred claims - Paid claims and the reserve for claims outstanding at the date of the financial statements.

In previous periods, the Group has recorded technical reserves on insurance contracts according to the specific regulatory requirements for subsidiaries in the jurisdiction in which they operate.

As a result of the change in policy related to the reporting of reserves at group level, the Group has made a restatement of comparative information as presented in note 30.

1.5.2 Fair value of financial instruments

Determination of fair value of financial instruments for reporting and disclosure purposes requires management to make estimate for appropriate assessment methods and inputs for models that are not based on available financial information. Upon determination of fair value management makes assumptions that market participants would make based on their best economic interest.

The Group applies valuation methods that are based to a maximum degree on appropriate observable market data and the use of non-observable inputs is minimized. However, uncertainty exists in regards to the future fair value levels of financial instruments and whether the fair value of securities, determined based on market quotes will be supported by the market upon future transactions.

1.5.3 Fair value of investment property

The Company owns an investment property with net book value of BGN 14,435 thousand (2014: BGN 15,624 thousand), which is measured at fair value in the statement of financial position. The fair value is measured by licensed appraisers. The investment property represents:

1. A showroom with a warehouse and administrative part, which is rented to a related party. The property is located in Plovdiv.
2. Administrative and technical complex – one storey building-garage, and yard. The property is located in Sofia.
3. Shop for industrial goods, warehouse and office. The property is located in Stara Zagora.

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

1.5. Accounting estimates and assumptions (continued)

1.5.4 Recourse receivables

Recourse receivables from insurance companies and other parties (physical and legal) are recognized as asset and income upon submission of recourse invitation. They are not recognized in full in the statement of financial position, but at the amount to which future economic benefits are expected by the Company. The receivables are reviewed for impairment on individual basis after their recognition.

The Company has the practice to settle recourse receivables from insurance companies by offsetting its payables on recourse claims.

1.5.5 Reinsurers' share in technical reserves

As disclosed in note 2.6 the insurances companies in the Group, are parties to quota share reinsurance contracts which stipulate quota share transfer of existing technical reserves when the contract becomes effective. IFRS does not includes specific requirements for accounting for such types of contracts. Due to their specific nature the Group has made an analysis of the risk transfer and the results indicate that risk transfer exists. Stochastic model is used for the analysis, applying the common limit of 1% for reinsurer's risk transfer.

The Group has adopted accounting policy for reporting of quota share reinsurance contracts, according to which the Group recognizes reinsurance share in the technical reserves as an asset and the respective change in the reinsurer's share in the technical reserves in the statement of comprehensive income at the date of inception of the contract and payables to reinsurers under these contracts are reported during the subsequent periods in which the contracts are effective. The amount of recognized assets and the positive effect on the statement of comprehensive income at inception of the contracts in 2015 and 2014 is at the amount of BGN 12,523 thousand and BGN 104,013 thousand.

During the effective time of contracts during the subsequent periods the Group will cede to the reinsurers the respective percentage of its premiums and claims for Motor third party liability insurance. When the reinsurance contacts expire or are terminated the reinsurers' share in the technical reserves will be released or transferred to other reinsurer. The terms of the contract are with indefinite period of validity. Due to the contingencies related to the future development of contracts and cash flows the Group's management considers that the adopted accounting policy is appropriate.

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".

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

1.6. Basis for consolidation (continued)

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.

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.

2.1.2. 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. Significant accounting policies (continued)

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.

2.5. 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.

2. Significant accounting policies (continued)

2.6. Reinsurance (continued)

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.

2.7. 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.

2. Significant accounting policies (continued)

2.11. Income tax (continued)

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.

2.12. 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. Significant accounting policies (continued)

2.14. Intangible assets

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

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.

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.

2. Significant accounting policies (continued)

2.17. Financial instruments (continued)

2.17.1. Recognition and measurement of financial assets

(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.

The Group reports as financial assets at fair value through profit or loss investments in equity instruments of companies listed for trading on a stock exchange held by the subsidiaries as part of their investment program related to insurance activities, unless the Group controls these companies.

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 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.

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*

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.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price) under current market conditions. Fair value is the sale price regardless of whether the information is received directly from a market transaction or by applying other evaluation technique. Fair value of the asset or liability is measured by making assumptions which the market participants would make upon determining the price by accepting that they act in their best economic interest.

Fair value measurement is based on the assumption that the transaction for the sale of an asset or transfer of a liability is performed on the main market of the respective asset or liability or, in the absence of a main market, the most profitable market for the respective asset or liability, considering that the respective market is available to the Group.

For the measurement of a non-financial asset is taken into consideration the ability of a market participant to generate economic benefits from using the asset according to the most effective and best use or from sale of the asset to another market participant which will use the asset according to its most efficient and best use.

The Group uses evaluation methods reasonable at the circumstances for which there is sufficient data for fair value measurement by using the maximum observable input data and decreasing to minimum the use of unobservable data.

The fair value of financial instruments which are registered for trading on the stock exchange is determined on the basis of price market quotations as of the date of the statement of financial position excluding transaction costs. In case such quotations do not exist, the fair value of financial instruments is determined through pricing models or cash flow discount techniques.

All assets and liabilities measured at fair value in the statement of financial position or for which it is required disclosure of fair value in the financial statements are grouped in categories according to the following fair value hierarchy:

- Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities to which the company has access as of the measurement date;
- Level 2: Other than the quoted process in level 1 for an asset or liability which are directly or indirectly observable;
- Level 3: Unobservable inputs for an asset or liability.

2. Significant accounting policies (continued)

2.17. Financial instruments (continued)

2.17.2. Principle of fair value measurement (continued)

Each financial assets is qualified in one of the above levels according to the lowest level of input data used which have significant effect on measuring the fair value in general.

For financial instruments reported regularly at fair value the Group reviews the distribution at fair value levels as of the end of the reporting period and decides whether there is necessity to transfer from one to another level.

The allocation of financial assets and liabilities by levels is presented in note 28.

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.

2.18. 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. Significant accounting policies (continued)

2.17. Financial instruments (continued)

2.19. Insurance / health insurance and other receivables

Insurance / health insurance and other receivables are stated at their cost less impairment losses. When under the insurance contract the premiums are payable in installments, each pending receivable amount at the date of statement of financial position and recognized as income is reflected as receivables on direct insurance. After initial recognition, receivables are reviewed for impairment and impairment loss is recognized in the statement of comprehensive income.

The Group's right to recover from the insured person or third party responsible for the incurred damage the performed by the Group payment on the insurance contract is recognized as regression receivable on the date on which is established the receivable right. The recourse receivables are recognized to the amount of the expected future cash flows as of the recognition date.

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.

Deposits with original maturity over 90 days are reported as financial assets.

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

Initial application of new amendments to the existing Standards and Interpretations effective for the current financial period

The following new amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (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),
- IFRIC 21 "Levies" adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

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

Amendments to the existing Standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following amendments to the existing standards 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 IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants - adopted by the EU on November 23, 2015 (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 - adopted by the EU on December 2, 2015 (effective for annual periods beginning on or after January 1, 2016),
- 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),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations adopted by the EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative – adopted by the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements - adopted by the EU on December 18, 2015 (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 - adopted by the EU on December 15, 2015 (amendments are to be applied for annual periods beginning on or after January 1, 2016).

2. Significant accounting policies (continued)

2.26. Changes in IFRS (continued)

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except from the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of 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) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after January 1, 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- 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),
- 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),

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 one noted below which might have material effect on the financial statements:

- IFRS 9 Financial Instruments, which 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 financial statements, if applied as at the reporting date.

2.27. Comparative information

The Group preserves the way of presentation of information in the financial statements during the periods. Where necessary comparative information is reclassified so that it is in compliance with the changes which occurred during the current year. In 2015 the Company has identified errors from prior reporting periods which it has corrected in the respective period. In addition, in 2015 the Group has made changes in accounting policy related to the reporting of technical reserves and it has recalculated the comparative information. The effect from the restatements is presented in note 30.

3. Risk management

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.

3.3. 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.

3. Risk management (continued)

3.3. Reinsurance strategy (continued)

In 2015, as part of the agreement with Talanx International AD for the acquisition of HDI Insurance AD, ZD Euroins AD signed a contract for reinsurance with HDI Insurance AD preceding the final acquisition of the company in December 2015.

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:

3.4.1. 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. Risk management (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.

3.4.3. 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.

3. Risk management (continued)

3.4. Terms and conditions of insurance contracts (continued)

3.4.3. General insurance contracts – Property (continued)

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.

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 Concentration of insurance risks

Management considers that as of December 31, 2015 there are no significant concentrations of insurance risk in the Group's portfolio.

Potential source of insurance risk concentration is Property insurance. Property is subject to multitude of risks including theft, fire, business discontinuation and meteorological conditions. Compensations for events such as storms, floods, collapses, fire, explosion and increasing criminal rate originate in a regional scale which means that the Company manages the distribution of geographic risk 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. Risk management (continued)

3.5 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 company uses a number of modeling 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 the Group believes that appropriate efforts have been made in order to split, uniformly and territorially, insured properties. Risk assessment is performed periodically by Reinsurance manager to each company and insured sums accumulation is observed by regions. The management does not believe that at the end of the reporting period, there are significant concentrations of insurance risk in the portfolio of each insurance company, part of the Euroins Insurance Group AD.

Note 29 presents the Group's geographical segmentation.

3.6. 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

3.7. 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.

3. Risk management (continued)

3.7. Claims development

Accident year	Before 2010	2010	2011	2012	2013	2014	2015	Total
Estimate of cumulative claims at the end of accident year	242,189	130,644	132,812	184,448	190,192	167,002	231,013	231,013
1 year later	220,321	140,655	136,481	198,196	240,040	206,794	-	206,794
2 year later	243,582	155,310	158,999	232,054	293,608	-	-	293,608
3 year later	261,241	169,865	172,250	268,293	-	-	-	268,293
4 year later	273,774	185,692	184,072	-	-	-	-	184,072
5 year later	289,082	192,303	-	-	-	-	-	192,303
1 year later	268,735	-	-	-	-	-	-	268,735
Current measurement	268,735	192,303	184,072	268,293	293,608	206,794	231,013	**1,644,819**
Cumulative payments	(313,809)	(170,193)	(158,491)	(220,663)	(220,832)	(135,366)	(93,584)	(1,312,938)
Estimate of cumulative claims	45,074	(22,110)	(25,581)	(47,630)	(72,776)	(71,428)	(137,429)	(331,881)
*** Liability value recognized in the statement of financial position**	-	-	-	-	-	-		(331,881)

* 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 data for general insurance, as gross technical reserves in general insurance represents more than 99% of the entire portfolio of the Group.

3. Risk management (continued)

3.8. 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 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.

When the expected future cash flows from premiums incl. formed at the end of the year unearned premium reserves are not sufficient to cover future expenses for paid claims predicted by the loss ratio determined for each type of activity on the basis of past experience, as well as costs related to the servicing of policies and payments, a reserve for unexpired risks is formed.

In order to verify the amount of recorded technical reserves the Group performs liability Adequacy Test (LAT) based on the estimated amount of future cash flows. If the performed test for adequacy of reserves shows a difference of more than 5% of the estimated reserve, additional reserves are booked.

Future cash flows are projected based on the historical development of claims, expected loss ratio or proportion of expenditure, as well as the frequency of the damage and the average size of a damage.

In estimating future cash flows for the unexpired term of the contracts in force at the end of the reporting period the Group uses the expected value of the loss ratio determined on the basis of past experience and expense ratio. In analyzing of the future costs, the Group considers their nature based on the moment of origination – upon commencement of the contracts or deferred for the period of validity of the contracts.

In forecasting the future cash flows on claims incurred before the end of the reporting period, the Group uses data grouped in triangles representing the development of claims in time and the delay in claims reporting and payment.

For some types of insurance, where appropriate, an analysis is made on the average size of claims and frequency of events, based on which the Group determines the estimated future payments. Sensitivity analysis can be performed in forecasting future cash flows by comparison of market data for the average amount of claims and frequency of events.

3. Risk management (continued)

3.9. Financial risk management

The Group is exposed to the following risks upon performing operations with financial instruments:

- Market risk, including interest risk, currency risk, price risk
- Credit risk
- Liquidity risk

Market risk can be described as the risk of change in the fair value of a financial instrument due to the change in interest rates, prices of equity instruments or exchange rates. It includes three types of risks which are reviewed separately.

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.

3.9.1 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)

3.9. Financial risk management (continued)

Sensitivity to changes of the effective interest rates of Group's financial assets as of December 31, 2015:

As of December 31, 2015	Floating interest	Fixed interest	Non-interest bearing	Total
Cash and cash equivalents	49,977	6,474	2,354	58,805
Deposits in financial institutions	-	16,251	-	16,251
Government bonds at fair value in profit or loss	-	6,441	-	6,441
Government securities held to maturity	-	2,600	-	2,600
Government securities available for sale	13	2,781	-	2,794
Corporate bonds at fair value through profit or loss	-	14,902	-	14,902
Current assets	-	-	398	398
Other financial receivables	-	-	4,657	4,657
Receivables from direct insurance	-	-	56,167	56,167
Reinsurance receivables	-	-	20,915	20,915
Regression receivables	-	-	11,701	11,701
Other receivables	-	-	32,282	32,282
Total	49,990	49,449	128,474	227,913

Sensitivity to changes of the effective interest rates of Company's financial assets as of December 31, 2014:

As of December 31, 2014	Floating interest	Fixed interest	Non-interest bearing	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 in 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
Current assets	-		869	869
Other financial receivables	-	-	4,082	4,082
Receivables from direct insurance	-	-	63,442	63,442
Reinsurance receivables	-	-	6,171	6,171
Regression receivables	-	-	8,813	8,813
Other receivables	-	-	16,436	16,436
Total	42,707	50,630	102,272	195,609

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)

3.9. Financial risk management (continued)

3.9.2 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.

The allocation of financial assets and liabilities by types of currency is as follows:

As of December 31, 2015	**BGN**	**EUR**	**MKD**	**RON**	**Other**	**Total**
Cash and cash equivalents	21,626	27,174	186	9,819	-	58,805
Deposits in financial institutions	6,635	5,539	3,906	171	-	16,251
Government securities at fair value through profit or loss	4,805	798	-	-	838	6,441
Government securities available for sale	271	2,523	-	-	-	2,794
Corporate bonds at fair value through profit or loss	14,059	843	-	-	-	14,902
Government securities held to maturity	-	-	2,600	-	-	2,600
Shares in mutual funds	644	182	1,377	-	-	2,203
Other equity investments	63,017	5,387	77	933	-	69,414
Current assets	398	-	-	-	-	398
Other financial receivables	4,657	-	-	-	-	4,657
Receivables from direct insurance	56,167	-	-	-	-	56,167
Reinsurance receivables	20,915					20,915
Recourse receivables	11,701	-	-	-	-	11,701
Other receivables	32,282	-	-	-	-	32,282
Total	**237,177**	**42,446**	**8,146**	**10,923**	**838**	**299,530**
Payables on reinsurance agreements and other payables	14,308	63,339	889	15,308	-	93,844
Loans received	101	25,932	-	-	-	26,033
Total	**14,409**	**89,271**	**889**	**15,308**	-	**119,877**

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)

3.9. Financial risk management (continued)

3.9.2 Currency risk (continued)

The allocation of financial assets and liabilities by types of currency is as follows:

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
Current assets	234	-	267	369	-	869
Other financial receivables	4.082	-	-	-	-	4,082
Receivables from direct insurance	31,376	-	4,144	27,922	-	63,442
Reinsurance receivables	2,623	-	3	3,545	-	6,171
Recourse receivables	5,935	-	449	2,429	-	8,813
Other receivables	4,863	-	2,735	8,786	52	16,436
Total	**150,868**	**29,643**	**16,065**	**51,178**	**800**	**252,636**
Payables on reinsurance agreements and other payables	16,387	8,251	1,540	6,450	159	33,066
Loans received	6,585	43,963	796	2,495	-	53,839
Total	**22,972**	**52,214**	**2,336**	**8,945**	**159**	**86,905**

3.9.3 Price risks

The Company's exposure to price risk is related to the financial assets reported at fair value which include shares and bonds traded on the BSE.

For these instruments there is a risk that the fair value of future cash flows for certain financial instrument will fluctuate due to changes in the market prices (different from those related to interest and currency risk) regardless of whether these changes are caused by factors specific to the individual financial instrument or its issuer or factors which affect the market.

Price risk is managed by analyzing the companies in which is invested based on their operating activity.

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)

3.9. Financial risk management (continued)

3.9.4 Credit risk

The maximum exposure to credit risk represents the carrying amount of financial assets.

The Group holds assets in the trade portfolio 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.

The table below presents the financial assets quality as maximum credit exposure based on ratings of rating agencies Fitch and Moody's when they are applicable:

Type of investment and rating	**As of 31.12.2015**	**As of 31.12. 2014**
Government securities		
Rating BB-	2,600	2,836
Rating BBB	6,712	845
Rating BAA3	-	
Rating AA	832	848
Rating A	1,690	1,321
Corporate bonds		
Rating A	-	-
Rating BBB+		997
No Rating	15,366	16,346
Mortgage bonds		
Rating BB+	-	-
Shares		
Rating aA3	-	-
Rating bgBaa3	15	22
No Rating	66,481	57,005
Total	93,697	80,200

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)

3.9. Financial risk management (continued)

3.9.4 Credit risk (continued)

Exposure to government debt

The Company has exposure to government debt as follows:

Portfolio as of 31.12.2015	Bulgaria	Slovenia	Slovakia	Lithuania	Czech Republic	Ireland	Macedonia	Total
Held for trading or available for sale	5,076	2,085	400	438	832	404	-	9,235
Held to maturity	-	-	-	-	-	-	2,600	2,600
Total	**5,076**	**2,085**	**400**	**438**	**832**	**404**	**2,600**	**11,835**

Portfolio as of 31.12.2014	Bulgaria	Slovenia	Slovakia	Lithuania	Czech Republic	Ireland	Macedonia	Total
Held for trading or available for sale	845	-	-	-	848	1,321	-	3,014
Held to maturity	-	-	-	-	-	-	2,836	2,836
Total	**845**	**-**	**-**	**-**	**848**	**1,321**	**2,836**	**5,850**

Aging analysis of receivables

The aging analysis of receivables related to insurance and reinsurance is as follows:

As of 31.12.2015	Not overdue	Overdue up to 30 days	Overdue up to 60 days	Overdue up to 90 days	Overdue more than 90 days	Total
Receivables on direct insurance	41,078	9,423	1,567	1,304	2,795	56,167
Total	41,078	9,423	1,567	1,304	2,795	56,167

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)
3.9. Financial risk management (continued)
3.9.4 Credit risk (continued)

Aging analysis of receivables (continued)

As of 31.12.2014	Not overdue	Overdue up to 30 days	Overdue up to 60 days	Overdue up to 90 days	Overdue more than 90 days	Total
Receivables on direct insurance	29,816	11,466	7,277	8,363	6,520	63,442
Total	29,816	11,466	7,277	8,363	6,520	63,442

The Company has adopted a policy to write off overdue receivables from insured persons /direct insurance/ due to the early termination of the insurance policy. The policy is terminated unilaterally due to default of the insurance payment in the term agreed in the insurance policy. The company applies its right to terminate the contract at the event of default of payment after certain number of days after the payment maturity. Uncollected receivables under insurance policies are written off after the policy termination. This practice is not applied to the Company's key customers and customers who have long-term commercial relations with the Company.

Other receivables include receivables with deferred payment from Bulgarian companies. These receivables are not secured, not overdue and have no recorded impairment as of the end of the reporting period. The Group's management considers that there is no significant credit risk related to these receivables as they are from long-term commercial partners of the Group and the financial position of the counterparties is monitored.

3.9.5 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. Risk management (continued)

3.9. Financial risk management (continued)

3.9.5 Liquidity risk (continued)

Maturity structure of financial assets

The table below shows an analysis of the financial assets of the Group based on the residual term to maturity:

As of December 31, 2015	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	57,585	1,099	45	76	-	-	-	-	58,805
Deposits in financial institutions	597	1,526	4,416	6,332	2,615	-	196	569	16,251
Government securities held to maturity	-	890	-	470	1,240	-	-	-	2,600
Government securities available for sale	109	-	-	-	1,449	832	404	-	2,794
Corporate bonds at fair value through profit and loss	-	-	498	1,965	1,820	3,436	273	6,910	14,902
Government securities held for trading	503	393	-	-	107	624	4,016	798	6,441
Shares in mutual funds	-	-	-	-	-	-	-	2,203	2,203
Equity investments	-	-	-	-	-	-	-	64,757	64,757
Other financial assets	-	-	-	4,657	-	-	-	-	4,657
Receivables on direct insurance	23,767	11,283	13,257	7,860	-	-	-	-	56,167
Reinsurance receivables	6,377	14,538	-	-	-	-	-	-	20,915
Recourse receivables	11,701	-	-	-	-	-	-	-	11,701
Other receivables	15,632	4,206	7,305	5,139	-	-	-	-	32,282
Total	**116,271**	**33,935**	**25,521**	**26,499**	**7,231**	**4,892**	**4,889**	**75,237**	**294,475**

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)
3.9. Financial risk management (continued)
3.9.5 Liquidity risk (continued)

Maturity structure of financial assets (continued)

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	58,685	1,075	37	70	-	-	-	-	59,867
Deposits in financial institutions	1,337	477	1,806	5,843	2,448	-	293	552	12,756
Government securities held to maturity	-	-	1,600	318	918	-	-	-	2,836
Government securities available for sale	-	-	-	-	109	1,339	848	-	2,296
Corporate bonds at fair value through profit and loss	-	-	20	20	13,340	1,011	-	2,932	17,323
Government securities held for trading	-	-	-	-	718	-	-	-	718
Shares in mutual funds	-	-	-	-	-	-	-	11,220	11,220
Equity investments	-	-	-	-	1,195	-	-	44,612	45,807
Other financial assets	-		3,902	180	-		-	-	4,082
Receivables on direct insurance	13,652	21,532	17,320	10,938	-	-	-	-	63,442
Reinsurance receivables	-	2,935	3,236	-	-	-	-	-	6,171
Recourse receivables	2,002	5,751	1,060	-	-	-	-	-	8,813
Other receivables	6,494	9,942	-	-	-	-	-	-	16,436
Total	**82,170**	**41,712**	**28,981**	**17,369**	**18,728**	**2,350**	**1,141**	**59,316**	**251,767**

All amounts are in thousand Bulgarian levs, unless otherwise states

3. Risk management (continued)

3.9. Financial risk management (continued)

3.9.5 Liquidity risk (continued)

Maturity structure of the liabilities

An analysis of financial liabilities (on non-discounted cash flow basis) and technical insurance reserves based on residual term to maturity is presented below:

As of December 31, 2015	Up to 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
Unearned premium reserve	120,308	-	-	-	-	120,308
Unexpired risk reserve	14,764	-	-	-	-	14,764
Reserve for reported but not settled claims	188,414	-	-	-	-	188,414
Reserve for incurred but not reported claims	125,714	11,686	5,062	1,979	-	144,441
Other technical reserves	3,470	333	-	-	2,588	6,391
Liabilities from direct insurance	7,210	-	-	-	-	7,210
Liabilities for reinsurance contracts	67,097	-	-	-	-	67,097
Lease liabilities	117	437	400	-	-	954
Loan payables	1,881	10,446	3,765	22,167	-	38,259
Other liabilities	18,583	-	-	-	-	18,583
Total	547,558	22,902	9,227	24,146	2,588	606,421

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	95,319	-	-	-	-	95,319
Unexpired risk reserve	3,294	-	-	-	-	3,294
Reserve for reported but not settled claims	108,687	-	-	-	-	108,687
Reserve for incurred but not reported claims	61,113	9,655	4,828	2,520	-	78,116
Other technical reserves	2,609	173	-	-	2,314	5,096
Liabilities from direct insurance	1,336	-	-	-	608	1,944
Liabilities for reinsurance contracts	8,563	-	-	-	48	8,611
Lease liabilities	151	137	390	-	-	678
Loan payables	22,673	10,073	3,763	34,587	-	71,096
Other liabilities	21,723	-	160	-	-	21,833
Total	325,418	20,038	9,141	37,107	2,970	394,674

3. Risk management (continued)

3.9. Financial risk management (continued)

3.9.6 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.

3.10 Capital management

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, 2015 the entities within the Group observe all requirements related to the mandatory capital set by the respective regulators.

In 2016 there will be a number of regulatory changes, which will have a significant impact on the insurance market and, in particular, on the Group, including new Insurance code, Directive 2009/138/EC regarding the starting and performing of reinsurance activities (Solvency II), and other. The management is in a process of analysis of the effect of the new regulatory framework on its capital position and activity. The Group depends on the support of the shareholders, if additional capital is needed as a result of the new regulatory framework.

All amounts are in thousand Bulgarian levs, unless otherwise states

4. Gross written premiums

	Year ended 31.12.2015	Year ended 31.12.2014
Motor hull	32,141	27,006
Motor TPL and Green card	367,213	235,032
Property insurance	20,467	17,864
Agricultural insurance	3,375	1,978
Accidents and health	14,159	13,741
Cargo	6,909	6,082
Liabilities	4,821	4,985
Other	3,730	4,495
Gross written premiums	**452,815**	**311,183**
Change in the gross provision for unearned premium reserve	(37,702)	(4,654)
Gross earned premiums	**415,113**	**306,529**
Less: written premiums ceded to reinsurers	(184,741)	(13,657)
Change in the provision for unearned premiums reinsurer's share	16,199	5,984
Earned premiums ceded to reinsurers	**(168,542)**	**(7,673)**
Net earned premiums	**246,571**	**298,856**

All amounts are in thousand Bulgarian levs, unless otherwise states

4. Gross written premiums (continued)

The technical result of the Company by business lines for the year ended December 31, 2015 is shown in the table below.

	Gross premiums written	Gross premiums earned	Disbursed compensations, net of recourse*	Incurred claims, net of changes in the technical reserves*	Acquisition and administrative expenses *	Other technical income (expenses)*	Reinsurance result	Technical profit (loss)
Motor CASCO insurance	32,141	31,603	(27,163)	(29,435)	(9,533)	(3,500)	472	(10,393)
Motor TPL and Green card	367,213	331,261	(254,933)	(335,498)	(104,813)	(40,370)	30,429	(118,991)
Property insurance	20,467	19,034	(7,381)	(6,920)	(7,080)	(1,753)	(2,502)	779
Agricultural Insurance	3,375	2,988	(2,144)	(2,454)	(1,296)	(42)	(8)	(812)
Accidents and health	14,159	15,645	(8,061)	(8,921)	(4,906)	(2,381)	60	(503)
Cargo	6,909	6,457	(865)	(1,178)	(2,358)	(907)	(1,137)	877
Liabilities	4,821	4,115	(530)	(1,568)	(1,877)	(314)	934	1,290
Other	3,730	4,010	(85)	(375)	(4,117)	1,164	(1,567)	(885)
Total – General Insurance	**452,815**	**415,113**	**(301,162)**	**(386,349)**	**(135,980)**	**(48,103)**	**(26,681)**	**(128,638)**

* 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

4. **Gross written premiums (continued)**

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

	Gross premiums written	**Gross premiums earned**	**Disbursed compensations, net of recourse***	**Incurred claims, net of changes in the technical reserves***	**Acquisition and administrative expenses ***	**Other technical income (expenses)***	**Reinsurance result**	**Technical profit (loss)**
Motor CASCO insurance	27,006	28,182	(20,830)	(21,821)	(9,609)	(3,195)	(2,917)	(9,360)
Motor TPL and Green card	235,032	228,726	(173,498)	(186,284)	(77,659)	(16,654)	61,694	9,823
Property insurance	17,864	19,905	(6,370)	(7,835)	(7,600)	(1,169)	(489)	2,812
Agricultural Insurance	1,978	2,145	(1,978)	(2,270)	(848)	(310)	(1,029)	(2,312)
Accidents and health	13,741	12,327	(6,463)	(6,336)	(3,313)	(384)	(160)	2,134
Cargo	6,082	6,094	(1,186)	(1,460)	(2,155)	(917)	(675)	887
Liabilities	4,985	4,841	(1,084)	(490)	(1,538)	(342)	(462)	2,009
Other	4,495	4,309	(862)	(903)	(4,971)	547	(294)	(1,312)
Total – General Insurance	**311,183**	**306,529**	**(212,271)**	**(227,399)**	**(107,693)**	**(22,424)**	**55,668**	**4,681**

* 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

	Year ended 31.12.2015	Year ended 31.12.2014
Commissions received from reinsurers	5,177	2,537
Other income from reinsurers	437	278
Total fees and commission income	5,614	2,815

6. Financial income

	Year ended 31.12.2015	Year ended 31.12.2014
Interest income from investments in securities and deposits	2,041	2,222
Dividend income from investments in equities	89	65
Rental income from investments in properties	340	359
Income from revaluation of assets at fair value	1,409	4,843
Income from sale of financial assets	12,329	2,742
Other financial income	2,299	1,186
Total financial income	18,507	11,417

7. Other operating income

Other operating income includes income from issuance of vehicle valuation certificates and income from fees for intermediary services on Green Card.

8. Claims incurred, net of reinsurance

	Year ended 31.12.2015	Year ended 31.12.2014
Current year claims paid, claims handling and prevention expenses	(303,936)	(217,604)
Change in the outstanding claims provision	(146,214)	(12,567)
Change in other technical reserves	(250)	(2,561)
Received recoveries from reinsurers	126,113	14,024
Change in the reinsurers' share in the outstanding claims reserve	105,335	46,502
Recourse receivables	9,638	5,333
Total incurred claims, net of reinsurance	(209,314)	(166,873)

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

All amounts are in thousand Bulgarian levs, unless otherwise states

9. Acquisition expenses

	Year ended 31.12.2015	Year ended 31.12.2014
Commissions and profit share	(94,386)	(66,990)
Change in reserve for bonuses and rebates and management insurance	(63)	254
Bonuses expenses	(826)	(270)
Advertising and marketing expenses	(17,582)	(18,237)
Total acquisition expenses	**(112,857)**	**(85,243)**

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	(458)	(555)
Expenses for hired services	(8,708)	(8,339)
Depreciation and amortization expenses	(1,467)	(1,513)
Personnel expenses	(10,106)	(9,028)
Other	(2,384)	(3,015)
Total administrative expenses	**(23,123)**	**(22,450)**

At the end of the reporting period the average number of employees in the Group is 1,119 (2014 г.: 1,015), by companies as follows:

- 10 (2014: 10) in Euroins Insurance Group AD,
- 390 (2014: 390) in Euroins Insurance AD,
- 433 (2014: 428) in Euroins Romania Insurance-Reinsurance AD,
- 150 (2014: 140) in Euroins Osiguruvanje Skopje AD Macedonia,
- 18 (2014: 25) in Euroins Health Insurance EAD,
- 24 (2014. 20) in Euroins Life Insurance EAD,
- 94 in Inter Sigorta AD.

11. Financial expenses

	Year ended 31.12.2014	Year ended 31.12.2013
Interest expense	(4,598)	(1,577)
Loss on revaluation of financial assets	(8,471)	(4,895)
Loss on sale of financial assets	(427)	(1,331)
Expenses for investment management	(294)	(401)
Other finance cost	(2,473)	(3,866)
Total finance expenses	**(16,263)**	**(12,070)**

All amounts are in thousand Bulgarian levs, unless otherwise states

12. Other operating expenses

	Year ended 31.12.2015	Year ended 31.12.2014
Expenses for Guarantee fund	(16,960)	(8,961)
Other statutory expenses and license fees	(503)	(479)
Bad debt provision	321	(25,013)
Receivables written off on insurance policies	(11,154)	(8,883)
Other	(1,088)	(3,262)
Total other operating expenses	**(29,384)**	**(46,598)**

13. Other net income

	Year ended 31.12.2015	Year ended 31.12.2014
Net income from sale of assets	13	46
Other non-operating income	40	198
Other non-operating expenses	285	(176)
Total other net income	**338**	**68**

14. Taxation

Tax expenses are presented as follows:

	Year ended 31.12.2015	Year ended 31.12.2014
Income tax expense for the current year	-	(51)
Deferred tax	16,424	(275)
Total taxation	**16,424**	**(326)**

Current tax expenses represent the amount of tax payable according to the local legislation at tax rates in force at the end of 2015 and 2014.
The calculation of the effective tax rate is specified in the following table:

	Year ended 31.12.2015	Year ended 31.12.2014
Loss before tax	(117,176)	(17,367)
Applicable tax rate	10%	10%
Income tax expense calculated at the applicable tax rate (10% for 2015 and 2014)	11,718	1,737
Effect from nontaxable income and nondeductible expenses	(1,768)	(6,374)
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,474	4,311
Taxes	16,424	(326)
Effective tax rate	14%	2%

All amounts are in thousand Bulgarian levs, unless otherwise states

14. Taxation (continued)

The balances of the deferred assets and liabilities are as follows:

	Assets		**Liabilities**		**Net assets / liabilities**	
	As of 31.12.2015	**As of 31.12.2014**	**As of 31.12.2015**	**As of 31.12.2014**	**As of 31.12.2015**	**As of 31.12.2014**
Property, plant and equipment	-	-	(72)	(52)	(72)	(52)
Payables to personnel for unused paid leaves and retirement compensations	58	48	-	-	58	48
Accrued personal income	15	28	-	-	15	28
Tax loss for carryforward	16,736	289	-	-	16,736	289
Net deferred tax assets / liabilities	16,809	365	(72)	(52)	16,737	313

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**		**Balance as of December 31, 2015**
			Other comprehensive income	**Accumulated loss**	
Property, plant and equipment	(52)	(20)	-	-	(72)
Payables to personnel for unused paid leaves and retirement compensations	48	10	-	-	58
Accrued personal income	28	(13)	-	-	15
Tax loss for carryforward	289	16,447	-	-	16,736
Net deferred tax assets / liabilities	313	16,424	-	-	16,737

All amounts are in thousand Bulgarian levs, unless otherwise states

14. Taxation (continued)

Deferred tax assets related to tax loss for carryforward are recognized to the extent of expected future taxable profits against which this tax loss can be utilized. Tax losses available for carryforward by the year of origination and recognized and unrecognized deferred tax assets are as follows:

Year of origination	Total tax loss	Loss, on which deferred tax asset is not recognized	Loss, on which tax asset is recognized
2011	1,257	1,257	-
2012	1,038	882	216
2013	868	-	868
2014	2,404	2,404	-
2015	115,578	12,288	103,290
Total	**121,145**	**16,831**	**104,374**

The deadline for utilization of tax losses is 5 years in Bulgaria and 7 years in Romania. The realized tax loss for 2015 is mainly due to the Group's operations in Romania. Management has performed an analysis of the expected future tax profits for the companies in the group and recognized a deferred tax asset to the extent of expected future profits.

Tax losses available for deduction by the year of expiration and recognized and unrecognized deferred tax assets are as follows:

Year of expiration	Total tax loss	Loss, on which deferred tax asset is not recognized	Loss, on which tax asset is recognized
2016	1,257	1,257	-
2017	1,038	882	216
2018	868	-	868
2019	2,404	2,404	-
2020	2,778	2,488	290
2021	-	-	-
2022	112,800	9,800	103,000
Total	**121,145**	**16,831**	**104,374**

All amounts are in thousand Bulgarian levs, unless otherwise states

15. Intangible assets

	Software	Other	Total
Cost			
Balance as of January 1, 2014	3,272	43	3,315
Acquisitions	571	-	571
Disposals	(58)	(3)	(61)
Exchange rate differences	(6)	-	(6)
Balance as of December 31, 2014	3,779	40	3,819
Depreciation and impairment losses			
Balance as of January 1, 2014	(1,987)	(40)	(2,027)
Depreciation charged for the year	(526)	-	(526)
Written-off depreciation on disposals	58	-	58
Exchange rate differences	102	-	102
Balance as of December 31, 2014	(2,353)	(40)	(2,393)
Net book value			
Balance as of January 1, 2014	1,285	3	1,288
Balance as of December 31, 2014	1,426	-	1,426
Cost			
Balance as of January 1, 2015	3,779	40	3,819
Acquisitions	485	283	768
Assets acquired from business combination	14	-	14
Exchange rate differences	4	-	4
Balance as of December 31, 2015	4,282	323	4,605
Depreciation and impairment losses			
Balance as of January 1, 2015	(2,353)	(40)	(2,393)
Depreciation charged for the year	(431)	-	(431)
Exchange rate differences	(6)		(6)
Balance as of December 31, 2015	(2,790)	(40)	(2,830)
Net book value			
Balance as of January 1, 2015	1,426	-	1,426
Balance as of December 31, 2015	1,492	283	1,775

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, 2014	1,447	3,981	7,190	1,655	14,273
Additions	8	220	621	29	878
Disposals	(94)	(587)	(734)	(11)	(1,426)
Revaluation	40	-	-	-	40
Exchange differences	(4)	(3)	(5)	(1)	(13)
Balance as of December 31, 2014	1,397	3,611	7,072	1,672	13,752
Depreciation					
As of January 1, 2014	(239)	(3,404)	(5,423)	(1,216)	(10,282)
Depreciation charged for the year	(76)	(244)	(569)	(97)	(986)
Written-off depreciation on disposals	63	551	399	6	1,019
Exchange differences	1	2	8	1	12
Balance as of December 31, 2014	(251)	(3,095)	(5,585)	(1,306)	(10,237)
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**	**1,487**	**366**	**3,515**
Cost					
As of January 1, 2015	1,397	3,611	7,072	1,672	13,752
Additions	37	463	594	10	1,104
Disposals	-	(306)	(228)	(78)	(612)
Revaluation	30	-	-	-	30
Exchange differences	(16)	(10)	(25)	(3)	(54)
Balance as of December 31, 2015	1,448	3,758	7,413	1,601	14,220
Depreciation					
As of January 1, 2015	(251)	(3,095)	(5,585)	(1,306)	(10,237)
Depreciation charged for the year	(78)	(281)	(600)	(77)	(1,036)
Written-off depreciation on disposals	-	286	194	-	480
Written-off depreciation on revaluated assets	7	-	-	-	7
Exchange differences	4	7	21	2	34
Balance as of December 31, 2015	(318)	(3,083)	(5,970)	(1,381)	(10,752)
Carrying amount					
Balance as of January 1, 2015	1,146	516	1,487	366	3,515
Balance as of December 31, 2015	**1,130**	**675**	**1,443**	**220**	**3,468**

All amounts are in thousand Bulgarian levs, unless otherwise states

17. Investment properties

	As of 31.12.2015	As of 31.12.2014
Balance as of January 1	15,624	14,666
Revaluation	(1,123)	1,040
Exchange differences	(66)	(82)
Balance as of December 31	14,435	15,624

18. Financial assets

As of 31.12.2015	Held to maturity	Available for sale	For trading	Loans and receivables	Total
Registered for trading on stock exchange	-	-	63,742	-	63,742
Not registered for trading on stock exchange	-	933	82	-	1,015
Equity securities	-	933	63,824	-	64,757
Government bonds	2,600	2,794	6,441	-	11,835
Corporate bonds	-	-	14,902	-	14,902
Debt securities	2,600	2,794	21,343	-	26,737
Open investment funds	-	-	2,203	-	2,203
Investment funds	-	-	2,203	-	2,203
Deposits in banks	322	-	7,235	8,125	15,682
Restricted deposits	-	-	-	569	569
Other receivables	-	-	-	4,657	4,657
Deposits and other receivables	322		7,235	13,351	20,908
Total financial assets	2,922	3,727	94,605	13,351	114,605

All amounts are in thousand Bulgarian levs, unless otherwise states

18. Financial assets (continued)

As of 31.12.2014	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
Investment funds	-	-	11,220	-	11,220
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

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 31.12.2015	As of 31.12.2014
Receivables from direct insurance	56,167	63,442
Receivables from reinsurers or cedants	20,915	6,171
Recourse receivables	11,701	8,813
Other receivables	32,282	16,436
Current assets	398	869
Total receivables and other assets	121,463	95,731

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 31.12.2015	As of 31.12.2014
Cash on hand	2,133	1,811
Current accounts	7,238	14,653
Deposits up to 90 days	49,434	43,403
Total cash and cash equivalents	**58,805**	**59,867**

21. Insurance reserves

Insurance reserves, including health and life insurance reserves:

	As of December 31, 2015			As of December 31, 2014		
	Gross amount	Reinsurance	Gross amount	Reinsurance	Gross amount	Reinsurance
Unearned premium reserve	120,308	(69,190)	51,118	95,319	(52,089)	43,230
Unexpired risk reserve	14,764	(7,787)	6,977	3,294	(1,225)	2,069
Claims reserves, incl.:	332,855	(186,517)	146,338	186,803	(91,869)	94,934
Reserves for incurred, but not reported claims	144,441	(83,399)	61,042	78,116	(39,003)	39,113
Reserves for reported, but not settled claims	188,414	(103,118)	85 296	108,687	(52,866)	55,821
Other technical reserves, incl.:	6,391	(1,843)	4,548	5,096	(1,133)	3,963
Mathematical reserves	2,921	-	2 921	2,487	-	2,487
Total insurance reserves	**474,318**	**(265,337)**	**208 981**	**290,512**	**(146,316)**	**144,196**

Insurance reserves excluding health and life insurance reserves:

	As of December 31, 2015			As of December 31, 2014		
	Gross amount	Reinsurance	Gross amount	Reinsurance	Gross amount	Reinsurance
Unearned premium reserve	118,705	(69,042)	49,663	93,312	(51,949)	41,363
Unexpired risk reserve	14,782	-	14,782	3,144	-	3,144
Claims reserves, incl.:	331,881	(157,273)	122,183	185,963	(91,717)	94,246
Reserves for incurred, but not reported claims	143,404	(82,617)	60,787	77,590	(38,896)	38,694
Reserves for reported, but not settled claims	188,477	(103,537)	84,940	108,373	(52,821)	55,552
Other technical reserves, incl.:	3,291	-	3,291	2,435	-	2,435
Total insurance reserves	**468,659**	**(255 196)**	**213,463**	**284,854**	**(143,666)**	**133,073**

All amounts are in thousand Bulgarian levs, unless otherwise states

22. Payables to reinsurers and other payables

	As of 31.12.2015	As of 31.12.2014
Payables from direct insurance	7,210	1,944
Payables to reinsurers	67,097	8,611
Payables under lease contracts	954	678
Payables to suppliers	5,412	8,202
Payables to personnel	2,019	1,652
Payables to Guarantee fund	2,954	2,030
Other payables	8,198	9,949
Total payables	93,844	33,066

23. Payables on loans

	As of 31.12.2015	As of 31.12.2014
Payable on bond loan	19,558	19,558
Payable on loan from the owner Eurohold AD	373	19,265
Payable on loan from Global Investment	5,999	5,678
Payable on loan from Starcom	2	56
Other payables on loans	101	9,282
Total payables on loans	26,033	53,839

As of December 31, 2015 and 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. In 2015 the loan is repaid.

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. The entire amount of the loan and accrued interest is due at maturity.

Bond loan
From December 18, 2014. 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. The loan has 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 – 13% plus 3M Euribot, due at the end of each quarter. Under the terms of the bond loan, there is a possibility the interest rate to be reduced to 9.75% plus Euribor if a guarantee by Eurohold Bulgaria is issued. Such guarantee was issued on March 18, 2015, which reduced the interest rate.

All amounts are in thousand Bulgarian levs, unless otherwise states

24. Equity

	As of 31.12.2015	As of 31.12.2014
Share capital	287,863	268,263
Revaluation and other reserves	41,465	1,246
Revaluation reserve from recalculations in the presentation currency in the consolidated financial statements	(5,216)	(4,671)
	324,112	**264,838**
Accumulated loss	**(160,414)**	**(64,332)**
Total equity and reserves	163,698	200,506

As of December 31, 2015 the registered capital of the Parent company is BGN 287,863 thousand. The registered capital is fully paid-in by Eurohold Bulgaria AD and comprises 268,262,791 shares, of which 76,981,791 materialized, registered, privileged shares and 210,881,000 materialized, registered, unprivileged shares with nominal value of BGN 1 for each share.

On January 26, 2015 a decision to increase the shared capital of the Parent company was taken. It was registered in the Commercial Register in February 2015. The capital was increased by BGN 19,600 thousand. On November 19, 2015 the General meeting of the shareholders of the Parent company decided to increase the capital of the Parent company to BGN 483,445,791 by issuing 195,583,000 new materialized registered shares bearing voting rights with nominal value of BGN 1. As of December 31, 2015 the amount of BGN 40,153 thousand has been put in by the majority shareholder.

The capital accumulation continued in 2016 and as of the date of the consolidate financial statements approval, the registered capital amounts to BGN 483,445,791, as it consists of 483,445,791 shares with a nominal value of BGN 1 per share as follows:

1. Materialized, registered, privileged – 76,981,791 shares, with a nominal value of BGN 1, each.
2. Materialized, registered, unprivileged – 406,464,000 shares, with a nominal value of BGN 1, each.

As of the date of these financial statements, the paid capital is BGN 380,455,645.

Shareholders' structure	As of December 31, 2015		As of December 31, 2014	
	Share capital	Percentage	Share capital	Percentage
„Eurohold Bulgaria" АД	236,402,291	82.12	216,802,291	80.82
„Basildon Holding " OOD	51,460,500	17.88	51,460,500	19.18
	287,862,791	100.00	**268,262,791**	100.00

The ultimate Parent company is Starcom Holding AD.

All amounts are in thousand Bulgarian levs, unless otherwise states

25. Business combinations

25.1 Goodwill

	As of 31.12.2015	As of 31.12.2014
„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
Total	**164,664**	**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 154,296 thousand as of December 31, 2015 and 2014.

25.2 Acquisition of subsidiaries

In 2015 the Group acquired control over the insurance company EIG Re AD (former name HDI Insurance AD) through the purchase of shares in the company. After authorization by the Financial Supervision Commission, the Group acquired control over the subsidiary on December 29, 2015.

In a business combination, the Group has paid a price of BGN 8,398 thousand and has acquired 94% stake in the company. Due to the nature of the identifiable assets and liabilities of the acquired company, the fair value is not materially different from their carrying value at 31 December, 2015. As a result of the transaction, goodwill was recognized for the excess of purchase price over fair value of net assets.

25.3 Sale of subsidiaries

In 2015 the Group sold its stake in subsidiary Inter Sigorta, Turkey for a price of 6,000 thousand, which is settled by offsetting obligations.

All amounts are in thousand Bulgarian levs, unless otherwise states

26. Non-controlling interest

Subsidiary	As of 31.12.2015	As of 31.12.2014
„ZD Euroins" AD	4,382	5,745
„Euroins – Health Insurance" AD	-	-
„Euroins Romania Insurance – Reinsurance" AD	(1,742)	1,142
„Euroins Osiguruvanje Skopje" AD	503	503
„Inter Sigorta" AD	-	(17)
ZA Euroins Life EAD	-	-
EIG Re /HDI/	253	-
Total non-controlling interest	3,396	7,373

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, 2015 may be classified in the following groups:

- Payments to management personnel
- Companies under common control and associated to the Group companies
- Parent company – Eurohold Bulgaria AD
- Ultimate parent company – Starcom Holding AD

Information about transactions and balances about each group of related parties is stated below.

All amounts are in thousand Bulgarian levs, unless otherwise states

27. Related parties (continued)

27.1. Directors transactions	Year ended 31.12.2015	Year ended 31.12.2014
Payments to directors and executive directors	743	736
Total	743	736

The directors of the Group are as follows:

Asen Milkov Hristov	Chairman of the Board of Directors	„Euroins Insurance Group" AD
	Member of the BD	„Euroins Romania Insurance-Reinsurance" AD
	Chairman of the Board of Directors	"Euroins Osiguruvanje Skopje" AD
Dominic Victor Francois Joseph Boduen	Deputy Chairman of the Board of Directors	„Euroins Insurance Group" AD
	Member of the Supervisory board as of 25.09.2015	„ZD Euroins" AD
	Chairman of the Board of Directors	„Euroins Life" EAD
Kiril Ivanov Boshov	Executive Director and member of the Board of Directors	„Euroins Insurance Group" AD
	Chairman of the Board of Directors	„Euroins – Health Insurance" EAD
	Member of the BD	"Euroins Osiguruvanje Skopje" AD
	Chairman of BD	„Euroins Romania Insurance Reinsurance" AD
Violeta Vasileva Darakova	Chairman of Supervisory board	„ZD Euroins" AD
Todor Atanasov Danailov	Member of Supervisory board till 25.09.2015	„ZD Euroins" AD
Radi Georgiev Georgiev	Member of Supervisory board	„ZD Euroins" AD
Velislav Mihaylov Hristov	Chairman of the Supervisory Board	„ZD Euroins" AD
Joanna Tzvetanova Hristova	Executive Director and member of BD	„ZD Euroins" AD
	Deputy Chairman of the BD	„Euroins – Health Insurance" ZEAD
Rumyana Gesheva Betova	Executive Director and member of the BD	„ZD Euroins" AD
Anton Yotov Pironski	Executive Director and member of the BD	„ZD Euroins" AD
Petar Veselinov Avramov	Executive Director and member of the BD	„ZD Euroins" AD
Dimitar Stoyanov Dimitrov	Procurer	„ZD Euroins" AD
Kalin Orlinov Kostov	Executive Director and member of the BD	„Euroins – Health Insurance" EAD and „Euroins Life" EAD
Minko Hristov Gerdjikov	Deputy Chairman of Board of Directors	„Euroins Life" EAD
Milena Milchova Gencheva	Deputy Executive Director	„Euroins Romania Insurance-Reinsurance" AD
Kristiana-Viorela Basgan	Member of the BD	„Euroins Romania Insurance-Reinsurance" AD
Vladimir Trenenski	Member of the BD	"Euroins Osiguruvanje Skopje" AD
Yanko Georgiev Nikolov	Executive Director and member of the BD	
Ralitsa Guberova	Executive Director and member of the BD	"Euroins Osiguruvanje Skopje" AD

27. Related parties (continued)

27.2. Related parties transactions

BGN '000	Year ended 31.12.2015	Year ended 31.12.2014
Transactions with companies under common control and associated to the Group companies:		
Written premium	523	307
Commissions and participation in result	785	997
Other revenue	18	122
Insurance compensations	6,411	5,198
Hired services	815	962
Interest income	14	166
Interest expense	16	12
Transactions with the Parent company and the ultimate parent company:		
Interest income – Eurohold Bulgaria AD	64	6
Interest income – Starcom Holding AD	277	91
Interest expense – Starcom Holding AD	4	-
Interest expense – Eurohold Bulgaria AD	1,477	919
Written premium – Eurohold Bulgaria AD	3	-
Expenses for consulting services – Eurohold Bulgaria AD	646	459

27.3. Related parties balances

BGN '000	As of 31.12.2015	As of 31.12.2014
Balances with companies under common control and associated to the Group companies:		
Receivables on loans	-	-
Other receivables	578	522
Investments in equity instruments	52,653	29,646
Investments in debt instruments	978	518
Finance lease payables	709	815
Other payables	531	402
Operating lease payables	64	48
Receivables on insurance services	107	98
Commissions and participation in result	56	173
Insurance compensations	1,589	850
Receivables on cession	348	942
Balances with the Parent company and the ultimate parent company:		
Receivables on loans – Eurohold Bulgaria AD	2,303	3,649
Loan payables – Eurohold AD	373	19,558
Investments in debt instruments – Starcom Holding AD	2,392	10,360
Investments in equity instruments – Eurohold Bulgaria AD	17	-
Other payables – Starcom Holding AD	-	40
Other payables – Eurohold Bulgaria AD	34	-

All amounts are in thousand Bulgarian levs, unless otherwise states

28. Assets and liabilities fair value

When it is possible, the Group establishes the fair value of a financial instrument using its stock price at the active market. The market is considered active when the stock prices are regular and easily accessible, and represent current and regularly realized direct market transactions. When the market for a certain financial instrument is not active, the Group established the fair value using a price formation models or techniques for discounting the cash flow. The chosen valuation technique makes maximum use of the market data, counts to the minimum on valuations specific of the Group, comprises all factors that the market participants would take into account when establishing a price and is in accordance with the adopted economic methodologies for financial instrument price formation.

The financial assets, reported at fair value in the profit and the loss, owned by the Group, represent mainly securities that are traded on the Bulgarian stock exchange (BSE) and as of the end of the reporting period are valued on the basis of market quotations of BSE. Because of limitation in the trading volume and the specifics of the trade of these securities, there is an uncertainty if the securities fair value established on the basis of market quotations would be supported by the market in future transactions.

An analysis of the financial instruments and investment properties, reported at fair value in the statement of financial position according to the used valuation methods as of December 31, 2015 and 2014 is presented in the table below:

As of December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity investments	8,398	55,421	5	63,824
Government securities at fair value through profit and loss	-	6,441	-	6,441
Government securities available for sale	-	2,794	-	2,794
Corporate bonds at fair value through profit and loss	2,772	12,130	-	14,902
Corporate bonds available for sale	-	-	-	-
Shares in mutual funds	926	1,377	-	2,303
Investment properties	-	-	14,435	14,435
Total	**12,096**	**78,163**	**14,440**	**104,699**

As of December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity investments	8,545	37,262	-	45,807
Government securities at fair value through profit and loss	-	718	-	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
Corporate bonds available for sale	-	-	2,836	2,836
Shares in mutual funds	330	10,890	-	11,220
Investment properties	-	-	15,624	15,624
Total	**11,832**	**65,532**	**18,460**	**95,824**

The Group has established the fair value of the securities registered for trade on the stock market on the basis of the last transaction price, weighted average price of concluded transactions and "buy" prices of market orders, depending to the available information.

The cash and cash equivalents, bank deposits, trade and other receivables and financial liabilities fair value is close to their carrying amount because of the short term nature of these assets and liabilities. The fair value of government securities held to maturity is not considerably different from their carrying amount because of the stability of and the insigificant change in the government securities market price in the Group's portfolio held in maturity.

All amounts are in thousand Bulgarian levs, unless otherwise states

29. Segment reporting

29.1 Geographical distribution

The group operates mainly in the following four countries: Bulgaria, Romania, Republic of Macedonia, and Greece. In Bulgaria, Romania and the Republic of Macedonia, the Group reports insurance premiums through its subsidiary companies, namely:

1. in Bulgaria through ZD Euroins AD, ZD Euroins Life EAD, Euroins – Health Insurance EAD and Insurance company EIG Re AD (the former HDI Insurance AD);
2. in Romanaia through Euroins Romania Insurance-Reinsuarance AD;
3. in the Republic of Macedonia through Euroins Osiguruvanje Skopje AD.

In Greece the Group establishes a direct insurance business through its subsidiary company ZD Euroins AD on the principle of free provision of services on the territory of the European economic area.

Information on the income from written premiums and non-current assets, different from financial instruments, deferred tax assets, and post-employment benefit assets, is presented as follows:

	Gross written premiums		Property, plant and equipment	
	Year ended 31.12.2015	Year ended 31.12.2014	As of 31.12.2015	As of 31.12.2014
Bulgaria	107,278	82,601	1,232	996
Romania	317,832	211,826	1,839	2,115
Macedonia	17,187	16,232	397	404
Greece	8,669	381	-	-
Others	1,849	143	-	-
	452,815	311,183	3,468	3,515

29.2 Operational segments

The Group identifies the following operational segments:

1. Euroins Bulgaria – ZD Euroins AD;
2. Euroins Romania – Euroins Romania Insurance-Reinsuarance AD;
3. Euroins Skopje – Euroins Osiguruvanje Skopje AD;
4. Others - ZD Euroins Life EAD, Euroins-Health Assurance EAD and Insurance company EIG Re AD (the former HDI Insurance AD).

The Group defines its operational segments as such when:

- they undertake business activities which generate income and expenses to the Group;
- their operational results are regularly reviewed by the Management of the Group and the segments activity results are evaluated on that basis;
- their operational results are reviewed when decisions about the resources allocated between the segments are made;
- a separate financial information is available.

All amounts are in thousand Bulgarian levs, unless otherwise states

29. Segment reporting (continued)

29.2 Operational segments (continued)

The key indicators followed by the Group are the following:

1. Written gross premiums;
2. Net earned premiums;
3. Damages net of reinsurance;
4. Acquisition costs;
5. Administrative costs;
6. Operational profit / (loss);
7. Profit / (loss) before tax;
8. Taxes;
9. Net profit / (loss) for the year

Year ended 31.12.2015	Euroins Bulgaria	Euroins Romania	Euroins Skopje	Others	Total
Written gross premiums	114,038	317,832	17,187	3,758	452,815
Net earned premiums	81,202	144,432	16,808	4,129	246,571
Damages incurred, net of reinsurance	(51,037)	(145,871)	(8,721)	(3,685)	(209,314)
Acquisition costs	(23,588)	(83,079)	(5,417)	(773)	(112,857)
Administrative expenses	(9,717)	(6,933)	(1,699)	(4,774)	(23,123)
Operating profit / (loss)	(11,376)	(103,519)	187	(2,806)	(117,514)
Interest income	434	916	316	375	2,041
Interest expense	(3,763)	(521)	(35)	(279)	(4,598)
Profit / (loss) before tax	(11,553)	(103,041)	199	(2,781)	(117,176)
Taxes	(96)	16,494	-	26	16,424
Net profit / (loss) for the year.	(11,649)	(86,547)	199	(2,755)	(100,752)

Year ended 31.12.2014	Euroins Bulgaria	Euroins Romania	Euroins Skopje	Others	Total
Written gross premiums	77,281	211,826	16,232	5,844	311,183
Net earned premiums	71,295	206,567	14,652	6,342	298,856
Damages incurred, net of reinsurance	(43,856)	(112,649)	(6,386)	(3,982)	(166,873)
Acquisition costs	(17,426)	(61,752)	(4,938)	(1,127)	(85,243)
Administrative expenses	(8,987)	(7,858)	(1,416)	(4,189)	(22,450)
Operating profit / (loss)	(5,205)	(8,636)	742	(4,336)	(17,435)
Interest income	-	830	318	1,074	2,222
Interest expense	(1,050)	(321)	(26)	(180)	(1,577)
Profit / (loss) before tax	(5,323)	(8,565)	799	(4,278)	(17,367)
Taxes	(64)	-	(51)	(211)	(326)
Net profit / (loss) for the year.	(5,387)	(8,565)	748	(4,489)	(17,693)

The Group's subsidiary Euroins Romania is under financial recovery plan imposed by a regulator. As of December 31, 2015, the subsidiary is in breach of regulatory financial requirements and the financial recovery plan that foresees possibility for noncompliance until finalization of the financial recovery plan until November 20, 2016 through the application of different financial and operational measures, including capital increase of the subsidiary. The subsidiary's ability to continue its operations depends on the implementation of the financial recovery plan.

All amounts are in thousand Bulgarian levs, unless otherwise states

30. Effect of error adjustment and changes in the accounting policy

In the current period the Group has identified accounting errors related to the following:
(a) recognition of revenue and expenses in the period, to which they relate;
(b) presentation of revenue, expenses, receivables and payables in accordance with their nature;
(c) non-recored impairment on receivables.

In addition, as it is stated in note 1.5.5, the Group's technical reserves accounting policy has been changed in the current period (d).

The effect of the restatements on the comparative information is as follows:

Statement of financial position	31.12.2014 before restatement	Restatement effect		31.12.2014 after restatement
Assets				
Goodwill	165,466	-		165,466
Intangible assets	1,426	-		1,426
Property, plant and equipment	3,515	-		3,515
Investment properties	15,624	-		15,624
Financial assets	97,038	-		97,038
Reinsurers' share in technical reserves	145,721	595	(d)	146,316
Deferred tax assets	378	(13)	(b)	365
Receivables and other assets	118,338	(22,607)	(c)	95,731
Cash and cash equivalents	59,867	-		59,867
Total assets	607,373	(22,025)		585,348
Liabilities				
Insurance reserves	293,837	(3,325)	(d)	290,512
Reinsurance and other payables	32,729	337	(b)	33,066
Loans	54,308	(469)	(b)	53,839
Deferred tax liabilities	52	-		52
Total liabilities	380,926	(3,457)		377,469
Equity and reserves				
Share capital	268,263	-		268,263
Premium and other equity reserve	3,589	(2,343)	(b)	1,246
Foreign currency translation reserve	(4,667)	(4)		(4,671)
Retained earnings/losses	(47,402)	(16,930)		(64,332)
Total equity and reserves	219,783	(19,277)		200,506
Non-controlling interest	6,664	709		7,373
Total equity and liabilities	607,373	(22,025)		585,348

All amounts are in thousand Bulgarian levs, unless otherwise states

30. Effect of error adjustment and changes in the accounting policy (continued)

Statement of profit and loss and other comprehensive income	31.12.2014 before restatement	restatement effect		31.12.2014 after restatement
Gross written premiums	311,119	64	(b)	311,183
Premiums ceded to reinsurers	(13,657)	-		(13,657)
Net written premiums	297,462	64	(b)	297,526
Change in the gross unearned premium reserve and unexpired risk reserve	1,698	(6,352)	(d)	(4,654)
Reinsurers' share in changes in the unearned premium reserve	4,676	1,308	(d)	5,984
Net earned premiums	**303,836**	**(4,980)**		**298,856**
Fees and commission income	2,815	-		2,815
Finance income	15,922	(4,505)	(b)	11,417
Other operating income	2,633	78	(b)	2,711
Net income	**325,206**	**(9,407)**		**315,799**
Claims incurred, net of reinsurance	**(183,717)**	**16,844**	(d)	**(166,873)**
Acquisition costs	(85,243)	-		(85,243)
Administrative expenses	(22,450)	-		(22,450)
Finance costs	(16,575)	4,505	(b)	(12,070)
Other operating expenses	(25,135)	(21,463)	(c)	(46,598)
Operating loss	**(7,914)**	**(9,521)**		**(17,435)**
Other income (loss)	28	40		68
Profit (loss) before tax	**(7,886)**	**(9,481)**		**(17,367)**
Tax expense	(313)	(13)		(326)
Net profit (loss) for the financial year:	**(8,199)**	**(9,494)**		**(17,693)**
Net profit for:				
Parent company owners	(8,114)	(10,038)		(18,152)
Minority shareholding	(85)	544		459
Exchange differences on translating foreign operations	(238)	(4)		(242)
Revaluation to fair value	(323)	151		(172)
Other comprehensive income for the year, net of tax	**(561)**	**147**		**(414)**
Total comprehensive income for the year	**(8,760)**	**(9,347)**		**(18,107)**

All amounts are in thousand Bulgarian levs, unless otherwise states

30. Effect of error adjustment and changes in the accounting policy (continued)

	31.12.2014 before restatement	restatement effect		31.12.2014 after restatement
Statement of financial position				
Assets				
Goodwill	165,466	-		165,466
Intangible assets	1,288	-		1,288
Property, plant and equipment	3,991	-		3,991
Investment properties	14,666	-		14,666
Financial assets	117,259	-		117,259
Reinsurers' share in technical reserves	77,741	15,406	(d)	93,147
Deferred tax assets	646	-		646
Receivables and other assets	122,541	(1,112)	(c)	121,429
Cash and cash equivalents	32,743	-		32,743
Total assets	536,341	14,294		550,635
Liabilities				
Insurance reserves	247,839	22,202	(d)	270,041
Reinsurance and other payables	51,775	-		51,775
Loans	3,431	-		3,431
Deferred tax liabilities	30	-		30
Total liabilities	303,075	22,202		325,277
Equity and reserves				
Share capital	268,263	-		268,263
Premium and other equity reserve	1,535	-		1,535
Foreign currency translation reserve	(4,288)	-		(4,288)
Retained earnings/losses	(38,628)	(7,758)		(46,386)
Current result		-		-
Total equity and reserves	226,882	(7,758)		219,124
Non-controlling interest	6,384	(150)		6,234
Total equity and liabilities	536,341	14,294		550,635

31. Events after the reporting period

On November 19, 2015 the General meeting of the shareholders of the Parent company decided to increase the capital of the Parent company to BGN 483,445,791 by issuing 195,583,000 new registered voting shares with face value of BGN 1 each. As of December 31, 2015 the amount of BGN 40,153 thousand has been put in by the majority shareholder. The capital accumulation continued in 2016 and as of the date of the consolidated financial statements approval, the registered capital is BGN 483,446 thousand and the paid capital amounts to BGN 380,456 thousand.