

**EUROINS INSURANCE GROUP AD  
ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES  
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS  
INDEPENDENT AUDITOR'S REPORT  
December 31, 2016**

*(Unofficial translation of the original text in Bulgarian)*



**ANNUAL CONSOLIDATED MANAGEMENT REPORT**

**of**

**EUROINS INSURANCE GROUP**

**For the year ended 31 December 2016**

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## 1. Key indicators

		2016	Change	2015
<b>Income Statement</b>				
1. Profit /(loss), before taxes	BGN'000'	11,750	112%	(99,094)
2. Net profit / (loss), after tax	BGN'000'	8,906	111%	(80,051)
3. Gross written premiums	BGN'000'	527,733	17%	452,815
4. Net earned premiums	BGN'000'	255,352	11%	229,449
5. Claims incurred, net of reinsurance	BGN'000'	167,932	-16%	200,759
6. Administrative expenses	BGN'000'	21,474	-7%	23,123
7. Acquisition costs, net of Fees and commission income	BGN'000'	62,001	-42%	107,243
<b>Statement of financial position as of December, 31</b>				
8. Equity, including non-controlling interest	BGN'000'	269,974	72%	157,034
9. Liabilities, including Subordinated debts	BGN'000'	660,272	7%	614,742
10. Assets	BGN'000'	930,246	21%	771,776
11. Share Capital	BGN'000'	390,954	36%	287,863
12. Financial assets and investment property and cash	BGN'000'	341,040	82%	187,845
13. Insurance reserves	BGN'000'	510,367	3%	494,785
14. Reinsurers' share in technical reserves	BGN'000'	294,865	6%	279,279
<b>Ratios</b>				
Financial autonomy ratio (8/9)		0.41	60.1%	0.26
Debt / Equity ratio (9/8)		2.45	-37.5%	3.91
Solvency and funds security ratio (12/(13-14))		158.25%	81.6%	87.16%
Net combined operating ratio ((5+6+7)/4)		98.46%	-31.8%	144.31%
Loss ratio (5/4)		65.76%	-24.8%	87.50%
Administrative expenses ratio (6/4)		8.41%	-16.6%	10.08%
Acquisition costs ratio (7/4)		24.28%	-48.1%	46.74%
Gross return on equity (1/8)		4.35%	106.9%	-63.10%
Net return on equity (2/8)		3.30%	106.5%	-50.98%
Gross return on liabilities (1/9)		1.78%	111.0%	-16.12%
Net return on liabilities (2/9)		1.35%	110.4%	-13.02%
Gross return on assets (1/10)		1.26%	109.8%	-12.84%
Net return on assets (2/10)		0.96%	109.2%	-10.37%

## **2. General information about Euroins Insurance Group AD**

Euroins Insurance Group AD (EIG, the Company) was established at the end of 2007 as a subsidiary fully owned 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, Macedonia and Ukraine. In 2016 the insurance companies in the Group have more than 200 regional offices and close to 2.5 million clients.

At the 2016 yearend the Group holds majority number of shares in companies in Bulgaria, Romania, Macedonia and Ukraine.

## **3. Capital structure and status of the Group**

As of December 31, 2016 the registered capital of Euroins Insurance Group AD amounts to BGN 483,445,791. The Company's registered capital comprises 483,445,791 out of which 76,981,791 are materialized, registered, preference shares with nominal value of BGN 1 each and 406,464,000 are materialized, registered, ordinary shares with nominal value of BGN 1 each.

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

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

The paid-in capital as at 31 December 2016 amounts to BGN 390,954,362.

## **Euroins Romania Insurance–Reinsurance AD**

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 to BGN 102,682 thousand as of December 31, 2012 through cash contributions. In 2013 Euroins Insurance Group AD participated in the increase of Euroins Romania's share capital with cash contributions in the amount of BGN 8,693 thousand. Thus, the percentage share in the share capital of the subsidiary has 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 31 December 2016 this amount has been fully paid in registered with the Trade Register. Additionally the Extraordinary meeting of shareholders voted on 29 September 2016 to increase the capital of the company further by RON 100 million, as at 31 December 2016 as part of this increase EIG is presented to subsidiary company capital contribution in the amount of BGN 43,251 thousand. In February 2017 the increase in capital of subsidiary company was approved by the Financial Supervisory Authority in Romania and in March 2017 the amount was registered at Trade Register.

As at 31 December 2016 the participation of EIG AD in the capital of Euroins Romania Insurance-Reinsurance AD amounts to 98.15%.

With decision 359/14.03.2017 the Financial Supervisory Authority was approved finalization of the financial recovery procedure based on financial recovery plan.

#### **ZD Euroins AD and Euroins - Health Insurance ZEAD**

The control of ZD Euroins AD and Euroins Health - Insurance ZEAD 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 was 100%.

In 2013 EIG AD participated in the increase of the share capital of Euroins - Health Insurance ZEAD 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 ZEAD. 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 ZEAD as United Health Insurance was merged into it. In 2016 the capital of Euroins - Health Insurance ZEAD was increased by BGN 2,500 thousand.

In 2015 the share capital of ZD Euroins AD was increased by BGN 5,659 thousand through cash contribution. As at 31 December 2016 the participation of EIG AD in the capital of ZD Euroins AD amounts to 80.92%. In 2016 Euroins Insurance Group AD provided additional support to ZD Euroins AD by granting two loans in the form of subordinated debt amounting to a total of BGN 15,700 thousand.

**Euroins Insurance AD, Skopje, 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, 2015 and 2016 there were no changes in the share of EIG. As of 31 December 2016 the participation of Euroins Insurance AD in the share capital of Euroins Insurance AD, Skopje amounts to 93.36%.

**ZD Euroins Life EAD**

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, 2015 and 2016 there were no changes in the share of EIG in the subsidiary.

In 2016 Euroins Insurance Group AD provided additional support to ZD Euroins Life EAD by granting a loan in the form of subordinated debt amounting to BGN 1,250 thousand.

**ZD EIG Re EAD (previously HDI Insurance 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 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. In addition the remaining 6% of the shares have been acquired by EIG.

Also in 2016 the share capital of ZD EIG Re has been increased by BGN 4,000 thousand. By way of further support Euroins Insurance Group AD granted ZD EIG Re a loan in the form of subordinated debt amounting to BGN 600 thousand.

**PJSC Euroins Ukraine IC (previously PJSC HDI Strakgumannya IC)**

On 29 July 2016 the Commission of State Regulations of Financial Markets in Ukraine approved the acquisition of PAD "Insurance Company HDI Strahuvannye" by the Group. On 12 August 2016 the shares were transferred. The amount of the investment is BGN 2,347 thousand. With the

approval of the General Meeting of the Shareholders, the name of the company was changed as of 30 September 2016 effectively. The new name of the company is PAD “Insurance Company Euroins Ukraine”. As of 31 December 2016 the participation of Euroins Insurance AD in the share capital of Euroins Ukraine amounts to 99.316658%.

As at 31 December 2016 Euroins Insurance Group AD is a majority shareholder in the following companies:

ZD Euroins AD	– 80.92%;
Euroins Romania Insurance-Reinsurance AD	– 98.15%;
Euroins Insurance AD, Skopje	– 93.36%;
PAD „IC Euroins Ukraine”	– 99.316658%;
ZD EIG Re EAD	– 100.00%;
ZD Euroins Life EAD	– 100.00%;
Euroins - Health Insurance ZEAD	– 100.00%.

#### **4. Review of operations and financial indicators**

The premium income of Euroins Insurance Group AD on a consolidated basis in 2016 amounts to BGN 527.7 million as compared to BGN 452.8 million in 2015. The impressive growth of 16.5% is mainly down to the growth generated by Euroins Romania and the newly acquired Euroins Ukraine. Euroins Romania grows by 21.8%, while the new business coming from Ukraine amounts to BGN 5.8 million contributing app. 2% to the total growth. Euroins Bulgaria and Euroins Macedonia keep their written premiums at the levels from last year. It is important to note that Euroins Bulgaria has grown its own direct insurance business at the expense of the active inward reinsurance business. This would be a serious precondition for a future growth.

The main share of the premium income of the Group comes from Euroins Romania, Euroins Bulgaria, Euroins Macedonia and Euroins Ukraine, which account for 73.4%, 21.3%, 3.2% and 1.1% of the total premium income of the Group respectively, i.e. more than 99% of total written business. With regards to Euroins Ukraine it needs to be explained that the acquisition was finalized in August 2016, i.e. the abovementioned gross premiums of BGN 5.8 million were written in the period from August to December 2016.



Total consolidated assets of the Group at the end of 2016 amount to BGN 930.2 million compared to BGN 771.8 million at the end of 2015. Gross technical reserves on a consolidated basis as part of Total liabilities increased from BGN 494.8 million in 2015 to BGN 510.4 million in 2016.

In addition to the obvious growth of the business written by the Group there is also the profit after tax of BGN 8.9 million. In 2015 EIG has reported a loss after taxes of BGN 82.6 million. On one hand this extraordinary improvement is down to the very good technical result, which in turn confirms the correct underwriting approach of the Group subsidiaries. On the other hand there are also the events from last year. As a result of several reasons the Group and Euroins Romania in particular have increased their technical reserves quite significant. This was the main reason for the reported loss in 2015. But this has also put both companies in a very good starting position for 2016.

After the increase of the reserves in 2015 Euroins Romania Insurance-Reinsurance AD became one of the most sufficiently reserved companies on the Romanian market. This has allowed for the company to start 2016 with a well structured balance, which contributed to the positive results in 2016. This along with the excellent technical result in the current year are the two main reasons for Euroins Romania and subsequently EIG to close 2016 reporting such improved performance.

Important to note here is that in 2016 all of the operating companies in the registered in Bulgaria as well as the Group itself were subject to a Balance Sheet Review (BSR) process. The main consequence of the review was the decision of the management of the Group to change its accounting and reserving policies. A new reserving method has been applied on Group level. It is a method that is based on specific assumptions and accounting assessments.

Its introduction is related to Solvency II, the new regime for calculating the capital requirements for the insurance business. It is also result of recommendations made by the Independent External Reviewers involved in the BSR of the Group and its subsidiaries conducted with reference date 30 June 2016. The change in the reserving policy aims at a unified approach in the calculation of the Incurred but not reported reserves (IBNR) across all lines of business and all subsidiaries in the Group.

The change in the reserving policy triggered also restatements of both 2015 and 2014. This was due to the fact that in previous reporting periods the Group has calculated its consolidated technical reserves based on the specific regulatory requirements, which in turn were dependent on the jurisdiction, where the companies operated.

Ultimately the consequence from the restatement as well as the overall performance in 2016 is precondition for even better results in 2017.

The sound performance in 2016 along with the strong capital position has been confirmed also by the following indicators calculated as per Solvency II requirements:

Total eligible own funds to meet the Solvency Capital Requirement (SCR) in BGN '000'	152,731
Total eligible own funds to meet the Minimum Capital Requirement (MCR) in BGN '000'	120,466
Solvency Capital Requirement (SCR) in BGN '000'	129,794
Minimum Capital Requirement (MCR) in BGN '000'	45,719
SCR Coverage	118%
MCR Coverage	265%

\* The calculations are made on the basis of information, which is to be finalized as part of the Annual Quantitative Reporting in Solvency II.

## 5. Major risks the Group and its subsidiaries are exposed to

### 5.1. 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.

#### 5.1.1. 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, Romanian and Ukrainian 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 leva and euro.

#### 5.1.2. 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.

### **5.1.3. 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.

### **5.2. 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 – BIG 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.

### **5.3. 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.

### **5.3.1. 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<sup>1</sup> 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.

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<sup>1</sup> 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.

*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.

### **5.3.2. 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.

### **5.3.3. 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.

## **6. Significant events after the date of the annual consolidated financial statements for 2016**

On January, 6 2017 was registered the increase in share capital in the amount of BGN 43,024 thousand at Trade Register. The amount is presented in Capital Reserves as at December, 31 2016.

In December 2016 the company presented a contribution for increase of the capital of Euroins Romania Insurance – Re-Insurance in the amount of BGN 43,251 thousand. The increase was

approved by Financial Supervisory Authority in Romania (Autoritatea de Supraveghere Financiară) on February, 20 2017 and the amount was registered at Trade Register in March 2017.

On January 16, 2017 ZD Euroins AD has signed Annex to the concluded on 27.06.2016 Agreement for providing a cash loan as a subordinate debt with Rossgaz Engineering EOOD. According to this Annex Rossgaz Engineering will provide an additional amount as a subordinate debt equals to BGN 6 million. As of the date of the preparation of the financial statement there are BGN 2,5 million provided to ZD Euroins AD. As per the annex, the rest of the sum amounting to BGN 3,5 million will be provided upon request by ZD Euroins AD.

With a protocol of the Board of Directors of Euroins Insurance Group AD dated on October 28, 2016, a decision for merging Euroins - Health Assurance ZEAD into the EIG RE EAD was taken. The necessary documents for merging have been filled in Financial Supervision Commission on January 31, 2017.

With its decision № 359 dated 14 March 2017 Romanian insurance regulator (Autoritatea de Supraveghere Financiară) has confirmed to Euroins Romania Insurance-Reinsurance AD of its approval for the successful closing of the procedure under the Financial Recovery Plan.

In the beginning of 2017 the General Meeting of the Shareholders of Euroins Romania Insurance-Reinsurance AD has approved the signing of agreement for the insurance portfolio acquisition of ATE Insurance Romania. The transfer should be approved by the Romanian insurance regulator (Autoritatea de Supraveghere Financiară). As of the date of the preparation of the financial statements the procedure has been in review process by different departments of the Regulator.

There are no other significant events between the date of the financial statements and its preparation that could change the consolidated financial statement as of December 31, 2016.

## **7. 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 of 6-10% in the non-life insurance sector in the CEE. At the moment the Group aims at continuous improvement of the technical performance indicators of its current subsidiaries.

## **8. Research and development**

EIG subsidiaries do not carry out research and development.



## **9. 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.

## **10. 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.

The total remuneration for 2016 of the members of Board of Directors and other Directors amounts to BGN 1,966 thousand, in 2015 the amounts was BGN 743 thousand.

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 2016, Mr. Assen Hristov holds more than 25 per cent of the share capital of the following business companies:

- Starcom Holding AD;
- Alfa Euroaktiv EOOD;
- Bolkan International Basketball League OOD.

As of 31 December 2016, Mr. Assen Hristov participates in the management of the following business companies:

- Auto Union AD – Chairman of the Board of Directors;
- Alfa Euroaktiv EOOD – General Manager;
- Bolkan International Basketball League OOD – General Manager;
- Euroins Insurance Group AD – Chairman of the Board of Directors;
- Euroins Insurance AD, Skopje, Macedonia – 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;
- 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 2016, Mr. Kiril Boshov holds more than 25 per cent of the capital of the following business companies:

- Starcom Holding AD.



As of 31 December 2016, 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, Macedonia – 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;
- Capital - 3000 AD – Chairman of the Board of Directors;
- N Auto Sofia EAD – 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 2016, Mr. Dominique Bauduin holds more than 25 per cent of the capital of the following business companies:

- BDF OOD.

As of 31 December 2016, Mr. Dominique Bauduin participates in the management of the following business companies:

- Euroins Insurance Group AD – Deputy Chairman of the Board of Directors;
- ZD Euroins AD – Member of the Supervisory Board;
- ZD Euroins Life EAD – Member of the Board of Directors;
- B D F OOD – General Manager;
- C T R OOD – General Manager;
- S C I Solar Bulgaria OOD – General Manager.

In 2016 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.

19 April 2017,

Sofia

  
.....  
Kiril Boshov  
Executive Director  
Euroins Insurance Group AD

EUROINS INSURANCE GROUP AD  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2016  
All amounts are in thousand Bulgarian leva, unless otherwise states

		Year ended 31.12.2016	Year ended 31.12.2015 * (restated)
	Notes		
Gross written premiums	4	527,733	452,815
Premiums ceded to reinsurers	4	(231,937)	(184,741)
<b>Net written premiums</b>		<b>295,796</b>	<b>268,074</b>
Change in the gross unearned premium reserve and unexpired risk reserve	4	(15,729)	(29,170)
Reinsurers' share in changes in the unearned premium reserve	4	12,883	20,721
<b>Net earned premiums</b>		<b>292,950</b>	<b>259,625</b>
Fees and commission income	5	66,142	5,614
Finance income	6	17,023	18,507
Other operating income	7	37,793	2,735
<b>Net income</b>		<b>413,908</b>	<b>286,481</b>
<b>Claims incurred, net of reinsurance</b>	8	<b>(167,932)</b>	<b>(200,759)</b>
Acquisition costs	9	(128,143)	(112,857)
Administrative expenses	10	(21,474)	(23,123)
Finance costs	11	(14,642)	(16,263)
Other operating expenses	12	(75,391)	(32,911)
<b>Operating profit/loss</b>		<b>6,326</b>	<b>(99,432)</b>
Other net income	13	5,424	338
<b>Profit/loss for the year</b>		<b>11,750</b>	<b>(99,094)</b>
Income tax expense	14	(2,806)	16,424
<b>Net profit/loss for the year</b>		<b>8,944</b>	<b>(82,670)</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income subject to reclassification to profit or loss in subsequent periods</i>			
Exchange differences on translating foreign operations		(625)	(5)
Change in fair value reserve (assets available for sales)		37	74
<b>Other comprehensive income subject to reclassification to profit or loss in subsequent periods</b>		<b>(588)</b>	<b>69</b>
<b>Total comprehensive income for the year</b>		<b>8,356</b>	<b>(82,601)</b>

EUROINS INSURANCE GROUP AD  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2016  
All amounts are in thousand Bulgarian leva, unless otherwise states

	Notes	Year ended 31.12.2016	Year ended 31.12.2015 * (restated)
<b>Net (loss)/profit, attributable to:</b>			
Owners of the Parent company		8,906	(80,051)
Non – controlling interest		38	(2,619)
<b>Net loss for the year</b>		<u>8,944</u>	<u>(82,670)</u>
<b>Total comprehensive income, attributable to:</b>			
Owners of the Parent company		8,281	(79,968)
Non – controlling interest		75	(2,633)
<b>Total comprehensive income for the year</b>		<u>8,356</u>	<u>(82,601)</u>

\* Some of the amounts disclosed in this statement do not correspond with the 2015 and 2014 statements and are affected by the restatement disclosed in note 30 due to a change in accounting policy.

These consolidated financial statements are approved by the Board of the directors of Euroins Insurance Group AD on April 19, 2017.

Kiril Boshov  
Executive Director



Katrin Petkova  
Chief Accountant

Auditor's report:



Bogdanka Sokolova, Manager  
CPA, registered auditor

Nedyalko Apostolov, Manager

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, 2016  
All amounts are in thousand Bulgarian leva, unless otherwise states

	Notes	As of 31.12.2016	As of 31.12.2015 * (restated)	As of 01.01.2015 * (restated)
<b>Assets</b>				
Goodwill	25	164,664	164,664	165,466
Intangible assets	15	940	1,775	1,426
Property, plant and equipment	16	5,546	3,468	3,515
Investment properties	17	15,426	14,435	15,624
Financial assets	18	231,357	114,605	97,038
Reinsurers' share in technical reserves	21	294,865	279,279	172,610
Deferred tax assets	14	14,353	16,809	365
Receivables and other assets	19	108,838	117,936	93,923
Cash and cash equivalents	20	94,257	58,805	59,867
<b>Total assets</b>		<b>930,246</b>	<b>771,776</b>	<b>609,834</b>
<b>Liabilities</b>				
Insurance reserves	21	510,367	494,785	345,953
Reinsurance and other payables	22	96,237	93,852	33,066
Loans	23	10,610	6,475	34,281
Deferred tax liabilities	14	-	72	52
<b>Total liabilities</b>		<b>617,214</b>	<b>595,184</b>	<b>413,352</b>
<b>Subordinated liabilities</b>	23a	<b>43,058</b>	<b>19,558</b>	<b>19,558</b>
<b>Equity</b>				
Share capital	24	390,954	287,863	268,263
Revaluation and other reserves		40,627	41,465	1,246
Foreign currency translation reserve		(5,211)	(4,533)	(4,549)
Accumulated loss		(160,621)	(169,116)	(90,507)
<b>Total equity attributable to the owners of the Parent company</b>		<b>265,749</b>	<b>155,679</b>	<b>174,453</b>
Non – controlling interest	26	4,225	1,355	2,471
<b>Total liabilities and equity</b>		<b>269,974</b>	<b>157,034</b>	<b>176,924</b>
<b>Total liabilities and equity</b>		<b>930,246</b>	<b>771,776</b>	<b>609,834</b>

\* Some of the amounts disclosed in this statement do not correspond with the 2015 and 2014 statements and are affected by the restatement disclosed in note 30 due to a change in accounting policy.

These consolidated financial statements are approved by the Board of the directors of Euroins Insurance Group AD on April 19, 2017.

Kiril Boshov  
Executive Director

Katrin Petkova  
Chief Accountant

Auditor's report:

Bogdanka Sokolova, Manager  
CPA, registered auditor

Nedyalke Apostolov, Manager

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, 2016  
All amounts are in thousand Bulgarian leva, unless otherwise states

	Notes	Year ended 31.12.2016	Year ended 31.12.2015 *
<b>Operating activities</b>			
Profit/loss before tax		11,750	(99,394)
Change in insurance reserves, net of reinsurance		(4)	40,601
Increase in impairment loss on receivables		15,491	11,154
Depreciation, amortization changed for the period		1,403	1,467
Revaluation of investments, incl. investment properties		437	7,469
Profit on sale of investments in subsidiaries	25.2	(5,117)	-
Profit on sale of investments		(4,637)	(11,902)
Profit on transfer of property, plant and equipment		(183)	(13)
Other non-cash effects		(104)	2,771
Net investment income		458	(2,646)
<b>Net cash flows (used in) from operating activities before changes in assets and liabilities</b>		19,494	(50,193)
Increase in receivables		(10,258)	(24,294)
(Decrease) / Increase in payables		(17,154)	41,089
<b>Net cash flows used in operating activities</b>		(7,918)	(33,398)
<b>Investing activities</b>			
Acquisition of financial assets		(114,022)	(15,881)
Acquisition of property, plant and equipment, net		(2,280)	(1,756)
Net cash flow from the sale of shares		-	(678)
Loans granted		(2,274)	-
Net cash flow from the acquisition of shares		-	(7,805)
Net cash flow from acquisition of a subsidiary	25.2	8,720	-
Investment income received		2,866	1,918
<b>Net cash flows from/(used in) investing activities</b>		(106,990)	(24,202)
<b>Financing activities</b>			
Increase in equity		103,091	59,753
Change in borrowings		47,174	(3,231)
<b>Net cash flow from financing activities</b>		150,265	56,522
Net increase/(decrease) in cash and cash equivalents		35,357	(1,078)
Effect of fluctuations in exchange rates		95	16
Cash and cash equivalents at the beginning of the year	20	58,805	59,867
<b>Cash and cash equivalents at the end of the year</b>	20	94,257	58,805

\* Some of the amounts disclosed in this statement do not correspond with the 2015 and 2014 statements and are affected by the restatement disclosed in note 30 due to a change in accounting policy.

These consolidated financial statements are approved by the Board of the directors of Euroins Insurance Group AD on April 19, 2017.

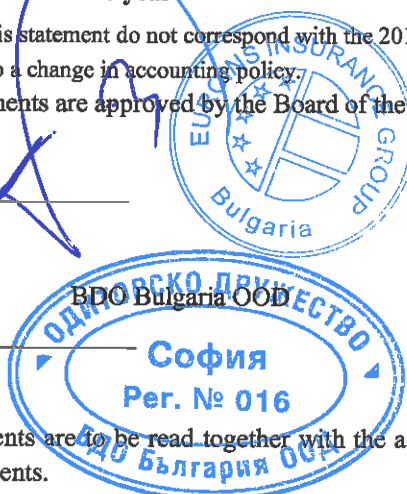
Kiril Boshov  
Executive Director  
Auditor's report:

Bogdanka Sokolova, Manager  
CPA, 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.

Katrin Petkova  
Chief Accountant

Nedyalko Apostolov, Manager



**EUROINS INSURANCE GROUP AD**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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
<b>Balance as of January 1, 2015 before restatements</b>	268,263	1,246	(4,671)	(64,332)	200,506	7,373	207,879
Effect from restatements -- Note 30	-	-	122	(26,175)	(26,053)	(4,902)	(30,955)
<b>Balance as of January 1, 2015 (restated)</b>	268,263	1,246	(4,549)	(90,507)	174,453	2,471	176,924
Result for 2015	-	-	-	(80,051)	(80,051)	(2,619)	(82,670)
<b>Other comprehensive income:</b>							
Revaluation reserve from foreign currency transition	-	-	16	-	16	(21)	(5)
Change in fair value of assets available for sale and revaluation of tangible assets	-	66	-	-	66	7	73
Total other comprehensive income	-	66	16	-	82	(14)	68
Total comprehensive income	-	66	16	(80,051)	(79,969)	(2,633)	(82,602)
<b>Contributions and distributions to the owners:</b>							
Increase in equity	19,600	-	-	-	19,600	-	19,600
Capital reserves	-	40,153	-	-	40,153	-	40,153
Changes in non – controlling interest without change in control	-	-	-	1,442	1,442	1,517	2,959
Total transactions with owners, recorded directly in equity	19,600-	40,153	-	1,442	61,195	1,517	62,712
<b>Balance as of December 31, 2015 *</b>	287,863	41,465	(4,533)	(169,116)	155,679	1,355	157,034

\* Some of the amounts disclosed in this statement do not correspond with the 2015 and 2014 statements and are affected by the restatement disclosed in note 30 due to a change in accounting policy.

**EUROINS INSURANCE GROUP AD**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

All amounts are in thousand Bulgarian leva, unless otherwise stated

	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
<b>Balance as of January 1, 2016</b>	287,863	41,465	(4,533)	(169,116)	155,679	1,355	157,034
Current year result	-	-	-	8,906	8,906	38	8,994
<b>Other comprehensive income</b>							
Revaluations reserve from translations of the currency of presentation of foreign activities	-	-	(678)	-	(678)	53	(625)
Change in fair value of assets available for sale and revaluation of tangible assets	-	(154)	-	-	(154)	(16)	(170)
Total other comprehensive income	-	(154)	(678)	-	(832)	37	(795)
Total comprehensive income	-	(154)	(678)	8,906	8,074	75	8,149
<b>Contributions and distributions to the owners:</b>							

Increase of capital

Capital reserves

Change in non-controlling interest due to transactions without change in control

Total transactions with owners, recorded directly in equity

**Balance as of December 31, 2016**

\* Some of the amounts disclosed in this statement do not correspond with the 2015 and 2014 statements and are affected by the restatement disclosed in note 30 due to a change in accounting policy. These consolidated financial statements are approved by the Board of directors of Euroins Insurance Group AD on April 19, 2017.

Kiril Boshov

*Executive Director*

Auditor's report:

Bogdanka Sokolova, Manager

CPA, registered auditor

Nedyalko Apostolov, Manager

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



## 1. Basis of preparation

### 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 1592 Sofia, 43, Christopher Columbus 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, 2016 Euroins Insurance Group AD owns controlling interest in the following subsidiaries:

Investments in subsidiaries	Country	Share	
		As of 31.12.2016	As of 31.12.2015
Euroins Romania Insurance-Reinsurance AD	Romania	98.15%	96.54%
Insurance Company Euroins AD -Bulgaria	Bulgaria	80.92%	79.82%
Euroins Osiguruvanje AD, Skopje	Macedonia	93.36%	93.36%
Euroins - Health assurance EAD	Bulgaria	100.00%	100.00%
Insurance company Euroins Life EAD	Bulgaria	100.00%	100.00%
Insurance company EIG Re EAD (former name HDI Insurance Bulgaria AD)	Bulgaria	100.00%	94.00%
PAD Insurance Company Euroins Ukraine	Ukraine	99.316658%	

#### Insurance company 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 98.15 % of the share capital of Euroins Romania or 422,557,541 (four hundred and twenty-two million five hundred and fifty-seven thousand five hundred forty-one) shares.

## **1. Basis of preparation (continued)**

### **1.2. Economic group structure (continued)**

#### **Euroins Osiguruvanje AD, Skopje, 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.

#### **Insurance Company Euroins Life 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 EAD (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 AD 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 Insurance Company EIG Re, or 7,732,440 (seven million seven hundred and thirty-two thousand four hundred and forty) shares

During 2016 EIG AD finalizes the deal about acquisition of 100 % of share capital of Insurance Company EIG Re.

## 1. Basis of preparation (continued)

### 1.2. Economic group structure (continued)

In 2016 the process of the acquisition of PAD Insurance Company Euroins Ukraine /PAD Insurance Company HDI Strkhuvannya/ is finalized as a result of which EIG AD is in possession of 99.316658% of the share capital of the company and the cost of the investment is at the amount of BGN 2,347 thousand.

### 1.3. Foreign currency transactions

The consolidated financial statements are presented in Bulgarian leva (BGN), which is the functional and presentation currency of the Group. Foreign currency transactions are initially 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, 2016 and 2015 are as follows:

Currency	December 31, 2016	December 31, 2015
EUR	1.95583	1.95583
USD	1.85545	1.79007
RON	2.3208	2.3159
MKD	31.4348	31.49340
UAH	14,53	

### 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 of preparation (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 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 of preparation (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. Basis of preparation (continued)**

### **1.5. Accounting estimates and assumptions (continued)**

#### **1.5.3. Fair value of investment property**

The Company owns an investment property with net book value of BGN 15,426 (2015: BGN 14,435), 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.

#### **1.5.4. 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.

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. Basis of preparation (continued)**

### **1.6. Basis for consolidation**

#### **Subsidiaries**

Subsidiaries are the companies, controlled by the Parent company. Control exists when the Parent company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Financial statements of the subsidiaries are included in the consolidated financial statements from the date when control commences until the date of termination.

All receivables and payables, income and expenses, as well as intragroup profits as a result of intercompany transactions within the Group are eliminated, except when they are immaterial. The part of income/expenses of the subsidiaries of the Parent company that correspond to the proportional share of the non-controlling shareholders is presented separately from equity in line „Non-controlling interest”.

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

## **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. Significant accounting policies (continued)**

### **2.1. Recognition and measurement of contracts (continued)**

#### **2.1.3. Premiums written on life insurance contracts**

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

### **2.2. Unearned premium reserve**

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

### **2.3. Unexpired risk reserve**

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

### **2.4. Deferred acquisition costs**

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

### **2.5. 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. Significant accounting policies (continued)**

### **2.6. Reinsurance**

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

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

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

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

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

### **2.7. 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. Significant accounting policies (continued)**

### **2.10. Other operating income and expenses**

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

### **2.11. Income tax**

The companies within the Group calculate current and deferred taxes in accordance with the local legislation. Current tax is calculated on the basis of the financial result.

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which tax losses carried forward and tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is legal ground the current tax assets to compensate with current tax liabilities and they are related to current tax charge to the same tax authority taxable persons.

### **2.12. 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. Significant accounting policies (continued)

### 2.13. Property, plant and equipment

#### *Land, buildings, machinery and equipment*

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

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

#### *Subsequent expenses*

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

### 2.14. Intangible assets

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

### 2.15. 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. Significant accounting policies (continued)**

### **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 valued 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.

##### ***(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.

## **2. Significant accounting policies (continued)**

### **2.17. Financial instruments (continued)**

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

##### ***(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.

##### ***(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 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)**

##### ***(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.

##### ***(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. Significant accounting policies (continued)**

### **2.17. Financial instruments (continued)**

#### **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.

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. Significant accounting policies (continued)**

### **2.17. Financial instruments (continued)**

#### **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.

## **2.19. 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. Significant accounting policies (continued)**

### **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.

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. Significant accounting policies (continued)**

### **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.

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. Significant accounting policies (continued)**

### **2.24. Employee benefits (continued)**

#### **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.

### **2.26. Changes in IFRS**

#### **New standards, amendments and interpretations effective as of 1 January 2016**

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions (issued on 21 November 2013), effective 1 July 2014, endorsed by the EU on 17 December 2014, published in the Official Journal on 9 January 2015, EU effective date 1 February 2015

The amendment clarifies paragraph 93 of IAS 19 Employee Benefits which refers to the accounting for employee contributions set out in the formal terms of a defined benefit plan by providing guidance on the accounting of employee contributions in respect of service.

- Annual Improvements to IFRSs 2010 - 2012 (issued on 12 December 2013), effective 1 July 2014, endorsed by the EU on 17 December 2014, published in the Official Journal on 9 January 2015; EU effective date 1 February 2015

The amendment to IFRS 2 Share-based Payment amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition” (which were previously part of the definition of “vesting condition”).

## **2. Significant accounting policies (continued)**

### **2.26. Changes in IFRS (continued)**

The amendments to IFRS 3 Business combinations are with regard to: Accounting for contingent consideration in a business combination – it is clarified that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date; Aggregation of operating segments - requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments.

The amendment to IFRS 8 Operating segments clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

The amendment to IFRS 13 Fair Value Measurement clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

The amendment to IAS 16 Property, Plant and Equipment clarifies that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The amendment to IAS 24 Related Party Disclosures clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The amendment to IAS 38 Intangible Assets clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014), effective 1 January 2016, endorsed by the EU on 23 November 2015, published in the Official Journal on 24 November 2015

The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment.

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014), effective 1 January 2016, endorsed by the EU on 24 November 2015, published in the Official Journal on 25 November 2015

The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business.

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014), effective 1 January 2016, endorsed by the EU on 2 December 2015, published in the Official Journal on 3 December 2015

The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption.

- Annual improvements to IFRSs 2012-2014 (issued on 25 September 2014), effective 1 January 2016, endorsed by the EU on 15 December 2015, published in the Official Journal on 16 December 2015

## **2. Significant accounting policies (continued)**

### **2.26. Changes in IFRS (continued)**

The amendment of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations adds specific guidance cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendment of IFRS 7 Financial Instruments: Disclosures adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. The consequential amendment to IFRS 1 clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendment of IAS 19 Employee benefits clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment of IAS 34 Interim Financial Reporting clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

- Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014), effective 1 January 2016, endorsed by the EU on 18 December 2015, published in the Official Journal on 19 December 2015

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports.

- Amendments to IAS 27: Equity Method in Separate Financial Statements (issued on 12 August 2014), effective 1 January 2016, endorsed by the EU on 18 December 2015, published in the Official Journal on 23 December 2015

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception (issued on 18 December 2014), effective 1 January 2016, endorsed by the EU on 22 September 2016, published in the Official Journal on 23 September 2016

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities.

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

Standards, interpretations and amendments in standards that are issued by IASB and endorsed by EU but not yet effective

- IFRS 9 Financial Instruments (issued on 24 July 2014), effective 1 January 2018, endorsed by the EU on 22 November 2016, published in the Official Journal on 29 November 2016

The final version of IFRS 9 'Financial Instruments' brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This final version of IFRS 9 adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVTOCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. This final version also adds limited amendments to classification and measurement for financial assets. The Standard supersedes all previous versions of IFRS 9.

## **2. Significant accounting policies (continued)**

### **2.26. Changes in IFRS (continued)**

The final version of IFRS 9 'Financial Instruments' brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This final version of IFRS 9 adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVTOCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. This final version also adds limited amendments to classification and measurement for financial assets. The Standard supersedes all previous versions of IFRS 9.

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015), effective 1 January 2018, endorsed by the EU on 22 September 2016, published in the Official Journal on 29 October 2016

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

#### **Documents issued by the IASB / IFRIC not yet endorsed by the EU**

These new or revised standards, new interpretations and amendments to existing standards that at the reporting date are already issued by the International Accounting Standards Board have not yet been endorsed by the EU and therefore are not taken into account by the Company in preparing these financial statements.

- IFRS 16 Leases (issued on 13 January 2016), effective 1 January 2019

The standard specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014), effective 1 January 2016

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014), IASB Effective Date has been deferred indefinitely

## **2. Significant accounting policies (continued)**

### **2.26. Changes in IFRS (continued)**

The amendments address a conflict between the requirements of IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (issued on 19 January 2016), effective 1 January 2017

The amendments clarify the following aspects: unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016), effective 1 January 2017

The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The following changes in liabilities arising from financing activities should be disclosed (to the extent necessary): changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes. These changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

- Clarifications to IFRS 15: Revenue from Contracts with Customers (issued on 12 April 2016), effective 1 January 2018

The amendments in the Clarifications to IFRS 15 'Revenue from Contracts with Customers' address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. IFRS 15 requires an entity to identify performance obligations on the basis of distinct promised goods or services. When another party is involved in providing goods or services to a customer (principal versus agent considerations), IFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. When an entity grants a license to a customer that is distinct from other promised goods or services, the entity has to determine whether the license is transferred at a point in time or over time on the basis of whether the contract requires the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. For transition relief IASB has provided two additional practical expedients (both optional): An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only); for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications

that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

## **2. Significant accounting policies (continued)**

### **2.26. Changes in IFRS (continued)**

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016), effective 1 January 2018

IASB has added guidance with regard to cash-settled share-based payment transactions that include a performance condition that introduces accounting requirements for these share-based payments that follows the same approach as used for equity-settled share-based payments. The Board has introduced an exception into the standard so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. IASB has introduced the following clarifications where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions: on such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date; any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016), effective 1 January 2018

The IASB issued amendments to IFRS 4 providing two options for entities that issue insurance contracts within the scope of IFRS 4: an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (this is the so-called overlay approach); an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (this is the so-called deferral approach). An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016), effective 1 January 2018

An amendment has been made with regard to transfers of investment property to state that an entity shall transfer a property to or from investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets or ceases to meet the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The standard gives a list of evidence which is designated as non-exhaustive list of examples instead of the previous exhaustive list.

- Annual improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016), effective 1 January 2018/1 January 2017

The amendment in IFRS 1 First-time adoption of International Financial Reporting Standards deleted the short-term exemptions because they have served their initial intended purpose.

The amendment in IFRS 12 Disclosure of Interests in Other Entities clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.



## **2. Significant accounting policies (continued)**

### **2.26. Changes in IFRS (continued)**

The amendments in IAS 28 Investments in Associates and Joint Ventures clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016), effective 1 January 2018

The interpretation clarifies the accounting for transactions that include the receipt of payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

### **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.

### **3. Risk management (continued)**

#### **3.2. Underwriting strategy (continued)**

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 (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

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 –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.

### **3. Risk management (continued)**

#### **3.4. Terms and conditions of insurance contracts (continued)**

##### **3.4.1. General insurance – Casco (continued)**

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.

##### **3.4.2. 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.

### **3. Risk management (continued)**

#### **3.4. Terms and conditions of insurance contracts (continued)**

##### **3.4.2. General insurance contracts – General third party liability (continued)**

###### ***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.

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.

### **3. Risk management (continued)**

#### **3.4. Terms and conditions of insurance contracts (continued)**

##### **3.4.4. Health insurance contracts – Health insurance (continued)**

##### ***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, 2016 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.

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 modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programs and the net exposure to which the Company is exposed. A number of stress and scenario tests are run using these models during the year

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

With respect to concentration of risk the management of 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.

### 3. Risk management (continued)

#### 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

Accident year	Before 2011	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims at the end of accident year	299,112	136,138	185,096	193,280	179,995	276,630	292,786	292,786
1 year later	64,903	139,847	198,865	248,646	206,404	239,014	-	239,014
2 years later	283,056	162,345	233,632	296,807	236,556	-	-	236,556
3 years later	302,390	174,950	269,297	316,275	-	-	-	316,275
4 years later	325,838	187,471	278,009	-	-	-	-	278,009
5 years later	342,643	190,905	-	-	-	-	-	190,905
6 years later	297,098	-	-	-	-	-	-	297,098
Current measurement	297,098	190,905	278,009	316,275	236,556	239,014	292,786	1,850,643
Cumulative payments	(197,355)	(165,838)	(213,175)	(225,640)	(198,126)	(215,947)	(285,659)	(1,469,485)
Estimate of cumulative claims	(99,744)	(25,067)	(64,833)	(90,635)	(38,430)	(23,067)	(7,127)	(348,903)
Liability value recognized in the statement of financial position	-	-	-	-	-	-	-	(348,903)

\* 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.



### 3. Risk management (continued)

#### 3.9. Financial risk management (continued)

##### 3.9.1. Interest rate risk (continued)

Sensitivity to changes of the effective interest rates of Group's financial assets as of December 31, 2016:

As of December 31, 2016	Floating interest	Fixed interest	Non – interest bearing	Total
Cash and cash equivalents	-	38,951	55,306	94,257
Deposits in financial institutions	-	30,149	-	30,149
Government bonds at fair value in profit or loss	-	200	-	200
Government securities held to maturity	-	2,613	-	2,613
Government securities available for sale	9	2,476	-	2,485
Corporate bonds at fair value through profit or loss	18,765	47,817	5,585	72,167
Current assets	-	-	-	-
Other financial receivables	-	-	-	-
Receivables from direct insurance	-	-	17,668	17,668
Reinsurance receivables	380	16,872	86,541	103,793
Regression receivables	-	-	-	-
Other receivables	-	2,282	-	2,282
<b>Total</b>	<b>19,154</b>	<b>141,360</b>	<b>165,100</b>	<b>325,614</b>

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
<b>Total</b>	<b>49,990</b>	<b>49,449</b>	<b>128,474</b>	<b>227,913</b>

### 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, 2016	BGN	EUR	MKD	RON	Other	Total
Cash and cash equivalents	45,873	31,042	367	8,229	8,746	94,257
Deposits in financial institution	18,764	4,200	4,962	-	2,223	30,149
Government securities at fair value through profit or loss	200	-	-	-	-	200
Government bonds held to maturity	-	-	2,613	-	-	2,613
Government bonds available for sale	9	-	2,476	-	-	2,485
Corporate bonds at fair value through profit or loss	24,154	28,111	-	-	19,902	72,167
Shares in mutual funds	15,060	-	2,608	-	-	17,668
Other equity investments	86,376	16,524	415	478	-	103,793
Current assets	203	-	-	-	-	203
Other financial assets	-	-	-	-	-	-
Receivables from direct insurance	57,698	-	-	-	-	57,698
Reinsurance receivables	7,629	-	-	-	-	7,629
Recourse receivables	12,063	-	-	-	-	12,063
Other receivables	31,448	-	-	-	-	31,448
<b>Total</b>	<b>299,477</b>	<b>79,877</b>	<b>13,441</b>	<b>8,707</b>	<b>30,871</b>	<b>432,373</b>
Payables on reinsurance agreements and other payables	16,126	59,637	891	14,409	5,174	96,237
Loans received	44,039	9,629	-	-	-	53,668
<b>Total</b>	<b>60,165</b>	<b>69,266</b>	<b>891</b>	<b>14,409</b>	<b>5,174</b>	<b>149,905</b>

### 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, 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
<b>Total</b>	<b>237,177</b>	<b>42,446</b>	<b>8,146</b>	<b>10,923</b>	<b>838</b>	<b>299,530</b>
Payables on reinsurance agreements and other payables	14,308	63,339	889	15,308	-	93,844
Loans received	101	25,932	-	-	-	26,033
<b>Total</b>	<b>14,409</b>	<b>89,271</b>	<b>889</b>	<b>15,308</b>	<b>-</b>	<b>119,877</b>

##### 3.9.3. Price risk

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

### 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 31.12.2016	As of 31.12. 2015
Government securities		
Rating BB-	2,613	2,600
Rating BBB	191	6,712
Rating BAA3	9	-
Rating AA	824	832
Rating A	1,662	1,690
Corporate bonds		
Rating A	-	-
Rating BBB+	16,336	-
No Rating	55,696	15,366
Mortgage bonds		
Rating BB+	-	-
Shares		
Rating aA3	-	-
Rating bgBaa3	46,164	15
No Rating	75,432	66,481
<b>Total</b>	<b>198,927</b>	<b>93,697</b>

### 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 31.12.2016	Bulgaria	Slovenia	Slovakia	Lithuania	Czech Republic	Ireland	Macedonia	Total
Held for trading or available for sale	200	2,085	400	-	-	-	-	2,685
Held to maturity	-	-	-	-	-	-	2,613	2,613
<b>Total</b>	<b>200</b>	<b>2,085</b>	<b>400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,613</b>	<b>5,298</b>

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
<b>Total</b>	<b>5,076</b>	<b>2,085</b>	<b>400</b>	<b>438</b>	<b>832</b>	<b>404</b>	<b>2,600</b>	<b>11,835</b>

##### *Aging analysis of receivables*

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

As of 31.12.2016	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	42,194	9,675	1,604	1,338	2,887	57,698
<b>Total</b>	<b>42,194</b>	<b>9,675</b>	<b>1,604</b>	<b>1,338</b>	<b>2,887</b>	<b>57,698</b>

### 3. Risk management (continued)

#### 3.9. Financial risk management (continued)

##### 3.9.4. Credit risk (continued)

##### Aging analysis of receivables (continued)

As of 31.12.2015	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
<b>Total</b>	<b>41,078</b>	<b>9,423</b>	<b>1,567</b>	<b>1,304</b>	<b>2,795</b>	<b>56,167</b>

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.

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**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, 2016	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	82,824	9,124	979	650	-	-	-	680	94,257
Deposits in financial institutions	-	513	4,622	23,000	1,474	-	-	540	30,149
Government securities held to maturity	-	-	-	128	1,248	1,237	-	-	2,613
Government securities available for sale	-	795	796	889	5	-	-	-	2,485
Corporate bonds at fair value through profit and loss	-	-	2	1,426	2,379	29,100	14,465	24,795	72,167
Government securities held for trading	200	-	-	-	-	-	-	-	200
Shares in mutual funds	-	-	-	-	-	-	-	17,668	17,668
Equity investments	-	-	4,478	-	-	380	16,105	82,830	103,793
Other financial assets	-	-	-	-	2,282	-	-	-	2,282
Receivables on direct insurance	13,732	24,406	11,078	8,464	18	-	-	-	57,698
Reinsurance receivables	2,573	5,056	-	-	-	-	-	-	7,629
Recourse receivables	12,063	-	-	-	-	-	-	-	12,063
Other receivables	7,639	9,028	6,008	8,773	-	-	-	-	31,448
<b>Total</b>	<b>119,031</b>	<b>48,922</b>	<b>27,963</b>	<b>43,330</b>	<b>7,406</b>	<b>30,717</b>	<b>30,570</b>	<b>126,513</b>	<b>434,452</b>

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**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, 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
<b>Total</b>	<b>116,271</b>	<b>33,935</b>	<b>25,521</b>	<b>26,499</b>	<b>7,231</b>	<b>4,892</b>	<b>4,889</b>	<b>75,237</b>	<b>294,475</b>



### 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, 2016	Up to 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
Unearned premium reserve	152,230	-	-	-	-	152,230
Unexpired risk reserve	459	-	-	-	-	459
Reserve for reported but not settled claims	189,645	7,596	-	-	-	197,241
Reserve for incurred but not reported claims	120,647	16,745	10,363	3,907	-	151,662
Other technical reserves	5,829	-	-	2,814	132	8,775
Liabilities from direct insurance	5,666	-	-	-	-	5,666
Liabilities for reinsurance contracts	64,083	-	-	-	-	64,083
Lease liabilities	214	471	239	-	-	924
Loan payables	5,909	10,345	33,414	22,167	4,000	53,668
Other liabilities	25,564	-	-	-	-	25,564
<b>Total</b>	<b>570,246</b>	<b>35,157</b>	<b>44,016</b>	<b>6,721</b>	<b>4,132</b>	<b>660,272</b>

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
<b>Total</b>	<b>547,558</b>	<b>22,902</b>	<b>9,227</b>	<b>24,146</b>	<b>2,588</b>	<b>606,421</b>

### **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 behavior.

The definition of the operational risk accepted at Group level is the following: the operational risk is the risk of recording losses 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, 2016 the entities within the Group observe all requirements related to the mandatory capital set by the respective regulators.

In 2016 there are a number of regulatory changes, which 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 constant process of analysis of the effect of the new regulatory framework on its capital position and activity. The Group continues to rely on the support of the shareholders in case additional capital is needed as a result of the new regulatory framework. In support of this, the majority shareholder Eurohold Bulgaria AD made capital contributions of BGN 105,966,643.18 in 2016, and in addition granted to the Group a loan of BGN 19,500 in the form of subordinated term debt.

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**4. Gross written premiums**

	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
Motor hull	28,163	32,141
Motor TPL and Green card	432,724	367,213
Property insurance	24 736	20,467
Agricultural insurance	2,980	3,375
Accidents and health	10,566	14,159
Cargo	8,922	6,909
Liabilities	6,627	4,821
Other	13,015	3,730
<b>Gross written premiums</b>	<b>527,733</b>	<b>452,815</b>
Change in the gross provision for unearned premium reserve	(15,729)	(29,170)
<b>Gross earned premiums</b>	<b>512,004</b>	<b>423,645</b>
Less: written premiums ceded to reinsurers	(231,937)	(184,741)
Change in the provision for unearned premiums reinsurer's share	12,883	20,721
<b>Earned premiums ceded to reinsurers</b>	<b>(219,054)</b>	<b>(164,020)</b>
<b>Net earned premiums</b>	<b>292,950</b>	<b>259,625</b>

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

The technical result of the Company by business lines for the year ended December 31, 2016 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	29,223	29,574	(25,830)	(27,414)	(11,904)	(1,378)	1,659	(9,464)
Motor TPL and Green card	419,370	408,048	(267,869)	(244,000)	(122,821)	(27,452)	4,069	3,607
Property insurance	35,793	35,155	(1,396)	(6,051)	(6,033)	(7,014)	(32,584)	(222)
Agricultural Insurance	2,980	2,973	(4,318)	(3,543)	(1,200)	(98)	(48)	(1,916)
Accidents and health	10,776	10,812	(5,020)	(6,422)	1,756	(222)	(235)	5,689
Cargo	9,169	8,397	(3,153)	(2,060)	(3,522)	(1,171)	1,123	2,768
Liabilities	7,406	7,109	(746)	(3,304)	(1,903)	(164)	(1,189)	550
Other	13,015	9,936	(1,381)	(2,062)	(3,990)	(98)	1,215	2,933
<b>Total – General Insurance</b>	<b>527,733</b>	<b>512,004</b>	<b>(309,712)</b>	<b>(294,854)</b>	<b>(149,617)</b>	<b>(37,598)</b>	<b>(25,990)</b>	<b>3,945</b>

\* 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 Euroins Insurance Group AD.

\* Other technical income (expenses) include distributed investment income of insurance reserves and other net insurance expenses.

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

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

	Gross premiums written	Gross premiums earned	Disbursed compensatio ns, 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	339,793	(254,933)	(335,498)	(104,813)	(40,370)	30,429	(110,459)
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)
<b>Total – General Insurance</b>	<b>452,815</b>	<b>423,645</b>	<b>(301,162)</b>	<b>(386,349)</b>	<b>(135,980)</b>	<b>(48,103)</b>	<b>26,681</b>	<b>(120,106)</b>

\* 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 Euroins Insurance Group AD.

\* Other technical income (expenses) include distributed investment income of insurance reserves and other net insurance expenses.

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**5. Fees and commission income**

	Year ended 31.12.2016	Year ended 31.12.2015
Commissions received from reinsurers	65,950	5,177
Other income from reinsurers	192	437
<b>Total fees and commission income</b>	<b>66,142</b>	<b>5,614</b>

**6. Financial income**

	Year ended 31.12.2016	Year ended 31.12.2015
Interest income from investments in securities and deposits	2,857	2,041
Dividend income from investments in equities	9	89
Rental income from investments in properties	334	340
Income from revaluation of assets at fair value	238	1,409
Income from sale of financial assets	7,553	12,329
Other financial income	6,032	2,299
<b>Total financial income</b>	<b>17,023</b>	<b>18,507</b>

**7. Other operating income**

Other operating income includes income from General third party liability stickers, income from fees for intermediary services on Green Card and others. The income from acquisition commissions of derecognized insurance contracts is also included.

**8. Claims incurred, net of reinsurance**

	Year ended 31.12.2016	Year ended 31.12.2015
Current year claims paid, claims handling and prevention expenses	(313,401)	(303,936)
Change in the outstanding claims provision	14,865	(137,659)
Change in other technical reserves	436	(250)
Change in mathematical reserve	(443)	-
Received recoveries from reinsurers	135,068	126,113
Change in the reinsurers' share in the outstanding claims reserve	(8 146)	105,335
Recourse receivables	3,689	9,638
<b>Total incurred claims, net of reinsurance</b>	<b>(167,932)</b>	<b>(200,759)</b>

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

**9. Acquisition expenses**

	Year ended 31.12.2016	Year ended 31.12.2015
Commissions and profit share	(99,739)	(94,386)
Change in reserve for bonuses and rebates and management insurance	(8)	(63)
Bonuses expenses	(91)	(826)
Advertising and marketing expenses	(28,305)	(17,582)
<b>Total acquisition expenses</b>	<b>(128,143)</b>	<b>(112,857)</b>

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

### 10. Administrative expenses

	Year ended 31.12.2016	Year ended 31.12.2015
Materials expenses	(446)	(458)
Expenses for hired services	(4,226)	(8,708)
Depreciation and amortization expenses	(1,403)	(1,467)
Personnel expenses	(11,368)	(10,106)
Other	(4,031)	(2,384)
<b>Total administrative expenses</b>	<b>(21,474)</b>	<b>(23,123)</b>

At the end of the reporting period the average number of employees in the Group is 1,308 (2015.: 1,119), companies as follows:

- 10 (2015: 10) in Euroins Insurance Group AD;
- 455 (2015: 390) in Insurance Company Euroins AD;
- 480 (2015: 433) in Euroins Romania Insurance-Reinsurance AD;
- 137 (2015: 150) in Euroins Osiguruvanje AD, Skopje, Macedonia;
- 7 (2015: 18) in Euroins - Health Assurance ZEAD;
- 24 (2015: 24 ) in Insurance Company Euroins Life Insurance EAD;
- 39 (2015: 94 ) in Insurance company EIG Re EAD;
- 156 in PAD Insurance Company Euroins Ukraine.

### 11. Financial expenses

	Year ended 31.12.2016	Year ended 31.12.2015
Interest expense	(3,315)	(4,598)
Loss on revaluation of financial assets	(1,354)	(8,471)
Loss on sale of financial assets	(2,916)	(427)
Expenses for investment management	(831)	(294)
Other finance cost	(6,226)	(2,473)
<b>Total finance expenses</b>	<b>(14,642)</b>	<b>(16,263)</b>

### 12. Other operating expenses

	Year ended 31.12.2016	Year ended 31.12.2015
Expenses for Guarantee fund	(29,029)	(16,960)
Other statutory expenses and license fees	(555)	(503)
Bad debt provision	(4,517)	321
Receivables written off on insurance policies	(10,974)	(14,681)
Other	(30,316)	(1,088)
<b>Total other operating expenses</b>	<b>(75,391)</b>	<b>(32,911)</b>

Other expenses in other operating expenses are derecognized from Euroins Romania recourses, which have been entirely impaired as of December 31, 2015.

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**13. Other net income**

	Year ended 31.12.2016	Year ended 31.12.2015
Net income from sale of assets	183	13
Other non-operating income	404	40
Effect from acquisition of Euroins Ukraine (HDI Ukraine)	5,117	-
Other non-operating expenses	(280)	285
<b>Total other net income</b>	<b>5,424</b>	<b>338</b>

**14. Taxation**

Tax expenses are presented as follows:

	Year ended 31.12.2016	Year ended 31.12.2015
Income tax expense for the current year	(422)	-
Deferred tax	(2,384)	16,424
<b>Total taxation</b>	<b>(2,806)</b>	<b>16,424</b>

Current tax expenses represent the amount of tax payable according to the local legislation at tax rates in force at the end of 2016 and 2015.

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

	Assets		Liabilities		Net assets / liabilities	
	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Property, plant and equipment	117	-	-	(72)	117	(72)
Payables to personnel for unused paid leaves and retirement compensations	46	58	-	-	46	58
Accrued personal income	55	15	-	-	55	15
Tax loss for carry forward	14,135	16,736	-	-	14,135	16,736
<b>Net deferred tax assets / liabilities</b>	<b>14,353</b>	<b>16,809</b>	<b>-</b>	<b>(72)</b>	<b>14,353</b>	<b>16,737</b>

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

	Balance as of December 31, 2015	Changes in profit and loss	Changes in share capital, reported in Other comprehensive income	Accumulated loss	Balance as of December 31, 2016
Property, plant and equipment	(72)	189	-	-	117
Payables to personnel for unused paid leaves and retirement compensations	58	(12)	-	-	46
Accrued personal income	15	40	-	-	55
Tax loss for carryforward	16,736	(2,601)	-	-	14,135
<b>Net deferred tax assets / liabilities</b>	<b>16,737</b>	<b>(2,384)</b>	<b>-</b>	<b>-</b>	<b>14,353</b>



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**15. Intangible asstes**

	Software	Other	Total
<b>Cost</b>			
Balance as of January 1, 2015	3,779	40	3,819
Acquisitions	485	283	768
Disposals	14	-	14
Exchange rate differences	4	-	4
Balance as of December 31, 2015	4,282	323	4,605
<b>Depreciation and impairment losses</b>			
Balance as of January 1, 2015	(2,353)	(40)	(2,393)
Depreciation changed for the year	(431)	-	(431)
Exchange rate differences	(6)	-	(6)
Balance as of December 31, 2015	(2,790)	(40)	(2,830)
<b>Net book value</b>			
Balance as of January 1, 2015	1,426	-	1,426
Balance as of December 31, 2015	1,492	283	1,775
<b>Cost</b>			
Balance as of January 1, 2016	4,282	323	4,605
Acquisitions	223	-	223
Acquisitions from business combinations	61	22	83
Disposals	(881)	(323)	(1,204)
Balance as of December 31, 2016	3,685	22	3,707
<b>Depreciation and impairment losses</b>			
Balance as of January 1, 2016	(2,790)	(40)	(2,830)
Depreciation changed for the year	(355)	-	(355)
Written-off depreciation on disposals	437	40	477
Balance as of December 31, 2016	(2,767)	-	(2,767)
<b>Net book value</b>			
Balance as of January 1, 2016	1,492	283	1,775
Balance as of December 31, 2016	918	22	940

As of December 31, 2016 the Group has made a review of its intangible assets and as a result they has made an estimate according to which it has decided that there are no indications of impairment.

**16. Property, plant and equipment**

	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Total
<b>Cost</b>					
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

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**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
<b>Balance as of December 31, 2015</b>	<b>(318)</b>	<b>(3,083)</b>	<b>(5,970)</b>	<b>(1,381)</b>	<b>(10,752)</b>

**Carrying amount**

<b>Balance as of January 1, 2015</b>	<b>1,146</b>	<b>516</b>	<b>1,487</b>	<b>366</b>	<b>3,515</b>
<b>Balance as of December 31, 2015</b>	<b>1,130</b>	<b>675</b>	<b>1,443</b>	<b>220</b>	<b>3,468</b>

**Cost**

As of January 1, 2016	1,448	3,758	7,413	1,601	14,220
Acquisitions	24	64	285	113	486
Acquisitions from business combination	3,767	72	63	67	3,969
Disposals	(58)	(37)	(204)	(9)	(308)
Revaluation	74	-	-	-	74
Exchange differences	(4)	-	(5)	-	(9)
<b>Balance as of December 31, 2016</b>	<b>5,251</b>	<b>3,857</b>	<b>7,552</b>	<b>1,772</b>	<b>18,432</b>

**Depreciation**

As of January 1, 2016	(318)	(3,083)	(5,970)	(1,381)	(10,752)
Depreciation charged for the year	(125)	(227)	(552)	(85)	(989)
Acquisitions from business combination	(1,099)	(62)	(43)	(60)	(1,264)
Written-off depreciation on disposals	-	22	80	9	111
Exchange differences	2	-	6	-	8
<b>Balance as of December 31, 2016</b>	<b>(1,540)</b>	<b>(3,350)</b>	<b>(6,479)</b>	<b>(1,517)</b>	<b>(12,886)</b>
Net balance value					
<b>Balance as of January 1, 2016</b>	<b>1,130</b>	<b>675</b>	<b>1,443</b>	<b>220</b>	<b>3,468</b>
<b>Balance as of December 31, 2016</b>	<b>3,711</b>	<b>507</b>	<b>1,073</b>	<b>255</b>	<b>5,546</b>

As of December 31, 2016 the Group has made a review of its property, plant and equipment and as a result they has made an estimate according to which it has decided that there are no indications of impairment.

**17. Investment properties**

	<b>As of 31.12.2016</b>	<b>As of 31.12.2015</b>
<b>Balance as of January 1</b>	14,435	15,624
Revaluation	1 021	(1,123)
Exchange differences	(30)	(66)
<b>Balance as of December 31</b>	<b>15,426</b>	<b>14,435</b>

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**18. Financial assets**

As of 31.12.2016

	Held to maturity	Available for sale	For trading	Loans and receivables	Total
Registered for trading on stock exchange	-	-	95,109	-	95,109
Not registered for trading on stock exchange	-	478	8,206	-	8,684
<b>Equity securities</b>	-	<b>478</b>	<b>103,315</b>	-	<b>103,793</b>
Government bonds	2,613	2,485	200	-	5,298
Corporate bonds	-	-	72,167	-	72,167
<b>Debt securities</b>	<b>2,613</b>	<b>2,485</b>	<b>72,367</b>	-	<b>77,465</b>
Open investment funds	-	-	17,668	-	17,668
<b>Investment funds</b>	-	-	<b>17,668</b>	-	<b>17,668</b>
Deposits in banks	303	-	21,863	7,443	29,609
Restricted deposits	-	-	-	540	540
Other receivables	-	-	-	2,282	2,282
<b>Deposits and other receivables</b>	<b>303</b>	-	<b>21,863</b>	<b>10,265</b>	<b>32,431</b>
<b>Total financial assets</b>	<b>2,916</b>	<b>2,963</b>	<b>215,213</b>	<b>10,265</b>	<b>231,357</b>

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
<b>Equity securities</b>	-	<b>933</b>	<b>63,824</b>	-	<b>64,757</b>
Government bonds	2,600	2,794	6,441	-	11,835
Corporate bonds	-	-	14,902	-	14,902
<b>Debt securities</b>	<b>2,600</b>	<b>2,794</b>	<b>21,343</b>	-	<b>26,737</b>
Open investment funds	-	-	2,203	-	2,203
<b>Investment funds</b>	-	-	<b>2,203</b>	-	<b>2,203</b>
Deposits in banks	322	-	7,235	8,125	15,682
Restricted deposits	-	-	-	569	569
Other receivables	-	-	-	4,657	4,657
<b>Deposits and other receivables</b>	<b>322</b>	-	<b>7,235</b>	<b>13,351</b>	<b>20,908</b>
<b>Total financial assets</b>	<b>2,922</b>	<b>3,727</b>	<b>94,605</b>	<b>13,351</b>	<b>114,605</b>

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.

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## 19. Receivables and other assets

	As of 31.12.2016	As of 31.12.2015
Receivables from direct insurance	57,698	56,167
Receivables from reinsurers or cedants	7,629	17,388
Recourse receivables	12,063	11,701
Other receivables	31,245	32,282
Current assets	203	398
<b>Total receivables and other assets</b>	<b>108,838</b>	<b>117,936</b>

As of December 31, 2016 the Group has accrued an impairment of receivables at the amount of BGN 10,974 thousand (December 31, 2015 – BGN 11,154 thousand).

Other receivables include receivables from course claims, receivables from customers, uninsured persons, as well as receivables from the Guarantee Fund.

## 20. Cash and cash equivalents

	As of 31.12.2016	As of 31.12.2015
Cash on hand	2,220	2,133
Current accounts	55,030	7,238
Deposits up to 90 days	37,007	49,434
<b>Total cash and cash equivalents</b>	<b>94,257</b>	<b>58,805</b>

## 21. Insurance reserves

### Insurance reserves, including health and life insurance reserves:

	As of December 31, 2016			As of December 31, 2015		
	Gross amount	Reinsurance	Gross amount	Reinsurance	Gross amount	Reinsuran ce
Unearned premium reserve	152 230	(90 933)	61 298	120,698	(69,847)	50,851
Unexpired risk reserve	459	(23)	436	12,397	(6,189)	6,208
Claims reserves, incl.:	348,903	(201,039)	147,864	354,154	(203,243)	150,911
<i>Reserves for incurred, but not reported claims</i>	151 662	(88 812)	62 850	167,629	(99,145)	68,484
<i>Reserves for reported, but not settled claims</i>	197 241	(112 227)	85 014	186,525	(104,098)	82,427
Other technical reserves, incl.:	5 411	(2 870)	2 541	4,615	-	4,615
<i>Mathematical reserves</i>	3 364	-	3 364	2,921	-	2,921
<b>Total insurance reserves</b>	<b>510,367</b>	<b>(294,865)</b>	<b>215,503</b>	<b>494,785</b>	<b>(279,279)</b>	<b>215,506</b>

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**22. Payables to reinsurers and other payables**

	As of 31.12.2016	As of 31.12.2015
Payables from direct insurance	5 666	7,210
Payables to reinsurers	64 083	67,105
Payables under lease contracts	924	954
Payables to suppliers	3,820	5,412
Payables to personnel	1,047	2,019
Payables to Guarantee fund	5,096	2,954
Other payables	15,601	8,198
<b>Total payables</b>	<b>96,237</b>	<b>93,852</b>

**23. Payables on loans**

	As of 31.12.2016	As of 31.12.2015
Payable on loan from the owner Eurohold AD	373	373
Payable on loan from Global Investment	6,209	5,999
Payable on loan from Starcom	-	2
Payable on loan from the owner Eurohold AD	1,172	-
Other payables on loans	2,856	101
<b>Total payables on loans</b>	<b>10,610</b>	<b>6,475</b>

As of December 31, 2016 and 2015 payables on loans comprise mainly loans under the following agreements signed by EIG AD:

*Agreement with Eurohold*

Loan contract with Eurohold AD from 01.12.2013 with agreed amount up to BGN 10,000 and 6% agreed interest rate. The term of the contract is agreed with Annex from 01.12.2014 for a year with an option for automatic renewal. As of 31.12.2016 the payable on loan is BGN 1,172.

*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. The loan is paid on 03.01.2017

**23 A Subordinate liabilities**

Payable on bond loan

	As of 31.12.2016	As of 31.12.2015
<i>BGN '000</i>		
Payable on bond loan	19,558	19,558
Payable on subordinate debt to Eurohold	19,500	-
Payable on subordinate debt to Rossgaz Engineering	4,000	-
<b>Total subordinated liabilities</b>	<b>43,058</b>	<b>19,558</b>

*Bond loan*

From December 18, 2014. The bond loan is issued in the form of 100 materialized, subordinated, unsecured as of the emission date bonds with nominal value of EUR 100 thousand each. The loan has contracted amount of

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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 Euribor, 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.

*Subordinate debt from Eurohold*

Under the Agreement for providing a cash loan to EIG AD as a subordinate debt with Parent company on December 19, 2016, with agreed amount up to BGN 19,500 thousand, maturity date December 19, 2021 and interest rate 7,5%.

*Subordinate debt from*

Under the Agreement for providing a cash loan to ZD Euroins AD as a subordinate debt with Rossgaz Engineering EOOD on 27.06.2016, with agreed amount BGN 4,000 thousand maturity date 28.06.2026 and interest rate 8,9%.

## 24. Equity

	As of 31.12.2016	As of 31.12.2015
Share capital	390,954	287,863
Revaluation and other reserves	40,627	41,465
Revaluation reserve from recalculations in the presentation currency in the consolidated financial statements	(5,211)	(4,533)
	<b>426,370</b>	<b>324,795</b>
<b>Accumulated loss</b>	<b>(160,621)</b>	<b>(169 116)</b>
	<b>265,749</b>	<b>155,679</b>
<b>Total equity and reserves</b>		

As of December 31, 2016 the registered capital of the Parent company is BGN 483,445,791. The registered capital contains 483,445,791 shares of which 76,981,791 materialized, registered, privileged shares and 406,464,000 materialized, registered, unprivileged shares with nominal value of BGN 1 for each share. Paid capital as of 31.12.2016 is BGN 390,954,362.

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, but the increase is registered in Commercial Register in April 2016 and it is represented in the financial statement as Capital reserves.

In 2016 are made cash payments in amount of BGN 105,963 and the size of materialized and registered capital is BGN 390,954. As of 31.12.2016 paid from Eurohold Bulgaria AD amount of BGN 43,024, which is a part of paid during the current period capital, is not registered in Commercial Register and is represented in the financial statement as Capital reserves. The increase is registered in Commercial Register

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in January 2017.

The ultimate Parent company is Starcom Holding AD.

**Shareholders' structure**

	As of December 31, 2016		As of December 31, 2015	
	Share capital	Percentage	Share capital	Percentage
Eurohold Bulgaria AD	431,985,291	89.36	236,402,291	82.12
Basildon Holding OOD	51,460,500	10.64	51,460,500	17.88
	<b>483,445,791</b>	<b>100.00</b>	<b>287,862,791</b>	<b>100.00</b>

## 25. Business combinations

### 25.1. Goodwill

	As of 31.12.2016	As of 31.12.2015
Insurance company Euroins AD	101,395	101,395
Euroins - Health Assurance ZEAD	186	186
Euroins Romania Insurance-Reinsurance AD	52,715	52,715
Euroins Osiguruvanje AD, Skopje	10,368	10,368
<b>Total</b>	<b>164,664</b>	<b>164,664</b>

The management of the Group has made the necessary procedures for testing the recognized goodwill on the acquisition of subsidiaries and has hired external appraisers. The test assumes that each individual company appears as a "cash-generating unit". As a basis for cash flow projections (before tax) financial budgets and other medium and long-term plans for the development and reconstruction Group's activities are used. The recoverable amount of each cash-generating unit is determined as a "value in use" basis. The key assumptions, used in calculations are defined specifically for each reputable entity treated as a separate cash – generating unit and according to its specific activity, business environment and risks, as follows:

2016	Euroins Romania Insurance- Reinsurance AD	Insurance company Euroins AD	Euroins Osiguruvanje AD, Skopje	PAD IC Euroins Ukraine	Insurance company Euroins Life EAD	Insurance company EIG Re EAD & Euroins – Health Assurance ZEAD
Discount rate	7.96%	7.83%	13.55%	19.42%	7.91%	8.08%
Growth rate	1.10%	1.00%	1.70%	1.50%	1.00%	0.50%
2015	Euroins Romania Insurance- Reinsurance AD	Insurance company Euroins AD	Euroins Osiguruvanje AD, Skopje	PAD IC Euroins Ukraine	Insurance company Euroins Life EAD	Insurance company EIG Re EAD & Euroins – Health Assurance ZEAD
Discount rate	8.42%	8.17%	11.88%	-	8.27%	8.17%
Growth rate	2.0%	1.8%	2.5%	-	1.8%	2.0%

The result of the test shows that recoverable amount of the goodwill exceeds the carrying amount and there is no indication for impairment of this goodwill.

In accordance to the chosen accounting policy the Group has recognized a goodwill as a result of business combinations, that include the following companies under common control in 2007 and 2008: Insurance company Euroins AD, Euroins - Health Assurance ZEAD in 2007 and Euroins Romania Insurance-Reinsurance AD in 2008. The control above these companies is acquired via contribution of shares at fair value by the parent company against an increase in the registered capital of the companies..

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.



## 25.2. Acquisition of subsidiaries

In 2016 the Group acquires PAD Insurance Company Euroins Ukraine /former name: PAD IC HDI Strakhuvannya/ as a result of which the Group owns 99.29% of the share capital of the company.

The acquisition cost for the Group is in amount of BGN 2,347 and the amounts of each acquired group of assets, liabilities and contingent liabilities recognized at the date of the acquisition is as follows:

	Recognized amount as of the date of acquisition
<b>Total remuneration</b>	<b>2,347</b>
Net assets	7,464
Profit from a lucrative purchase	5,117
Cash as of the date of acquisition	8,720

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.

## 26. Non – controlling interest

Subsidiary	As of 31.12.2016	As of 31.12.2015
Insurance company Euroins AD	2,143	2,372
Euroins Romania Insurance–Reinsurance AD	1,575	(1,717)
Euroins Osiguruvanje AD, Skopje	456	447
PAD Insurance Company Euroins Ukraine AD	51	-
Insurance Company EIG Re EAD	-	253
<b>Total non-controlling interest</b>	<b>4,225</b>	<b>1,355</b>

## 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.

	Year ended 31.12.2016	Year ended 31.12.2015
<b>27.1. Directors transactions</b>		
Payments to directors and executive directors	1,966	743
<b>Total</b>	<b>1,966</b>	<b>743</b>

The directors of the Group are as follows:

Assen Milkov Hristov	Chairman of the Board of Directors	Euroins Insurance Group AD
	Chairman of the Board of Directors	Euroins Romania Insurance-Reinsurance AD
	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Dominique Victor François Joseph Bauduin	Deputy Chairman of the Board of Directors	Euroins Insurance Group AD
	Executive Director	Insurance Company Euroins Life EAD
	Member of the Supervisory Board	Insurance company Euroins AD
	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Kiril Ivanov Boshov	Executive Director	Euroins Insurance Group AD
	Member of the Board of Directors	Euroins - Health Assurance ZEAD
	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
	Chairman of the Board of Directors	Euroins Romania Insurance Reinsurance AD
Violeta Vasileva Darakova	Chairman of the Supervisory Board	Insurance company Euroins AD
Radi Georgiev Georgiev	Member of the Supervisory Board	Insurance company Euroins AD
Velislav Milkov Hristov	Member of the Management Board	Insurance company Euroins AD
Yoanna Tsvetanova Tzoneva	Executive Director	Insurance company Euroins AD
	Executive Director	Euroins - Health Assurance ZEAD
	Executive Director	Insurance company EIG Re EAD
Evgeny Svetosaltov Ignatov	Executive Director	Insurance company Euroins AD
Rumyana Gesheva Betova	Executive Director	Insurance company Euroins AD
	Executive Director	Insurance company EIG Re EAD
Petar Veselinov Avramov	Executive Director	Insurance company Euroins AD
	Executive Director	Insurance company EIG Re EAD
Dimitar Stoyanov Dimitrov	Procurement	Insurance company Euroins AD
Kalin Orlinov Kostov	Executive Director	Euroins - Health Assurance ZEAD
	Executive Director	Insurance Company Euroins Life EAD
Minko Hristov Gerdzhikov	Member of the Board of Directors	Insurance Company Euroins Life EAD
Milena Milchova Gencheva	Executive Director	Euroins Romania Insurance Reinsurance AD

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Mihnea Traian Stefan Tobescu	Chief Executive Officer	Euroins Romania Insurance Reinsurance AD
Kristiana – Viorela Basgan	Member of the Board of Directors	Euroins Romania Insurance Reinsurance AD
	Executive Member of the Board of Directors	
Ralitza Guberova	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Yanko Georgiev Nikolov	Deputy Chairman of the Board of Directors	Euroins Osiguruvanje AD, Skopje
	Member of the Board of Directors	PAD Insurance Company Euroins Ukraine
Vladimir Treneski	Chairman of the Supervisory Board	Euroins Osiguruvanje AD, Skopje
Vasil Stefanov Stefanov	Member of the Supervisory Board	PAD Insurance Company Euroins Ukraine
Radoslava Nikolova Peneva	Member of the Supervisory Board	PAD Insurance Company Euroins Ukraine
Ivan Dimitrov Hristov	Chairman of the Management Board	PAD Insurance Company Euroins Ukraine
Oleksandr Volkov	Member of the Management Board	PAD Insurance Company Euroins Ukraine
Olga Grib		

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**27.2. Related parties transactions**

<i>BGN '000</i>	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
<b>Transactions with companies under common control and associated to the Group companies:</b>		
Written premium	453	523
Commissions and participation in result	1,199	785
Other revenue	100	18
Insurance compensations	6,259	6,411
Hired services	1,510	989
Interest income	57	14
Interest expense	43	16
Other expenses	942	-
<b>Transactions with the Parent company and the ultimate parent company:</b>		
Interest income – Eurohold Bulgaria AD	146	128
Interest income – Starcom Holding AD	83	277
Interest expense – Starcom Holding AD	9	4
Interest expense – Eurohold Bulgaria AD	1	2,954
Written premium – Eurohold Bulgaria AD	-	3
Expenses for consulting services – Eurohold Bulgaria AD	155	646

**27.3. Related parties transactions**

<i>BGN '000</i>	<b>As of 31.12.2016</b>	<b>As of 31.12.2015</b>
<b>Balances with companies under common control and associated to the Group companies:</b>		
Other receivables	981	578
Investments in equity instruments	3,297	52,653
Investments in debt instruments	-	978
Finance lease payables	730	709
Other payables	374	621
Operating lease payables	-	64
Receivables on insurance services	-	107
Commissions and participation in result	-	56
Insurance compensations	1,547	1,589
Receivables on cession	-	348
<b>Balances with the Parent company and the ultimate parent company:</b>		
Receivables on loans – Eurohold Bulgaria AD	-	4,606
Loan payables – Eurohold AD	20,671	746
Investments in debt instruments – Starcom Holding AD	-	2,392
Investments in equity instruments – Eurohold Bulgaria AD	26,105	17
Other payables – Starcom Holding AD	2,205	-
Other payables – Eurohold Bulgaria AD	415	34

## 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, 2016 and 2015 is presented in the table below:

<b>As of December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity investments	79 219	20 837	3 737	103 793
Government securities at fair value through profit and loss	2,494	191	-	2,685
Government securities available for sale	2 613	-	-	2,613
Corporate bonds at fair value through profit and loss	2 485	12,121	-	14,606
Corporate bonds available for sale	60 046	-	-	60,046
Shares in mutual funds	14 599	3 069	-	17 668
Investment properties	-	-	15,426	15,426
<b>Total</b>	<b>161,456</b>	<b>36,218</b>	<b>19,163</b>	<b>216,837</b>

<b>As of December 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
<b>Total</b>	<b>12,096</b>	<b>78,163</b>	<b>14,440</b>	<b>104,699</b>

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 insignificant change in the government securities market price in the Group's portfolio held in maturity.

## 29. Segment reporting

### 29.1. Geographical distribution

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

1. In Bulgaria through Insurance company Euroins AD, Insurance company Euroins Life EAD, Euroins - Health Insurance ZEAD and Insurance company EIG Re EAD (the former HDI Insurance AD);
2. In Romania through Euroins Romania Insurance-Reinsurance AD;
3. In the Republic of Macedonia through Euroins Osiguruvanje, AD, Skopje.
4. In Ukraine through PAD Insurance Company Euroins Ukraine

In Greece, Spain and Italy the Group establishes a direct insurance business through its subsidiary company Insurance company 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 31.12.2016	Year ended 31.12.2015	As of 31.12.2016	As of 31.12.2015
Bulgaria	83,838	105,566	964	1,232
Romania	387,220	317,832	1,559	1,839
Macedonia	16,902	17,187	391	397
Greece	22,485	8,669	-	-
Spain	3,298	1,044	-	-
Italy	5,912	668	-	-
Ukraine	5,843	-	2,632	-
Others	2,235	1,849	-	-
	<u>527,733</u>	<u>452,815</u>	<u>5,546</u>	<u>3,468</u>

### 29.2 Operational segments

The Group identifies the following operational segments:

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

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;

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- a separate financial information is available.

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 31.12.2016	Euroins Bulgaria	Euroins Romania	Euroins Skopje	Others	Total
Written gross premiums	117,131	387/220	16/902	6,480	527 733
Net earned premiums	86,460	187/285	15/262	3,943	292,950
Damages incurred, net of reinsurance	(43,319)	(114,642)	(7,817)	(2,154)	(167,932)
Acquisition costs	(34,541)	(89/306)	(5/008)	706	(128,149)
Administrative expenses	(8,707)	(9,914)	(1,622)	(1,229)	(21,472)
Operating profit / (loss)	(1,652)	5,611	(45)	(60)	3,854
Interest income	358	1,226	347	1,063	2,994
Interest expense	(793)	(539)	(20)	(2,222)	(3,574)
Profit / (loss) before tax	(565)	9,175	329	2,811	11,750
Taxes	40	(2,383)	(185)	(278)	(2,806)
Net profit / (loss) for the year.	(525)	6,792	144	(2,585)	8,944

Year ended 31.12.2015	Euroins Bulgaria	Euroins Romania	Euroins Skopje	Others	Total
Written gross premiums	118,387	317,832	17,187	(591)	452,815
Net earned premiums	97,929	142,075	15,268	4,353	259,625
Damages incurred, net of reinsurance	(52,267)	(136,343)	(8,434)	(3,715)	(200,759)
Acquisition costs	(24,781)	(84,172)	(5,417)	1,513	(112,857)
Administrative expenses	(9,960)	(7,331)	(1,757)	(3,776)	(22,824)
Operating profit / (loss)	111	(95,119)	(1,006)	(5,662)	(101,676)
Interest income	434	916	316	375	2,041
Interest expense	(257)	(521)	(35)	(3,785)	(4,598)
Profit / (loss) before tax	788	(97,332)	(806)	(1,744)	(99,094)
Taxes	(96)	16,494	-	26	16,424
Net profit / (loss) for the year.	692	(80,838)	(806)	(1,718)	(82,670)

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. By its Decision No 359 / 14.03.2017 the Romanian regulator officially announces the successful implementation of the plan and accordingly closes the procedure started in October 2015.

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

In the current period, the accounting policy related to the formation of technical provisions and accounting for impairment of receivables has been changed.

At the end of 2016 an adjustment was made to the value of the contingency reserve (IBNR reserve) formed on 31 December 2015 and 31 December 2014. As a result of the recalculation of the amount this reserve for previous periods changed and the result for formation of a reserve for unexpired risks, which in turn led to the necessity of recalculation of the unexpired risks reserve.

The change in the methodology for calculating the IBNR Reserve was made on the recommendation of the independent external expert performing the audit of the balance sheet of Insurance company Euroins AD as at June 30, 2016 as part of the review of the insurers and reinsurers balance sheets carried out in 2016 pursuant to paragraph 10 (1) and (2) of the Law on Restoration and Restructuring of Credit Institutions and Investment Intermediaries.

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
<b>Assets</b>			
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	146,316	26,294	172,610
Deferred tax assets	365	-	365
Receivables and other assets	95,731	(1,808)	93,979
Cash and cash equivalents	59,867	-	59,867
<b>Total assets</b>	<b>585,348</b>	<b>24,486</b>	<b>609,834</b>
<b>Liabilities</b>			
Insurance reserves	290,512	55,441	345,953
Reinsurance and other payables	33,066	-	33,066
Loans	53,839	(19,558)	34,281
Deferred tax liabilities	52	-	52
<b>Total liabilities</b>	<b>377,469</b>	<b>35,883</b>	<b>413,352</b>
<b>Equity and reserves</b>			
Share capital	268,263	-	268,263
Premium and other equity reserve	1,246	-	1,246
Foreign currency translation reserve	(4,671)	122	(4,549)
Retained earnings/losses	(64,332)	(26,175)	(90,507)
<b>Total equity and reserves</b>	<b>200,506</b>	<b>(26,053)</b>	<b>174,453</b>
Non – controlling interest	7,373	(4,902)	2,471
<b>Total equity and liabilities</b>	<b>585,348</b>	<b>24,486</b>	<b>609,834</b>



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<b>Statement of profit and loss and other comprehensive income</b>	<b>31.12.2015 before restatement</b>	<b>Restatement effect</b>	<b>31.12.2015 after restatement</b>
Gross written premiums	452,815		452,815
Premiums ceded to reinsurers	(184,741)		(184,741)
<b>Net written premiums</b>	<b>268,074</b>		<b>268,074</b>
Change in the gross unearned premium reserve and unexpired risk reserve	(37,702)	8,532	(29,170)
Reinsurers' share in changes in the unearned premium reserve	16,199	4,522	20,721
<b>Net earned premiums</b>	<b>246,571</b>	<b>13,054</b>	<b>259,625</b>
Fees and commission income	5,614		5,614
Finance income	18,507		18,507
Other operating income	2,735		2,735
<b>Net income</b>	<b>273,427</b>	<b>13,054</b>	<b>286,481</b>
<b>Claims incurred, net of reinsurance</b>	<b>(209,314)</b>	<b>8,555</b>	<b>(200,759)</b>
Acquisition costs	(112,857)		(112,857)
Administrative expenses	(23,123)		(23,123)
Finance costs	(16,263)		(16,263)
Other operating expenses	(29,384)	(3,527)	(32,911)
<b>Operating loss</b>	<b>(117,514)</b>	<b>18,082</b>	<b>(99,432)</b>
Other income (loss)	338		338
<b>Profit (loss) before tax</b>	<b>(117,176)</b>	<b>18,082</b>	<b>(99,094)</b>
Tax expenses	16,424		16,424
<b>Net profit (loss) for the financial year:</b>	<b>(100,752)</b>	<b>18,082</b>	<b>(82,670)</b>
<b>Net profit for:</b>			
Parent company owners	(95,622)	15,571	(80,051)
Minority shareholding	(5,130)	2,511	(2,619)
Exchange differences on translating foreign operations	(596)	591	(5)
Revaluation to fair value	73	1	74
<b>Other comprehensive income for the year, net of tax</b>	<b>(523)</b>	<b>592</b>	<b>69</b>
<b>Total comprehensive income for the year</b>	<b>(101,275)</b>	<b>18,674</b>	<b>(82,601)</b>

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	31.12.2015 before restatement	restatement effect	31.12.2015 after restatement
<b>Statement of financial position</b>			
<b>Assets</b>			
Goodwill	165,466	-	165,466
Intangible assets	1,775	-	1,775
Property, plant and equipment	3,468	-	3,468
Investment properties	14,435	-	14,435
Financial assets	114,605	-	114,605
Reinsurers' share in technical reserves	265,337	13,942	279,279
Deferred tax assets	16,809	-	16,809
<b>Receivables and other assets</b>	121,463	(3,527)	117,936
Cash and cash equivalents	58,805	-	58,805
<b>Total assets</b>	<b>761,361</b>	<b>10,415</b>	<b>771,776</b>
<b>Liabilities</b>			
Insurance reserves	474,318	20,467	494,785
Reinsurance and other payables	93,844	8	113,391
Loans	26,033	(19,558)	6,475
Deferred tax liabilities	72	-	72
<b>Total liabilities</b>	<b>594,267</b>	<b>917</b>	<b>595,184</b>
<b>Subordinate liabilities</b>		<b>19,558</b>	<b>19,558</b>
<b>Equity and reserves</b>			
Share capital	287,863	-	287,863
Premium and other equity reserve	41,465	-	41,465
Foreign currency translation reserve	(5,216)	683	(4,533)
Retained earnings/losses	(160,414)	(8,702)	(169,116)
Current result	-	-	-
<b>Total equity and reserves</b>	<b>163,698</b>	<b>(8,019)</b>	<b>155,679</b>
Non-controlling interest	3,396	(2,041)	1,355
<b>Total equity and liabilities</b>	<b>761,361</b>	<b>10,415</b>	<b>771,776</b>

### 31. Events after the reporting period

On January 6, 2017 a share capital increase in amount of TBGN 43,024 is registered in Commercial Register. The amount is presented in Capital reserves in consolidated statement of changes equity as of December 31, 2016.

In December 2016 the Company provides a contribution for a capital increase of Euroins Romania Insurance – Reinsurance AD in amount of TBGN 43,251. The increase is approved on February 20, 2017 from romanian insurance supervisor (Autoritatea de Supraveghere Financiară) and the amount is registered in Commercial Register in March 2017.

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On January 16, 2017 ZD Euroins AD has signed Annex to the concluded on 27.06.2016 Agreement for providing a cash loan as a subordinate debt with Rossgaz Engineering EOOD. According to this Annex Rossgaz Engineering will provide an additional amount as a subordinate debt equals to BGN 6 million. As of the date of the preparation of the financial statement there are BGN 2,5 million provided to ZD Euroins AD. As per the annex, the rest of the sum amounting to BGN 3,5 million will be provided upon request by ZD Euroins AD.

With a protocol of the Board of Directors of Euroins Insurance Group AD dated on October 28, 2016, a decision for merging Euroins - Health Assurance ZEAD into the EIG RE EAD was taken. The necessary documents for merging have been filled in Financial Supervision Commission on January 31, 2017.

With its decision № 359 dated 14 March 2017 Romanian insurance regulator (Autoritatea de Supraveghere Financiară) has confirmed to Euroins Romania Insurance-Reinsurance AD of its approval for the successful closing of the procedure under the Financial Recovery Plan.

In the beginning of 2017 the General Meeting of the Shareholders of Euroins Romania Insurance-Reinsurance AD has approved the signing of agreement for the insurance portfolio acquisition of ATE Insurance Romania. The transfer should be approved by the Romanian insurance supervisor (Autoritatea de Supraveghere Financiară). As of the date of the preparation of the financial statements the procedure has been in review process by different departments of the Regulator.

There are no other significant events between the date of the financial statements and its preparation that could change the consolidated financial statement as of December 31, 2016.

## INDEPENDENT AUDITOR'S REPORT

To  
THE SHAREHOLDERS  
OF EUROINS INSURANCE GROUP AD

### Opinion

We have audited the consolidated financial statements of EUROINS INSURANCE GROUP AD which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA), that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters.

Key audit matter	How this key audit matter was addressed in our audit
<b><i>Goodwill from business combinations</i></b>  Note 25 to the consolidated financial statements.  Because of the specifics of the structure and the activity of the Group (acquisition of insurance companies in Bulgaria, Romania, Macedonia and Ukraine), the investments in subsidiaries are substantial for its activity. As at 2016 year end the Group possesses	With regard to this audit matter our audit procedures included: <ul style="list-style-type: none"><li>• We have tracked the procedures on the analyses performed by the Group in connection with the fulfillment of budgets and the forecast ratios of the separate entities in comparison with the reporting period;</li><li>• We have analyzed and assessed the adequacy and reasonableness of the</li></ul>

<p>companies in Bulgaria, Romania, Macedonia and Ukraine. The Group recognizes goodwill at the acquisition of subsidiaries in previous periods (effects from the transformation of companies under common control until 30 June 2009) in the consolidated financial statements. With regard to business combinations including entities under common control the Group has opted to apply by analogy the acquisition method under IFRS 3 - Business combinations.</p> <p>The goodwill recognized at the acquisition of subsidiary is reviewed on annual basis for existence of grounds for impairment and is accounted for at book value.</p> <p>In connection with the impairment test the Management of the Group has hired an external appraiser.</p> <p>The process of determination of the assumptions is connected with the future development of the subsidiaries in the insurance business, inclusive financial budgets, medium term and long term plans for development of the activities in the Group. The key assumptions used in the calculations are determined per each company that goodwill is derived from, treated as a separate unit generating cash flows and is in connection with its specific activity, business environment and risks. At the performance of the tests it is agreed that each separate entity is "a unit generating cash flows", in the same manner the recoverable amount of the entity is determined.</p> <p>The results of the tests show that the recoverable amount of the goodwill exceeds the book value and there are no indications for impairment of the goodwill.</p> <p>For this reason, inclusive the accounting estimates which are identified as such of high degree of uncertainties and as a result of the increase in investments in subsidiaries in Bulgaria and Romania in 2016 we have determined this as a key audit matter.</p>	<p>budgets and forecasts prepared by the Group;</p> <ul style="list-style-type: none"> <li>• We have reviewed the main estimates and assumptions, calculations and results of the tests for impairment of the Management of the Group prepared with the assistance of an independent external appraiser;</li> <li>• We have tracked the completeness and the adequacy of the disclosures in the financial statements of the Group with regard to the valuation of goodwill.</li> </ul>
<p><b>Assessment of the adequacy of the insurance reserves</b></p> <p>Note 21 and 30 to the consolidated financial statements.</p> <p>The amounts of the insurance reserves, inclusive the unearned premium reserves and</p>	<p>With regard to this audit matter our audit procedures included:</p> <ul style="list-style-type: none"> <li>• We have reviewed the rules, the accounting policy and the procedures of the Group for forming reserves for compliance with the regulative requirements discussed with the Management of the Group.</li> </ul>

the outstanding claims reserve and the other technical reserves are substantial for the activity of the Group. The process of determination of the assumptions in connection with the calculations of the estimates at the separate business units depending on the insurance contracts, their complexity, their volume or expected outcome of the insurance events is connected with a number of uncertainties, inclusive long time horizons. In the reporting period the methodology for the calculation of the reserve for incurred but not reported claims has been changed under the recommendation of the independent external expert who performed a balance sheet review of the subsidiaries as at 30 June 2016. As a result of this an effect of change in the accounting policy has been recognized. For this reason and as well as the fact that the valuation of the insurance reserves and the disclosures made in the financial statements of the Group involve numerous estimates, assumptions and specific calculations, inclusive participation of experts, we have determined this as a key audit matter.

- We have assessed the types of reserves, the completeness of risks they cover, the base and the methods used for the calculation of the reserve.
- We have tracked the actuarial calculations and compared them with the rules applied by the group and for the purposes of this we have used our experts (actuaries).
- We have assessed the adequacy of the reserves by means of actuarial calculations.
- We have tracked the completeness of the disclosures with regard to technical reserves made in the financial statements of the Group.

#### *Other matters*

The consolidated financial statements of the company for the year ended 31 December 2015 is audited by another auditor who has issued a modified opinion dated 23 June 2016.

#### **Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the corporate governance statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, adopted by EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the process of financial reporting of the company.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, consolidatedly or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations to the auditor, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

### ***Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act***

In addition to our responsibilities and reporting in accordance with ISAs, described above in the "Information Other than the consolidated Financial Statements and Auditor's Report Thereon" section, in relation to the management report, the corporate governance statement, the non-financial statement and the report on payments to governments, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016/approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

### ***Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act***

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
- c) The corporate governance statement referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

### ***Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act***

Based on the procedures performed and the knowledge and understanding obtained about entity's activities and the environment in which it operates, in our opinion, the description of the main



characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the consolidated management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

***Additional Reporting on the Audit of the Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act***

***Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act***

The information about related party transactions is disclosed in Note 27 to the consolidated financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the consolidated financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying consolidated financial statements for the year ended 31 December 2016, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a consolidated opinion on related party transactions.

***Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act***

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report include an evaluation as to whether the consolidated financial statements present the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the consolidated financial statements for the year ended 31 December 2016 no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations and disclosures in accordance with the relevant requirements of IFRSs as adopted by the European Union. The results of our audit procedures on Company's transactions and events significant for the consolidated financial statements were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a consolidated opinion on those significant transactions.

BDO Bulgaria OOD  
Sofia, 02 May 2017



**Bogdanka Sokolova**  
Manager  
CPA, registered auditor

**Nedyalko Apostolov**  
Manager