EUROINS INSURANCE GROUP AD

ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 31, 2017

(Unofficial translation of the original text in Bulgarian)

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EUROINS INSURANCE GROUP AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2017	Year ended 31.12.2016
Gross written premiums	4	645,471	527,733
Premiums ceded to reinsurers	4	(288,745)	(231,937)
Net written premiums		356,726	295,796
Change in the gross uneamed premium reserve and unexpired risk reserve	4	(47,139)	(15,729)
Reinsurers' share in changes in the uneamed premium reserve	4	29,057	12,883
Net earned premiums		338,644	292,950
Fees and commission income	5	68,399	66,142
Finance income	6	40,485	17,023
Other operating income	7	9,166	37,793
Net income		456,694	413,908
Claims incurred, net of reinsurance	8	(182,613)	(167,932)
Acquisition costs	9	(137,340)	(128,143)
Administrative expenses	10	(30,942)	(21,474)
Finance costs	11	(21,979)	(14,642)
Other operating expenses	12	(40,719)	(75,391)
Operating profit/loss		43,101	6,326
Other net income	13	646	5,424
Impairment of goodwill		(186)	-
Profit/loss for the year		43,561	11,750
Income tax expense	14	(1,880)	(2,806)
Net profit/loss for the year		41,681	8,944
Other comprehensive income			
Other comprehensive income subject to reclassification to profit or loss in subsequent periods			
Exchange differences on translating foreign operations		(970)	(625)
Change in fair value reserve (assets available for sales)		90	37
Other comprehensive income subject to reclassification to profit or loss in subsequent periods		(880)	(588)
Total comprehensive income for the year		40,801	8,356

EUROINS INSURANCE GROUP AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2017	Year ended 31.12.2016
Net (loss)/profit, attributable to:			
Owners of the Parent company		41,041	8,906
Non – controlling interest		640	38
Net loss for the year		41,681	8,944
Total comprehensive income, attributable to:			
Owners of the Parent company		(877)	8,281
Non – controlling interest		(3)	75
Total comprehensive income for the year		(880)	8,356

These consolidated financial statements are approved by the Board of the directors of Euroins Insurance Group AD on March 26, 2018.

EUROINS INSURANCE GROUP Bulgaria

Kiril Boshov
Executive Director

Katrin Petkova
Chief Accountant

Nedyalko Apostolov
Manager

Stoyanka Apostolova
Registered auditor

BDO Bulgaria OOD
Audit compay

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 016 БДО България ООД

Marina Krusteva
Manager

Dimitrina Zaharinova
Registered auditor

Zaharinova & Partners OOD
Audit compay

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 138 ЗАХАРИНОВА И ПАРТНЬОРИ ООД

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

EUROINS INSURANCE GROUP AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	As of 31.12.2017	As of 31.12.2016
Assets			
Goodwill	25	164,478	164,664
Intangible assets	15	1,415	940
Property, plant and equipment	16	9,153	5,546
Investment properties	17	15,363	15,426
Financial assets	18	355,338	231,357
Reinsurers' share in technical reserves	21	361,247	294,865
Deferred tax assets	14	12,618	14,353
Receivables and other assets	19	123,660	108,838
Cash and cash equivalents	20	36,683	94,257
Total assets		**1,079,955**	**930,246**
Liabilities			
Insurance reserves	21	596,267	510,367
Reinsurance and other payables	22	101,252	96,237
Loans	23	3,083	10,610
Deferred tax liabilities	14	104	-
Total liabilities		**700,706**	**617,214**
Subordinated liabilities	23.2	**26,058**	**43,058**
Equity			
Share capital	24	481,479	390,954
Revaluation and other reserves		(2,056)	40,627
Foreign currency translation reserve		(6,174)	(5,211)
Accumulated loss		(122,997)	(160,621)
Total equity attributable to the owners of the Parent company		**350,252**	**265,749**
Non – controlling interest	26	2,939	4,225
Total equity		**353,191**	**269,974**
Total liabilities and equity		**1,079,955**	**930,246**

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EUROINS INSURANCE GROUP AD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
All amounts are in thousand Bulgarian levs, unless otherwise states

	Notes	Year ended 31.12.2017	Year ended 31.12.2016
Operating activities			
Profit/loss before tax		43,561	11,750
Change in insurance reserves, net of reinsurance		19,518	(4)
Increase in impairment loss on receivables		14,333	15,491
Depreciation, amortization changed for the period		1,380	1,403
Revaluation of investments, incl. investment properties		(1,061)	437
Profit on sale of investments in subsidiaries	25.2	-	(5,117)
Profit on sale of investments		(7,795)	(4,637)
Profit on transfer of property, plant and equipment		(314)	(183)
Other non-cash effects		(6,143)	(104)
Net investment income		(2,878)	458
Net cash flows (used in) from operating activities before changes in assets and liabilities		60,601	19,494
Increase in receivables		(29,155)	(10,258)
(Decrease) / Increase in payables		5,015	(17,154)
Net cash flows used in operating activities		36,461	(7,918)
Investing activities			
Acquisition of financial assets		(112,118)	(114,022)
Acquisition of property, plant and equipment, net		(5,111)	(2,280)
Net cash flow from the sale of shares		-	-
Loans granted		-	(2,274)
Net cash flow from the acquisition of shares			-
Net cash flow from acquisition of a subsidiary	25.2	-	8,720
Interest and dividents received		325	2,866
Net cash flows from/(used in) investing activities		(116,904)	(106,990)
Financing activities			
Increase in equity		47,500	103,091
Change in borrowings		(24,527)	47,174
Net cash flow from financing activities		22,973	150,265
Net increase/(decrease) in cash and cash equivalents		(57,470)	35,357
Effect of fluctuations in exchange rates		(104)	95
Cash and cash equivalents at the beginning of the year	20	94,257	58,805
Cash and cash equivalents at the end of the year	20	36,683	94,257

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EUROINS INSURANCE GROUP AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
All amounts are in thousand Bulgarian levs, unless otherwise states

	Share capital	Revaluation and other reserves	Foreign currency translation reserve	Accumulated loss	Total equity attributable to the Group	Non – controlling interest	Total equity
Balance as of January 1, 2016	287,863	41,465	(4,533)	(169,116)	155,679	1,355	157,034
Result for 2016	-	-	-	8,906	8,906	38	8,944
Other comprehensive income:							
Revaluation reserve from foreign currency translition	-	-	(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
Contributions and distributions to the owners:							
Increase in equity	103,091	(40,153)	-	-	62,938	-	62,938
Capital reserves		39,039	-	-	39,039	-	39,039
Changes in non – controlling interest	-	430	-	(411)	19	2,795	2,814
Total transactions with owners, recorded directly in equity	103,091	(684)	-	(411)	101,996	2,795	104,791
Balance as of December 31, 2016	390,954	40,627	(5,211)	(160,621)	265,749	4,225	269,974

EUROINS INSURANCE GROUP AD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

All amounts are in thousand Bulgarian levs, unless otherwise states

	Share capital	Revaluation and other reserves	Foreign currency translation reserve	Accumulated loss	Total equity attributable to the Group	Non – controlling interest	Total equity
Balance as of January 1, 2017	**390,954**	**40,627**	**(5,211)**	**(160,621)**	**265,749**	**4,225**	**269,974**
Current year result	-	-	-	41,041	41,041	640	41,681
Other comprehensive income							
Revaluations reserve from translations of the currency of presentation of foreign activities	-	-	(963)	-	(963)	(7)	(970)
Change in fair value of assets available for sale and revaluation of tangible assets	-	86	-	-	86	4	90
Total other comprehensive income	-	86	(963)	-	(877)	(3)	(880)
Current year result	-	86	(963)	41,041	40,164	637	40,801
Contributions and distributions to the owners:							
Increase of capital	90,525	-	-	-	90,525	-	90,525
Capital reserves	-	(42,769)	-	-	(42,769)	(5,191)	(47,960)
Заделени /отписани резерви от печалбата	-	-	-	(3,417)	(3,417)	3,268	(149)
Total transactions with owners, recorded directly in equity	90,525	(42,769)	-	(3,417)	44,339	(1,923)	42,416
Balance as of December 31, 2017	**481,479**	**(2,056)**	**(6,174)**	**(122,997)**	**350,252**	**2,939**	**353,191**

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EUROINS INSURANCE GROUP Bulgaria

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 016 БДО България ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 138 ЗАХАРИНОВА И ПАРТНЬОРИ ООД

All amounts are in thousand Bulgarian levs, unless otherwise states

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.

Scope of activities of the Parent company include: Consulting, commercial representation andintermediation, 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, 2017 Euroins Insurance Group AD owns controlling interest in the following subsidiaries:

Investments in subsidiaries	Country	Share As of 31.12.2017	 As of 31.12.2016
Euroins Romania Insurance–Reinsurance S.A	Romania	98.50%	98.15%
Insurance Company Euroins AD - Bulgaria	Bulgaria	98.21%	80.92%
Euroins Osiguruvanje AD – Skopie	Macedonia	93.36%	93.36%
Euroins - Health Insurance ZEAD	Bulgaria	-	100.00%
Insurance company Euroins Life EAD	Bulgaria	100.00%	100.00%
Insurance company EIG Re EAD (former name HDI Insurance AD)	Bulgaria	100.00%	100.00%
Private JSC Euroins Ukraine Insurance Company	Ukarine	98.32%	99.30%

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 31,889,579 (thirty one million eight hundred and eighy-nine thousand five hundred and seventy-nine) or 98.21% of the Company's share capital.

Euroins Romania Insurance-Reinsurance S.A.
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 98.50 % of the share capital of Euroins Romania or 522,557,541 (five hundred and twenty-two million five hundred and fifty-seven thousand five hundred forty-one) shares.

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 Insurance ZEAD
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

In 2013, United Health Insurance 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 been merged into Euroins - Health Insurance ZEAD.

In 2017 Euroins – Health Insurance ZEAD has been merged into Insurance Company EIG Re EAD according to the stipulations in the Commerce Act.

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 andrent, 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.

In 2016 EIG AD finalizes the deal for the acquisition of 100% of the share capital of Insurance Company EIG Re.
Also in 2016 the procedure to acquire Euroins Ukraine (HDI Ukraine) has been finalized and EIG AD has a participation of 98.32% worth of BGN 2,347 thousand of investment.

All amounts are in thousand Bulgarian levs, unless otherwise states

1.3. Foreign currency transactions

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

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

Exchange rates of the major foreign currencies as of December 31, 2017 and 2016 are as follows:

Currency	**December 31, 2017**	**December 31, 2016**
EUR	1.95583	1.95583
USD	1.63081	1.85545
RON	2.3819	2.3208
MKD	31.4397	31.4348
UAH	17.1257	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.

1.5. 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).

The actuarial approach applied in 2016 with regards to reserving is in line with commonly accepted actuarial practices and targets unified approach to assessing reserve for incurred and not reported claims liability insurance for the actuarial 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.

1.5.2. Fair value of financial instruments

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

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

1.5.3. Fair value of investment property

The Group owns investment properties with net book value of BGN 15,363 thousand (2016: BGN 15,426 thousand), which is measured at fair value in the statement of financial position. The fair value is measured by licensed appraisers. The investment properties are as follows:

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 story 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 Group 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

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 such risk transfer exists, i.e. the contracts fulfill the objective requirements to be identified as reinsurance contracts. 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.

1.6. 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 measurment of contracts

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.

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.

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.

2.6. 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 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.

2.10. 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 between the balance sheets values as per financial statement and the values 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.

2.13. 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 current expenses.

2.14. Intangible assets

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

2.15. Depreciation/Amortization

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

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

2.16. Investment properties

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

The investment properties of the Group are valuated every year by 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 measurment 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.

(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 lost had not been recognized.

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

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

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

2.17.2. 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.

2.17.3. 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 given default is recognized in the statement of comprehensive income.

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

2.20. Cash and cash equivalents

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

90 days.

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

2.21. Impairment of non-financial assets

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

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

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.

2.23. 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 state governments of the countries where the Group subsidiaries operate are responsible for providing pensions in Bulgaria under a defined contribution pension plan. Group's 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.

2.24.4. 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 2017

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 7: Disclosure Initiative (issued on 29 January 2016), endorsed by the EU on 6 November 2017, published in the Official Journal on 9 November 2017;

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016), endorsed by the EU on 6 November 2017, published in the Official Journal on 9 November 2017.

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

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016), effective 1 January 2018, endorsed by the EU on 3 November 2017, published in the Official Journal on 9 November 2017;

- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016), effective 1 January 2018, endorsed by the EU on 31 October 2017, published in the Official Journal on 9 November 2017;

The Company plans to adopt IFRS 15 using the revised retrospective application for annual periods beginning on or after 1 January 2018. As a result, the Company will not apply the requirements of IFRS 15 to present a comparative period. According to IFRS 15, revenue is recognized when the Company satisfies the requirement to transfer the service to the customer. Therefore, the Company does not expect the application of IFRS 15 to result in material differences in the recognition period.

- IFRS 16 Leases (issued on 13 January 2016), effective 1 January 2019, endorsed by the EU on 31 October 2017, published in the Official Journal on 9 November 2017;

IFRS 16 establishes the principles for recognition, measurement, presentation and disclosure of lease and requires lessees to account for all lease contracts under a single balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of the lease, the lessee will recognize the obligation to makes a lease payment (lease liability) and an asset representing the right to use the underlying asset over the lease term (the right to use the asset). Lessees will have to recognize separately the interest expense on the lease obligation and the amortization cost of the right to use the asset. In the same time, lessees will be required to re-determine the value of the lease liability at the occurrence of certain events (change in lease term, change in future lease payments as a result of an index change or percentage used to determine such payments). In principle, the lessee will recognize the amount of the revaluation of the lease liability as an adjustment to the right to use the asset.

Essentially, accounting under IFRS 16 for lessors will not materially change compared to current accounting under IAS 17. Lessors will continue to classify all leases by applying the same classification principle as IAS 17 and distinguishing between two types of lease: financial. In addition, IFRS 16 requires lessees and lessors to make more detailed disclosures than IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted but not before the entity begins to apply IFRS 15. The lessee may choose to apply the Standard using either a complete retrospective application, or a method for modified retrospective application. The previous provisions of the standard allow for certain reliefs. In 2018, the Company will continue to assess the potential effects of IFRS 16 on its separate financial statements.

- 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 Company plans to introduce the new standard at the effective date of its entry into force and will not recalculate the comparative information. In 2017, the Company assessed the effects of the three aspects of IFRS 9. This estimate is based on information that is currently available and which may change if, in 2018, when it adopts IFRS 9, the Company does not expect a sufficient effect on its statement of financial position and equity. It expects to continue to measure the fair value of all financial assets that are currently measured at fair value.

Loans, as well as trade and other receivables, are held for the purpose of receiving the agreed cash flows and are expected to result in cash flows representing only principal and interest payments. The Company has analyzed the characteristics of the contracted cash flows from these instruments and has concluded that they all meet the valuation criteria at amortized cost in accordance with IFRS 9. Consequently, reclassification of these instruments is not necessary.

The Company will apply a simplified approach and reflect the expected impairment losses over all trade and other receivables. The Company has no overdue receivables and therefore considers that the application of the new approach to impairment of IFRS 9 will not have a material effect.

- 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.

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 17 Insurance Contracts (issued on 18 May 2017), effective 1 January 2021
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016), effective 1 January 2018
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017), effective 1 January 2019
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016), effective 1 January 2018
- Annual improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016), effective 1 January 2018/1 January 2017
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016), effective 1 January 2018
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017), effective 1 January 2019
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures (issued on 12 October 2017), effective 1 January 2019
- Annual improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017), effective 1 January 2019

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 2016 the Company has identified errors from prior reporting periods which has been corrected in the respective period. In addition in 2016 the Group has made changes in accounting policy related to the reporting of technical reserves and it has recalculated the comparative information.

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 volatility in the outcome.

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

3.3. Reinsurance strategy

The general insurance subsidiaries in Euroins Insurance Group (Insurance company Euroins Bulgaria, Euroins Romania Insurance-Reinsurance, Euroins Osiguruvanje AD, 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 of the respective company.

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.

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 (Motor Hull)

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

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

Risk management – *Casco (Motor Hull)*

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 of claims). Claims with long latencies also increase the potential recognition lag, i.e., the lag between writing a type of policy in a certain market and the recognition that such policies have potential mass tort and/or latent claim exposure.

Risk management - General third party liability

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

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

3.4.3. General insurance contracts – Property

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

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

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

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 contracts 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 insured persons.

Health insurance risk management

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

3.5 Concentration of insurance risks

Management considers that as of December 31, 2016 there are no significant concentrations of insurance risk in the Group's portfolio.

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.

3.7. 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

Accident year	Prior 2011	2012	2013	2014	2015	2016	2017	Total
Estimate of cumulative claims at the end of accident year	320,568	180,594	190,266	174,546	270,603	289,695	332,256	332,256
1 year later	377,432	192,918	244,336	200,839	228,770	263,452	-	263,452
2 years later	436,051	226,864	291,985	230,076	244,921	-	-	244,921
3 years later	474,276	261,041	311,660	245,087	-	-	-	245,087
4 years later	503,914	269,436	314,047	-	-	-	-	314,047
5 years later	523,648	266,283	-	-	-	-	-	266,283
6 years later	537,707	-	-	-	-	-	-	537,707
Current measurement	537,707	266,283	314,047	245,087	244,921	263,452	332,256	2,203,753
Cumulative payments	(535,523)	(258,192)	(295,770)	(205,797)	(191,140)	(179,171)	(147,037)	(1,812,630)
Estimate of cumulative claims	(2,184)	(8,090)	(18,277)	(39,290)	(53,781)	(84,281)	(185,220)	(391,123)
*** Liability value recognized in the statement of financial position**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(391,123)**

* 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.

3.8. 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 claim.

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.

3.9. Financial risk management

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

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

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

Asset / Liability matching

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

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

3.9.1. Interest rate risk

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

All amounts are in thousand Bulgarian levs, unless otherwise states

Sensitivity to changes of the effective interest rates of Group's financial assets as of December 31, 2017:

As of December 31, 2017	**Floating interest**	**Fixed interest**	**Non – interest bearing**	**Total**
Cash and cash equivalents	-	13,039	23,644	36,683
Deposits in financial institutions	-	17,479	-	17,479
Government bonds at fair value in profit or loss	-	133,742	-	133,742
Government securities held to maturity	-	2,297	-	2,297
Government securities available for sale	124	2,259	-	2,383
Corporate bonds at fair value through profit or loss	981	92,780	-	93,761
Open-end investment funds	-	-	11,400	11,400
Financial assets held for trade	-	-	92,502	92,502
Other financial assets	-	1,773	-	1,773
Общо	1,105	263,369	127,546	392,020

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
Open-end investment funds	-	-	17,668	17,668
Financial assets held for trade	380	16,872	86,541	103,793
Other financial assets	-	2,282	-	2,282
Общо	19,154	141,360	165,100	325,614

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 Ukraine. Where local currency is exposed to significant currency risk, the risk is managed through investments in assets denominated in Euro.

All amounts are in thousand Bulgarian levs, unless otherwise states

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

As of December 31, 2017	**BGN**	**EUR**	**MKD**	**RON**	**Other**	**Total**
Cash and cash equivalents	3,342	13,873	411	633	18,424	36,683
Deposits in financial institution	6,771	4,069	5,553	-	1,086	17,479
Government securities at fair value through profit or loss	35,785	97,957	-	-	-	133,742
Government bonds held to maturity	-	-	2,297	-	-	2,297
Government bonds available for sale	155	2,228	-	-	-	2,383
Corporate bonds at fair value through profit or loss	61,234	32,527	-	-	-	93,761
Shares in mutual funds	7,908	414	3,078	-	-	11,400
Other equity investments	91,289	302	445	466	-	92,502
Current assets	170	-	155	18	73	416
Other financial assets	1,775	-	-	-	-	1,775
Receivables from direct insurance	38,175	-	5,237	25,415	893	69,720
Reinsurance receivables	4,615	-	8	2,822	100	7,545
Recourse receivables	6,462	-	-	4,099	115	10,676
Other receivables	11,880	-	1,792	20,195	1,435	35,302
Total	**269,561**	**151,370**	**18,976**	**53,648**	**22,126**	**515,681**
Payables on reinsurance agreements and other payables	2,840	86,059	1,239	11,114	-	101,252
Loans received incl. Subordinated debt	19,147	9 994	-	-	-	29,141
Total	**21,987**	**96,053**	**1,239**	**11,114**	**-**	**130,393**

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
Total	**299,477**	**79,877**	**13,441**	**8,707**	**30,871**	**432,373**
Payables on reinsurance agreements and other payables	16,126	59,637	891	14,409	5,174	96,237
Loans received incl. Subordinated debt	44,039	9,629	-	-	-	53,668
Total	**60,165**	**69,266**	**891**	**14,409**	**5,174**	**149,905**

All amounts are in thousand Bulgarian levs, unless otherwise states

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 EU stock exchanges.

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.

3.9.4. 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.

Type of investment and rating	**As of 31.12.2017**	**As of 31.12.2016**
Government securities		
Rating BB-	23,635	2,613
Rating BBB	40,769	191
Rating BAA3	16,773	9
Rating AA	54,867	824
Rating A	2,379	1,662
Corporate bonds		
Rating BBB+	92,238	16,336
No Rating	1,523	55,696
Shares		
Rating bgBaa3	32,444	46,164
No Rating	71,457	75,432
Total	**336,085**	**198,927**

All amounts are in thousand Bulgarian levs, unless otherwise states

Exposure to government debt

The Company has exposure to government debt as follows:

Portfolio as of 31.12.2017	**Bulgaria**	**Slovenia**	**Slovakia**	**Belgium**	**Italy**	**Ireland**	**France**	**Spain**	**Macedonia**	**Total**
Held for trading or available for sale	35,785	380	809	16,770	19,487	22,528	19,639	20,727	-	136,125
Held to maturity	-	-	-	-	-	-			2,297	2,297
Total	**35,785**	**380**	**809**	**16,770**	**19,487**	**22,528**	**19,639**	**20,727**	**2,297**	**138,422**

Portfolio as of 31.12.2016	**Bulgaria**	**Slovenia**	**Slovakia**	**Belgium**	**Italy**	**Ireland**	**France**	**Spain**	**Macedonia**	**Total**
Held for trading or available for sale	200	2,085	400	-	-	-	-	-	-	2,685
Held to maturity	-	-	-	-	-	-			2,613	2,613
Total	**200**	**2,085**	**400**	**-**	**-**	**-**	**-**	**-**	**2,613**	**5,298**

Aging analysis of receivables

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

As of 31.12.2017	**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	50,986	11,691	1,938	1,617	3,489	69,720
Total	**50,986**	**11,691**	**1,938**	**1,617**	**3,489**	**69,720**

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
Total	**42,194**	**9,675**	**1,604**	**1,338**	**2,887**	**57,698**

3.9.5. Liquidity risk

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

All amounts are in thousand Bulgarian levs, unless otherwise states

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, 2017	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 3 years**	**3 – 5 4 years**	**5 - 10 years**	**No maturity**	**Total**
Cash and cash equivalents	31,721	4,006	-	-	-	-	-	956	36,683
Deposits in financial institutions	-	35	8,331	2,840	5,744	-	-	528	17,478
Government securities held to maturity	-		795	478	795	229	-	-	2,297
Government securities available for sale	6,271	-	-	-	8,382	102,320	16,769	-	133,742
Corporate bonds at fair value through profit and loss	17,364	-	25 160	16 508	6 727	8 093	19 909	-	93 761
Government securities held for trading	-		-	1,194	-	809	380	-	2,383
Shares in mutual funds	-	-	-	-	-	-	-	11,400	11,400
Equity investments	9	-	-	-	-	-	-	92,493	92,502
Other financial assets	-	-	-	-	-	-	-	-	-
Receivables on direct insurance	18,127	25,796	16,036	9,761					69,720
Reinsurance receivables	7,545								7,545
Recourse receivables	10,676								10,676
Other receivables	6,383	8,286	7,995	12,639	-	-	-	-	35,303
Total	**98,096**	**38,123**	**58,317**	**43,420**	**21,648**	**111,451**	**37,058**	**105,377**	**513,491**

All amounts are in thousand Bulgarian levs, unless otherwise states

Maturity structure of financial assets

As of December 31, 2016	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 3 years**	**5 – 5 6 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	39,260	-	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
Total	**119,031**	**48,922**	**27,963**	**43,330**	**7,406**	**30,717**	**55,365**	**101,718**	**434,452**

All amounts are in thousand Bulgarian levs, unless otherwise states

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, 2017	**Up to 1 year**	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Over 10 years**	**Total**
Mathematical reserve	13	413	387	1,208	1,840	3,861
Unearned premium reserve	188,417	-	-	-	-	188,417
Unexpired risk reserve	7,288	-	-	-	-	7,288
Reserve for reported but not settled claims	226,048	-	-	-	-	226,048
Reserve for incurred but not reported claims	130,400	20,179	9,725	4,771	-	165,075
Other technical reserves	9,439	-	-	-	-	9,439
Liabilities from direct insurance	4,056	-	-	-	-	4,056
Liabilities for reinsurance contracts	77,807	-	-	-	-	77,807
Lease liabilities	301	489	277	-	-	1,067
Loan payables	4,364	3,763	13,914	600	6,500	29,141
Other liabilities	18,323	-	-	-	-	18,323
Общо	**666,456**	**24,844**	**24,303**	**6,579**	**8,340**	**730,522**

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	-	4,000	53,668
Other liabilities	25,564	-	-	-	-	25,564
Unearned premium reserve	**570,246**	**35,157**	**44,016**	**6,721**	**4,132**	**660,272**

3.9.6. Operational risk

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

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

3.10. Capital management

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

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. In 2017 the debt has been fully repaid by actually converting it to Tier 1 capital. Capital increase installments of BGN 47.5 million have been paid-in.

IN the year ended December 31, 2017 the subsidiaries of the Group are compliant with all capital requirements imposed by the respective regulators.

All amounts are in thousand Bulgarian levs, unless otherwise states

4. Gross written premiums

	Year ended 31.12.2017	Year ended 31.12.2016
Motor hull	42,346	28,163
Motor TPL and Green card	518,354	432,724
Property	25,152	24,736
Agricultural insurance	3,685	2,980
Accidents and Health	4,625	10,566
Cargo	12,010	8,922
Liabilities	23,881	6,627
Other	15,418	13,015
Gross written premiums	**645,471**	**527,733**
Change in the gross provision for unearned premium reserve	(47,139)	(15,729)
Gross earned premiums	**598,332**	**512,004**
Less: written premiums ceded to reinsurers	(288,745)	(231,937)
Change in the provision for unearned premiums reinsurer’s share	29,057	12,883
Earned premiums ceded to reinsurers	**(259,688)**	**(219,054)**
Net earned premiums	**338,644**	**292,950**

All amounts are in thousand Bulgarian levs, unless otherwise states

The technical result of the Company by business lines for the year ended December 31, 2017 is shown in the table below.

	Gross premiums written	**Gross premiums earned**	**Claims paid, gross***	**Claims incurred, gross***	**Acquisition and administrative expenses ***	**Other technical income (expenses)***	**Reinsurance result**	**Technical profit (loss)**
Motor hull	42,346	38,162	(23,520)	(20,390)	(20,287)	(1,254)	(1,988)	(5,757)
Motor TPL and Green card	518,354	484,900	(295,584)	(313,774)	(123,384)	(23,954)	2,704	26,492
Property insurance	25,152	36,423	(3,851)	(7,026)	(5,058)	(3,408)	(11,071)	9,860
Agricultural insurance	3,685	2,726	(3,214)	(3,304)	(1,470)	(223)	(10)	(2,281)
Accidents and health	4,625	5,091	(5,753)	(5,446)	(4,121)	(414)	(14)	(4,904)
Cargo	12,010	10,767	(1,946)	(1,846)	(5,296)	(1,613)	105	2,117
Liabilities	23,881	11,178	(1648)	(2,341)	(3,440)	(638)	(2,695)	2,064
Other	15,418	9,084	(1,588)	(12,022)	(5,226)	(48)	5,216	(2,996)
Total	645,471	598,331	(337,104)	(366,149)	(168,282)	(31,552)	(7,753)	24,595

* Claims paid, gross do not include recourse 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

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**	**Claims paid, gross***	**Claims incurred, gross***	**Acquisition and administrative expenses ***	**Other technical income (expenses)***	**Reinsurance result**	**Technical profit (loss)**
Motor hull	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)	(244,001)	(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
Total	527,733	512,004	(309,712)	(294,854)	(149,617)	(37,598)	(25,990)	3,945

* Claims paid, gross do not include recourse 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

5. Fees and commission income

	Year ended 31.12.2017	Year ended 31.12.2016
Commissions received from reinsurers	68,244	65,950
Other income from reinsurers	155	192
Total fees and commission income	**68,399**	**66,142**

6. Financial income

	Year ended 31.12.2017	Year ended 31.12.2016
Interest income from investments in securities and deposits	6,370	2,857
Dividend income from investments in equities	325	9
Rental income from investments in properties	330	334
Income from revaluation of assets at fair value	3,654	238
Income from sale of financial assets	15,309	7,553
Other financial income	14,497	6,032
Total financial income	**40,485**	**17,023**

7. Other operating income

Other operating income includes income from reversed impairment of recourse receivables and other receivables of Euroins Romania from BAAR (Romanian Motor Insurers' Bureau), MTPL stickers, income from fees for intermediary services on Green Card and others.

8. Claims incurred, net of reinsurance

	Year ended 31.12.2017	Year ended 31.12.2016
Current year claims paid, claims handling and prevention expenses	(346,817)	(313,401)
Change in the outstanding claims provision	(47,089)	14,865
Change in other technical reserves	254	436
Change in mathematical reserve	(497)	(443)
Received recoveries from reinsurers	160,347	135,068
Change in the reinsurers' share in the outstanding claims reserve	41,476	(8,146)
Recourse receivables	9,713	3,689
Total incurred claims, net of reinsurance	**(182,613)**	**(167,932)**

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

9. Acquisition expenses

	Year ended 31.12.2017	Year ended 31.12.2016
Commissions	(111,200)	(99,739)
Change in reserve for bonuses and discounts and management insurance	27	(8)
Bonuses expenses	(127)	(91)
Advertising and marketing expenses	(26,040)	(28,305)
Total acquisition expenses	**(137,340)**	**(128,143)**

Advertising and marketing expenses include part of administrative expenses that are directly related to the operations of the sales department operations in the Group such as salaries.

All amounts are in thousand Bulgarian levs, unless otherwise states

10. Administrative expenses

	Year ended 31.12.2017	Year ended 31.12.2016
Materials expenses	(502)	(446)
Expenses for hired services	(9,897)	(4,226)
Depreciation and amortization expenses	(1,380)	(1,403)
Personnel expenses	(12,695)	(11,368)
Other	(6,468)	(4,031)
Total administrative expenses	**(30,942)**	**(21,474)**

At the end of the reporting period the average number of employees in the Group is 1,388 (2016: 1,138), split by subsidiaries as follows:

- 14 (2016 г.: 10) Euroins Insurance Group AD;
- 456 (2016 г.: 490) Insurance Company Euroins AD (ZD Euroins AD);
- 543 (2016 г.: 480) Euroins Romania Insurance-Reinsurance S.A.;
- 132 (2016 г.: 137) Euroins Osiguruvanje AD, Skopje, Macedonia;;
- 0 (2016 г.: 7) Euroins - Health Assurance ZEAD;
- 19 (2016 г.: 24) Insurance Company Euroins Life Insurance EAD (ZD Euroins Life EAD);
- 8 (2016 г.: 39) Insurance company EIG Re EAD (ZD EIG Re EAD);
- 216 (2016 г.: 156) Private JSC Euroins Ukraine Insurance Company

11. Financial expenses

	Year ended 31.12.2017	Year ended 31.12.2016
Interest expense	(3,494)	(3,315)
Loss on revaluation of financial assets	(2,593)	(1,354)
Loss on sale of financial assets	(7,514)	(2,916)
Expenses for investment management	(1,384)	(831)
Other finance cost	(6,994)	(6,226)
Total finance expenses	**(21,979)**	**(14,642)**

12. Other operating expenses

	Year ended 31.12.2017	Year ended 31.12.2016
Expenses for Guarantee fund	(18,249)	(29,029)
Other statutory expenses and license fees	(529)	(555)
Bad debt provision	(6,187)	(4,517)
Receivables written off on insurance policies	(8,146)	(10,974)
Other	(7,608)	(30,316)
Total other operating expenses	**(40,719)**	**(75,391)**

13. Other net income

	Year ended 31.12.2017	Year ended 31.12.2016
Net income from sale of assets	314	183
Other non-operating income	580	404
Effect from acquisition of Euroins Ukraine (HDI Ukraine)	-	5,117
Other non-operating expenses	(248)	(280)
Total other net income	**646**	**5,424**

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14. Taxation

Tax expenses are presented as follows:	Year ended 31.12.2017	Year ended 31.12.2016
Income tax expense for the current year	(145)	(422)
Deferred tax	(1,735)	(2,384)
Total taxation	**(1,880)**	**(2,806)**

Current tax expenses represent the amount of tax payable according to the local legislation at tax rates in force at the end of 2017 and 2016.

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

	Assets		**Liabilities**		**Net assets / liabilities**	
	As of 31.12.2017	As of 31.12.2016	As of 31.12.2017	As of 31.12.2016	As of 31.12.2017	As of 31.12.2016
Property, plant and equipment	71	117	-	-	71	117
Payables to personnel for unused paid leaves and retirement compensations	55	46	-	-	55	46
Accrued personal income	87	55	-	-	87	55
Tax loss for carry forward	12,405	14,135	104	-	12,301	14,135
Net deferred tax assets / liabilities	**12,618**	**14,353**	**104**	**-**	**12,514**	**14,353**

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

	Balance at December 31, 2016	**Changes in profit and loss**	**Changes in share capital, reported in Other comprehensive income**	**Accumulated loss**	**Balance at December 31, 2017**
Property, plant and equipment	117		(46)	-	71
Payables to personnel for unused paid leaves and retirement compensations	46		9	-	55
Accrued personal income	55		32	-	87
Tax loss for carryforward	14,135		(1,730)	-	12,405
Net deferred tax assets / liabilities	**14,353**		**(1,735)**	**-**	**12,618**

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15. Intangible assets

	Software	Other	Total
Cost			
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
Depreciation and impairment losses			
Balance as of January 1, 2016	(2,790)	(40)	(2,830)
Depreciation charged for the year	(355)	-	(355)
Depreciation from business combinations	(59)	-	(59)
Written-off depreciation on disposals	437	40	477
Balance as of December 31, 2016	(2,767)	-	(2,767)
Net book value			
Balance as of January 1, 2016	1,492	283	1,775
Balance as of December 31, 2016	918	22	940
Cost			
Balance as of January 1, 2017	3,685	22	3,707
Acquisitions	939	107	1,046
Acquisitions from business combinations			
Disposals	(338)	(2)	(340)
Balance as of December 31, 2017	4,286	127	4,413
Depreciation and impairment losses			
Balance as of January 1, 2017	(2,767)	-	(2,767)
Depreciation charged for the year	(365)	-	(365)
Written-off depreciation on disposals	134	-	134
Balance as of December 31, 2017	(2,998)		(2,998)
Net book value			
Balance as of January 1, 2017	**918**	**22**	**940**
Balance as of December 31, 2017	**1,399**	**16**	**1,415**

As of December 31, 2017 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

16. Property, plant and equipment

	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Total
Cost					
As of January 1, 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)
Balance as of December 31, 2016	5,251	3,857	7,552	1,772	18,432
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
Balance as of December 31, 2016	(1,540)	(3,350)	(6,479)	(1,517)	(12,886)
Net balance value					
Balance as of January 1, 2016	**1,130**	**675**	**1,443**	**220**	**3,468**
Balance as of December 31, 2016	**3,711**	**507**	**1,073**	**255**	**5,546**

	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Total
Cost					
As of January 1, 2017	5,251	3,857	7,552	1,772	18,432
Acquisitions	27	2,529	1,758	31	4,345
Acquisitions from business combination					
Disposals	(68)	(33)	(171)	(1)	(273)
Revaluation	470	-	-	-	470
Exchange differences	(44)	(23)	(32)	(7)	(106)
Balance as of December 31, 2017	**5,636**	**6,330**	**9,107**	**1,795**	**22,868**
Depreciation					
As of January 1, 2017	(1,540)	(3,350)	(6,479)	(1,517)	(12,886)
Depreciation charged for the year	(112)	(213)	(627)	(63)	(1,015)
Acquisitions from business combination					
Written-off depreciation on disposals	12	11	211	-	234
Exchange differences	(9)	(19)	(13)	(7)	(48)
Balance as of December 31, 2017	**(1,649)**	**(3,571)**	**(6,908)**	**(1,587)**	**(13,715)**
Net balance value					
Balance as of January 1, 2017	**3,711**	**507**	**1,073**	**255**	**5,546**
Balance as of December 31, 2017	**3,987**	**2,759**	**2,199**	**208**	**9,153**

As of December 31, 2017 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.

All amounts are in thousand Bulgarian levs, unless otherwise states

17. Investment properties

	As of 31.12.2017	As of 31.12.2016
Balance as of January 1	15,426	14,435
Revaluation	(130)	1 021
Transfer from Land and buildings	67	-
Exchange differences	-	(30)
Balance as of December 31	**15,363**	**15,426**

18. Financial assets

As of 31.12.2017	**Held to maturity**	**Available for sale**	**For trading**	**Deposits and receivables**	**Total**
Registered for trading on stock exchange	-	-	91,964	-	91,964
Not registered for trading on stock exchange	-	466	72	-	538
Equity securities	**-**	**466**	**92,036**	**-**	**92,502**
Government bonds	2,297	2,383	133,742	-	138,422
Corporate bonds	-	-	93,761	-	93,761
Debt securities	**2,297**	**2,383**	**227,503**	**-**	**232,183**
Open-end investment funds	-	-	11,400	-	11,400
Investment funds	**-**	**-**	**11,400**	**-**	**11,400**
Deposits in banks	8,604	-	8,347	-	16,951
Restricted deposits	528	-	-	-	528
Other receivables	-	-	-	1,774	1,774
Deposits and other receivables	9,132	-	8,347	1,774	19,253
Total financial assets	**11,429**	**2,849**	**339,286**	**1,774**	**355,338**

As of 31.12.2016	**Held to maturity**	**Available for sale**	**For trading**	**Deposits 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
Equity securities	**-**	**478**	**103,315**	**-**	**103,793**
Government bonds	2,613	2,485	200	-	5,298
Corporate bonds	-	-	72,167	-	72,167
Debt securities	**2,613**	**2,485**	**72,367**	**-**	**77,465**
Open-end investment funds	-	-	17,668	-	17,668
Investment funds	**-**	**-**	**17,668**	**-**	**17,668**
Deposits in banks	303	-	21,863	7,443	29,609
Restricted deposits	-	-	-	540	540
Other receivables	-	-	-	2,282	2,282
Deposits and other receivables	**303**	**-**	**21,863**	**10,265**	**32,431**
Total financial assets	**2,916**	**2,963**	**215,213**	**10,265**	**231,357**

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

19. Receivables and other assets

	As of 31.12.2017	**As of 31.12.2016**
Receivables from direct insurance	69,720	57,698
Receivables from reinsurers or cedants	7,545	7,629
Recourse receivables	10,676	12,063
Other receivables	35,303	31,245
Current assets	416	203
Total receivables and other assets	**123,660**	**108,838**

As of December 31, 2017 the Group has accrued an impairment of receivables at the amount of BGN 15,550 thousand (December 31, 2016 – BGN 10,974 thousand)

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

20. Cash and cash equivalents

	As of 31.12.2017	**As of 31.12.2016**
Cash on hand	512	2,220
Current accounts	16,352	55,030
Deposits up to 90 days	19,819	37,007
Total cash and cash equivalents	**36,683**	**94,257**

21. Insurance reserves

Insurance reserves, including health and life insurance reserves:

	As of December 31, 2017			**As of December 31, 2016**		
	Gross	**Reinsurance**	**Net**	**Reinsurance**	**Gross**	**Net**
Unearned premium reserve	188,417	(117,578)	70,839	152,230	(90,933)	61,298
Unexpired risk reserve	7,288	-	7,288	459	(23)	436
Claims reserves, incl.:	391,123	(240,509)	150,614	348,903	(201,039)	147,864
Reserves for incurred, but not reported claims	165,075	(102,594)	62,481	151,662	(88 812)	62,850
Reserves for reported, but not settled claims	226,048	(137,915)	88,133	197,241	(112,227)	85,014
Other technical reserves, incl.:	5,578	(3,160)	2,418	5,411	(2,870)	2,541
Mathematical reserves	3,861	-	3,861	3,364	-	3,364
Total insurance reserves	**596,267**	**(361,247)**	**235,020**	**510,367**	**(294,865)**	**215,503**

22. Payables to reinsurers and other payables

	As of 31.12.2017	As of 31.12.2016
Payables from direct insurance	4,056	5,666
Payables to reinsurers	77,807	64,083
Payables under lease contracts	1,067	924
Payables to suppliers	-	3,820
Payables to personnel	-	1,047
Payables to Guarantee fund	-	5,096
Other payables	18,322	15,601
Total payables	**101,252**	**96,237**

23. Payables on loans

	As of 31.12.2017	As of 31.12.2016
Interest payable on loan from the owner Eurohold BulgariaAD	659	373
Payable on loan from Global Investment	-	6,209
Payable on loan from Starcom Holding AD	2,424	-
Payable on loan from the owner Eurohold Bulgaria AD	-	1,172
Other payables on loans	-	2,856
Общо задължения по получени заеми	**3,083**	**10,610**

Agreement with Starcom Holding AD

Loan contact with Starcom Holding AD with agreed amount of BGN 2,424 and interest rate of 6%. The term of the contract is on year with maturity 04.05.2014 and automatic renewal clause. As at 31.12.2017 the loan payable amounts to BGN 2,424 thousand.

23.1. Changes in liabilities arising from financing activities

			Changes from financing cash flows		**Non-cash adjustments**			
BGN '000'	***Note***	**As at 1 January 2017**	**Proceeds**	**Payments**	**Acquisitions**	**Effect of changes in foreign exchange rates**	**Other changes**	**As at 31 December 2017**
Share capital	***24***	**390,954**	47,500	-		-	43,025	**481,479**
Capital reserves	***24***	**35,416**	-	-		-	(43,646)	**(8,230)**
Retained earnings	***24***	**(160,621)**	41,041	-		(963)	(2,454)	**(122,997)**
Subordinated liabilities	***23.2***	**19,558**	-	(1,838)		-	1,838	**19,558**
Payable on subordinated debt	***23.2***	**23,500**	2,500	(19,500)		-	-	**6,500**
Payables on loans due to related parties	***23.2***	**10,610**	3,428	(10,955)		-	-	**3,083**
Payables on lease contracts due to related parties	***23***	**924**	-	(465)	608		323	**1,067**
	Total:	**320,341**	**94,469**	**(32,758)**	**608**	**(963)**	**(1,237)**	**380,460**

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23.2 Subordinate liabilities

	As of 31.12.2017	**As of 31.12.2016**
Payable on bond loan	19,558	19,558
Payable on subordinate debt to Eurohold	-	19,500
Payable on subordinate debt to Rossgaz Engineering	6,500	4,000
Total subordinated liabilities	**26,058**	**43,058**

Bond loan

Dated 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 EUR 10,000 thousand (BGN 19,958 thousand) and maturity date 18.12.2021. The interest rate consists of floating and fixed interest component – 13% plus 3M Euribot, due at the end of each quarter..

Under the terms of the bond loan there is a clause the interest rate to be reduced to 9.75% plus Euribor if a guarantee by Eurohold Bulgaria AD is issued. Such guarantee was issued on March 18, 2015, which reduced the interest rate.

Agreement to provide a loan in the form of subordinated debt between EIG AD and Eurohold Bulgaria AD

The agreement was concluded on December 19, 2016 with agreed amount of up to BGN 19,500 thousand, maturity date December 19, 2021 and interest rate of 7.5%. In 2017 the loan was settled by was of converting it into Tier 1 capital.

Agreement to provide a loan in the form of subordinated debt between ZD Euroins AD and Rossgaz Engineering EOOD

Under this agreement dated 27.06.2016 Rossgaz Engineering EOOD has granted ZD Euroins AD a loan in the form of subordinated term debt with agreed amount of BGN 4,000 thousand, maturity date 28.06.2026 and interest rate of 8.9%. On January 16, 2017 ZD Euroins AD has signed Annex to Agreement for providing a cash loan as a subordinated debt with Rossgaz Engineering EOOD. According to this Annex Rossgaz Engineering will provide an additional amount as a subordinated debt equal 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.

24. Equity

	As of 31.12.2017	**As of 31.12.2016**
Share capital	481,479	390,954
Revaluation and other reserves	(2,056)	40,627
Revaluation reserve from recalculations in the presentation currency in the consolidated financial statements	(6,174)	(5,211)
	473,249	**426,370**
Accumulated loss	(122,997)	(160,621)
Total equity and reserves	**350,352**	**265,749**

On November 19, 2015 the General meeting of the shareholders of the Parent company voted to increase the capital of the Parent company by issuing 195,583,000 new materialized registered shares bearing voting rights with nominal value of BGN 1. And as of December 31, 2017 the registered share capital of the Company comprises of 483,445,791 shares, out of which 76,981,791 are materialized, registered, preference shares and

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406,464,000 are materialized, registered, ordinary shares with nominal value of BGN 1 each.

The paid-in capital as at 31.12.2017 amouonts to BGN 481,482,622. In 2016 and 2017 have been made installments of BGN 105,963 thousand d and BGN 47,500 respectively. An installment of BGN 43,024 thousand that has been made in 2016 година but was registered with the Commercial Register in 2017 have been presented as Capital reserves in the Consolidated statement of financial position as of 31.12.2016.

As of now the registered capital has been fully paid-in.

Shareholders' structure	**As of December 31, 2017**		**As of December 31, 2016**	
	Share capital	Percentage	Share capital	Percentage
Eurohold Bulgaria AD	431,985,291	89.36	431,985,291	89.36
Basildon Holding Sarl	51,460,500	10.64	51,460,500	10.64
	483,445,791	100.00	**483,445,791**	100.00

The shareholders' structure presented above shows the share capital registered with the Bulgarian Commercial register. This capital includes also the unpaid share of the increase of BGN 195,583,000 voted back in 2015.

25. Business combinations

25.1. Goodwill

	As of 31.12.2017	**As of 31.12.2016**
Insurance company Euroins AD	101,395	101,395
Euroins - Health Insurance ZEAD	-	186
Euroins Romania Insurance-Reinsurance S.A	52,715	52,715
Euroins Osiguruvanje AD, Skopje	10,368	10,368
Total	**164,478**	**164,664**

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 enviroment and risks, as follows:

2017	Euroins Romania Insurance-Reinsurance S.A	Insurance company Euroins AD	Euroins Osiguruvanje AD, Skopje	Private JSC Euroins Ukraine IC	Insurance company Euroins Life EAD	Insurance company EIG Re EAD & Euroins – Health Assurance ZEAD
Discount rate	5.92%	5.69%	7.22%	14.87%	5.69%	5.69%
Growth rate	0.5%	1.00%	0.5%	1. 00%	1. 50%	1. 00%

2016	Euroins Romania Insurance-Reinsurance S.A	Insurance company Euroins AD	Euroins Osiguruvanje AD, Skopje	Private JSC Euroins Ukraine IC	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%

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.

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In accordance with its 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 Insurance ZEAD in 2007 and Euroins Romania Insurance-Reinsurance AD in 2008. The control of 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. It is important to note that value of the investments after the share contribution and the net assets of EIG have been reconfirmed in 2008 when an external investor acquired minority participation of 20% following a due diligence procedure and at a fair market value of the shares

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 the year ended of December, 31, 2013.

In 2016 the Group has acquired PJSC Euroins Ukraine Insurance Company (former name: PJSC HDI Strakhuvanny IC) as a result of which the Group owned 99.29% of the share capital of the company.

The acquisition cost for the Group is in the amount of BGN 2,347 and the vales of each of the 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
Total price paid	2,347
Net assets at fair value	7,464
Profit from a lucrative purchase	5,117

In 2017 as a result of the merger of Euroins – Health Insurance ZEAD into Insurance Company EIG Re EAD EIG, the Parent company, has written off BGN 186 thousand of goodwill.

26. Non - controlling interest

Subsidiary	**As of 31.12.2017**	**As of 31.12.2016**
Insurance company Euroins AD (ZD Euroins AD)	462	2,143
Euroins Romania Insurance-Reinsurance S.A	1,912	1,575
Euroins Osiguruvanje AD, Skopje	480	456
Private JSC Euroins Ukraine Insurance Company	85	51
Total non-controlling interest	**2,939**	**4,225**

27. Свързани лица

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, 2017 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.

27.1. Directors' transactions

	As of 31.12.2017	As of 31.12.2016
Payments to directors and executive directors	2,788	1,966
Total	**2,788**	**1,966**

The directors of the Group are as follows:

Assen Milkov Hristov	Chairman of the Board of Directors	Euroins Insurance Group AD
	Member of the Board of Directors	Euroins Romania Insurance-Reinsurance S.A.
	Chairman of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Kiril Ivanov Boshov	Executive Director, Member of the Board of Directors	Euroins Insurance Group AD
	Chairman of the Board of Directors	Euroins Romania Insurance-Reinsurance S.A.
	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
	Member of the Supervisory Board	Insurance company Euroins AD
	Executive Director, Member of the Board of Directors	Insurance Company Euroins Life EAD
	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Yoanna Tsvetanova Tzoneva	Executive Director Member of the Board of Directors	Insurance company Euroins AD
	Executive Director Member of the Board of Directors	Insurance company EIG Re EAD
	Member of the Board of Directors	Insurance Company Euroins Life EAD
Rumyana Gesheva Betova	Executive Director Member of the Board of Directors	Insurance company Euroins AD
	Executive Director Member of the Board of Directors	Insurance company EIG Re EAD
	Executive Director Member of the Board of Directors	Insurance Company Euroins Life EAD
Evgeny Svetosalvov Ignatov	Executive Director Member of the Board of Directors	Insurance company Euroins AD
Petar Veselinov Avramov	Executive Director Member of the Board of Directors	Insurance company Euroins AD
	Executive Director Member of the Board of Directors	Insurance company EIG Re EAD
Velislav Milkov Hristov	Member of the Management Board	Insurance company Euroins AD
	Member of the Supervisory Board	Insurance company EIG Re EAD
Dimitar Stoyanov Dimitrov	Procurer	Insurance company Euroins 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
Kalin Orlinov Kostov	Member of the Supervisory Board	Insurance company EIG Re EAD
	Executive Director Member of the Board of Directors	Insurance Company Euroins Life EAD until 21.03.2018
Milena Milchova Gencheva	Executive Director	Euroins Romania Insurance-Reinsurance S.A.
Mihnea Traian Stefan Tobescu	Chief Executive Officer	Euroins Romania Insurance-Reinsurance S.A.
Kristiana – Viorela Basgan	Member of the Board of Directors	Euroins Romania Insurance-Reinsurance S.A.

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Ralitza Guberova	Executive Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Yanko Georgiev Nikolov	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
	Deputy Chairman of the Board of Directors	Private JSC Euroins Ukraine IC
Vladimir Treneski	Member of the Board of Directors	Euroins Osiguruvanje AD, Skopje
Vasil Stefanov Stefanov	Chairman of the Supervisory Board	Private JSC Euroins Ukraine IC
Radoslava Nikolova Peneva	Member of the Supervisory Board	Private JSC Euroins Ukraine IC
Ivan Dimitrov Hristov	Member of the Supervisory Board	Private JSC Euroins Ukraine IC
Oleksandr Volkov	Executive Director Chairman of the Management Board	Private JSC Euroins Ukraine IC
Lyudmila Tretyak	Member of the Management Board	Private JSC Euroins Ukraine IC

27.2. Related parties transactions

	Year ended 31.12.2017	Year ended 31.12.2016
Transactions with companies under common control and associated to the Group companies:		
Written premium	346	453
Commissions and participation in result	460	1,199
Other revenue	417	100
Insurance indemnifications	5,474	6,259
Hired services	628	1,510
Interest income	194	57
Interest expense	51	43
Other expenses	874	942
Transactions with the Parent company and the ultimate parent company:		
Interest income – Eurohold Bulgaria AD	-	146
Interest income – Starcom Holding AD	135	83
Interest expense – Starcom Holding AD	97	9
Interest expense – Eurohold Bulgaria AD	910	1
Expenses for consulting services – Eurohold Bulgaria AD	181	155

27.3. Balances with related parties

	Year ended 31.12.2017	Year ended 31.12.2016
Balances with companies under common control and associated to the Group companies:		
Other receivables	903	981
Investments in equity instruments	-	3,297
Investments in debt instruments	8,158	-
Advance payments	2,144	-
Finance lease payables	930	730
Other payables	462	374
Insurance indemnifications	432	1,547
Balances with the Parent company and the ultimate parent company:		
Loan payables – Eurohold Bulgaria AD	659	20,671
Loan payables – Starcom Holding AD	2,424	-

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Payables to Eurohold Bulgaria AD	102	-
Receivables on loans – Starcom Holding AD	45	-
Investments in debt instruments – Starcom Holding AD	13,077	-
Investments in debt instruments – Eurohold Bulgaria AD	17,364	-
Investments in equity instruments – Eurohold Bulgaria AD	-	26,105
Other payables – Starcom Holding AD	98	2,205
Other payables – Eurohold Bulgaria AD	-	415

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, 2017 and 2016 is presented in the table below:

As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity investments	106,339	21,131	6,272	133,742
Government securities at fair value through profit and loss	2,297	-	-	2,297
Government securities available for sale	2,283	-	-	2,283
Corporate bonds at fair value through profit and loss	73,837	338	-	74,175
Corporate bonds available for sale	-	-	-	-
Shares in mutual funds	88,309	10,159	5,434	103,902
Инвестиционни имоти	-	-	15,363	15,363
Total	**273,065**	**31,628**	**27,069**	**331,762**

As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
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
Equity investments	-	-	15,426	15,426
Total	**161,456**	**36,218**	**19,163**	**216,837**

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.

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

29. Segment reporting

Geographical distribution

The Group operates mainly in the following five countries: Bulgaria, Romania, Ukraine, Macedonia and Greece. In Bulgaria, Romania Ukraine 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, and Insurance company EIG Re EAD;
2. In Romania through Euroins Romania Insurance-Reinsuarance S.A.;
3. In Macedonia through Euroins Osiguruvanje AD;
4. In Ukraine through Private JSC Euroins Ukraine Insurance Company

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 31.12.2017	**Year ended 31.12.2016**	**As of 31.12.2017**	**As of 31.12.2016**
Bulgaria	99,735	83,838	1,232	964
Romania	472,884	387,220	4,494	1,559
Macedonia	18,205	16,902	313	391
Greece	30,293	22,485	-	-
Spain	5,883	3,298	-	-
Italy	8,989	5,912	-	-
Ukraine	9,482	5,843	3,114	2,632
Others	-	2,235	-	-
	645,471	**527,733**	**9,153**	**5,546**

Operational segments

The Group identifies the following operational segments:

1. Euroins Bulgaria – Insurance Company Euroins AD;
2. Euroins Romania – Euroins Romania Insurance-Reinsuarance S.A.;
3. Euroins Skopje – Euroins Osiguruvanje AD, Skopje;
4. Others – Insurance company Euroins Life EAD, Insurance company EIG Re EAD and Private JSC Euroins Ukraine Insurance Company. 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;

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- their operational results are reviewed when decisions about the resources allocated between the segments are made;
- a separate financial information is available.

The key indicators followed by the Group are the following:

1. Gross written premiums;
2. Net earned premiums;
3. Claims incurred, net of reinsurance;
4. Fees and commission income;
5. Net financial income / expenses – represent on a net basis financial income and expenses from the Consolidated statement of comprehensive income for the year ended 31.12.2017;
6. Net operating income / expenses – represent on a net basis Other operating income and expenses from the Consolidated statement of comprehensive income for the year ended 31.12.2017;
7. Acquisition costs;
8. Administrative costs;
9. Operational profit / (loss);

Year ended 31.12.2017	**Euroins Bulgaria**	**Euroins Romania**	**Euroins Osiguruvanje AD, Skopje**	**Others**	**Total**
Gross written premiums	143,945	472,884	18,205	10,437	645,471
Net earned premiums	79,508	228,469	15,643	15,024	338,644
Claims incurred, net of reinsurance	(37,924)	(129,101)	(8,127)	(7,461)	(182,613)
Fees and commission income	9,829	58,564	456	(450)	68,399
Net financial income / expenses	1,562	16,460	424	60	18,506
Net operating income / expenses	(3,705)	(25,337)	(1,349)	(1,161)	(31,552)
Acquisition costs	(38,478)	(90,958)	(5,013)	(2,891)	(137,340)
Administrative expenses	(12,524)	(11,947)	(1,500)	(4,971)	(30,942)
Operating profit / (loss)	(1,732)	46,150	534	(1,850)	43,101

Year ended 31.12.2016	**Euroins Bulgaria**	**Euroins Romania**	**Euroins Osiguruvanje AD, Skopje**	**Others**	**Total**
Gross written premiums	117,131	387,220	16,902	6,480	527 733
Net earned premiums	86,460	187,285	15,262	3,943	292,950
Claims incurred, net of reinsurance	(43,319)	(114,642)	(7,817)	(2,154)	(167,932)
Fees and commission income	3,349	62,894	385	(486)	66,142
Net financial income / expenses	1,059	3,457	362	(2497)	2,381
Net operating income / expenses	(4,894)	(30,706)	(1,245)	(753)	(37,598)
Acquisition costs	(34,541)	(89,306)	(5,008)	712	(128,143)
Administrative expenses	(8,707)	(9,914)	(1,622)	(1,231)	(21,474)
Operating profit / (loss)	(593)	9,068	317	(2,466)	6,326

As of 31 December 2016 the Group's subsidiary Euroins Romania Insurance-Reinsurance S.A. has completed the financial and operational measures including capital increase stipulated in the financial recovery approved by the Romanian insurance regulator in 2015. In fact these measures have been fullfilled as early as 20 November 2016 as initially prescribed. 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. Events after the end of the reporting date

On 3 January 2018 an installment for the share capital increase of BGN 1,963,169 has been paid in. On 11 January 2018 it has been registered with the Commercial Register. With this the capital increase process of BGN 195,583,000 that was voted back in 2015 has been closed.

With decision dated 17 January 2018 the Romanian insurance regulator (Autoritatea de Supraveghere Financiară) has finally approved the insurance portfolio acquisition of the Romania non-life insurer ATE Insurance Romania. The portfolio consists of non-motor business only and its acquisition is part of the long-term strategy of Euroins Romania to increase precisely the non-motor business of the company.

On 25.09.2017 the Board of Directors of Euroins Insurance Group voted a decision to acquire participation of 14.114% in the share capital of Euroins Russia. On 16.10.2017 the Board voted a decision for the Group to participate in a procedure to increase the capital of Euroins Russia. Subsequently a transfer of RBB 80,000 thousand has been made on 21.12.2017 to comply with this desicion. The increase has been regidstered on 13.02.2018 and as a result the participation of EIG has increased to 31.195%.

EUROINS

INSURANCE GROUP

ANNUAL CONSOLIDATED MANAGEMENT REPORT

of

EUROINS INSURANCE GROUP

For the year ended 31 December 2017

CONTENT

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1. Key indicators

		2017	Change	2016
Income Statement				
1. Profit /(loss), before taxes	BGN'000'	43,561	*271%*	11,750
2. Net profit / (loss), after tax	BGN'000'	41,681	*366%*	8,944
3. Gross written premiums	BGN'000'	645,471	*22%*	527,733
4. Net earned premiums	BGN'000'	307,091	*20%*	255,352
5. Claims incurred, net of reinsurance	BGN'000'	182,613	*9%*	167,932
6. Administrative expenses	BGN'000'	30,942	*44%*	21,474
7. Acquisition costs, net of Fees and commission income	BGN'000'	68,941	*11%*	62,001
Statement of financial position as of December, 31				
8. Equity, including non-controlling interest	BGN'000'	353,191	*31%*	269,974
9. Liabilities, including Subordinated debts	BGN'000'	726,764	*10%*	660,272
10. Assets	BGN'000'	1,079,955	*16%*	930,246
11. Share Capital	BGN'000'	481,479	*23%*	390,954
12. Financial assets and investment property and cash	BGN'000'	407,384	*19%*	341,040
13. Receivables and other assets	BGN'000'	123,660	*14%*	108,838
14. Insurance reserves	BGN'000'	596,267	*17%*	510,367
15.Reinsurers' share in technical reserves	BGN'000'	361,247	*23%*	294,865
Ratios				
Financial autonomy ratio (8/9)		0.49	*18.9%*	0.41
Debt / Equity ratio (9/8)		2.06	*-15.9%*	2.45
Solvency and funds security ratio (12+13)/(14-15))		225.96%	*8.2%*	208.76%
Net combined operating ratio ((5+6+7)/4)		91.99%	*-6.6%*	98.46%
Loss ratio (5/4)		59.47%	*-9.6%*	65.76%
Administrative expenses ratio (6/4)		10.08%	*19.8%*	8.41%
Acquisition costs ratio (7/4)		22.45%	*-7.5%*	24.28%
Gross return on equity (1/8)		12.33%	*183.4%*	4.35%
Net return on equity (2/8)		11.62%	*256.2%*	3.30%
Gross return on liabilities (1/9)		5.99%	*236.8%*	1.78%
Net return on liabilities (2/9)		5.65%	*323.4%*	1.35%
Gross return on assets (1/10)		4.03%	*219.3%*	1.26%
Net return on assets (2/10)		3.86%	*301.4%*	0.96%

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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 by EuroHold Bulgaria AD and consolidating the entire insurance business of the holding.

Since its establishment up to present day the Company has constantly expanded its operations by acquiring insurance companies in Bulgaria but also in Romania, Macedonia and Ukraine. In total the insurance companies in the Group have more than 250 regional offices and close to 3 million clients with its operations reaching as far Greece, Spain, Poland and Ukraine.

At the 2017 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, 2017 the registered capital of Euroins Insurance Group AD amounts to BGN 483,445,791. The Company's registered capital comprises 483,445,791 shares 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 as at 31 December 2017 is as follows:

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

The share capital's structure above shows the share capital registered with the Commercial Register of Republic of Bulgaria. This capital includes the unpaid share of the capital increase of BGN 195,583,000 voted back in 2015.

The paid-in capital as at 31 December 2017 amounts to BGN 481,482,622. On 3 January 2018 the rest of the registered share capital of BGN 1,963,169 has been paid-in. On 11 January 2018 it has been registered with the Commercial Register.

Euroins Romania Insurance–Reinsurance S.A.

The acquisition of shares of Euroins Romania Insurance-Reinsurance S.A. was completed 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 S.A. was increased to BGN 102,682 thousand 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 participation in the share capital of the subsidiary has increased to 93.275%.

In 2014 Euroins Romania increased its share capital by 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 S.A. by RON 200 million. As of 31 December 2016 this amount has been fully paid in registered with the Commercial Register. Additionally the Extraordinary meeting of shareholders voted on 29 September 2016 to increase the capital of the company further by RON 100 million and as at 31 December 2016 as part of this increase EIG has made a capital contribution in the amount of BGN 43,251 thousand to its subsidiary company. In February 2017 the capital increase of the subsidiary was approved by the Financial Supervisory Authority in Romania and in March 2017 the amount was registered with the Commercial Register.

As at 31 December 2017 the participation of EIG AD in the capital of Euroins Romania Insurance-Reinsurance S.A. amounts to 98.50%.

The Company is a main player on the Romanian insurance market ranking second among the non-life insurers at the end of the third quarter of 2017. In the last two years Euroins Romania has confirmed its status of a stable and reliable company, which manages to stay profitable and compliant with the requirements of Solvency II in an environment as highly competitive as the Romanian one.

ZD Euroins AD (Insurance Company Euroins AD, Euroins Bulgaria)

Insurance Company Euroins AD (Euroins Bulgaria) became part of Euroins Insurance Group in 2007.

In 2013 the participation of Euroins Insurance Group in the share capital of Euroins Bulgaria was 78.13%.

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

In 2017 the capital of ZD Euroins AD has been increased by BGN 16,000 thousand through a cash contribution; and as at 31 December 2017 the participation of EIG in the company's share capital amounts to 98.21%.

Euroins Bulgaria is a dynamic company, which in the previous years has been continuously expanding its activity by either organic growth or acquisitions (Interamerican, QBE). The company operates successfully in Greece, Italy and Spain by constantly improving the quality of the services it provides in those countries relying on increasing its network of partners and customers, improved IT and market analysis and segmentation capabilities.

Euroins Insurance AD, Skopje, Macedonia

The investment in Euroins Insurance AD, Skopje (Euroins Macedonia) was made in 2008. As at 31 December 2012 its amount was BGN 17,320 thousand. 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, 2016 and 2017 there were no changes in the participation of EIG. As of 31 December 2017 it is 93.36%.

Euroins Macedonia is a recognized and reliable company with diversified portfolio and stable financial indicators.

ZD Euroins Life EAD (Euroins Life)

In 2013 EIG AD has acquired 100% of Interamerican Bulgaria Life Insurance EAD's share capital and renamed it to ZD Euroins Life EAD. The amount of the investment was BGN 3,576 thousand. In 2014, 2015, 2016 and 2017 there were no changes in the participation of EIG in its 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 (EIG Re) and Euroins - Health Insurance ZEAD (Euroins Health)

Euroins Insurance Group took over control of Euroins - Health Insurance ZEAD in 2008. As at 31 December 2013 the participation of EIG AD in the share capital of Euroins Health was 100.00%.

Also in 2013 by way of cash contribution EIG has increased the capital of the company by BGN 1,500 thousand. In addition following the 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 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 EIG Re has been increased by BGN 4,000 thousand. By way of further support Euroins Insurance Group AD granted EIG Re a loan in the form of subordinated debt amounting to BGN 600 thousand (Tier 2 Capital according to Solvency II).

On June on 27 June 2017 the merger of Euroins Health into EIG Re has been entered into the Commercial Register. As a result of the transaction Euroins - Health Insurance EAD has been terminated without liquidation and ZD EIG Re EAD has become its universal legal successor.

Private JSC Euroins Ukraine IC (previosly Public JSC HDI Strakguvannya IC)

On 29 July 2016 the Commission of State Regulations of Financial Markets in Ukraine approved the acquisition of Public JSC HDI Strahuvannye IC by the EIG. On 12 August 2016 the shares were transferred. The amount of the investment was BGN 2,347 thousand. As of 30 September 2016 with the approval of the General Meeting of the Shareholders, the name of the company has been changed effectively. The new name of the company was Public Joint Stock Company Euroins Ukraine Insurance Company.

In 2017 as a result of legislation changes the company has been renamed again and it is now Private Joint Stock Company Euroins Ukraine Insurance Company (PJSC Euroins Ukraine IC,

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Euroins Ukraine). As at 31 December 2017 the participation of Euroins Insurance AD in the share capital of Euroins Ukraine amounts to 98.32%.

As at 31 December 2017 Euroins Insurance Group AD is majority shareholder in the following companies:

Euroins Romania Insurance-Reinsurance S.A.	– 98.50%;
ZD Euroins AD	– 98.21%;
Euroins Insurance AD, Skopje	– 93.36%;
ZD Euroins Life EAD	– 100.00%;
ZD EIG Re EAD	– 100.00%;
PJSC Euroins Ukraine IC	– 98.32%.

OOO RSO Euroins Russia

On 25.09.2017 Board of Directors of Euroins Insurance Group voted a decision to acquire participation of 14.114% in the share capital of OOO RSO Euroins (Euroins Russia). In pursuance this decision RBB 12,502 thousand have been transferred.

On 16.10.2017 the Board voted a decision for the Group to participate in a procedure to increase the capital of Euroins Russia. Subsequently a transfer of RBB 80,000 thousand has been made on 21.12.2017 to comply with this decision. The increase has been registered on 13.02.2018 and as a result the participation of EIG has increased to 31.195%.

4. Review of operations and financial indicators

Premium income of Euroins Insurance Group AD on consolidated basis in 2017 amounts to BGN 645.5 million as compared to BGN 527.7 million in 2016. The significant growth of 22% is mainly down to the growth generated by Euroins Bulgaria and Euroins Romania. Euroins Bulgaria grows by 23%, Euroins Romania does so by 24%. The written business of Euroins Macedonia has increased by 10%.

The growth of Euroins Bulgaria is down to the increased direct insurance business written through brokers both locally in Bulgaria and in Greece, Italy and Spain according to the EU directive for Freedom of services. MTPL (Motor Third Party Liability) line of business grows as well but so do also main non-motor lines such as Property, Accident & Health, Liability and Travel. It is important to note that Euroins Bulgaria has grown its own direct insurance business at the expense of the active inward reinsurance business, which would be a serious precondition for a future growth.

Euroins Romania has generated growth again and it is mainly due to the growth in the MTPL business. However, major non-motor lines of business such as Accident, Cargo, Liability and Property grow with even higher rates. The growth in MTPL is because of the re-segmentation of the business activities of the clients of the company that has been completed in 2014 and 2015. As a result the company started writing MTPL business in new more profitable segments by implementing a segmentation requirement of at least three criteria.

The main share of the premium income of the Group comes from Euroins Romania, Euroins Bulgaria and Euroins Macedonia, which account for 73.3%, 22.3% and 2.8% of the total premium income of the Group respectively, i.e. more than 98% of the total written business.

Total consolidated assets of the Group at the end of 2017 amount to BGN 1,080 million compared to BGN 930.2 million at the end of 2016. Gross technical reserves on a consolidated basis as part of Total liabilities have increased from BGN 510.4 million in 2016 to BGN 596.3 million in 2017.

In addition to the growth of the business written by the Group there is also the profit after tax of BGN 41.7 million. For comparison in 2016 EIG has reported a profit after tax of BGN 8.9 million. On one hand this extraordinary improvement is down to the very good technical result, which in turn only confirms the correct underwriting approach of the Group subsidiaries. On the other hand there are also the events from 2015. As a result of several factors the Group and Euroins Romania in particular have increased their technical reserves quite significantly. This has put both companies in a very good starting position for 2016. And the positive effect has transferred itself in 2017 as well resulting in not only stabilizing the loss ratio but actually decreasing it.

After the increase of the reserves in 2015 Euroins Romania Insurance-Reinsurance S.A. became one of the most sufficiently reserved companies on the Romanian market. This along with the recapitalization and the changes in the corporate and risk management that followed has contributed significantly to the positive results both in 2016 and in 2017.

Rating

In November 2017 was completed also the project for the rating assignment of EuroHold Bulgaria AD, the holding, in which EIG is a key component consolidating the insurance business of

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EuroHold Bulgaria. The partner and rating agency of choice in this project was Fitch Ratings, an internationally recognized leading agency, which was also the most experienced in insurers' rating assignment. Upon closing the project apart from Long-Term Default Rating "B" assigned to EuroHold Bulgaria with Stable outlook Fitch Ratings has assigned also a rating to Euroins Romania. And in confirmation to the improvement in the financial performance of our Romanian insurer the agency has assigned an Insurer Financial Strength Rating "BB-" with Stable outlook.

Solvency II

The sound performance in 2017 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'	228,161
Total eligible own funds to meet the Minimum Capital Requirement (MCR) in BGN '000'	194,183
Solvency Capital Requirement (SCR) in BGN '000'	123,256
Minimum Capital Requirement (MCR) in BGN '000'	52,845
SCR Coverage	185%
MCR Coverage	367%

* The calculations are made on preliminary data submitted Financial Supervision Commission as part of the Quarterly Quantitative Reporting in Solvency II.

5. <u>Major risks the Group and its subsidiaries are exposed to</u>

5.1. Macroeconomic risk

Main macroeconomic risks are related to the unforeseeable global framework in the past years, which impacts both EU and CEE countries. The low-inflation environment could suffer serious volatility in case of eventual increase of the referent interest levels by ECB and the local central banks of the countries outside of the Eurozone. The latter would impact the consumer and the business environment as well as the investment climate. The aptitude of some countries in EU and CEE towards relatively high budget deficit and high trade deficit is also a factor that might influence the business development and the financial markets as whole.

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, while the Romanian Leu is relatively stable even in a high-inflation environment being subject to a monitored floating monetary policy.

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 the Group companies are exposed to inflation risk, which the Group management monitors carefully.

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 developed by the recognized players and the entry of new technologies causing disruptions on the market;
- Risks related to changes in the legislation – EIG main business is subject to the applicable legislation based on Solvency II framework in EU member and EU candidate states as well as on 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. The company looks for innovative solutions provided by new technologies both in sales and new product implementation but also in claims administration.

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[1] areas.

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

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

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

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

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 2017

On 3 January 2018 an installment for the share capital increase of BGN 1,963,169 has been paid in. On 11 January 2018 it has been registered with the Commercial Register. This would end the capital increase process of BGN 195,583,000 that was voted back in 2015.

With decision dated 17 January 2018 the Romanian insurance regulator (Autoritatea de Supraveghere Financiară) has finally approved the insurance portfolio acquisition of the Romania non-life insurer ATE Insurance Romania. The portfolio consists of non-motor business only and its acquisition is part of the long-term strategy of Euroins Romania to increase precisely the non-motor business of the company.

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 31 December 2017.

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 but it also enters and is active in South Europe (Greece, Spain, Italy). In mid-term plan EIG's main target is to achieve, through its subsidiaries, a market share of 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. They, the subsidiaries, aim at consolidating their status as client oriented but also as companies that build positive and stimulating working environment, team work and utmost adherence to their core principles.

8. Research and development

EIG subsidiaries do not carry out research and development. The implementation of innovative solutions and new technologies is based on the cooperation with recognized and well known IT companies.

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. Accordingly those instruments are classified and measured as per the IFRS rules and their essential use.

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 2017 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 2017 of the members of Board of Directors and other Directors amounts to BGN 637 thousand, in 2016 the amounts was BGN 601 thousand.

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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 2017, Mr. Assen Hristov holds more than 25 per cent of the share capital of the following business companies:

- Starcom Holding AD;
- Alfa Euroaktiv EOOD;

As of 31 December 2017, 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;
- 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 S.A – 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 2017, Mr. Kiril Boshov holds more than 25 per cent of the capital of the following business companies:

- Starcom Holding AD.

As of 31 December 2017, Mr. Kiril Ivanov Boshov participates in the management of the following business companies:

- Auto Union AD – Deputy Chairman of the Board of Directors;
- Armada Capital AD – Member of the Board of Directors;
- Euroins Insurance Group AD – Executive Director and Member of the Board of Directors;
- Euroins Romania Insurance-Reinsurance S.A. – 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 – Deputy Chairman of the Board of Directors;
- Eurohold Bulgaria AD – Chairman of the Board of Directors and Executive member;
- Capital - 3000 AD – Chairman 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 2017, Mr. Dominique Bauduin holds more than 25 per cent of the capital of the following business companies:

- BDF OOD.

As of 31 December 2017, 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;
- BDF OOD – General Manager;
- CTR OOD – General Manager;
- SCI Solar Bulgaria OOD – General Manager.

In 2017 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.

26 March 2018,

Sofia

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Kiril Boshov
Executive Director
Euroins Insurance Group AD

EUROINS INSURANCE GROUP
Bulgaria

INDEPENDENT AUDITOR'S REPORT

To THE SHAREHOLDERS

OF EUROINS INSURANCE GROUP AD

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of EUROINS INSURANCE GROUP AD (the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, 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 Group as at 31 December 2017, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group 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.

Emphasis of matter

We draw attention to the disclosed information in note 24 that the share capital exceeds the equity of the Group with BGN 131,126 thousand. Management will take actions to restore the ratio between the equity and the share capital.

Our opinion is not modified in this respect.

Key audit matters

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

Key audit matter	How this key audit matter was addressed in our audit
Valuation of technical reserves Note 21 to the consolidated financial statements. The Group offers insurance products and has specific engagement to determine technical reserves which is inherent to insurance business. The amount of the insurance reserves inclusive unearned premium reserve, claims reserves, mathematical reserves and other technical reserves are material, the process of determination of the assumptions is connected to the calculation of neutral estimates of the most possible or expected outcome of the insurance events and is related to certain uncertainties, inclusive because of long time horizon. Because of this reason the estimate of the technical reserves and the disclosures made in the financial statements of the Group imply many estimates, assumptions and specific calculations, inclusive participation of experts. Because of this we have determined that this is a key audit matter.	With regard with this matter our audit procedures included: • Review of the rules and procedures of the separate companies with regard to formation of reserves in connection with the regulations and discussions made in detail with the management of the Group; • Assessment of the types of reserves, the completeness of the risks they cover, the base and the methods used for calculation of the reserves; • Review of the actuarial calculations and comparison with the rules of the Group using experts (actuaries); • Assessment of the adequacy of the reserves by means of actuarial calculations by an independent actuary; • A review has been performed for completeness of the disclosures in the financial statements of the Group.
Goodwill from business combinations Note 25 to the consolidated financial statements. Management performs test for recoverability of goodwill (i.e. impairment test) at least annually or when necessary in case of potential loss event occurrence. The book value of the goodwill disclosed in the consolidated financial statements amounts to BGN 164,478 thousand is reviewed at a separate entity level. The goodwill impairment test is complicated and is based on assumptions and estimates from the Group. Specifically, these assumptions and estimates include expected future cash flows of separate countries (considering the development of future premium, forecasted combined ratios and financial income) which are mostly based on historical data and as well as on management estimate for the expected market environment. Other factors are the expected long-term growth and the basic specific for the region capital costs and the capital rate of the countries where the Group operates.	With regard with this matter our audit procedures included: • Analysis and assessment of the relevance of the budgets and forecasts prepared by the Group; • Review of major assumptions and estimates, calculations and results from the impairment test of the management of the Group, prepared with the support of independent external valuator; • A review has been performed for completeness of the disclosures in the financial statements of the Group in respect of goodwill impairment test.

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

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report, including the corporate governance statement we have also performed the procedures added to those required under ISAs in accordance with "Guidelines on new and detailed audit reports and communication from the auditor" of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act 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 management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) The corporate governance statement referring to the financial year for which the financial statements have been prepared and presents the information required under Chapter Seven of the Accountancy Act.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is responsible for assessing the Group'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 Group 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 Group.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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, individually 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 Group'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 Group'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 Group 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 a statement to those charged with governance that we have fulfilled the applicable ethical requirements related to independence and that we will communicate with them all relationships and other matters that could be reasonably expected to affect our independence and, when it is applicable, the related with them safeguards.

Among the matters communicated with those charged with governance, we define those matters which were of most importance in the audit of the financial statements for the current period and which are therefore key audit matters. We describe those matters in the auditor's report except in case we are prohibited by law or regulation to do so or when, in extremely rare cases, we decide that a certain key audit matter should not be communicated in the auditor's report as it might be reasonably expected that unfavourable results from this action would exceed the benefits of this communication from the public interest perspective.

We are jointly responsible for the execution of our audit and for our audit report in accordance with IFAA applicable in Bulgaria. Upon acceptance and execution of the joint audit engagement on which we report, we have been governed by the Guidance for joint audit published on 13.06.2017 by the ICPA in Bulgaria and the Commission for public oversight of statutory auditors in Bulgaria.

Report in relation to other legal and regulatory requirements

Report in accordance with art. 10 from Regulation (EC) № 537/2014 in relation to requirements of art. 59 from Independent Financial Audit Act (IFAA).

In accordance with the requirements of IFAA in relation to art. 10 from Regulation (EC) № 537/2014, we report in addition the information listed below:

- BDO Bulgaria OOD and Zaharinova & Partners OOD are appointed for statutory auditors for the financial statements for the year ended 31 December 2017 of EUROINS INSURANCE GROUP AD by the General Shareholders' meeting from 30 June 2017 for a period of one year.
- The audit of the financial statement for the year ended 31 December 2017 of the Group represents a second complete continuous engagement for statutory audit of this company, performed by BDO Bulgaria OOD and first complete continuous engagement for statutory audit of this company, performed by Zaharinova & Partners OOD.
- We confirm that our audit opinion is in accordance with the supplementary report submitted to the Audit Committee of the Group in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- This to state we never rendered prohibited services as of art.64 of Independent Financial Audit Act.
- We confirm that when carrying out the audit we remained independent with reference to the Group.

Sofia, 2 April 2018

For BDO Bulgaria OOD

Nedyalko Apostolov

Manager

Stoyanka Apostolova

Registered auditor

Sofia

51B Bulgaria Blvd., floor 4

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Zaharinova & Partners OOD

Marina Krasteva

Manager

Dimitrina Zaharinova

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 138 ЗАХАРИНОВА И ПАРТНЬОРИ ООД