



**VIENNA INSURANCE GROUP**

**ANNUAL  
FINANACIAL STATEMENTS**

**BULSTRAD INSURANCE  
COMPANY**

**31 December 2008**

Sofia, 2009

## **Supervisory Board**

**Chairman**  
**Members**

Franz Fucks  
Martin Divish  
Todor Tabakov  
Karl Fink  
Nissim Zarfati

## **Management Board**

**Chairman**  
**Members**

Rumen Yanchev-Executive Director  
Klaus Muehleder - Executive Director  
Ivan Ivanov  
Rumiana Milanova  
Diana Evstatieva

## **Auditors**

“BDO Akero” OOD  
Boiko Marinov

## **Head office**

“Pozitano” Sqr № 5  
Sofia, Bulgaria

**BULSTRAD INSURANCE COMPANY AD**  
**BALANCE SHEET as of 31 December 2008**  
*(all amounts are in thousand of BGN unless otherwise is stated)*

	Note	31 December 2008	31 December 2007
<hr/>			
<b>ASSETS</b>			
<b>Intangible Assets</b>	3	726	643
<b>Investments in subsidiaries and affiliates</b>	4	9 161	9 749
<b>Investments in related companies</b>	5	24 583	10 246
<b>Investment properties, property, plant and equipment</b>		<b>33 638</b>	<b>29 143</b>
Investment properties	6	8 424	7 702
Property, plant and equipment	7	25 214	21 441
<b>Financial Assets</b>		<b>48 645</b>	<b>54 169</b>
Bank deposits with a remaining maturity more than 90 days	8	24 499	9 266
Financial assets at fair value through profit and loss	9	-	44 442
Available-for-sale financial assets	9	24 146	-
Loans granted	10	-	461
Reinsurance share:		<b>35 501</b>	<b>31 265</b>
- in unearned premium provision	17	14 346	13 788
- in outstanding claims provision	18	21 155	17 477
<b>Insurance and reinsurance receivables</b>		<b>55 182</b>	<b>35 561</b>
Insurance receivables	11	55 052	33 999
Reinsurance receivables	12	130	1 562
<b>Other receivables</b>	13	<b>15 786</b>	<b>15 149</b>
<b>Deferred acquisition costs</b>	14	<b>19 774</b>	<b>13 350</b>
<b>Cash and cash equivalents</b>	15	<b>17 817</b>	<b>15 735</b>
<b>TOTAL ASSETS</b>		<b>260 813</b>	<b>215 010</b>
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**BULSTRAD INSURANCE COMPANY AD**  
**BALANCE SHEET as of 31 December 2008**  
*(all amounts are in thousand of BGN unless otherwise is stated)*

*Continuation*

	<u>Note</u>	<u>31 December 2008</u>	<u>31 December 2007</u>
<b>LIABILITIES</b>			
<b>Equity</b>		<b>49 382</b>	<b>45 971</b>
Shareholders' equity	16	19 740	19 740
Capital reserves		28 940	24 370
Retained earnings		(1 373)	168
Profit /(loss)		2 075	1 693
<b>Gross insurance provisions</b>		<b>176 637</b>	<b>146 530</b>
Unearned premiums provision, incl.	17	87 704	68 363
- Unexpired risk provision	17	1 873	-
Outstanding claims provision	18	88 933	78 167
<b>Deferred tax liabilities</b>	19	<b>1 735</b>	<b>1 601</b>
<b>Deposits by reinsurers</b>		<b>194</b>	<b>-</b>
<b>Insurance and reinsurance payables</b>		<b>15 099</b>	<b>10 162</b>
Insurance payables	20	11 263	7 262
Reinsurance payables	21	3 836	2 900
<b>Other payables</b>	22	<b>3 526</b>	<b>4 211</b>
<b>Premiums received for future periods</b>	23	<b>14 240</b>	<b>6 535</b>
<b>TOTAL LIABILITES</b>		<b>260 813</b>	<b>215 010</b>

**These financial statements were approved for publishing on 26 February 2009.**

\_\_\_\_\_  
Rumen Yanchev  
Executive Director

\_\_\_\_\_  
Theodore Iliev  
Financial Officer

The accompanying notes from 1 to 41 are an integral part of the financial statements.

**BULSTRAD INSURANCE COMPANY AD**  
**INCOME STATEMENT as of 31 December 2008**

*(all amounts are in thousand of BGN unless otherwise is stated)*

	Note	2008	2007
Gross written premiums		221 938	177 576
Less reinsurance		(45 767)	(43 281)
<b>Net written premiums</b>	24	<b>176 171</b>	<b>134 295</b>
Change in unearned premiums provision, incl.		(19 341)	(15 510)
- Change in unexpired risk provision		(1 873)	-
Reinsurance share in change in unearned premiums provision		558	3 218
<b>Change in unearned premium provision, net</b>	24	<b>(18 783)</b>	<b>(12 292)</b>
<b>Net premiums earned</b>	24	<b>157 388</b>	<b>122 003</b>
Reinsurance commissions and profit participation	25	3 861	3 556
Net investment yield	26	6 918	6 341
Other technical income, net of reinsurance	27	619	281
Other income	28	586	2 064
<b>Total revenue for the period</b>		<b>169 372</b>	<b>134 245</b>
<b>Net claims paid</b>	29	<b>(99 816)</b>	<b>(72 359)</b>
Gross claims paid		(115 389)	(96 454)
Reinsurance share in claims paid		15 573	24 095
<b>Net change in outstanding claims provision</b>	29	<b>(7 088)</b>	<b>(7 158)</b>
Gross change in outstanding claims provision		(10 766)	(6 900)
Reinsurance share change in outstanding claims provision		3 678	(258)
<b>Claims incurred, net of reinsurance</b>	29	<b>(106 904)</b>	<b>(79 517)</b>
Acquisition costs	30	(40 827)	(32 018)
Change in deferred acquisition costs	14,31	6 424	3 089
Administrative expenses	32	(20 749)	(19 333)
Financial costs	33	(20)	(78)
Other technical expenses, net of reinsurance	34	(4 869)	(5 860)
<b>Total costs</b>		<b>(166 945)</b>	<b>(133 717)</b>
<b>Profit from operations</b>		<b>2 427</b>	<b>528</b>
Share in result of subsidiaries		-	1 470
<b>Profit before taxes</b>		<b>2 427</b>	<b>1 998</b>
Income taxes	35	(260)	(305)
Other taxes	35	(92)	-
<b>Profit for the period</b>		<b>2 075</b>	<b>1 693</b>

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Financial Officer

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**BULSTRAD INSURANCE COMPANY AD**  
**CASH FLOW STATEMENT as of 31 December 2008**  
*(all amounts are in thousand of BGN unless otherwise is stated)*

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS IN CURRENT ACTIVITIES</b>		
Net profit (loss) for the period	2 075	1 693
Impairment provision	1 159	1 370
Adjustments to reconcile net profit to net cash provided by operating activities (Schedule 1)	(259)	(3 327)
	<u>2 975</u>	<u>(264)</u>
<b>CASH FLOWS IN INVESTMENT ACTIVITIES</b>		
Investments in subsidiaries and affiliates	(1 187)	(432)
Acquisition of fixed assets	(1 843)	(523)
Dividends received	1 169	1 034
Proceeds from sale of fixed assets	507	88
Loans granted	461	(38)
	<u>(893)</u>	<u>129</u>
<b>Increase/ (decrease) in cash and cash equivalents</b>	<u>2 082</u>	<u>(135)</u>
Cash and cash equivalents at the beginning of the period	15 735	15 870
<b>Cash and cash equivalents at the end of the period</b>	17 817	15 735

**BULSTRAD INSURANCE COMPANY AD**  
**CASH FLOW STATEMENT as of 31 December 2008**  
*(all amounts are in thousand of BGN unless otherwise is stated)*

**Schedule 1 - Adjustments to reconcile net profit to net cash provided by operating activities**

Income and expenses not involving cash flows:

Depreciation	1 815	1 801
Fixed assets written off	143	55
Company's share in result of subsidiaries and affiliates	-	(1 470)
Revaluation of investments in other equity instruments	(14 337)	-
Revaluation of investment properties	(59)	(2 172)
Revaluation of available-for-sale financial assets	(1 713)	3
Other changes in assets at fair value	(1 541)	-
	<b>(15 692)</b>	<b>(1 783)</b>

**Changes in assets and liabilities**

Change in insurance provisions, net of reinsurance	18 783	12 292
Change in outstanding claims, net of reinsurance	7 088	7 158
Change in deferred acquisition costs	(6 424)	(3 089)
Insurance receivables	(22 157)	(4 479)
Reinsurance receivables	1 432	(4 593)
Other receivables	(637)	2 126
Insurance payables	4 001	(2 786)
Reinsurance payables	1 130	529
Other payables	(685)	272
Prepaid premiums, net	7 705	1 913
Change in deferred taxes	134	60
	<b>10 370</b>	<b>9 403</b>

**Changes in investments**

Financial assets at fair value through profit and loss	44 442	(12 906)
Available-for-sale financial assets	(24 146)	-
Bank deposits with a remaining maturity more than 90 days	(15 233)	1 959
	<b>5 063</b>	<b>(10 947)</b>
	<b>(259)</b>	<b>(3 327)</b>

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\_\_\_\_\_  
Rumen Yanchev  
Executive Director

\_\_\_\_\_  
Theodore Iliev  
Financial Officer

The accompanying notes from 1 to 41 are an integral part of the financial statement.

**BULSTRAD INSURANCE COMPANY AD**  
**STATEMENT OF CHANGES IN EQUITY as of 31 December 2008**  
*(all amounts are in thousand of BGN unless otherwise is stated)*

	Share Capital	Capital Reserves			Profit/ (Loss)		Total Equity
		General Reserves	Additional Reserves	Revaluation Reserves of Fixed Assets	Revaluation Reserves of Financial Assets	Profit	
<b>As of 31 December 2006</b>	<b>19 740</b>	<b>510</b>	<b>6 565</b>	<b>15 363</b>		<b>2 115</b>	<b>44 293</b>
Retained earnings' distribution	-	160	1 441	-	-	(1 601)	-
Other changes – previous years corrections	-	-	331	-	-	(346)	(15)
Profit for the year	-	-	-	-	-	1 693	1693
<b>As of 31 December 2007</b>	<b>19 740</b>	<b>670</b>	<b>8 337</b>	<b>15 363</b>	<b>-</b>	<b>1 861</b>	<b>45 971</b>
Reclassification effect in accordance with IAS 8	-	-	-	-	-	-	(1 541)
<b>As of 01 December 2008</b>	<b>19 740</b>	<b>670</b>	<b>8 337</b>	<b>15 363</b>		<b>1 861</b>	<b>(1 541)</b>
Revaluation of fixed assets	-	-	-	4 635	-	-	4 635
Deferred taxes effect	-	-	-	(42)	-	-	(42)
Revaluation of financial assets	-	-	-	-	(1 716)	-	(1 716)
Retained earnings' distribution	-	169	1 524	-	-	(1 693)	-
Profit for the year	-	-	-	-	-	2 075	2 075
<b>As of 31 December 2008</b>	<b>19 740</b>	<b>839</b>	<b>9 861</b>	<b>19 956</b>	<b>(1 716)</b>	<b>2 243</b>	<b>(1 541)</b>

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Rumen Yanchev  
Executive Director

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Theodore Iliev  
Financial Officer

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**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

(all amounts are in thousand of BGN unless otherwise is stated)

**1. GENERAL INFORMATION**

Bulstrad Insurance Company AD (the Company) is incorporated as a joint stock company in 1961. The registered office of the Company is Positano Square No. 5, Sofia, Bulgaria. Company's shares are publicly traded on the Sofia Stock Exchange.

As of 31 December 2008 the share capital is distributed among the shareholders as follows:

<b>Shareholder</b>	<b>Participation (%)</b>
BIP Group EAD	96.83%
Other	3.17%

The ultimate parent company is TBIH Financial Services Group, The Netherlands.

Subsequently to the acquisition of 60% of TBIH Wiener Stadtische (Vienna Insurance Group) acquired indirectly 58.09% in Bulstrad.

The Company is granted a license for insurance and reinsurance activities by the Bulgarian Financial Supervisory Commission. The major lines of business of Bulstrad Insurance AD are: motor business; cargo, aviation and marine; property; agriculture, etc.

The Company has a two tier system: Supervisory Board and Management Board. The Company is represented by two Chief Executive Directors, jointly and severally.

As of December 31 2008 the Company employs 507 employees (2007- 472 employees).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation of the financial statements**

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS), adopted by the European Union Commission. They comprise of International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and SIC – IFRIC interpretations. IFRS comprise also of the latest amendments of those standards and interpretations as well as forthcoming standards and interpretations approved by the International Accounting Standards Committee (IASC).

Bulstrad Insurance Company AD also prepares consolidated financial statement, comprising of financial statements of the Company and its subsidiaries. Consolidated financial statement is available for public use in the Company's office in Sofia. In order to obtain overall notion of financial position, operations' results and changes in financial state, users should read this individual financial statement along with consolidated financial statement of the Group.

The Company maintains its accounting records and registers in Bulgarian Lev (BGN). The data in the financial statements are presented in thousands of BGN.

**2.2. Reclassifications, accounting errors and changes in accounting policies**

On 13 October 2008, the International Accounting Standards Board (IASB) approved and published amendments to IAS 39 Financial Instruments: *Recognition and Measurements* and IFRS 7 *Financial instruments: Disclosure*. These amendments allow reclassifications out of held for trading category in rare circumstances. The present financial crisis is considered as such "rare circumstance".

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

The Company's management has reviewed its individual portfolio positions, classified as held for trading financial assets and has made decision for a reclassification on those financial assets, retrospectively from 01 June 2008. Any effects on the financial statements, originating out of this reclassification are shown below in these notes.

In 2008 change in accounting policy for measurement of subsidiaries was made. Equity method was replaced by cost method. For cost is assumed the subsidiaries' carrying amount as of 01 January 2005. Any effects on the financial statements, arising from this change are presented below in these notes.

In 2008 changes in disclosures and comparative information were made in accordance with disclosure policies of Parent company (TBIH Financial Services Group, The Netherlands).

**2.3. Functional and presentation currency. Foreign currency translations**

The financial statements are presented in Bulgarian leva (BGN), which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction, determined by Bulgarian National Bank (BNB). Monetary assets and liabilities in foreign currencies are retranslated at the functional currency rate of exchange on a monthly basis. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement.

Basic foreign exchange rates to the Bulgarian lev are as follows:

	<b><u>31 December 2008</u></b>		<b><u>31 December 2007</u></b>
1 Euro	1.95583	1 Euro	1.95583
1 US dollar	1.38731	1 US dollar	1.33122

**2.4. Use of estimates**

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results in the future may differ from such estimates. These estimates are reviewed on regular basis and if a change is revealed, it is accounted for in the period in which these change become known.

**2.5. Fair value of financial instruments**

Fair value is the amount at which a financial instrument may be exchanged or settled in an arm's length transaction as its best proof it is a market value at an active market.

The estimated fair value of the financial instruments is determined by the Company on the basis of available market information, if any, or proper valuation models. When the Management uses available market information to determine the financial instruments' fair value, the market information might not completely reflect the value at which these instruments may be actually realised.

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

The Management has judged that the fair value of some of the balance sheet items does not differ significantly from their current carrying amounts. This is valid for cash items, deposits placed within banks, customers' loans and other negotiated receivables and liabilities. The Management believes that the current carrying amount of these assets and liabilities approaches their fair value, especially when they are short-term or their interest rates are changing together with the change in the current market conditions.

**2.6. Cash and cash equivalents**

For the purpose of the cash flows statement and balance sheet cash and cash equivalents are highly liquid financial assets such as cash on hand, cash at current accounts within banks, bank deposits – on demand and/or with a remaining maturity of three months or less, along with the accrued interest.

**2.7. Bank deposits**

Bank deposits are cash placed in banks with a remaining maturity more than three months. Bank deposits are stated in the balance sheet at their cost, including the accrued interest.

**2.8. Financial assets**

The Company classifies its investments into available-for-sale financial assets; other investments in equity instruments and loans and other receivables.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified as loans and receivables; held to maturity assets or financial assets at fair value through profit and loss. They include treasury and corporate debt securities as well as investments in capital instruments of companies that are not controlled by the Company. The Management's intention is to hold these assets for indefinite period of time and sell them whenever liquid funds are needed or in response to changes in interest rates and market prices.

These investments are initially recorded at fair value, plus transactions costs that are directly attributable to the acquisition. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity, except for impairment losses and foreign exchange gains or losses, until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

Interests and dividends received at the time of owning the available-for-sale financial assets are reported as financial income.

All purchases and sales of financial assets are recognised at the date of trading, i.e. the date at which the Company has engaged itself to purchase or sell the asset.

The Company assesses at each balance sheet date whether objective evidences exist that available-for-sale financial asset or group of financial assets is impaired. Company assumes that available-for-sale financial assets is impaired if the slump of its fair value within last six months is more than 50%. When a decline in the fair value of an available-for-sale financial asset has been recorded in equity and there are objective evidences that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit and loss. The amount of cumulative loss that is removed from equity and recognised in profit and loss is the difference between the acquisition cost (net of any principal payments and amortisation) and current fair value, less any impairment previously recognised in profit and loss.

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

***Other investments in equity instruments***

As other investments in equity instruments the Company classifies investments in capital instruments that do not have a quoted market price in an active market.

Investments in such financial instruments whose fair value cannot be reliably measured are stated in the balance sheet at cost.

Investments whose fair value can be reliably measured using proper valuation techniques are stated in the balance sheet at fair value. Any profit or loss arising from change in fair value is recorded in the income statement. The Company considers that a fair value of investment in equity instrument can be reliably measured if the variability in the range of reasonable fair value estimates is not significant for that instrument or the probabilities of the various estimates within the range can be reasonably assessed and used in estimating the fair value.

***Loans and other receivables***

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and receivables are recognised upon the actual granting of the funds to the borrowers. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there are objective evidences that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

A financial asset is derecognised when the Company loses control on the contractual rights. Any profits and losses arising from such derecognition are recognised in the income statement. When available-for sale financial asset is derecognised its accumulated revaluation reserve is removed from equity and recognised in profit and loss.

**2.9. Investment properties**

The Company classifies certain property as investment property when it is held to earn rentals, rather than for administrative purposes or sale in the ordinary course of business. Investment properties are measured initially at cost, which comprises their purchase cost and any directly attributable expenditure, such as property transfer taxes, professional fees for legal services and other transactions costs.

After initial recognition the investment properties are measured at fair value, reflecting market conditions at the balance sheet date. Any gains and loss arising from a change in the fair value are recognised in profit and loss for the period in which they arise.

Investment property is derecognised on disposal (by sell or by entering into financial lease) or when it is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gains or losses on the retirement or disposal of an investment property (determined as difference

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

between the net disposal proceeds and the carrying amount of the investment property) are recognised in the income statement in the year of retirement or disposal.

**2.10. Investments in subsidiaries**

Subsidiary is an entity that is controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are accounted for at cost. The Company recognises income from the investment only to the extent that it receives distributions from accumulated profits of the subsidiary. Distributions received in excess of such profits are recorded as a recovery of investment and are recognised as a reduction of the cost of investment.

**2.11. Property, plant and equipment**

Property, plant and equipment is initially recognised at cost. Costs comprise purchase price, import duties and other costs, directly attributable to bringing the asset to the condition necessary for it to be capable of operating. Attributable costs are mainly: costs of initial delivery and handling cost; costs arising from the construction of the asset; professional fees etc.

Land and buildings are stated at revalued amount, which is their fair value at the date of the revaluation less the accumulated depreciation and any possible impairment losses. The fair value is estimated on the basis of professionally qualified valuers' appraisal. If an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity under the heading of revaluation surplus. However, the increase is recognised in profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit and loss. However, the decrease is debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Other fixed assets are stated at acquisition cost less the accumulated depreciation and any possible impairment losses.

Subsequent costs are capitalised in asset's carrying amount when incurred if it is probable that future economic benefits associated with the item will flow to the entity or useful life of the asset will rise. Any other day-to-day servicing costs are accounted for as expenses for the period.

The fixed assets are depreciated under the straight-line depreciation method for the expected useful life of the respective assets by applying the following annual depreciation rates:

<b>Fixed asset</b>	<b>Useful life (years)</b>	<b>%</b>
Buildings	33.0	3.3%
Computers	5.0	20%
Vehicles	6.6	15%
Furniture and equipment	6.8	15%

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

Land is not depreciated.

The assets' residual values, useful lives and method of depreciation are reviewed and, if necessary adjusted at each financial year end.

The carrying amounts of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Other fixed assets' impairment losses are recognised in the income statement. Lands and buildings' impairment losses are debited in their revaluation reserve.

An item of property, plant equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised. If revaluated asset is derecognised its accumulated revaluation reserve is recognised in retained earnings.

**2.12. Intangible assets**

Externally acquired intangible assets are initially recognised at cost, which comprises their purchase cost and any directly attributable expenditure.

Internally generated intangible assets are recognised if the Company can identify whether and when there is an identifiable asset that will generate expected future economic benefits and the cost of the asset can be measured reliably.

After initial recognition intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent costs are capitalised in asset's carrying amount if they raise its economic value. Any other day-to-day servicing costs are accounted for as expenses for the period.

Intangible assets are depreciated under the straight-line depreciation method for the expected useful life of the respective assets by applying the following annual depreciation rates:

<b>Intangible asset</b>	<b>Useful life (years)</b>	<b>%</b>
Software	5	20%
Licenses	5	20%

**2.13. Borrowings**

Borrowings and other payables are initially recognised at fair value. Subsequently they are presented at amortised cost using the effective interest method. Costs are recognised in the income statement for the period they incur.

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**2.14. Lease liabilities**

A lease contract that transfers substantially all the risks and rewards incidental to ownership of an assets is classified as financial lease. Initially financial leases are recognised at amount equal to the fair value of leased asset or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. Any initial direct costs are added to the amount recognised as an asset. The finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability. Finance charges are accounted for in profit and loss in the period in which they are incurred.

The depreciation policy for depreciable leased assets is consistent with that for depreciable owned assets. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated for a period, equal to its useful life. Otherwise the asset is depreciated over the shorter of the lease term and its useful life.

A lease contract that does not transfer substantially all the risks and rewards incidental to ownership is classified as operating lease. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term.

**2.15. Investment income**

The Company presents as investment income gains/ (loss) achieved by managing of its financial assets. Investment income consists of net interest income from bank deposits and assets available-for-sale, net gains/ (losses) from revaluation, foreign currency revaluation, net of asset management fees.

**2.16. Insurance transactions**

Insurance contracts

Insurance contracts are those that transfer significant insurance risk over the Company. The Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event are at least 10% more than the benefits payable if the insured event did not occurred.

Once classified as insurance contracts at the date of the inception, the Company continues to present them as insurance contracts over the period of their lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations, arising from the insurance contract are expired or abrogated.

Unearned premium reserve (UPR)

UPR is set aside to cover claims and insurance expenses that are expected to arise after the end of the reporting period. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognised over the period of risk. Unearned premium reserve (UPR) is calculated on the basis of "exact date" method.

Unexpired risk reserve

Unexpired risk reserve is set to cover risks for the period between the end of reporting period and the date on which the insurance contract is expired in order to payments and expenses related to these risks which are expected to exceed the formed UPR to be covered. The Company forms unexpected risk reserve when during last three years, including current reporting period, the gross technical result of certain line of business is a negative value.

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*(all amounts are in thousand of BGN unless otherwise is stated)*

Outstanding claims reserve

Outstanding claims reserve (O/S reserve) is set to cover losses on claims for which insurance events have occurred before the reporting period, whether reported or not, and have not been paid as of the period end. O/S reserve comprise of: reported but not paid claims and incurred but not reported (IBNR) reserve, along with claims handling expenses.

The amount O/S reserve on reported but not paid claims is calculated on “claim by claim” method, which is determined individually for each insured event.

The IBNR reserve is calculated applying the “chain ladder” method. The estimation of this reserve the Management considers the experience for the current period and the past four years. The Company reviews the claims’ development process, the period of occurrence and reporting of insurance events. It assumed that there is no change in the duration of claims reporting, and correlation between loss development periods exist.

Deferred acquisition costs

Expenses directly or indirectly attributable to the renewal and securing of insurance contracts are deferred for the lifetime of these contracts. These expenses mainly comprise of commission expenses and advertisements.

**2.17. Reinsurance contracts**

The Company assumes and cedes to reinsurers risk in the normal course of business. The anticipated benefits arising from reinsurance contracts are recognised as assets in the balance sheet. Premiums ceded and claims reimbursed are presented on a gross basis.

The Company performs an impairment review on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably. The difference between the book value and the expected recoverable amount of the reinsurance assets is taken to the business statements as expense – change in the reinsurer’s share in O/C reserve.

**2.18. Income taxes**

Current taxes

Current corporate income taxes are determined in accordance with the requirements of the effective Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate for the year 2008 is 10% (2007 - 10%).

Deferred corporate income tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences and for the unutilized tax losses to the extent that it is probable that they will reverse and a sufficient taxable profit will be available, or taxable temporary differences will occur, against which these deductible differences may be recovered, with the exception of differences originating out of the initial recognition of an asset or a liability, which does not impacted the accounting or tax profit (loss) at the date of transaction.

At each date of the financial statements the carrying amount of all deferred tax assets is reviewed and reduced to the extend that it is probable that they will reverse and a sufficient taxable profit will be

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available, or taxable temporary differences will occur in the same period, against which they may be recovered.

Deferred taxes related to items directly reported in equity are reported directly to the respective equity component as well.

Deferred tax assets and liabilities are valued on the basis of the tax rates, which are expected to apply for the period in which it is expected that the assets will be realised and the liabilities will be settled (repaid), on the grounds of the tax laws that are in force or with a high degree of certainty it is expected to be in force. As at 31 December 2008 the nominal rate of 10 % is applied as effective (31 December 2007 - 10%).

**2.19. Revenue recognition**

The revenue from insurance contracts is recognised at the date of the inception of the insurance cover, i.e. the Company is exposed to insurance risk (underwriting year). The revenue on long-term insurance contracts is accrued on annual basis, regardless the instalment periods. The amounts of the instalments due are recorded as insurance receivables.

**2.20. Paid claims**

The expenses for paid claims are recognised when occur (accident year). They include claims paid and claims handling expenses that are directly related to the processing and settlement of claims.

**2.21. Commission expenses**

Commission expenses are accounted for on the accrual basis.

**2.22. Adequacy test**

At each balance sheet date, an adequacy test is performed by the actuaries, to ensure that the reserves are sufficient to meet potential future claims payments. In alignment with the regulatory framework the Company has placed funds in highly liquid financial assets (cash and cash equivalents, deposits, securities) as a backing of the insurance reserves.

In the assessment of the adequacy of the insurance reserves, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such reserves, are used.

**2.23. Employee Benefits**

Employee benefits are all forms of considerations given by the Company in exchange for service rendered by employees.

Employee benefits include wages, salaries and social security contributions, paid annual leaves and paid sick leaves, bonuses, non-monetary benefits and other employee benefits.

Accumulating compensated absences are those that are carried forward and can be used in future if the current period's entitlement is not used in full.

The Company also accrues provisions for pensions which are related to legal obligations by normative established post-employment benefits plans. For determination of provisions for pensions the Company uses an externally actuary.

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**2.24. Applicable accounting standards**

The following standards and interpretations are relevant to the Company's operations and are applied in financial statements' preparation:

IFRS 4	<i>Insurance Contracts</i>
IFRS 7	<i>Financial Instruments: Disclosures</i>
IAS 1	<i>Presentation of Financial Statements</i>
IAS 7	<i>Cash Flow Statements</i>
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10	<i>Events after the Balance Sheet Date</i>
IAS 12	<i>Income Taxes</i>
IAS 16	<i>Property, Plant and Equipment</i>
IAS 17	<i>Leases</i>
IAS 18	<i>Revenue</i>
IAS 19	<i>Employee Benefits</i>
IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 24	<i>Related Party Disclosures</i>
IAS 27	<i>Consolidated and Separate Financial Statements</i>
IAS 28	<i>Investments in Associates</i>
IAS 32	<i>Financial Instruments: Presentation</i>
IAS 33	<i>Earnings per Share</i>
IAS 36	<i>Impairment of Assets</i>
IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 38	<i>Intangible Assets</i>
IAS 39	<i>Financial Instruments: Recognition and Measurement</i>
IAS 40	<i>Investment Property</i>
SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>

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The following standards and interpretations are not relevant to the Company's operations and are not applied in financial statements' preparation:

IFRS 1	<i>First-time Adopting of international Financial Reporting Standards</i>
IFRS 2	<i>Share-based Payment</i>
IFRS 3	<i>Business Combinations</i>
IFRS 5	<i>Non-current Assets Held for Sale and Discounted Operations</i>
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
IFRS 8	<i>Operating Segments</i>
IAS 2	<i>Inventories</i>
IAS 11	<i>Construction Contracts</i>
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 23	<i>Borrowings Costs</i>
IAS 26	<i>Accounting and Reporting by retirement Benefit Plans</i>
IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 34	<i>Interim Financial Reporting</i>
IAS 41	<i>Agriculture</i>
IFRIC 1	<i>Changes in existing Decommissioning, Restoration and Similar Liabilities</i>
IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
IFRIC 6	<i>Liabilities arising from participating in a Specific Market – Waste Electrical and Electronic Equipment</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
IFRIC 11	<i>IFRS 2 – Group and Treasury Share Transactions</i>

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IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 13	<i>Customer Loyalty Programs</i>
IFRIC 14	<i>IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction</i>
SIC-7	<i>Introduction of the Euro</i>
SIC-10	<i>Government Assistance – No specific Relation to Operating Activities</i>
SIC-12	<i>Consolidation – Special Purpose Entities</i>
SIC-13	<i>Jointly Controlled Entities – Non Monetary Contributions by Ventures</i>
SIC-15	<i>Operating Leases _incentives</i>
SIC-21	<i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>
SIC-25	<i>Income Taxes – Change in the Tax Status of an Entity or its Shareholders</i>
SIC-29	<i>Service Concession Arrangements: Disclosures</i>
SIC-31	<i>Revenue – Barter Transactions Involving Advertising Services</i>
SIC-32	<i>Intangible Assets – Web Site Costs</i>

The following amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 01 January 2008 or later periods:

- Amendments in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, published in October 2008. By reason of exceptional turmoil on financial markets IASB has permitted reclassification of financial assets retrospectively from 01 June 2008. The Company's Management has reviewed the accounting policy for financial instruments and has made decision to reclassify the financial asset portfolio in accordance with the amendments in IAS 39.
- Amendments in IFRIC 11, "*IFRS 2 – Group and treasury share transactions*". This interpretation does not have an impact on the Company's financial statements.
- Amendments in IFRIC 12 "*Service Concession Arrangements*". This interpretation does not have an impact on the Company's financial statements.
- Amendments in IFRIC 14, "*IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*". This interpretation does not have impact on the Company's financial statements.

The following new standards, amendments to existing standards and interpretations have been published but are not mandatory for accounting periods beginning on or after 1 January 2008 and are not earlier adopted by the Company:

- IFRS 8 "*Operating segments*", effective from 1 January 2009. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

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- IFRS 2 (Amendment) “*Share-based payment*”, effective from 1 January 2009. The Company does not have share-based transactions.
- IFRS 3 (Amendment) “*Business combinations*” and consequential amendments to IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*”, effective from 1 July 2009
- IAS 1 (Amendment) “*Presentation of financial statements*” effective from 1 January 2009. The Company’s Management is developing new financial statements’ forms in accordance with the amended requirements in this standard.
- IAS 23 (Amendment) “*Borrowing costs*”, effective from 1 January 2009. The amended standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.
- IAS 27 (Amendment) “*Consolidated and separate financial statements*” (effective from 1 July 2009). The amended standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.
- IAS 32 (Amendment) “*Financial instruments: Presentation*” and consequential amendments to IAS1 “*Presentation of financial statements*”, effective from 1 January 2009.
- IAS 36 (Amendment) “*Impairment of assets*”, effective from 1 January 2009. This amendment requires where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation to be made.
- IAS 38 (Amendment) “*Intangible assets*”, effective from 1 January 2009.
- IFRS 1 (Amendment) “*First-time adoption of IFRS*” effective from 1 January 2009.
- IFRS 5 (Amendment) “*Non-current assets held for sale and discontinued operations*”, effective from 1 July 2009.
- IFRIC 13 “*Customer loyalty programmes*”, effective from 1 July 2008.
- IFRIC 15 “*Agreements for construction of real estates*”, effective from 1 January 2009.
- IFRIC 16 “*Hedges of a net investment in a foreign operation*”, effective from 1 October 2008. The Company does not apply hedge of investment in a foreign operation.

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**3. INTANGIBLE ASSETS**

	<u>Software</u>	<u>Licenses</u>	<u>Total</u>
<b>Cost</b>			
Balance as at 31 December 2007	1 351	133	1 484
Additions	61	301	362
Disposals	-	-	-
<b>Balance as at 31 December 2008</b>	<b>1 412</b>	<b>434</b>	<b>1 846</b>
<b>Accumulated depreciation</b>			
Balance as at 31 December 2007	806	35	841
Additions	225	54	279
Disposals	-	-	-
<b>Balance as at 31 December 2008</b>	<b>1 031</b>	<b>89</b>	<b>1 120</b>
<b>Net book value as at:</b>			
<b>31 December 2008</b>	<b>381</b>	<b>345</b>	<b>726</b>
<b>31 December 2007</b>	<b>545</b>	<b>98</b>	<b>643</b>

**4. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES**

	<u>EIRB, London</u>	<u>Bulstrad Service &amp; Consulting</u>	<u>Bulstrad Life</u>	<u>Bulstrad Health</u>	<u>Total</u>
<b>31 December 2006</b>	<b>232</b>	<b>185</b>	<b>8 288</b>	<b>139</b>	<b>8 844</b>
Changes during the year	-	8		-	8
Investments in shares	-	-	400	32	432
Profit/ (loss)	34	(19)	1416	3	1434
Dividends received	-	-	(1 034)	-	(1 034)
Other	42	(11)	34	-	65
<b>31 December 2007</b>	<b>308</b>	<b>163</b>	<b>9 104</b>	<b>174</b>	<b>9 749</b>
Reclassifications in accordance with IAS 8 – note 39	(161)	11	(1 637)	49	(1 738)
<b>01 January 2008</b>	<b>147</b>	<b>174</b>	<b>7 467</b>	<b>223</b>	<b>8 011</b>
Investments in shares	-	59	1 100	27	1 186
Foreign exchange revaluations	(36)	-	-	-	(36)
<b>31 December 2008</b>	<b>111</b>	<b>233</b>	<b>8 567</b>	<b>250</b>	<b>9 161</b>
<b>Cost</b>	<b>68</b>	<b>209</b>	<b>7 514</b>	<b>200</b>	

As of 31 December 2008 the capital increase of Bulstrad Life Insurance AD, amounting at BGN 1,1000 thousand is not registered in the Trade register.

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**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

**5. INVESTMENTS IN RELATED COMPANIES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
PAC Doverie	24 490	10 153
Other investments	93	93
	<b>24 583</b>	<b>10 246</b>

The investment in PAC Doverie (related party) represents equity instrument measured at fair value. IAS 39 requires if a reliable measure becomes available for a financial asset for which such a measure was previously not available, and the asset is required to be measured at fair value, the asset to be remeasured at fair value. In 2008 an appraisal of the fair value of the investment in PAC Doverie by professionally qualified valuer was made. The Company's management believes that this appraisal is reliable base for determining the fair value of that investment and the recognition at fair value gives faithful and prudence information about the financial state of the Company. On this base revaluation of the investment in PAC Doverie amounting at BGN 14,337 thousand was made – note 26.

In the position Other investments are presented investments in capital instruments that do not have a quoted market price in an active market.

**6. INVESTMENT PROPERTIES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
<b>As at 01 January</b>	<b>7 702</b>	<b>4 372</b>
Revaluation	59	2 182
Other changes	663	1 148
<b>As at 31 December</b>	<b>8 424</b>	<b>7 702</b>

In 2008 an appraisal of the fair value of the investment properties by professionally qualified valuer was made. On this base the investment properties were revalued by BGN 59 thousand (2007 – BGN 2,182 thousand).

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**NOTES TO THE FINANCIAL STATEMENTS**

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**7. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and Buildings</b>	<b>Vehicles</b>	<b>Computers</b>	<b>Furniture and equipment</b>	<b>Total</b>
<b>Cost</b>					
Balance as at 31 December 2007	4 756	1 448	1 169	3 990	11 363
Additions	-	253	332	233	818
Disposals	-	(243)	(532)	(1 064)	(1 839)
<b>Balance as at 31 December 2008</b>	<b>4 756</b>	<b>1 458</b>	<b>969</b>	<b>3 159</b>	<b>10 342</b>
<b>Accumulated depreciation</b>					
Balance as at 31 December 2007	724	1 032	838	2 691	5 285
Additions	725	158	216	438	1 537
Disposals	(1 449)	(173)	(481)	(1 042)	(3 145)
<b>Balance as at 31 December 2008</b>	<b>-</b>	<b>1 017</b>	<b>573</b>	<b>2 087</b>	<b>3 677</b>
<b>Revaluation reserve</b>					
Balance as at 31 December 2007	15 363	-	-	-	15 363
Accrued	4 635	-	-	-	4 635
Written off	-	-	-	-	-
<b>Balance as at 31 December 2008</b>	<b>19 998</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19 998</b>
<b>Net book value as at:</b>					
<b>31 December 2008</b>	<b>23 305</b>	<b>441</b>	<b>396</b>	<b>1 072</b>	<b>25 214</b>
<b>31 December 2007</b>	<b>19 395</b>	<b>416</b>	<b>331</b>	<b>1 299</b>	<b>21 441</b>

In 2008 an appraisal of the fair value of the land and buildings by professionally qualified valuer was made. On this they were revalued by BGN 4,635 thousand.

During the reporting period the Company has used amortized in full fixed assets which carrying amount and accumulated depreciation is BGN 1,854 thousand.

There are not any burdens over the Company's assets.

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**NOTES TO THE FINANCIAL STATEMENTS**

(all amounts are in thousand of BGN unless otherwise is stated)

**8. BANK DEPOSITS**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
In BGN	2 587	2 902
In foreign currency	21 912	6 364
	<b>24 499</b>	<b>9 266</b>

The deposits' amount includes BGN 405 thousand accrued interests.

**9. FINANCIAL INSTRUMENTS\***

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Treasury bonds	3 070	5 316
Foreign treasury bonds	3 093	-
Municipal bonds	892	-
Corporate bonds	12 227	16 109
Shares	4 864	23 017
	<b>24 146</b>	<b>44 442</b>

\*In 2008 the financial instruments are reclassified out of held for trading category to available-for-sale category in compliance with the amendments in IAS 39 from 15 October 2008.

The change in the fair value of available-for-sale financial assets is as follows:

**Available-for-sale financial assets:**

<b>As at 01 June 2008</b>	<b>29 536</b>
<b>Change in fair value during the period</b>	<b>(4 545)</b>
Incl:	
- Impairment of AFS recognised in the income statement	(2 829)
- Change in the fair value recognised in the statement of changes in equity	(1 716)
<b>Written off AFS during the period</b>	<b>(845)</b>
<b>As at 31 December 2008</b>	<b>24 146</b>

**10. LOANS GRANTED**

As of 31 December 2007 the Company had loan granted receivables from TBI Bulgaria AD (related party), amounting at BGN 461 thousand (BGN 400 thousand principal and BGN 61 thousand interest). The contractual interest rate is 8%. As of 13 December 2008 the loan is paid off in full.

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**11. INSURANCE RECEIVABLES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Insurance receivables	71 636	50 543
Impairment	(16 584)	(16 544)
	<b>55 052</b>	<b>33 999</b>

The Company does not have receivables which are pledged in favour of other creditors.

Balkan Airlines (in bankruptcy) receivable is fully impaired as of 31 December 2007.

The change in accrued impairment of Balkan Airlines (in bankruptcy) receivable is as follows:

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
<b>As of 01 January</b>	<b>14 344</b>	<b>12 974</b>
Accrued during the year	-	1 370
Released during the year	-	-
<b>As of 31 December</b>	<b>14 344</b>	<b>14 344</b>

**12. REINSURANCE RECEIVABLES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Reinsurance receivables	130	1 562
	<b>130</b>	<b>1 562</b>

**13. OTHER RECEIVABLES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Subrogations receivables	10 619	9 650
Deposits receivables*	1 384	1 272
Prepaid expenses	994	328
Guarantees	838	623
Receivables from Bulgarian government	526	960
Related parties receivables	487	50
Receivables from overseas insurance companies	456	288
Receivables from law sentences	25	25
Suppliers by advances	5	30
Clients receivables	-	1 173
Others	643	941
Provisions for uncollectable receivables	(191)	(191)
	<b>15 786</b>	<b>15 149</b>

\* In the amount of deposits' receivables a guarantee in favour of National Bureau of Bulgarian Motor Insurers is included.

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**14. DEFERRED ACQUISITION COSTS**

*A) Outstanding balance of deferred acquisition costs*

	31 December 2008			31 December 2007		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Motor insurance	16 788	20	16 768	13 100	1 832	11 268
Cargo, aviation, marine insurance	130	13	117	183	89	94
Property insurance	2 952	844	2 108	2 467	1 159	1 308
Other	964	183	781	773	93	680
	<b>20 834</b>	<b>1 060</b>	<b>19 774</b>	<b>16 523</b>	<b>3 173</b>	<b>13 350</b>

*B) Change in deferred acquisition costs*

	2008			2007		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
<b>Balance as at 01 January</b>	<b>16 523</b>	<b>3 173</b>	<b>13 350</b>	<b>12 011</b>	<b>1 750</b>	<b>10 261</b>
Accrued during the period	20 834	1 060	19 774	16 523	3 173	13 350
Released during the period	(16 523)	(3 173)	(13 350)	(12 011)	(1 750)	(10 261)
Change, net	4 311	(2 113)	6 424	4 512	1 423	3 089
<b>Balance as at 31 December</b>	<b>20 834</b>	<b>1 060</b>	<b>19 774</b>	<b>16 523</b>	<b>3 173</b>	<b>13 350</b>

**15. CASH AND CASH EQUIVALENTS**

	31 December	
	2008	2007
Cash and cash equivalents	2 392	3 548
Bank deposits less than 90 days	15 425	12 187
	<b>17 817</b>	<b>15 735</b>
In foreign currency	5 840	3 484
In BGN	11 977	12 251
	<b>17 817</b>	<b>15 735</b>

The amount of deposits contains BGN 344 thousand accrued interest.

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**16. SHARE CAPITAL**

As at 31 December 2008 the registered share capital is paid in fully and it is distributed in 1,974,000 personalized shares with face value BGN 10 each. The table below shows the structure of share capital:

Shareholder	Shares		%
	Number	BGN	
BIP Group EAD	1 911 386	19 113 860	96.83%
Union of Bulgarian Automobilists	7 000	70 000	0.35%
SOMAT	5 276	52 760	0.27%
Other legal entities	10 744	107 440	1.86%
Physical persons	13 607	136 070	0.69%
<b>Total share capital:</b>	<b>1 974 000</b>	<b>19 740 000</b>	

**17. UNEARNED PREMIUM PROVISION**

*A) Outstanding balance as of 31 December*

	31 December 2008			31 December 2007		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Motor insurance *	69 124	3 933	65 191	52 345	7 217	45 128
Cargo, aviation, marine insurance	1 845	1 345	500	2 231	1 457	774
Property insurance	12 121	7 938	4 183	10 047	4 637	5 410
Other	4 614	1 130	3 484	3 740	477	3 263
<b>Total:</b>	<b>87 704</b>	<b>14 346</b>	<b>73 358</b>	<b>68 363</b>	<b>13 788</b>	<b>54 575</b>

\*Including BGN 1,873 thousand Unexpired risk reserve.

*B) Change in Unearned premium provision*

	2008			2007		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
<b>As at 01 January</b>	<b>68 363</b>	<b>13 788</b>	<b>54 575</b>	<b>52 853</b>	<b>10 570</b>	<b>42 283</b>
Accrued during the year	87 704	14 346	73 358	68 363	13 788	54 575
Released during the year	(68 363)	(13 788)	(54 575)	(52 853)	(10 570)	(42 283)
Change, net	19 341	558	18 783	15 510	3 218	12 292
<b>As at 31 December</b>	<b>87 704</b>	<b>14 346</b>	<b>73 358</b>	<b>68 363</b>	<b>13 788</b>	<b>54 575</b>

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**18. OUTSTANDING CLAIMS PROVISION**

	31 December 2008			31 December 2007		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Report per claim reserve Incurred But Not Reported Reserve	24 964	6 705	18 259	57 088	13 733	43 355
<b>Total:</b>	<b>88 933</b>	<b>21 155</b>	<b>67 778</b>	<b>78 167</b>	<b>17 477</b>	<b>60 690</b>
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>As at the end of the year</b>	<b>88 933</b>	<b>78 167</b>	<b>71 267</b>	<b>70 078</b>	<b>68 748</b>	<b>66 434</b>
after one year		47 257	44 547	45 577	43 254	44 353
after two years			32 969	30 318	30 587	32 651
after three years				23 111	22 236	23 515
after four years					17 311	15 841
after five years						13 915

**19. INCOME TAXES**

	Note	31 December	
		2008	2007
Deferred tax assets	19.1	309	204
Deferred tax liabilities	19.2	(2 044)	(1 805)
		<b>(1 735)</b>	<b>(1 601)</b>

**19.1. DEFERRED TAX ASSETS**

	31 December	
	2008	2007
Provisions for annual leave and social security contributions	1	1
Provisions for pensions	26	24
Provisions for fixed assets impairment	49	49
Fixed assets depreciation	15	-
Provisions for freelance contracts payables	218	130
	<b>309</b>	<b>204</b>

**19.2. DEFERRED TAX LIABILITES**

	31 December	
	2008	2007
Land and buildings revaluation reserve	1 305	1 243
Investment properties revaluation	568	562
Financial assets revaluation	171	-
	<b>2 044</b>	<b>1 805</b>

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**20. INSURANCE PAYABLES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Insurance payables	330	800
Agents and brokers payables	10 933	6 462
	<b>11 263</b>	<b>7 262</b>

**21. REINSURANCE PAYABLES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Brokers payables	3205	2 311
Cedants payables	631	589
	<b>3 836</b>	<b>2 900</b>

**22. OTHER PAYABLES**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Guarantee fund payables	1 093	355
Related party payables*	473	64
Salaries and related payables	576	445
Provisions for pensions	258	239
Suppliers payables	283	1 472
Tax payables	83	585
Financial lease payables	26	35
Other payables	734	1 016
	<b>3 526</b>	<b>4 211</b>

\*The amount of related party payables contains BGN 313 thousand financial lease payments.

As of 31 December 2008 the Company is entered in four financial lease contracts. The main characteristics of the contracts are as follows:

<b>Lessor</b>	<b>Maturity</b>	<b>Effective interest rate</b>	<b>Present value of lease payments</b>	<b>Minimum lease payments</b>	<b>Leased Asset</b>
“TBI Leasing”	20.04.2011	8%	258	284	Computers
“TBI Leasing”	20.08.2011	8%	56	63	Computers
“Interlease”	05.03.2012	6.7%	20	22	Telephone system
“Raiffeisen Leasing Bulgaria ”	10.02.2010	6.5%	5.7	6.1	Vehicle

**BULSTRAD INSURANCE COMPANY AD**  
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The Management believes that there is reasonable certainty that the Company will obtain ownership of the leased assets by the end of the lease terms therefore the leased assets are amortized over their useful life

The depreciation policy for depreciable leased assets is consistent with that for own depreciable assets.

The future minimum lease payments and present value of minimum lease payments are as follows:

	<b>31 December 2008 r.</b>	
	<b>Present value of payments</b>	<b>Minimum lease payments</b>
Within one year	133	156
Between one and five years	207	220
Total minimum lease payments	340	376
Less financial costs	-	(36)
Present value of minimum lease payments	340	340

In the present value of minimum lease payments are included BGN 313 thousand payments to TBI Leasing (related party) -note 38.

**23. PREMIUMS RECEIVED FOR FUTURE PERIODS**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Prepaid premiums	14 240	7 308
Agents and brokers commissions	-	(773)
	<b>14 240</b>	<b>6 535</b>

**24. NET PREMIUM EARNED**

	<b>2008</b>			<b>2007</b>		
	<b>Net written premium</b>	<b>Net change in UPR</b>	<b>Net premium earned</b>	<b>Net written premium</b>	<b>Net change in UPR</b>	<b>Net premium earned</b>
Motor insurance	140 071	(20 065)	120 006	98 669	(9 023)	89 646
Cargo, aviation, marine insurance	8 714	276	8 990	7 759	(93)	7 666
Property insurance	16 594	1 228	17 822	14 491	(1 933)	12 558
Other	10 792	(222)	10 570	13 376	(1 243)	12 133
<b>Total:</b>	<b>176 171</b>	<b>(18 783)</b>	<b>157 388</b>	<b>134 295</b>	<b>(12 292)</b>	<b>122 003</b>

**BULSTRAD INSURANCE COMPANY AD**  
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**25. REINSURANCE COMMISSIONS AND PROFIT PARTICIPATION**

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
Reinsurance commissions	3 861	2 377
Profit participation	-	1 179
	<b>3 861</b>	<b>3 556</b>

**26. NET INVESTMENT YIELD**

	<b>Note</b>	<b>31 December</b>	
		<b>2008</b>	<b>2007</b>
Interests and dividends received	26.1	4 527	2 822
Gains from operations with assets at fair value	26.2	(11 992)	3 519
Revaluation of investments in related companies*		14 337	-
Other financial income		46	-
		<b>6 918</b>	<b>6 341</b>

**\* Revaluation of investments in related companies**

On 28 July 2008 sale - purchase agreement between Bulstrad Insurance AD and TBIH Financial Services Group, the Netherlands was made. In accordance with it TBIH Financial Services Group will acquire 1,843,330 ordinary personalized shares, representing 12.29% of the capital of PAC Doverie. On the base of qualified valuer's appraisal the fair value of the investment can be measured reliably and it amounting at BGN 24,490 thousand.

**26.1. INTERESTS AND DIVIDENDS RECEIVED**

	<b>2008</b>	<b>2007</b>
Interests on financial assets at fair value	721	1 521
Interests on available-for-sale financial assets	630	-
Interests on bank deposits, cash and cash equivalents	2 007	1 281
Dividends received	1 169	20
	<b>4 527</b>	<b>2 822</b>

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**26.2. GAINS FORM OPERATIONS WITH ASSETS AT FAIR VALUE**

	<u>2008</u>	<u>2007</u>
Income on investment property rents, incl.	75	51
- from related parties	24	24
Profit / (loss) of investment property revaluation	59	2 172
Impairment of available-for-sale financial assets	(2 829)	
Realized profit / (loss) of operations with available-for-sale financial assets	(1 585)	
Profit / (loss) of operations with financial assets at fair value	(7 676)	1 545
Gains from foreign exchange revaluation	87	450
Investment management fees	(123)	(699)
	<u><b>(11 992)</b></u>	<u><b>3 519</b></u>

In the reporting period the financial instruments are reclassified out of held for trading category to available-for-sale category in compliance with the amendments in IAS 39 from 15 October 2008.

The following table shows the effect on the income statement if the financial assets had not been reclassified:

	<u>Available-for-sale financial assets</u>	<u>Held for trading financial assets</u>
<b>Profit from operation, less than the effect of the change in fair value</b>	<u><b>4 143</b></u>	<u><b>4 143</b></u>
<b>Change in fair value</b>	<b>(4 545)</b>	<b>(4 545)</b>
Incl.		
- change recognised in profit and loss	(2 829)	(4 545)
- change recognised in equity	(1 716)	-
<b>Profit with the effect of the change in fair value</b>	<u><b>2 427</b></u>	<u><b>(402)</b></u>

**27. OTHER TECHNICAL INCOME, NET OF REINSURANCE**

	<u>2008</u>	<u>2007</u>
Coinsurance income	394	2
Green Card Intermediary income	90	-
Interests on insurance operations	69	140
Reversed impairment losses	34	105
Other insurance income	32	34
	<u><b>619</b></u>	<u><b>281</b></u>

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**28. OTHER INCOME**

	<u>2008</u>	<u>2007</u>
Proceeds from sale of fixed assets	350	228
Other income	236	1 836
	<u><b>586</b></u>	<u><b>2 064</b></u>

**29. NET CLAIMS INCURRED**

	<u>2008 г.</u>			<u>2007 г.</u>		
	Net claims paid	Net change in outstanding claims reserve	Net claims incurred	Net claims paid	Net change in outstanding claims reserve	Net claims incurred
Motor insurance	(82 241)	(6 790)	(89 031)	(56 480)	(8 421)	(64 901)
Cargo, aviation, marine insurance	(5 917)	(632)	(6 549)	(1 764)	(928)	(2 692)
Property insurance	(5 001)	1 426	(3 575)	(2 174)	647	(1 527)
Other	(6 657)	(1 092)	(7 749)	(11 941)	1 544	(10 397)
	<u><b>(99 816)</b></u>	<u><b>(7 088)</b></u>	<u><b>(106 904)</b></u>	<u><b>(72 359)</b></u>	<u><b>(7 158)</b></u>	<u><b>(79 517)</b></u>

**30. ACQUISITION COSTS**

	<u>2008</u>	<u>2007</u>
Commissions paid	(39 726)	(30 307)
Other acquisition costs	(1 101)	(1 711)
	<u><b>(40 827)</b></u>	<u><b>(32 018)</b></u>

**31. CHANGE IN DEFERRED ACQUISITION COSTS**

	<u>2008</u>	<u>2007</u>
Motor insurance	5 500	2 651
Cargo, aviation, marine insurance	23	41
Property insurance	799	359
Other	102	38
	<u><b>6 424</b></u>	<u><b>3 089</b></u>

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**32. ADMINISTRATIVE EXPENSES**

	<u>2008</u>	<u>2007</u>
Salaries and related payables	(9 271)	(7 655)
Office maintenance	(5 792)	(5 818)
Marketing and advertising	(2 923)	(3 043)
Depreciation	(1 815)	(1 802)
External professional services	(278)	(311)
Other	(670)	(704)
	<u><b>(20 749)</b></u>	<u><b>(19 333)</b></u>

As of 31 December 2008 the Company's management has received remunerations at the amount of BGN 684 thousand (BGN 489 thousand - 2007), which are included in the item Salaries and related payables.

Audit fees, at the amount of BGN 118 thousand, are included in the item External professional services.

As of 31 December 2008 the accrued provisions for retirement compensations are at the amount of BGN 33 thousand (BGN 117 thousand - 2007).

**33. FINANCIAL COSTS**

	<u>2008</u>	<u>2007</u>
Interests on financial leases	(20)	(53)
Repo agreements	-	(25)
	<u><b>(20)</b></u>	<u><b>(78)</b></u>

**34. OTHER TECHNICAL EXPENCES, NET OF REINSURANCE**

	<u>2008</u>	<u>2007</u>
Written off insurance receivables	(3 442)	(4 279)
Impairment of insurance receivables	(1 159)	(1 370)
Guarantee fund and other taxes and charges	(254)	(189)
Other technical expenses	(14)	(22)
	<u><b>(4 869)</b></u>	<u><b>(5 860)</b></u>

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**35. INCOME TAXES**

	<b>2008</b>
<b>Accounting profit</b>	<b>2 427</b>
Additions	6 258
Deductions	(6 085)
<b>Taxable profit</b>	<b>2 600</b>
<b>Income tax</b>	(260)
Tax rate	10%
<b>Deferred tax</b>	(92)
Tax rate	10%
<b>Total current and deferred taxes</b>	<b>(352)</b>
<b>Profit after taxes</b>	<b>2 075</b>

The effect of taxable profit reconciliations for the period 2005-2007 in accordance with IAS 8 and the Corporate Taxation Act is deduction at the amount of BGN 197 thousand.

The following items in the balance sheet are affected by taxable profit reconciliations:

	<b>Temporary difference</b>	<b>Tax</b>
<b>REVALUATION RESERVE</b>		
<b>Deferred tax balance on revaluation reserve as of 01 January</b>		<b>(1 243)</b>
<b>Effect on the equity for the year 2008</b>		
Temporary difference		
Buildings revaluation	3 669	(367)
Other changes from previous periods		325
<b>Total effect on the equity for the year 2008</b>		<b>(42)</b>
<b>Effect on the income statement for the year 2008</b>		
Other changes from previous periods		(20)
<b>Total effect on the income statement for the year 2008</b>		<b>(20)</b>
<b>Deferred tax balance on revaluation reserve as of December 2008</b>		<b>(1 305)</b>
<b>OTHER DEFERRED TAXES</b>		
<b>Other deferred taxes balance as of 01 January 2008</b>		<b>(358)</b>
<b>Effect on income statement for the year 2008</b>		
Temporary difference		
Fixed assets depreciation	162	16
Provisions for pensions	19	2
Investment properties revaluations	59	(6)
Financial assets revaluations	1 716	(171)
Provisions for freelance contracts payables	871	87
<b>Total effect on the income statement for the year 2008</b>		<b>(72)</b>
<b>Other deferred taxes balance as of 31 December 2008</b>		<b>(430)</b>

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**36. REGULATORY FRAMEWORK**

*Solvency margin*

As at 31 December 2008 the Company is in compliance with regulatory indicators. The solvency margin is calculated in comfort to the local regulatory requirements and amounts at BGN 33 365 thousand. Own funds free of intangible assets amount at BGN 37 818 thousand.

**26. RISK MANAGEMENT**

**A. Market risk**

The market risk is the risk of adverse changes in interest rates, foreign currency exchange rates between the different currencies and the market price of securities and other financial instruments. Such movements have effect on the Company's profitability.

The Company has an exposure to market interest rate fluctuations at any time, which has effect on its financial position and its cash flows. Interest rate margins may vary as a result of changes in market conditions.

Interest rates on assets and liabilities denominated in Bulgarian levs are set on the basis of the fluctuations in the base interest rate determined by the Central Bank (BNB), which fluctuations are predictable to a certain extent. The Company continuously monitors the fluctuations of foreign currencies, differences in the interest rates and maturity structure of its assets and liabilities. The Company also currently monitors the changes in the prices and yield on government securities traded. The market risk is actively monitored by in order to ensure compliance to the market risk restrictions.

The table below summarises the interest rate risk of the Company as of 31 December 2008. The assets and liabilities are stated at their balance values grouped accordingly to their interest risk exposure.

	<b>31 December 2008</b>
<b>Assets associated with interest risk</b>	
Cash and cash equivalents	17 615
Bank deposits	24 449
Available-for-sale financial assets	19 282
<b>Total:</b>	<b>61 346</b>
<b>Assets not associated with interest risk</b>	<b>199 467</b>
<b>Total assets:</b>	<b>260 813</b>
<b>Liabilities associated with interest risk</b>	
Financial lease liabilities	339
Other liabilities	272
<b>Total:</b>	<b>611</b>
<b>Equity and liabilities not associated with interest risk</b>	<b>260 202</b>
<b>Total equity and liabilities:</b>	<b>260 813</b>

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**B. Foreign currency risk**

Foreign currency risk is the risk of adverse effects from fluctuation of the prevailing interest rates on the financial position and cash flows of the Company.

The Company's management has adopted conservative policy regarding currency risk management and as of 31 December 2008 most of the Company's assets and liabilities are denominated in BGN and EUR.

The table below summarises the Company's foreign currency risk exposure as at 31 December 2008. It includes the Company's assets and liabilities at balance value, by foreign currency category.

	<b>BGN &amp; EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
<b>ASSETS</b>				
Intangible assets	726	-	-	726
Investments in subsidiaries and affiliates	9 050	-	111	9 161
Investments in related companies	24 583	-	-	24 583
Investment properties	8 424	-	-	8 424
Property, plant and equipment	25 214	-	-	25 214
Bank deposits with a remaining maturity more than 90 days	24 499	-	-	24 499
Available-for-sale financial assets	24 146	-	-	24 146
Reinsurance share in unearned premium provision	13 165	1 181	-	14 346
Reinsurance share in outstanding claims provision	16 656	4 499	-	21 155
Insurance receivables	54 138	912	2	55 052
Reinsurance receivables	130	-	-	130
Other receivables	15 786	-	-	15 786
Deferred acquisition costs	19 774	-	-	19 774
Cash and cash equivalents	15 232	2 577	8	17 817
<b>TOTAL ASSETS</b>	<b>251 523</b>	<b>9 169</b>	<b>121</b>	<b>260 813</b>
<b>LIABILITIES</b>				
Deferred tax liabilities	1 735	-	-	1 735
UPR, incl. Unexpired risk provision	86 249	1 453	2	87 704
Outstanding claims provision	85 311	2 875	747	88 933
Deposits by reinsurers	194	-	-	194
Insurance payables	10 804	459	-	11 263
Reinsurance payables	3 836	-	-	3 836
Other payables	3 526	-	-	3 526
Premiums received for future periods	13 955	285	-	14 240
<b>TOTAL LIABILITES</b>	<b>205 610</b>	<b>5 072</b>	<b>749</b>	<b>211 431</b>
<b>Net currency exposure</b>	<b>45 913</b>	<b>4 097</b>	<b>(628)</b>	

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**C. Liquidity risk**

The liquidity risk is the risk of the Company's failure to meet its current and potential obligations related to payments as they fall due, without incurring unacceptable losses. The gap in the maturity structure potentially increases profitability, but at the same time it increases the risk of losses. In order to manage the risk the Company maintains at any time highly liquid assets.

The table below provides an analysis of the Company's assets and liabilities as at 31 December 2008, grouped by remaining maturity.

	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Not stated maturity</b>	<b>Total</b>
<b>ASSETS</b>							
Intangible assets	-	-	-	-	-	726	726
Investments in subsidiaries and affiliates	-	-	-	-	-	9 161	9 161
Investments in related companies	-	-	-	-	-	24 583	24 583
Investment properties	-	-	-	-	-	8 424	8 424
Property, plant and equipment	-	-	-	-	-	25 214	25 214
Bank deposits with a remaining maturity more than 90 days	-	-	18 602	5 897	-	-	24 499
Available-for-sale financial assets	24 146	-	-	-	-	-	24 146
Reinsurance share in unearned premium provision	169	736	13 050	391	-	-	14 346
Reinsurance share in outstanding claims provision	10 115	2 165	2 129	4 183	2 563	-	21 155
Insurance receivables	649	2 825	50 079	1 499	-	-	55 052
Reinsurance receivables	33	76	21	-	-	-	130
Other receivables	4 342	5 440	3 905	2 099	-	-	15 786
Deferred acquisition costs	233	1 015	17 988	538	-	-	19 774
Cash and cash equivalents	16 450	1 367	-	-	-	-	17 817
<b>TOTAL ASSETS</b>	<b>56 137</b>	<b>13 624</b>	<b>105 774</b>	<b>14 607</b>	<b>2 563</b>	<b>68 108</b>	<b>260 813</b>
<b>LIABILITIES</b>							
Deferred tax liabilities	-	-	-	1 735	-	-	1 735
UPR, incl Unexpired risk provision	1 034	4 500	79 782	2 388	-	-	87 704
Outstanding claims provision	42 522	9 101	8 951	17 584	10 775	-	88 933
Deposits by reinsurers	27	72	95	-	-	-	194
Insurance payables	5 385	1 153	1 134	2 227	1 364	-	11 263
Reinsurance payables	1 834	393	386	758	465	-	3 836
Other payables	463	992	2 071	-	-	-	3 526
Premiums received for future periods	168	731	12 954	387	-	-	14 240
<b>TOTAL LIABILITES</b>	<b>51 433</b>	<b>16 942</b>	<b>105 373</b>	<b>25 079</b>	<b>12 604</b>	<b>-</b>	<b>211 431</b>
<b>MATURITY MISMATCHING</b>	<b>4 704</b>	<b>(3 318)</b>	<b>401</b>	<b>(10 472)</b>	<b>(10 041)</b>	<b>68 108</b>	

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**D. Credit risk**

Credit risk is the risk that the customers may not be able to fully repay the amounts owed to the Company within the terms set.

The Company might be in position of inability to collect all its receivables on insurance contracts for which the risk is already transferred on the Company. The Company undertake actions to collect these amounts. After a certain period of time the insurance contract is terminated.

The table below summarises the Company's assets according to the credit ratings of the counterparties as of 31 December 2008.

<b>ASSETS</b>	<b>AA+</b>	<b>AA- BBB</b>	<b>Less than BBB</b>	<b>Without rating</b>	<b>Total</b>
Other investments in equity instruments				24 583	24 583
Bank deposits with a remaining maturity more than 90 days	-	17 159	7 340	-	24 499
Available-for-sale financial assets	3 609	3 070	-	17 467	24 146
Reinsurance receivables		35 631	-	-	35 631
Other receivables	-	-	-	70 837	70 838
Cash and cash equivalents	-	15 515	2 100	202	17 817
<b>Total assets with credit risk</b>	<b>3 609</b>	<b>71 375</b>	<b>9 440</b>	<b>113 089</b>	<b>197 513</b>
<b>Assets without credit risk</b>				<b>63 300</b>	<b>63 300</b>
<b>Total Assets</b>	<b>3 609</b>	<b>71 375</b>	<b>9 440</b>	<b>176 389</b>	<b>260 813</b>

**E. Insurance risk**

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities.

To manage this risk the Company performs a detailed analysis of various insurance risks, which is reflected in the general terms of business.

In addition the Company transfers some of its risks to reinsurers. When choosing the type of the reinsurance treaties the Company considers the retention levels, the specifics of the insurance products, etc.

Although the Company have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

(all amounts are in thousand of BGN unless otherwise is stated)

**38. RELATED PARTIES**

<u>Related party</u>	<u>Receivables</u>	<u>Payables</u>	<u>Income</u>	<u>Expenses</u>	<u>Type of transaction</u>
Bulstrad Health		41		101	Personnel health assurance
Bulstrad Service & Consulting	4				Offices' rent
Bulstrad Service & Consulting				138	External services
Bulstrad Service Auto assistance	130				Auto assistance contract
Bulstard Life			252		Insurance policy
Bulstard Life			19		Casco and Property insurance
Bulstard Life			1 068		Dividends received
Bulstard Life				183	Personnel life insurance
TBI Bulgaria	28				Interest on loan granted
PAC Doverie	89				Assets' sales
PAC Doverie	1				Offices' rent
PAC Doverie	13		66		Insurance policy
Management bodies				684	Remunerations
EIRB	3	12			Office maintenance
Vienna Insurance Group	232				Recoverable expenses
TBI Assets Management		27		27	Financial assets management
TBI Invest		8		96	Stock exchange activities
TBI Leasing		313		15	Financial lease
TBI Leasing		72			Commissions paid
TBI Leasing				1 131	Commissions paid
TBI Leasing				137	Assets' rent
TBI Info				239	Software's maintenance

**39. RECLASSIFICATIONS**

In 2008 change in accounting policy for measurement of subsidiaries was made. Equity method was replaced by cost method. For cost is assumed the subsidiaries' carrying amount as of 01 January 2005. The effects for the particular elements of the financial statements are as follows:

<u>Item</u>	<u>Before reclassification</u>	<u>After reclassification</u>	<u>Change</u>
Investment in subsidiaries	9 749	8 011	(1 738)
Balance profit	(1 693)	(152)	1 541
Tax payables	(585)	(388)	197
<b>Total:</b>	<b>7 471</b>	<b>7 471</b>	

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

(all amounts are in thousand of BGN unless otherwise is stated)

Item	<u>Before reclassification</u>	<u>After reclassification</u>	<u>Change</u>
Participation in the result of subsidiaries	1 470	(268)	(1 738)
Balance profit	(1 693)	(152)	1 541
Tax payables	(305)	(108)	197
<b>Total:</b>	<b>(528)</b>	<b>(528)</b>	

In 2008 changes in disclosures and comparative information were made in accordance with disclosure policies of the Parent company (TBIH Financial Services Group, The Netherlands).

The changes, affecting the balance sheet are as follows:

Item	<u>Before reclassification</u>	<u>After reclassification</u>	<u>Change</u>
Other payables	11 473	4 211	(7 262)
Insurance payables	-	7 262	7 262
Land and buildings	19 395	-	(19 395)
Other fixed assets	2 689	-	(2 689)
Intangible assets	-	643	643
Property, plant and equipment	-	21 441	21 441
<b>Total:</b>	<b>33 557</b>	<b>33 557</b>	<b>0</b>

The changes, affecting the income statement are as follows:

Item	<u>Before reclassification</u>	<u>After reclassification</u>	<u>Change</u>
Reinsurance commissions	2 377	-	(2 377)
Reinsurance commissions and profit participation	-	3 556	3 556
Other technical expenses, net	(4 978)	(4 490)	488
Commissions paid	(31 221)	-	31 221
Acquisition costs	-	(32 018)	(32 018)
Administrative expenses	(19 924)	(19 333)	591
Other non-technical income	1 111	-	(1 111)
Investment income	7 737	-	(7 737)
Gross claims incurred	(102 133)	-	102 133
Gross change in UPR	-	(6 900)	(6 900)
Claims paid	-	(96 454)	(96 454)
Reinsurance share in claims incurred	23 837	-	(23 837)
Change in reinsurance share in UPR	-	(258)	(258)
Reinsurance share in claims paid	-	24 095	24 095
Net investment yield	-	7 643	7 643
Financial costs	-	(1 136)	(1 136)
Other income	-	1 820	1 820
Other costs	(1 370)	(1 370)	-
Other technical income, net of reinsurance	-	281	281
<b>Total:</b>	<b>(124 564)</b>	<b>(124 564)</b>	<b>-</b>

**BULSTRAD INSURANCE COMPANY AD**  
**NOTES TO THE FINANCIAL STATEMENTS**

*(all amounts are in thousand of BGN unless otherwise is stated)*

**40. POST BALANCE SHEET EVENTS**

There are no material events after 31 December 2008 that may require adjustments of the accounts.

As of 26 February the transaction for a sale of 12,29 % of PAC Doverie' s capital was finalized. The transaction amount has been transferred to the Company's bank account by TBI H Financial Services Group.

On 20 January 2009 the capital increase of Bulstrad Life Insurance AD, amounting at BGN 1 1000 thousand was registered in the Trade register.

**41. FINANCIAL STATEMENT APPROVAL**

These financial statements are approved for issue by Company's management and are signed on behalf of it by Rumén Yantchev - Chief Executive Director.