



**2018 Annual Financial Statements
Of**

**THE BUREAU OF BULGARIAN
MOTOR INSURERS**

Management Committee:
Borislav Bogoev
Adreana Lazarova
Ivo Gruev
Evgeni Ignatov
Konstantin Velev
Stefan Sofiyanski
Radoslav Dimitrov

**Chairperson of the
Management Committee:** **Borislav Bogoev**

Secretary General **Adreana Lazarova**

**Chief Accountant:
(Preparer)** **Darina Marinova**

Seat and management address: **Sofia**
2, Graf Igratiev St., floor 2

Lawyers:
Antoaneta Dimolarova Law Firm
Rosalina Gradinarova and partners
Barzashka, Angelova, Dimitrova Law Firm
Zornitsa Vassileva and Teodora Yankova Law Firm
Dobreva and Bachvarov Law Firm

Servicing banks:
TB Allianz Bank Bulgaria AD
UniCredit Bulbank AD
Raiffeisenbank AD
UBB AD

Auditors: **AFA OOD**

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AUDIT
FINANCE
ACCOUNTING
TAX
LAW

INDEPENDENT AUDITOR'S REPORT

TO

THE BOARD OF DIRECTORS OF

NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS ASSOCIATION

Qualified Opinion

We have audited the financial statements of the National Bureau of Bulgarian Motor Insurers Association (the Bureau), which comprise the balance sheet as at 31 December 2018, and the profit and loss statement, profit and loss statement on business activities, statement of changes in net assets and cash flow statement for the year then ended, and note to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bureau as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with National Accounting Standards (NAS) applicable in Bulgaria.

Basis for Qualified Opinion

As at 31 December 2018, the Bureau's balance sheet includes receivables from a member thereof at the amount of BGN 21,237 thousand, including unsecured receivables of BGN 11,458 thousand. Due to the delay and/or appeal and/or refusal of this member to recover amounts under claims made in relation to insurances concluded by this member, which amounts were paid by the Bureau, it was placed under monitoring by the Bureau and has established in its favour a bank guarantee at the amount of EUR 5 million. The bank guarantee expires on 28 June 2024. The Bureau's management has decided not to recognise provision for impairment loss on these receivables in its financial statements for year 2018.

The possibilities and the intentions of this Bureau's member to service and pay its obligations to the Bureau cannot be reliably measured only based on historically observable results and/or other publicly accessible information and/or information and documents available from other sources. Therefore, the management has not provided us with specific and sufficient supporting documentation and analysis for its judgement. Respectively, we were unable to determine whether adjustments are needed to the carrying amount of the receivables stated in the balance sheet as at 31 December 2018, at the amount of BGN 11,458 thousand, respectively to the financial result stated for year 2018 in the profit and loss statement and in other reserves in the statement of changes in the Bureau's net assets.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bureau 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 qualified opinion.

Material Uncertainty Related to the Going Concern Assumption

We draw attention to Note 1.3 to the financial statements, which indicates that:

- a. The Bureau is placed under monitoring by the Council of Bureaux due to the continuing delay in payment of claims by its members to foreign bureaux, correspondents and insurers. The placement under monitoring is related to obligations arising for the Bureau to provide additional financial guarantees. Unless measures are taken by the Bureau's management to decrease indebtedness, the Council of Bureaux could, upon its discretion, impose new sanctions of significant amount, including suspending NBBMI's membership in the Green Card system; and
- b. The license of a Bureau member was revoked in May 2018. Pursuant to the Insurance Code and the Internal Regulations of the Council of Bureaux, claims on policies issued by a member whose license has been revoked shall be paid by the Bureau. As at 31 December 2018, based on an actuarial assessment, the provision is of a significant amount, namely BGN 31,092 thousand.

The circumstances described above, along with the other events, facts and conditions disclosed in Note 1.3 indicate the existence of an uncertainty that may cast significant doubt about the Bureau's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Other Matters

The financial statements of the National Bureau of Bulgarian Motor Insurers Association as at 31 December 2018 are not subject to a statutory financial audit under Art. 37, paragraph 1 and paragraph 3 of the Accountancy Act and the Bureau is not required to prepare a management report in accordance with Art. 42, paragraph 1 of the same law. Therefore, our independent financial audit is voluntary within the meaning of Art. 6 of IFAA and does not involve procedures to form an opinion on a management report.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with NAS applicable in Bulgaria 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 Bureau'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 Bureau or to cease operations, or has no realistic alternative but to do so.

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, or the override of internal control.

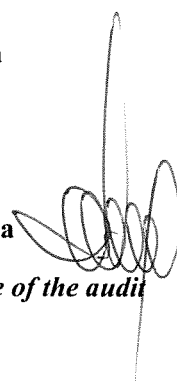
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control.
- Evaluate the appropriateness of accounting policies 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 Bureau'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 Bureau 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.

We communicate with management 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.


AFA OOD

Audit Firm


Valia Iordanova Iordanova
General Manager


Renny Georgieva Iordanova
Registered auditor in charge of the audit

1 July 2019

**38, Oborishte Street
1504-Sofia, Bulgaria**

This is a translation from Bulgarian of the Independent Auditor's Report on the Financial Statements of the National Bureau of Bulgarian Motor Insurers Association for the year ended 31 December 2018.

NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS

PROFIT AND LOSS STATEMENT

for the year ended 31 December 2018

		2018 BGN '000	2017 BGN '000
1. Operating revenue	3.1	275	272
2. Operating expenses	4	709	600
RESULT (1 - 2)		(434)	(328)
3. Finance income	6.1	3	69
4. Finance costs	6.1	71	-
5. Profit from business activities		536	317
RESULT (1 - 2 + 3 - 4 + 5)		34	58

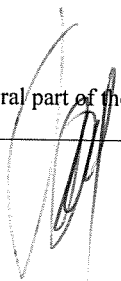
The accompanying notes on pages 6 to 31 form an integral part of the financial statements.

Chairman of the Management Committee: _____


Borislav Bogoev

Preparer (Chief Accountant)

Darina Marinova


AUDITED BY AEA
01/07/2019



NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS
PROFIT AND LOSS STATEMENT ON BUSINESS ACTIVITIES
for the year ended 31 December 2018

	Note	2018 BGN '000	2017 BGN '000	Note	2018 BGN '000	2017 BGN '000
A. Expenses						
1. Expenses on raw materials, consumables and hired services, including:						
a) raw materials and consumables		402	119		1 406	963
b) hired services	5.1.	16	10		1 406	963
2. Personnel costs, including:	5.2.	386	109			
a) remuneration expense		345	437		32	56
		293	378	3.2	1 438	1 019
b) social security contributions, including:						
aa) related to pensions		52	59		107	330
3. Depreciation/amortisation expense and impairment loss, including:		30	37	6.2.	4	209
a) depreciation/amortisation expense and impairment loss on tangible fixed and intangible assets, including:						
aa) depreciation/amortisation expense		9	14			
		9	14			
ab) depreciation/amortisation expense		9	14			
4. Other expenses:		10	-			
Total operating expenses (1 + 2 + 3 + 4)		766	570		1 545	1 349
5. Impairment loss on financial assets, including investments, recognised as current (short-term) assets		18	380			
6. Interest expense and other finance costs, including:		157	28			
a) losses from dealing in financial assets		100	21			
b) foreign currency exchange losses		33	4			
Total finance costs (5 + 6)	6.2.	175	408			
Total expenses (1 + 2 + 3 + 4 + 5 + 6)		941	978			
7. Accounting profit for the year (total revenues - total expenses)		604	371			
8. Tax expense on profit		(68)	(54)			
9. Net profit for the year (7 + 8)		536	317			
Grand total (Total expenses - 8 + 9)		1 545	1 349		1 545	1 349
B. Revenues						
1. Net revenue from:						
a) services						
2. Other revenue:						
Total operating revenues (1 + 2)	3.2					
3. Interest income and other finance income, including:						
a) gains from dealing in financial assets						
b) foreign currency exchange gains						
Total finance income (3)						
Total revenues (1 + 2 + 3)						
Grand total (Total revenues)					1 545	1 349

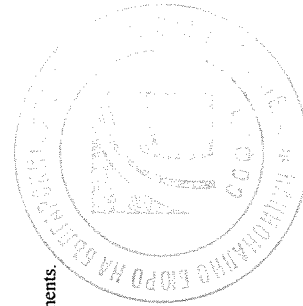
The accompanying notes on pages 6 to 31 form an integral part of the financial statements.

Chairman of the Management Committee:

Borislav Bogoev

Preparer (Chief Accountant)

Darina Marmova



AUDITED BY AIA
01/07/2019

NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS

BALANCE SHEET


as at 31 December 2018

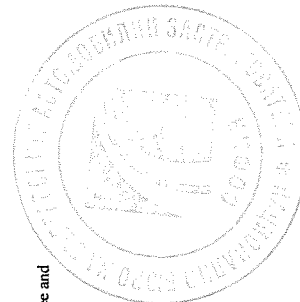
ASSET	Note	31.12.2018 BGN'000	31.12.2017 BGN'000	31.12.2017 BGN'000
LIABILITY				
NET ASSETS				
A. NET ASSETS				
I. Guarantee Fund of the Bureau	16	8 993	-	22 574
II. Reserves				
1. Other reserves	17	13	17	3 457
Group I total:	7	13	17	3 457
Section B total:		13	17	26 031
LIABILITIES				
B. Provisions and similar liabilities				
1. Provision for liability under policies issued by an insurer with an invoked license	18			-
Section B total:				-
C. Creditors				
1. Payables under demanded claims, including:	19			
up to 1 year		1 910		5 327
over 1 year		8 250		5 317
2. Accounts payable, including:	20			10
up to 1 year		5 298		74
3. Other liabilities, including:	21			74
up to 1 year		5 298		161
- payables to personnel, including:		7 903		161
up to 1 year		26 600		42
- tax payables, including:		3		42
up to 1 year		16 025		63
up to 1 year		16 028		63
Section C total, including:		31 480		5 562
up to 1 year		94		5 562
over 1 year				10
TOTAL NET ASSETS AND LIABILITIES (A + B)		72 407	31 593	31 593
ASSET				
NET ASSETS				
A. Contributions due to the Bureau's Guarantee Fund	16	8 993	-	
B. Non-current (long-term) assets				
I. Tangible fixed assets				
1. Other	7	13	17	
Group I total:		13	17	
Section B total:		13	17	
C. Current (short-term) assets				
I. Debtors				
1. Receivables under demanded claims	8	13 946	1 910	
2. Receivables under undemanded claims	9	9 967	8 250	
3. Advances paid to suppliers	10	2	-	
4. Other receivables	11	74	14	
Group I total:		23 989	10 154	
II. Investments				
1. Financial assets held for trading	12	4 815	5 298	
Group II total:		4 815	5 298	
III. Bank deposits	13	7 903	-	
IV. Cash at bank and in hand, including:				
- cash in hand		26 600	16 028	
- in non-term accounts and deposits		3	3	
Group IV total:	14	26 599	16 025	
Group IV total:		26 600	16 028	
Section C total:		63 307	31 480	
D. Deferred expenses	15	94	96	
TOTAL ASSETS (A + B + C + D)		72 407	31 593	


The accompanying notes on pages 6 to 31 form an integral part of the financial statements.

The financial statements on pages 1 to 31 were approved for issue by the Management Committee and signed on 1 July 2019 by:

Chairman of the Management Committee: 
Borislav Bogoev

Preparer (Chief Accountant) 
Darina Marinova




AUDITED BY AIA
01/07/2019

NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS

CASH FLOW STATEMENT

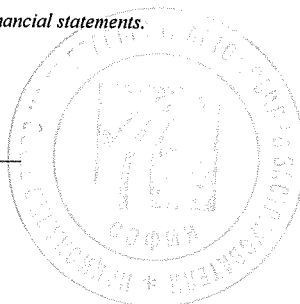
for the year ended 31 December 2018

	Note	2018 BGN '000	2017 BGN '000
I. CASH AVAILABLE AT THE BEGINNING OF THE PERIOD			
		16 028	13 701
II. Cash flows from non-profit activities			
A. Proceeds from non-profit activities			
1. Proceeds from Green Cards issuing		4 106	3 795
2. Proceeds from membership fees		267	272
3. Recovered long-term bank deposits		-	5 040
4. Contributions to the Guarantee Fund	16	30 225	-
5. Interest received		3	75
6. Other proceeds		5	2
Total cash flows from non-profit activities		34 606	9 184
B. Payments under non-profit activities			
1. Payments related to Green Cards issuing		(4 046)	(3 795)
2. Payments on services and fixed assets acquisition		(507)	(279)
3. Cash flows related to labour remuneration		(833)	(769)
4. Long-term bank deposits and bank guarantee security		(7 903)	-
5. Other payments		(56)	(28)
Total payments under non-profit activities		(13 345)	(4 871)
C. Net cash flows from non-profit activities			
		21 261	4 313
III. Cash flows from business activities			
A. Proceeds from business activities			
1. Proceeds from demanded claims		47 702	30 349
2. Proceeds from transactions with financial instruments		380	-
3. Interest received		109	115
Total proceeds from business activities		48 191	30 464
B. Payments under business activities			
1. Payments under demanded claims		(57 064)	(29 193)
2. Purchases of financial instruments		-	(2 094)
3. Taxes paid (except income taxes)		(580)	(328)
4. Income tax paid		(59)	(101)
5. Cash paid to suppliers		(1 165)	(717)
6. Other payments		(12)	(17)
Total payments under business activities		(58 880)	(32 450)
C. Net cash flows used in business activities			
		(10 689)	(1 986)
IV. Cash available at the end of the period			
	14	26 600	16 028
V. Change in the cash flows for the period			
		10 572	2 327

The accompanying notes on pages 6 to 31 form an integral part of the financial statements.

Chairman of the Management Committee:
Borislav Bogoev

Preparer (Chief Accountant)
Darina Marinova



AUDITED BY AEA
01/07/2019

This is a translation from Bulgarian of the financial statements of the NBBMI for year 2018.

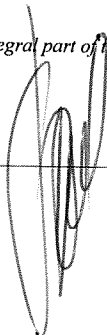
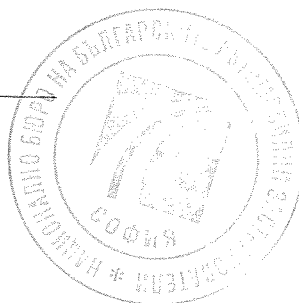
NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS
STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 December 2018

	Note	Guarantee Fund of the Bureau BGN '000	Other reserves BGN '000	Total net assets BGN '000
Balance at 1 January 2018		<u>22 574</u>	<u>3 457</u>	<u>26 031</u>
Contributions to the NBBMI's Guarantee Fund	16	39 217		39 217
Damages covered by the Guarantee Fund of the Bureau including: <i>Insurer with a revoked license</i>	16	(313)		(313)
<i>Payments on fake Green Cards</i>		(286)		(286)
		(27)		(27)
Provision for liabilities under policies issued by an insurer with revoked license, at the expense of the Bureau's Guarantee Fund	18	(31 092)		(31 092)
Operating result for the year			34	34
including: <i>profit from business activities</i>			536	536
<i>result from non-profit activities</i>			(502)	(502)
Balance at 31 December 2018	16,17	<u>30 386</u>	<u>3 491</u>	<u>33 877</u>

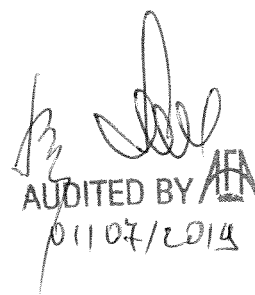
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Chairman of the Management Committee:
Borislav Bogoev

Preparer (Chief Accountant)
Darina Marinova

AUDITED BY AEA
01/07/2019



1. BACKGROUND INFORMATION ON THE BUREAU

1.1. Establishment and management

The National Bureau of Bulgarian Motor Insurers (the Bureau, NBBMI) is a representative National Bureau of Insurers in the Republic of Bulgaria and is part of the international Green Card System. The Bureau participates and cooperates in the functioning of the Green Card System and the Third Party Liability of motor vehicle owners in the member states and the countries which signed the Multilateral Agreement. In 1940, the Green Card System was introduced in and around Europe, initiated and encouraged by the United Nations Economic Commission for Europe (UNECE). The National Bureau of Bulgarian Motor Insurers (NBBMI) was established on 28 November 2011. Starting from the following year, NBBMI has been a member of the Council of Bureaux, Brussels, and acts as the only representative national insurance bureau for the Republic of Bulgaria pursuant to the Internal Regulations of the Council of Bureaux and in accordance with the Insurance Code, by participating and assisting the functioning of the Green Card System. The legal status of the Bureau is that of a non-profit association, whose statute is settled in Chapter 48 of the Insurance Code. The National Bureau of Bulgarian Motor Insurers is the only representative national insurance bureau for the Republic of Bulgaria pursuant to the Internal Regulations of the Council of Bureaux, Brussels, pursuant to Art. 506 of the Insurance Code. Pursuant to Directive 2009/103/EC, the existence of a national bureau is one of the conditions for a country's membership in the Green Card System, and the institution signs the international contract of the Green Card System, called Internal Regulations of the Council of Bureaux.

By the resolution of the National Insurance Council in the Republic of Bulgaria, dated 28 November 2001, the NBBMI is acknowledged as the sole organisation entitled to act as a representative before the international insurance organisations with respect to the activities settled in international insurance treaties regulating the Third Party Liability of motor vehicle owners, users, holders and drivers.

On the accession of the Republic Bulgaria to the European Union on 1 January 2007, NBBMI signed Annex No 3 whereby becoming a signatory Bureau to the Multilateral Guarantee Agreement of the member states of the European Economic Area (EEA).

In its activity as a representative bureau, NBBMI is governed by:

1. The Insurance Code and bylaws on its application, as well as by the acts of Bulgarian state bodies regulating insurance activities by law;
2. The Constitution of the Council of Bureaux, the Internal Regulations of the Council of Bureaux, and the decisions of the bodies of the Council of Bureaux that concern fulfilment of the Bureau's objectives and compliance with the Internal Regulations;
3. International acts in the Green Card System regarding Third Party Liability insurance of motor vehicle owners and the Green Card certificate, which are mandatory for the Bureau;
4. The Bureau's Statute.

NATIONAL BUREAU OF BULGARIAN MOTOR INSURERS
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Interaction between Bureau members is performed through the NBBMI's bodies – the General Meeting of Members and the Management Committee, which function in accordance with the procedures envisaged in the law and the Bureau's Statute and with the competences of a non-business legal entity.

According to NBBMI's Statute, the supreme management body of the Bureau is the General Meeting of Members.

The management body is the Management Committee, which consists of seven members.

As at 31 December 2018, the Management Committee of NBBMI comprises: Orlin Tsenkov Penev – Chair of the MC, Svetoslav Ivanov Lazarov – Secretary General and Members: Ivo Ivov Gruev, Evgeni Svetoslavov Ignatov, Konstantin Stoychev Velevev, Stefan Hristov Sofiyanski, Radoslav Tsvetanov Dimitrov. The Bureau management is represented by Orlin Tsenkov Penev – Chair of the MC and Svetoslav Ivanov Lazarov – Secretary General. They represent the Association jointly and severally.

On 12 February 2019, pursuant to a decision of the General Meeting, Orlin Tsenkov Penev was dismissed as member of the Management Committee and Borislav Atanasov Bogoev was elected in his place. As from 25.02.2019, Borislav Bogoev was registered in the Commercial Register as Chairperson of the Management Committee. On 16 May 2019, pursuant to a decision of the General Meeting, the General Secretary Svetoslav Lazarov was dismissed and Adreana Lazarova was elected in his place. The new General Secretary was registered in the Commercial Register on 31 May 2019.

As at the date of issuance of the Annual Financial Statements of the Bureau, NBBMI's management is represented by Borislav Atanasov Bogoev – Chairperson of the Management Committee, and Adreana Asenova Lazarova – General Secretary. They represent the Association jointly and separately.

As at 31 December 2018, the average number of personnel of the Bureau hired under employment contracts, is 11 employees (2017: 12 employees).

1.2. Objectives and principal activities

The objectives and principal activities of the National Bureau of Bulgarian Motor Insurers – NBBMI are as follows:

- It organizes, administers and controls the preparation, print out and issuance of the international certificates for motor insurance referred to as Green Card certificate as well as frontier insurance.
- It protects the interests of its members before the Council of Bureaux and its authorities, before the competent authorities of the European Union and the Member States, before central and local administration authorities, legal authorities, as well as

before third parties, by reasons and in connection with the Third Party Liability Insurance of Motorists and the Green Card Certificate.

- It enters into agreements with national insurance bureaux, compensation bodies and guarantee funds of Member States in connection with the functioning of the Third Party Liability Insurance of Motorists.
- It accepts notices of injured persons on damages and injuries caused to them on the territory of Republic of Bulgaria, by motor vehicles normally based on the territory of a Member State or a third country.
- It assists for the due payment by Bureau Members of any indemnities for damages caused abroad.
- It pays indemnities as a Compensation Body in the cases stipulated in the Insurance Code and the Statute of NBBMI.
- It notifies its members about claims received by insurers or national insurance bureaux in relation to insurance events which occurred under Motor Third Party Liability insurance policies concluded and issued by members of the Bureau, and controls them in accordance with the Internal Regulations of the Council of Bureaus.
- It pays on its behalf and on behalf of its members, within the deadlines specified in the Motor Third Party Liability insurance, compensations due for damages incurred, and reimburses on its behalf and at its members' expense costs incurred by insurers or national bureaux that processed damaged under Motor Third Party Liability insurance policies concluded and issued by those members of the Bureau who fail to meet their payment obligations in a timely manner.

1.3. Going concern principle

These statements have been prepared based on the assumption of going concern.

On 6 December 2018 the Council of Bureaux placed NBBMI under monitoring, the grounds being continuing delay in the payment of claims by Bureau members to foreign bureaux, correspondents and insurers, as a result of which the liquidity and solvency of the Bureau are exposed to a high risk. This situation is the result of the fact that in 2017 two of the Bureau's members delayed and/or discontinued the payment of claims from foreign insurers, correspondents and/or national bureaux. Therefore, the General Assembly of the Council of Bureaux held in June 2017 gave mandate to the Management Committee of the Council of Bureaux to place the Bulgarian bureau under monitoring at any time if its solvency is threatened. In a letter dated 11 December 2017, the Management Committee of the Council of Bureaux required that NBBMI establish in its favour a bank guarantee at the amount of EUR 4,000 thousand. The guarantee was established on 27 March 2018. Placing NBBMI under monitoring in December 2018 required increasing the bank guarantee to EUR 5 million and that the Bureau concluded a general re-insurance contract for all members by 1 April 2019, which insurance companies should joint after the expiry of their current, individual re-insurance contracts. The approximate premium determined by the leading re-insurer would be around EUR 16,678 thousand. As at the date of issuance of the financial statements, no re-insurance contract has yet been concluded.

Negotiations are being held with the Monitoring Committee at the Council of Bureaux to have a separate slip for each insurer in the general re-insurance contract.

Between 12 and 14 June, a General Assembly of the Council of Bureaux was held in Marrakesh, Morocco. At the Assembly, the Secretariat of the Council of Bureaux set a final deadline for the Bureau to conclude a re-insurance contract by 1 September 2019. Failure to meet the deadline would result on imposing a fine on NBBMI, which for 2018 would amount to EUR 2 million. Additionally, if the Bureau's management fails to take measures to reduce indebtedness, the Council of Bureaux could, at its discretion, impose new sanctions, including suspending the membership of NBBMI in the Green Card System.

As at 31 December 2018, the Bureau's receivables from the two insurance companies that refuse payments amount to a total of BGN 23,156 thousand and are related to 1) claims demanded and/or paid by the Bureau on behalf of the two insurance companies at the amount of BGN 19,506 thousand and 2) additional contributions due to the Guarantee Fund of the Bureau, at the amount of BGN 3,650 thousand. One of the insurance companies disputes a payable of BGN 7,953 thousand and according to an agreement concluded with NBBMI dated 1 February 2019, these amounts are subject to additional clarification.

Moreover, following the revocation of the license of Insurance Company Olympic – Bulgaria Branch (member of NBBMI) on 10 May 2018 (as a consequence of the revocation of the license of Insurance Company Olympic AD in Cyprus), the Bulgarian branch discontinued payment of claims on insurance policies issued thereby. According to the Insurance Code, the Internal Regulations of the Council of Bureaux and NBBMI's Statute, claims related to damages under Third Party Liability policies issued by the Bulgarian Branch of IC Olympic, for which the date of the accident occurred before the revocation of the insurance company's license should be paid by NBBMI. In 2018, BGN 276 thousand has been paid from the Bureau's Guarantee Fund under policies of IC Olympic, Bulgaria Branch. As at 31 December 2018, the amount of expected future payments on policies is estimated to be BGN 31,092 thousand (*Note 18*).

These facts and circumstances indicate a material uncertainty which might create significant doubt regarding the Association's ability to continue as going concern, respectively, its ability to realise its assets and service its liabilities in the course of its normal operating cycle.

1.4. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Association activities throughout the period 2016 – 2018, are presented in the table below:

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Indicator	2016	2017	2018
GDP in million levs	94,130	101,403	107,925
Actual growth of GDP	3.9%	3.8%	3.1%
Year-end inflation	-0.5%	1.8%	2.3%
Average exchange rate of USD for the year	1.77	1.71	1.65
Exchange rate of the USD at year-end	1.86	1.63	1.71
Basic interest rate at year-end	0.00	0.00	0.00
Unemployment rate at year-end	8.0%	7.1%	6.1%

*Source: BNB

2. PRINCIPLES APPLIED IN THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

2.1. Basis for preparation of the financial statements

The financial statements of NBBMI Association have been prepared in accordance with the (new) Accountancy Act effective as of 1 January 2016 (SG 95/08.12.2015) and National Accounting Standards (NAS), approved by the Council of Ministers by CMD No 46/2005 (SG 30/07.04.2005) and amended and supplemented by CMD No 251/2007 (SG 86/26.10.2007) and CMD 394/2015 (SG 3/12.01.2016), in force as of 1 January 2016.

Starting from 1 January 2016 there is a new Accountancy Act in effect, which revokes entirely the Accountancy Act effective until 31 December 2015. With the new law, the rules and requirements of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, are transposed into the national accounting legislation.

Resolution of the Council of Ministers No 27/2019 r. (State Gazette, issue 15/19.2.2019) amends the National Accounting Standards, making a change to AS 17 Leases in the part concerning the accounting treatment of operating leases, in effect as from 2019. The amendments to AS 17 will not lead to changes in the Association's accounting policies.

The Association keeps its accounting books in Bulgarian Levs (BGN) and prepares its official financial statements in accordance with Bulgarian accounting legislation. The data in the annual financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000). These annual financial statements have been prepared on a historical cost basis, *with the exception of financial assets held for trading*, which have been measured at fair value.

Based on criteria set in the Accountancy Act, the Association is classified in the category of small undertakings. As at 1 January 2019, the Association remains in the same category.

With regard to small undertakings the law provides relief options for the preparation of statutory financial statements. The Association's management has made a decision to not apply these reliefs and keep the annual financial statements layout.

Uncertainty of accounting estimates

The presentation of the financial statements in accordance with National Accounting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, revenue and expenses, and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them. The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in Note 2.14.

2.2. Comparatives

The Association presents comparative information in these financial statements for the period from 1 January to 31 December of the prior reporting year. Where necessary, comparative data is reclassified for the purpose of achieving comparability in view of the current year presentation changes.

2.3. Functional and reporting currency

The functional and reporting currency of the Bureau is the Bulgarian Lev (BGN). The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio of BGN 1.95583:EUR 1.

Cash, receivables and payables, denominated in a foreign currency, are recorded at the BGN equivalent on the transaction date and are revalued on a monthly basis by applying the official exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December they are stated at the closing exchange rate quoted by BNB.

Foreign exchange differences on revaluation are treated as current income and expenses and are included in the profit and loss statement as 'finance income /(costs)'.

2.4. Revenue

Revenue is recognised on accrual basis and to the extent that it is probable that the economic benefits will flow to the Bureau and as far as the revenue can be reliably measured. Revenue is accrued as originated, regardless of the timing of receipt of the actual cash proceeds.

Membership fees received for the period, as set by the Bureau's General Assembly, as well as other revenue from regulated activities, carried out for the purpose of attaining the Bureau's goals, are recognised as current revenue from *non-profit activities*.

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NBBMI's activities under Art. 1 of the Commercial Act, carried out as per trade, aimed at generating permanent income, which is directly related to the non-profit activity of the Bureau, according to the Statute of NBBMI, the Internal Regulations of the Council of Bureaux, and the Insurance Code. The object of the business activities of the Bureau is related to claims handling and payment in its capacity as Compensation Body or in relation to traffic accidents occurring on the territory of the Republic of Bulgaria in the cases set out in the Internal Regulations of the Council of Bureaux as well as revenue from handling claims of its members under payments by the Bureau when a NBBMI member discontinues performing their obligations for payments to foreign national Bureaux or insurance event counterparts in events that occurred outside the territory of Bulgaria.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date, if this stage as well as the transaction and completion costs, can be measured reliably.

2.5. Expenses

Expenses are recognised by the Bureau as they are incurred, following the accrual and matching concepts.

Expenses on non-profit activities are reported analytically by line of expense to account 611 "Operating expenses". Expenses on business activities are recorded separately so as to enable their matching to the revenue from business activities.

The administrative expenses represent costs related to servicing the overall activities of the Bureau and are allocated respectively to business and non-profit activities on the basis of revenue.

Deferred expenses are put off and recognised as current expenses in the period when the contracts, whereto they refer, are performed.

Finance income and costs are included in the profit and loss statement and are comprised of interest income and expense, foreign exchange differences and gains and losses from transactions with financial instruments.

Bank fees and charges for current servicing of Bureau's operations are presented as hired services.

Claims paid, liquidation expenses related to determining the amount of compensation, and finance charges related to the handling of claims incurred on the territory of the country, the fault for which is that of a foreign motor vehicle, claims paid and expenses related to the handling of claims by NBBMI in its capacity as Compensation Body, as well as expenses related to the payment of claims of foreign National Bureaux and insurance companies in relation to events occurring with uninsured motor vehicles with Bulgarian registration plates on the territory of another EU Member State, are not recognised as expenses of the Bureau. Auxiliary expenses related to the handling of the claim, such as translation of documents, expenses on inquiries, bank fees and commissions, etc. are not recognised as expenses as well. The latter are reported only as cash flows and are subject to refunding from a Guarantee Fund or by an insurance company.

Amounts paid in relation to business trips abroad (travel expenses, accommodation and daily allowances) of officers taking part in international meetings related to the defence and representation of the Bureau's members, for which they cover the stay of the participants, are not recognised as an expense of the Bureau. They are recognised as a receivable from the respective member of the NBBMI and are subject to refunding.

Profit and loss statement

The Bureau prepares a profit and loss statement, which is general and combines the revenues, expenses and results of its business and non-profit activities.

2.6. Tangible fixed assets

Initial measurement

Tangible fixed assets (property, plant and equipment) are stated in the balance sheet at acquisition cost less the accumulated depreciation and any impairment losses in value.

The *acquisition cost* comprises the purchase price, including any directly attributable costs of bringing the asset to working condition. Directly attributable costs include initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

The Bureau has set a value threshold of BGN 200, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Subsequent costs

Subsequent costs, related to tangible fixed assets, resulting in improvement of the future economic benefits from the assets are stated as increase in its carrying amount.

On replacement of a differentiated part of a tangible fixed asset, the replaced part is written-off while the expense incurred on replacement or improvement is accounted for as acquisition of a separate asset.

Depreciation methods

The Bureau applies the straight-line depreciation method for tangible fixed assets. The depreciation rates by group of assets are as follows:

- computers and computer hardware – 50%;
- furniture and fixtures – 15%.

Review for impairment

The carrying amounts of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might significantly differ from their recoverable amount. If any such indications exist that the estimated recoverable amount of an asset is lower than

its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of an item of tangible fixed assets is the higher of the net market price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks specific to the particular asset. Impairment losses are recognised in the profit and loss statement.

2.7. Receivables

Receivables under claims made are recognised and carried at the original invoice amount (cost) and a Statement of Claim letter less any allowance for uncollectable debts. Receivables under claims not brought are stated at the amount of costs incurred to settle damages, which are subsequently claimed to a foreign national bureau, the Guarantee Fund, insurer or counterpart. An estimate allowance for doubtful and bad debts is made when significant uncertainty exists as to the collectability of the full amount or a part of it. Bad debts are fully written-off when the legal grounds for this are available (are identified).

2.8. Cash and cash equivalents

NBBMI considers as cash and cash equivalents all highly liquid and freely available financial assets in the form of cash in hand, cash at current bank accounts and deposits with original maturities of up to 90 days and cash in deposits with longer maturity, which are readily available to the Association during the deposit, according to the conditions of agreements with the banks.

For the purposes of the cash flow statement:

- Cash proceeds from and cash payments for membership fees and contributions to the Guarantee Fund of NBBMI are presented as part of cash flows (used in) / from regulated activities;
- Cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- Permanently blocked cash and interest accrued, but not endorsed on the Bureau's account, on non-matured deposits are not treated as cash and cash equivalents for the purposes of presentation in the cash flow statement.

2.9. Financial asset held for trading

The Bureau recognises a financial asset on the date on which it becomes party to the contract. All purchases and sales are initially recognised on the trade date, which is the date on which the Bureau has become party to the instrument's contractual terms and conditions (the date when the Bureau commits to purchase or sell the respective asset).

Financial assets held for trading are initially recognised at cost, being the fair value of the consideration given including the acquisition costs.

Financial assets held for trading are measured subsequently at fair value. The effects of remeasurement to fair value are taken to profit and loss as current finance income or current finance costs.

2.10. Accounts payable and other liabilities

Payables to suppliers, clients and other current amounts payable are carried at original invoice amount and/or Statement of Claim letter (cost).

2.11. Pensions and other payables to personnel under the social security and labour legislation

The employment and social security relations with the employees of the Bureau are based on the provisions of the Labour Code and the effective social security legislation in the Republic of Bulgaria.

The major duty of the Bureau as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, and for health insurance. The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

These pension plans, applied by the NBBMI in its capacity as an employer, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognised as an expense in the profit and loss statement in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The obligations for social security and health insurance of the Bureau are recognised as a current expense and liability at their undiscounted amount together with the relevant benefits and within the period of the respective income to which they are related.

At the end of each reporting period, the Bureau measures the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

2.12. Net assets of the Bureau

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As a non-profit legal entity the Bureau does not belong to the category of capital companies, obliged to register a certain minimal amount of capital (share capital) in the Commercial Register.

In accordance with its Statute the Bureau sets aside a *Guarantee Fund*. The sources for this cash fund are cash contributions from members are include:

- 1) induction contributions for each of the members (Art. 41a, Para 1 of the Statutes of the NBBMI).
- 2) contributions from members pursuant to Art. 41, Para 3 of the Statute – a certain amount for each vehicle for which Third Party Liability insurance and trans-border Third Party Liability insurance has been concluded;
- 3) extraordinary contributions from members in case of cash shortage, pursuant to Art. 41, Para 6 of the Statute.

The cash contributions to the Guarantee Fund pursuant to items 2 and 3 above are made under a decision of the Management Committee and serve to make payments by the Bureau under Art. 22 of NBBMI's Statute.

According to the Statute (Art. 36, item 23) amounts available in this Fund are managed and invested by the Management Committee and may be used mainly in case of:

- (1) payments on behalf of the Bureau and at the expense of each member whose licence to underwrite Third Party Liability insurance has been revoked, has been placed in bankruptcy;
- (2) payments of claims on behalf of the Bureau in relation to untrue, fake or forged Green Card certificates;
- (3) payments which in accordance with the Internal Regulations of the Council of Bureaus should be made on behalf of the Bureau and at the expense of each insurer who is a member of the Bureau and has failed to make a payment in accordance with the rules and deadlines stipulated in the Internal Regulations of the Council of Bureaus.

2.13. Taxes on profit

The Bureau is subject to taxation with respect to the results of its business activities carried out during the year. *Current taxes on profit* from business activities are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal tax rate for year 2018 was 10% (2017: 10%).

Deferred taxes are determined using the liability method on all temporary differences, existing at the date of the financial statements, between the carrying amounts of the individual assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable that they will reverse and sufficient taxable profit will be generated in the future or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the

initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit (loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, from which they could be deducted.

2.14. Critical accounting judgments on applying the Bureau's accounting policies. Key estimates and assumptions of high uncertainty.

2.14.1. Impairment of receivables

Losses from doubtful and bad debts are estimated at the end of each reporting period on an individual basis. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value is recognised in the profit and loss statement as impairment.

In the judgment of collectability of receivables, the management performs analysis of the total exposure of each counterpart in order to estimate the actual recoverable portion and not only at the level of past due individual receivables of a counterpart, including the possibilities of collecting interest for delay. Receivables or parts of them assessed by the management, based on its experience, as highly uncertain in terms of their collectability, are treated as uncollectable and are impaired. The carrying amount of a receivable is adjusted through the use of an allowance account for accumulating all impairments and the amount of the impairment loss for the period is recognised in the profit and loss statement within 'costs for impairment of financial assets'. In case of subsequent recovery of impairment loss, it is stated in 'other income' against a decrease in the allowance account. The information about the impairment charged on receivables is disclosed in *Note 6.2*.

2.14.2 Provisions for payables

According to the Internal Regulations of the Council of Bureaux and Art. 22 of the Statute, NBBMI shall make payments on behalf of the Bureau and at the expense of each member whose Third Party Liability insurance license has been revoked, has been declared insolvent, or is undergoing liquidation. In May 2018, the insurance license of IC Olympic, Cyprus, was revoked, and in August 2018, a temporary assignee in bankruptcy was appointed. The company's Bulgarian branch was imposed a forced administrative measure, banning the conclusion of new insurance or re-insurance contracts for all insurance classes, the extension of the term of already concluded contracts or the extension of coverage thereof, as well as the disposal of Branch assets on the territory of the Republic of Bulgaria. The Bulgarian branch discontinued payment of indemnities for events that occurred outside Bulgaria under Third Party Liability policies issued thereby. According to the requirements of the applicable accounting standards, NBBMI assigned to a certified actuary to calculate the amount needed to pay future claims under Third Party Liability policies issued by IC Olympic, Bulgaria Branch. In order to determine NBBMI's payables as at 31 December 2018, the available data in the Single Information System for Risk Assessment, Management and Control (SISRAMC) were used. Based on the

information available in the system, the exposure of IC Olympic was calculated over the 2015-2018 period, and the development of claims filed with the company over 2011-2018. Based on this information, the expected payables under concluded contracts were determined, as well as resulting from expected unpaid claims. The expected amount of payables of NBBMI as at 31 December 2018 under contracts concluded by IC Olympic is BGN 33,323 thousand, and it is expected that BGN 2,231 will be covered by the Association's re-insurer, i.e. net payables are estimated at BGN 31,092 thousand. This amount is included as a provision in the Association's financial statements as at 31 December 2018 (*Note 18*).

3. REVENUE

3.1. Revenue from non-profit activities

The amount of revenue stated in the reporting year includes: *membership fees* – BGN 272 thousand (2017: BGN 272 thousand) and BGN 3 thousand – recovered litigation costs (2017: none).

Members of the Bureau are all insurers that have licences under Section II, Item A, point 10.1 of Appendix No 1 to the Insurance Code or insurers offering the mandatory Third Party Liability insurance to motorists in the Republic of Bulgaria in accordance with the provisions of this Code. Their number was 16 as at 31 December 2018 (31 December 2017: 17).

3.2. Revenue from business activities

Revenue from business activities, amounting to BGN 1,438 thousand (2017: BGN 1,019 thousand) includes:

- handling fees – BGN 1,406 thousand (2017: BGN 963 thousand), charged by the Bureau in relation to handling and payment for claims in its capacity as Compensation Body or in relation to traffic accidents occurring on the territory of the Republic of Bulgaria in the cases set out in the Internal Regulations of the Council of Bureaux. Further to a decision of the Management Committee, dated 3 November 2011, handling fees are charged in relation to processing claims of the Bureau's members in the cases of payments made by the Bureau when a member of NBBMI stops performing its obligations for payment to foreign national bureaus or counterparts under insurance events which occurred outside the territory of Bulgaria. In 2018, revenue from this field amounts at BGN 951 thousand (2017: BGN 541 thousand).
- other income from written-off liabilities – BGN 9 thousand (2017: BGN 8 thousand), deferral interest – BGN 23 thousand (2017: BGN 8 thousand).

4. EXPENSES ON NON-PROFIT ACTIVITIES

Expenses on non-profit activities include:

	<i>2018</i> <i>BGN '000</i>	<i>2017</i> <i>BGN '000</i>
Personnel costs	458	298
Other expenses	205	234
Administrative expenses	46	68
	<u>709</u>	<u>600</u>

Personnel costs include:

	<i>2018</i> <i>BGN '000</i>	<i>2017</i> <i>BGN '000</i>
Expenses on remuneration	440	288
Expenses on social security contributions	18	10
	<u>458</u>	<u>298</u>

Other expenses include:

Legal services	78	116
Membership fee to the Council of Bureaux	65	65
Insurance costs	19	-
Business trip costs	20	24
Bank fees and charges	6	8
Conferences, seminars and workshops	15	6
Other expenses	2	15
	<u>205</u>	<u>234</u>

Administrative expenses include:

	<i>2018</i> <i>BGN '000</i>	<i>2017</i> <i>BGN '000</i>
Expenses on materials	3	3
Hired services expense	29	26
Expenses on remuneration	10	32
Expenses on social security contributions	2	3
Depreciation and amortisation expense	2	4
	<u>46</u>	<u>68</u>

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The remuneration paid to key management personnel in 2018 amounts to BGN 395 thousand.

5. EXPENSES ON BUSINESS ACTIVITIES

5.1. Expenses on raw materials and consumables

	<i>2018</i>	<i>2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Electric energy, heat energy and water	8	5
Office equipment and stationery	8	4
Other expenses	-	1
	<u>16</u>	<u>10</u>

5.2. Hired services expense

	<i>2018</i>	<i>2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Processing damages	238	-
Rental costs	69	65
Translation and copying services	15	12
Regulatory fees	17	-
Bank fees and charges	11	7
Legal and audit services	10	8
Telecommunication and courier services	10	9
Other	16	8
	<u>386</u>	<u>109</u>

The expenses for performing independent financial audit, allocated between expenses for business and non-profit activities, amount at BGN 10 thousand (2017: BGN 10 thousand).

6. FINANCE INCOME AND COSTS

6.1. Finance income and costs on non-profit activities

Finance income from non-profit activities includes the accrued interest on deposits at the amount of BGN 3 thousand for 2018 (2017: BGN 69 thousand). Financial expenses for 2018 include bank charges and fees and commissions paid in relation to establishing and servicing a bank guarantee in favour of the Council of Bureaux, at the amount of BGN 71 thousand.

6.2. Finance income and costs on business activities

Finance income from business activities includes:

	<i>2018</i>	<i>2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Effects from transactions with government securities	4	209
Interest on government securities	103	110
Foreign exchange differences	-	11
	107	330

Finance costs on business activities include:

	<i>2018</i>	<i>2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Impairment of receivables	18	380
Effect from fair value measurement of government securities	100	21
Foreign exchange differences	33	4
Commissions for bank guarantees	24	-
Interest under past due tax liabilities	-	3
	175	408

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7. TANGIBLE FIXED ASSETS

	<i>Computer hardware</i>		<i>Furniture and fixtures</i>		<i>Total</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>						
Balance at 1 January	52	50	94	94	146	144
Additions	6	2	-	-	6	2
Disposals	-	-	-	-	-	-
Balance at 31 December	58	52	94	94	152	146
<i>Accumulated depreciation</i>						
Balance at 1 January	51	37	78	74	129	111
Depreciation charge for the year	6	14	4	4	10	18
Written-off depreciation for the year	-	-	-	-	-	-
Balance at 31 December	57	51	82	78	139	129
Carrying amount at 31 December	1	1	12	16	13	17
Carrying amount at 1 January	1	13	16	20	17	33

Other data

As at 31 December 2018 there are no liens (pledges) on the Bureau's tangible fixed assets (31 December 2017: none).

8. RECEIVABLES UNDER DEMANDED CLAIMS

Receivables under demanded claims as at 31 December 2018 amount to BGN 13,946 thousand (31 December 2017: BGN 1,910 thousand). The amount is formed of provided services and in relation to: (1) activity on handling and payment of claims by the Bureau in its capacity as Compensation Body;

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(2) traffic accidents occurring on the territory of the Republic of Bulgaria in the cases set out in the Internal Regulations of the Council of Bureaux; 3) activities related to the payment on claims by the National Bureaux for property and non-property damage as a result of traffic accidents caused by motor vehicles with foreign registration plates; and (4) claims from foreign insurance companies or National Bureaux in relation to processing claims of the Bureau's members in the cases of payments made by the Bureau when a member of NBBMI stops performing its obligations for payment to foreign national bureaus or counterparts under insurance events which occurred outside the territory of Bulgaria. Demanded are considered to be the claims filed by NBBMI to its counterparts.

As at 31 December 2018, the receivables under demanded claims are as follows:

	31.12.2018	31.12.2017
	<i>BGN '000</i>	<i>BGN '000</i>
Receivables under damages paid by NBBMI in its capacity as Compensatory Body	1,211	218
Receivables under damages paid by NBBMI pursuant to the Internal Regulations of the Council of Bureaux and in relation to a road accident that occurred outside the Republic of Bulgaria and caused by a non-insured motor vehicle with a Bulgarian registration plate	552	1,285
Receivables from NBBMI members with refused/failed to pay their obligations to foreign bureau and correspondents	12,183	407
	13,946	1,910

As at the date when these financial statements were approved for issue, about 26% of the *receivables under demanded claims* had been settled.

9. RECEIVABLES UNDER UNDEMANDED CLAIMS

Receivables under undemanded claims as at 31 December 2018 amount to BGN 9,967 thousand (31 December 2017: BGN 8,230 thousand) and include: (1) receivables under damages occurred in a traffic accident on the territory of another older EU Member State the fault for which is that of a driver with uninsured vehicle with Bulgarian registration plate, paid by the Bureau; (2) indemnities and accompanying expenses on outstanding claims in a process of court proceedings for events occurred on the territory of the country the fault for which is that of a motor vehicle with a foreign registration plate in the Green Card System; (3) expenses on outstanding claims in a process of court proceedings for events in which the Bureau acts as a Compensatory Body; (4) guarantees for suspending court rulings; (5) claims paid by the NBBMI in relation to processing claims of the Bureau's members in the cases of payments made by the Bureau when a member of NBBMI stops performing its obligations for payment to foreign national bureaus or counterparts under insurance events which occurred outside the territory of Bulgaria. As at the date when these financial statements were approved for issue, more than 56% of the *undemanded claims* had been claimed and settled.

10. ADVANCES PAID TO SUPPLIERS

The advances paid to suppliers as at 31 December 2018 at the amount of BGN 2 thousand represent advances under a contract for establishing a system for registration and management of damages (31 December 2017: none).

11. OTHER RECEIVABLES

Other short-term receivables include mainly receivables under litigations with NBBMI members – BGN 32 thousand (31 December 2017: none), receivables from Bureau members that constitute non-deposited membership fees – BGN 9 thousand (31 December 2017: BGN 4 thousand), taxes refundable – BGN 10 thousand (31 December 2017: BGN 10 thousand), and other receivables, at the amount of BGN 23 thousand.

12. FINANCIAL ASSETS HELD FOR TRADING

Financial assets held for trading available as at 31 December, amounting to BGN 4,815 thousand (31 December 2017: BGN 5,298 thousand), represent investments in government securities – bonds, as follows:

31 December 2018:

Issue	Currency	Issue date	Maturity date	Coupon interest	Nominal	Fair value	Fair value
				%	'000	'000 BGN	'000
BG2030014117	BGN	30.01.2013	23.01.2019	2.50%	446 BGN	453 BGN	453
BG2040114212	EUR	12.02.2014	12.02.2021	3.00%	22 EUR	23 EUR	43
XS1208855616	EUR	23.03.2015	23.03.2022	2.00%	1 087 EUR	1 081 EUR	2 115
XS1208855889	EUR	23.03.2015	26.03.2027	2.63%	1 071 EUR	1 127 EUR	2 204
							4 815

31 December 2017:

Issue	Currency	Issue date	Maturity date	Coupon interest	Nominal	Fair value	Fair value
				%	'000	'000 BGN	'000
BG2040008216	BGN	16.01.2008	16.01.2018	4.50%	110 BGN	102 BGN	102
BG2030013119	BGN	23.01.2013	23.01.2018	3.00%	294 BGN	285 BGN	285
BG2030014117	BGN	30.01.2013	23.01.2019	2.50%	446 BGN	449 BGN	449
BG2040114212	EUR	12.02.2014	12.02.2021	3.00%	22 EUR	23 EUR	46
XS1208855616	EUR	23.03.2015	23.03.2022	2.00%	1 087 EUR	1 102 EUR	2 156
							5 298

13. BANK DEPOSITS

Bank deposits as at 31 December 2018 include:

a) cash blocked with UBB AD in relation to the issuance of an irrevocable unconditional bank guarantee at the amount of EUR 4,000 thousand in favour of the Council of Bureaux. The bank guarantee is valid until 25 March 2020 (31 December 2017: none).

b) a term deposit of BGN 80 thousand with 1 year original maturity. As at the date of approval of the financial statements, the deposit has not matured and has not been renewed (31 December 2017: none).

14. CASH AT BANK AND IN HAND

The *cash* available as at 31 December 2018 amounts to BGN 26,600 thousand (31 December 2017: BGN 16,028 thousand) and is at accounts with the following banks: Commercial Bank Allianz Bank Bulgaria AD, UniCredit Bulbank AD, UBB AD.

Cash includes:

	<i>31.12.2018</i> <i>BGN'000</i>	<i>31.12.2017</i> <i>BGN'000</i>
Cash in bank deposits	9,434	14,531
Cash in current bank accounts	17,165	1,494
Cash in hand	1	3
Cash and cash equivalents	<u>26 600</u>	<u>16 028</u>

Cash in bank deposits constitute cash in a bank deposit with TB Allianz Bank Bulgaria AD with original maturity 36 months. According to the conditions of the deposit agreement, the Bureau disposes of freely and has no restrictions on transactions with the cash during the deposit's term.

The currency structure of *cash in banks* is as follows:

- in BGN: BGN 26,498 thousand (31 December 2017: BGN 15,751 thousand);
- in foreign currency: BGN 102 thousand (31 December 2017: BGN 277 thousand).

15. DEFERRED EXPENSES

Deferred expenses include the following components:

	<i>31.12.2018</i> <i>BGN'000</i>	<i>31.12.2017</i> <i>BGN'000</i>
Membership fee to the Council of Bureaux	64	65
Insurance	28	29
Subscriptions	2	2
Total	<u>94</u>	<u>96</u>

16. GUARANTEE FUND OF THE BUREAU

The amounts in the Guarantee Fund of NBBMI are set aside from 1) induction contributions for each of the members (Art. 41a, Para 1 of the Statutes of the NBBMI); 2) contributions from members pursuant to Art. 41, Para 3 of the Statute – a certain amount for each vehicle for which Third Party Liability insurance and trans-border Third Party Liability insurance has been concluded; and 3) extraordinary contributions from members in case of cash shortage, pursuant to Art. 41, Para 6 of the Statute.

By means of Minutes dated 10 January 2018, the Management Committee:

1) made a decision for extraordinary cash contributions from NBBMI members to the Bureau's Guarantee Fund, at a total amount of EUR 4,000 thousand, in order to raise funds to establish a bank guarantee in favour of the Council of Bureaux (Note 13). The individual contribution for each member is determined based on market share.

2) established an additional cash contribution to the Bureau's Guarantee Fund at the amount of BGN 10 for a 12-month period for each motor vehicle for which Third Party Liability insurance and trans-border Third Party Liability insurance has been concluded. All contributions are payable within a two-month period from the date of accrual.

The total amount of these additional cash contributions for 2018 amounts to BGN 39,217 thousand, of which BGN 8,993 thousand was not collected as at 31 December 2018 and is presented within the item "Contributions due to the Bureau's Guarantee Fund" in the balance sheet.

In 2018, following a decision of the Management Committee, claims of foreign National Bureaux were paid at the expense of the Guarantee Fund of the Bureau under occurred accidents the fault for which being that of drivers of motor vehicles with Bulgarian registration plates and a fake Green Card certificate – at the amount of BGN 27 thousand (2017: BGN 10 thousand) and claims on policies issued by a member whose license was revoked – BGN 286 thousand (2017: none).

17. OTHER RESERVES

The other reserves of the Bureau are set aside from the result of the ordinary (regulated) activities, as well as the business activities carried out. The final result (profit or loss) is reported as an increase / decrease of other reserves. As at 31 December 2018, they amount to BGN 3,491 thousand (31 December 2017: BGN 3,457 thousand).

18. PROVISIONS FOR PAYABLES UNDER POLICIES ISSUED BY AN INSURER WHOSE LICENSE WAS REVOKED

According to the Insurance Code, the Internal Regulations of the Council of Bureaux, and the Statute of NBBMI, the Bureau shall make payments on behalf of the Bureau and at the expense of each member whose licence to underwrite Third Party Liability insurance has been revoked, has been

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placed in bankruptcy. In May 2018, the insurance license of IC Olympic, Cyprus, was revoked, and in August 2018, a temporary assignee in bankruptcy was appointed. A legal obligation arose for the Bureau to pay the forthcoming claims for damages incurred abroad under policies issued by the Bulgarian Branch of IC Olympic. NBBMI used the services of a certified actuary in order to estimate the Bureau's future payables. Their amount was estimated at BGN 31,092 thousand, and a provision of the same amount has been accrued in the annual financial statements for 2018, against a decrease in the Bureau's Guarantee Fund.

19. PAYABLES UNDER DEMANDED CLAIMS

Payables under demanded claims as at 31 December 2018 amount to BGN 7,150 thousand (31 December 2017: BGN 5,327 thousand). These are related to the activities for claims made by the National Bureaux and foreign insurance companies for property and non-property damages paid by them as a result of traffic accidents caused by uninsured motor vehicles with Bulgarian registration plates as well as claims from foreign insurance companies or National Bureaux in relation to payments made by the Bureau for processing claims of its members in the cases when a member of NBBMI stops performing its obligations for payment to foreign national bureaus or counterparts under insurance events which occurred outside the territory of Bulgaria. As at the date when these financial statements were approved for issue, 79% of the *payables under demanded claims* had been settled.

20. ACCOUNTS PAYABLE

The accounts payable represent current payables to counterparts in relation to supply of goods and services rendered. The accounts payable as at 31 December 2018, amounting to BGN 67 thousand (31 December 2017: BGN 74 thousand), represent the amount due by the Bureau to the Council of Bureaux for the membership fee set for 2018, as well as regular payments related to regulating damages under the Bureau's main activity.

21. OTHER CURRENT LIABILITIES

Other current liabilities include:

	<i>31.12.2018</i>	<i>31.12.2107</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Payables to personnel, including:		
<i>Accruals on unused compensated leaves</i>	20	42
Payables for taxes, including	20	42
<i>Value Added Tax</i>	54	63
<i>Taxes on profit</i>	32	48
<i>Other tax payables</i>	22	12
Other payables	-	3
Total	147	56
	221	161

22. FINANCIAL RISK MANAGEMENT

In its usual course of business, the Association may be exposed to various financial risks, the most prominent being: foreign currency risk, credit risk, and liquidity risk. Therefore, overall risk management focuses on forecasting the results from certain areas in the financial markets in order to minimize the potential adverse effects which might impact the financial results. The financial risks are currently identified, assessed and monitored by means of different control mechanisms in order to adequately assess the forms of maintaining available liquid cash.

Below is a description of the different types of risk that the Bureau is exposed to upon performing its activity, as well as the approach it has adopted to manage these risks.

Foreign currency risk

The Association makes payment to all member states of the Green Card System and is therefore exposed to foreign currency risk. In order to minimize this risk, the Bureau requires full recovery of amounts, including potential foreign exchange losses.

Credit risk

Credit risk is related to a risk of financial losses that the Association may incur if any of its counterparts is unable to repay its obligations in full or within the usual terms.

As at 31 December, the Bureau's financial assets include cash and receivables. In order to limit the risk regarding cash, the Association's policy is to only work with stable financial institutions in Bulgaria.

As at 31 December, the Bureau has concentration of receivables from one member (BGN 21,237 thousand or 64%), which disputes a portion of its payables, due to which the Association is exposed to significant credit risk. In order to minimize the risk, this insurer-member is placed under monitoring, and a guarantee has been established thereby in favour of NBBMI, at the amount of EUR 5,000.

Price risk

The Association is exposed to price risk with respect to the financial investments held thereby. In order to minimize the Risk, the Bureau invests its available cash only in government securities, which are low-interest financial instruments.

Liquidity risk

Liquidity risk is the adverse situation of the Bureau being unable to unconditionally meet all of its payables at maturity.

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The management of this risk is done in accordance with the approved internal procedures for planning and ongoing monitoring of cash flows by the management to ensure repayment of obligations.

Financial liabilities as at 31 December 2018 comprise liabilities under claims demanded and trade payables, at the total amount of BGN 7,217 thousand (31 December 2017: BGN 5,401 thousand), payable within 2 months. Due to a delay or refusal to pay on behalf of its members, the Bureau experiences difficulties in repaying its obligations. In order to minimise the risk, the Association's management has made a decision for additional contributions by members in the Bureau's Guarantee Fund (Note 16).

Risk of interest-bearing cash flows

The Bureau has significant interest-bearing assets, which include receivables under claims to foreign bureau and cash in deposits and current accounts. Regarding payables under demanded claims, the Association is exposed to interest risk, because according to the Internal Regulations of the Council of Bureaux, deferral interest is due upon delay. In order to minimize the risk, the management tries to make payments on time or claims deferral interest in its claims for reimbursement to bureau or insurers at whose expense the payment was made.

31 December 2018	with floating interest %	with fixed interest %	interest-free	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets	-	33,182	39,042	72,224
Financial liabilities	-	7,150	67	7,217
31 December 2017	with floating interest %	with fixed interest %	interest-free	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets	-	22,748	8,718	31,466
Financial liabilities	-	5,327	74	5,401

23. CONTINGENT ASSETS

Each of the sixteen members of the Bureau has established an irrevocable, indivisible and payable on demand bank guarantee amounting to EUR 600 thousand in favour of the NBBMI. By a decision of the Extraordinary General Meeting of NBBMI Members dated 19 December 2017, the amount of the bank guarantee for members placed under monitoring was increased in accordance with their market share, and the highest guarantee amount may reach EUR 5,000 thousand. As at 31 December 2018 one of the Bureau's members was placed under monitoring and the amount of their bank guarantee, as per NBBMI's Statutes, was set at EUR 5,000 thousand.

24. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As at the date of issue of the financial statements, the following court claims have been filed against the Bureau:

Three members of the Bureau filed three separate court cases with a request for repeal of Art. 38B, Para 7 of the Association's Statute, according to which for members placed under monitoring there is a requirement for increase of the amount of the bank guarantee established in favour of NBBMI. One of the courts was repealed at first and second instance. The others were repealed at first instance and the second-instance decision is currently awaited.

A Bureau member filed a court claim to repeal Art. 41, Para 6 of the Association's Statute, according to which in case of cash shortage in the Bureau's Guarantee Fund the Management Committee may pass a decision for additional cash contributions by members. The case was repealed at first instance and the second-instance decision is currently awaited.

A Bureau member (insurance company) filed a claim on the following legal grounds: disputing the fee for processing claims pursuant to a decision of the Management Committee of NBBMI dated 3 November 2015, claimed regarding the bank guarantee placed in favour of NBBMI. The case was resolved in favour of the insurance company at first instance and in favour of the Bureau at second instance. A cassation appeal has been filed by the insurance company. Its consideration is scheduled for October 2019.

A Bureau member filed a commercial claim for BGN 549 thousand for unduly paid fees. The court is now with the first-instance court and the first hearing is to be scheduled.

The management expects that the outcome of the litigations will be favourable for the Bureau.

The Financial Supervision Commission issued a penal ruling dated 8 April 2019 against the Bureau in relation to omissions in the processing of damages. The amount of the pecuniary sanction imposed is BGN 8 thousand. NBBMI in its capacity as claimant filed a penal case of administrative nature against the penal ruling. As at the date of issuance of the financial statements, no court ruling has been issued.

25. POST BALANCE SHEET DATE EVENTS

After the Bureau was placed under monitoring on 1 December 2018, obligations arose for it to increase the amount of the bank guarantee in favour of the Council of Bureaux and to conclude a new common re-insurance contract for all of its members. On 27 March 2019 the Management Committee of NBBMI made a decision to increase the amount of the bank guarantee in favour of the Council of

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Bureax, and it was established in a new amount of EUR 5,000 thousand for a period of two years, as from 1 April 2019, and an additional collateral was provided to the Bank at the amount of EUR 1,000 thousand of NBBMI's cash. Pursuant to the decision of the Council of Bureax for monitoring, the Bulgarian Bureau was required by 1 April 2019 to adopt a common re-instance programme (for all NBBMI members) for the payment of damages caused abroad, which the members should joint after the expiry of their current individual re-insurance contracts. Based on negotiations held with the leading re-insurer, the approximate premium of the common re-insurance contract would amount to about EUR 16,678 thousand. As at the date of issuance of the financial statements, the common re-insurance contract has not yet been signed.

At an extraordinary general assembly of the Bureau's members within several meetings held between 22 March 2019 and 5 June 2019, a decision was made to amend the Bureau's Statute. The main changes are related to adding a new chapter, Bureau Monitoring, to be applied in the period of NBBMI monitoring. As at the date of issuance of the financial statements, the amendments have not been registered in the Register of Non-Profit Legal Entities.