

**S.A. – R. CITY INSURANCE S.A.**

**ANNUAL REPORT**

**up to December 31st 2012**

The annual report is published according to the provisions of the Insurance Supervisory Commission order no. 113119/23.06.2006 and it includes the following information:

**a) Name of the Insurer and legal form**

**S.A. – R. CITY INSURANCE S.A.** founded in 1998 in agreement with the provisions of Law no. 32/03.04.2000, through Decision no. 9/31.10.2001 and is registered in the Registry of Commerce under no. J40/3150/1998 and C.U.I. 10392742.

**b) Insurers Registry number**

The Company is registered in the Insurers Registry under the following licensing number RA – 008 of 07.04.2003.

**c) Insurer's headquarters address**

The Company's headquarters is located in Bucharest, 5-7 Constantin Aricescu Street, ground floor – underground, 1<sup>st</sup> district.

**d) Presentation of shareholder structure and management of the Insurer, accompanied by a brief report of the administrators**

The **shareholder structure** at 31.12.2012 was the following:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage</b>	<b>Share value in RON</b>
S.C. Vivendi International SRL	39.929.664	85,23023	39.929.664
Musat Nicolae	3.686.783	7,86947	3.686.783

Coppola Fortuna	1.109.748	2,36877	1.109.748
Pascale Cristian	891.328	1,90255	891.328
Other shareholders (legal and natural persons)	1.231.658	2,62899	1.231.658
<b>TOTAL</b>	46.849.181	100,00	46.849.181

The **executive management** of the company is ensured by Mr. Nicolae Musat, General Manager, and Mrs. Ioana Mazareanu, Deputy General Manager.

The Company's **Administration Board** comprises 3 members, as follows:

- Nicolae Musat – Chairman
- Fabbretti Fernando – member
- Bogdan Ivanov – member

### **SHORT REPORT OF THE ADMINISTRATORS on the economic-financial results between 01.01.2012 – 31.12.2012**

The management of S.A. – R. City Insurance S.A. expresses its conviction that in 2012 it has followed and accomplished the objectives established by the Shareholders' General Assembly, offered quality products and services to all partners and its activities were in agreement with the responsibilities assumed before shareholders, employees and public opinion.

In the interval between 01.01.2012 – 31.12.2012, S.A. – R. City Insurance S.A., according to the decisions of the Shareholders' General Assembly, has carried out its activity on Romanian territory, with agencies in county-seat municipalities. Taking into account the Company benefits from the right to provide services on Italian territory, its activity has developed, especially the area of General Liability.

We present a summary of the financial results for the exercise concluded at 31.12.2012:

Index	31.12.2011	31.12.2012
Total earnings from gross written premiums	199.824.532	263.789.975
Acquisition expenses	97.289.007	115.244.648

Sum variation of net acquisition expenses	- 31.897.073	22.163.498
Administration expenses	24.022.106	44.314.352

Gross accounting profit at 31.12.2012 = 41.448.114 RON

Cumulated profit tax = 7.763.699 RON

Net profit at 31.12.2012 = 33.684.415 RON

The company's **gross technical reserves** are established according to the legal provisions in force:

	31.12.2011	31.12.2012
Technical reserves for direct insurance	<b>140.713.762</b>	<b>163.395.493</b>
Technical reserve for reinsurance	11.833.920	27.072.681

In regard to liquidity, the solvency rate and technical reserves of the company, S.A. – R. CITY INSURANCE S.A. registered at 31.12.2012 a liquidity ratio higher than 1. According to the legal provisions in force issued by the Financial Supervisory Authority, the liquidity ratio the Insurer must dispose of, at any given moment, must be of at least 1.

Also, the solvency rate of the company, calculated according to the legal provisions issued by the Financial Supervisory Authority of Romania, is of 78.469.525 RON, over the minimum solvency rate of 48.463.571 RON, and 16.772.470 RON for the safety fund, necessary indices that must be maintained in relation to the activity volume.

The company complied with the legal provisions regulating the categories of assets allowed to cover technical reserves, as well as the conditions and asset evaluation criteria. The total of technical reserves for general insurance activities is of 163.395.493 RON, and the total assets for the coverage of technical reserves, according to legal provisions, is of 180.671.165 RON.

According to the financial statements, the balance sheet and the profit and loss account, the company registered at 31.12.2012 a net profit of 33.684.415 RON.

From this profit, the legal mandatory reserve was established in the amount of 2.072.406 RON, the losses registered in previous years have been covered and the profit difference will be divided according to the decision made by the Shareholders' General Assembly.

### **e) Insurance categories and classes**

S.A. – R. CITY INSURANCE S.A. is authorized for insurance and reinsurance activities by means of decision no. 9/31.10.2001 and its subsequent notices.

On Romanian territory, the company sells the following general insurance products:

***Class 1*** – accident and sickness (including work and professional sickness);

- Personal accidents insurance (death caused by an accident, permanent disability, hospitalization expenses, medication expenses, the temporary loss of the ability to work)
- Personal motor accidents and baggage insurance for those traveling with vehicles and their baggage (death, total or partial permanent disability, baggage deterioration, natural catastrophes)
- Voluntary accident insurance for athletes (total permanent disability, partial permanent disability, medical expenses for the treatment plan following an accident)
- Accident and third party liability for anglers and hunters (death caused by accident, permanent disability, first-aid expenses, civil third party liability)
- Extreme sports

***Class 2*** – Health insurance

- City Health Care

***Class 3*** – Land transportation means (other than by rail)

- Motor-Hull (damage, theft, vandalism, personal accidents, road-side assistance, baggage destruction/degradation)

***Class 7*** – Goods in transit

- CARGO insurance for goods during transport (loss, damage sustained by the insured goods, expenses for salvaging the goods)

***Class 8*** – Fire and natural forces

- CAR/EAR for construction-montage works and constructor's liability
- Money and other valuables (theft, armed robbery, theft by breaking and entering, strikes, popular uprisings, civilian unrest, vandalism/sabotage, fire, explosion, falling objects, motor accidents, natural catastrophes)
- Goods and properties
- OPTIM CASA (earthquake, landslide, flood, fire, lightning bolt, explosion)
- PAD policy against natural disasters (earthquakes, landslide and floods, as natural phenomena)

***Class 9*** – Other goods

- Agricultural and livestock insurance

***Class 10*** – Motor third party liability

- MTPL (according to ISA order no. 14/2011 – mandatory third party liability insurance for damage caused by motor accidents)
- CMR insurance, carrier's liability for the goods shipped (damaging, total or partial loss of the shipped goods)

***Class 13*** – General liability

- ROTR – contractual legal liability of road carriers (material damage caused to those third parties that are the beneficiaries of the transport services offered by the Insured Party)
- Civil legal liability (damage caused at fault to third parties by the Insured Party, for which the latter is legally liable, according to the law, before the injured parties)
- Tourist insurance against the insolvency or bankruptcy of the travel agency
- Employer's liability for its employees
- Landlord's liability before the tenant
- The tenant's liability before the landlord
- General legal liability (store and other previous types that do not enter the above-mentioned categories)
- Professional civil liability for insurance agents, insurance brokers, football impresarios, legal counsels, notary publics, shipping houses, accountants/auditors/fiscal consultants, appraisers and technical experts, judicial administrators, legal experts, liquidators, managers, malpraxis for medical personnel, security and guard companies, repair shops, public food units, tourism agencies and hotels, service providers, policemen, architects.

***Class 14*** – Credit insurance

- Insurance of commercial credits

***Class 15*** – Warranties

- Bid bonds (guarantees the insured party fulfills the obligations stemming from its participation to the tender)
- Performance bond (guarantees the insured party will fulfill its contractual obligations)
- Maintenance bond (guarantees the insured party will fulfill its contractual obligations)

- Advance payment bond (the beneficiary is indemnified if the insured party is obligated to return the advance payment)

**Class 18** – Assistance for individuals in difficulty during travels abroad or during an absence from the residence or permanent domicile.

- Complex insurance for travels abroad (touristic assistance, accidents, sickness, repatriation, baggage loss/delay/theft, trip annulment)
- Travel Insurance Card Classic (touristic assistance, accidents, sickness, repatriation)
- Travel Insurance Card Corporate (touristic assistance, accidents, sickness, repatriation, death)
- Travel Insurance Card 5/10 (touristic assistance, accidents, sickness, repatriation, death)

According to order 706/02.10.2007 issued by the Insurance Supervisory Authority and notice no. 404/16.05.2008, the company is authorized to carry insurance activities based on the free circulation of services on Italian territory for the following general insurance classes:

**Class 1** – accidents and sickness (including work and professional sickness);

**Class 3** – Land transportation means (other than by rail);

**Class 7** – Goods in transit;

**Class 8** – Fire and natural forces;

**Class 9** – Other goods;

**Class 14** – Credit insurance;

**Class 15** – Warranties;

**Class 18** – Assistance for those in difficulty while traveling abroad.

**f) General information regarding insurance products and the deductions included in the fiscal legislation that apply to insurance contracts**

In 2012, the revenues from premiums (minus the canceled insurance premiums) are represented by the gross written premiums from direct insurance.

<b>Insurance revenues</b>	<b>31.12.2011</b>	<b>31.12.2012</b>
Touristic assistance insurance	3.223.107	2.671.770
Insolvency - travel agencies	24.425	70.457
General civil liability	111.395.815	179.667.237
Personal accidents	106.762	387.272
Goods	2.960.858	3.387.632
Motor-Hull	2.650.839	2.839.301
Warranties	72.199.230	26.437.594
MTPL	6.431.057	47.659.368
CAR/EAR	648.712	264.407
Baggage	28.043	17.464
CMR	9.458	45.154
<b>Total revenues from gross premiums</b>	<b>199.824.532</b>	<b>236.789.975</b>

In 2012, the company's total volume of written premiums increased with 63.965.443 RON, 1.32 times in comparison with 2011.

### **Fiscal deductions**

According to the fiscal legislation, the following are deductible expenses:

- Health insurance premiums, within the limit of 250 Euros or the equivalent in RON, in a fiscal year;
- Insurance premium expenses for business assets;
- Assets that also serve as bank guarantees for credits used in the unfolding of the activity for which a taxpayer is authorized or used during a lease or rent contract;
- Persons that obtain income from salaries, provided the sum representing the insurance premium is subject to taxation at the moment the bearer operated the payment.

In addition to those mentioned above, the following are not considered as being subject to taxation: the sums cashed from insurance policies of any type that represent indemnities, insured sums, as well as any other rights, except earnings obtained from insurance companies as a result of the insurance contract signed between parties, occasioned by redeemable prize-draw bonds.

The insurance and/or reinsurance operations and any related services done by people brokering them are exempt from VAT.

**g) Network presentation and product distribution channels**

S.A. – R. CITY INSURANCE S.A. had, at 31.12.2012, 44 agencies in all counties. All information regarding the contact data of territorial agencies are mentioned at [www.cityinsurance.ro](http://www.cityinsurance.ro).

Presently, the sales network comprises over 500 agents, covering all Romanian territory. The services operated on Italian territory and the distribution of insurance products are done via brokers.

**h) Claim agencies presentation, assistance network and annual regularized situation, according to the accounting balance**

For the 10<sup>th</sup> insurance class, the company offers assistance for the ascertainment and liquidation of claim proceedings via the territorial agencies opened in each county.

For the 18<sup>th</sup> insurance class – assistance for those in difficulty while traveling or during absence from home or the permanent residence, the company has signed a contract with April International, company that takes over the cases, 24 hours a day, with a worldwide medical services network.

Annual regularized situation, according to the accounting balance:

<b>Insurance class</b>	<b>Gross written premiums - RON</b>
10. Motor civil liability	<b>47.704.521</b>
18. Assistance for those in difficulty	<b>2.671.770</b>

**i) External financial auditor’s report – summary**

S.C. ALFA CONTEXPERT S.R.L.

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**Independent financial auditors' report for S.A. – R. CITY INSURANCE S.A.  
shareholders**

**Report on the financial situation**

We have audited the annexed financial situation of S.A. – R. CITY INSURANCE S.A. (from here on, called the company), for the year ending on December 31st 2012, comprised of the balance sheet, technical account for general insurance, non-technical account for general insurance, the Treasury flow situation and modification of the share capital, as well as a summary of the representative accounting policies and other explanatory notes.

The financial situation refers to:

- |   |                |
|---|----------------|
| - Total share capital:                      | 79.911.314 RON |
| - The net result of the financial exercise: | 33.684.415 RON |

**The management's responsibility for the financial situation**

The company's management is responsible for the drafting and accurate presentation of the financial situation, according to Order no. 3129/2005 issued by the Insurance Supervisory Commission for the approval of accounting norms in agreement with the European legislation for insurance activities, with its subsequent modifications and additions, and for internal control, which the company considers necessary in order to allow the drafting of the financial situation free of significant distortions owing to fraud or errors.

**Auditor's responsibility**

Our responsibility, based on the audit performed, is to express an opinion regarding the financial situation. We have performed the audit according to the International Audit Standards adopted by the Romanian Financial Auditors' Chamber. These standards require us to respect the ethical guidelines, to plan and perform the audit in order to obtain a reasonable confirmation that the financial situation is free of significant distortions. The audit represents a series of procedures with the purpose of obtaining audit proof in regard to the sums and information included in the financial situation. The selected procedures depend on the professional reasoning of the auditor, including the evaluation of the significant distortion risk due to fraud or errors.

In order to assess such risks, the auditor takes into consideration the relevant internal controls for the drafting and accurate presentation of the company's financial situation, and establishes the relevant audit procedures under the circumstances; notwithstanding, the purpose is not to express opinions regarding the effectiveness of the company's internal control.

The audit also includes the evaluation of the accounting policies' adequacy and the reasonable character of the accounting estimates made by the Management, as well as the evaluation of the general presentation of the financial situation.

We consider the audit we performed represents a reasonable basis for our audit opinion.

## **Opinion**

In our opinion, the financial situation offers, in all significant aspects, a precise representation of the financial position of S.A. – R. CITY INSURANCE S.A. at 31.12.2012, the financial performance and treasury flows for the year concluded at this date, in agreement with Order 3129/2005 issued by the Insurance Supervisory Commission for the approval of accounting requirements in conformity with the European directives for the insurance sector, with its subsequent modifications.

## **Other aspects**

The annexed financial situation is not drafted in agreement with accounting regulations and principles accepted by other countries and jurisdictions than Romania. As a result, the annexed financial situation is not meant for the use of persons that are not familiar with the legal accounting principles applied in Romania, including Order no. 3129/2005 issued by the Insurance Supervisory Commission, with its subsequent modifications.

In agreement with Order 22/2008 issued by the Insurance Supervisory Commission, article 7, paragraph 2, letters g-j for the approval of the Regulation regarding the informing and reporting requirements for the statutory audit of financial situations of insurance/reinsurance companies:

- The technical reserves established for the general insurance activity and presented in the financial situation have been calculated at 31.12.2012, according to the legal provisions regarding the accounting methodology and the record of technical reserves. The categories of assets allowed to cover the technical reserves of the Company are within the established limits and respect the dispersion rules for capital investment.
- The determination of the solvency rate and the liquidity coefficient comply with the legal provisions.
- The reinsurance program was adequately drafted and the internal regulations regarding the reinsurance program of the company were respected. In the determination of the solvency rate all reinsurance elements are reflected, according to the legal provisions.
- The company respects the internal control procedures – activity carried on by the Internal Control department.

## **Report on the conformity of the administrators' report regarding the financial situation**

In agreement with Order no. 3129/2005 issued by the Insurance Supervisory Commission, article 312, for the approval of accounting requirements in conformity with the European directives

for the insurance sector, with its subsequent modifications, we have read the administrators' report attached to the financial situation. The report is not part of the financial situation.

In this report, we have not identified financial information that significantly in disagreement with the information presented in the adjoined financial situation.

Bucharest, 25.03.2013

S.C. ALFA CONTEXPERT S.A.

Authorization no. 175/2002

Financial auditor Adriana Steliana SGARBURA, license no. 409/2001

#### **j) General information**

At 31.12.2012, the financial data of S.A. – R. CITY INSURANCE S.A. was the following:

<b>No.</b>	<b>Index</b>	<b>Value (RON)</b>
1	<b>Total assets</b>	294.076.079
2	<b>Total stocks (technical reserves)</b>	163.395.493
3	<b>Total gross revenues</b>	250.12.985
4	<b>Total expenses</b>	308.734.871
5	<b>Total gross written premiums</b>	263.789.974
6	<b>Number of active contracts</b>	130.447
7	<b>Outstanding indemnities</b>	50.409.050
8	<b>Paid indemnities</b>	5.352.605

#### **k) Investments and their yield**

The previous year, in order to cover the risks assumed and the permanent solvency and liquidity, City Insurance made careful investments to ensure the company's safety. The structure of the asset portfolio is correlated with the assumed obligations, from the point of view of the currency it is expressed in, as well as the deadlines.

During the previous year, the company made investments whose structure represented, for the most part, bank deposits with fixed yield and real-estate investments, according to the decisions of the Shareholders General Assembly.

**I) Short version of the annual financial situation**

Summarized balance sheet of the insurers at 31.12.2012

Index	No.	Balance at:	
		01.01.2012 RON	31.12.2012 RON
	<b>B</b>	<b>1</b>	<b>2</b>
<b>Assets</b>		<b>X</b>	<b>X</b>
Intangible assets	01	161.161	1.4413790
Capital investment	02	75.054.557	183.752.669
Technical reserves share for contracts ceded for reinsurance	03	11.833.919	27.072.681
Outstanding debts	04	38.867.407	17.792.363
Tangible assets	05	6.708.274	2.549.211
Reserves	06	69.737	138.878
Bank accounts and cash register	07	17.102.418	22.890.792
Advance expenses	08	65.450.72	38.766.176
<b>Total assets (rd.01+02+03+04+05+06+07+08)</b>		<b>213.247.745</b>	<b>294.076.079</b>
<b>Liabilities</b>		<b>X</b>	<b>X</b>
Share capital	09	15.854.219	46.849.181
Reevaluation reserves	10	700.081	700.081
Reserves	11	1.261.618	3.334.024
Reported result representing uncovered losses	Balance C	12	0
	Balance D	13	109.145
Reported result from the correction of accounting errors	Balance C	14	0
	Balance D	15	67.587
Exercise result	Balance C	16	17.190.521
	Balance D	17	0
Profit distribution	18	1.024.707	2.072.406
<b>Own capital</b>	19	<b>33.805.000</b>	<b>79.911.314</b>

<b>Technical reserves</b>		20	<b>140.713.762</b>	<b>162.037.464</b>
<b>Provisions</b>		21	<b>42.730</b>	<b>0</b>
<b>Debts</b>		22	<b>28.155.388</b>	<b>44.508.742</b>
<b>Advance revenues</b>		23	<b>10.530.865</b>	<b>6.260.530</b>
<b>Total liabilities (19+20+21+22+23)</b>			<b>213.247.745</b>	<b>294.076.079</b>

**Summarized technical account of general insurance at 31.12.2012**

Index	Row no.	Accomplishments of the reported period	
		Previous	Current
A	B	1	2
1.Revenue from net reinsurance premiums	01	111.065.171	274.247.208
2.Net revenue quota of liabilities transferred from the non-technic account (difference between revenues and liability expenses) (+)	02	191.637	0
3.Other net reinsurance technical revenues (+)	03	417.236	1.644.972
4.Net reinsurance claim expenses	04	10.024.372	56.3594.737
5.Variation of other net reinsurance technical reserves	05	33.999	43.054
6.Net exploitation expenses	06	80.695.442	170.515.153
7.Other net technical reinsurance expenses	07	52.507	28.460
8.Equalization reserve variation (+/-)	08	206.902	1.070.594
<b>9.Technical result for general insurance</b>		<b>x</b>	<b>x</b>
<b>Profit</b>	<b>10</b>	<b>20.660.822</b>	<b>47.182.703</b>

### Non-technical account summarized at 31.12.2012

Index	Row No.	Accomplishments of the reported period	
		Previous	Current
A		1	2
<b>1. Technical result of the general insurance - profit</b>	<b>01</b>	<b>20.660.822</b>	<b>47.182.703</b>
<b>2. Capital investment revenues</b>	<b>02</b>	<b>236.378</b>	<b>509.225</b>
<b>3. Capital investment expenses</b>	<b>03</b>	<b>63.801</b>	<b>11.145.649</b>
4. Annual net income quota of capital investments transferred in the technical account of general insurance	04	191.637	0
<b>5. Other non-technical revenues</b>	<b>05</b>	<b>12.356.631</b>	<b>19.926.461</b>
6. Other non-technical revenues, including provisions and value adjustment	06	12.504.262	21.987.461
<b>7. Current result - profit</b>	<b>07</b>	<b>20.494.131</b>	<b>41.448.114</b>
<b>8. Gross result - profit</b>	<b>08</b>	<b>20.494.131</b>	<b>41.448.114</b>
9. Income tax	09	3.303.610	7.763.699
<b>10. Net result of the exercise - profit</b>	<b>10</b>	<b>33.684.415</b>	<b>24.083.121</b>

#### m) Applicable law

The applicable laws for insurance contracts are Law 136/1995 and Law 32/2000.

#### n) Development strategies and perspectives

In 2012, the company continued its development by opening new territorial branches and agencies in Romania, by diversifying its insurance portfolio and adapting its insurance products to the requirements and needs of current and potential clients.

The company aims not only to evolve, but to do so in a constant manner. Consequently, the main development areas for 2012 are: a 15-20% increase of the turnover, to enter Top 5 Romanian Insurers, to extend the company's social activities, to diversify the insurance portfolio by underwriting new types of insurance policies.