

S.A. – R. CITY INSURANCE S.A.

ANNUAL REPORT

up to December 31st 2013

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, 1st district.

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

Shareholder structure at 31.12.2013 was the following:

Shareholder	Number of shares	Percentage	Share value in RON
S.C. Vivendi International SRL	64.668.436	8,523,023	64.668.436
Other shareholders (legal and natural persons)	11.206.564	1,476,977	11.206.564
TOTAL	75.875.000	100	75.875.000

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

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

- Nicolae Musat – Chairman
- Pascale Cristian – Member
- Ivanov Bogdan – Member

SHORT REPORT OF THE ADMINISTRATORS

on the economic-financial results between 01.01.2013 – 31.12.2013

The management of S.A. – R. City Insurance S.A. expresses its conviction that in 2013 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 01.01.2013 – 31.12.2013, 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 all county-seat municipalities. Taking into account the Company was not entitled to underwrite new risks while offering services on Italian territory, the percentage of policies issued in Italy represented 29.08% from the total number of policies issued by the Company.

We present a summary of the financial results for the exercise concluded at 31.12.2013:

Index	31.12.2012	31.12.2013
Total earnings from gross written premiums	263.789.974	304.720.586
Acquisition expenses	115.244.648	77.397.821
Sum variation of acquisition expenses	- 23.123.302	-976.195
Administration expenses	44.314.352	42.528.271

Gross accounting profit at 31.12.2013 = 29.012.184 RON

Cumulated profit contribution = 4.929.063 RON

Net profit at 31.12.2013 = 24.083.121 RON

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

	31.12.2012	31.12.2013
Technical reserves for direct insurance	163.395.493	233.741.797
Technical reserve for reinsurance	27.072.681	29.529.898

Financial Indicators

In regard to liquidity, the solvency rate and technical reserves of the company, S.A. – R. CITY INSURANCE S.A. registered at 31.12.2013 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 105.336.926 RON, over the minimum solvency rate of 4.402.787 RON, and 16.503.480 RON for the safety fund, necessary indicators 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 assets evaluation criteria. The total of technical reserves for general insurance activities is of 233.741.797 RON, and the total of assets for the coverage of technical reserves, according to legal provisions, is of 241.053.209 RON.

According to the financial statements, the balance sheet, and the profit and loss account, the company registered at 31.12.2013 a net profit of **24.083.121 RON**. From this profit, the legal mandatory reserve was established, in amount of 1.450.517 RON, and for the profit difference that will be divided according to the decision made by the Shareholders' General Assembly, the proposition of the Administration Board is to increase the company's share capital.

We express our conviction that the commitments set by the company's management and Administration Board within the Shareholders' General Assembly have been reached, in agreement with the shareholders' desire to own an economically healthy company.

e) Insurance categories and classes

S.A. – R. CITY INSURANCE S.A. is authorized for insurance and reinsurance activities by 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 policy
- Personal motor and baggage accidents for those traveling with vehicles and their baggage
- Voluntary accident insurance for athletes
- Accident and third party liability for anglers and hunters

Class 2 – Health insurance

- City Health Care

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

- Motor-Hull

Class 7 – Goods in transit

- CARGO insurance for goods during transport

Class 8 – Fire and natural forces

- CAR/EAR for construction-montage works
- Money and other valuables
- Goods and properties
- OPTIM CASA
- PAD policy against natural disasters

Class 9 – Other goods

- Agricultural and animal 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

Class 13 – General liability

- ROTR – contractual legal liability of road carriers
- Civil legal liability
- Tourist insurance against the insolvency or bankruptcy of the travel agency
- Employer's liability before employees
- Landlord's liability before the tenant
- 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
- Performance bond
- Maintenance bond
- Advance payment bond

Class 18 – Medical assistance

- Complex insurance for travels abroad
- Travel card classic
- Travel card corporate
- Insurance for EU workers
- Extreme sports insurance

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 2013, the revenues from premiums (minus the canceled insurance premiums) are represented by the gross written premiums from direct insurance.

Insurance revenues	31.12.2012	31.12.2013
Touristic assistance insurance	2.671.770	2.227.303
Insolvency - travel agencies	70.457	102.35
General civil liability	179.667.237	86.52.427
Personal accidents	387.272	392.535
Goods	3.387.632	2.241.895
Motor-Hull	2.839.300	4.110.453
Warranties	26.068.502	10.045.270
MTPL	47.659.367	177.045.469
CAR/EAR	264.407	773.29
Baggage	17.464	192.994
CMR	45.154	237.203
Total revenues from gross premiums	263.789.975	304.720.586

In 2013, the company's total volume of written premiums increased with 40.930.611 RON, 1.16 times in comparison with 2012.

Fiscal deductions

According to the fiscal legislations, 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 assets from business patrimony;
- 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 renting 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 31.12.2013 46 agencies in all counties. All information regarding the contact data of territorial agencies are mentioned at www.cityinsurance.ro.

Presently, the sales network comprises over 150 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 10th insurance class, the company offers assistance for the ascertainment and liquidation of claim proceedings via the territorial agencies opened in each county.

For the 18th insurance class – assistance for those in difficulty while traveling or during the 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

Insurance class	Gross written premiums - RON
10. Vehicle civil liability	177.045.469
18. Assistance for those in difficulty	2.227.303

i) General information

At 31.12.2013, the financial data of S.A. – R. CITY INSURANCE S.A. was the following:

No.	Indicator name	Value (RON)
1	Total assets	405.443.881
2	Total stocks (technical reserves)	233.741.797
3	Total gross revenues	348.650.883
4	Total expenses	319.638.699
5	Total gross written premiums	304.720.586
6	Number of active contracts	591.024
7	Owed indemnity	60.319.967
8	Paid indemnities	78.800.551

j) Investments and their yield

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

In 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.

k) Short version of the annual financial situation

Summarized balance sheet of the insurers at 31.12.2013

Index	No.	Balance at:	
		01.01.2013 RON	31.12.2013 RON
	B	1	2
Assets		X	X
Intangible assets	01	1.441.790	108.026
Capital investment	02	183.752.669	131.221.000
Technical reserves share for contracts ceded for reinsurance	03	27.072.681	29.529.899

Outstanding debts		04	16.670.407	90.249.144
Tangible assets		05	2.549.211	2.399.137
Reserves		06	138.878	88.870
Bank accounts and cash register		07	22.890.792	53.491.761
Advance expenses		08	39.559.651	38.766.176
Total assets (rd.01+02+03+04+05+06+07+08)			294.076.079	405.443.881
Liabilities			X	X
Share capital		09	46.849.181	75.875.000
Reevaluation reserves		10	700.081	0
Reserves		11	3.334.024	5.486.832
1. Reported result representing uncovered losses	Balance C	12	0	0
	Balance D	13	0	0
2. Reported result from the correction of accounting errors	Balance C	14	0	0
	Balance D	15	2.583.981	0
Exercise result	Balance C	16	33.684.415	24.083.121
	Balance D	17	0	0
Profit distribution		18	2.072.406	1.450.517
Own capital		19	79.911.314	103.994.436
Technical reserves		20	162.037.464	231.784.349
Provisions		21	2.214.350	4.621.424
Debts		22	42.294.392	51.773.347
Advance revenues		23	6.260.530	11.312.877
Total liabilities			294.076.079	405.443.881

Summarized technical account of general insurance at 31.12.2013

Index	Row no.	Accomplishments of the reported period	
		Previous	Current
A	B	1	2
1.Revenue from net reinsurance premiums	01	274.247.208	235.820.086
2.Net revenue quota of liabilities transferred from the non-technic account (difference between revenues and liability expenses) (+)	02	0	0
3.Other net reinsurance technical revenues (+)	03	1.644.972	6.316.906
4.Net reinsurance claim expenses	04	56.594.737	89.206.325
5.Variation of other net reinsurance technical reserves	05	500.533	2.917.740
6.Net exploitation expenses	06	170.515.153	116.233.415
7.Other net technical reinsurance expenses	07	28.460	254.704
8.Equalization reserve variation (+/-)	08	1.070.594	599.419
9.Technical result for general insurance		x	x
Profit	10	47.182.703	32.925.389

Non-technical account summarized at 31.12.2013

Index	Row No.	Accomplishments of the reported period	
		Previous	Current
A	B	1	2
1.Technical result of the general insurance - profit	01	47.182.703	32.925.389
2.Capital investment revenues	02	509.225	223.400
3.Capital investment expenses	03	11.145.649	10.099.096

4. Annual net income quota of capital investments transferred in the technical account of general insurance	04	0	0
5. Other non-technical revenues	05	19.926.461	5.687.933
6. Other non-technical revenues, including provisions and value adjustment	06	21.987.518	11.036.730
7. Current result - profit	07	41.448.114	29.012.184
8. Gross result - profit	08	41.448.114	29.012.184
9. Income tax	09	7.763.699	4.929.063
10. Net result of the exercise - profit	10	33.684.415	24.083.121

l) Applicable law for insurance contracts

The applicable law for insurance contracts are: the Civil Code, Law 136/1995 and Law 32/2000, with their subsequent modifications and additions, and the norms issued by the Financial Supervisory Authority.

m) Development strategies and perspectives

In 2013, the company continued to diversify its insurance portfolio and adapted 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 2014 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.

External– summary

SC AGO Contexpert & Audit SRL
J40/10531/1996; C.U.I. RO9059095
Member of the Romanian Financial Auditors' Chamber
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Independent financial auditors' report for S.A. – R. CITY INSURANCE S.A. shareholders

Financial situation report

We have audited the annexed financial situation of S.A. – R. CITY INSURANCE S.A. (J40/3150/1998, fiscal code 10392742), for the year ending on December 31st 2013, comprised of the balance sheet, technical account for general insurance, non-technical account for general insurance, the Treasury flow situation and the modification of own share capital, as well as a summary of the representative accounting policies and other explanatory notes.

The financial situation refers to:

- | | |
|--|-----------------|
| - The total of own share capitals: | 103.994.436 RON |
| - The net result of the financial exercise | 24.083.121 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 as 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 is that, based on the audit performed, to express an opinion regarding the financial situation. We have performed the audit according to the Audit Standards adopted by the Romanian Financial Auditors' Chamber. These norms 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 the setting of the relevant audit procedures under the circumstances, but not with the purpose of expressing 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 for the financial situation.

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

Opinion

In our opinion, the financial situation for the financial exercise concluded on December 31st 2013 for S.A. – R. CITY INSURANCE S.A. have been drafted, in all significant aspects, 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, and the accounting policies described by the notes to the financial situation and present the financial position of the company at 31.12.2013, the financial performance and treasury flows for the year concluded at this date – without reserves.

Other aspects

The annexed financial situation is not meant to present the financial position, the result of operations and a complete set of notes to the financial situation in agreement with accounting regulations and principles accepted by countries and jurisdictions other than Romania. As a result, the annexed financial situation is not drafted 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, and the accounting policies described in the notes to the financial situation.

Report regarding other regulatory aspects

The company's management is responsible for the drafting and transmission of all financial and technical reporting, in agreement with the norms and legal regulations in force and at the deadlines mentioned by the same. Our responsibility, in agreement with the Order 22/2008 issued by the President of the Insurance Supervisory Commission, article 7, paragraph 2, letters g-j, based on the procedures undertaken for the audit proofs regarding the sums and information presented in the financial situation, we report on the following aspects:

1. The technical reserves established for the general insurance activity and presented in the financial situation have been calculated at 31.12.2013, 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.
2. The determination of the solvency rate and the liquidity coefficient presented in the Report submitted by the company to the Insurance Supervisory Commission, called "General Insurance Activity" were done based on data from financial reports at 31.12.2013 and are established in compliance with the legal provisions.
3. 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. There are no significant aspects to report.
4. The company respects the internal control procedures – activity carried on by the Internal Control department. During the audit, no significant distortions were identified regarding the design and implementation of the company's internal control system, which could lead to significant distortions of the financial situation. Other observations related to internal

control, together with the recommendations necessary to solve them, will be reported, if the situation so requires it, by means of a “letter addressed to the management of the company”.

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, 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.

AGO Contexpert & Audit SRL
Authorization no. C740/2001

Bucharest,
28.03.2014

Financial auditor
Ana BORDIANU
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