

THE INCOME AND EXPENSES BUDGET FOR 2015 AND THE RELATED EXPLANATORY NOTES

To: The General Meeting of Shareholders of S.C. ASIGURARE-REASIGURARE ASTRA S.A.

The income and expenses budget for the year 2015 ("the Budget") of S.C. ASIGURARE-REASIGURARE ASTRA S.A. ("the Company") has been prepared in accordance with the accounting regulations applicable to insurance companies issued by the Financial Supervisory Authority ("ASF") and in compliance with the European Directives. These accounting regulations are applied together with the Accountancy Law no. 82/ 1991, as republished, amended and complemented.

The Company depends on the successful implementation of the measures proposed and undertaken by the Special Administrator, acting under the mandate granted by ASF. These measures are aimed at avoiding bankruptcy proceedings by restoring the Company's liquidity and solvency position depending on the identified actual and operative recovery prospects and taking into account the applicable economic constraints, the cumulated requirements of insurance, capital markets and companies' legislation, as well as the complex diagnosis of the Company's aggravated and generalized symptoms accumulated over time.

The main measure proposed by the Special Administrator and approved by the ASF is to increase the share capital by cash contribution amounting to RON 490 Million. A first share capital increase addressed exclusively to existing shareholders was successfully completed by the subscription and payment of RON 65 million in October 2014. This increase was approved by the ASF on 18 February 2015. Subsequently, the Special Administrator issued a decision regarding the second share capital increase by an amount of RON 425 million, addressed to other investors should the existent shareholders do not exercise their preference rights. This second share capital increase is currently in progress.

The budget does not include the potential positive effects that might result from the following measures of the Recovery Plan due to the uncertainty regarding the probability and necessary time to successfully implement them:

1. Recovery of intra-group loans with an estimated positive net impact of RON 116 million on net assets;
2. Out-of-court settlement of disputes relating to some insurance contracts with an estimated positive net effect on equity of RON 151 million out of which RON 141 million related to three contracts with Romstrade company;
3. Business combination through financial consolidation of insurance portfolios of a life insurance company on the Romanian Market and Astra, having a positive net effect on the Company's liquidity and capital equity estimated at RON 118 million.

The Budget realization fundamentally depends on the following assumptions:

- The successful completion of the second share capital increase by cash contribution in amount of RON 425 million, taking into account the lack of liquidities the Company faces, with the liquidity coefficient for general insurance decreasing to 0.08 at 31.12.2014 from 0.12 at 31.12.2013;
- No material adverse events will take place in the remaining part of the year, such as negative court rulings in the Company's ongoing lawsuits which could significantly impact the Company's liquidity position and its ability to continue as a going concern.

The income and expenses budget for 2015 is based on the 2014 operational GWP (Gross Written Premiums) values. The average exchange rate for 2015 was assumed at RON/EUR 4.42.

The income and expenses budget for 2015 is prepared separately for the general insurance and life insurance businesses. The table below provides a summary of the budget for 2015 compared to the actual results of 2014:

RON	2014	2015
	Actual	Budget
INCOME		
Gross Written Premiums	770.116.327	850.401.545
UPR change	84.902.859	632.605
Earned premiums	855.019.186	851.034.149
Earned premiums ceded to reinsurance	146.607.467	76.903.147
Net earned premiums	708.411.719	774.131.002
Other income	103.661.140	2.000.000
Investment result	-6.802.677	4.030.098
EXPENDITURE		
Incurred claims	424.736.457	569.970.001
Commission expense including change in deferred acquisition cost	142.433.225	140.190.357
Provisions	161.933.382	5.000.000
Discounts	70.922.920	13.500.000
Administrative expenses	117.619.817	114.048.919
Other expenses	39.195.149	32.524.902
Total expenses	956.840.949	875.234.179
Reinsurance Income	182.275.368	120.115.048
Net expenses	774.565.581	755.119.131
Profit net	30.704.600	25.041.970

The main assumptions and estimates used in the budget preparation are presented hereinafter.

A. Revenue estimates

Premiums written in 2015 are expected to be 10% higher than in 2014.

Astra's evolution is relatively in line with the general evolution of the Romanian insurance market being at the same time linked to the process of special administration based on the recovery plan approved by ASF.

GWP related to general insurance have been determined based on the monthly estimates of the number of policies expected to be written and on the average premium for the Company's main business lines in Romania (Motor Third-Party Liability, Motor Hull and Property) until the year-end. The cumulative effect of other business lines and the effect of other countries in which Astra conducts business through its own branches (Hungary, Slovakia, Germany) has been added.

An increase of 14% in 2015 has been considered for the insurance against fire and other natural forces compared to 2014. This increase is based on facultative insurance and compulsory property insurance (PAD) sales.

The Company's Motor Hull insurance (CASCO) business is estimated to grow by 11% in 2015 compared to 2014. Starting from January 2015, the Company initiated a process aimed at increasing the efficiency of its motor hull insurance portfolio by raising the insurance tariffs. Consequently the average premium for motor hull insurance in 2015 will value RON 1.975.

Financial and Investment Income – starting from September 2015 the revenues from financial investments are estimated to grow as a result of the share capital increase by cash contribution amounting to RON 425 million. The cash resulting from the share capital increase operation will be used to settle certain priority payments - claim files significantly overdue and court subrogation carrying penalties and posting a high enforcement risk, with a total estimated value of RON 110 million as well as other overdue debts. The residual sum of RON 315 million is budgeted to be placed in short term investments, aimed at a sound liquidity management whilst maximizing the investment revenue obtained by the Company.

B. Expenses estimates

Total expenses are estimated to decrease by 8% compared to 2014. This estimate reflects the Company's strategy to raise business efficiency on medium and long-term perspective by increasing the weight of insurance products with lower claims ratios and by optimizing administrative and acquisition costs.

Administrative expenses are estimated to slightly decrease by 3%. compared to an increase in sales of 10%.

C. Technical reserves estimates

- **The unearned premium reserve (UPR)** has been estimated at the end of each month from the second half of 2015 considering the subscriptions estimates and the unexpired risk periods for these subscriptions per type of product as well as claim ratio;
- **The reserve for reported but not settled claims and claims paid** has been estimated based on a monthly risk assessment exposure (number of claims), frequency and severity of claims for each product group;
- **The Deferred Acquisition Cost ("DAC")** has been estimated by applying the average commissions per insurance class on the level of estimated premium reserve.

The technical reserves estimates are directly linked to the estimates regarding the number of written policies and the average premium for each product type/line of business.



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