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THE INCOME AND EXPENSES BUDGET FOR 2014 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 2014 ("the Budget") of S.C. ASIGURARE-REASIGURARE ASTRA S.A. ("the Company") was prepared in accordance with the accounting regulations applicable to insurance companies issued by the Financial Supervisory Authority ("ASF") and conforming to the European Directives. These accounting regulations are applied together with Accountancy Law no. 82/ 1991, as republished, amended and complemented.

The Company is dependent on the successful implementation of the measures proposed and undertaken by the Special Administrator under the mandate granted by ASF, aimed at avoiding bankruptcy proceedings by measures intended to restore the Company's liquidity and solvency position, depending on the actual and operative recovery prospects identified and taking into account the economic constraints applicable to the Company, 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.

According to the analysis performed by the Special Administrator on the Company's financial and operational position, the recovery plan includes the following measures, approved by ASF:

1. Increase of share capital through cash contribution amounting to RON 490 Million. The recovery prospects depend mainly on the existing shareholders' commitment to carry out an initial capital injection (of RON 70 Million) and to cover short-term liquidity requirements over the duration of the recovery plan, as well as on the interest of potential strategic investors in the Company. The first share capital increase of RON 70 Million by the existing shareholders is currently in progress, with the subscription period closing on 1 October 2014;
2. Operational measures having no impact on liquidity, but with a net effect on the Company's equity:
 - a. Extension of the reinsurance program for catastrophe risk, including the reduction of the Company's own retention to EUR 3 million, with an estimated net impact on equity of RON 26 million;
 - b. Recovery of intercompany loans by exchange of assets, with an estimated net impact on equity of RON 122 Million;
 - c. Out-of-court settlement of disputes related to the insurance agreements with an estimated net impact on equity of RON 151 Million, out of which RON 141 Million in relation to three agreements concluded with Romstrade.
3. Business combination through financial consolidation of insurance portfolios of a life insurance company on the Romanian market and of Astra, with a positive net impact on the Company's liquidity and equity of RON 118 Million.

The Budget does not include any potential positive effects resulting from the implementation of the measures described in 2b, 2c and 3, due to the uncertainties regarding the implementation timing. The positive effects of measure 2a were included in the Budget, as this measure has already been implemented during the first half of 2014.

The Budget is fundamentally dependent on the following assumptions:

- the successful closing of the initial share capital increase through a RON 70 Million cash contribution, (as described in point 1), considering the Company's lack of liquidity; thus, the liquidity ratio as at 30 June 2014 was of 0.03, lower than the level of 0.12 as at 31 December 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 and its ability to continue as a going concern.

The income and expenses budget for 2014 is based on the actual results for the first 6 months of the year. The average exchange rate for 2014 was assumed at 4.5 RON/EUR.

The income and expenses budget for 2014 was prepared separately for the general insurance and life insurance business. The table below provides a summary of the budget for 2014 in comparison to the actual results for 2013:

RON	2013 Actual	2014 Budget
INCOME		
Gross Written Premiums	919,285,933	844,489,341
UPR change	100,079,297	92,632,499
Earned premiums	1,019,365,230	937,121,840
Earned premiums ceded to reinsurance	485,382,977	122,815,195
Net earned premiums	533,982,253	814,306,645
Other income	9,815,966	13,392,156
Investment result	11,080,730	6,257,047
EXPENDITURE		
Incurred claims	743,000,304	530,569,717
Commission expense including change in deferred acquisition cost	178,443,522	152,189,792
Provisions	463,366,390	52,345,921
Discounts	177,833,628	83,735,421
Administrative expenses	136,116,003	120,142,871
Other expenses	25,582,992	18,474,491
Total expenses	1,724,342,838	957,458,214
Reinsurance Income	252,135,147	142,258,153
Net expenses	1,472,207,691	815,200,061
Profit net	(917,328,742)	18,755,787

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

A. Revenue estimates

Premiums written during 2014 are expected to be by 8% lower than in 2013. The main factor is the decrease in sales of property insurance, mainly due to the fact that starting July 2013 the premiums related to compulsory property insurance ("PAD policies") have been subscribed by Poolul de Asigurare Impotriva Dezastrelor ("PAID"), resulting in an indirect decrease in gross written premiums of insurance companies for this line of business.

The evolution of Astra 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. According to preliminary data published by INSURANCE Profile for the first six months of the year, gross written premiums in Romania have amounted to EUR 900 Million (RON 4 Billion), down by 9% compared to the same period in 2013. Gross written premiums from life insurance have decreased by 15% to EUR 170 million (RON 754 million), while gross written premiums from general insurance have amounted EUR 733 Million (RON 3.3 billion), down by 7.6% compared to H1 2013.

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

The decrease in property insurance portfolio led to an increase in the weight of motor insurance in the total portfolio in 2014 compared to 2013, particularly in the Motor Third Party Liability insurance (MTPL) from 44% in 2013 to 55% in 2014.

The weight of Motor Hull insurance (CASCO) in the Company's business is estimated to grow from 15% in 2013 to 16% in 2014.

Starting with January 2014, the Company has initiated a process, aimed at increasing the efficiency of its motor insurance portfolio by raising the insurance tariffs, process that will continue throughout the remainder of the current financial year and has been quantified as such in the financial forecast.

Investment and financial income has decreased compared to 2013, due to the decrease in the Company's liquidity and investments. Starting with October 2014, revenues from financial investments are estimated to grow as a result of the RON 70 Million increase in share capital through cash contribution. Cash resulting from the share capital increase will be used to settle certain priority payments – claim files significantly overdue and court subrogations carrying penalties and posing a high enforcement risk, with a total estimated value of RON 29.5 Million, as well as other overdue debts (ASF taxes, PAID premiums, contributions to the Street Victims Protection Fund, etc) amounting to RON 16.5 Million. The RON 24.5 million residual amount has been 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 44% compared to 2013. This estimate reflects the Company's strategy to raise business efficiency on medium and long-term by increasing the weight of insurance products with lower claims ratios and optimizing administrative and acquisition costs.

Administrative expenses estimated for the second half of 2014 were forecasted at a level comparable with that recorded in the first half of the year, already reflecting the effects of the cost-cutting measures approved and implemented by the Company since the second half of 2013.

C. Technical reserves estimates

- **The unearned premium reserve (“UPR”)** has been estimated at the end of each month in the second half of 2014 in line with the estimates regarding subscriptions and considering the unexpired risk periods for these subscriptions per type of product;
- **The reserve for reported but not settled claims as well as the claims paid** have been estimated based on a monthly assessment of risk exposure (number of claims) and the frequency and severity of claims for each product group.
- A net expense of 20% from the value of reinsurance premiums paid was estimated for reinsurance agreements, determined as a normalized net result per period;
- **The Deferred Acquisition Cost (“DAC”)** is estimated by applying the average commissions per insurance class to the level of the estimated premium reserve.

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

