

Triglav Insurance AD Skopje

Financial Statements

For the year ended 31 December 2018

With the Report of the Auditors thereon

Building a safer future - while being committed to responsible and sustainable development

Similar to the past years, 2018 was a year marked with activities aimed towards the strategic goals of Triglav Group. With a market share of 17,26%, Triglav Insurance SC, Skopje remains the leader for non-life insurance on the Macedonian market. The company maintains its stable growth of the gross written premium, that amounted 1,4 billion mkd, representing 8,6% growth compared to 2017. Opposite to the stable growth of the gross written premium, the results were greatly influenced by several extraordinary claims events, which caused claims in the amount of 680 million mkd, 14% higher than last year's gross claims written. The positive net result totals 31,5 million mkd – within expected range, considering the aforesaid increased claims. However, the capital adequacy, which totals 336% represents one of the significant indicators of our dedication for **building a safe future for our shareholders, employees and clients**.

Triglav Group is a leader in the insurance and financial sector in the wider Adriatic region. Throughout the year, the credit rating of Triglav Group remained "A", with stable medium-term outlook. Having at our disposal their extensive knowledge and expertise, Triglav Insurance SC, Skopje's operations are aiming at **responsible long term development**, while at the same time operating profitably and safely.

On a path toward becoming a modern, innovative and dynamic insurance company

In tight competitive conditions, Triglav Insurance SC, Skopje intensified its sales activities and improved services to cater for our clients. The largest, 42% share of GWP is still accounted for by moto third part liability. However, the dynamic market conditions call for new ways of doing business. Our activities are focused on client tailored operations aimed at digitalization, multi-channel approach and assistance services. That being said, a significant increase of gross written premium is recorded with the voluntary health insurance, credit insurance, property insurance. Triglav Insurance SC, Skopje aims to be the leader in providing innovative and comprehensive insurance-service products. At the beginning of 2018, we provided the clients with an opportunity for online renewal of insurance policies for MTPL. We have offered unique products on the market, such as car tires insurance. We worked on upgrading existing products, and in the area of voluntary health insurance we offered specialist outpatient and hospital treatment, new opportunities in the scope of insurance operations, as well as options for individual and family insurance.

Our approach toward creating comprehensive offer for clients and strengthening the position on the market resulted in establishing **Triglav Insurance Life SC, Skopje**. In its first year of business, Triglav Life was actively working on educating the public about the specifics and benefits of life insurance and the introduction of new products in its range, in order to offer our customers better quality of life and a carefree future.

Triglav Insurance SC, Skopje is continuously trying to take an active part in the corporate social responsibility scope and contribute to positive changes for people and for the environment. The project **City Tree**, an innovative moss structure with the power of purifying the air from harmful dust particles and other gases, is a

representation for our conscious responsibility to the social environment, which is the basis for sustainable development.

Triglav Insurance SC, Skopje, guided by Triglav Group and through several ongoing projects (management by objectives, implementation of e-education and "Triglav School", coaching, digitalization of processes), is striving toward developing even more **cooperative and agile organization and culture**, to ensure effective balance between stability and dynamics of organization.

After a yearlong process of certification, in October 2018, Triglav Insurance SC, Skopje successfully completed the procedure and gained the international certificate **ISO 2015: 9001 Quality Management System**. Establishing and implementing a quality management system is a strategic decision for a company to continually improve its overall performance. It represents a tool for successful and efficient operation of the company and with proper usage, ensures continuous fulfilment of the legal and regulatory requirements, identification and management of risks, fulfilling and exceeding the expectations of the clients and monitoring the customer satisfaction.

The joint forces of our team of more than 250 employees guarantees development of quality products and services, improvement of all work processes in the company, building a cooperative and agile organization, hence ensuring a path toward becoming a modern, innovative and dynamic insurance company.

Chief Executive Director
Gjorgje Vojnovic, MBA



Executive Director
Rok Rivk



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Independent auditor's report

To the Board of Directors and Shareholders of Triglav Insurance AD Skopje

We have audited the accompanying financial statements of Triglav Insurance AD Skopje ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing accepted and published in the Official Gazette no. 79 dated 11 June 2010 of Republic of North Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Company for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 10 May 2018.

Ernst & Young

Ernst & Young Certified Auditors Ltd.

Skopje, 02 May 2019



Triglav Insurance AD Skopje
Financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018	31 December 2017
ASSETS			
Intangible assets	7	136,909	132,452
Property and equipment	8	68,979	74,489
Investment property	9	1,691	5,577
Investments in associates	10	57,727	59,571
Financial investments	11	1,518,866	1,461,264
Loans and receivables		464,869	627,626
Available for sale		1,053,998	833,638
Reinsurers' share of technical provisions	12	167,135	139,240
Receivables	13	337,887	347,509
Receivables from direct insurance operations		288,964	299,637
Receivables from reinsurance operations		407	217
Current and deferred tax receivable		7,760	-
Other receivables		40,756	47,655
Other assets		3,841	2,013
Cash and cash equivalents	14	23,067	25,828
TOTAL ASSETS		2,316,102	2,247,943
EQUITY AND LIABILITIES			
Equity	15	882,553	831,105
Share capital		185,223	185,223
Share premium reserves		41,972	41,972
Reserves from profit		386,069	342,669
Revaluation reserve		44,388	24,417
Retained earnings		193,424	151,622
Net profit for the period		31,477	85,202
Insurance technical provisions	16	1,248,386	1,249,199
Unearned premiums		581,229	540,583
Claims provisions		649,132	681,233
Bonuses and discounts		3,019	17,116
Other insurance technical provisions		15,007	10,267
Employee benefits	17	13,987	6,276
Deferred tax liabilities	18	4,753	2,534
Other financial liabilities	19	1,724	1,724
Operating liabilities	20	72,961	63,615
Liabilities from direct insurance operations		22,315	28,951
Liabilities from reinsurance and co-insurance operations		49,575	30,532
Current tax liabilities		1,070	4,132
Other liabilities	21	91,739	93,490
Total liabilities		1,433,549	1,416,838
TOTAL EQUITY AND LIABILITIES		2,316,102	2,247,943

Triglav Insurance AD Skopje
 Financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF PROFIT OR LOSS

	Note	31 December 2018	31 December 2017
Gross written premium		1,425,495	1,312,647
Outward reinsurance premium		(298,103)	(224,450)
Change in provision for unearned premiums		(39,231)	29,890
Change in provision for unearned premiums (reinsurers' share)		36,159	(23,156)
Net premium income	22	1,124,319	1,094,931
Interest income		42,665	48,736
Realised gains on disposals		3,018	2,989
Other income		493	14,199
Income from financial assets	23	46,176	65,925
Interest income from receivables		4,967	6,656
Reinsurance fees and commission income		31,208	24,026
Other income from insurance operations		10,325	9,380
Other insurance income	24	46,501	40,062
Other Income	25	7,223	7,887
Gross claims settled		732,570	650,341
Income from claimed gross subrogated receivables		(17,479)	(18,087)
Reinsurers' share of claims settled		(16,862)	(10,293)
Changes in gross provisions for claims outstanding		(32,102)	(10,202)
Changes in provisions for claims outstanding (reinsurers' share)		3,529	(2,585)
Net claims incurred	26	669,657	609,174
Change in other insurance technical provisions	27	4,740	2,905
Net expenses for bonuses and discounts	28	26,437	42,942
Acquisition costs		317,896	284,993
Other operating costs		103,151	101,011
Operating expenses	29	421,047	386,004
Other expenses		4,458	2,984
Expenses from financial assets and liabilities	30	4,458	2,984
Other insurance expenses	31	57,962	54,526
Other expenses	32	1,725	10,504
Share of loss of an associate	10	1,848	2,060
Profit before tax		36,349	97,709
Income tax expense	33	4,872	12,507
Net profit for the accounting period		31,477	85,202
Earnings per share	37		
Basic and diluted earnings per share		0.523	0.907

The financial statements of Triglav Insurance AD Skopje were approved by the Management Board on 28.02.2019.

Gjorgje Vojnovic
 Chief Executive Officer



Rok Pivk
 Executive Officer



Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF OTHER COMPREHENSIVE INCOME

	31 December 2018	31 December 2017
Net profit for the year after tax	31,477	85,202
Other comprehensive income after tax	19,970	(4,675)
<i>Items which could be transferred into Statement of profit and loss in the following periods</i>		
1. Net gains/losses from the re-measurement of available-for-sale financial assets	19,970	(4,675)
1.1 Gains/losses recognised in revaluation reserve	22,189	(5,195)
1.2 Tax on other comprehensive income	(2,219)	520
Comprehensive income / Loss for the year after tax	51,447	80,528

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserves	Legal and statutory reserves	FV reserve for long- term AFS assets	FV reserve for short- term AFS assets	Other FV reserve	Net profit brought forward	Net profit for the current year	Total
As at 31 December 2016	185,223	41,972	312,482	24,144	3,338	1,610	127,249	54,560	750,577
Net profit for the current period	-	-	-	-	-	-	-	85,202	85,202
Other comprehensive income for the year after tax	-	-	-	(5,703)	1,028	-	-	-	(4,675)
Total comprehensive income				(5,703)	1,028			85,202	80,528
Transfer to retained earnings	-	-	-	-	-	-	54,560	(54,560)	-
Transfer of net profit to reserves from profit	-	-	30,187	-	-	-	(30,187)	-	-
As at 31 December 2017	185,223	41,972	342,669	18,441	4,366	1,610	151,622	85,202	831,105
As at 1 January 2018	185,223	41,972	342,669	18,441	4,366	1,610	151,622	85,202	831,105
Net profit for the current period	-	-	-	-	-	-	-	31,477	31,477
Other comprehensive income for the the year after tax	-	-	-	19,470	500	-	-	-	19,970
Total comprehensive income				19,470	500			31,477	51,477
Transfer to retained earnings	-	-	-	-	-	-	85,202	(85,202)	-
Transfer of net profit to reserves from profit	-	-	43,400	-	-	-	(43,400)	-	-
As at 31 December 2018	185,223	41,972	386,069	37,912	4,866	1,610	193,424	31,477	882,553

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

CASH FLOW STATEMENT

	Notes	31 December 2018	31 December 2017
Cash flow from operating activities			
Income statement items		16,135	67,505
Gross written premium	22	1,425,495	1,312,647
Outward reinsurance premium	22	(298,103)	(224,450)
Income from investment (less financial income)		51,143	69,591
Other income from operations (except from valuation and without changes in provisions) and financial income from receivables from operations		46,625	39,305
Gross settled claims (including recourses settled)	26	(715,091)	(632,254)
Reinsurer's share of claims	26	16,862	10,293
Expenses for bonuses and discounts	28	(26,437)	(42,942)
Operating expenses less depreciation	29	(404,866)	(372,312)
Expenses from investments (except from valuation and without changes in provisions)	30	(6,303)	(5,041)
Other expenses from operations without depreciation (except from valuation and without changes in provisions)		(68,318)	(74,825)
Corporate tax and other tax not included in expenses	33	(4,872)	(12,507)
Change of working capital (insurance receivables, other receivables, other assets, deferred taxes) of operating items of the balance sheet		(19,580)	(41,844)
Opening less closing balance of receivables from direct insurance operations		17,914	7,362
Opening less closing balance of receivables from reinsurance		(190)	10,386
Opening less closing balance of other receivables from (re)insurance operations		(405)	6,992
Opening less closing balance of other receivables and assets		(47,405)	(34,143)
Closing less opening balance of liabilities from direct insurance operations		(6,636)	7,725
Closing less opening balance of liabilities from reinsurance		19,043	(46,544)
Closing less opening balance of other liabilities from operations		(11,606)	(1,902)
Closing less opening balance of other liabilities (less unearned premiums)		7,486	8,799
Closing less opening balance of deferred tax liabilities		2,219	(519)
Net cash flow from operating activities		(3,444)	21,662
Cash flow from investing activities			
Receipts from interest from investments	11	46,973	45,384
Receipts from disposal of tangible fixed assets		4,212	19,742
Receipts from disposal of financial investments	11	892,087	550,458
Payments for purchase of intangible assets	7	(10,572)	(11,090)
Payments for purchase of tangible fixed assets	8	(3,158)	(6,922)
Payments for investments in associates	10	-	(61,628)
Payments for financial investments	11	(928,859)	(566,834)
Net cash flow from investing activities		684	(30,890)
Net increase / (decrease) in cash and cash equivalents		(2,761)	(5,229)
Cash and cash equivalents at beginning of the year		25,827	31,057
Cash and cash equivalents at the end of the year	14	23,067	25,828

1. General information

1.1 Company profile

Triglav Insurance AD Skopje ("Company") is a joint stock company registered and based in Republic of Macedonia. The Company was initially established in 1968 as part of Zoil Dunav Beograd and in 1994 it was registered as AD Vardar Insurance Skopje with decision no. 09-5278/1 issued by the Ministry of Finance of Republic of Macedonia.

The majority shares of the Company were purchased by Zavarovalnica Triglav d.d. Slovenia on 15 November 2007 (70.36%).

In 2011, the shares of Zavarovalnica Triglav d.d. were transferred to Triglav INT d.d Slovenia and interest was increased to 73.38%.

A change in the Company's designation, and rebranding from AD Vardar Insurance Skopje to Triglav Insurance AD Skopje, took place on 20 September 2011.

In 2017, Triglav INT d.d has issued proposal for taking over minority shares of the Company, which resulted in increase of their share from 73.38% to 79.94%.

As of 31 December 2018, the controlling interest in Triglav Insurance AD Skopje is held by Triglav INT d.d (80.35%). The ultimate holding company is Zavarovalnica Triglav d.d. Slovenia.

The company is licensed to perform 18 classes (2017:18) of non-life insurance. Among the most important insurance activities are accident insurance, land motor vehicles insurance, aircraft insurance, fire, natural forces and other damage to property insurance, motor TPL insurance, and general liability insurance.

The address of the registered Company headquarters is:

bul.8-mi Septemvri 16

Business Center Hyperium, 1000 Skopje, Republic of Macedonia

These financial statements have been approved for issue by the Management Board on 28 February 2019.

1.2 Management bodies

Triglav Insurance AD Skopje is managed and governed according to the one-pillar management system. The management bodies are:

- The General Assembly of Shareholders; and
- The Board of Directors.

The management bodies of Triglav Insurance AD Skopje act according to the viable legislation and other acts, the Statute and the internal acts of operation.

The names of the Board of Directors' members of the

Company serving during the financial year, and to date of this report, are as follows:

- Mr. Tedo Djekanovic- President of the Board of Directors, MBA;
- Mr. Gjorgje Vojnovic - Executive Member, MBA;
- Ms. Sanja Tancevska – Executive Member, BSc in Mathematics and Certified Actuary until 28.02.2018;
- Mr. Rok Pivk – Executive Member, BA in Banking and Finance from 29.08.2017;
- Mr. Matej Ferlan – Independent non-executive member, MBA;
- Mr. Darko Popovski- Non-executive member, MBA;
- Mr. Blaz Kmetec- Independent non-executive member, BSc of Economics-Banking and Finance.
- Mr. Ljube Rajevski - Independent non-executive member, BSc of Economics from 02.03.2018.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

1. General information (continued)

1.2 Management bodies (continued)

During 2018, the Board of Directors held thirteen (13) sessions on which the most important issues within the scope of the Company's business activities were considered.

The Board of Directors has also reviewed and decided upon other current matters which are in its scope of authorizations.

For the purpose of timely and effective functioning of the Board of the Directors, an Audit Commission has been formed which represents supporting body to the Board of Directors. The commission has been formed in accordance to its Statute and the Law on trade companies. Among other things, the audit commission is responsible for supervision and control of the integrity of the financial reporting, internal control system, effectiveness of the internal audit, effectiveness of the risk management system, compliance with the applicable laws and regulations etc. The audit commission reports and provides recommendations to the Board of Directors. The audit commission, also provides recommendation for the selection of the audit company responsible for auditing of the financial statements of Triglav Insurance AD, Skopje.

The names of the audit commission members are as follows:

- Mr. Darko Popovski- President of the Audit commission, MBA;
- Ms. Mateja Geržina – Member of the Audit commission;
- Ms. Jana Polda – Member of the Audit commission;
- Mr. Branko Flisar – Member of the Audit commission;
- Mr. Aleš Levstek - Member of the Audit commission from 26.02.2018.

During 2018, the Audit commission held five (5) sessions on which the most important issues within the scope of its responsibilities were considered.

1.3 Employees

As of 31 December 2018, the Company had 251 employees (2017:244).

The table below shows the structure of employees according to the type of employment.

Type of employment	31 December 2018	31 December 2017	Variation
Internal employees	126	126	/
Agents	125	118	7
Total	251	244	7

2. Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board ("IASB").

For all periods up to and including the year ended 31 December 2011, the Company prepared its financial statements in accordance with local generally accepted accounting principles (Local GAAP). Since 31 December 2012 the company has started to prepare its financial statements in accordance with IFRS standards.

This financial statements are both separate financial statements and economic interest statements.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following item:

- Available-for-sale financial assets measured at fair value.

The methods used for measuring fair value are described in note 3.5.

For the preparation of the statement of financial position, the Company classifies individual items into groups of assets and liabilities depending on their nature, listed in the order of their liquidity and/or maturity.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in MKD, which is the Company's functional and presentation currency, rounded to the nearest thousand.

2.4 Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities as at the reporting date and the amount of income and expenses in the reporting period. Although these estimates are based on the management's best knowledge of current events and activities, actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an on-going basis. A change in an accounting estimate is recognized for the period to which the estimate refers as well as for any future periods affected.

The most important uncertainty estimates and decisive judgments prepared by the management while applying the accounting principles and having the strongest impact on the figures in the financial statements are given in note 4.

2.5 Foreign currency transactions

Transactions in foreign currency are translated to MKD according to the exchange rates as at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to MKD at the prevailing exchange rate as at that date. The foreign currency gains or losses on monetary items are the difference between amortized cost in MKD at the beginning of the period, adjusted for an effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to MKD at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss,

2. Basis of preparation (continued)

2.5 Foreign currency transactions (continued)

except for the differences arising on translation of available-for sale equity instruments which are recognized directly in Other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The foreign currency the Company deals with is predominantly EUR.

The exchange rates used for translation at 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
	MKD	MKD
1 EUR	61.495	61.491

3. Significant accounting policies

The accounting policies stated herein have been applied consistently to all periods presented in these financial statements.

3.1 Intangible assets

(i) Recognition and measurement

Items of intangible assets are accounted for using the cost model. After initial recognition, an intangible asset is carried at cost less accumulated amortization and impairment losses, if any.

Deferred acquisition costs for non-life insurance contracts, determined proportionally to unearned premiums, are also a part of intangible assets. Deferred acquisition costs are calculated as a percentage of net written premiums. The percentage is calculated for each insurance class separately and represents the portion of acquisition costs (acquisition costs as part of operating expenses, fire tax, contribution to cover losses caused by unidentified vehicles, cost of supervisory authority) in gross premium written excluding co-insurance. It is subject to the restriction that the percentage for each insurance class does not exceed the expected (calculative) share in gross written premium, which is provided for operating costs, prevention and fire tax. Change in deferred acquisition costs are recognized in the statement of profit or loss as a change in unearned premium provision.

(ii) Subsequent costs

Subsequent costs are capitalized only if it is probable that future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. All other costs are recognized in the statement of profit or loss as they are incurred.

(iii) Amortization

Amortization is recognized in the statement of profit or loss on a straight-line basis over the estimated useful life of each item of an intangible asset.

Amortization rates, based on the estimated useful lives, for the current and comparative periods are as follows:

	Annual amortization rate (%)
Software and licenses	20%

Amortization method, useful lives and residual values of assets are reviewed at each reporting date. If the expected useful life of an asset differs from previous estimates, the amortization period is adjusted accordingly.

(iv) Impairment

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. Accounting policies regarding the impairment of intangible assets are described in note 3.11. No intangible assets were impaired as at December 31, 2018 (2017 null.).

3. Significant accounting policies (continued)

3.2 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of an item of property and equipment comprises its purchase price and any other costs directly attributable to bringing the asset to the location and the conditions necessary for it to be capable of operating.

Purchased software that is integral to the functionality of the related equipment is capitalized as a part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

After initial recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses, if any.

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement profit or loss as they are incurred.

(iii) Depreciation

Depreciation is recognized in the statement of profit or loss and it is calculated on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Depreciation rates, based on the estimated useful lives, for the current and comparative periods are as follows:

	Annual depreciation rate (%)
Buildings	2.5%
Equipment	10% - 25%

Depreciation of an asset begins when it is available for use. The depreciation charge for each period is recognized in the statement of profit or loss. Depreciation of an asset ceases as at the date that the asset is derecognized.

Depreciation methods, useful life and residual values are reviewed at each reporting date and adjusted in the event expectations differ from previous estimates.

(iv) Derecognition

When a depreciable item of property and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts.

The gain or loss from the derecognition of an item of property and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item and is recognized within "Other income" or "Other expenses" in the statement of profit or loss.

(v) Impairment

At each reporting date, items of property and equipment are reviewed for indications of impairment or changes in estimated future economic benefits. Accounting policies regarding the impairment of tangible assets are described in note 3.11. No item of property and equipment was impaired as at December 31, 2018 (2017: null).

3. Significant accounting policies (continued)

3.3 Investment Property

Investment property is property (land or building or part of a building of both together) held by the Company for the purpose of earning rent or to increase capital, or for both. This category does not include property used by the Company for the regular course of business.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Depreciation of investment property is calculated on straight-line basis using rates determined by means of which acquisition cost of the building should be written off over their estimated useful life.

The useful life of the buildings is estimated at 40 years with an annual depreciation rate of 2.5%.

The annual depreciation rates of the whole investment properties applied are as follows:

	Annual depreciation rate (%)
Buildings	2.5%

Investments in real estate generate cash inflow independently of other assets owned by the Company.

Investment property is derecognized when it will be disposed of, or when the investment will be permanently withdrawn from use and the Company will not expect future economic benefits from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of profit or loss in the period of de-recognition.

Transfers are made to or from investment property only when there is change in use. Since the Company uses the cost model, the transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred nor do they change the cost of that property for measurement or disclosure purposes.

Fair values for disclosure purposes are based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification.

All income arising from investment property is rental income and is shown in the statement of profit or loss under "Other income". Expenses arising from investment property consist of the depreciation charges and maintenance costs of the investment property. In the statement of profit or loss they are disclosed under "Other expenses". Accounting policies regarding the impairment of investment property are described in note 3.11.

3. Significant accounting policies (continued)

3.4 Investment in associates

Investments in associates represent investments in the companies (investees) over which Triglav Insurance AD Skopje has significant influence arising from its power to participate in financial and operating policy decisions of an investee, but not joint control or control of those polices.

Associates of Triglav Insurance AD Skopje are those companies in which the Company directly or indirectly holds between 20% and 50% of the voting rights and has a significant but not dominant influence.

In the financial statements of the Triglav Insurance AD Skopje, investments in associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date.

The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of the investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss as a separate line and represents profit or loss after.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. Accounting policies regarding the impairment of investments in associates are described in note 3.11.

Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Dividends are recognised in income statement once the right to payment is obtained.

3.5 Financial assets

(i) Classification

The Company classifies its financial assets into four categories available-for-sale assets, loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. The classification is determined by the management at initial recognition and depends on the purpose for which the investment is acquired. During 2018 and 2017, all financial assets were classified as available-for-sale assets and loans and receivables.

Financial assets are initially recognized at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of profit or loss.

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

(ii) Recognition and measurement

The trade date is used for the initial recognition of financial assets, except for loans and receivables (*excluding receivables from insurance operations*), for which the settlement date is used (trade date is same as the settlement one in such cases).

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, financial assets classified as available-for-sale are measured at their fair value, without deducting transaction costs that may occur in their sale or other disposal.

Equity instruments not quoted in an active market and for which the fair value cannot be reliably measured are measured at cost.

Changes in fair value are recognized directly in other comprehensive income as an increase (gain) or decrease (loss) in the revaluation surplus, with the exception of asset impairments and foreign exchange differences regarding monetary items, such as debt securities recognized in the statement of profit or loss.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the statement of profit or loss as net realized gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of profit or loss (Income from financial assets). Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss when the Company's right to receive payments is established. Both are included in the "Income from financial assets" line in the statement of profit or loss.

Loans and receivables (excluding receivables from insurance operations)

Loans and receivables (excluding receivables from insurance operations) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized when cash is advanced to the borrowers and are measured at cost. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method. Interest on loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss (Income from financial assets). The impairments of loans and receivables are recognized if there is objective evidence that the receivable will not be recovered in accordance with the contractual terms. The losses arising out of impairment are recognized in the statement of profit or loss.

(ii) Derecognition

Financial assets are derecognized when the right to receive cash flows from them has expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

3.6 Fair value of financial assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

3. Significant accounting policies (continued)

3.6. Fair value of financial assets (continued)

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If there is no active market for a financial instrument, its fair value is measured by valuation techniques. These valuation techniques include the use of recent price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, comparison with the current fair value of another instrument with similar key features, discounted cash flow analyses and option pricing models. If there is a valuation technique commonly used by market participants for establishing instrument prices and if such a technique has yielded reliable estimates of prices used in actual market transactions, such a technique is applied by the Company. In the discounted cash flow method, future cash flows and discount rates are applied as estimated by the management, reflecting interest rates on comparable instruments. When the fair value of financial instruments cannot be reliably measured, the financial instruments are measured at cost (paid or received amount) increased by expenses incurred in the underlying transaction.

For disclosure purposes, a price level hierarchy has been applied for all financial assets measured at fair value as follows:

- **Level 1:** valuation through market prices quoted (unadjusted) for identical assets in an active market (stock exchange prices and Bloomberg generic prices).
- **Level 2:** valuation through comparable market data (other than prices of identical listed assets), acquired directly or indirectly for an identical or similar asset.
- **Level 3:** valuation through valuation models operating mostly based on unobservable market inputs.

The Company uses discounted cash flows method, for valuation of the government bonds that do not have quoted market price on an active market (Level 2). The Company calculates present value of the investment, or in this case the clean price of the bond, by discounting the scheduled future cash flows.

As a basis for discounting, the Company uses the yield to maturity rate of similar bonds issued by the same issuer via options on the primary market adjusted by the maturity spread.

In 2018 and 2017, as a basis for discounting, the Company used the yield to maturity of the government bonds quoted on the primary market in R. Macedonia as opposed to the yield to maturity of the Eurobonds issued by the government of R. Macedonia used in the previous periods. The change was made based on several factors among which was the change in the Law on Supervision of Insurance with which the insurance companies in R. Macedonia were forbidden to invest in such instruments. Furthermore, the change was impacted by the different nature and characteristics of the Eurobond as compared to the government bonds issued on the domestic market including the major differences in the yields to maturity even when the instruments had same maturities.

3. Significant accounting policies (continued)

3.7 Reinsurer's share of technical provisions (reinsurance assets)

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, incomes and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognized as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For non-life insurance business, reinsurance premiums are expensed over the period covered that the reinsurance cover is provided for based on the expected pattern of the reinsured risks (*note 3.19 net premium income*).

Reinsurers' share of technical provisions made for claims not settled yet as well as for unearned premium is an asset arising from reinsurance contracts.

The value of reinsurer's share of technical provisions for claims not settled is measured based on the expected losses in accordance with reinsurance contracts.

The value of reinsurer's share for unearned premiums is in accordance with calculation of provision for unearned premium and conditions in reinsurance contracts.

The net amounts paid to the reinsurer at the inception of a contract may be less than the reinsurance assets recognized by the Company in respect of its rights under such contracts. Any difference between the premium due to the reinsurer and the reinsurance assets recognized is included in the statement of profit or loss in the period in which the reinsurance premium is due. The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets are assessed for impairment at each balance sheet date. Accounting policies regarding the impairment of reinsurance assets are described in note 3.11.

Assets from reinsurance contracts are derecognized when the rights from the underlying insurance contracts expire or are transferred to a third party.

3. Significant accounting policies (continued)

3.8 Insurance receivables and payables

Amounts due to and from policyholders, agents and other receivables are financial instruments and are included in the insurance receivables and payables.

Receivables from insurance operations are recognized when insured persons are charged with the premium. After initial recognition, receivables are measured at fair value reduced by the impairment allowance, so as to show their expected recoverable amount.

Subrogation receivables are recognized when the first installment is paid by the debtor, after a receivable has been tested in court or based on an agreement made with the subrogation debtor. Insurance receivables and payables are short term.

Accounting policies regarding the impairment of insurance receivables are described in note 3.11.

3.9 Other assets

Other assets include deferred expenses and accrued revenue, if any.

Short-term deferred expenses are amounts that will impact profit or loss in the following accounting periods. They are accrued in order to ensure their even impact on profit or loss, or to accrue prepaid expenses not yet incurred. Accrued revenue refers to revenue earned in the current accounting period but that will be collected in a subsequent period.

3.10 Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition. Cash and cash equivalents comprise cash on hand and demand deposits. Cash and cash equivalents are carried at amortized cost in the balance sheet.

3.11 Impairments

(i) Impairment of intangible assets and property and equipment

At each reporting date, Company's management reviews the carrying amount of the non-financial assets. If there is an indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

A cash generating unit is the smallest identifiable group of assets that generates cash inflows out of continuous use, which are greatly independent of the cash inflows from other assets or groups of assets. Impairment losses recognized with regard to the cash generating units are proportionally distributed to the assets in the units (a group of units).

An impairment loss is recognized immediately in the statement of profit or loss.

The previously recognized impairment losses of property and equipment and intangible assets are reversed only if their recoverable amount increases and if this increase can be objectively related to an event occurring after the previous impairment was recognized. An impairment loss of an asset is derecognized only up to the amount of the carrying amount that would have resulted after the depreciation charge, if in previous periods no impairment loss had been recognized.

(ii) Impairment of Investment property

At each reporting date, Company's management reviews the carrying amount of the investment property. In the event of any sign of impairment of investment property, the recoverable amount

3. Significant accounting policies (continued)

3.11 Impairments (continued)

(ii) Impairment of Investment property (continued)

(the higher of an asset's fair value less costs to sell and its value in use) is assessed. If the carrying amount of investment property exceeds its recoverable amount, an impairment loss is recognized in an amount equaling the difference between the two.

(iii) Impairment of investments in associates

At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired.

If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit/loss of an associate' in the statement of profit or loss.

(iv) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
 - Adverse changes in the payment status of issuers or debtors in the Company; or
 - National or local economic conditions that correlate with defaults on the assets in the Company.

Financial assets available-for-sale

The impairment loss of an available-for-sale financial asset is calculated on the basis of its current fair value. If there is objective evidence of the impairment of an available-for-sale financial asset, the accumulated loss, previously recognized in other comprehensive income, is transferred to the statement of profit or loss.

The reversal of the previously recognized impairment losses of equity instruments, classified as available-for-sale financial assets, is recognized in other comprehensive income.

A reversal of previously recognized impairment of available-for-sale debt instruments is recognized in the statement of profit or loss. Impairment may be reversed if such a reversal can be objectively related to an event occurring after the previous impairment was recognized.

For equity securities, objective evidence of impairment includes statutory changes (bankruptcy, liquidation, etc.), a significant decrease in the fair value of a security (above 40%) or a long-term decrease in the fair value of a security (continuing for more than nine months). For debt securities, objective evidence of impairment includes statutory changes (bankruptcy, liquidation, etc.), payment arrears or other significant negative events related to the creditworthiness of the issuer.

3. Significant accounting policies (continued)

3.11 Impairments (continued)

(iv) Impairment of financial assets (continued)

Loans and receivables

The impairment loss of a financial asset, measured at amortized cost, is calculated as the difference between that asset's carrying amount and the present value of expected future cash flows, determined on the basis of the historical effective interest rate. If an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

A reversal of previously recognized impairment of financial assets measured at amortized cost is recognized in the statement of profit or loss. Impairment may be reversed if such a reversal can be objectively related to an event occurring after the previous impairment was recognized.

(v) Impairment of insurance receivables

All insurance receivables are tested for impairment or impairment reversal at least at the end of the business year. Impairments are recorded as an adjustment of the value of receivables and are formed individually or collectively for receivables with similar credit risk. Credit risk is assessed based on the classification of receivables by maturity and the experience of previous years regarding the recovery of receivables with the same maturity. Impairment loss is recognised in "Other insurance expenses".

(vi) Impairment of reinsurer's share of technical provisions

Reinsurers' share of technical provisions (assets from reinsurance contracts) is tested for impairment on an annual basis. These assets are impaired only if there is objective evidence resulting from an event occurring after the initial recognition of the reinsurance asset showing that the amounts due from reinsurers in accordance with a contract may not be recovered and if the event has a reliably measurable effect on the amounts that will be recovered by Company from the reinsurer. An impairment loss of assets from reinsurance contracts is recognised in the statement of profit or loss.

3.12 Equity

(i) Share capital

Share capital equals the nominal value of paid-up ordinary shares.

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

(ii) Treasury shares

When the Company purchases its own shares, the consideration paid, including the directly attributable incremental costs (net of income taxes), is deducted from equity.

Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

(iii) Share premium reserves

The share premium reserves are formed from the paid-in capital surplus and other capital contributions in line with the Memorandum and Articles of Association. These reserves relate to the difference between the nominal and sales value of the ordinary shares of the Company.

3. Significant accounting policies (continued)

3.12 Equity (continued)

(iv) Reserves from profit

Under local statutory legislation, the Company is required to set aside 1/3 of its net profit for the year in a statutory reserve (as long as it is not used for covering of losses) until the level of the reserve reaches 50% of the realized average insurance premium in the last two years, whereby the premiums from the previous year are increased by the index of retail price increase, including the year for which realized profit is distributed.

These reserves are meant to cover the liabilities arising out of the insurance contracts which have period of coverage longer than one year.

(v) Revaluation reserves

The revaluation reserve represents changes in the fair value of the available for sale financial assets. The reserve includes the cumulative net effect until the moment of derecognition or impairment occurring on the financial asset.

(vi) Dividends

Dividends are recognized as liability in the year in which they are declared.

3.13 Classification of the insurance contracts

Insurance contracts are contracts under which the Company accepts significant insurance risk from another party (the policy holder); by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder.

Underwriting risk is significant if, and only if, an insured event could cause the Company to pay significant additional benefits. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

The significance is determined on the basis of additional payments upon the occurrence of a loss event. The significance of additional amounts is assessed by comparing the greatest difference between the value of the payment in the event of a loss and the payment in other cases.

3.14 Insurance technical provisions

Unearned premium provision

The provision for unearned premium comprises the proportion of gross written premiums which is estimated to be earned in the following financial year, calculated separately for individual insurance contracts, using the pro-rata temporis method.

Claims provisions

Claims provisions are formed for claims incurred and reported but not settled until the reporting date (RBNS). Claims provisions are also formed for reported claims as well as for incurred but not reported (IBNR).

Provisions for reported claims are set aside on the basis of individual loss files. Provisions for non-life annuities in Triglav Insurance AD Skopje are calculated as a capitalized annuity value based on the Yugoslavian mortality tables of 1980-1982 and an interest rate of 5%.

Provisions for incurred but not reported claims (IBNR) are calculated by means of "triangle" methods (a combination of Chain Ladder and Bornhuetter- Ferguson methods for MTPL line of business, Loss ratio method for General liability and Chain Ladder for other classes of insurance). The basis for calculation is a sample of past claims experience with appropriate allowance for future trends. For this purpose a several year long time series of settled claims is applied. The IBNRs are formed for 6 classes of insurance with which 98% of the gross claims settled are covered.

3. Significant accounting policies (continued)

3.14. Insurance technical provisions (continued)

Claims provisions (continued)

With the exception of annuities, provisions for outstanding claims are not discounted. The methods used and estimates made are reviewed at least on a quarterly basis.

Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance recoveries are assessed in a manner similar to the assessment of claims outstanding.

Provisions for bonuses and discounts

Provisions for bonuses are formed for managerial insurance for risks that cover death out of illness and/or accident. Provisions for bonuses are also formed for non claim occurrence at specific rate and only if such condition is agreed upon with the policyholder. The provision is created upon the conclusion of the contract, irrelevant of the payment pattern of the client.

Other insurance technical provisions

Provisions for unexpired risk reserves are formed for those lines of business where there is an insufficiency of unearned premium less deferred acquisition costs compared to expected future cash flows from the insurance contracts. The claim ratio and expense ratio are used in assessing the expected future cash flows.

3.15 Other provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, wherever appropriate, the risk specific to the liability.

3.16 Employee benefits

(i) Defined contribution plans

The Company contributes to its employees' post retirement plans as prescribed by the national legislation and will have no legal or constructive obligation to pay further amounts. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions.

There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of profit or loss when they are due.

(ii) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Other long-term employee benefits

In compliance with the local regulations, the Company pays two average salaries to its employees at the moment of retirement and jubilee awards in accordance with the General collective agreement. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement. Based on past experience, the Company does not expect all employees to take the full amount of accrued leave. According

3. Significant accounting policies (continued)

3.16. Employee benefits (continued)

(iii) Other long-term employee benefits (continued)

to the laws and regulations applicable in R.Macedonia, the Company has no obligation to pay unused annual leave if the employees do not use its holliday on their own decision.

3.17 Other financial liabilities

At initial recognition financial liabilities are measured at the cost arising from relevant underlying documents. They are increased by accrued interest, if any. In the financial statements, financial liabilities are disclosed at amortised cost. Interest paid on loans taken is recognised as expense and accordingly accrued over the term of the underlying loan.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

3.18 Operating and other liabilities

Operating liabilities and other liabilities are recognised in the statement of financial position based on the contractual obligation to pay. At initial recognition, operating and other liabilities are measured at cost.

3.19 Net premium income

Gross written premiums reflect business written during the year and exclude any taxes or duties based on premiums.

The earned proportion of premiums is recognized as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risk underwritten.

Outward reinsurance premiums are recognized as an expense in accordance with the pattern of reinsurance service received in the same accounting period as the premiums for the related direct insurance business. A portion of outwards reinsurance premiums are treated as expense and reduce the premium income.

Deferred acquisition costs

The costs incurred in acquiring non-life insurance contracts are deferred to the extent that they are recoverable out of future margins. Acquisition costs include direct costs such as commission to brokers as well as indirect costs, such as administrative costs.

Deferred acquisition costs are used over the period in which the costs are expected to be recoverable out of future margins in the revenue from the related contracts.

For general insurance contracts, the deferred acquisition costs represent the proportion of the acquisition costs which corresponds to the proportion of gross written premiums which is unearned at the balance sheet date.

Gross written premium is also adjusted by the change in gross provisions for unearned premiums taking into account the reinsurers' share in provision for unearned premium (in details explained in note 3.14).

Income from financial assets arises from interest income, dividends, realized gains on disposals of available-for-sale instruments and other financial income.

In the statement of profit or loss, interest income is recognized using the effective interest rate, which does not apply to financial assets recognised at fair value through profit and loss.

Income from dividends is recognised in the statement of profit or loss once the right to the payment is obtained.

Gains on disposal arise from the derecognition of available-for-sale financial assets. The difference between the carrying amount of a financial asset and its sales value represents a realised gain.

3. Significant accounting policies (continued)

3.20 Other insurance income

Other income from insurance operations represents fees and commission income from reinsurance as well as other income from insurance operations. It is recognised in the statement of profit or loss once a service has been provided and/or invoiced.

Fee and commission income represents charges recovered from foreign reinsurance companies based on reinsurance contracts concluded with them and from the National Insurance Bureau for paid claims.

3.21 Other income

Other income includes investment property income, income from intangible assets and property and equipment, penalty interest charged, as well as other income.

3.22 Net claims incurred

Claims incurred comprise the settlement and handling costs of paid claims arising from events occurring during the financial year reduced by the reinsurers' share and subrogated receivables, and adjusted by the change in gross provisions for outstanding claims, taking into account the reinsurers' share of these provisions.

Claims paid are recorded in the moment of processing the claim and are recognized (determined) as the amount to be paid to settle the claim. Claims paid in non-life business are increased by claims handling costs.

Claim handling costs consist of external and internal costs of assessing the eligibility and amount of claims, including court fees and charges, expert fees and subrogation recovery expenses.

3.23 Change in other insurance technical provisions

Change in other insurance technical provisions comprise of unexpired risk reserves, which are formed if it is assumed that the amount of unearned premiums decreased by the deferred acquisition costs is not sufficient for covering future insurance contracts liabilities.

3.24 Operating expenses

Gross operating costs are recognized as original expenses by natural type of cost. In the statement of profit or loss these costs are classified by function. Claim handling costs are a constituent part of claims incurred (note 3.22), asset management costs are a constituent part of expenses from financial assets and liabilities (note 3.25), whilst insurance contract acquisition costs and other operating costs are separately disclosed in the statement within operating expenses headline. All operating costs are disclosed by natural type and function.

Operating lease

Payments made under operating leases are recognized in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in the statement of profit or loss as an integral part of the total lease expense.

3.25 Expenses from financial assets and liabilities

Expenses from financial assets and liabilities are interest expenses, fair value losses, net realized losses on disposals of financial assets, impairment losses and other financial expenses.

In the statement of profit or loss, interest expense is recognized using the effective interest method, which does not apply to the financial assets measured at fair value through profit and loss. During 2018 and 2017, the Company did not have such expenses.

Losses on disposal arise from the derecognition of available-for-sale financial assets. The difference between the carrying amount of a financial asset and its sales value represents a loss incurred.

3 Significant accounting policies (continued)

3.26 Other insurance expenses

Other insurance expenses include management fees, losses arising from the impairment of receivables, fire protection tax, prevention expenses and other insurance-related expenses.

Other insurance expenses are disclosed in the statement of profit or loss once a service is provided.

3.27 Other expenses

Other expenses comprise other expenses not directly arising from insurance operations. Other expenses are disclosed in the statement of profit or loss once a service is provided.

3.28 Taxes

Current income tax

With the latest changes in the Macedonian tax legislation published in Official Gazette no.112 from 25 July, 2014, effective from 1 January 2014, the current income tax in Republic of Macedonia is calculated as 10% tax rate on the income before tax representing the tax base. This tax base is further increased by the non-deductible (unrecognized) expenses incurred in that fiscal year and determined in the "Rulebook for the calculation and payment manner of income tax, and prevention from double tax relief or double taxation", decreased by the amount of tax credits and other tax reliefs.

The current income tax is recognized in the statement of profit or loss for the year.

During the year, the Company pays monthly advances which are calculated based on the income tax expenses from the previous year. At the end of the reporting period, a final tax calculation is prepared for the current year based on the current year income tax expenses and any difference to the monthly advances paid is recorded as either tax asset or tax liability.

Deferred income tax

According to the latest changes in the Macedonian tax legislation effective from 1 January 2014, deferred tax is calculated for all temporary differences between the amounts of assets and liabilities used for taxation and their carrying amount. The impact of the recognition of deferred tax receivables or liabilities is disclosed as income or expense in the income statement, excluding taxes charged on a business event recognized under other comprehensive income.

3 Significant accounting policies (continued)

3.29 Adoption of new and revised IFRS

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of January 1, 2018.

IAS 40: Transfers to Investment Property (Amendments): The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. **It is not expected that these amendments would be relevant for the Company.**

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments): The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. **The amendments did not have any impact on the amounts recognized in prior periods. It is not expected that the amendments will affect current and future periods as well.**

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures.

Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. **None of these had an effect on the Company's financial statements.**

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

IFRS 15: Revenue from Contracts with Customers: The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. **The amendments did**

3 Significant accounting policies (continued)

3.29 Adoption of new and revised IFRS (continued)

not have any impact on the amounts recognized in prior periods. It is not expected that the amendments will affect current and future periods as well.

IFRS 15: Revenue from Contracts with Customers (Clarifications): The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. **The amendments did not have any impact on the amounts recognized in prior periods. It is not expected that the amendments will affect current and future periods as well.**

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (Amendments): The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. **It is not expected that these amendments would be relevant for the Company.**

Standards issued but not yet effective and not early adopted

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective with exception to IFRS 9 (temporary exemption applied).

IFRS 9: Financial Instruments – Classification and measurement: The standard is applied for annual periods beginning on or after 1 January 2018 with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Due to the adoption of the new Standard for Insurance Contracts, IFRS 17, the Standard may be applied as of 1 January 2021. The condition for postponing is that the carrying amount of liabilities arising from insurance activities amounts to at least 90 percent of the total carrying amount of the liabilities. Triglav Insurance AD Skopje fulfills these conditions and will therefore apply the standard from 1 January 2021. **The Company is in the process of assessing the impact of this amendment on its financial position or performance.**

IFRS 16: Leases: The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. **The Company is in the process of assessing the impact of this amendment on its financial position or performance.**

3 Significant accounting policies (continued)

3.29 Adoption of new and revised IFRS (continued)

Standards issued but not yet effective and not early adopted (continued)

IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments): The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. **It is not expected that these amendments would be relevant for the Company.**

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments): The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. **Triglav Insurance AD Skopje has chosen to apply the temporary exemption from applying IFRS 9 and therefore, it is not expected that these amendments would be relevant for the Company.**

IFRS 17: Insurance Contracts: The Amendments are effective for annual periods beginning on or after 1 January 2021. IFRS 17 requires insurance liabilities to be measured at current fulfillment value and provides more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. **The Company is in the process of assessing the impact of this amendment on its financial position or performance.**

3.30 Segment reporting

An operating segment is a component of the Company that is part of business activities from which the Company can generate revenue and incur expenses, including revenue and expenses related to transactions with any other Company components whatsoever. The operating results of the operating segments of the Company are regularly reviewed by the Company's Board of Directors in order to reach decisions regarding allocation of resources and assessing performance of the operating segments, for which there is confidential financial information.

The investment in associate held by Triglav Insurance AD Skopje is considered to have similar economic characteristics with itself. In addition, both companies are similar with each other in the nature of the products and services they offer, the type of customers to whom they offer their products and services and the methods used to provide their services. Furthermore, they both operate in same regulatory environment and are regulated by same regulator. The reported revenues of Triglav Insurance Life AD Skopje are less than 10% of Triglav Insurance AD Skopje's revenues. Furthermore, the absolute amount of the reported loss of Triglav Insurance Life AD Skopje is less than 10% of Triglav Insurance AD Skopje's financial result. Based on the following information, the management of the Company has decided to aggregate Triglav Insurance Life AD Skopje within the financial information of Triglav Insurance AD Skopje. As a result, the Company has only one reporting segment.

4. Accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Insurance technical provisions

Key sources of estimation uncertainty

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

However, given the uncertainty in establishing a provision for outstanding claims, it is likely that the final outcome will prove to be different from the original liability established.

The unearned premium for all insurance policies is calculated pro-rata temporis.

Provision is made at the balance sheet date for the expected ultimate cost of settlement of all claims incurred in respect of events up to date, whether reported or not, together with related claims handling costs, less amounts already paid.

The provision for claims is not discounted for the time value of money (except for the non-life annuities). The methods used and estimates made are reviewed at least on a quarterly basis.

The sources of data used as inputs for the assumptions are typically internal to the Company, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable information or other published information.

The Company pays particular attention to current trends.

The estimation of claims incurred but not reported ("IBNR") is generally subject to greater degree of uncertainty than the estimates of claims already reported, where more information is available. IBNR claims may often not be apparent to the Company until several years after the occurrence of the event giving rise to the claim.

Each reported claim is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as when new information arises.

Claims on non-life insurance contract are payable on a claims-occurrence basis. The contracts are concluded for short periods, mostly for one year, the Company being liable for all insured events that occurred during the term of the contract.

The shorter settlement period for these claims allows the Company to achieve a higher degree of certainty about the estimated cost of claims, and relatively smaller amount is held as when compared to RBNS.

The provision estimation difficulties differ by class of business due for a number of reasons, including:

- Differences in terms and conditions of the insurance contracts;
- Difference in the complexity of claims;
- The severity of individual claims;
- Differences in the period between the occurrence and reporting of claims.

Significant delays can be experienced in the notification and settlement of certain type of non-life insurance claims, therefore, the ultimate cost of which cannot be known with certainty at the balance sheet date.

4. Accounting estimates and judgments (continued)

4.1 Insurance technical provisions (continued)

The cost of the outstanding claims and the IBNR provisions are estimated using actuarial methods. Such methods extrapolate the development of paid claims, average cost per claims and ultimate claim ratio for each accident year upon observed development of earlier years and expected loss ratios.

The key actuarial method used is the “chain ladder” method, which uses historical data to estimate future liabilities for claims and expenses related to claims.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Economic, legal, political and market trends;
- Changes in the mix of insurance contracts incepted; and
- The impact of large losses.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affects the estimates.

No change in assumptions for non-life insurance contracts provision occurred in 2017 that had material effect on the financial statements.

4.2 Liability adequacy test (LAT)

Liability adequacy test is performed to prove that all liabilities deriving from insurance contract are adequate.

LAT is consisted of liability adequacy test of claim provisions (run-off for RBNS and IBNR) and liability adequacy test of unearned premium reserves (LAT for UPR).

In the LAT for UPR, the Company performs tests to check the adequacy of the unearned premiums and unexpired risk reserves. Through these tests, the unearned premium reserves less deferred acquisition costs are compared to expected future cash flows from the insurance contracts. If a shortfall is identified the related deferred acquisition costs are written down and, if necessary, an additional provision is established for separate lines of business. The deficiency is recognized in the statement of profit or loss for the year. As a result, the Company booked unexpired risk reserves in amount of 4,740 MKD thousand as of 31 December 2018 (2017: 2,905 MKD thousand)

Run-off analysis for RBNS and IBNR are performed to verify the appropriateness of the level of claims technical provisions. Potential negative results have only informative character but it also indicates that some inconsistencies might exist, therefore, it is potential indication for reviewing and analyzing of the methodology applied in the estimation process.

5. Risk management

5.1 Main characteristics of the risk management system

Objectives of the risk management system

Triglav Insurance AD Skopje operates in accordance with the risk management rules, controls the operating risks and undertakes necessary measures for risk management.

Triglav Insurance AD Skopje continuously identifies, assesses and measures the risks to which it is exposed during the course of its business activities. The risk management policy in place contributes to having planned and systematic approach to identification, assessment and calculation of the risks. During 2018, the Company has been pursuing and directing its risk management policy towards ensuring sustainable maintenance of the risk exposure level to a degree for which it is believed that it will not jeopardize its assets and business activities and which will ensure full protection of the interests of the policyholders, shareholders, damaged persons and other creditors of the Company. This risk management policy conducted by the Company is harmonized with the laws and regulations, as well as the internal rules and procedures.

Effective risk management provides the opportunity to efficiently turn risk into value. It enables the Company to control and adjust its entire risk profile and to limit its amount of exposure to certain risks. The successful and prudent assumption and management of risks gives the Company financial strength and, consequently, the ability to fulfil its obligations to its clients and meet their expectations, at the same time creating sustainable value for its investors. The Company has developed a conservative culture and approach to risks which it controls with modern risk management tools.

Since risk management is one of the most important functions of the Company, it requires adequate resources in terms of organisational structure, strategic orientation, staff training, and regular or continuous risk review. Monitoring and identification of risks constitute the foundation of the risk management system. The Company uses a set of reporting and control procedures, supplemented with various rules and regulations. Common to all these, however, is a transparent sharing of information. Consequently, the operation of the Company is more transparent, stable and secure.

All together, this leads to favourable results and raises the satisfaction of all the participants in the business process. To enable efficient risk taking and risk identification, which form the essence of the Company's risk management system, all business divisions have clearly defined limits and apply an internal control system for monitoring their operations.

The Risk Management Strategy is defined in a clear and precise manner, in line with the Company's business strategy. Its goals are to reinforce the Company's financial stability and strength, to cater to the clients' needs and to fulfil the obligations towards them as well as to increase the value of the Company for its shareholders. Moreover, the Strategy sets out the risk appetite, i.e., the framework and level of risks the Company is willing to assume and manage. The system is designed to allow transparency and efficient communication.

5.2 Capital management and capital adequacy management

The capital adequacy represents security against possible capital risks of Company not being able to secure the necessary prescribed capital.

Triglav Insurance AD Skopje measures the amount of the available solvency margin in accordance to the Law on Supervision of Insurance by applying the both methods of premium rate and claims rate. The Company performs calculations of the required capital level on quarterly basis.

According to the applicable local legislation, the Company is required to maintain capital level which is at least equal to the calculated solvency margin in order to maintain its core business and ensure coverage of potential losses. The capital that the Company maintains is in surplus to the calculated solvency margin. Capital surplus offers high coverage of losses due to unexpected adverse events, with regard to the previous and current developments in

5. Risk management (continued)

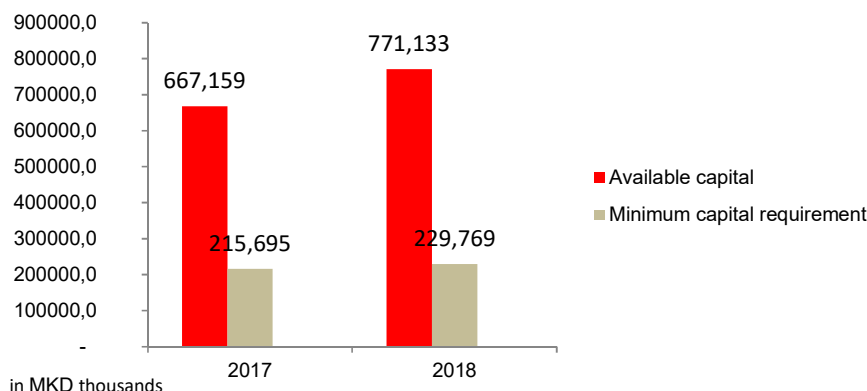
5.2 Capital management and capital adequacy management (continued)

the environment of the Company and future expectations. In addition to measuring the current capital adequacy level, the Company monitors the planned capital adequacy level, which enables to monitor the effects of the extended and narrow environment. Furthermore, this enables optimal distribution of the capital.

Furthermore, the capital adequacy ratio of insurance technical provisions is continually monitored for the purpose of assessing the solvency needs of the Company.

As at December 31, 2018, the available capital to minimum required capital ratio was 336% (2017: 309%).

The capital of the Company is consisted of share capital, share premium reserves, reserves from profit and retained earnings. The net profit for the period is not included in the calculation of the capital until it is audited. The intangible assets of the Company and the investment in associates are deducted from the capital of the Company as per the local requirements. The Company complied with the capital requirements as prescribed by the local Regulator.



5.3 Financial risks and sensitivity analysis

The Company is exposed to financial risk through all of its financial assets and liabilities, reinsurance assets and insurance receivables and liabilities. More specifically, the main financial risk is that in the long-term its investment proceeds will not be sufficient to fund the obligations arising from its insurance contracts. The most important components of the financial risk are the credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk.

These risks arise from open positions in maturities, interest rate and currency or in equity products, all of which are exposed to general and specific market movements.

The Company manages these positions with an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company's ALM is to match assets and liabilities arising from insurance and investment contracts. The Company has not changed the processes used to manage its risks from previous periods.

Financial risks are managed through a system of clearly defined competences and powers that includes a scheme of exposure limits and a reporting process. The investment policy is approved by the Assets and Liabilities Committee (ALCO) of the Triglav Group, which regularly monitors the all group members' exposure against investment limits.

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.1 Credit risk**

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss for the Company.

The main credit risk exposures arise from debt securities holdings, deposits and insurance operations (reinsurance credit risk and credit risk of default on receivables from insurance operations). In order to control its credit risk exposure, the Company regularly reviews the creditworthiness of the parties to which it is exposed.

The Company's financial assets that may be exposed to credit risk (financial investments, reinsurance assets, receivables from insurance operations and cash and cash equivalents) amounted to 2,041,614 MKD thousand (2017: 1,968,442 MKD thousand) as disclosed below.

	31 December 2018	31 December 2017
Financial investments	1,513,524	1,455,865
AFS	1,048,655	828,239
Debt instruments	1,048,655	828,239
Loans and receivables	464,869	627,626
Deposits (term) and GF investments	464,869	397,282
Debt instruments (T-Bills and Government Bonds)	-	230,344
Reinsurance share of technical provisions	167,135	139,240
Receivables	337,888	347,509
Cash and cash equivalents	23,067	25,828
Total financial assets exposed to credit risk	2,041,614	1,968,442

Credit risk arising from financial investments

In order to manage its exposure to credit risk, the Company uses system of exposure limits, which constitute part of the investment policy for different types of assets. The aim is to achieve optimum diversification of the credit portfolio and to achieve the desired credit rating but at same time to enable achieving the appropriate level of liquidity and return. Exposures to individual issuers and changes in their credit ratings are continually monitored in order to ensure timely and suitable responses to potential adverse developments on the financial markets.

Exposure as per credit rating

As relevant credit rating for the debt securities, the Company is using the second best credit rating issued from Moody's, Standard and Poor's and Fitch/BCA. The average portfolio credit rating is calculated in accordance with the methodology issued by the credit agency Moody's (Weighted Average Rating Methodology) in which the investments are weighted according to the value of their carrying amounts. The values used for the calculation of the weighted average rating are not linear and increase with the lowering of the credit rating. Not rated fixed income investments are included in calculation as Ba1 rating.

Rating	Rating result	Rating	Rating result
Aaa	1	Ba1	940
Aa1	10	Ba2	1350
Aa2	20	Ba3	1766
Aa3	40	B1	2220
A1	70	B2	2720
A2	120	B3	3490
A3	180	Caa1	4770
Baa1	260	Caa2	6500
Baa2	360	Caa3	8070
Baa3	610		

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.1 Credit risk (continued)*****Credit risk arising from financial investments (continued)***

Asset class	31 December 2018	Average Rating	31 December 2017	Average Rating
Debt instruments (T-Bills and Government Bonds)	1,048,655	Ba2	1,058,583	Ba2
Deposits (term)	439,422	Ba1	371,445	Ba1
Guarantee fund investments	25,447	-	25,837	-
Total	1,513,524	Ba2	1,455,865	Ba2

The average credit rating of the portfolio should be equal or higher than the credit rating of the domestic country. The fixed income instruments average credit rating equals to Ba2. The credit rating of the domestic country is Ba3.

Following is the credit-rating structure of the debt securities of Triglav Insurance AD Skopje for the years ended 31 December 2018 and 2017.

Credit rating	31 December 2018	31 December 2017
AFS	1,048,655	828,239
BBB	-	-
BB	1,048,655	828,239
Loans and receivables	-	230,344
BB	-	230,344
Total debt securities	1,048,655	1,058,583

Term deposits, GF investments, cash and cash equivalents, receivables and reinsurance share of technical provisions are classified as "Undetermined" credit quality class.

Exposure as per product type

The Company also tends to achieve optimum diversification of its financial investment portfolio and therefore, it has various limits of exposures put in place.

According to the investment policy, the Company is allowed to invest in financial assets in compliance to the limits as disclosed below:

Type of investment	Limit 31 December 2018	Limit 31 December 2017
Debt securities	100%	100%
Debt securities issued by the state	60%	60%
Corporate debt securities issued by participant in financial sector including deposits in banks	30%	30%
Corporate debt securities issued by non-financial sector participants	10%	10%
Equity investments	0%	0%

Maximum allowable deviation for all categories of debt securities is +/- 15%.

Maximum allowable deviation for equity securities is +/- 6%.

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.1 Credit risk (continued)*****Credit risk arising from financial investments (continued)***

The table below shows the composition of the investment portfolio of the Company as of 31 December 2018 and 2017.

	31 December 2018	%	31 December 2017	%
Debt securities, deposits and GF investments	1,513,524	99,6%	1,455,865	99,6%
Debt securities issued by the state	1,048,655	69%	1,058,583	73%
Debt securities issued by other states	-		-	0%
Corporate debt securities and	-		-	0%
Deposits in banks	439,422	29%	371,445	26%
Gurantee fund investments	25,447	2%	25,837	2%
Equity investments	5,343	0,4%	5,399	0,4%
Total financial assets	1,518,867		1,461,264	

As of 31 December 2018 and 2017, all investments are within the limits of the Company's investment policy.

In 2018, the single largest exposure of Triglav Insurance AD Skopje was related to the government bond issued by the Republic of Macedonia in amount of 161,621 MKD thousand with maturity until January 2028.

The single largest exposure in 2017 was related to the government bond issued by the Republic of Macedonia in amount of 200,123 MKD thousand with maturity until January 2018.

Exposure as per single issuer or group of connected issuers

In addition, when making investments, the Company is following the financial institutions' exposure limits where the investments in one issuer or group of connected issuers should not exceed those. These limites are revised on annual basis and approved by the Risk Management Committee of the Triglav Group.

All investments made in financial assets are within the Republic of Macedonia (2017: Republic of Macedonia), i.e. there is no exposure on the global financial markets.

Credit risk arising from insurance and reinsurance activities

The Company is exposed to credit risk in case when the policyholders are unable to fulfill their financial liabilities arising from the insurance contracts. The receivables from the insurance operations are spread over large number of clients and therefore, there is small concentration as per client level which reduces the credit risk. The company manages the credit risk arising from insurance operations through selling insurance policies to clients with good credit history and through assessing the financial position and stability of individual clients. The credit quality of the clients is assessed through performing both, basic and detailed and broader credit analysis. Clients' financial performance and position are assessed through in-depth analysis of the financial statements and certain financial indicators. For the existing clients, the payment history and payment pattern in the past three years is also reviewed. The client status is also checked in the Central Registry of Macedonia. As a result, through constant monitoring of the insurance portfolio, the Company is aiming towards diversification through various sectors and large number of clients.

Credit risk exposure arising from insurance business operations is regularly monitored by analyzing:

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.1 Credit risk (continued)*****Credit risk arising from insurance and reinsurance activities (continued)***

- The maturity structure of receivables from insurance operations (refer below in this section and in note 13 for analysis of receivables by maturities). The receivables are appropriately provided for as described in note 3.11; and
- Re-insurers' credit ratings.

The Company's management regularly estimates the reinsurers' solvency in order to be able to update the reinsurance strategy.

Following is the credit-rating structure of the reinsurance share of technical provisions.

	31 December 2018	31 December 2017
AA	11,593	4,277
A	144,739	129,018
BBB		1,485
No rating	10,803	4,460
Reinsurance share of technical provisions	167,135	139,240

Credit risk arising from cash and cash equivalents

Even though most of the financial institutions and commercial banks in Macedonia do not have a credit rating assigned by the credit rating companies, the Company prudently chooses the banks for its placements. The Company is only exposed to specifically approved banks and within the range of approved limits, as determined by the Investment policy statement. The list of approved banks and the appropriate limits is revised once a year, with previous financial data analysis of the banking sector in the country.

The following table discloses the cash and cash equivalents per bank.

Bank	31 December 2018	31 December 2017
Komercijalna Banka AD, Skopje	5,428	8,157
Stopanska Banka AD, Skopje	1,544	7,113
Halkbank AD, Skopje	7,644	6,010
NLB Banka AD, Skopje	3,020	3,741
UNI Banka AD, Skopje	9	543
Ohridska Banka AD, Skopje	5,383	222
ProCredit Banka AD, Skopje	32	35
Cash in Vault	7	7
Total Cash and cash equivalents	23,067	25,828

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures

31 December 2018	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowance for impairment	Net exposure
Financial investments	1,513,524	-	99,427	1,612,951	(99,427)	1,513,524
AFS	1,048,655	-	-	1,048,655	-	1,048,655
Debt instruments	1,048,655	-	-	1,048,655	-	1,048,655
Loans and receivables	464,869	-	99,427	564,296	(99,427)	464,869
Deposits (term), GF investments and loans	464,869	-	99,427	564,296	(99,427)	464,869
Reinsurers' share of technical provisions	167,135	-	-	167,135	-	167,135
Receivables	185,585	61,479	551,265	798,329	(460,441)	337,888
Cash and cash equivalents	23,067	-	-	23,067	-	23,067
Total	1,889,312	61,479	650,691	2,601,482	(559,868)	2,041,614

31 December 2017	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowance for impairment	Net exposure
Financial investments	1,455,865	-	117,995	1,573,860	(117,995)	1,455,865
AFS	828,239	-	-	828,239	-	828,239
Debt instruments	828,239	-	-	828,239	-	828,239
Loans and receivables	627,626	-	117,995	745,621	(117,995)	627,626
Deposits (term), GF investments and loans	397,282	-	117,995	515,277	(117,995)	397,282
Debt instruments (T- Bills and Government Bonds)	230,344	-	-	230,344	-	230,344
Reinsurers' share of technical provisions	139,240	-	-	139,240	-	139,240
Receivables	182,859	69,467	593,147	845,473	(497,964)	347,509
Cash and cash equivalents	25,828	-	-	25,828	-	25,828
Total	1,803,792	69,467	711,142	2,584,401	(615,959)	1,968,442

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.1. Credit risk (continued)****Additional credit risk disclosures**

The impaired portion of category “Deposits (term), GF investments and loans” in amount of 99,427 MKD thousands (2017: 117,995 MKD thousands) relate to loans given in the past which are in delay of more than 365 days and therefore, they are fully impaired. During 2018, 18,559 MKD thousands of impairment was released as a result of write-off, while 9 MKD thousands as a result of collected loan receivables (2017:11,440 MKD thousands)

The composition of the past due but not impaired and impaired receivables is as follows:

	Past due but not impaired			Total
	Up to 30 days	30 - 180 days	Over 180 days	
31 December 2018	28,905	1,686	30,887	61,478
31 December 2017	38,844	1,427	29,196	69,467

	Impaired receivables			Total
	Up to 30 days	30 - 180 days	Over 180 days	
31 December 2018	-	63,186	27,636	90,822
31 December 2017	-	75,220	19,963	95,183

Triglav Insurance AD Skopje, classifies its receivables from direct insurance and recourses in the following categories according to the corresponding days of delay.

- Category A: Receivables from debtors who failed to fulfil their obligations towards the Company and are in delay of up to 30 days calculated from the maturity date.
- Category B: Receivables from debtors who failed to fulfil their obligations towards the Company and are in delay from 31 days to 60 days calculated from the maturity date.
- Category C: Receivables from debtors who failed to fulfil their obligations towards the Company and are in delay from 61 days to 120 days calculated from the maturity date.
- Category D: Receivables from debtors who failed to fulfil their obligations towards the Company and are in delay from 121 days to 270 days calculated from the maturity date.
- Category E: Receivables from debtors who failed to fulfil their obligations towards the Company and are in delay from 271 days to 365 days calculated from the maturity date.
- Category F: Receivables from debtors who failed to fulfil their obligations towards the Company and are in delay more than 365 days calculated from the maturity date.

The renegotiated receivables are classified according to the initial maturity day.

In accordance to these categories, the Company determines corresponding percentage of impairment as follows:

Category of receivables	Days of delay	Impairment % applied
A	up to 30 days	-
B	from 31 to 60 days	10%
C	from 61 to 120 days	31%
D	from 121 to 270 days	51%
E	from 271 to 365 days	71%
F	more than 365 days	100%

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.1. Credit risk (continued)****Additional credit risk disclosures (continued)**

Receivables originating from debtors against which a bankruptcy procedure has been initiated are immediately 100% impaired regardless of the actual days of delay. Receivables which have maturity date which is after the insurance period coverage are 100% impaired.

Following is presentation of the receivables direct insurance and recourses including their classification per category as well as the corresponding impairment.

31 December 2018	Gross amount	Impairment	Net amount	Impairment %
Receivables from direct insurance	705,273	416,309	288,964	
Not due	171,256	-	171,256	-
up to 30 days	26,885	-	26,885	0%
from 31 to 60 days	27,793	2,779	25,014	10%
from 61 to 120 days	55,323	17,150	38,173	31%
from 121 to 270 days	46,080	23,501	22,579	51%
from 271 to 365 days	17,438	12,381	5,057	71%
more than 365 days	360,498	360,498	-	100%
Receivables from recourses	27,958	27,958	-	
more than 365 days	27,958	27,958	-	100%
Total receivables from direct insurance and recourses	733,231	444,267	288,964	

31 December 2017	Gross amount	Impairment	Net amount	Impairment %
Receivables from direct insurance	748,331	448,694	299,637	
Not due	170,256	-	170,256	-
up to 30 days	34,185	-	34,185	-
from 31 to 60 days	27,055	2,706	24,349	10%
from 61 to 120 days	59,739	18,519	41,220	31%
from 121 to 270 days	49,738	25,366	24,372	51%
from 271 to 365 days	18,121	12,866	5,255	71%
more than 365 days	389,237	389,237	-	100%
Receivables from recourses	29,645	29,645	-	
more than 365 days	29,645	29,645	-	100%
Total receivables from direct insurance and recourses	777,976	478,338	299,637	

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.2 Liquidity risk**

Liquidity risk is the risk that the Company would be unable to meet its obligations when they fall due as a result of policyholder benefit payments, cash requirements from contractual commitments, or other cash outflows. Such outflows would deplete available cash resources for operational, and investments activities. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill policyholder commitments.

The Company's liquidity management process includes day-to-day funding, managed by monitoring actual and future cash flows to ensure that requirements can be met, maintaining a portfolio of highly liquid securities that can easily be liquidated as protection against any unforeseen interruption to cash flow as well as monitoring the liquidity ratios of the balance sheet on a daily basis in compliance with internal and regulatory requirements. Liquidity risk is also a significant consideration when the Company evaluates its overall ALM profile.

The regular liquidity control enables the Company to be prepared in adopting reasonable and appropriate measures for preventing and eliminating the causes of illiquidity.

In 2018 and 2017, the Company did not obtain additional liquidity from credit lines.

The financial assets and liabilities are non interest bearing except for the deposits and AFS debt instruments. The following tables show the contractual maturity structure of the Company's financial assets and liabilities.

31 December 2018	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	30,790	523,593	303,188	661,296	1,518,867
AFS	5,343	257,325	130,034	661,296	1,053,998
Debt instruments	-	257,325	130,034	661,296	1,048,655
Equity instruments	5,343	-	-	-	5,343
Loans and receivables	25,447	266,268	173,154	-	464,869
Deposits (term), GF investments and loans	25,447	266,268	173,154	-	464,869
Reinsurers' share of tech. provisions	-	167,135	-	-	167,135
Receivables	-	337,887	-	-	337,887
Cash and cash equivalents	-	23,067	-	-	23,067
Other assets	-	3,841	-	-	3,841
Total financial assets	30,790	1,055,524	303,188	661,296	2,050,798
Financial liabilities					
Insurance technical provisions	-	1,248,386	-	-	1,248,386
Employee benefits	-	6,404	2,421	5,162	13,987
Financial liabilities	-	1,724	-	-	1,724
Operating liabilities	-	71,890	-	-	71,890
Other liabilities	-	84,871	-	-	84,871
Total financial liabilities	-	1,413,274	2,421	5,162	1,420,857
Maturity gap	30,790	(357,750)	300,767	656,134	629,941

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.2. Liquidity risk (continued)**

31 December 2017	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	31,236	589,173	701,873	138,982	1,461,264
AFS	5,399	413,078	276,179	138,982	833,638
Debt instruments	-	413,078	276,179	138,982	828,239
Equity instruments	5,399	-	-	-	5,399
Loans and receivables	25,837	176,095	425,694	-	627,626
Deposits (term), GF investments and loans	25,837	157,532	213,913	-	397,282
Debt instruments (T-Bills and	-	18,563	211,781	-	230,344
Reinsurers' share of tech. provisions	-	139,240	-	-	139,240
Receivables	-	347,509	-	-	347,509
Cash and cash equivalents	-	25,828	-	-	25,828
Other assets	-	2,013	-	-	2,013
Total financial assets	31,236	1,103,763	701,873	138,982	1,975,854
Financial liabilities					
Insurance technical provisions	-	1,249,199	-	-	1,249,199
Employee benefits	-	374	1,544	4,358	6,276
Financial liabilities	-	1,724	-	-	1,724
Operating liabilities	-	59,483	-	-	59,483
Other liabilities	-	86,978	-	-	86,978
Total financial liabilities	-	1,397,758	1,544	4,358	1,403,660
Maturity gap	31,236	(293,995)	700,329	134,624	572,195

Due to the fact that the Company's financial investments is in AFS instruments, the debt securities maturing in 1 to 5 years can be sold earlier and thus cover the maturity gap that appears in the section under 1 year, if needed. As a result, it is unlikely that the Company will face any liquidity problems. In the long-term, the Company has positive gap for both, 2018 and 2017. In addition, there is no risk that any of the disclosed amounts payable will differ significantly in amount or will be required to occur significantly earlier than indicated.

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.3 Market risk**

The Company has an exposure to market risk, which is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates and foreign currencies, which are exposed to general and specific market movements and changes in the level of volatility of market rates and prices. Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Company's exposure to market risk or in the manner in which it manages and measures the risk.

Foreign currency risk management

The Company is exposed to foreign currency risk inherent in financial investments as well as in assets and liabilities arising out of the reinsurance activities. The Company does not apply any special financial instruments as a hedge against these risks since such instruments are not in common use in Macedonia.

The carrying amount of the Company's monetary assets and monetary liabilities denominated in foreign currencies respectively is as follows:

31 December 2018	EUR	USD	Other FC	MKD	Total
Financial assets					
Financial investments	452,802	-	-	1,066,065	1,518,867
AFS	452,802	-	-	601,196	1,053,998
Debt instruments	452,802			595,853	1,048,655
Equity instruments	-	-	-	5,343	5,343
Loans and receivables	-	-	-	464,869	464,869
Deposits (term), GF investments and loans	-	-	-	464,869	464,869
Reinsurers' share of tech. provisions	152,829	14,068	238	-	167,135
Receivables	6,087	146	-	331,654	337,887
Cash and cash equivalents	293	18	5	22,751	23,067
Other assets	-	-	-	3,841	3,841
Total financial assets	612,011	14,233	243	1,424,311	2,050,797
Financial liabilities					
Insurance technical provisions	214,745	-	11,494	1,022,147	1,248,386
Employee benefits	-	-	-	13,987	13,987
Financial liabilities	-	-	-	1,724	1,724
Operating liabilities	42,715	9,361	582	19,232	71,890
Other liabilities	2,313	-	-	82,557	84,870
Total financial liabilities	259,773	9,361	12,076	1,139,646	1,420,856

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.3 Market risk (continued)****Foreign currency risk management (continued)**

31 December 2017	EUR	USD	Other FC	MKD	Total
Financial assets					
Financial investments	489,832	-	-	971,432	1,461,264
AFS	489,832	-	-	343,806	833,638
Debt instruments	489,832	-	-	338,407	828,239
Equity instruments	-	-	-	5,399	5,399
Loans and receivables	-	-	-	627,626	627,626
Deposits (term), GF investments and loans	-	-	-	397,282	397,282
Debt instruments (T-Bills)	-	-	-	230,344	230,344
Reinsurers' share of tech. provisions	131,577	7,491	172	-	139,240
Receivables	4,289	146	-	343,074	347,509
Cash and cash equivalents	215	593	-	25,020	25,828
Other assets	-	-	-	2,013	2,013
Total financial assets	625,913	8,230	172	1,341,539	1,975,854
Financial liabilities					
Insurance technical provisions	217,033	-	17,127	1,015,039	1,249,199
Employee benefits	-	-	-	6,276	6,276
Financial liabilities	-	-	-	1,724	1,724
Operating liabilities	31,094	8,049	456	19,884	59,483
Other liabilities	4,352	-	-	82,626	86,978
Total financial liabilities	252,479	8,049	17,583	1,125,549	1,403,660

Foreign currency sensitivity analysis

The Company is mainly exposed to EUR fluctuations. The following table provides details on the Company's sensitivity to a 1% increase or decrease of MKD to EUR exchange rate. The sensitivity analysis includes only outstanding foreign currency monetary items and adjusts their translation at the period end for a 1% change in foreign currency rates. Due to the fact that the Company's assets denominated in foreign currency are much larger than the liabilities, strengthening of MKD against the EUR (1% decrease of the FX rate) would lead to negative exchange rate differences whereas weakening of MKD against the EUR (1% increase in the FX rate) would lead to equal opposite impact on the profit, i.e. positive exchange rate differences. The effect of foreign currency sensitivity analyses on profit before income tax is presented below.

	31 December 2018	31 December 2017
1% drop in the FX rate to 60.88 (2017: 60.88)	(3,522)	(3,734)
1% rise in the FX rate to 62.11 (2017: 62.11)	3,522	3,734

Company's sensitivity to foreign currency fluctuations has insignificantly decreased as a result of the minor decrease in the gap between the financial assets and liabilities denominated in EUR as compared to the previous year.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

5. Risk management (continued)**5.3 Financial risks and sensitivity analysis (continued)****5.3.3 Market risk (continued)*****Interest rate risk management***

The Company is exposed to interest rate fluctuations only through its placements in financial assets with variable interest rates. The Company is not allowed to use instruments of financial hedging to decrease the exposure of the risk of changes in interest rates.

The insurance and reinsurance assets and liabilities are not directly sensitive to the changes in the market interest rates since they are contractually non-interest bearing items.

Joint liability

The Company has a liability towards National Insurance Bureau in respect of the Company's share in MTPL claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Insurance Law on supervision. On the investments in the Guarantee Fund, the Company receives interest payments with average interest rate of 1.24% for the year ended December 31, 2018 (2017: 1.36%).

The following table discloses the interest-bearing and non-interest bearing financial assets and liabilities as well as the division between fixed and variable interest items for the interest bearing one.

	31 December 2018	31 December 2017
Financial assets		
<i>Non-interest bearing</i>		
AFS - Equity instruments	5,343	5,399
Loans and receivables – T-Bills	-	18,563
Reinsurers' share of technical provisions	167,135	139,240
Receivables	337,887	347,509
Cash and cash equivalents	23,067	25,828
Other assets	3,841	2,013
	537,273	538,552
<i>Fixed interest bearing</i>		
Available for sale - Debt instruments	1,048,655	828,239
Loans and receivables	283,159	378,450
	1,331,814	1,206,689
<i>Variable Interest bearing</i>		
Loans and receivables	181,710	230,613
	181,710	230,613
Total financial assets	2,050,797	1,975,854
Financial liabilities		
<i>Non-interest bearing</i>		
Insurance technical provisions	1,248,386	1,249,199
Employee benefits	13,987	6,276
Financial liabilities	1,724	1,724
Operating liabilities	71,890	59,483
Other liabilities	84,870	86,978
Total financial liabilities	1,420,856	1,403,660

5. Risk management (continued)
5.3 Financial risks and sensitivity analysis (continued)
5.3.3 Market risk (continued)

Interest rate risk management (continued)*Interest rate sensitivity analysis*

Interest rate sensitivity analysis focuses on the exposure of the Company's financial assets to movements in interest rates at the reporting date. This analysis illustrates how the changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. As for the financial assets with variable interest rate, the analysis is prepared with assumption that the balance as at the year-end did not change during the year. In the preparation of the sensitivity analysis, an increase or decrease of 15% (0.5 percentage point) is applied, which is reasonable management assumption for the possible changes in the interest rate and which is based on historical movements of interest rates in MKD deposits with maturities of up to one year since the Company has variable-interest investments only in deposits with this maturity.

Therefore, in case the interest rates were higher/lower by 15% and all remaining variables remained constant, the profit of the Company for the year ended 31 December 2018 would be higher, i.e lower by 579 MKD thousand (2017: 768 MKD thousand).

Interest rate sensitivity analysis

The method used for deriving sensitivity information and significant variables did not change from the previous period.

	31 December 2018	31 December 2017
15% increase in deposit interest rates	579	768
15% decrease in deposit interest rates	(579)	(768)

5.3.4 Equity risk

Equity risk is the risk of fluctuation in share prices, which affects the carrying value of securities within the Company's portfolio that are sensitive to such fluctuations. These risks are managed through investment limits as well as through sectorial diversification. To a large extent, the portfolio consists of debt securities and therefore this diversification causes lower exposure to equity risk. The overall equity portfolio is concentrated in Macedonia.

The equity portfolio's sensitivity to equity price fluctuations and their impact on the Other Comprehensive Income of the Company is shown in the table below.

	31 December 2018		31 December 2017	
	+ 10%	- 10%	+ 10%	- 10%
Equity investments in Macedonia	534	(534)	540	(540)
Total effect	534	(534)	540	(540)

The above analysis demonstrates the sensitivity of the equity portfolio to equity price fluctuations. If the prices of the equities in the portfolio as at 31 December 2018 and 31 December 2017 were 10% above their disclosed values, the comprehensive income of the Company would be 534 MKD thousand and 540 MKD thousand higher. In contrast, if the prices of the equities in the portfolio as at 31 December 2018 and 31 December 2017 were 10% lower, the comprehensive income and profit of the Company would be 534 MKD thousand and 540 MKD thousand lower.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.4 Equity risk (continued)

Due to the established long-term decrease in the fair value of equity securities, the Company, in accordance with International Financial Reporting Standards, impaired certain equity securities in previous years. As a result, the Company changed its Investment Policy in 2014 where further investments in equity instruments are not allowed. As a result, the Company disposed most of its equity investments during the year ended 31 December 2014.

5.3.5 Sensitivity analyses

Following the past evidence and the run-off analysis for claims it is evident that the prudent recognition and conservative methodology used by Triglav Insurance AD Skopje for recognition of insurance technical reserves results in adequate insurance liabilities. Based on the results of the adequacy test of insurance liabilities the impact of any change in assumptions or any potential increase, either in the number of claims or the average costs of claims of +/- 10%, will be within an acceptable range and will not result in a material adjustment of the insurance liabilities.

5.4 Underwriting risk

Triglav Insurance AD Skopje assumes underwriting risk through the insurance contracts it underwrites. The risks in this category are associated with both insurance perils covered by individual insurance classes and specific work processes related to performing insurance operations. Underwriting risks arise in the process of risk underwriting, i.e. in the assumption of risk, in the development of insurance products and their pricing, as well as in loss development changes, the allocation of insurance technical provisions, changes in policyholders' behavior and general changes in the external economic environment.

Through underwriting activities in any insurance class for which the Company is registered, it is exposed to various uncertainties such as the time of the possible occurrence of the insured event, the frequency and the possible severity arising out of the insurance contracts.

The risk that the Company faces is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical and actuarial techniques.

Divisions in charge of the core business are primarily responsible for active management of the underwriting risk. This type of risk is managed by clearly structured competences and powers, which include suitable delimitation of powers, underwriting limits and an authorization system. To manage risks related to the development of insurance products, Triglav Insurance AD Skopje uses set of actuarial techniques in product pricing and insurance technical provision allocations, as well as by means of regular performance monitoring, optimization of reinsurance schemes and regular supervision of the adequacy of insurance contract provisions.

Underwriting strategy

The Company's strategy for underwriting insurance contracts is focused on achieving as wide as possible dispersion which will ensure balanced insurance portfolio and is based on large portfolio of similar risks over number of years and, as such, reduces the variability of the outcome. More diversified portfolio is less likely to be affected by a change in any subset of the portfolio. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Underwriting strategy (continued)

The underwriting strategy is set out and presented along with the annual business plan that established the classes of business to be written, the geographical locations in which the business is to be written as well as the industry sectors in which the Company is prepared to underwrite.

All insurance contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

In addition, the Company is aiming towards making investments in short-term liquid financial assets and thus earning investment income, due to the timing difference between the payments of the premiums by the policyholders and the payments of the claims by the Company, varying between different classes of insurance.

Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to manage and control its exposure to possible losses as well as to protect its capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce its net exposure.

For each financial year a plan of reinsurance is adopted that contains:

- calculated retained lines by individual class of insurance;
- a table of maximum coverage based on retained lines; and
- procedures, bases and criteria for establishing the highest probable loss arising from individual risks underwritten.

The Company has centralized system for management of reinsurance.

The reinsurance is made based on the limits set for maximum coverage which varies from one to another insurance class.

In addition, the Company is allowed to buy facultative reinsurance in certain specified circumstances. These contracts are subject to separate individual approval and the total expenditures arising out of these contracts are regularly monitored.

The reinsurance contracts bear certain level of credit risk and, as a result, the reinsurance assets are reported after impairment provisions. The Company regularly monitors the reinsurers' financial position and periodically reviews the contracts in place. The management of the Company determines the criteria for acceptable reinsurance companies and monitors whether this criterion has been diligently respected in concluding the reinsurance contracts. The management of the Company is also responsible for regular monitoring of the efficiency and adequacy of the reinsurance program. The credit risk to which the Company is exposed when concluding reinsurance contracts is explained in note 5.3.1.

Following table presents the reinsurance coverage and maximum retention of the Company by insurance type for years ended 31 December 2018 and 2017.

5. Risk management (continued)**5.4 Underwriting risk (continued)*****Reinsurance strategy (continued)***

Type of insurance	31 December 2018		31 December 2017	
	Maximum retention	Reinsurance coverage	Maximum retention	Reinsurance coverage
Fire insurance and other damages (including business interruption as a result of fire and machine breakdown)	30,750	922,500	30,750	922,500
Other damage to property insurance (machine breakdown, electronic devices as well as CAR/EAR)	12,300	430,500	12,300	430,500
Insurance from burglary and robbery	24,600	492,000	24,600	492,000
Land motor vehicle insurance	6,150	30,750	6,150	30,750
Railway insurance	3,075	3,075	3,075	3,075
Aircraft insurance	6,150	6,150	6,150	6,150
Marine insurance	6,150	6,150	6,150	6,150
Cargo insurance	6,150	184,500	6,150	184,500
Motor TPL insurance	18,450	unlimited	18,450	unlimited
Aircraft liability insurance	3,075	3,075	3,075	3,075
Marine liability insurance	3,075	3,075	6,150	6,150
General liability insurance	9,225	9,225	9,225	9,225
Credit insurance	3,075	3,075	3,075	3,075
Suretyship insurance	3,075	3,075	3,075	3,075
Miscellaneous financial loss insurance	3,075	3,075	3,075	3,075
Accident insurance	6,150	6,150	6,150	6,150
All other types of insurance	3,075	3,075	3,075	3,075

Asset-liability harmonization

The Law on insurance supervision applicable in Macedonia prescribes certain limits regarding the Company's asset-liability matching and harmonization policy.

The Company actively manages its financial position using an approach that balances quality, diversification, liquidity and investment return, taking into consideration the limits determined by the aforementioned law. The key goal is to match the timing of cash flows from the respective assets and liabilities.

The Company is obliged to invest in assets in an amount which is at least equal to the insurance technical provisions. As at 31 December 2018 the investments of the Company which serve as assets covering the technical provisions amounted to 1,511,290 MKD thousand (2017: 1,458,027 MKD thousand). These investments consist of bank accounts and deposits, shares, government bills and bonds.

5. Risk management (continued)**5.4 Underwriting risk (continued)*****Asset-liability harmonization (continued)***

Presented below is the asset-liability matching according to the local regulatory requirements, in relation to assets covering the technical provisions:

	Allowed %	31 December 2018	%	31 December 2017	%
Bank accounts and cash in hand	3%	23,067	1.5%	25,821	1.8%
Bank deposits	60%	434,225	28.7%	368,225	25.3%
Securities issued by R. Macedonia	80%	1,048,655	69.4%	1,058,582	72.6%
Shares that are not traded on the regulated securities market if their issuer is legal entity established in R. Macedonia	5%	3,600	0.2%	3,600	0.2%
Shares issued by investment funds registered in R. Macedonia	20%	1,743	0.1%	1,799	0.1%
Long-term bonds and other long-term securities issued by foreign legal entity from a EU member or OECD member state	20%	-		-	
Total investment in assets		1,511,290	100%	1,458,027	100%
Total net technical provisions (technical provision less reinsurance part)		1,081,251		1,109,959	
Surplus of assets covering the technical provisions		430,039		348,068	

The assets covering the net insurance technical provisions were at surplus in amount of 430,039 MKD thousand as at 31 December 2018 (2017: surplus of 348,068 MKD thousand).

Third party liability insurance***Product features***

The Company writes third party liability insurance. Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposures are in relation to bodily injury. The timing of claim reporting and settlement is a function of a number of factors, including the nature of the coverage, the policy provisions and the jurisdiction in which the contract is written. The majority of bodily injury claims have a relatively short tail, with most of the claims for a given accident year settled in full within a year. Many liability insurance contracts are not subject to significant lags or claim complexity risks and hence have materially less uncertainty. In general, these contracts result in lower estimation uncertainty.

Management of risk

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet the Company's criteria for profitability are underwritten. For bodily injury liability contracts, the key risk is the trend for courts to award higher levels of compensation. In pricing contracts, the Company makes assumptions that costs will increase in line with the latest available information. The key risks associated with these contracts are those relating to underwriting, competition, claims experience and the potential for policyholders to exaggerate or invent losses.

5. Risk management (continued)**5.4 Underwriting risk (continued)*****Property insurance******Product features***

The Company writes property insurance in the Republic of Macedonia. Property insurance indemnifies, subject to any limits or excesses, the policyholder against the loss or damage to their own material property.

The return to shareholders under these contracts arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Company.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay (an exception to this is in relation to subsidence claims). Property business is therefore classified as 'short-tailed', meaning that expense deterioration and investment return will be of less importance.

Management of risk

The key risks associated with this product are the underwriting risk, competitive risk and claims experience risk (including the variable incidence of natural disasters). The Company is also exposed to the risk of exaggeration and dishonest action by claimants. This largely explains why economic conditions correlate with the profitability of a property portfolio. Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. The risk on any policy will vary according to many factors such as location, safety measures in place and the age of property. For domestic property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this will not be the case.

Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. The Company reinsures risk by way of proportional type of reinsurance contracts with retention limits varying by product line and territory.

Following is dispersion of the property insurance through different regions in R. Macedonia.

Region	31 December 2018	31 December 2017
Skopje region	36%	41%
Vardar region	19%	18%
Pelagoniski region	16%	17%
East region	14%	7%
Southeast region	5%	7%
Southwest region	4%	5%
Poloski region	2%	3%
Northeast region	3%	2%
Total	100%	100%

Following is presentation of the distribution of risk for property insurance and corresponding maximum possible claim.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

5. Risk management (continued)

5.4 Underwriting risk (continued)

Property insurance (continued)

Management of risk (continued)

Maximum possible claim	Medium possible claim	31 December 2018			31 December 2017		
		No of individual insurance risks	GWP	Aggregated maximum possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim
0-1,538	769	12,793	90,723	9,947,192	12,052	77,111	10,105,689
1,538-3,075	2,306	6,963	34,099	16,366,220	5,408	31,695	17,519,017
3,075-6,153	4,614	2,830	22,195	13,407,995	2,119	17,345	14,514,441
6,153-15,375	10,764	1,427	27,339	15,709,921	1,041	30,376	15,639,686
15,375-30,750	23,063	498	14,958	13,322,442	348	15,687	12,795,755
30,750-61,500	46,125	255	14,712	13,299,461	203	15,617	14,540,586
61,500-123,000	92,250	114	8,386	11,411,214	65	7,327	10,236,101
123,000-184,500	153,750	46	5,094	7,787,309	28	5,031	7,649,992
184,500-307,500	246,000	43	12,771	12,225,216	20	12,006	11,456,016
307,500-615,000	461,250	36	8,929	16,711,462	15	5,636	15,128,959
615,000-1,230,000	922,500	20	10,693	29,404,468	20	6,596	20,678,820
1,230,000-3,075,000	2,152,500	16	10,687	40,940,617	24	4,532	31,863,725
> 3,075,000		12	73,862	351,668,914	18	43,681	315,163,776
		25,053	334,449	552,202,432	21,361	272,641	497,292,563

5. Risk management (continued)

5.4 Underwriting risk (continued)

Motor insurance

Product features

The Company writes motor insurance in the Republic of Macedonia. This consists of both property and liability benefits, and includes short tail coverage. The payments that are made quickly indemnify the policyholder against the value of loss on motor physical damage claims and property damage (liability) claims, at the time the incident occurs, subject to any limits or excesses. The payments that take longer to finalize, and are more difficult to estimate, relate to bodily injury claims. These indemnities cover the motor vehicle against compensation payable to third parties for death or personal injury.

Management of risk

In general, claims reporting lags are minor, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimations risk. The Company monitors and reacts to changes in trends of injury awards, litigation and the frequency of claims appeal. The frequency of claims is affected by adverse weather conditions, and the volume of claim is higher in the winter months. In addition, there is a correlation with the price of fuel and economic activity, which affect the amount of traffic activity. The Company reinsures risk by way of excess of loss cover under which the Company's loss on any one event is limited.

Following is presentation of the distribution of risk for motor insurance and corresponding maximum possible claim.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

5. Risk management (continued)

5.4 Underwriting risk (continued)

Motor insurance (continued)

Management of risk (continued)

		31 December 2018			31 December 2017		
		No of individual insurance risks	GWP	Aggregated maximum possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim
Maximum possible claim	Medium possible claim						
0-615	308	2,304	12,017	242,653	2,408	13,370	227,095
615-1,230	923	2,173	31,094	1,915,377	2,042	31,243	1,737,425
1,230-1,845	1,538	1,067	24,358	1,617,503	973	24,970	1,481,793
1,845-3,075	2,460	633	23,281	1,500,603	555	21,486	1,326,402
3,075-6,150	4,613	1,344	58,359	6,094,929	1,234	58,886	5,574,759
6,150-12,300	9,225	122	12,819	957,276	138	12,774	1,168,247
12,300-18,450	15,375	30	4,350	480,436	41	4,839	633,816
18,450-30,750	24,600	12	2,089	271,038	9	1,541	225,035
> 30,750	-	-	-	-	-	-	-
		7,685	168,367	13,079,815	7,400	169,109	12,374,573

5. Risk management (continued)

5.4 Underwriting risk (continued)

Concentration of insurance risks

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes. Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography.

The concentration of risk is carefully and in an expert way analyzed by the Company. In any line of insurance business, a risk surveying is a regular process done by experienced various engineers and professionals, thus the underwriters have a clean and undoubtful picture of the nature of the risk and its exposure to various perils, as well as in regards to the possible future claims. Procedures and documentation of such processes, questionnaires, loss reports, guidelines of PML calculating, and in most exposed risks where the concentration is above the threshold, survey reports are used.

In that respect, the Company concludes reinsurance agreements where the risk is ceded. As a result, both reinsurance concepts, facultative and treaty reinsurance and pro-rata and excess of loss reinsurance are commonly used by the Company. The yearly based agreements are on both basis, proportional and non-proportional reinsurance and include: earthquake quota share treaty, fire and engineering property first and second surplus, marine cargo, carriers and forwarders liability quota share, catastrophe and aggregate excess of loss, MTPL excess of loss, marine cargo excess of loss etc. Additionally, when a facultative cover is needed, the Company obtains it with its reputable reinsurers, on a case to case basis. In such way, the concentration of risk in all line of businesses are continually monitored and mitigated.

(i) *Geographic and sectorial concentrations*

The risks underwritten by the Company are located in the Republic of Macedonia. The management believes that the Company has no significant concentrations of exposure to any group of policyholders measured by social, professional, age or similar criteria.

(ii) *High-severity, low-frequency concentrations*

By their nature, the timing and frequency of these events are uncertain. They represent a significant risk to the Company because the occurrence of an event, while unlikely in any given accounting period, would have a significantly adverse effect on the Company's cash flows. The Company's key methods in managing these risks are:

- Primarily, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed;
- Secondly, the risk is managed through the use of reinsurance. The Company purchases surplus reinsurance for property business, excess of loss for the third party liability business, and quota share reinsurance for risks of earthquake and green card losses. The Company assesses the costs and benefits associated with the reinsurance program on a regular basis.

5. Risk management (continued)

5.5 Operational risks

Operational risk is defined as the risk of loss due to:

- Inadequate or failed internal processes (process disruptions, customer complaints, lack of reliable management information, business continuity issues, mismanagement of business-related costs, inefficient change management, inconsistent or incomplete process documentation, etc.);
- Inappropriate or inefficient human behavior (inadequate human resource management, loss of key personnel, lack of knowledge and competences, employee misconduct, etc.);
- Inadequate or failed systems (outdated software applications and/or infrastructure in use, lack of audit trails in software, inadequate backup and recovery times, etc.);
- External events (changes in regulation, natural disasters, competition, fraudulent activity, etc.).

In the scope of operational risks, insurance companies have a large potential exposure to insurance fraud. To manage this exposure, a special department was established and put in charge of the development and implementation of fraud indicators, research of potential fraudulent activity and reporting to the Board of Directors on the findings and initiated procedures.

The fraud prevention, detection and investigation department, which was formed in 2012 and which is fostering a culture of zero tolerance that is harmonized with the strategy of the parent company and Triglav Group, clearly demonstrates its commitment to the proactive protection of honest, regular and legally based business activities of the Company.

The strategy for fraud prevention is based on three basic pillars such as prevention, detection and investigation of the fraud covering all business processes of the Company. This enables the Company to undertake the appropriate measures in the scope of its overall operations and business activities. In this direction, through SRPR, the Company tends to pursue comprehensive application of the best practices of the international organizations like ACFE (Association of Certified Fraud Examiners) and IAIS (International Association of Insurance Supervisors). With the establishment of this department, Triglav Insurance AD Skopje has received new defence mechanism that is directed towards the protection of the Company's capital from irregular activities, insurance and other types of frauds as well as from illegal misappropriation of assets. Another important segment of operational risks are compliance risks which are managed in the framework of the compliance function.

5.6 Strategic risks

Strategic risk is the probability or possibility that an event will adversely or beneficially affect the Company's ability to achieve its strategic objectives and thus its value. Strategic risk management is directly and most actively managed by the Board of Directors of Triglav Insurance AD Skopje.

Strategic risks are addressed upon their creation, i.e. during the strategic planning process. The strategy implementation process is monitored with internal controls, while competences and responsibilities of the above-mentioned body in managing strategic risk are clearly defined. A clear organizational structure of functions provides for an effective strategic risk control as well as the achievement of short-, mid- and long-term goals.

Continuous training for employees as well as the application of state-of-the-art models, tools and good business practices enables the Company to effectively manage strategic risks.

Strategy

The Strategy of the Company is devised in a clear manner with precisely defined goals, tools and implementation processes. The strategy is in line with the trends in the industry, applicable local laws and regulations as well as the micro- and macro-environment of the Company. Good business results achieved despite the economic crisis and effects of unpredictable weather events show that the implementation of the strategy has been successful and efficient.

5. Risk management (continued)

5.6 Strategic risks (continued)

Business processes

Internal controls set up to monitor operational risks enable employees to adopt and implement more appropriate and correct decisions and enhance the Company's general ability to adapt to the changes in the environment.

Assets and liabilities

Due to the nature of its operations, Triglav Insurance AD Skopje employs ALM system which is designed to allow optimum and efficient management of assets and liabilities. Synergies and information and expertise sharing from the parent company and the overall Group are used to facilitate and improve the Company's operations. The Company effectively manages assets risks by active monitoring of its liabilities, insurance premium inflow, investments and developments in financial and all other markets, which positively affects its financial results.

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2018**

(All amounts are in MKD thousand unless otherwise stated)

5. Risk management (continued)**5.7 Fair value of financial assets and liabilities**

Following is disclosure of the carrying amounts and fair values of the financial assets and liabilities of the Company.

	31 December 2018		31 December 2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Financial investments	1,518,867	1,518,867	1,461,264	1,461,264
AFS	1,053,998	1,053,998	833,638	833,638
Debt instruments	1,048,655	1,048,655	828,239	828,239
Equity instruments	5,343	5,343	5,399	5,399
Loans and receivables	464,869	464,869	627,626	627,626
Deposits (term), GF investments and loans	464,869	464,869	397,282	397,282
Debt instruments (Treasury Bills)	-	-	230,344	230,344
Receivables	337,887	337,887	347,509	347,509
Cash and cash equivalents	23,067	23,067	25,828	25,828
Other assets	3,841	3,841	2,013	2,013
Total financial assets	1,883,662	1,883,662	1,836,614	1,836,614
Financial liabilities				
Financial liabilities	1,724	1,724	1,724	1,724
Operating liabilities	71,890	71,890	59,483	59,483
Other liabilities	84,870	84,870	86,978	86,978
Total financial liabilities	158,484	158,484	148,185	148,185

5. Risk management (continued)

5.7 Fair value of financial assets and liabilities (continued)

The management assessed that cash and cash equivalents, receivables from insurance, technical provisions and their reinsurance share, other assets, operating, other and financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. On the maturities of these instruments, please see note 5.3.2

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Debt and equity AFS securities are evaluated by the Company based on price quotations at the reporting date. The fair value of unquoted AFS instruments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Please refer to note 3.6.
- The fair value of loans and receivables is measured using the discounted cash flow model on the basis of the historical effective interest rate (Level 2).
- The fair value of receivables and other assets, operating, financial and other liabilities is measured through parameters such as specific country risk factors, individual creditworthiness of the customer, experience regarding recoverability of receivables with similar maturities etc. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2018, the carrying amounts of such receivables, net of allowances, were not different from their calculated fair values.

6. Operating segments**Products, services and major consumers**

The basic activity of the Company is non-life insurance, and the most significant activities of the Company are accident insurance, land motor vehicles insurance, fire, natural forces and other damage to property insurance, aircraft insurance, travel insurance etc. In these areas the Company offers a wide range of products to meet the increasing demand of the insurance market in Macedonia.

The income of the Company is composed of insurance premiums income, investments income and other insurance income including fees and commission from reinsurance.

The Company provides insurance services to some of the biggest local companies in the field of production and distribution of energy, transport and logistics, as well as financial services.

Geographical areas

During the presentation of the information based on the geographic areas, income is presented on the basis of the geographical location of the consumers, and, the incomes are shown based on the geographical location of the assets.

The income from the segments consists of the net premium income from insurance, income from financial assets, other insurance income and other income. The management measures the segment performance through analyzing the gross written premium, net premium income, net claims incurred, income from financial assets, other insurance income and expenses, operating expenses as well as through insurance related ratios such as cost ratio, expense ratio, claim ratio and combined ratio. Combined ratio which is below 100 is desirable ratio. The combined ratio of Triglav Insurance AD Skopje as of 31 December 2018 was 101 (2017:96).

The segment information provided to the Board of Directors for the reportable segment as of 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Gross insurance premium income	1,386,264	1,342,537
Insurance premium ceded to reinsurers	(261,945)	(247,606)
Net premium income	1,124,319	1,094,931
Income from financial assets	46,176	65,925
Other insurance income	46,501	40,061
Other income	7,223	7,887
Total income	1,224,219	1,208,804
Gross insurance claims settled	682,989	622,052
Insurance claims recovered from reinsurance	(13,333)	(12,878)
Net claims incurred	669,657	609,174
Change in other insurance technical provisions	4,740	2,905
Net expenses for bonuses and discounts	26,437	42,942
Operating expenses	421,047	386,004
Expenses from financial assets and liabilities	4,458	2,984
Other insurance expenses	57,962	54,526
Other expenses	1,725	10,504
Total expenses	1,186,025	1,109,039
Share of loss of an associate	1,844	2,056
Profit before tax	36,349	97,709

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2018***(All amounts are in MKD thousand unless otherwise stated)***6. Operating segments (continued)**

Depreciation and amortization	16,182	13,692
Interest income	42,665	48,736
Income tax expense	4,872	12,507
Share of loss of associates	1,844	2,056
Total assets	2,316,102	2,247,944
Total assets include:		
Investment in associates	57,727	59,571
Total liabilities	2,316,102	2,247,944

7. Intangible assets

	Software and licenses	Deferred acquisition costs	Total intangible assets
Cost			
As at 31 December 2016	32,656	107,542	140,198
- Additions	11,090	-	11,090
- Increase in value	-	10,581	10,581
- Decrease in value	-	4,844	4,844
As at 31 December 2017	43,746	113,279	157,025
- Additions	10,572	-	10,572
- Increase in value	-	14,549	14,549
- Decrease in value	-	13,135	13,135
- Disposals	(8)	-	(8)
As at 31 December 2018	54,310	114,693	169,003
Accumulated amortization			
As at 31 December 2016	19,459	-	19,459
- Current year amortization	5,114	-	5,114
As at 31 December 2017	24,573	-	24,573
- Current year amortization	7,529	-	7,529
- Disposals	(8)	-	(8)
As at 31 December 2018	32,094	-	32,094
Carrying amount			
As at 31 December 2017	19,173	113,279	132,452
As at 31 December 2018	22,216	114,693	136,908

No items of intangible assets were pledged as collateral as at 31 December 2018 or 31 December 2017.

The amortization for the current year is disclosed in several items of the statement of profit or loss, as gross operating expenses are presented by functional group, as described in note 3.24. For details, see expenses by nature and function in note 29.

The Company does not own intangible assets with indefinite useful life.

The value of the ADInsure software and the related licenses are in amount of 19,874 MKD thousand and represent 89% from the total value as at 31 December 2018 (2017: 17,700 MKD thousand or 93%).

8. Property and equipment

	Buildings	Equipment	Paintings	Total tangible assets
Cost				
As at 31 December 2016	80,782	101,419	598	182,799
- Additions	-	6,922	-	6,922
- Disposals	-	(6,101)	-	(6,101)
As at 31 December 2017	80,782	102,240	598	183,620
- Additions	-	3,158	-	3,158
- Disposals	-	(2,133)	-	(2,133)
As at 31 December 2018	80,782	103,265	598	184,645
Accumulated depreciation				
As at 31 December 2016	27,301	78,939	-	106,240
- Current year depreciation	2,020	6,558	-	8,578
- Disposals	-	(5,687)	-	(5,687)
As at 31 December 2017	29,321	79,810	-	109,131
- Current year depreciation	2,020	6,633	-	8,653
- Disposals	-	(2,118)	-	(2,118)
As at 31 December 2018	31,340	84,326	-	115,666
Carrying amount				
As at 31 December 2017	51,461	22,430	598	74,489
As at 31 December 2018	49,442	18,939	598	68,979

The market value of the buildings as at 31 December 2018 was in amount of 85,483 MKD thousand and it is in excess over its carrying amount.

The valuation of the buildings has been performed by certified appraiser.

No items of property and equipment were pledged as collateral as at 31 December 2018 or 31 December 2017.

The depreciation charge for the current year is disclosed in several items of the statement of profit or loss, as gross operating expenses are presented by functional group, as described in note 3.24. For details, see expenses by nature and function in note 29.

As at 31 December 2018 no item of property and equipment was held under finance lease.

9. Investment Property

	Buildings	Total investment property
Cost		
As at 31 December 2016	42,305	42,305
- Disposal	(24,877)	(24,877)
As at 31 December 2017	17,428	17,428
- Disposal	(6,957)	(6,957)
As at 31 December 2018	10,471	10,471
Accumulated depreciation and impairment		
As at 31 December 2016	18,019	18,019
- Current year depreciation	864	864
- Disposal	(5,462)	(5,462)
- Impairment on disposed assets	(1,570)	(1,570)
As at 31 December 2017	11,851	11,851
- Current year depreciation	291	291
- Disposal	(2,549)	(2,549)
- Impairment	(812)	(812)
As at 31 December 2018	8,781	8,781
Carrying amount		
As at 31 December 2017	5,577	5,577
As at 31 December 2018	1,690	1,690

In 2018, seven assets of investment property have been sold with cumulative gain of 605 MKD thousand (2017: nine assets with gain of 881 MKD thousand). The gains from investment properties are disclosed as part of "Other Income" in note 25.

In 2018, no impairment loss was recognized (2017: no impairment loss).

	Opening balance	Increase	Use	Release	Ending balance
31 December 2018					
Impairment of investment property	3,809	-	(812)	-	2,997
31 December 2017					
Impairment of investment property	5,379	-	(1,570)	-	3,809

No item of investment property was pledged as collateral as at 31 December 2018 or 31 December 2017.

The rental income earned from investment property in 2018 was in amount of 1,807 MKD thousand (2017: 1,904 MKD thousand). The rental income earned is disclosed in "Other Income" in note 25. The depreciation charge from investment property is disclosed in "Other Expenses" in note 32. Future rental payments are not expected to materially differ from the current one. The income earned from investment property is derived only from two properties which are cancellable with notice period of one month.

Since the assets have been sold during the year with cumulative capital gain and no change in market conditions has occurred, no valuation was performed as of 31 December 2018.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

10. Investment in associates

	31 December 2018	31 December 2017
Investment in associates	57,727	59,571
Total investment in associates	57,727	59,571

During the year ended 31 December 2017, Triglav Insurance AD Skopje and Triglav INT d.d founded Triglav Insurance Life AD Skopje (company for life insurance). Triglav Insurance AD Skopje, participates with 1 million EUR or 20% from the issued share capital of Triglav Insurance Life AD Skopje. Company's interest in Triglav Insurance Life AD Skopje is accounted for using the equity method. The following table illustrates the summarised financial information of the Company's investment in Triglav Insurance Life AD Skopje, which are prepared in accordance with IFRS.

	31 December 2018	31 December 2017
Intangible assets	1,613	1,997
Property and equipment	1,935	1,426
Financial investments	306,988	233,943
Receivables	291	61,595
Other assets	48	1,339
Cash and cash equivalents	6,838	5,729
Fair value reserve	(16,343)	-
Insurance technical provisions	(7,326)	-
Provisions for employees	(457)	(94)
Deferred tax liabilities	(1,816)	-
Liabilities from insurance operations	(360)	-
Other liabilities	(3,323)	(8,644)
Net assets	288,086	297,291
Company's share in %	20.04%	20.04%
Company's share in MKD	57,727	59,571

	31 December 2018	31 December 2017
Net premium earned	18,655	-
Income from financial assets	8,094	554
Other income from insurance operations	2	-
Net claims incurred	9,344	-
Changes in other insurance technical provisions	7,247	-
Operating expenses	19,294	10,398
- Acquisition costs	8,014	8,951
- Other operating costs	11,280	1,447
Expenses from financial assets and liabilities	70	438
Other insurance expenses	17	-
Net profit/loss	(9,222)	(10,282)
Total comprehensive income for the year	(7,121)	(10,282)
Company's share of loss for the year	(1,844)	(2,056)

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

10. Investment in associates (continued)

	31 December 2018
Investment in associates as at 1 January 2017	-
Initial investment in associate	61,627
Company's share of loss for the year	(2,056)
Investment in associates as at 31 December 2017	59,571
Company's share of loss for the year	(1,844)
Total investment in associates as at 31 December 2018	57,727

Initial investment in Triglav Insurance Life AD Skopje was 61,627 MKD thousand.

No dividends were received from Triglav Insurance Life AD Skopje during the year ended 31 December 2018 (2017: no dividends received).

The associate had no contingent liabilities or capital commitments as at 31 December 2018 (2017: no contingent liabilities or capital commitments).

11. Financial investments

Overview of financial investments by type and investment group

31 December 2018	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	1,048,656	-	1,048,656
Treasury Bills		-	-
Shares, other floating rate securities and fund coupons	5,342	-	5,342
Guarantee Fund Investments	-	25,447	25,447
Bank deposits	-	439,422	439,422
Total financial investments	1,053,998	464,869	1,518,868

31 December 2017	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	828,239	211,780	1,040,019
Treasury Bills	-	18,563	18,563
Shares, other floating rate securities and fund	5,399	-	5,399
Guarantee Fund Investments		25,837	25,837
Bank deposits	-	371,446	371,446
Total financial investments	833,638	627,626	1,461,264

Debt and other fixed return securities classified as loans and receivables are financial assets with fixed determinable payments not quoted on an active market and are subsequently measured at amortized cost.

The Deposit in the National Insurance Bureau (Guarantee fund investments) is a deposit for participation in accordance with the Law on insurance supervision in the Republic of Macedonia. The National Bureau for Insurance is non-profit organisation founded by all domestic insurance companies which purpose is to protect the interest of its members in cases of international insurance of motor vehicles and to protect the members in front of the international insurance companies. The deposits of the members are kept on separate account in a bank and the Bureau is obliged not to invest the assets and to return the assets to the members if they stop working with insurance of motor vehicles.

Triglav Insurance AD Skopje
Notes to the financial statements for the year ended 31 December 2018
(All amounts are in MKD thousand unless otherwise stated)
11. Financial investments (continued)

Following is disclosure of the interest rates of all interest bearing financial instruments, for both years ended 31 December, 2018 and 2017.

	31 December 2018	I.R	31 December 2017	I.R
Fixed interest bearing				
Debt securities (AFS)	1,048,655		828,239	
MACGB 5.4 01/09/2018	-	-	200,122	5.40%
MACGB 3.9 10/16/2019	139,111	3.90%	140,637	3.90%
MACGB 3.9 10/02/2019	61,851	3.90%	135,542	3.90%
MACGB 5.15 01/24/2018	-	-	131,249	5.15%
MACGB 4.5 10/30/2024	92,955	4.50%	89,609	4.50%
MACGB 4.6 10/31/2018	-	-	41,195	4.60%
MACGB 2.8 10/20/18	-	-	40,512	2.80%
MACGB 3.8 08/27/2025	22,051	3.80%	21,716	3.80%
MACGB 3.7 02/11/26	17,297	3.70%	16,413	3.70%
MACGB 4.3 03/31/31	12,174	4.30%	11,244	4.30%
MACGB 2.35 10/05/20	56,258	2.35%	-	-
MACGB 2.35 11/02/20	61,277	2.35%	-	-
MACGB 2.1 05/04/19	33,297	2.10%	-	-
MACGB 2.3 01/26/19	12,685	2.30%	-	-
MACGB 2.1 09/07/19	10,137	2.10%	-	-
MACGB 3.4 01/11/28	161,621	3.40%	-	-
MACGB 3.2 01/25/33	149,723	3.20%	-	-
MACGB 2.06/01/27	55,361	3.20%	-	-
MACGB 2.35 01/11/21	12,498	2.35%	-	-
MACDEN 2.06/01/19	244	3.17%	-	-
MACGB 4.85 04/26/48	12,402	4.85%	-	-
MACGB 3.7 01/25/33	16,146	3.70%	-	-
MACGB 3.4 09/20/33	8,921	3.40%	-	-
MACGB 4.6 07/19/48	11,344	4.60%	-	-
MACGB 2.9 11/22/33	28,184	2.90%	-	-
MACGB 2.9 11/01/33	73,118	2.90%	-	-
Loans and receivables	283,159		378,450	
MACGB 2.35 10/05/20	-	-	95,566	2.35%
MACGB 2.35 11/02/20	-	-	60,261	2.35%
MACGB 2.1 05/04/19	-	-	33,200	2.10%
MACGB 2.3 01/26/19	-	-	12,680	2.30%
MACGB 2.1 09/07/19	-	-	10,072	2.10%
Deposit Stopanska Banka Skopje	-	-	30,444	1.90%
Deposit Stopanska Banka Skopje	-	-	30,224	1.50%
Deposit Halk Banka	30,000	2.40%	30,000	2.40%
Deposit Halk Banka	30,000	3.00%	30,000	3.00%
Deposit Ohridska Banka	-	-	20,002	1.30%
Deposit Komercijalna Banka AD Skopje	-	-	18,000	0.04%
Deposit NLB Tutunska Banka	-	-	8,000	0.03%
Deposit Halk Banka	20,000	2.20%	-	-
Deposit Stopanska Banka Skopje	30,056	2.00%	-	-
Deposit Stopanska Banka Skopje	30,269	1.80%	-	-
Deposit Stopanska Banka Skopje	40,456	2.00%	-	-
Deposit Ohridska Banka	20,003	1.80%	-	-
Deposit Ohridska Banka	15,002	1.30%	-	-
Deposit ProCredit Banka	15,003	1.80%	-	-
Deposit ProCredit Banka	32,370	3.20%	-	-
Deposit Halk Banka call money	20,000	1.50%	-	-

11. Financial investments (continued)

	31 December 2018	I.R	31 December 2017	I.R
Variable Interest bearing				
Loans and receivables	181,710		230,613	
Deposit NLB Tutunska Banka	51,564	2.00%	50,564	2.00%
Deposit Stopanska Banka Skopje	-	-	30,862	2.70%
Deposit Stopanska Banka Skopje	31,459	2.60%	30,739	2.60%
Deposit Sparkasse Banka	31,012	2.20%	30,383	2.20%
Deposit Halk Banka	-	-	20,000	2.00%
Deposit Halk Banka	20,000	2.50%	20,000	2.70%
Deposit Halk Banka	20,000	2.40%	20,000	2.40%
Deposit NLB Tutunska Banka	2,228	1.65%	2,228	1.65%
Gurantee Fund investment	25,447	1.24%	25,837	1.24%

Maturity on all instruments is provided on page 42. Deposits are with maturities of up to three years.

As at the year end, the Company has accrued interest in amount of 21,384 thousand MKD (2017: 25,343 thousand MKD) where 16,187 thousand MKD relates to debt securities and 5,197 thousand MKD relates to deposits.

Movements of financial investments

	Available for sale - AFS	Loand and receivables - L&R	Total
As at 31 December 2016	1,002,296	437,978	1,440,274
Acquisitions	-	566,834	566,834
Disposals	(61,297)	(32)	(61,329)
Maturities	(100,000)	(388,742)	(488,742)
Interest income inflow	(40,600)	(5,744)	(46,344)
Valuation through equity	(5,193)	-	(5,193)
Movement in impairment allowance	-	6,742	6,742
Interest income	38,144	10,590	48,734
Foreign exchange differences	288	-	288
As at 31 December 2017	833,638	627,626	1,461,264
Acquisitions	58,601	870,259	928,859
Disposals	(69,997)	(40,462)	(110,459)
Maturities	(399,069)	(401,947)	(801,016)
Interest income inflow	(35,020)	(11,627)	(46,647)
Valuation through equity	22,189	-	22,189
Movement in impairment allowance	-	21,987	21,987
Interest income	18,389	24,274	42,664
Foreign exchange differences	25	-	25
Reclassification of financial assets	625,241	(625,241)	-
As at 31 December 2018	1,053,997	464,869	1,518,867

11. Financial investments (continued)

Financial investments according to valuation levels

	31 December 2018	31 December 2017
Available for sale - AFS		
Level 1	60,949	5,399
Level 2	993,049	828,239
Level 3	-	-
Total available for sale financial investments	1,053,998	833,638

The price hierarchy that the Company is using in valuing financial assets at fair value is described in note 3.6.

In 2018, following the recommendation received from the insurance industry regulator - Insurance supervision agency - the government bonds classified as Loans and Receivables (L&R) in the portfolio, were transferred (reclassified) to the Available for sale (AFS) category. The total nominal value of the financial assets reclassified amounts to 612,840 thousand MKD, and the carrying value (net book value and accrued interest) amounts to 647,611 thousand MKD. The carrying value equals the fair value of the financial assets calculated using a valuation model. The impact on the comprehensive income due to the reclassification amounts to 20,232 thousand MKD, due to the formation of fair value reserves of those assets reclassified. There was no impact on the Statement of profit or loss, since the effective interest rate method is used in both occasions.

Reclassification of financial investments

	31 December 2018	31 December 2017
Reclassification from "L&R" to "AFS"		
Amount of reclassified financial assets	612,840	-
Effective interest rate as at the reclassification date	3%	-
Carrying amount of reclassified assets as at reporting date	647,611	-
Fair value of reclassified assets as at reporting date	647,611	-
Cost value	613,068	-
Amortization premium/ discount	(2)	-
FX rate	(107)	-
Accrued interest	12,172	-
Revaluation reserve	22,480	-
Deffered tax liabilities	(2,248)	-
Impact on comprehensive income	20,232	-

*(All amounts are in MKD thousand unless otherwise stated)***12. Reinsurers' share of technical provisions**

	31 December 2018	31 December 2017
Reinsurers' share of unearned premiums	91,375	55,216
Reinsurers' share of claims	74,405	77,934
Reinsurers' share of bonuses and discounts	1,356	6,090
Total reinsurers' share of technical provisions	167,135	139,240

Fair value is disclosed in note 5.7.

13. Receivables**Receivables by maturity**

31 December 2018	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	171,257	90,071	27,636	288,964
Receivables from insurers	158,718	84,805	26,505	270,028
Receivables from insurer brokers	12,520	5,266	1,131	18,917
Other receivables from direct insurance operations	19	-	-	19
Receivables from coinsurance and reinsurance	261	-	146	407
Receivables from reinsurance share in claims	261	-	-	261
Other receivables from coinsurance and reinsurance	-	-	146	146
Current tax receivables	7,760	-	-	7,760
Other receivables	6,307	2,673	31,776	40,756
Other short-term receivables from insurance operations	5,355	2,673	30,491	38,519
Short term receivables from financing	635	-	-	635
Other short-term receivables	317	-	1,285	1,602
Total receivables	185,585	92,744	59,558	337,887

31 December 2017	Receivables by maturity			
	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	170,256	109,406	19,976	299,638
Receivables from insurees	156,466	103,455	19,584	279,505
Receivables from insurer brokers	13,566	5,951	392	19,909
Other receivables from direct insurance operations	224	-	-	224
Receivables from reinsurance	-	21	196	217
Receivables from reinsurance share in claims	-	21	50	71
Other receivables from reinsurance	-	-	146	146
Other receivables	12,603	6,065	28,986	47,654
Other short-term receivables from insurance operations	6,139	1,421	28,867	36,427
Short term receivables from financing	761	345	41	1,147
Other short-term receivables	5,703	4,299	78	10,080
Total receivables	182,859	115,491	49,159	347,509

13. Receivables (continued)

Total gross and net amounts of each group of receivables are disclosed below:

31 December 2018	Gross amount	Impairment	Net amount
Receivables from direct insurance	705,273	(416,309)	288,964
Receivables from coinsurance and reinsurance	407	-	407
Other receivables	92,650	(44,134)	48,516
Total receivables	798,330	(460,443)	337,887

31 December 2017	Gross amount	Impairment	Net amount
Receivables from direct insurance	748,332	(448,694)	299,638
Receivables from reinsurance	217	-	217
Other receivables	96,925	(49,271)	47,654
Total receivables	845,474	(497,965)	347,509

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

13

Receivables (continued)

Movement of bad debt provisions (impairment)

31 December 2018	Opening balance	Increase	Use	Release	Reclasification	Ending balance
Receivables from direct insurance	448,695	26,432	(26,562)	(32,256)	-	416,309
Receivables from insurers	421,252	22,924	(26,562)	(31,698)	-	385,916
Receivables from insurer brokers	23,145	1,533	-	-	-	24,678
Other receivables from direct insurance operations	4,298	1,975	-	(558)	-	5,715
Other receivables	49,270	719	(3,413)	(2,443)	-	44,133
Other short-term receivables from insurance operations	29,644	719	-	(2,406)	-	27,957
Short term receivables from financing	18,508	-	(3,413)	(5)	(455)	14,635
Other short-term receivables	1,118	-	-	(32)	455	1,541
Total bad debt provision	497,966	27,151	(29,975)	(34,699)	-	460,443

31 December 2017	Opening balance	Increase	Use	Release	Ending balance
Receivables from direct insurance	538,747	23,529	(81,762)	(31,820)	448,694
Receivables from insurers	512,254	20,651	(81,762)	(29,893)	421,250
Receivables from insurer brokers	22,084	2,878	-	(1,817)	23,145
Other receivables from direct insurance operations	4,409	-	-	(110)	4,299
Other receivables	63,915	89	(5,163)	(9,570)	49,271
Other short-term receivables from insurance operations	32,257	-	(122)	(2,491)	29,644
Short term receivables from financing	30,491	2	(5,041)	(6,944)	18,508
Other short-term receivables	1,167	87	-	(135)	1,119
Total bad debt provision	602,662	23,618	-86,925	-41,390	497,965

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2018***(All amounts are in MKD thousand unless otherwise stated)***14. Cash and cash equivalents**

	31 December 2018	31 December 2017
Cash in bank in MKD	22,744	25,013
Cash in bank in EUR	293	215
Cash in bank in other currencies	22	593
Cash on hand in MKD	7	7
Cash on hand in EUR	-	-
Total cash and cash equivalents	23,067	25,828

15. Equity

As at 31 December 2018, the share capital of the Triglav Insurance AD Skopje is consisted of 60,184 common shares with total nominal capital of 185,223 MKD thousand. The nominal value per share is 3,078 MKD. The shares are registered and recorded as common shares with the Central Securities Depository of the Republic of Macedonia. To their holders, these shares bear dividend and voting rights for the Shareholders Assembly. One common share entitles to one vote at the Shareholders Assembly. The shares are issued in dematerialized form with ISIN code MKVROS101016. All of the shares are paid in full.

There was no increase in the share capital during 2018 or 2017.

The shareholders structure of Triglav Insurance AD Skopje is presented below.

31 December 2018	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	11,643	48,541	48,404	11,780	60,184
Number of shareholders	57	10	2	65	67
Number of shares - participation	19%	81%	80%	20%	100%
Number of shareholders - participation	85%	15%	3%	97%	100%

31 December 2017	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	11,757	48,427	48,154	12,030	60,184
Number of shareholders	58	13	2	69	71
Number of shares - participation	20%	80%	80%	20%	100%
Number of shareholders - participation	82%	18%	3%	97%	100%

The shareholders that have more than 5% shareholding are disclosed below.

Shareholder	31 December 2018	31 December 2017
Triglav Int. Holdinska Druzba d.d Ljubljana	80.35%	79.94%
Stojan Klopcevski	8.74%	8.74%

In 2018, Triglav INT d.d has issued proposal for taking over minority shares of the Company, which resulted in increase of their share from 79.94% to 80.35%.

15. Equity (continued)

Dividends

As of the date of preparation of these financial statements there were no dividends declared (2017: none).

Reserves from profit

Under local statutory legislation, the Company is required to set aside 1/3 of its net profit for the year in a statutory reserve (as long as it is not used for covering of losses) until the level of the reserve reaches 50% of the realized average insurance premium in the last two years, whereby the premiums from the previous year are increased by the index of retail price increase, including the year for which realized profit is distributed.

Safety reserves are meant to cover the liabilities arising out of the insurance contracts which have period of coverage longer than one year.

In 2018, the Company transferred 43,401 MKD thousand from retained earnings to statutory reserves. The amount transferred in 2017 was 30,187 MKD thousand.

Revaluation reserves

The revaluation reserve represents changes in the fair value available-for-sale financial assets. The reserve includes the cumulative net effect until the moment of derecognition or impairment of the financial asset.

In 2018 the movement in the revaluation reserve was positive 22,189 MKD thousand. In 2017 the movement in the revaluation reserve was negative 5,193 MKD thousand. The Company is calculating deferred tax assets/liabilities on the revaluation reserves of its AFS instruments.

The movements in the equity are specified in more detail in the "Statement of Changes in Equity" and "Other Comprehensive Income".

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

16. Insurance technical provisions

	31 December 2018	31 December 2017
Gross provisions for unearned premium (UPR)	581,229	540,583
Total gross unearned premium provisions	581,229	540,583
Gross provisions for incurred and reported claims (RBNS)	384,707	386,331
Gross provisions for incurred but not reported and/or not enough reported claims (IBNR)	217,679	240,609
Provisions for claims handling costs (CHC)	46,745	54,293
Total gross claims provisions	649,132	681,233
Gross provisions for bonuses and discounts	3,019	17,116
Gross provisions for other insurance technical provisions	15,007	10,267
Total gross insurance technical provisions	1,248,386	1,249,199

Analysis of changes in gross insurance technical provisions

31 December 2018	Opening balance	Formation	Use	Release	Final balance
Gross provisions for unearned premiums	540,583	581,229	-	(540,583)	581,228
Gross provisions for incurred and reported claims (RBNS)	386,331	246,781	(103)	(248,302)	384,707
Gross provisions for incurred but not reported claims (IBNR)	240,609			(22,930)	217,679
Provisions for claims handling costs (CHC)	54,293			(7,548)	46,745
Gross provisions for bonuses and discounts	17,116	2,376	-	(16,473)	3,019
Gross provisions for other insurance technical provisions	10,267	5,644	-	(904)	15,007
Total gross insurance technical provisions	1,249,199	836,029	(103)	(836,739)	1,248,386

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

16. Insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class

31 December 2017	Opening balance	Formation	Use	Release	Final balance
Gross provisions for unearned premiums	564,737	539,996	-	(564,150)	540,583
Gross provisions for incurred and reported claims (RBNS)	365,812	660,831	(565,264)	(75,048)	386,331
Gross provisions for incurred but not reported claims (IBNR)	264,829	-	-	(24,220)	240,609
Provisions for claims handling costs (CHC)	60,794	-	-	(6,501)	54,293
Gross provisions for bonuses and discounts	16,051	14,222	-	(13,157)	17,116
Gross provisions for other insurance technical provisions	7,361	2,906	-	-	10,267
Total gross insurance technical provisions	1,279,585	1,217,955	(565,264)	(683,076)	1,249,199

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

16. Insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class

31 December 2018	Gross provisions for unearned premiums	Gross provisions for RBNS	Gross provisions for IBNR	Provisions for CHC	Gross provisions for bonuses and discounts	Gross provisions for other insurance technical provisions	Total
Accident insurance	42,549	8,277	21,786	2,333	1,663	2,796	79,404
Health insurance	11,270	1,012	-	79	-	-	12,361
Land motor vehicle insurance	83,695	37,234	9,808	3,650	-	12,211	146,598
Aircraft insurance	-	-	-	-	-	-	-
Marine insurance	168	-	-	-	-	-	168
Cargo insurance	7,589	4,138	-	321	-	-	12,048
Fire and natural forces insurance	42,426	16,902	1,416	1,421	-	-	62,165
Other damage to property insurance	62,288	15,580	1,305	1,310	-	-	80,483
Motor TPL insurance	292,748	271,927	181,947	35,221	-	-	781,843
Aircraft liability insurance	-	13,708	-	1,064	-	-	14,772
Marine liability insurance	240	-	-	-	-	-	240
General liability insurance	12,390	6,243	1,417	594	-	-	20,644
Credit insurance	1,301	1,458	-	113	-	-	2,873
Suretyship insurance	59	-	-	-	-	-	59
Miscellaneous financial loss insurance	15,801	-	-	-	1,356	-	17,157
Travel assistance insurance	8,705	8,228	-	639	-	-	17,572
Total gross insurance technical provisions	581,229	384,707	217,679	46,745	3,019	15,007	1,248,386

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

16. Insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class (continued)

31 December 2017	Gross provisions for unearned premiums	Gross provisions for RBNS	Gross provisions for IBNR	Provisions for CHC	Gross provisions for bonuses and discounts	Gross provisions for other insurance technical provisions	Total
Accident insurance	47,450	9,498	21,141	2,653	11,025	633	92,400
Health insurance	5,816	423	-	37	-	-	6,276
Land motor vehicle insurance	83,429	34,693	6,607	3,577	-	8730	137,036
Aircraft insurance	57	4,700	-	-	-	-	4,757
Marine insurance	191	-	-	407	-	-	598
Cargo insurance	5,962	-	-	-	-	-	5,962
Fire and natural forces insurance	35,078	17,642	2,249	1,723	-	-	56,692
Other damage to property insurance	48,800	10,584	1,349	1,033	-	-	61,766
Motor TPL insurance	283,772	284,823	206,721	42,567	3,882	-	821,765
Aircraft liability insurance	-	13,708	-	1,187	-	-	14,895
Marine liability insurance	233	-	-	-	-	-	233
General liability insurance	13,208	4,677	2,542	625	-	904	21,956
Credit insurance	276	-	-	-	1,321	-	1,597
Suretyship insurance	56	-	-	-	-	-	56
Miscellaneous financial loss insurance	7,284	-	-	-	888	-	7,284
Travel assistance insurance	8,971	5,583	-	484	0	-	15,926
Total gross insurance technical provisions	540,583	386,331	240,609	54,293	17,116	10,267	1,249,199

16. Insurance technical provisions (continued)**Analysis of changes in loss events for non-life insurance**

Analyses of outstanding RBNS and IBNR claims provision balance per years is presented in table below:

Cumulative loss assessment	Year of occurrence							Total
	before 2013	2013	2014	2015	2016	2017	2018	
at the end of year of occurrence	4,379,897	603,408	636,467	594,078	539,362	640,581	680,569	8,074,362
1 year after year of occurrence	4,166,178	562,469	592,385	562,648	532,327	668,124	-	7,084,131
2 year after year of occurrence	4,155,220	554,697	591,110	556,997	523,304	-	-	6,381,328
3 year after year of occurrence	4,117,246	540,210	589,219	546,880	-	-	-	5,793,555
4 year after year of occurrence	4,084,534	531,514	581,821	-	-	-	-	5,197,869
5 year after year of occurrence	3,916,017	532,362	-	-	-	-	-	4,448,379
6 + year after year of occurrence	2,886,619	-	-	-	-	-	-	2,886,619
Cumulative loss assessment	2,886,619	532,362	581,821	546,880	523,304	668,124	680,569	6,419,679
Cumulative payments until balance sheet date	2,766,391	514,596	561,908	516,161	472,158	573,402	412,676	5,817,292
Claims provisions balance	120,228	17,766	19,913	30,719	51,146	94,722	267,893	602,387

17. Employee benefits

	31 December 2018	31 December 2017
Provisions for retirement benefits	1,995	1,483
Provisions for jubilee rewards	6,158	4,793
Provisions for unused vacations	5,834	-
Total provisions for employee benefits	13,987	6,276

In 2018 the Company formed provisions for unused vacations in amount of 5,834 MKD thousand. These provisions refer to vacations employees have earned in 2018 and at the reporting date have not yet been used, but can be carried forward in the next year.

The change in the provisions for jubilee rewards and unused vacations is disclosed under "Other labor costs" in operating expenses in note 29.

Health, pension and social insurance contributions from gross wages and salaries are being paid by the Company during the year to the national institutions at the statutory rates. Such contributions represent defined contribution plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the Company is obliged to pay to its employees a termination pay upon retirement equal to two monthly average net salaries.

The Company has provided for the employees' accrued entitlement to severance pay on retirement and jubilee rewards as at the end of 2018, based on best management estimate.

On maturity analysis of the employee benefits please see note 5.3.2.

Further is disclosed sensitivity analysis which presents the impact of changes in parameters on the amount of provisions for employee benefits for both years ended 2018 and 2017.

	31 December 2018	31 December 2017
Interest rate		
Parallel shift in the discount rate curve for +0.25%	(197)	(152)
Parallel shift in the discount rate curve for -0.25%	205	158
Expected salary growth		
Change in annual salary growth for +0.50%	429	333
Change in annual salary growth for -0.50%	(399)	(309)
Life expectancy		
Steady increase in mortality for +20%	(113)	(88)
Steady increase in mortality for -20%	116	90

18. Deferred tax assets and liabilities

	31 December 2018	31 December 2017
Deferred tax assets	-	-
Total deferred tax assets	-	-

	31 December 2018	31 December 2017
Deferred tax liabilities	4,753	2,534
Total deferred tax liabilities	4,753	2,534

The deferred tax assets and liabilities arise from the valuation of the AFS financial instruments through equity and as a result it is recognized in Other comprehensive income and not as an expense in the profit or loss account. Movement on deferred tax assets and liabilities is disclosed in note 33.

19. Other financial liabilities

	31 December 2018	31 December 2017
Liabilities for dividends from previous years	1,724	1,724
Total other financial liabilities	1,724	1,724

20. Operating liabilities

	31 December 2018	31 December 2017
Liabilities towards policyholders	18,333	25,660
Liabilities towards brokers	3,468	2,672
Liabilities towards agents	455	615
Other liabilities from direct insurance operations	59	4
Total liabilities from direct insurance	22,315	28,951
Liabilities from reinsurance premiums	49,576	30,532
Total liabilities from reinsurance	49,576	30,532
Current tax liabilities	1,070	4,132
Total operating liabilities	72,961	63,615

All liabilities are short-term and are to be settled within the next 12 months.

21. Other liabilities

	31 December 2018	31 December 2017
Financial other liabilities	84,809	86,978
Liabilities towards Gurantee Fund (GF)	31,370	30,868
Liabilities for legal contributions related to the insurance	4,335	4,542
Other short-term liabilities from insurance operations	1,905	2,047
Total other short-term liabilities from insurance operations	37,610	37,457
Liabilities for salaries	10,420	10,675
Total short-term liabilities towards employees	10,420	10,675
Liabilities towards suppliers	10,753	15,224
Liabilities from legal cases	372	372
Other short-term liabilities	25,654	23,250
Total other short-term liabilities	36,779	38,846
Non-financial other liabilities	6,930	6,512

All liabilities are short-term and are to be settled within the next 12 months.

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2018**

(All amounts are in MKD thousand unless otherwise stated)

22. Net premium income

	31 December 2018	31 December 2017
Gross written premium	1,425,495	1,312,647
Outward reinsurance written premium	(298,103)	(224,450)
Changes in gross provisions for unearned premium	(40,646)	24,153
Change in deferred acquisition costs	1,414	5,737
Change in provisions for the unearned premium (reinsurers share)	36,159	(23,156)
Net premium income	1,124,319	1,094,931

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

22. Net premium income (continued)

Overview of net premium written by insurance class

31 December 2017	Gross written premium	Reinsurer's share	Net written premium
Accident insurance	100,060	(986)	99,074
Health insurance	47,139	(11,960)	35,179
Land motor vehicle insurance	168,367	(3,961)	164,406
Aircraft insurance	18,068	(9,626)	8,442
Marine insurance	309	-	309
Cargo insurance	20,900	(19,943)	957
Fire and natural forces insurance	104,890	(66,869)	38,021
Other damage to property insurance	229,559	(72,780)	156,779
Motor TPL insurance	600,754	(27,362)	573,391
Aircraft liability insurance	2,581	(2,141)	440
Marine liability insurance	466	-	466
General liability insurance	35,964	(27,928)	8,037
Credit insurance	3,523	(4,127)	(604)
Suretyship insurance	101	(24)	77
Miscellaneous financial loss insurance	51,587	(50,393)	1,195
Travel assistance insurance	41,225	(2)	41,223
Total	1,425,495	(298,103)	1,127,392

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2018***(All amounts are in MKD thousand unless otherwise stated)***22. Net premium income (continued)****Overview of net premium written by insurance class**

31 December 2017	Gross written premium	Reinsurer's share	Net written premium
Accident insurance	120,210	(978)	119,232
Health insurance	28,522	(7,817)	20,705
Land motor vehicle insurance	169,109	(6,267)	162,842
Aircraft insurance	18,235	(14,820)	3,415
Marine insurance	364	(32)	332
Cargo insurance	18,236	(17,247)	989
Fire and natural forces insurance	91,279	(46,472)	44,807
Other damage to property insurance	181,362	(49,931)	131,431
Motor TPL insurance	578,441	(29,420)	549,021
Aircraft liability insurance	2,581	(1,032)	1,549
Marine liability insurance	444	(108)	336
General liability insurance	38,884	(26,192)	12,692
Credit insurance	338	(321)	17
Suretyship insurance	114	(24)	90
Miscellaneous financial loss insurance	27,314	(23,785)	3,529
Travel assistance insurance	37,214	(4)	37,210
Total	1,312,647	(224,450)	1,088,197

23. Income from financial assets

	31 December 2018	31 December 2017
Interest income		
- AFS	18,390	38,144
- Deposits	23,640	6,801
- Investment in Gurantee fund	635	703
- Treasury Bills	-	3,089
Total interest income	42,665	48,737
Realised gains on disposals (AFS)	3,018	2,989
Other financial income	493	14,199
Total income from financial assets	46,176	65 925

In 2018, other financial income is consists of FX differences in the amount of 431 MKD thousand, release of bad debt provision in amount of 14 MKD thousand and other small items of income in the amount of 48 MKD thousand. In 2017, other financial income is consists of FX differences in the amount of 2,480 MKD thousand, release of bad debt provision in amount of 11,440 MKD thousand and other small items of income in the amount of 279 MKD thousand.

	31 December 2018	31 December 2017
Foreign exchange differences	431	2,480
Release of impairment of L&R and other receivables not related to insurance premium	14	11,440
Other	48	279
Total other financial income	493	14,199

24. Other insurance income

	31 December 2018	31 December 2017
Reinsurance commission income and participation in profit	31,208	24,026
Total fees and commission income	31,208	24,026
Interest income from receivables	4,967	6,656
Compensation received from Gurantee fund	6,538	6,186
Other income from insurance operations from previous years	1,815	1,278
Other	1,973	1,916
Total other income	15,293	16,036
Total other insurance income	46,501	40,062

Other insurance income refers mostly to the reimbursement of costs arising from subrogation and the settlements of claims.

25. Other income

	31 December 2018	31 December 2017
Compensations received from legal cases	929	3,780
Investment property rental income	1,807	1,904
Rental income (except from investment property)	1,586	-
Gains from sale of Investment Property	605	881
Gain from sale of non-current assets	157	616
Write off of liabilities	1,527	491
Income from intellectual services	365	
Refunds	248	215
Total other income	7,223	7,887

26. Net claims incurred

	31 December 2018	31 December 2017
Gross claims settled	732,570	650,341
Income from claimed subrogated receivables	(17,479)	(18,087)
Reinsurers' share	(16,862)	(10,293)
Changes in gross provisions for claims outstanding	(32,102)	(10,202)
Changes in provisions for claims outstanding (reinsurers share)	3,529	(2,585)
Net claims incurred	669,657	609,174

Gross claims include gross claims settled and claims handling costs, not reduced by subrogation receivables (see note 29).

Reinsurance result

	31 December 2018	31 December 2017
Outward reinsurance	(298,103)	(224,450)
Change in provisions for the unearned premium (reinsurers share)	36,159	(23,156)
Reinsurers' share in claims settled	16,862	10,293
Changes in provisions for claims outstanding (reinsurers share)	(3,529)	2,585
Gross result from reinsurance operations	(248,612)	(234,728)
Reinsurance commission	31,208	24,026
Net reinsurance result	(217,403)	(210,702)

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

26. Net claims incurred (continued)

Overview of net claims incurred by insurance class

31 December 2017	Gross claims settled	Subrogated claims	Reinsurer's share	Net claims incurred
Accident insurance	78,616	-	(180)	78,436
Health insurance	14,632	-	-	14,632
Land motor vehicle insurance	136,111	(5,097)	(412)	130,601
Aircraft insurance	201	-	-	201
Marine insurance	16	-	-	16
Cargo insurance	272	-	-	272
Fire and natural forces insurance	17,991	(17)	(2,470)	15,504
Other damage to property insurance	136,006	(19)	(656)	135,331
Motor TPL insurance	335,310	(12,171)	(11,415)	311,725
Aircraft liability insurance	236	-	(207)	29
Marine liability insurance	7	-	-	7
General liability insurance	1,576	(16)	(405)	1,155
Credit insurance	1,238	(159)	(1,117)	(38)
Suretyship insurance	2	-	-	2
Miscellaneous financial loss insurance	355	-	-	355
Travel assistance insurance	10,000	-	-	10,000
Total	732,570	(17,479)	(16,862)	698,229

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

26. 26. Net claims incurred (continued)

Overview of net claims incurred by insurance class (continued)

31 December 2017	Gross claims settled	Subrogated claims	Reinsurer's share	Net claims incurred
Accident insurance	80,362	(14)	-	80,348
Health insurance	4,831	-	-	4,831
Land motor vehicle insurance	145,158	(6,036)	(2,461)	136,661
Railway insurance	4	-	-	4
Aircraft insurance	69	-	-	69
Marine insurance	105	-	-	105
Cargo insurance	1,092	-	(697)	395
Fire and natural forces insurance	16,839	(120)	(856)	15,863
Other damage to property insurance	105,107	(25)	(428)	104,654
Motor TPL insurance	286,990	(10,738)	(5,278)	270,974
Aircraft liability insurance	121	-	(82)	39
Marine liability insurance	6	-	-	6
General liability insurance	2,896	(783)	(491)	1,622
Credit insurance	1	(372)	-	(371)
Suretyship insurance	3	-	-	3
Miscellaneous financial loss insurance	515	-	-	515
Travel assistance insurance	6,243	-	-	6,243
Total	650,342	(18,088)	(10,293)	621,961

27. Change in other insurance technical provisions

	31 December 2018	31 December 2017
Unexpired risk reserve (URR)	4,740	2,905
Total change in other insurance technical	4,740	2,905

The calculations of the unexpired risk reserve as of December 31, 2018 is made based on expected future gross claims and future expenses, which are compared with the amount of established provisions for unearned premiums reduced by deferred insurance acquisition costs. The calculation of URR is performed for each separate class of insurance and additional reserve has been booked only for 2 classes of insurance (2017: 3 classes of insurance).

28. Net expenses for bonuses and discounts

	31 December 2018	31 December 2017
Expenses for bonuses and discounts (financial discounts)	35,799	45,074
Expenses for non claim bonuses	-	-
Change in provisions for bonuses and discounts	(9,362)	(2,132)
Total net expenses for bonuses and discounts	26,437	42,942

Change in provisions for bonuses and discounts relate to provisions for managerial insurance.

29. Operating expenses

	31 December 2018	31 December 2017
Acquisition costs	317,896	284,993
Claims handling costs - CHC*	52,771	51,846
Costs of asset management**	2,582	2,289
Other operating expenses	103,151	101,011
Total operating expenses	476,400	440,139
Total net operating expenses less CHC and asset management costs	421,047	386,004

* Claims handling costs are disclosed as part of gross claims incurred.

**Asset management costs are disclosed as financial expenses.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

29. 29. Operating expenses (continued)

Overview of operating expense by nature and function

31 December 2018	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs – commission fee	95,713	-	-	-	95,713
Depreciation and amortisation of assets	11,477	1,858	51	2,795	16,182
Labour costs	103,117	27,059	1,708	63,871	195,756
- wages and salaries	60,793	16,312	1,116	42,330	120,551
- social security and pension insurance costs	31,582	8,431	481	17,317	57,811
- other insurance costs	10,742	2,316	111	4,225	17,394
Costs of services provided by outsourced natural persons	590	147	4	224	965
Other operating expenses	106,999	23,706	819	36,261	167,785
- advertisement, fairs, representation	60,348	-	-	-	60,348
- cost of materials and energy	7,116	3,814	121	6,402	17,453
- maintenance costs	6,771	1,446	43	2,315	10,574
- travel expenses	1,704	1,046	53	3,927	6,731
- costs of intellectual services	8,102	7,557	263	3,976	19,897
- taxes, not dependant on profit	2,506	83	3	201	2,793
- transportation costs	2,481	1,196	40	2,050	5,768
- insurance premium costs	649	335	12	570	1,566
- bank charges	1,009	20	0	1,875	2,904
- rental expenses	15,541	7,839	269	13,879	37,528
- training expenses	604	283	9	893	1,789
- other services	169	87	5	173	435
Total gross operating expenses	317,896	52,771	2,582	103,151	476,400

All rented properties, except for the headquarters, are cancellable with notice period of only one month. The contingent liabilities arising from the headquarters are presented in note 39.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

29. 29. Operating expenses (continued)

Overview of operating expense by nature and function (continued)

31 December 2017	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs – commission fee	76,250	-	-	-	76,250
Depreciation and amortisation of assets	9,908	1,468	48	2,267	13,691
Labour costs	102,901	27,130	1,524	65,727	197,282
- wages and salaries	64,093	16,880	963	44,746	126,682
- social security and pension insurance costs	32,224	8,521	495	18,057	59,297
- other insurance costs	6,584	1,729	66	2,924	11,303
Costs of services provided by outsourced natural persons	705	135	4	206	1,050
Other operating expenses	95,229	23,113	713	32,811	151,866
- advertisement, fairs, representation	47,917	-	-	-	47,917
- cost of materials and energy	8,034	3,783	136	5,939	17,892
- maintenance costs	5,452	1,091	39	1,767	8,349
- travel expenses	2,028	1,258	55	2,743	6,084
- costs of intellectual services	10,582	6,953	49	3,112	20,696
- taxes, not dependant on profit	1,400	152	6	282	1,840
- transportation costs	2,740	1,215	48	2,090	6,093
- insurance premium costs	698	386	16	670	1,770
- bank charges	999	14	4	1,758	2,775
- rental expenses	14,563	7,669	306	13,296	35,834
- training expenses	315	358	12	667	1,352
- other services	501	234	42	487	1,264
Total gross operating expenses	284,993	51,846	2,289	101,011	440,139

30. Expenses from financial assets and liabilities

	31 December 2018	31 December 2017
Foreign exchange differences	1,876	661
Other financial expenses	2,582	2,323
Total expenses from financial assets and liabilities	4,458	2,984

31. Other insurance expenses

	31 December 2018	31 December 2017
Expenses for preventive activity	24,036	22,078
Contributions for claims on uninsured or unidentified vehicles	19,179	18,287
Membership fees	15,465	15,039
Impairment on receivables for insurance premium	(7,240)	(8,181)
Expenses for assistance services	3,855	2,694
Other insurance expenses from previous years	1,019	2,741
Impairment on receivables from recourses	(1,293)	(2,492)
Other insurance expenses	2,940	4,360
Total other insurance expenses	57,962	54,526

32. Other expenses

	31 December 2018	31 December 2017
Compensations paid for legal cases	1	9,404
Depreciation of investment properties	291	864
Impairment losses on investment property	-	-
Impairment losses on other receivables	1,417	-
Expenses for penalties	-	-
Realized losses on disposal of investment property	-	-
Extraordinary expenses	13	222
Realized losses on disposal of tangible assets	3	14
Total other expenses	1,725	10,504

Compensation paid for legal cases in the year ended 31 December 2017 relates to a compensation from legal case with a former employee. The total amount of the compensation paid consists of of 6,561 MKD thousand indemnification of material damage and 2,541 MKD thousand penalty interests and 302 MKD thousand for court and other fees.

33.

Income Tax expenses**a) Current tax year charge**

	31 December 2018	31 December 2017
Current year income tax assessment	4,872	12,507
Total income tax, recognised in profit or loss statement	4,872	12,507

Recapitulation of the Income tax expense

	31 December 2018	31 December 2017
Accounting profit	36,349	97,709
Legal tax rate - %	10	10
Income tax by use of legal tax rate	3,635	9,771
Non-deductable expenses	2,513	4,319
Tax credit used	(1,276)	(1,583)
Total income tax, recognised in profit or loss statement	4,872	12,507

b) Tax recorded in other comprehensive income (note 17)

	31 December 2018	31 December 2017
Deferred tax asset/(liability)	(2,219)	520
Total tax charge to other comprehensive income	(2,219)	520

The movement in deferred income tax assets and liabilities during the year is as follows:

As at 31 December 2016	(3,054)
Charged /(credited) to the income statement	-
Charged /(credited) to other comprehensive income	520
As at 31 December 2017	(2,534)
Charged /(credited) to the income statement	-
Charged /(credited) to other comprehensive income	(2,219)
As at 31 December 2018	(4,753)

Triglav Insurance AD Skopje
Notes to the financial statements for the year ended 31 December 2018
(All amounts are in MKD thousand unless otherwise stated)
34. Related party transactions

The services provided and received from the related parties are rendered at arm's length prices. All entities presented below are part of the Triglav Group. Outstanding balances towards and from the related parties as at the reporting date as well as income and expenses during the period are presented below.

31 December 2018	Zavarovalnica Triglav	Triglav RE Ljubljana	Lovćen Osiguranje	Triglav Zagreb	Triglav Osiguranje Beograd	Triglav Nepremičnine	Triglav Osiguranje Saraevo	Triglav international	Triglav Life Skopje	Total
Income	(118,200)	(48,039)	60	-	116	-	12	105	2,010	(163,936)
Outward reinsurance premium	(136,186)	(69,490)	-	-	-	-	-	-	-	(205,676)
Other income from insurance	17,986	14,437	60	-	116	-	12	-	68	32,679
Change in provisions for the unearned premium (reinsurers)	-	7,014	-	-	-	-	-	-	-	7,014
Other income not related to	-	-	-	-	-	-	-	105	1,942	2,047
Expenses	973	4,884	-	(190)	-	(953)	-	-	(259)	4,455
Gross claims settled	(297)	-	-	(145)	-	-	-	-	-	(442)
Reinsurers' share of claims	1,882	14,762	-	-	-	-	-	-	-	16,644
Change in provisions for reinsurers' share of claims	856	(9,878)	-	-	-	-	-	-	-	(9,022)
Operating expenses	(1,468)	-	-	(45)	-	(953)	-	-	(259)	(2,725)
Assets	2,220	91,647	27	-	98	-	-	-	190	94,182
Reinsurers' share of technical provisions for unearned premium	-	24,950	-	-	-	-	-	-	-	24,950
Reinsurers' share of technical provisions for outstanding	2,220	66,697	-	-	-	-	-	-	-	68,917
Receivables from reinsurers	-	-	-	-	-	-	-	-	13	13
Short-term receivables from	-	-	27	-	98	-	-	-	-	125
Other receivables	-	-	-	-	-	-	-	-	177	177
Liabilities	14,748	8,054	-	3	-	-	-	-	-	22,805
Gross insurance technical	46	-	-	-	-	-	-	-	-	46
Liabilities from reinsurance	14,550	8,054	-	-	-	-	-	-	-	22,604
Other short-term liabilities	152	-	-	3	-	-	-	-	-	155

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2018

(All amounts are in MKD thousand unless otherwise stated)

34. Related party transactions (continued)

31 December 2017	Zavarovalnica Triglav	Triglav RE Ljubljana	Lovcen Osiguranje	Triglav Zagreb	Triglav Osiguranje Beograd	Triglav Int	Triglav Life Skopje	Total
Income	(119,260)	(48,867)	12	-	74	158	40	(167,843)
Outward reinsurance premium	(128,927)	(57,588)	-	-	-	-	-	(186,515)
Other income from insurance operations	9,667	10,702	12	-	74	-	52	20,507
Change in gross provisions for the unearned premium	-	-	-	-	-	-	(43)	(43)
Change in provisions for the unearned premium (reinsurers share)	-	(1,981)	-	-	-	-	-	(1,981)
Other income not related to insurance operations	-	-	-	-	-	158	31	189
Expenses	4,502	7,709	-	(197)	-	-	-	12,014
Gross claims settled	(328)	-	-	(136)	-	-	-	(464)
Reinsurers' share of claims	4,085	6,126	-	-	-	-	-	10,211
Change in provisions for reinsurers' share of claims	1,269	1,583	-	-	-	-	-	2,852
Operating expenses	(524)	-	-	(61)	-	-	-	(585)
Assets	1,564	94,081	-	-	8	-	137	95,790
Reinsurers' share of technical provisions for unearned premium	-	17,855	-	-	-	-	-	17,855
Reinsurers' share of technical provisions for outstanding claims	1,357	76,226	-	-	-	-	-	77,583
Receivables from reinsurers	-	-	-	-	-	-	12	12
Short-term receivables from insurance operations	207	-	-	-	8	-	-	215
Other receivables	-	-	-	-	-	-	125	125
Liabilities	11,953	5,563	-	2	-	-	-	17,518
Gross insurance technical provisions	103	-	-	-	-	-	-	103
Liabilities from reinsurance operations	11,799	5,563	-	-	-	-	-	17,362
Other short-term liabilities	51	-	-	2	-	-	-	53

35. Members of the Board of Directors

In 2018, the executive members of the Board of Directors were paid amount of 17,003 MKD thousand as compensation for their work (2017: 16,303 MKD thousand).

The executive members of the Board of Directors were also paid out life insurance in amount of 160 MKD thousand. For the year ended 31 December 2017 the executive members were paid managerial insurance in amount of 235 MKD thousand.

An accrual related to bonus for the executive members of the Board of Directors has been booked in amount of 1,927 MKD thousand (2017: 4,337 MKD thousand).

The non-executive members of the Board of Directors were paid out by the Company an amount of 1,026 MKD thousand (2017: 1,202 MKD thousand) as compensation for their work including reimbursement of travel expenses and personal income taxes.

36. Amounts paid to auditors

The IFRS financial statements were audited by Ernst & Young Skopje.

Following are the auditing expenses incurred for the year ended 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Statutory audit and other auditing services	1,774	1,021
	1,774	1,021

37. Earnings per share

The calculation of the basic/diluted earnings by share (EPS) for the years ended 31 December 2018 and 31 December 2017 is based on the net profit for the year attributable to shareholders of Triglav Insurance AD Skopje. The number of shares is calculated as weighted average number of ordinary shares during the year.

	31 December 2018	31 December 2017
Net profit attributable to shareholders of the Company	31,477	85,202
Number of shares	60,184	60,184
Earnings per share	523	1,416

Diluted earnings per share are not calculated since the Company has not issued any dilutive financial instruments.

38. Significant legal disputes

The Company operates in the insurance industry and therefore, it is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final result of all pending or threatened legal proceedings, the management does not believe that such proceedings (including litigations) will have material adverse effect on its results and financial position.

The Company is also involved in legal proceedings beyond its normal course of business.

- The Company is involved in case for compensation of damages, submitted on 4 April 2012 by physical person. Preparatory hearing was held where the plaintiff was obliged by the Court to admit additional evidence. The court has ruled out the claim as cluttered on 5 March 2013, on which the plaintiff has submitted an appeal. After acceptance of the appeal by the Court, the case was returned for retrial where additional evidence was submitted, on which Triglav Insurance Skopje has submitted its expertise and opinion. In November 2014, the plaintiff submitted his opinion in relation to Triglav's expertise. On the hearing held on the 08 March 2016 the court

38. Significant legal disputes (continued)

decided that it's necessary, additionally and with a separate formal decision to give an answer to the company objection on subject matter jurisdiction (that the court is not competent to act upon the complaint of Mr. Stojan Klopceovski), regarding the fact that in the contract for sale of shares with purchase option, jurisdiction is agreed to international arbitration in Vienna in case of a dispute. The Company objection on the subject matter jurisdiction was declined by the court and the company submitted an appeal. The court dismissed the appeal of the company. The first instant verdict is obtained in our favour. The plaintiff submitted an appeal, and the Company submitted a response to an appeal. The case is pending before the Court of Appeal.

The amount of the case is 154,664 MKD thousand.

- Case for compensation of damages, submitted on 28 May 2013 by several shareholders of Triglav Insurance Skopje against the Company and Zavarovalnica Triglav, d.d. The first preparatory hearing was scheduled by the Court on 6 June 2016 however it was postponed until 28 September 2016. With special formal decision the Court ruled on the objection of Zavarovalnica Triglav dd Ljubljana for lack of jurisdiction of the Macedonian court to act on the plaintiffs' claim against Zavarovalnica Triglav dd Ljubljana in a way that the court adopted the objection of Zavarovalnica Triglav dd Ljubljana and rejected the appeal of plaintiffs against Zavarovalnica Triglav dd Ljubljana. The next hearing is scheduled for 22 January 2019. On January 22, 2019, the Court closed the main hearing and scheduled a hearing on January 30th to announce the verdict. The first instant verdict is obtained in our favour. The plaintiffs submitted an appeal, and the Company submitted a response to an appeal. The case is pending before the Court of Appeal.

The assessed amount of the case is 151,840 MKD thousand.

39. Contingent Liabilities

The Company has concluded rental contract for renting business premises in the business center Hyperium for 5 years starting from 17 January 2011, which was extended until 31 January 2019 in 2014. After change of ownership of the business center, the Company increased the leased space and managed to obtain lower prices per square meter. According to the latest annex, the contract is valid until 31 December 2028 with earliest termination possible on 31 December 2022. The monthly rent that the Company is paying for the business premises starting 1 January 2018 is in amount of 2,556 MKD thousand (incl. VAT) including service fee of 3,5 eur per m².

Following are the total obligations arising from the non-cancellable part of the business premises.

	Up to 1 year	2-5 years	Over 5 years
Rent arising from non-cancellable contract for headquarters	30,669	89,759	-
Total	30,669	89,759	-

40. Income tax liabilities

The Company's books and records for the fiscal years from 2012 to 2018 have not been audited by the tax authorities. Therefore, the Company's tax liabilities may not be considered finalized i.e. a provision for additional taxes and penalties, if any, that may be levied in event of a tax audit cannot, at this stage, be determined with any reasonable accuracy.

41. Reviews by Supervision bodies

During the year ended 31 December 2018, the Insurance Supervision Agency carried out one off-field supervision and started one field supervision.

Off-field supervision

The Insurance Supervision Agency reviewed the quarterly reports of the Company for the period 01.01.2017-30.09.2017, provided through the electronic system for notification of the Agency (ASO Portal).

The finding of the Agency was that the Company didn't act in accordance to the provisions of Article 225-c. paragraph 2 of the Law on Insurance Supervision, i.e in relation to the complaints submitted to the Second Instance Commission for Consideration and Deciding on Complaints. Namely, the Company did not act within the legal deadline for 35 complaints, i.e it didn't responded within 30 days as of the day of submission of the complaint.

The Company submitted written comment on the finding, indicating that a mistake was made by the Company, i.e. the data provided in the specific SP-9 form are in fact data relating to the period from 01.01.2016 to 30.09.2016. The SP-9 Form was again submitted with data showing the true balance for the period from 01.01.2017 to 30.09.2017 together with the evidence and explanations for individual complaints.

For this supervision, no measures were imposed.

Field supervision

The Insurance Supervision Agency started a field supervision in November 2018. The subject of supervision were certain segments of the Company's operations for the period from 01.01.2017 until 30.09.2018 in order to determine whether the performed insurance activities are in accordance with the Law on Insurance Supervision and other laws and bylaws which regulate the operation of insurance companies.

During the field supervision, supervisors explained that the main objective of field supervision is the assessment of the function of the Company's authorized actuary and the risks associated with it.

The supervision ended on 9 January 2019, and the Company was obliged to submit supplementary documentation. At the moment, the procedure for submitting supplementary documentation by the Company is ongoing, which documentation was requested from the Company at the last held meeting.

Upon submission of additional documentation, the Insurance Supervision Agency issued report no. UP1 08-1-511 on 4 April 2019. The Company should provide comments to the issued report within 15 days before submission of its final opinion and conclusions, as well as possible findings and measures.

42. Events after the reporting period

No material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.