Triglav Insurance AD Skopje

Financial Statements

For the year ended 31 December 2020

With the Report of the Auditors thereon

We have raised our agility to a higher level

2020 was unpredictable, uncertain and full of challenges for all of us. The coronavirus pandemic affected the overall business and social life of the country, so we all had to find a way to work that would ensure continuity and smooth work, focused on implementing our strategic guidelines, while protecting both employees and customers.

Triglav Insurance effectively focused its activities on providing uninterrupted services to its clients in all areas of insurance. The new situation encouraged thinking outside the box and plans. From the very beginning of the pandemic, we have intentified our efforts towards digitalization of services and operating on distance and we have taken all measures to provide customers with uninterrupted communication with the Company in all areas of operation – providing insurance policies, submitting claims, online payment, consultations, etc. Even though the Company operates in irregular conditions, customers have unobstructed access to all services. The extraordinary conditions encouraged and brought additional stimulus in the planned development and strategic activities. We are confident that we have made a visible step towards the digital transformation of the Company.

In 2020, we especially focused on social responsibility, which we believe is extremely important in such situations - helping health institutions in the country, donating computer equipment to support online education, etc. The same reasons motivated us to introduce the mobile game app karantWin, which aimed to motivate and reward people who followed the recommendations of the competent institutions for social distance.

In terms of operational activities, one of the most significant projects in 2020 was the centralization of IT infrastructure, whose primary goal was the migration of IT infrastructure of Triglav Insurance to the data center in Zavarovalnica Triglav in Ljubljana and the establishment of primary and secondary location. By finalizing this project, we have ensured long-term stability, security and compliance of the infrastructure of Triglav Insurance.

In the domain of development of products, services and sales channels, despite the extraordinary circumstances, in 2020 we continued with improvement of the products and providing adequate coverage in accordance with the needs of the clients. Thus, we intensified the development of bank assurance, we were the first on the market to introduce credit protect insurance, we provided tailor made packages for corporate clients and we additionally upgraded the packages for voluntary health insurance.

We ended the year 2020 with a positive result of 69.8 million denars, high coverage of technical reserves (147.3%) and capital adequacy of 435.7%, whilst maintaining the leading position in the non-life insurance market. The most significant effect on the financial result was the harmonization with the local legislation for differed acquisition costs.

Triglav Insurance remains strategically focused on achieving long-term, stable economic profitability, while fulfilling its mission to build a secure future for all stakeholders. The activities remain focused on developing employees and organizational culture in a cooperative and agile. The company will continue to develop digital tools to simplify processes and improve services, and to introduce new sales channels as well as innovative product solutions, in line with industry development and market and customer needs. We use our competitive advantages and carefully selected values, according to which we work, to maintain a strong leadership position in the field of non-life insurance and to grow in other insurance segments. We are sole insurance company in the market that can offer quality consolidated solutions in the field of property, life and pension insurance. The focus of our activities remains the availability of services to customers, whose satisfaction and loyalty are our strategic priority. As part of a group that has been building financial stability and a more secure future for all its clients, employees and associates for over 120 years, we remain a reliable partner and strive to become even better and more trustworthy.

Chief Executive Director
Gjorgje Vojnovic, MBA

Executive Director
Rok Pivk

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INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF TRIGLAV INSURANCE AD SKOPJE

We have audited the accompanying financial statements (pages 3 to 102) of Triglav Insurance AD Skopje (hereinafter: "the Company"), which comprise the statement of financial position as at December 31, 2020, and the statement of 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 the 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 the Law on Auditing and the applicable auditing standards in the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers 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 audit opinion.

(Continued)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF TRIGLAV INSURANCE AD SKOPJE (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Triglav Insurance AD Skopje as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Aleksandar Arizanov
Certified Auditor
Director

Aleksandar Arizanov
Certified Auditor

March 31, 2021
Deloitte DOO Skopje
Blvd. Partizansk Odredi no. 15A Skopje

Statement of Financial Position

	Note	31 December 2020	31 December 2019
ASSETS			
Intangible assets	**7**	**118,502**	**133,864**
Property and equipment	**8**	**84,440**	**85,541**
Right of use assets	**9**	**44,057**	**63,768**
Investment property	**10**	**500**	**978**
Investments in associates	**11**	**52,400**	**56,794**
Financial investments	**12**	**1,565,875**	**1,587,636**
Loans and receivables		445,885	485,529
Available for sale		1,119,990	1,102,107
Reinsurers' share of technical provisions	**13**	**671,471**	**221,856**
Receivables	**14**	**364,006**	**365,331**
Receivables from direct insurance operations		316,112	313,168
Receivables from reinsurance operations		3,863	3,405
Current tax receivable		2,549	5,802
Other receivables		41,482	42,956
Other assets	**15**	**3,391**	**5,527**
Cash and cash equivalents	**16**	**10,681**	**14,970**
TOTAL ASSETS		**2,915,323**	**2,536,265**
EQUITY AND LIABILITIES			
Equity	**17**	**966,071**	**900,996**
Share capital		185,223	185,223
Share premium reserves		41,972	41,972
Reserves from profit		418,360	408,029
Revaluation reserve		43,271	47,953
Retained earnings		207,488	202,941
Net profit for the period		69,757	14,878
Insurance technical provisions	**18**	**1,723,151**	**1,341,391**
Unearned premiums		506,096	596,734
Claims provisions		1,193,114	730,211
Bonuses and discounts		14,665	5,944
Other insurance technical provisions		9,276	8,502
Employee benefits	**19**	**16,088**	**13,978**
Other provisions	**20**	**9,404**	**9,404**
Deferred tax liabilities	**21**	**4,481**	**5,002**
Other financial liabilities	**22**	**1,606**	**1,724**
Lease liabilities	**9**	**45,888**	**65,247**
Operating liabilities	**23**	**71,250**	**117,543**
Liabilities from direct insurance operations		20,871	24,918
Liabilities from reinsurance and co-insurance operations		50,379	92,625
Other liabilities	**24**	**77,384**	**80,980**
Total liabilities		**1,949,252**	**1,635,269**
TOTAL EQUITY AND LIABILITIES		**2,915,323**	**2,536,265**

Statement of Profit or Loss

	Note	31 December 2020	31 December 2019
Gross written premium		1,231,617	1,424,891
Outward reinsurance premium		(364,011)	(439,655)
Change in provision for unearned premiums		77,432	(17,055)
Change in provision for unearned premiums (reinsurers' share)		(42,296)	21,985
Net premium income	**25**	**902,743**	**990,166**
Interest income		41,451	41,981
Dividend income		227	332
Realised gains on disposals		3,236	1,790
Other income		4,679	572
Income from financial assets	**26**	**49,593**	**44,675**
Interest income from receivables		8,088	8,268
Reinsurance fees and commission income		65,834	64,055
Other income from insurance operations		8,562	11,220
Other insurance income	**27**	**82,484**	**83,543**
Other Income	**28**	**10,687**	**7,531**
Gross claims settled		610,384	658,574
Income from claimed gross subrogated receivables		(15,831)	(19,066)
Reinsurers' share of claims settled		(78,225)	(83,516)
Changes in gross provisions for claims outstanding		462,903	81,079
Changes in provisions for claims outstanding (reinsurers' share)		(493,863)	(31,133)
Net claims incurred	**29**	**485,368**	**605,938**
Change in other insurance technical provisions	**30**	**775**	**(6,506)**
Net expenses for bonuses and discounts	**31**	**40,682**	**33,879**
Acquisition costs		287,907	319,156
Other operating costs		94,373	89,873
Operating expenses	**32**	**382,280**	**409,029**
Interest expense		2,373	3,602
Other expenses from financial asssets and liabilities		3,194	3,097
Expenses from financial assets and liabilities	**33**	**5,567**	**6,699**
Other insurance expenses	**34**	**53,240**	**53,858**
Other expenses	**35**	**214**	**1,208**
Share of loss of an associate	**11**	**4,228**	**4,061**
Profit before tax		**73,153**	**17,749**
Income tax expense	36	3,248	3,019
Deferred tax expense		148	(148)
Net profit for the accounting period		**69,757**	**14,878**
Earnings per share	**40**		
Basic and diluted earnings per share		1,159	0.247

The financial statements of Triglav Insurance AD Skopje were approved by the Management Board on 5.03.2021.

Gjorgje Vojnovic
Chief Executive Director

Rok Pivk
Executive Director

Statement of Other Comprehensive Income

	31 December 2020	31 December 2019
Net profit for the year after tax	69,757	14,878
Other comprehensive income after tax	(4,682)	3,565
Items which could be transferred into Statement of profit and loss in the following periods		
1. Net gains/losses from the re-measurement of available-for-sale financial assets	**(4,682)**	**3,565**
1.1 Gains/losses recognised in revaluation reserve	(5,202)	3,961
1.2 Tax on other comprehensive income	520	(396)
Comprehensive income / Loss for the year after tax	**65,076**	**18,443**

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 2018	**185,223**	**41,972**	**386,069**	**37,912**	**4,866**	**1,610**	**193,424**	**31,477**	**882,553**
Net profit for the current period	-	-	-	-	-	-	-	14,878	14,878
Other comprehensive income for the year after tax	-	-	-	6,144	(2,579)	-	-	-	3,565
Total comprehensive income	**-**	**-**	**-**	**6,144**	**(2,579)**	**-**	**-**	**14,878**	**18,443**
Transfer to retained earnings	-	-	-	-	-	-	31,477	(31,477)	-
Transfer of net profit to reserves from profit	-	-	21,960	-	-	-	(21,960)	-	-
As at 31 December 2019	**185,223**	**41,972**	**408,029**	**44,056**	**2,287**	**1,610**	**202,941**	**14,878**	**900,996**
Net profit for the current period	-	-	-	-	-	-	-	69,757	69,757
Other comprehensive income for the year after tax	-	-	-	(3,229)	(1,453)	-	-	-	(4,682)
Total comprehensive income	**-**	**-**	**-**	**(3,229)**	**(1,453)**	**-**	**-**	**69,757**	**65,075**
Transfer to retained earnings	-	-	-	-	-	-	14,878	(14,878)	-
Transfer of net profit to reserves from profit	-	-	10,331	-	-	-	(10,331)	-	-
As at 31 December 2020	**185,223**	**41,972**	**418,360**	**40,827**	**834**	**1,610**	**207,488**	**69,757**	**966,071**

Cash Flow Statement

	Notes	31 December 2020	31 December 2019
Cash flow from operating activities			
Income statement items		**34,417**	**89,468**
Gross written premium	25	1,231,617	1,424,891
Outward reinsurance premium	25	(364,011)	(439,655)
Income from investment (less financial income)	26	46,357	42,885
Other income from operations (except from valuation and without changes in provisions) and financial income from receivables from operations		88,038	88,449
Gross settled claims (including recourses settled)	28	(588,429)	(634,305)
Reinsurer's share of claims	28	78,225	83,516
Expenses for bonuses and discounts	31	(40,682)	(33,878)
Operating expenses less depreciation	32	(341,738)	(369,709)
Expenses from investments (except from valuation and without changes in provisions)	33	(2,968)	(2,899)
Other expenses from operations without depreciation (except from valuation and without changes in provisions)		(66,223)	(63,354)
Interest paid	33	(2,373)	(3,602)
Corporate tax and other tax not included in expenses	36	(3,396)	(2,871)
Change of working capital (insurance receivables, other receivables, other assets, deferred taxes) of operating items of the balance sheet		**(66,427)**	**(15,115)**
Opening less closing balance of receivables from direct insurance operations		4,490	(22,262)
Opening less closing balance of receivables from reinsurance		(458)	(2,998)
Opening less closing balance of other receivables from (re)insurance operations		1,573	348
Opening less closing balance of other receivables and assets		(36,162)	(39,518)
Opening less closing balance of deferred tax assets		148	(148)
Closing less opening balance of liabilities from direct insurance operations		(4,047)	2,603
Closing less opening balance of liabilities from reinsurance		(42,246)	43,049
Closing less opening balance of other liabilities from operations		9,770	4,137
Closing less opening balance of other liabilities (less unearned premiums)		1,025	(722)
Closing less opening balance of deferred tax liabilities		(520)	396
Net cash flow from/(used in) operating activities		**(32,010)**	**74,353**
Cash flow from investing activities			
Receipts from interest from investments	12	39,633	42,423
Receipts from dividends from investments		570	332
Receipts from disposal of tangible fixed assets		1,500	3,540
Receipts from disposal of financial investments	12	675,502	1,266,536
Payments for purchase of intangible assets	7	(6,198)	(7,857)
Payments for purchase of tangible fixed assets	8	(8,185)	(28,165)
Payments for financial investments	12	(652,781)	(1,335,845)
Net cash flow (used in)/from investing activities		**50,041**	**(59,036)**
Cash flow from financing activities			
Payment of lease liabilities	9	(22,320)	(23,414)
Net cash flow used in financing activities		**(22,320)**	**(23,414)**
Net decrease in cash and cash equivalents		**(4,289)**	**(8,097)**
Cash and cash equivalents at beginning of the year		**14,970**	**23,067**
Cash and cash equivalents at the end of the year	**16**	**10,681**	**14,970**

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.

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 80.45%.

As of 31 December 2020, the controlling interest in Triglav Insurance AD Skopje is held by Triglav INT d.d (80.83%) (2019: 80.45%). The ultimate holding company is Zavarovalnica Triglav d.d. Slovenia.

The company is licensed to perform 18 classes (2019:18) of non-life insurance. Among the most important insurance activities are accident insurance, health insurance, land motor vehicles insurance, aircraft insurance, fire, natural forces and other damage to property insurance, motor TPL insurance, general liability insurance and travel 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 5 March 2021.

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;
- Mr. Rok Pivk – Executive Member, BSc of Economics-Banking and Finance;
- Mr. Matej Ferlan – Independent non-executive member, MBA;
- Mr. Darko Popovski- Non-executive member, MBA;
- Mr. Blaz Kmetec- Non-executive member, BSc of Economics-Banking and Finance; and
- Mr. Gjorgji Jancevski - Independent non-executive member, BSc of Economics from 30.01.2020.

1. General information (continued)

1.2 Management bodies (continued)

On 55th session of the Shareholders Assembly held on 25.12.2020, Mr. Vojdan Jordanov has been elected as member of the Board of Directors of Triglav Insurance AD Skopje with mandate starting from 01.04.2021 for 4 consecutive years.

During 2020, the Board of Directors held eleven (11) 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, effectivens 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 od the audit commission members are as follows:

- Ms. Mateja Geržina – President of the Audit commission;
- Mr. Darko Popovski- Member of the Audit comission, MBA;
- Ms. Jana Polda – Member of the Audit commission;
- Mr. Branko Flisar – Member of the Audit commission;
- Mr. Miran Kraševec– Member of the Audit commission from 18.09.2019.

During 2020, the Audit commission held six (6) sessions on which the most important issues within the scope of its responsibilities were considered.

1.3 Employees

As of 31 December 2020, the Company had 230 employees (2019:241).

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

Type of employment	31 December 2020	31 December 2019	Variation
Internal employees	126	126	(1)
Agents	104	125	(10)
Total	**230**	**251**	**(11)**

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 available-for-sale financial assets measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The methods used for measuring fair value are described in note 3.7.

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 2020 and 2019 were as follows:

	31 December 2020	31 December 2019
	MKD	**MKD**
1 EUR	61.694	61.495

2.6 Going concern

The Management has, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The assessment that the Company is going concern has taken in consideration the COVID19 related events.

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 3.12. No intangible assets were impaired as at December 31, 2020 (2019 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 3.12. No item of property and equipment was impaired as at December 31, 2020 (2019: null).

3. Significant accounting policies (continued)

3.3 Leased assets, right of use assets and lease liabilities

The Company as a lessee

The Company has operating leases for the headquarter offices of the Company as well as for several branch and representative offices throughout the country. In addition, the Company has had several contracts for renting of marketing space.

The lease of headquarters has a term of four years whereas the leases of representative and branch offices have a lease term of one year but generally they are extended for period ranging from 2 years to 3 years.

Lease payments are fixed. No lease payments are linked to Company's performance or index.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are generally cancellable with one month notice period except for the leases of the headquarters where it is non cancellable until 31.12.2022 with 12 month notice period.

No leases contain an option to purchase the underlying leased asset outright at the end of the lease. The leases generally contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. All leases the Company must keep in a good state of repair and return the properties in their original condition at the end of the lease.

The nature of the Company's leasing activities by type of right-of-use asset recognised on statement of financial position are disclosed in note 9.

For any new contracts entered into on or after 1 January 2020, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate

3 Significant accounting policies (continued)

3.3 Leased assets, right of use assets and lease liabilities (continued)

implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

The methodology for setting the interest rates at which future leases are discounted was determined at the Triglav Group level. The discount curve is the combination of the interest rate on risk-free government bonds in Republic of North Macedonia and the credit spread for the Company. The applied credit spread is 3.25% based on assumptions, defined by Triglav Group internal financial analystis. The interest rate is reviewed and adjusted if needed on quarterly basis.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed). Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

The Company remeasures the lease liability (and makes a corresponding adjustment to the right of use asset) whenever:

- The lease term has changed or there is significant event or change in circumstances resulting in change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; and
- The lease contract is modified and the lease modification is not accounted for a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Company has elected to account for short-term leases and leases of low-value assets, when they exist, using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets and lease liabilities have been disclosed separately.

The Company as a lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right of use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

3. Significant accounting policies (continued)

3.4 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 3.12.

3. Significant accounting policies (continued)

3.5 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 3.12.

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.

3.6 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 2020 and 2019, 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)

3.6 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.

3.7 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)

3.7 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 2020 and 2019, as a basis for discounting, the Company used the yield to maturity of the government bonds quoted on the primary market in R. North Macedonia as opposed to the yield to maturity of the Eurobonds issued by the government of R. North Macedonia used in the past 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. North Macedonia were forbiden to invest in such instruments. Furthermote, 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)

3.8 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 3.20 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 3.12.

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)

3.9 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 3.12.

3.10 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.

3.11 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. Cash and cash equivalents are carried at amortized cost in the balance sheet.

3.12 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)

3.12 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)

3.12 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.

3.13 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)

3.13 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) Other fair value reserves

Other fair value reserves relate to revaluation reserve made on the property, plant and equipment before 1 January 2005.

(vii) Dividends

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

3.14 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.

3.15 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 Serbian mortality tables of 2010-2012 and an interest rate of 2,5%.

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

3. Significant accounting policies (continued)

3.15 Insurance technical provisions (continued)

Claims provisions (continued)

of business, Loss ratio method for general liability, health insurance and travel insurance 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 and icurred claims is applied. The IBNRs are formed for 8 classes of insurance with which 99% of the gross claims settled are covered.

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.

3.16 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.

3.17 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.

3. Significant accounting policies (continued)

3.17 Employee benefits (continued)

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

3.18 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.

3.19 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.

3.20 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 correspondents 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 3.15).

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.

3. Significant accounting policies (continued)

3.20 Net premium income (continued)

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.

3.21 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.

3.22 Other income

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

3.23 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.

3.24 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.

3.25 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 3.23), asset management costs are a constituent part of expenses from financial assets and liabilities (note 3.26), 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. Significant accounting policies (continued)

3.26 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 2019, the Company did not have such expenses. During 2020, the Company recorded interest expenses related to the lease liabilities in accordance with IFRS 16.

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.

3.27 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.

3.28 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.

3.29 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 North 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 tax currently payable is based on taxable profits for the year. Taxable profits may differ from net profits as reported in the profit or loss because it exclude items that are never taxable or deductible.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

3. Significant accounting policies (continued)

3.29 Taxes (continued)

Deferred income tax (continued)

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.

3.30 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 in the current reporting period:

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period). **These amendments are not relevant to the Company.**

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020). **These amendments are not relevant to the Company.**

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020). **These amendment has not led to any material changes in the financial statements of the Company.**

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020). **These amendment has not led to any changes in the financial statements of the Company.**

3. Significant accounting policies (continued)

3.30 Adoption of new and revised IFRS (continued)

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.

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023). **The Company is in the process of assessing the impact of this amendment on its financial position and performance.**

- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions are effective for annual periods beginning on or after 1 June 2020 but earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020 (the amendment is also available for interim reports). **The Company has applied these amendmends.**

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

3. Significant accounting policies (continued)

3.30 Adoption of new and revised IFRS (continued)

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

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 - 2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.). **The Company anticipates that the amendment will have no material impact on the financial statements of the Company in the period of initial application.**

3.31 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. 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 2020 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 775 MKD thousand as of 31 December 2020 (2019: - 6,506 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.

4.3 Estimating the lease term

When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. Based on past experience and in line with Company’s future strategy, the leases for branch offices are extended for three years whereas the leases for the representative offices are extended for two years.

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 2020, 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 fulfill 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 fulfill 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.

5. Risk management (continued)

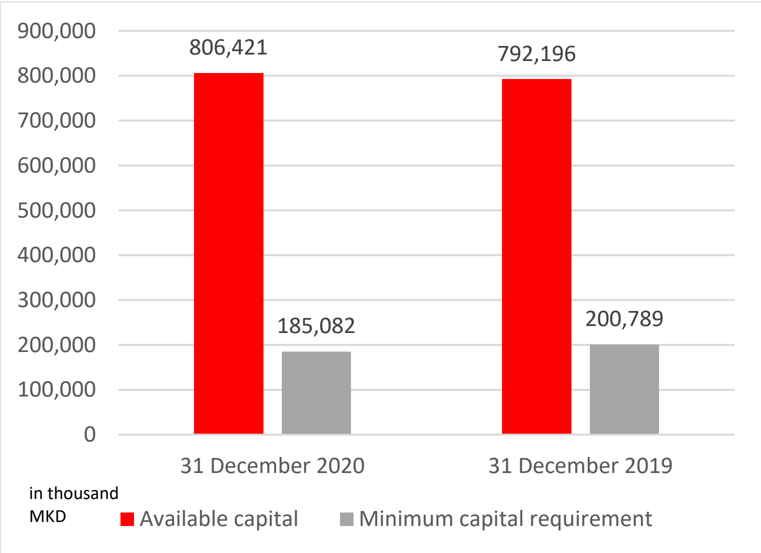
5.2 Capital management and capital adequacy management (continued)

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 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, 2020, the available capital to minimum required capital ratio was 436% (2019: 395%).

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.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

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.

5.3.1 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 2,593,591 MKD thousand (2019: 2,178,361 MKD thousand) as disclosed below.

	31 December 2020	31 December 2019
Financial investments	1,549,982	1,582,005
AFS	1,104,097	1,096,476
Debt instruments	1,104,097	1,096,476
Loans and receivables	445,885	485,529
Deposits (term) and GF investments	445,885	481,024
Debt instruments (T-Bills and Government Bonds)	-	4,505
Reinsurance share of technical provisions	671,471	221,856
Receivables	361,457	359,529
Cash and cash equivalents	10,681	14,970
Total financial assets exposed to credit risk	**2,593,591**	**2,178,360**

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 FitchIBCA. 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.

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)

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		

Asset class	31 December 2020	Average Rating	31 December 2019	Average Rating
Debt instruments (T-Bills and Government Bonds)	1,104,097	Ba1	1,100,981	Ba2
Deposits (term)	424,783	Ba1	457,593	Ba1
Gurantee fund investments	21,102	-	23,431	-
Total	**1,549,982**		**1,582,005**	**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 Ba1. The credit rating of the domestic country is Ba3 (second best S&P).

Following is the credit-rating structure of the debt securities of Triglav Insurance AD Skopje for the years ended 31 December 2020 and 2019:

Credit rating	31 December 2020	31 December 2019
AFS	**1,104,097**	**1,100,981**
BBB	-	-
BB	1,104,097	1,100,981
Loans and receivables	**-**	**-**
BB	-	-
Total debt securities	**1,104,097**	**1,100,981**

Term deposits, GF investments, cash and cash equivalents and receivables are classified as “Undetermined” credit quality class. Credit quality of the reinsurance share of technical provisions is presented on page 38.

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:

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)

Type of investment	Limit 31 December 2020	Limit 31 December 2019
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%.

The table below shows the composition of the investment portfolio of the Company as of 31 December 2020 and 2019.

	31 December 2020	%	31 December 2019	%
Debt securities, deposits and GF investments	**1,549,982**	**99.0%**	**1,582,005**	**99.6%**
Debt securities issued by the state	1,104,097	71%	1,100,981	70%
Debt securities issued by other states	-	0%	-	0%
Corporate debt securities and	-	0%	-	0%
Deposits in banks	424,783	27%	457,593	26%
Gurantee fund investments	21,102	1%	23,431	4%
Equity investments	**15,893**	**1.0%**	**5,631**	**0.4%**
Total financial assets	**1,565,875**		**1,587,636**	

As of 31 December 2020 and 2019, all investments are within the limits of the Company's investment policy.

In 2020, the single largest exposure of Triglav Insurance AD Skopje was related to the government bond issued by the Republic of North Macedonia in amount of 167,389 MKD thousand with maturity until January 2028. The single largest exposure in 2019 was related to the same government bond issued by the Republic of North Macedonia in amount of 166,853 MKD thousand with maturity until January 2028.

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 North Macedonia (2019: Republic of North Macedonia), i.e. there is no exposure on the global financial markets.

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

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 Republic of North 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:

- The maturity structure of receivables from insurance operations (refer below in this section and in note 14 for analysis of receivables by maturities). The receivables are appropriately provided for as described in note 3.12; 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 2020	31 December 2019
AA	3,276	11,300
AA-	7,397	-
A+	192,213	-
A	288,550	195,590
A-	1,470	-
BBB	-	17
BB	589	555
BB-	368	-
No rating	177,608	14,394
Reinsurance share of technical provisions	**671,471**	**221,856**

Credit risk arising from cash and cash equivalents

Even though most of the financial institutions and commercial banks in Republic of North 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.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Credit risk arising from cash and cash equivalents (continued)

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

Bank	31 December 2020	31 December 2019
Komercijalna Banka AD, Skopje	6,821	5,970
Stopanska Banka AD, Skopje	566	632
Halkbank AD, Skopje	997	2,944
NLB Banka AD, Skopje	1,572	3,574
UNI Banka AD, Skopje	148	451
Ohridska Banka AD, Skopje	316	84
ProCredit Banka AD, Skopje	254	1,308
Cash in Vault	7	7
Total Cash and cash equivalents	**10,681**	**14,970**

Additional credit risk disclosures

31 December 2020	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowence for impairement	Net exposure
Financial investments	1,549,982	-	96,054	1,646,036	(96,054)	1,549,982
AFS	1,104,097	-	-	1,104,097	-	1,104,097
Debt insutruments	1,104,097	-	-	1,104,097	-	1,104,097
Loans and receivables	445,885	-	96,054	541,939	(96,054)	445,885
Deposits (term), GF investments and loans	445,885	-	96,054	541,939	(96,054)	445,885
Debt instruments (Treasury Bills)	-	-	-	-	-	-
Reinsurers' share of technical provisions	671,471	-	-	671,471	-	671,471
Receivables	251,717	66,362	449,670	767,749	(406,292)	361,457
Cash and cash equivalents	10,681	-	-	10,681	-	10,681
Total	**2,483,851**	**37,494**	**574,592**	**3,095,937**	**(502,346)**	**2,593,591**

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures

31 December 2019	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowence for impairement	Net exposure
Financial investments	1,582,005	-	98,121	1,680,126	(98,121)	1,582,005
AFS	1,096,476	-	-	1,096,476	-	1,096,476
Debt insutruments	1,096,476	-	-	1,096,476	-	1,096,476
Loans and receivables	485,529	-	98,121	583,650	(98,121)	485,529
Deposits (term), GF investments and loans	481,024	-	98,121	579,145	(98,121)	481,024
Debt instruments (Treasury Bills)	4,505	-	-	4,505	-	4,505
Reinsurers' share of technical provisions	221,856	-	-	221,856	-	221,856
Receivables	212,856	64,247	521,312	798,415	(438,886)	359,529
Cash and cash equivalents	14,970	-	-	14,970	-	14,970
Total	**2,031,687**	**64,247**	**619,433**	**2,715,367**	**(537,007)**	**2,178,360**

The impaired portion of category “Deposits (term), GF investments and loans” in amount of 96,054 MKD thousand (2019: 98,121 MKD thousand) relate to loans given in the past which are in delay of more than 365 days and therefore, they are fully impaired. During 2020, 1,900 MKD thousand of impairment was released as a result of collected loan receivables, while 167 MKD thousand as a result of write-off (2019: 105 MKD thousand as a result of collection and 1,200 MKD thousand as a result of write off).

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 2020	37,209	285	28,868	66,362
31 December 2019	29,839	3,986	30,422	64,247

26,196 MKD thousand of the past due but not impaired receivables which are in delay of more than 180 days are actually receivables of the National Bureau of Insurance (Guarantee Fund), that is the Company needs to collect and transfer them to the GF.Therefore, the Company also has recorded the same amount in the position „Liabilities towards Guarantee Fund“ note 24.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures

	Impaired receivables			
	Up to 30 days	30 - 180 days	Over 180 days	Total
31 December 2020	-	30,997	12,381	43,378
31 December 2019	-	68,078	14,349	82,427

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 fulfill 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 fulfill 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 fulfill 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 fulfill 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 fulfill 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 fulfill 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%

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.

In 2020, the Company made change to the classification of the receivables from direct insurance and recourses in regards to the days of delay in accordance to the requirements of the local regulator, the Agency for supervision of insurance. These changes were made by the regulator as a response to the COVID19 pandemic and with aim to provide relief to the insures and insurance companies at same time as opposed to the difficult times imposed. However, this change was appliaclbe only for limited time, i.e it ended as of 31 December 2020, meaning that starting from 1 January 2021 the Company continued to use its old classification of receivables as presented above.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures (continued)

As a result of the above, the percentages of impairment used in correlation to the days of delay were as follows:

Category of receivables	Days of delay	Impairment % applied
A	up to 90 days	-
B	from 91 to 120 days	10%
C	from 121 to 180 days	31%
D	from 181 to 330 days	51%
E	from 331 to 425 days	71%
F	more than 425 days	100%

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

31 December 2020	Gross amount	Impairment	Net amount	Impairment %
Receivables from direct insurace	**683,023**	**366,911**	**316,112**	
Not due	235,862	-	235,862	-
up to 90 days	36,917	-	36,917	0%
from 91 to 120 days	16,669	1,667	15,002	10%
from 121 to 180 days	15,381	4,768	10,613	31%
from 181 to 330 days	27,457	14,003	13,454	51%
from 331 to 425 days	14,189	10,074	4,115	71%
more than 425 days	336,548	336,399	149	100%
Receivables from recourses	**23,961**	**23,961**	**-**	
more than 365 days	23,961	23,961	-	100%
Total receivables from direct insurance and recourses	**706,984**	**390,872**	**316,112**	

If the aforementioned changes did not occur, the impairment of receivables from direct insurance booked in the current year would be higher by 22,788 MKD thousand and the presentation of the receivables would look as follows:

31 December 2020	Gross amount	Impairment	Net amount	Impairment %
Receivables from direct insurace	**683,023**	**389,699**	**293,324**	
Not due	181,926	-	181,926	-
up to 30 days	34,714	-	34,714	0%
from 31 to 60 days	24,549	2,455	22,094	10%
from 61 to 120 days	50,065	15,520	34,545	31%
from 121 to 270 days	31,502	16,066	15,436	51%
from 271 to 365 days	15,381	10,921	4,460	71%
more than 365 days	344,886	344,737	149	100%
Receivables from recourses	**23,961**	**23,961**	**-**	
more than 365 days	23,961	23,961	-	100%
Total receivables from direct insurance and recourses	**706,984**	**413,660**	**293,324**	

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures (continued)

31 December 2019	Gross amount	Impairment	Net amount	Impairment %
Receivables from direct insurace	**712,020**	**398,852**	**313,168**	
Not due	201,000	-	201,000	-
up to 30 days	29,829	-	29,829	0%
from 31 to 60 days	22,306	2,230	20,075	10%
from 61 to 120 days	59,747	18,522	41,225	31%
from 121 to 270 days	34,579	17,635	16,944	51%
from 271 to 365 days	14,121	10,026	4,095	71%
more than 365 days	350,439	350,439	-	100%
Receivables from recourses	**24,466**	**24,466**	**-**	
more than 365 days	24,466	24,466	-	100%
Total receivables from direct insurance and recourses	**736,486**	**423,318**	**313,168**	

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 2020 and 2019, 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.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.2 Liquidity risk (continued)

31 December 2020	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	61,970	235,466	389,204	879,235	1,565,875
AFS	15,893	12,374	212,488	879,235	1,119,990
Debt instruments	-	12,374	212,488	879,235	1,104,097
Equity instruments	15,893	-	-	-	15,893
Loans and receivables	46,077	223,092	176,716	-	445,885
Deposits (term), GF investments and loans	46,077	223,092	176,716	-	445,885
Debt instruments (Treasury Bills)	-	-	-	-	-
Reinsurers' share of technical provisions	-	671,471	-	-	671,471
Receivables	-	361,457	-	-	361,457
Cash and cash equivalents	-	10,681	-	-	10,681
Other assets	-	3,391	-	-	3,391
Total financial assets	**61,970**	**1,282,466**	**389,204**	**879,235**	**2,612,875**
Financial liabilities					
Insurance technical provisions	-	1,723,151	-	-	1,723,151
Employee benefits		7,415	2,911	5,762	16,088
Other provisions	9,404	-	-	-	9,404
Financial liabilities	-	1,606	-	-	1,606
Lease liabilties		23,494	22,394		45,888
Operating liabilities	-	71,250	-	-	71,250
Other liabilities	-	70,793	-	-	70,793
Total financial liabilities	**9,404**	**1,897,709**	**25,305**	**5,762**	**1,938,180**
Maturity gap	**52,566**	**(615,243)**	**363,899**	**873,473**	**674,695**

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.2 Liquidity risk (continued)

31 December 2019	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	69,062	263,870	432,857	821,847	1,587,636
AFS	5,631	117,169	157,460	821,847	1,102,107
Debt instruments	-	117,169	157,460	821,847	1,096,476
Equity instruments	5,631	-	-	-	5,631
Loans and receivables	63,431	146,701	275,397	-	485,529
Deposits (term), GF investments and loans	63,431	142,196	275,397	-	481,024
Debt instruments (Treasury Bills)	-	4,505		-	4,505
Reinsurers' share of technical provisions	-	221,856	-	-	221,856
Receivables	-	359,529	-	-	359,529
Other assets	-	5,527	-	-	5,527
Cash and cash equivalents	-	14,970	-	-	14,970
Total financial assets	**69,062**	**865,752**	**432,857**	**821,847**	**2,189,518**
Financial liabilities					
Insurance technical provisions	-	1,341,391	-	-	1,341,391
Employee benefits	-	6,045	2,919	5,014	13,978
Other provisions	9,404	-	-	-	9,404
Financial liabilities	-	1,724	-	-	1,724
Lease liabilties		27,015	38,232		65,247
Operating liabilities	-	117,543	-	-	117,543
Other liabilities	-	73,782	-	-	73,782
Total financial liabilities	**9,404**	**1,567,500**	**41,151**	**5,014**	**1,623,069**
Maturity gap	**59,658**	**(701,748)**	**391,706**	**816,833**	**566,449**

Due to the fact that the Company's financial investments is in AFS instruments, the debt securities maturing in 1 to 5 years and above 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, 2020 and 2019. 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 Republic of North Macedonia.

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

31 December 2020	EUR	USD	Other FC	MKD	Total
Financial assets					
Financial investments	393,826	-	-	1,172,049	1,565,875
AFS	393,826	-	-	726,164	1,119,990
Debt instruments	393,826			710,271	1,104,097
Equity instruments	-	-	-	15,893	15,893
Loans and receivables	-	-	-	445,885	445,885
Deposits (term),GF investments and loans	-	-	-	445,885	445,885
Debt instruments (Treasury Bills)	-	-	-	-	-
Reinsurers' share of technical provisions	176,466	494,991	14	-	671,471
Receivables	3,863	-	-	357,594	361,457
Cash and cash equivalents	3,372	-	-	7,309	10,681
Other assets	-	-	-	3,391	3,391
Total financial assets	**577,527**	**494,991**	**14**	**1,540,343**	**2,612,875**
Financial liabilities					
Insurance technical provisions	189,675	547	16,622	1,516,307	1,723,151
Employee benefits	-	-	-	16,088	16,088
Other provisions	-	-	-	9,404	9,404
Financial liabilities	-	-	-	1,606	1,606
Lease liabilities				45,888	45,888
Operating liabilities	39,492	7,851	1,853	22,054	71,250
Other liabilities	4,910	-	-	65,883	70,793
Total financial liabilities	**234,077**	**8,398**	**18,475**	**1,677,230**	**1,938,180**

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 2019	EUR	USD	Other FC	MKD	Total
Financial assets					
Financial investments	459,280	-	-	1,128,356	1,587,636
AFS	459,280	-	-	642,827	1,102,107
Debt instruments	459,280			637,196	1,096,476
Equity instruments	-	-	-	5,631	5,631
Loans and receivables	-	-	-	485,529	485,529
Deposits (term),GF investments and loans	-	-	-	481,024	481,024
Debt instruments (Treasury Bills)	-	-	-	4,505	4,505
Reinsurers' share of technical provisions	180,160	38,108	3,588	-	221,856
Receivables	9,515	-	-	350,014	359,529
Other assets	-	-	-	5,527	5,527
Cash and cash equivalents	52	-	-	14,918	14,970
Total financial assets	**649,007**	**38,108**	**3,588**	**1,498,815**	**2,189,518**
Financial liabilities					
Insurance technical provisions	250,593	-	20,266	1,070,532	1,341,391
Employee benefits	-	-	-	13,978	13,978
Other provisions	-	-	-	9,404	9,404
Financial liabilities	-	-	-	1,724	1,724
Lease liabilities				65,247	65,247
Operating liabilities	54,945	37,258	944	24,396	117,543
Other liabilities	1,841	-	-	71,941	73,782
Total financial liabilities	**307,379**	**37,258**	**21,210**	**1,257,222**	**1,623,069**

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 currecy sensitivity analyses on profit before income tax is presented below.

	31 December 2020	31 December 2019
1% drop in the FX rate to 61.08 (2019: 60.87)	(3,435)	(3,416)
1% rise in the FX rate to 62.31 (2019: 62.10)	3,435	3,416

Company's sensitivity to foreign currency fluctuations has insignificantly increased 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.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.3 Market risk (continued)

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

Interest rate risk management

The Company is exposed to deposit interest rate fluctuations only through its placements with variable interest rates. Additionally, the interest rate fluctuations on the market affect the fair value of Company's government bonds classified as available for sale (any increase in market interest rate decreases the value of the financial investment and vice versa). 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 1.00% for the year ended December 31, 2020 (2019: 1.10%).

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 2020	31 December 2019
Financial assets		
Non-interest bearing		
AFS - Equity instruments	15,893	5,631
Loans and receivables – T-Bills	-	4,505
Reinsurers' share of technical provisions	671,471	221,856
Receivables	361,457	359,529
Cash and cash equivalnts	10,681	14,970
Other assets	3,391	5,527
	1,062,893	**612,018**
Fixed interest bearing		
AFS - Debt instruments	1,104,097	1,096,476
Loans and receivables	337,858	426,329
	1,441,955	**1,522,805**
Variable Interest bearing		
Loans and receivables	108,027	54,695
	108,027	**54,695**
Total financial assets	**2,612,875**	**2,189,518**
Financial liabilities		
Variable Interest bearing		
Lease liabilities	**45,888**	65,247
Non-interest bearing		
Insurance technical provisions	1,723,151	1,341,391
Employee benefits	16,088	13,978
Other provisions	9,404	9,404
Financial liabilities	1,606	1,724
Operating liabilities	71,250	117,543
Other liabilities	70,793	73,782
Total financial liabilities	**1,938,180**	**1,623,069**

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% (0.2 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 2020 would be higher, i.e lower by 129 MKD thousand (2019: 343 MKD thousand).

In the preparation of the sensitivity analysis for government bonds classified as available for sale, which are in nature with fixed interest rates, an increase or decrease of 0.1 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 government bonds with maturities similar to the Company's investments.

Therefore, in case the interest rates were higher/lower by 0.1 percentage point and all remaining variables remained constant, the equity of the Company for the year ended 31 December 2020 would be higher by 97,410 MKD thousand/lower by 86,367 MKD thousand (2019: higher by 98,824 MKD thousand/lower by 86,419 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 2020	31 December 2019
15% increase in deposit interest rates	129	343
15% decrease in deposit interest rates	(129)	(343)

	31 December 2020	31 December 2019
0.100 bp increase in government bond interest rates	97,411	98,824
0.100 bp decrease in government bond interest rates	(86,367)	(86,419)

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

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 Republic of North 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 2020		31 December 2019	
	+ 10%	**- 10%**	**+ 10%**	**- 10%**
Equity investments in Republic of North Macedonia	1,589	(1,589)	563	(563)
Total effect	**1,589**	**(1,589)**	**563**	**(563)**

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 2020 and 31 December 2019 were 10% above their disclosed values, the comprehensive income of the Company would be 1,589 MKD thousand and 1,589 MKD thousand higher. In contrast, if the prices of the equities in the portfolio as at 31 December 2020 and 31 December 2019 were 10% lower, the comprehensive income and profit of the Company would be 563 MKD thousand and 563 MKD thousand lower.

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 wit maximum available deviation of +/- 6%.

During the year ended 31 December 2020, the Company bought shares in domestic pharmaceutical company which at the year end have value of 8,316 MKD thousand and have impact on the increased sensitivity presented above.

5.3.5 Sensitivity analyses

Following the past evidence and the run-off analysis for claims it is evident that the prudent recognition an 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. Risk management (continued)

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.

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.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Reinsurance strategy (continued)

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. Starting from the year ended December 31, 2019, as an additional insurance, the Company started concluding General Quota Share contract which covers all insurance classes on top of the individual contracts concluded.

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 2020 and 2019.

	31 December 2020		31 December 2019	
Type of insurance	Maximum retention	Reinsurance coverage	Maximum retention	Reinsurance coverage
Fire insurance and other damages (including business interuption 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
CMR insurance	9,225	9,225	9,225	9,225
Motor TPL insurance	18,450	unlimited	18,450	unlimited
Aircraft liability insurance	3,075	3,075	3,075	3,075
Marine liability insurance	6150	6150	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
Health insurance	3,075	3,075	3,075	3,075
Travel insurance	3,075	3,075	3,075	3,075
All other types of insurance	3,075	3,075	3,075	3,075

5. Risk management (continued)

5.4 Underwriting risk (continued)

Asset-liability harmonization

The Law on insurance supervision applicable in Republic of North 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 2020 the investments of the Company which serve as assets covering the technical provisions amounted to 1,549,421 MKD thousand (2019: 1,574,582 MKD thousand). These investments consist of bank accounts and deposits, shares, government bills and bonds.

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

	Allowed %	31 December 2020	%	31 December 2019	%
Bank accounts and cash in hand	3%	10,681	0,7%	14,970	1,0%
Bank deposits	60%	418,750	27,0%	453,000	28,8%
Securities issued by R. Macedonia	80%	1,104,097	71,3%	1,100,981	69,9%
Shares traded on a regulated market for securities in R. Macedonia	25%	8,316	0,5%	-	-
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%	3,977	0,3%	2,031	0,1%
Total investment in assets		**1,549,421**	**100%**	**1,574,582**	**100%**
Total net technical provisions (technical provision less reinsurance part)		**1,051,680**		**1,119,533**	
Surplus of assets covering the technical provisions		**497,741**		**455,049**	

The assets covering the net insurance technical provisions were at surplus in amount of 497,741 MKD thousand as at 31 December 2020 (2019: surplus of 455,049 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.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Third party liability insurance (continued)

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.

Property insurance

Product features

The Company writes property insurance in the Republic of North 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. North Macedonia.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Property insurance (continued)

Region	31 December 2020	31 December 2019	Region	31 December 2020	31 December 2019
Skopje region	37%	40%	Southeast region	6%	5%
Vardar region	23%	22%	Southwest region	5%	4%
Pelagoniski region	11%	10%	Poloski region	3%	2%
East region	14%	14%	Northeast region	1%	3%

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

		31 December 2020			31 December 2019		
Maximum possible claim	**Medium possible claim**	**No of individual insurance risks**	**GWP**	**Aggregated maximum possible claim**	**No of individual insurance risks**	**GWP**	**Aggregated maximum possible claim**
0-1,538	851	2,874	55,931	2,445,077	3,085	84,521	9,812,677
1,538-3,075	2,237	4,938	26,349	11,044,658	5,070	24,410	15,128,044
3,075-6,153	3,985	3,287	22,765	13,099,772	3,403	20,644	12,374,250
6,153-15,375	8,186	1,569	21,192	12,844,362	1,642	20,686	14,161,988
15,375-30,750	16,656	498	11,546	8,294,588	519	12,256	11,453,607
30,750-61,500	32,568	261	19,084	8,500,269	263	11,870	11,849,112
61,500-123,000	61,170	177	11,609	10,827,047	193	10,479	11,475,966
123,000-184,500	114,465	54	6,161	6,181,122	53	5,395	8,417,644
184,500-307,500	186,176	43	9,038	8,005,581	41	9,997	10,047,971
307,500-615,000	321,499	31	6,235	9,966,456	37	7,029	20,661,125
615,000-1,230,000	422,228	28	4,209	11,822,397	22	8,950	25,526,642
1,230,000-3,075,000	1,554,229	36	11,025	55,952,237	26	5,743	50,677,532
> 3,075,000	16,929,424	19	74,788	321,659,052	24	77,330	352,732,487
		13,815	**279,932**	**480,642,618**	**14,378**	**299,310**	**554,319,045**

5. Risk management (continued)

5.4 Underwriting risk (continued)

Motor insurance

Product features

The Company writes motor insurance in the Republic of North 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.

		31 December 2020			31 December 2019		
Maximum possible claim	Medium possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim
0-615	139	1,764	10,131	245,463	2,008	11,507	271,579
615-1,230	900	2,078	29,928	1,869,556	2,350	34,339	2,097,221
1,230-1,845	1,545	1,131	25,506	1,747,582	1,126	26,893	1,730,331
1,845-3,075	2,351	648	22,705	1,523,481	695	25,764	1,673,621
3,075-6,150	4,601	1,112	48,040	5,116,433	1,258	56,317	5,751,858
6,150-12,300	5,132	141	9,046	723,663	104	11,496	796,572
12,300-18,450	15,618	15	1,943	234,272	22	3,078	368,648
18,450-30,750	5,619	19	401	106,753	7	1,173	170,753
> 30,750	39,789	1	136	39,789	1	158	39,789
		6,909	**147,836**	**11,606,992**	**7,571**	**170,725**	**12,900,372**

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 North 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 Directirs 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 SPORP, 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 strategic guidelines and goals taking in account Company’s values and mission. It includes precise initiatives and measurable actions with strict deadlines and responsible persons assigned. 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

5. Risk management (continued)

5.6 Strategic risks (continued)

strategy has been successful and efficient. The Company continuously monitors the implementation of its Strategy and takes on-time corrective actions (if and when needed). The implementation of the Strategy is reported to the Management Board and Board of Directors on quarterly/semi-annualy basis.

The strategy has been revised for the period to 2022, while preserving the existing main elements of Triglav Group's strategy. Through its vision, values and strategic objectives, the Company has set out on an ambitious path to become a modern, innovative and dynamic insurance company, firmly remaining the leader in Republic of North Macedonia..

Companys mission: "We build a safer future"

Company's vision: "Based on client-centric approach the Company dynamically develops new ways of doing business as the foundation of its responsible long-term development, while at the same time operating profitably and safely"

Company's values: Responsivness, Simplicity and Reliability.

Following are the Company's key strategic guidelines:

Long-term stable operations and increased value of the Triglav Group: The strategic guideline of the Company remains achieving long-term stable profitability and increasing its value. Its strategic objectives are as follows: profitable operations, growth in the volume of operations (in terms of written premium, the Company remains the largest insurer in Republic of North Macedonia), maintaining capital adequacy and comprehensive risk management while at same time achieving return on equity (ROE) which is acceptable to its owners. The Company will ensure both long-term responsible management of assets and cost-effectiveness. In its operations, the Company will not only exploit but also enhance its competitive advantages. Triglav Insurance AD Skopje has a strong, trustworthy brand, size, economy of scale and economy of scope (capital strength), a comprehensive client portfolio, quality and comprehensive services, a wide range of products and services and developed sales channels (multi-channel availability and a strong own sales network), in addition to being known for quick settlement of claims. Furthermore, the Company is set apart from its competitors by its attitude towards the market. The core insurance business will be profitable in the long run, whilst the average target combined ratio in non-life insurance will be around 98%. The Company's strategic objectives with regard to its process organisation and implementation are as follows: a high degree of automation, optimisation and cost-effectiveness of business processes, the digital way of doing business, innovation, exploitation of synergies within the Group, efficient use of data (internal and external) so as to make the right business decisions, and developed multi-matrix organisation and business productivity growth. All activities and effects will be systematically assessed in terms of responsibility and sustainable development (the three-level balance: 3P – people, planet, profit).

Client focus and development of related services: Clients are in the very centre of all activities of the Company.Relations with them are built on trust and efforts are made to achieve their satisfaction and loyalty. The Company develops a range of comprehensive solutions for its clients with related solutions and communication. Moreover, it not only develops simple products and solutions but also implements digital ways of doing business and new business models. The strategic objective is comprehensive and responsible client relationship management and multi-channel communication with clients. The Company aims to improve the understanding of its services, raise the insurance coverage of individual clients and increase the number of active clients.

Developing cooperative and agile organisation and culture: Triglav Insurance AD Skopje is implementing a renewed organisational culture and an increasingly agile and cooperative organisational structure, which allows it to provide responsive, simple and efficient services to both external and internal clients. Engaged employees with adequate competences and digital

5. Risk management (continued)

5.6 Strategic risks (continued)

skills are of key importance for the upgraded and optimised processes of the Company. The Company will use state-of-the-art practices in all areas of operation

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.

5.7 Management of risks associated with Company's investment Strategy

The basis of the investment strategy applied in Triglav Insurance AD Skopje is the management of financial investments with moderate activity, within previously set strategic allocation, or "buy and hold" strategy and retention of constant shares between the classes of financial investments. A larger rebalance of the financial portfolio can be performed on a quarterly basis, in accordance with the requirements of the asset and liability management process. The assets must be invested carefully and cautiously. Triglav Insurance AD Skopje can invest in financial investments, where potential risks can be properly identified, assessed, monitored and reported, the so-called "Prudent Person Principle".

To ensure the security and liquidity of financial investments, the financial portfolio is subject to the following restrictions:

- The use of financial leverage is prohibited;
- It is prohibited to use derivative financial instruments, i.e. financial derivatives (options, swaps, futures, forwards); and
- Short selling of securities is prohibited.

Considering the frequency of trading with financial instruments, during the year ended 31 December 2020, the Company did not got out of the frame of performing moderate activity on the secondary markets, so the business model and the structure of the financial asset classes remained unchanged in contrast to previous years.

The Company performs a monthly fair value measurement of the financial portfolio using the secondary market data for the quoted financial instruments and combining the frequent primary and secondary market data to make a model that can be applied for the valuation purposes. On a quarterly basis an impairment test was performed using defined criteria for the equity instruments. Both equity and debt instruments showed no signs for future significant increase in credit risk.

5. Risk management (continued)

5.8 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 2020		31 December 2019	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Financial investments	1,565,875	1,565,875	1,587,636	1,587,636
AFS	1,119,990	1,119,990	1,102,107	1,102,107
Debt instruments	1,104,097	1,104,097	1,096,476	1,096,476
Equity instruments	15,893	15,893	5,631	5,631
Loans and receivables	445,885	445,885	485,529	485,529
Deposits (term), GF investments and loans	445,885	445,885	481,025	481,025
Debt instruments (Treasury Bills)	-	-	4,505	4,505
Receivables	361,457	361,457	359,529	359,529
Cash and cash equivalents	10,681	10,681	14,970	14,970
Other assets	3,391	3,391	5,527	5,527
Total financial assets	**1,941,404**	**1,941,404**	**1,967,662**	**1,967,662**
Financial liabilities				
Financial liabilities	1,606	1,606	1,724	1,724
Lease liabilities	45,888	45,888	65,247	65,247
Operating liabilities	71,250	71,250	117,543	117,543
Other liabilities	70,793	70,793	73,782	73,782
Total financial liabilities	**189,537**	**189,537**	**258,296**	**258,296**

5. Risk management (continued)

5.8 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 3.7.

- 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 2020, the carrying amounts of such receivables, net of allowances, were not different from their calculated fair values.

5.9 COVID19 effects on the business operations of Triglav Insurance AD Skopje

During the year ended 31 December 2020, the Company was successfully managing the negative impacts imposed by the COVID19 pandemic despite being faced with decreased economic activity resulting in lower gross written premium. The gross written premium of the Company was lower by 13,6% compared to the previous year where 76% of this decrease can be directly prescribed to the effects of COVID19. The greatest impact was on insurance of land motor vehicle insurance, motor TPL insurance and travel assistance insurance in line with the trends in the overal non life insurance market in the country. The aforementioned classes of insurance were the most impacted one as a result of the undertaken precuationary health measures by the governmet mainy in the form od lockdowns and highly decreased and limited mobility. Collection of the receivables due was also very big challenge especially in times of decreased liquidity and solvency of the private and public sector as well as the general population inthe country. On the other side, the gross claims settled were also lower by 7,1% in comparison to the previous year, which can also be prescribed as a direct consequesnce of COVID19 (reflection of the lower gross writen premium realized but also due to lower frequency of claim events as result of limited mobility within the country).

As a result of the ongoing situation, the Company undertook series of response measures such as:

Resilience and effective risk management. In the wake of uncertainty brought about by the COVID-19 pandemic, Triglav Insurance AD Skopje showed a sufficient degree of resilience, readiness and adaptability to this extraordinary situation. During the year, the public was informed about the assessed impact of the situation on its operations according to different scenarios, which confirmed that the Company's insurance and financial investment portfolios were sufficiently resilient and that its capital position was appropriate to effectively cope with increased risks. No material operational risk was realised as a result of the pandemic.

5.9 COVID19 effects on the business operations of Triglav Insurance AD Skopje (continued)

Profitable operations. The Company realized profit before tax in amount of 73,2 millions MKD (index 412 compared to the previous year) and 69,8 millions MKD net profit (index 468 compared to the previous year). Backed by underwriting discipline, the Company increased its business volume, while prudently managing costs. Despite the unfavourable situation in the global financial markets, the Company managed to increase its financial income through successfully managing its financial portfolios and making prudent decisions. The return on equity was 7.5%, greater by 5.8 percentage points relative to the previous year.

A favourable combined ratio. The claims segment was also largely affected by the pandemic. The Company expects that part of claims not incurred in 2020 due to lower economic activity and other restrictions of the policyholders' movement will take place in 2021**. For this purpose, an appropriate insurance technical provisions were formed.** The Company's combined ratio was 97.5%, which is in line with the target strategic value (97.8%). Compared to the previous year, the combined ratio is better by 4.8 percentage points due to an improvement in the claims ratio.

Effective cost control. The gross operating costs were on significantly lower level than the previous financial year demonstrating effective management and cost control. The decrease in gross operating costs certainly was under impact of COVID19 and the adaptation of all business processes within the Company.

Maximazing the financial investment portfolio despite the global decrease in interest rates. At the beginning of the year ended 31 december 2020 and after announcing the gobal pandemic, part of the liabilities within the Triglav group were deferred resulting in increase of the financial portfolio in the first two quarters which in turn resulted with increased interest income. Still by the year end, the iabilities within the Group were properly setlled. Additionally, as a result of proper asset management, the Company realized capital gains from sale of several government bonds.

Client focus and development at the forefront. The Company effectively adapted to the changed environment and client needs. The new situation gave additional impetus to the overall digital business transformation of the Company, as it strengthened its digital sales, communication and distribution channels and tools as well as increased its digital presence. As a result, higher cost-effectiveness was achieved and user experience was improved by simplifying procedures for our clients. Among the achievements that stand out are the upgraded remote business, the consistent implementation of the measures taken to curb the spread of infection and protect the health of employees, clients and other stakeholders as well as redesign and launch of new products and services.

Regular monitoring of the liquidity and the Company's cash flows. On a regular basis (weekly and monthly), the Company was planning and managing its liquidity position. As a result, the Company reacted readily on each potential problem and threat to its short-term liquidity thorugh managing its financial portfolio which was available for short-term liquidity corrections.

The expectations are that the contracted economic activity in the country and globally will continue especially with the negative impact of the third wave of the pandemic. This, in turn, will result in prolonged effects on the business operation of the Company in the first half of 2021 in same manner as in the year ended 31 December 2020 after which we expect that gradual stabilization of the situation will occur. The Company will continue to be faced with decreased liquidity of the public, however, it is sufficiently capitalized and liquid to withstand that impact.

5.9 COVID19 effects on the business operations of Triglav Insurance AD Skopje (continued)

The Plan of the Company for the year that will end 31 December 2021 is based on responsible and profitable operations. The Plan was made in the light of the COVID19 pandemic and it takes in consideration all current events. The expectations are that the year will be closed with positive operating activities' cash flows, however, in case if certain events ocurr that will result in negative operating activites' cash flows, the Company is ready to finance them by the cash flows from its investing activities, if needed.The largest portion of the Company's financial investments are in government bonds which are liquid and can be sold on secondary financial markets in short time. The rest of the financial investments are in term deposits which according to the contrct conditons can be withdrawn in several dazs. In addition, in its financial portfolio, the Company has call deposits which are available at any time if the liquidity position requires that. During the year ended 31 December 2020, the largest liquidity pressure was during the imposed lockdowns, however, having in consideration the large assets of the Company, no major problems were encountered. Should such governmental measures are again imposed during the year that will end 31 December 2021, short-term liquidity pressure can be felt, however, the Company is confident that it can be easily managed through activating its mechanisms disclosed above.

The Company is not financially dependent on any other subject or governmental assistance nor it has plans to start financing itself through debt.

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 Republic of North 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 2020 was 97,5 (2019:102,5).

The segment information provided to the Board of Directors for the reportable segment as of 31 December 2020 and 31 December 2019 is as follows:

6. Operating segments (continued)

	31 December 2020	31 December 2019
Gross insurance premium income	1,254,116	1,407,836
Insurance premium ceded to reinsurers	(351,373)	(417,670)
Net premium income	**902,743**	**990,166**
Income from financial assets	49,593	44,675
Other insurance income	82,484	83,543
Other income	10,687	7,531
Total income	**1,045,507**	**1,125,915**
Gross insurance claims settled	1,057,456	720,587
Insurance claims recovered from reinsurance	(572,088)	(114,649)
Net claims incurred	**485,368**	**605,938**
Change in other insurance technical provisions	775	(6,506)
Net expenses for bonuses and discounts	40,682	33,879
Operating expenses	382,280	409,029
Expenses from financial assets and liabilities	5,567	6,699
Other insurance expenses	53,240	53,858
Other expenses	214	1,208
Total expenses	**968,126**	**1,104,105**
Share of loss of an associate	4,228	4,061
Profit before tax	**73,153**	**17,749**

	31 December 2020	31 December 2019
Depreciation and amortization	46,892	44,721
Interest income	41,451	41,981
Interest expense	2,373	3,602
Income tax expense	3,396	2,871
Share of loss of associates	4,228	4,061
Total assets	**2,816,404**	**2,467,347**
Total assets include:		
Investment in associates	52,400	56,794
Total liabilities	**2,816,404**	**2,467,347**

7. Intangible assets

	Software and licenses	Software and licenses in course of acqusition	Deferred acquisition costs	Total intangible assets
Cost				
As at 31 December 2018	**52,047**	**2,263**	**114,693**	**169,003**
- Additions	-	7,857	-	7,857
- Transfers in use	9,225	(9,225)	-	-
- Increase in value	-	-	(11,442)	(11,442)
- Decrease in value	-	-	9,892	9,892
As at 31 December 2019	**61,272**	**895**	**113,143**	**175,310**
- Additions	927	7,358	-	8,285
- Transfers in use	6,518	(6,518)	-	-
- Decrease in value	-	-	(13,205)	(13,205)
As at 31 December 2020	**68,717**	**1,735**	**99,938**	**170,390**
Accumulated				
As at 31 December 2018	**32,094**	**-**	**-**	**32,094**
- Current year amortization	9,352	-	-	9,352
As at 31 December 2019	**41,446**	**-**	**-**	**41,446**
- Current year amortization	10,442	-	-	10,442
As at 31 December 2020	**51,888**	**-**	**-**	**51,888**
Carrying amount				
As at 31 December 2019	**19,826**	**895**	**113,143**	**133,864**
As at 31 December 2020	**16,829**	**1,735**	**99,938**	**118,502**

No items of intangible assets were pledged as collateral as at 31 December 2020 or 31 December 2019.

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 3.25. For details, see expenses by nature and function in note 32.

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 17,077 MKD thousand and represent 92% from the total value of software and licenses as at 31 December 2020 (2019: 18,320 MKD thousand or 88% from the total value of software and licenses).

8. Property and equipment

	Buildings	Equipment	Paintings	Total tangible assets
Cost				
As at 31 December 2018	**80,782**	**103,265**	**598**	**184,645**
- Additions	-	28,166	-	28,166
- Disposals	-	(22,772)	(4)	(22,776)
As at 31 December 2019	**80,782**	**108,659**	**594**	**190,035**
- Additions	-	11,272	-	11,272
- Disposals	-	(1,388)	-	(1,388)
As at 31 December 2020	**80,782**	**118,543**	**594**	**199,919**
Accumulated depreciation				
As at 31 December 2018	**31,340**	**84,326**	**-**	**115,666**
- Current year depreciation	2,020	8,455	-	10,475
- Disposals	-	(21,647)	-	(21,647)
As at 31 December 2019	**33,360**	**71,134**	**-**	**104,494**
- Current year depreciation	2,020	10,344	-	12,364
- Disposals		(1,379)	-	(1,379)
As at 31 December 2020	**35,380**	**80,099**	**-**	**115,479**
Carrying amount				
As at 31 December 2019	**47,422**	**37,525**	**594**	**85,541**
As at 31 December 2020	**45,402**	**38,444**	**594**	**84,440**

The market value of the buildings as at 31 December 2020 was in amount of 57,134 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 2020 or 31 December 2019.

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 3.25. For details, see expenses by nature and function in note 32.

As at 31 December 2020 no item of property and equipment was held under finance lease.

9. Right of use assets and Lease liabilities

Right of use assets

The right-of-use assets arise out of the leases the Company has in place. The nature of Company's leasing activities are disclosed in note 3.3.

The table below describes the nature of the Company's leasing activities as of December 31, 2020 by type of right-of-use asset recognised on the statement of financial position.

Type of right-of-use asset	No of right-of-use assets leased	Estimated lease term	Remaining term
Headquarter offices	1	4	2
Branch offices	2	3	1
Representative offices	20	2	2
Marketing space	2	3	1
Residental property	1	2.5	0.5

Additional information on the right-of-use assets by class of assets is as follows:

Type of right-of-use asset	Property	Marketing	Total
Balance at 1 January 2019	**83,706**	**4,843**	**88,549**
Additions	212	-	212
Remeasurements	(33)	(67)	(100)
Depreciation charge for the year	(22,974)	(1,919)	(24,893)
Balance at 31 December 2019	**60,911**	**2,857**	**63,768**
Balance at 1 January 2020	**60,911**	**2,857**	**63,768**
Additions	992	-	992
Remeasurements	3,867	(482)	3,385
Depreciation charge for the year	(22,634)	(1,454)	(24,088)
Balance at 31 December 2020	**43,136**	**921**	**44,057**

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

Lease liabilities	31 December 2020	31 December 2019
Maturity analysis - contractual		
Less than one year	25,070	26,932
One to five years	22,475	42,685
Total undiscounted lease liabilities at 31 December	**47,545**	**69,617**
Lease liabilities included in the statement of financial position	**45,888**	**65,247**
Current lease liabilities	23,494	19,359
Non-current liabilities	22,394	45,888

The Company does not have short-term leases or low value leases that it did not recognize in the lease liability line.

Variable lease payments not recognised in the related lease liability are expensed as incurred and include usage payments.

9. Right of use assets and Lease liabilities (continued)

Amounts recognized in the statement of profit and loss	31 December 2020		31 December 2019
Interest expense on lease liabilities	(2,373)		(3,602)
Income from sub-leasing right of use asset	1,151		1,151
Variable lease payments not included in the measurment of lease liabilities	(771)		(919)
Income from lease modification	1,403		-
Depreciation charge on right of use assets	(24,087)		(24,893)
Total recognized in the statement of profit	**24,677**		**28,263**

Amounts recognized in the statement of cash flows	31 December 2020		31 December 2020
Total cash outflows for leases	26,097		27,016

10. Investment Property

	Buildings	Total investment property
Cost		
As at 31 December 2018	**10,471**	**10,471**
- Disposal	(1,170)	(1,170)
As at 31 December 2019	**9,301**	**9,301**
- Disposal	(4,539)	(4,539)
As at 31 December 2020	**4,762**	**4,762**
Accumulated depreciation and impairment		
As at 31 December 2018	**8,780**	**8,780**
- Current year depreciation	175	175
- Disposal	(592)	(592)
- Impairment on disposed assets	(40)	(40)
As at 31 December 2019	**8,323**	**8,323**
- Current year depreciation	147	147
- Disposal	(2,122)	(2,122)
-Impairment	(2,086)	(2,086)
As at 31 December 2020	**4,262**	**4,262**
Carrying amount		
As at 31 December 2019	**978**	**978**
As at 31 December 2020	**500**	**500**

In 2020, one asset of investment property has been sold at amount above its book value with capital gain of 941 MKD thousand (2019: one asset at amount equal to its book value). The gains from investment properties are disclosed as part of “Other Income” in note 27. In 2020, no impairment loss was recognized (2019: 77 MKD thousand). The impairment loss in 2019 represented the write-down of one of investment property to the recoverable amount as a result of obsolescence. This was recognized in the statement of the profit or loss as “Other Expenses (note 34). As of 31 December 2020 valuation of the only one asset left was performed by KF Finance d.o.o Ljubljana as well. The market value of the asset is on same level with its book value.

10. Investment Property (continued)

31 December 2020	Opening balance	Increase	Use	Release	Ending balance
Impairment of investment property	2,957	-	(2,086)	-	871
31 December 2019	**Opening balance**	**Increase**	**Use**	**Release**	**Ending balance**
Impairment of investment property	2,997	77	(117)	-	2,957

No item of investment property was pledged as collateral as at 31 December 2020 or 31 December 2019. The rental income earned from investment property in 2020 was in amount of 1,880 MKD thousand (2019: 1,875 MKD thousand). The rental income earned is disclosed in “Other Income” in note 27. The depreciation charge from investment property is disclosed in “Other Expenses” in note 34. Future rental payments are not expected to materially difer from the current one.

Description of valuation techniques used and key inputs to valuation of investment properties

Following tables present information related to valuation performed as of 31 December 2020.

31 December 2020 Type of property	No of properties	Valuation approach	Level of vauation	Significant unobservable inputs	Range
Commercial property Prilep	1	Income capitalization approach	Level 3	Estimated rental value per sqm per month (eur) Discount rate Costs of refurbishment per sqm	2 12,5% 100

11. Investment in associates

	31 December 2020	31 December 2019
Investment in associates	52,400	56,794
Total investment in associates	**52,400**	**56,794**

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 2020	31 December 2019
Intangible assets	791	1,202
Property and equipment	8,298	4,587
Right of use assets	15,165	10,595
Financial investments	331,554	316,348
Receivables	13,718	10,913
Other assets	230	117
Cash and cash equivalents	5,203	4,351
Insurance technical provisions	(81,134)	(44,211)
Provisions for employees	(3,388)	(637)
Deferred tax liabilities	(1,646)	(1,738)
Lease liabilities	(15,506)	(10,784)
Liabilities from insurance operations	(8,216)	(58)
Other liabilities	(3,568)	(7,452)
Net assets	**261,501**	**283,232**
Company's share in %	**20.038%**	**20.038%**
Company's share in MKD	**52,400**	**56,794**

	31 December 2020	31 December 2019
Net premium earned	62,856	36,764
Income from financial assets	10,736	10,135
Other income from insurance operations	29	17
Other income	108	-
Net claims incurred	14,245	2,012
Changes in other insurance technical provisions	36,503	36,574
Change in insurance technical provisions for UL	16	-
Operating expenses	43,290	28,326
- Acquisition costs	24,354	17,010
- Other operating costs	18,936	11,316
Expenses from financial assets and liabilities	548	260
Other insurance expenses	267	51
Net loss	**(21,140)**	**(20,307)**
Total comprehensive income for the year	(21,613)	(15,509)
Company's share of loss for the year	**(4,228)**	**(4,061)**

11. Investment in associates (continued)

	31 December 2020
Investment in associates as at 1 January 2019	**57,727**
Company's share of fair value reserves	3,128
Company's share of loss and reserves	(4,061)
Investment in associates as at 31 December 2019	**56,794**
Company's share of fair value reserves	(166)
Company's share of loss and reserves	(4,228)
Total investment in associates as at 31 December 2020	**52,400**

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 2020 (2019: no dividends received).

The associate had no contingent liabilities or capital commitments as at 31 December 2020 (2019: no contingent liabilities or capital commitments).

12. Financial investments

Overview of financial investments by type and investment group

31 December 2020	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	1,104,097	-	1,104,097
Treasury Bills	-	-	-
Shares, other floating rate securities and fund coupons	15,893	-	15,893
Guarantee Fund Investments	-	21,102	21,102
Bank deposits	-	424,783	424,783
Total financial investments	**1,119,990**	**445,885**	**1,565,875**

31 December 2019	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	1,096,476	-	1,096,476
Treasury Bills	-	4,505	4,505
Shares, other floating rate securities and fund	5,631	-	5,631
Guarantee Fund Investments	-	23,431	23,431
Bank deposits	-	457,593	457,593
Total financial investments	**1,102,107**	**485,529**	**1,587,636**

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

12. Financial investments (continued)

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.

Following is disclosure of the interest rates of all interest bearing financial instruments, for both years ended 31 December, 2020 and 2019.

	31 December 2020	I.R	31 December 2019	I.R
Fixed interest bearing				
Debt securities (AFS)	**1,104,097**		**1,096,476**	
MACGB 3.4 01/11/28	167,389	3.40%	166,853	3.40%
MACGB 3.2 01/25/33	149,353	3.20%	149,324	3.20%
MACGB 3 11/07/34	96,561	3.00%	96,232	3.00%
MACGB 4 5 10/30/2024	90,323	4.50%	91,029	4.50%
MACGB 2.9 11/01/33	73,517	2.90%	73,162	2.90%
MACDEN 2 10/15/2030	57,555	2.00%	-	-
MACGB 3 06/18/35	55,639	3.00%	-	-
MACGB 3.1 09/19/34	53,965	3.10%	53,835	3.10%
MACGB 1 1/2 10/17/24	50,834	1.50%	50,111	1.50%
MACGB 3.2 02/28/34	46,146	3.20%	46,127	3.20%
MACDEN 1.3 12/31/2023	45,223	1.30%	-	-
MACGB 3.2 05/16/34	42,201	3.20%	42,162	3.20%
MACGB 2.9 02/13/35	30,374	2.90%	-	-
MACFGB 4.1 10/31/49	28,639	4.10%	58,912	4.10%
MACGB 3.8 08/27/2025	22,443	3.80%	22,476	3.80%
MACGB 3.7 02/11/26	17,148	3.70%	17,069	3.70%
MACGB 3.7 01/25/33	16,847	3.70%	16,951	3.70%
MACGB 2 06/01/27	15,947	2.00%	18,072	2.00%
MACGB 2.35 01/11/21	12,291	2.35%	-	-
MACGB 4.3 03/31/31	11,913	4.30%	12,027	4.30%
MACGB 3.4 09/20/33	9,401	3.40%	9,422	3.40%
MACDEN 2 06/01/29	6,203	2.00%	-	-
MACGB 1.7 03/07/24	3,402	1.70%	3,370	1.70%
MACDEN 2 06/20/26	437	2.00%	71	2.00%
MACDEN 2 06/01/22	263	2.00%	298	2.00%
MACDEN 2 06/01/21	83	2.00%	165	2.00%
MACGB 2.9 11/22/33	-	-	28,203	2.90%
MACGB 2.35 11/02/20	-	-	61,110	2.35%
MACGB 2.35 10/05/20	-	-	56,059	2.35%
MACGB 2.35 01/11/20	-	-	12,488	2.35%
MACGB 4.3 01/31/49	-	-	10,947	4.30%
Loans and receivables	**337,858**		**426,329**	
Deposit ProCredit Banka	32,369	3.20%	32,370	3.20%
Deposit Stopanska Banka Skopje	31,068	1.80%	30,809	1.80%
Deposit Stopanska Banka Skopje	31,258	2.00%	30,656	2.00%
Deposit Ohridska Banka	30,845	1.80%	30,310	1.80%
Deposit Halk Banka	30,000	2.20%	20,000	2.20%
Deposit Halk Banka	23,000	2.20%	23,000	2.20%
Deposit UNI Bank	21,108	1.80%	-	-
Deposit UNI Bank	20,559	2.00%	20,159	2.00%
Deposit Halk Banka call money	20,500	1.50%	20,000	1.50%
Deposit Halk Banka	20,000	2.30%	20,000	2.30%
Deposit Halk Banka	20,000	1.70%	-	-
Deposit ProCredit Banka	15,301	2.00%	15,000	2.00%
Deposit Halk Banka	15,055	1.55%	-	-
Deposit ProCredit Banka	12,315	1.70%	12,111	1.70%
Deposit TTK Banka	10,005	1.50%	-	-

(All amounts are in MKD thousand unless otherwise stated)

	31 December 2020	I.R	31 December 2019	I.R
Deposit Halk Banka call money	3,750	1.20%	-	-
Deposit UNI Bank	725	1.60%	20,090	1.60%
Deposit Stopanska Banka Skopje	-	-	41,256	2.00%
Deposit Stopanska Banka Skopje	-	-	30,527	1.80%
Deposit Halk Banka	-	-	30,000	2.20%
Deposit Ohridska Banka	-	-	20,003	1.80%
Deposit Halk Banka call money	-	-	20,000	1.50%
Deposit Halk Banka	-	-	10,038	1.20%
Variable Interest bearing				
Loans and receivables	**108,027**		**54,695**	
Gurantee Fund investment	21,102	1.00%	23,431	1.10%
Deposit Komercijalna Banka	21,454	1.22%	21,177	1.60%
Deposit Komercijalna Banka	10,220	1.22%	10,087	1.60%
Deposit Komercijalna Banka	35,212	1.22%	-	-
Deposit Komercijalna Banka	20,039	1.22%	-	-

Maturity on all instruments is provided on page 44. Deposits are with maturities of up to three years.

As at the year end, the Company has accrued interest in amount of 23,367 MKD thousand (2019: 21,172 MKD thousand) where 17,559 MKD thousand relates to debt securities and 5,808 MKD thousand relates to deposits.

Movements of financial investments

	Available for sale - AFS	Loand and receivables - L&R	Total
As at 31 December 2018	**1,053,997**	**464,869**	**1,518,866**
Acquisitions	354,854	980,990	1,335,844
Disposals	(54,734)	(2,016)	(56,750)
Maturities	(252,834)	(958,542)	(1,211,376)
Interest income inflow	(32,452)	(9,971)	(42,423)
Valuation through equity	832	-	832
Movement in impairment allowance	-	1,304	1,304
Interest income	32,525	8,895	41,420
Foreign exchange differences	(81)	-	(81)
As at 31 December 2019	**1,102,107**	**485,529**	**1,587,636**
Acquisitions	207,531	445,250	652,781
Disposals	(68,099)	(4,229)	(72,328)
Maturities	(118,247)	(484,337)	(602,584)
Interest income inflow	(32,187)	(6,888)	(39,075)
Valuation through equity	(5,037)	-	(5,037)
Movement in impairment allowance	-	2,217	2,217
Interest income	32,663	8,343	41,006
Foreign exchange differences	1,259	-	1,259
As at 31 December 2020	**1,119,990**	**445,885**	**1,565,875**

Financial investments according to valuation levels

	31 December 2020	31 December 2019
Available for sale – AFS		
Level 1	22,933	18,607
Level 2	1,097,057	1,083,500
Level 3	-	-
Total available for sale financial investments	**1,119,990**	**1,102,107**

12. Financial investments (continued)

The price hierarchy that the Company is using in valuing financial assets at fair value is described in note 3.7.

No reclasification of financial instruments occurred during the years ended 31 December 2020 or 31 December 2019.

13. Reinsurers’ share of technical provisions

	31 December 2020	31 December 2019
Reinsurers' share of unearned premiums	71,064	113,360
Reinsurers' share of claims	599,401	105,538
Reinsurers' share of bonuses and discounts	1,006	2,958
Total reinsurers’ share of technical provisions	**671,471**	**221,856**

Fair value is disclosed in note 5.7.

14. Receivables

Receivables by maturity

31 December 2020	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	**235,862**	**67,914**	**12,336**	**316,112**
Receivables from insurers	217,634	61,182	10,820	289,636
Receivables from insurer brokers	18,228	6,732	1,367	26,327
Other receivables from direct insurance operations	-	-	149	149
Receivables from coinsurance and reinsurance	**3,863**	**-**	**-**	**3,863**
Receivables from reinsurance share in claims	3,863	-	-	3,863
Current tax receivables	**2,549**	**-**	**-**	**2,549**
Other receivables	**11,992**	**577**	**28,913**	**41,482**
Other short-term receivables from insurance operations	11,266	461	28,868	40,595
Short term receivables from financing	445	-	-	445
Other short-term receivables	281	116	45	442
Total receivables	**254,266**	**68,491**	**41,249**	**364,006**

14. Receivables (continued)

Receivables by maturity (continued)

31 December 2019	Receivables by maturity			
	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	**200,999**	**97,907**	**14,262**	**313,168**
Receivables from insurers	183,468	88,506	13,727	285,701
Receivables from insurer brokers	17,506	9,401	535	27,442
Other receivables from direct insurance operations	25	-	-	25
Receivables from coinsurance and	**3,015**	**-**	**390**	**3,405**
Receivables from reinsurance share in claims	3,015	-	390	3,405
Current tax receivables	**5,802**	**-**	**-**	**5,802**
Other receivables	**8,841**	**3,642**	**30,473**	**42,956**
Other short-term receivables from insurance operations	7,777	3,612	30,274	41,663
Short term receivables from financing	561	-	-	561
Other short-term receivables	503	30	199	732
Total receivables	**218,657**	**101,549**	**45,125**	**365,331**

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

31 December 2020	Gross amount	Impairment	Net amount
Receivables from direct insurance	683,024	(366,912)	316,112
Receivables from coinsurance and reinsurance	3,863	-	3,863
Other receivables	83,411	(39,380)	44,031
Total receivables	**770,298**	**(406,292)**	**364,006**

31 December 2019	Gross amount	Impairment	Net amount
Receivables from direct insurance	712,020	(398,852)	313,168
Receivables from reinsurance	3,405	-	3,405
Other receivables	88,793	(40,035)	48,758
Total receivables	**804,218**	**(438,887)**	**365,331**

14. Receivables (continued)

Movement of bad debt provisions (impairment)

31 December 2020	Opening balance	Increase	Use	Release	Reclasification	Ending balance
Receivables from direct insurance	**398,853**	**24,939**	**(23,546)**	**(33,334)**	**-**	**366,912**
Receivables from insurers	365,887	17,571	(23,546)	(28,295)	-	331,617
Receivables from insurer brokers	26,329	7,106	-	(3,816)	-	29,619
Other receivables from direct insurance operations	6,637	262	-	(1,223)	-	5,676
Other receivables	**40,034**	**-**	**(150)**	**(504)**	**-**	**39,380**
Other short-term receivables from insurance operations	24,464	-	-	(504)	-	23,960
Short term receivables from financing	14,029	-	(150)	-	-	13,879
Other short-term receivables	1,541	-	-	-	-	1,541
Total bad debt provision	**438,887**	**24,939**	**(23,696)**	**(33,838)**	**-**	**406,292**

31 December 2019	Opening balance	Increase	Use	Release	Reclasification	Ending balance
Receivables from direct insurance	**416,309**	**37,666**	**(16,437)**	**(38,685)**	**-**	**398,853**
Receivables from insurers	385,916	28,926	(16,437)	(32,518)	-	365,887
Receivables from insurer brokers	24,678	7,306	-	(5,655)	-	26,329
Other receivables from direct insurance operations	5,715	1,434	-	(512)	-	6,637
Other receivables	**44,133**	**-**	**(606)**	**(3,493)**	**-**	**40,034**
Other short-term receivables from insurance operations	27,957	-	-	(3,493)	-	24,464
Short term receivables from financing	14,635	-	(606)	-	-	14,029
Other short-term receivables	1,541	-		-	-	1,541
Total bad debt provision	**460,442**	**37,666**	**(17,043)**	**(42,178)**	**-**	**438,887**

15. Other assets

31 December 2020	Opening balance	Increase	Use	Ending balance
Deferred expenses	**5,527**	18,654	(20,790)	**3,391**

31 December 2019	Opening balance	Increase	Use	Ending balance
Deferred expenses	**3,841**	21,603	(19,917)	**5,527**

16. Cash and cash equivalents

	31 December 2020	31 December 2019
Cash in bank in MKD	7,302	14,911
Cash in bank in EUR	3,372	52
Cash in bank in other currencies	-	-
Cash on hand in MKD	7	7
Total cash and cash equivalents	**10,681**	**14,970**

17. Equity

As at 31 December 2020, 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 3,074 MKD. The shares are registered and recorded as common shares with the Central Securities Depository of the Republic of North 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 2020 or 2019.

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

31 December 2020	Domestic	Foreign	Legal entities	Physi cal	Total
Number of shares	11,385	48,799	48,690	11,494	60,184
Number of shareholders	55	10	2	63	65
Number of shares - participation	19%	81%	81%	19%	100,0%
Number of shareholders - participation	85%	15%	3%	97%	100,0%

31 December 2019	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	11,611	48,573	48,464	11,720	60,184
Number of shareholders	56	10	2	64	66
Number of shares - participation	19%	81%	81%	19%	100%
Number of shareholders - participation	85%	15%	3%	97%	100%

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

17. Equity (continued)

Shareholder	31 December 2020	31 December 2019
Triglav Int. Holdinska Druzba d.d Ljubljana	80.83%	80.45%
Stojan Klopcevski	8.74%	8.74%

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 79.94% to 80.83% over the past three years.

Dividends

As of the date of preparation of these financial statements there were no dividends declared (2019: 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 2020, the Company transferred 10,331 MKD thousand from retained earnings to statutory reserves. The amount transferred in 2019 was 21,960 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 2020 the movement in the revaluation reserve was negative 4,682 MKD thousand. In 2019 the movement in the revaluation reserve was positive 3,565 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”.

18. Insurance technical provisions

	31 December 2020	31 December 2019
Gross provisions for unearned premium (UPR)	506,096	596,734
Total gross unearned premium provisions	**506,096**	**596,734**
Gross provisions for incurred and reported claims (RBNS)	856,406	407,454
Gross provisions for incurred but not reported and/or not enough reported claims (IBNR)	278,821	268,667
Provisions for claims handling costs (CHC)	57,887	54,090
Total gross claims provisions	**1,193,114**	**730,211**
Gross provisions for bonuses and discounts	**14,665**	**5,944**
Gross provisions for other insurance technical provisions	**9,276**	**8,502**
Total gross insurance technical provisions	**1,723,151**	**1,341,391**

Analysis of changes in gross insurance technical provisions

31 December 2020	Opening balance	Formation	Use	Release	Final balance
Gross provisions for unearned premiums	596,734	505,693	-	(596,331)	506,096
Gross provisions for incurred and reported claims (RBNS)	407,454	1,078,191	(559,821)	(69,418)	856,406
Gross provisions for incurred but not reported claims (IBNR)	268,667	10,154	-	-	278,821
Provisions for claims handling costs (CHC)	54,090	3,797	-	-	57,887
Gross provisions for bonuses and discounts	5,944	14,256	(2,658)	(2,877)	14,665
Gross provisions for other insurance technical provisions	8,502	774	-	-	9,276
Total gross insurance technical provisions	**1,341,391**	**1,612,865**	**(562,479)**	**(668,626)**	**1,723,151**

18. Insurance technical provisions (continued)

Analysis of changes in gross insurance technical provisions

31 December 2019	Opening balance	Formation	Use	Release	Final balance
Gross provisions for unearned premiums	581,229	594,320	-	(578,815)	596,734
Gross provisions for incurred and reported claims (RBNS)	384,707	705,073	(610,050)	(72,276)	407,454
Gross provisions for incurred but not reported claims (IBNR)	217,679	50,988	-	-	268,667
Provisions for claims handling costs (CHC)	46,746	7,344	-	-	54,090
Gross provisions for bonuses and discounts	3,019	5,032	(2,107)	-	5,944
Gross provisions for other insurance technical provisions	15,006	-	-	(6,504)	8,502
Total gross insurance technical provisions	**1,248,386**	**1,362,757**	**(612,157)**	**(657,595)**	**1,341,391**

(All amounts are in MKD thousand unless otherwise stated)

18. Insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class

31 December 2020	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	57,009	10,675	30,155	3,675	13,626	3,009	118,149
Health insurance	15,188	1,242	2,056	297	-	-	18,783
Land motor vehicle insurance	75,554	29,517	9,043	3,470	-	5,120	122,704
Aircraft insurance	-	492,041	-	-	-	-	492,041
Marine insurance	164	-	-	-	-	-	164
Cargo insurance	8,723	5,256	-	473	-	198	14,650
Fire and natural forces insurance	34,489	21,517	5,527	2,434	-	-	63,967
Other damage to property insurance	43,582	9,908	2,545	1,121	-	-	57,156
Motor TPL insurance	240,678	260,746	227,553	43,947	-	-	772,924
Aircraft liability insurance	56	16,654	-	1,499	-	-	18,209
Marine liability insurance	262	-	-	-	-	-	262
General liability insurance	12,857	4,838	1,223	545	-	-	19,463
Credit insurance	812	-	-	-	127	-	939
Suretyship insurance	177	-	-	-	-	-	177
Miscellaneous financial loss insurance	12,002	-	-	-	912	949	13,863
Travel assistance insurance	4,543	4,012	719	426	-	-	9,700
Total gross insurance technical provisions	**506,096**	**856,406**	**278,821**	**57,887**	**14,665**	**9,276**	**1,723,151**

18. Insurance technical provisions (continued)

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

31 December 2019	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	40,841	10,374	23,068	2,675	2,877	907	80,742
Health insurance	17,779	2,761	-	221	-	-	20,761
Land motor vehicle insurance	85,900	30,096	9,615	3,177	-	7,595	136,383
Aircraft insurance	18,895	-	-	-	-	-	18,895
Marine insurance	66	-	-	-	-	-	66
Cargo insurance	7,015	-	-	-	-	-	7,015
Fire and natural forces insurance	37,640	25,539	3,323	2,309	-	-	68,811
Other damage to property insurance	55,113	9,288	1,208	840	-	-	66,449
Motor TPL insurance	289,141	302,531	229,919	42,596	-	-	864,187
Aircraft liability insurance	4,444	13,708	-	1,097	-	-	19,249
Marine liability insurance	381	-	-	-	-	-	381
General liability insurance	14,030	4,646	1,534	494	-	-	20,704
Credit insurance	3,759	132	-	11	2,155	-	6,057
Suretyship insurance	45	-	-	-	-	-	45
Miscellaneous financial loss insurance	13,839	200	-	16	912	-	14,967
Travel assistance insurance	7,846	8,179	-	654	-	-	16,679
Total gross insurance technical provisions	**596,734**	**407,454**	**268,667**	**54,090**	**5,944**	**8,502**	**1,341,391**

18. 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:

	Year of occurrence							
Cumulative loss assessment	**before 2015**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
at the end of year of occurrence	5,354,156	594,078	539,362	680,569	680,569	622,986	1,069,603	9,541,323
1 year after year of occurrence	5,264,328	562,648	532,327	668,124	709,529	604,558	-	8,341,514
2 year after year of occurrence	5,215,854	556,997	523,304	662,749	706,521	-	-	7,665,425
3 year after year of occurrence	5,036,750	546,880	527,488	660,363	-	-	-	6,771,481
4 year after year of occurrence	4,000,802	561,520	516,036	-	-	-	-	5,078,358
5 year after year of occurrence	3,269,686	551,152	-	-	-	-	-	3,820,838
6 + year after year of occurrence	2,499,590	-	-	-	-	-	-	2,499,590
Cumulative loss assessment	**2,499,590**	**551,152**	**516,036**	**660,363**	**706,521**	**604,558**	**1,069,603**	**6,607,823**
Cumulative payments until balance sheet date	2,372,232	542,136	490,323	618,573	628,100	513,770	307,463	5,472,597
Claims provisions balance	**127,358**	**9,016**	**25,713**	**41,790**	**78,421**	**90,788**	**762,140**	**1,135,226**

19. Employee benefits

	31 December 2020	31 December 2019
Provisions for retirement benefits	2,427	2,080
Provisions for jubilee rewards	7,126	6,282
Provisions for unused vacations	6,535	5,616
Total provisions for employee benefits	**16,088**	**13,978**

In 2020 the Company had provisions for unused vacations in amount of 6,535 MKD thousand (2019: 5,616 MKD thousand). These provisions refer to vacations employees have earned in 2020 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 31.

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 2020, 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 2020 and 2019.

	31 December 2020	31 December 2019
Interest rate		
Parallel shift in the discount rate curve for +0.25%	(211)	(193)
Parallel shift in the discount rate curve for -0.25%	219	200
Expected salary growth	o	
Change in annual salary growth for +0.50%	461	421
Change in annual salary growth for -0.50%	(429)	(392)
Life expectancy	o	
Steady increase in mortality for +20%	(126)	(113)
Steady increase in mortality for -20%	129	116

20. Other provisions

	31 December 2020	31 December 2019
Provision for legal cases	9,404	9,404
Total other provisions	**9,404**	**9,404**

The Company has recorded provision for legal case related to material damage from sponsorship and donations.

21. Deferred tax assets and liabilities

	31 December 2020	31 December 2019
Deferred tax assets	-	(148)
Deferred tax liabilities	4,481	5,150
Total net deferred tax liabilities	**4,481**	**5,002**

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.

22. Other financial liabilities

	31 December 2020	31 December 2019
Liabilities for dividends from previous years	1,606	1,724
Total other financial liabilities	**1,606**	**1,724**

23. Operating liabilities

	31 December 2020	31 December 2019
Liabilities towards policyholders	15,970	20,435
Liabilities towards brokers	3,899	2,919
Liabilities towards agents	650	1,122
Other liabilities from direct insurance operations	352	442
Total liabilities from direct insurance	**20,871**	**24,918**
Liabilities from reinsurance premiums	50,379	92,625
Total liabilities from reinsurance	**50,379**	**92,625**
Total operating liabilities	**71,250**	**117,543**

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

24. Other liabilities

	31 December 2020	31 December 2019
Financial other liabilities	**70,793**	**73,781**
Liabilities towards Guarantee Fund (GF)	27,860	30,393
Liabilities for legal contributions related to the insurance	1,533	3,088
Other short-term liabilities from insurance operations	619	3,577
Total other short-term liabililities from insurance operations	**30,012**	**37,058**
Liabilities for salaries	10,412	10,909
Total short-term liabililities towards employees	**10,412**	**10,909**
Liabilities towards suppliers	13,610	13,093
Liabilities from legal cases	372	372
Other short-term liabilities	16,387	12,349
Total other short-term liabilities	**30,369**	**25,814**
Non-financial other liabilities	**6,591**	**7,199**
Total other liabilities	**77,384**	**80,980**

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

25. Net premium income

	31 December 2020	31 December 2019
Gross written premium	1,231,617	1,424,891
Outward reinsurance written premium	(364,011)	(439,655)
Changes in gross provisions for unearned premium	90,638	(15,505)
Change in deferred acqusition costs	(68,139)	(1,550)
Change in provisions for the unearned premium (reinsurers)	12,638	21,985
Net premium income	**902,743**	**990,166**

Overview of net premium written by insurance class

31 December 2020	Gross written premium	Reinsurer's share	Net written premium
Accident insurance	121,865	(9,759)	112,106
Health insurance	70,296	(15,857)	54,439
Land motor vehicle insurance	147,837	(19,881)	127,956
Aircraft insurance	-	-	0
Marine insurance	309	(14)	295
Cargo insurance	25,625	(24,343)	1,282
Fire and natural forces insurance	89,958	(62,113)	27,845
Other damage to property insurance	189,975	(75,259)	114,716
Motor TPL insurance	478,537	(76,339)	402,198
Aircraft liability insurance	152	(136)	16
Marine liability insurance	477	(74)	403
General liability insurance	38,954	(28,869)	10,085
Credit insurance	5,618	(3,850)	1,768
Suretyship insurance	196	(101)	95
Miscellaneous financial loss insurance	44,357	(43,751)	606
Travel assistance insurance	17,461	(3,665)	13,796
Total	**1,231,617**	**(364,011)**	**867,606**

(All amounts are in MKD thousand unless otherwise stated)

25. Net premium income (continued)

Overview of net premium written by insurance class

31 December 2019	Gross written premium	Reinsurer's share	Net written premium
Accident insurance	95,588	(9,580)	86,008
Health insurance	71,381	(17,189)	54,192
Land motor vehicle insurance	170,724	(19,311)	151,413
Aircraft insurance	37,738	(37,705)	33
Marine insurance	143	(29)	114
Cargo insurance	20,779	(19,966)	813
Fire and natural forces insurance	93,107	(64,532)	28,575
Other damage to property insurance	206,203	(89,095)	117,108
Motor TPL insurance	581,757	(80,510)	501,247
Aircraft liability insurance	8,875	(8,867)	8
Marine liability insurance	763	(44)	719
General liability insurance	41,201	(32,495)	8,706
Credit insurance	12,486	(9,613)	2,873
Suretyship insurance	62	(31)	31
Miscellaneous financial loss insurance	47,265	(46,865)	400
Travel assistance insurance	36,819	(3,823)	32,996
Total	**1,424,891**	**(439,655)**	**985,236**

26. Income from financial assets

	31 December 2020	31 December 2019
Interest income		
- AFS	32,664	32,525
- Deposits	8,327	8,880
- Investment in Guarantee fund	445	561
- Treasury Bills	15	15
Total interest income	**41,451**	**41,981**
Dividends	**227**	**332**
Realised gains on disposals (AFS)	3,236	1,790
Other financial income	4,679	572
Total income from financial assets	**49,593**	**44,675**

In 2020, other financial income is consists of FX differences in the amount of 2,435 MKD thousand, release of bad debt provision for loan in amount of 1,900 MKD thousand and other small items of income in the amount of 344 MKD thousand. In 2019, other financial income is consists of FX differences in the amount of 191 MKD thousand, release of bad debt provision in amount of 105 MKD thousand and other small items of income in the amount of 276 MKD thousand.

27. Other insurance income

	31 December 2020	31 December 2019
Reinsurance commission income and participation in profit	65,834	64,055
Total fees and commission income	**65,834**	**64,055**
Interest income from receivables	**8,088**	**8,268**
Compensation received from Guarantee fund	4,632	5,673
Other income from insurance operations from previous years	2,642	2,255
Other	1,288	3,292
Total other income	**8,562**	**11,220**
Total other insurance income	**82,484**	**83,543**

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

Other income consists of income from from fees for claims settled for other companies in amount of 1,076 MKD thousand (2019: 2,992 MKD thousand), income from assistance services in amount of 185 MKD thousand (2019: 300 MKD thousand) as well as other small items of 27 MKD thousand.

28. Other income

	31 December 2020	31 December 2019
Write off of liabilities	2,631	641
Investment property rental income	1,880	1,875
Rental income (except from investment property)	1,380	1,461
Income from intellectual services	946	829
Gains from sale of Investment Property	941	1
Compensations received from legal cases	374	362
Gain from sale of non-current assets	70	1,984
Refunds	-	116
Other	2,465	262
Total other income	**10,687**	**7,531**

During the year ended 31 December 2020, the Company wrote off 2.631 MKD thousand aged reinsurance liabilities.

Position “Other” contains amount of 1,403 MKD thousand which relate to change in lease payments resulting from Covid-19 related rent concession (reduced lease payments) in accordance with the amendment to IFRS 16, which was published at the end of May 2020.

29. Net claims incurred

	31 December 2020	31 December 2019
Gross claims settled	610,384	658,574
Income from claimed subrogated receivables	(15,831)	(19,066)
Reinsurers' share	(78,225)	(83,516)
Changes in gross provisions for claims outstanding	462,903	81,079
Changes in provisions for claims outstanding (reinsurers share)	(493,863)	(31,133)
Net claims incurred	**485,368**	**605,938**

Gross claims include gross claims settled and claims handling costs, not reduced by subrogation receivables (see note 31).

Reinsurance result

	31 December 2020	31 December 2019
Outward reinsurance	(364,011)	(439,655)
Change in provisions for the unearned premium (reinsurers share)	12,638	21,985
Reinsurers' share in claims settled	78,225	83,516
Changes in provisions for claims outstanding (reinsurers share)	493,863	31,133
Gross result from reinsurance operations	**220,715**	**(303,021)**
Reinsurance commission	65,834	64,055
Net reinsurance result	**286,549**	**(238,966)**

29. Net claims incurred (continued)

Overview of net claims incurred by insurance class

31 December 2020	Gross claims settled	Subrogated claims	Reinsurer's share	Net claims incurred
Accident insurance	76,053	-	(7,048)	69,005
Health insurance	26,018	-	(2,444)	23,574
Land motor vehicle insurance	100,832	(9,289)	(11,895)	79,648
Aircraft insurance	124	-	-	124
Marine insurance	5	-	(1)	4
Cargo insurance	304	(200)	(9)	95
Fire and natural forces insurance	15,447	-	(2,285)	13,162
Other damage to property insurance	87,213	-	(11,610)	75,603
Motor TPL insurance	285,663	(6,238)	(38,827)	240,598
Aircraft liability insurance	217	-	(193)	24
Marine liability insurance	7	-	(1)	6
General liability insurance	1,197	-	(153)	1,044
Credit insurance	223	(84)	947	1,086
Suretyship insurance	2	-	(0)	2
Miscellaneous financial loss insurance	3,584	-	(3,132)	452
Travel assistance insurance	13,495	(20)	(1,574)	11,901
Total	**610,384**	**(15,831)**	**(78,225)**	**516,328**

29. Net claims incurred (continued)

Overview of net claims incurred by insurance class (continued)

31 December 2019	Gross claims settled	Subrogated claims	Reinsurer's share	Net claims incurred
Accident insurance	73,223	(9)	(7,416)	65,798
Health insurance	25,866	(9)	(1,359)	24,498
Land motor vehicle insurance	130,677	(6,158)	(12,331)	112,188
Aircraft insurance	154	-	(19)	135
Marine insurance	11	-	(1)	10
Cargo insurance	218	(279)	(27)	(88)
Fire and natural forces insurance	5,713	(8)	(1,718)	3,987
Other damage to property insurance	96,551	(1,274)	(21,229)	74,048
Motor TPL insurance	306,057	(10,118)	(36,409)	259,530
Aircraft liability insurance	150	-	(127)	23
Marine liability insurance	6	-	(1)	5
General liability insurance	1,796	(10)	(772)	1,014
Credit insurance	1,310	(1,201)	(1,035)	(926)
Suretyship insurance	1	-	-	1
Miscellaneous financial loss insurance	453	-	(33)	420
Travel assistance insurance	16,388	-	(1,039)	15,349
Total	**658,574**	**(19,066)**	**(83,516)**	**555,992**

30. Change in other insurance technical provisions

	31 December 2020	31 December 2019
Unexpired risk reserve (URR)	775	(6,506)
Total change in other insurance technical provisions	**775**	**(6,506)**

The calculations of the unexpired risk reserve as of Decembar 31, 2020 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 release of reserve has been booked for 1 insurance class while additional reserve has been booked for 3 classes of insurance (2019: additional reserve has been booked for 2 classes of insurance).

31. Net expenses for bonuses and discounts

	31 December 2020	31 December 2019
Expenses for bonuses and discounts (financial discounts)	29,825	32,557
Expenses for non claim bonuses	182	-
Change in provisions for bonuses and discounts	10,675	1,322
Total net expenses for bonuses and discounts	**40,682**	**33,879**

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

32. Operating expenses

	31 December 2020	31 December 2019
Acquisition costs	287,907	319,156
Claims handling costs - CHC*	50,563	48,521
Costs of asset management**	2,512	2,309
Other operating expenses	94,373	89,873
Total operating expenses	**435,355**	**459,859**
Total net operating expenses less CHC and asset management costs	**382,280**	**409,029**

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

**Asset management costs are disclosed as financial expenses.

32. Operating expenses (continued)

Overview of operating expense by nature and function

31 December 2020	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs – commission fee	77,413	-	-	-	77,413
Depreciation and amortisation of assets	31,803	6,124	226	8,739	46,892
Labour costs	97,517	30,140	1,779	63,984	193,420
- wages and salaries	60,193	18,719	1,100	42,758	122,770
- social security and pension insurance costs	30,562	9,676	578	17,063	57,879
- other insurance costs	6,762	1,745	101	4,163	12,771
Costs of services provided by outsourced natural persons	712	264	4	192	1,172
Other operating expenses	80,462	14,035	503	21,458	116,458
- advertisement, fairs, representation	43,452	-	-	-	43,452
- cost of materials and energy	6,874	3,726	170	6,154	16,924
- maintenance costs	7,731	1,882	74	2,852	12,539
- travel expenses	858	906	34	1,597	3,395
- costs of intelectual services	7,987	3,723	58	3,314	15,082
- taxes, not dependant on profit	2,110	78	4	140	2,332
- transportation costs	3,297	1,028	47	1,578	5,950
- insurance premium costs	1,323	228	7	325	1,883
- bank charges	949	-	-	1,516	2,465
- rental expenses	5,405	2,276	95	3,573	11,349
- training expenses	418	163	6	299	886
- other services	58	25	8	110	201
Total gross operating expenses	**287,907**	**50,563**	**2,512**	**94,373**	**435,355**

32. Operating expenses (continued)

Overview of operating expense by nature and function (continued)

31 December 2019	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs – commission fee	97,630	-	-	-	97,630
Depreciation and amortisation of assets	31,579	5,203	198	7,742	44,722
Labour costs	101,543	27,870	1,480	56,643	187,536
- wages and salaries	63,995	17,311	887	35,540	117,733
- social security and pension insurance costs	32,384	9,065	517	17,810	59,776
- other insurance costs	5,164	1,494	76	3,293	10,027
Costs of services provided by outsourced natural persons	622	139	4	169	934
Other operating expenses	87,782	15,310	626	25,319	129,037
- advertisement, fairs, representation	52,383	-	-	-	52,383
- cost of materials and energy	7,557	3,243	156	5,877	16,833
- maintenance costs	6,415	1,525	67	2,491	10,498
- travel expenses	2,061	1,317	148	4,787	8,313
- costs of intelectual services	6,791	4,940	53	3,049	14,833
- taxes, not dependant on profit	1,803	72	3	137	2,015
- transportation costs	2,327	1,280	60	2,119	5,786
- insurance premium costs	1,220	251	15	413	1,899
- bank charges	1,052	28	-	1,835	2,915
- rental expenses	5,704	2,243	98	3,602	11,647
- training expenses	342	323	18	770	1,453
- other services	127	88	8	239	462
Total gross operating expenses	**319,156**	**48,522**	**2,308**	**89,873**	**459,859**

33. Expenses from financial assets and liabilities

	31 December 2020	31 December 2019
Interest expenses	2,373	3,602
Foreign exchange differences	682	788
Other financial expenses	2,512	2,309
Total expenses from financial assets and liabilities	**5,567**	**6,699**

Interest expenses arise from lease liabilities in accordance with the application of IFRS 16.

34. Other insurance expenses

	31 December 2020	31 December 2019
Expenses for preventive activity	20,153	22,721
Contributions for claims on uninsured or unidentified vehicles	17,902	16,850
Membership fees	15,505	14,954
Impairment on receivables for insurance premium	(7,434)	(1,942)
Expenses for assistance services	3,943	4,409
Other insurance expenses from previous years	3,415	-
Impairment on receivables from recourses	(504)	(3,492)
Other insurance expenses	260	358
Total other insurance expenses	**53,240**	**53,858**

35. Other expenses

	31 December 2020	31 December 2019
Compensations paid for legal cases	970	-
Depreciation of investment properties	147	175
Expenses for penalties	51	-
Realized losses on disposal of tangible assets	8	34
Impairment losses on other receivables	(962)	922
Impairment losses on investment property	-	77
Total other expenses	**214**	**1,208**

36. Income Tax expenses

a) Current tax year charge

	31 December 2020	31 December 2019
Current year income tax assessment	3,248	3,019
Deferred tax expense	148	(148)
Total income tax, recognised in profit or loss statement	**3,396**	**2,871**

36. Income Tax expenses (continued)

Recapitulation of the Income tax expense

	31 December 2020	31 December 2019
Accounting profit	73,153	17,750
Legal tax rate - %	10	10
Income tax by use of legal tax rate	**7,315**	**1,775**
Non-deductable expenses	2,260	2,283
Tax credit used	(861)	(1,187)
Permanent tax differences	(5,318)	-
Total income tax, recognised in profit or loss statement	**3,396**	**2,871**

b) Tax recorded in other comprehensive income (note 20)

	31 December 2020	31 December 2019
Deferred tax asset/(liability)	520	(396)
Total tax charge to other comprehensive income	**520**	**(396)**

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

As at 31 December 2018	**(4,753)**
Charged /(credited) to the income statement	148
Charged /(credited) to other comprehensive income	(397)
As at 31 December 2019	**(5,002)**
Charged /(credited) to the income statement	(148)
Charged /(credited) to other comprehensive income	520
As at 31 December 2020	**(4,630)**

37. Related party transactions

The services provided and received from the relates 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 2020	Zavarovalnica Triglav	Triglav RE Ljubljana	Lovćen Osiguranje	Triglav Zagreb	Triglav Osiguranje Beograd	Triglav Life Skopje	Triglav Penzisko	Total
Income	**(105,773)**	**(127,420)**	**25**	**-**	**51**	**2,623**	**398**	**(230,096)**
Gross written premium	-	-	-	-	-	340	192	532
Outward reinsurance premium	(119,591)	(173,511)	-	-	-	-	-	(293,102)
Other income from insurance operations	13,818	48,350	-	-	-	-	-	62,168
Change in gross provisions for the unearned premium	-	(3,061)	-	-	-	-	-	(3,061)
Change in provisions for the unearned premium (reinsurers share)	-	-	-	-	-	-	-	-
Other income not related to insurance operations		802	25		51	2,283	206	3,367
Expenses	**2,263**	**45,409**	**-**	**(131)**	**-**	**(5,006)**	**(188)**	**42,347**
Gross claims settled	(296)	-	-	(113)	-	(40)	(188)	(637)
Reinsurers' share of claims	2,213	75,249	-	-	-	-	-	77,462
Change in gross provisions for claims outstanding	-	-	-	-	-	(213)	-	(213)
Change in provisions for reinsurers' share of claims	4,383	(29,840)	-	-	-	-	-	(25,457)
Operating expenses	(4,037)	-	-	(18)	-	(525)	-	(4,580)
Share of loss in associate	-	-	-	-	-	(4,228)	-	(4,228)
Assets	**6,341**	**93,464**	**-**	**-**	**-**	**395**	**119**	**100,319**
Reinsurers' share of technical provisions for unearned premium	-	17,910	-	-	-	-	-	17,910
Reinsurers' share of technical provisions for outstanding claims	6,314	75,554	-	-	-	-	-	81,868
Receivables from reinsurers	-	-	-	-	-	150	67	217
Other receivables	27	-	-	-	-	245	52	324
Liabilities	**32,939**	**6,663**	**-**	**-**	**-**	**213**	**-**	**39,815**
Liabilities from direct insurance operations	-	-	-	-	-	213	-	213
Liabilities from reinsurance operations	31,591	6,663	-	-	-	-	-	38,254
Other short-term liabilities	1,348	-	-	-	-	-	-	1,348

37. Related party transactions (continued)

31 December 2019	Zavarovalnica Triglav	Triglav RE Ljubljana	Lovćen Osiguranje	Triglav Zagreb	Triglav Osiguranje Beograd	Triglav Life Skopje	Triglav Penzisko	Total
Income	**(136,805)**	**(135,125)**	**23**	**25**	**29**	**2,406**	**53**	**(269,394)**
Gross written premium	-	-	-	-	-	111	121	232
Outward reinsurance premium	(154,202)	(174,264)	-	-	-	-	-	(328,466)
Other income from insurance operations	17,367	43,150	23	25	29	-	-	60,594
Change in gross provisions for the unearned premium	-	-	-	-	-	6	(98)	(92)
Change in provisions for the unearned premium (reinsurers share)	-	(4,011)	-	-	-	-	-	(4,011)
Other income not related to insurance operations	30	-	-	-	-	2,289	30	2,349
Expenses	**(362)**	**117,342**	**-**	**(374)**	**(12)**	**(3,284)**	**-**	**113,310**
Gross claims settled	(309)	-	-	(349)	(12)	-	-	(670)
Reinsurers' share of claims	1,614	78,766	-	-	-	-	-	80,380
Change in provisions for reinsurers' share of claims	(283)	38,576	-	-	-	-	-	38,293
Operating expenses	(1,384)	-	-	(25)	-	(323)	-	(1,732)
Share of loss in associate	-	-	-	-	-	(2,961)	-	(2,961)
Assets	**1,942**	**126,017**	**-**	**-**	**-**	**492**	**-**	**128,451**
Reinsurers' share of technical provisions for unearned premium	-	20,918	-	-	-	-	-	20,918
Reinsurers' share of technical provisions for outstanding claims	1,934	105,099	-	-	-	-	-	107,033
Receivables from reinsurers	-	-	-	-	-	84	-	84
Short-term receivables from insurance operations	8	-	-	-	-	-	-	8
Other receivables	-	-	-	-	-	408	-	408
Liabilities	**38,639**	**10,532**	**-**	**-**	**-**	**79**	**98**	**49,348**
Gross insurance technical provisions	-	-	-	-	-	51	98	149
Liabilities from direct insurance operations	15	-	-	-	-	-	-	15
Liabilities from reinsurance operations	38,390	10,532	-	-	-	-	-	48,922
Other short-term liabilities	234	-	-	-	-	28	-	262

38. Members of the Board of Directors

In 2020, the executive members of the Board of Directors were paid amount of 15,019 MKD thousand as compensation for their work (2019: 14,492 MKD thousand).

The executive members of the Board of Directors were also paid out life insurance in amount of 148 MKD thousand. For the year ended 31 December 2019 the executive members were paid life insurance in amount of 148 MKD thousand.

An accrual related to bonus for the executve members of the Board of Directors has been booked in the year ended 31 December 2020 in amount of 1.932 MKD thousand (2019: nill).

The non-executive members of the Board of Directors were paid out by the Company an amount of 1,241 MKD thousand (2019: 1,014 MKD thousand) as compensation for their work including reimbursement of travel expenses and personal income taxes.

39. Amounts paid to auditors

The IFRS financial statements were audited by Deloitte DOO Skopje.

Following are the auditing expenses incurred for the year ended 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Statutory audit and other auditing services	1,570	1,021
	1,570	**1,021**

40. Earnings per share

The calculation of the basic/diluted earnings by share (EPS) for the years ended 31 December 2020 and 31 December 2019 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 2020	31 December 2019
Net profit attributable to shareholders of the Company	69,757	14,878
Number of shares	60,184	60,184
Earnings per share	**1,159**	**247**

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

41. 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 decided that it`s necessary, additionally and with a separate formal decision to give

41. Significant legal disputes (continued)

an answer to the company objection on subject matter jurisdiction (that the court is not competent to act upon the complaint of the plaintiff), 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 submited 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 Court of Appeal ruled in our favor. The plaintiff filed a Revision (extraordinary legal remedy) before the Supreme Court. Triglav submitted a Response to the Revision from the plaintiff. The case is pending before the Supreme Court. According to the latest developments, there is 49% likelihood that the plaintiff will win the case, i.e. 51% likelihood that the decision will be in favor of the Company.

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 AD 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 2020. On January 22, 2020, 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 Court of Appeal ruled in our favor. According to the latest developments, there is 49% likelihood that the plaintiff will win the case, i.e. 51% likelihood that the decision will be in favor of the Company.

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

42. 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 2020 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.

As of the year ended December 31, 2020, this contract does not present contingent liability since the Company implemented IFRS 16 and therefore it is recognized in the Statement of Financial position as Lease liability.

The monthly rent that the Company was paying for the business premises starting 1 January 2020 was is in amount of 2,527 MKD thousand (incl. VAT) including service fee of 3,5 EUR per m^2.

43. Income tax liabilities

The Company’s books and records for the fiscal years from 2012 to 2020 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.

44. Reviews by Supervision bodies

During the year ended 31 December 2020, the Insurance Supervision Agency carried out one off-field supervision and one on field supervision.

Field supervision

The Insurance Supervision Agency started a field supervision in February 2020. The subject of supervision were certain segments of the Company's operations for the period from 01.01.2019 until 31.12.2019 and the main objective was claims provisions assessment for all classes of insurance as of December 31, 2019 and assessment of the function of the Company's authorized actuary.

The Company submitted the required documentation and held a meeting with the representatives of Insurance Supervision Agency.

The Insurance Supervision Agency issued Minutes no. UP1 08-1-45 on 11 March 2020, and the Minutes became final on 31 March 2020.

With this field supervision no misdemeanors have been established, and no fines have been imposed on the Company.

Off-field supervision

On 11 March 2020, the Insurance Supervision Agency submitted a Request for documentation in order to assess weather the Company's operations are in accordance with Procedure for the minimum standards of information systems of insurance companies.

The company submitted the requested documentation on 16.04.2020, as well as additional documentation on 12.06.2020.

A final Minutes were submitted by the Agency on 03.07.2020, which identified an internal weakness that refers to the Strategy of the Development of the Information System for the period 2017-2020. The Company acted upon the remarks and submitted a Report to the Agency on 11.12.2020. This field supervision did not determine any violations, nor were fines imposed.

Other reviews

The Agency for Personal Data Protection (AZLP) conducted regular inspections on the legality of the activities undertaken in the processing of personal data and their protection in the Company. Minutes were submitted by AZLP on 07.08.2020, which identified 14 irregularities and violations of the regulations for personal data protection. The Company submitted remarks regarding the Minutes on 14.08.2020. A final Decision is expected to be submitted by the AZLP. The procedure is ongoing.

45. 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.