**Triglav Insurance AD Skopje**

Financial Statements

For the year ended 31 December 2013

**With the Report of the Auditors thereon**

# Dear Shareholders, Business partners and colleagues

We can assess year 2013 as one of the most successful business years for Triglav Osiguruvanje AD, Skopje. This achievement was outcome of the company's strategy successful implementation, especially in the domain of expanding own sales network, as well as the good organization of business processes. The employees' commitment and expertise, and our strategic goal to provide premium quality services, contributed to high clients' satisfaction and loyalty, which is the most relevant indicator for the success of any company.

The fact that 23.30% of the total claims settled in the first three quarters of 2013 in Macedonia belong to Triglav, adds to the image of a financially stable company, which provides safety and fast and efficient claims' settlement.

## Our portfolio

The competition on the insurance market in Macedonia is highly concentrated, considering 2 million inhabitants on one side, and 15 insurance companies on the other, thus indicating a market operating in highly competitive conditions. However, as the largest portion of the market belongs to the obligatory third party liability insurance, it can be easily concluded that the market needs further development and there is potential for improvements in other, voluntary segments.

This was the starting point in developing our company's strategy 2 years ago, which is to diversify the portfolio structure, focusing on non-obligatory insurance. In 2013, Triglav recorded an increase in 8 non-life insurance classes out of 13. Among them was third party liability insurance, where we managed to stop the premium decline, which due to the severe competition occurred for several years consecutively.

Our company is continuously working on improvement of the existing products and developing new ones in line with the market needs. In that manner, in 2013 we launched Triglav Komplet, a new, family oriented product, offering thus to clients significant benefits for the most relevant options in one package, including household insurance, family accident insurance and land motor vehicle insurance.

The gross written premium achieved in 2013 amounts to 1,082,217 thousand MKD.

## Financial highlights

Year 2013 ended with net profit of 69 million MKD, which represents an increase of 149% compared with the net result of the previous year, when the profit realized was 28 million MKD. The gross written premium amounted to 1,082,217 thousand MKD, while gross claims settled were 716,060 thousand MKD, which represents a decrease of 17% compared to the previous year.

The net premium participation in the gross written premium shows an increase of 10% compared to the previous year, which is in accordance with the expansion of the own sales network and therefore, the increase in the number of residential clients, as a replacement for key accounts subject to reinsurance. As a final result this affected the increment of profit for the company.

## Management by objectives

One of the most relevant projects in 2013, alongside with developing good business processes, finalizing the implementation of the new operational system and expanding of the own sales network is the successful implementation of the Management by objectives project for B1 level management. This process has proven to be an excellent tool in allocating the most important objectives to achieve the company's, as well as the individual goals. Inspired by the positive experience with the Management by objectives for B1 level management, we will transmit it to the whole company structure on all levels, and thus ensure the achievement of the company goals.

## Focuses for the future

Our development strategy is based on the Group's mission, to build a safer future for all. Our intention is to influence the development of the insurance market in Macedonia and one of the most important tools for further growth is ensuring proper offer of new products and services, in line with the market demand.

Triglav Osiguruvanje AD Skopje is dedicated to a continuous development of the organization, the processes, procedures, products and service quality, to the improvement of the internal relationships as well as the relationships with clients and business partners. I strongly believe that the company's perception and our continuous growth are in the hands of the employees, and depend on their values, expertise and willingness to learn.

Gjorgje Vojnović
Chief Executive Officer
Triglav Osiguruvanje AD, Skopje

# Table of Contents

**Independent auditor's report to the shareholders of Triglav Insurance AD Skopje**

We have audited the accompanying financial statements of Triglav Insurance AD Skopje ("the Company"), which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Certified Auditors Ltd.

Skopje, 27 March 2014

## STATEMENT OF FINANCIAL POSITION

| | Note | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Intangible assets** | **7** | **109,738** | **86,286** |
| **Property, plant and equipment** | **8** | **79,163** | **83,272** |
| **Investment property** | **9** | **103,407** | **118,550** |
| **Financial assets** | | **1,139,079** | **1,118,461** |
| *-loans and deposits* | 10 | *257,543* | *330,854* |
| *-available for sale* | 10 | *881,536* | *787,607* |
| **Reinsurers' share of technical provisions** | **11** | **55,696** | **165,609** |
| **Receivables** | | **360,321** | **464,816** |
| *- receivables from direct insurance* | 12 | *294,446* | *389,696* |
| *- receivables from re and co-insurance* | 12 | *106* | *2,384* |
| *- current tax receivables* | 12 | *-* | *-* |
| *- other receivables* | 12 | *65,769* | *72,736* |
| **Other assets** | **13** | **3,452** | **2,061** |
| **Cash and cash equivalents** | **14** | **26,794** | **25,577** |
| **TOTAL ASSETS** | | **1,877,650** | **2,064,632** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | **604,310** | **535,327** |
| *- share capital* | 15 | *185,223* | *185,223* |
| *- capital reserves* | 15 | *41,972* | *41,972* |
| *- legal and statutory reserves* | 15 | *258,939* | *249,713* |
| *- fair value reserve* | 15 | *10,956* | *11,029* |
| *- retained earnings* | 15 | *38,164* | *19,711* |
| *- net profit/loss for the period* | 15 | *69,056* | *27,679* |
| **Insurance technical provisions** | | **1,107,935** | **1,318,976** |
| *- unearned premiums* | 16 | *469,472* | *485,776* |
| *- claims provisions* | 16 | *636,588* | *830,890* |
| *- other insurance technical provisions* | 16 | *1,875* | *2,310* |
| **Employee benefits** | **17** | **5,381** | **5,510** |
| **Other financial liabilities** | **18** | **6,156** | **6,126** |
| **Operating liabilities** | | **65,708** | **112,211** |
| *- liabilities from direct insurance operations* | 19 | *41,727* | *55,334* |
| *- liabilities from re and co-insurance operations* | 19 | *21,716* | *55,552* |
| *- current tax liabilities operations* | 19 | *2,265* | *1,325* |
| **Other liabilities** | **20** | **88,160** | **86,482** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,877,650** | **2,064,632** |

## STATEMENT OF PROFIT OR LOSS

| | Note | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **Net premium income** | 21 | **963,023** | **996,222** |
| *- gross written premium* | | *1,082,217* | *1,232,665* |
| *- ceded written premium* | | *(284)* | *-* |
| *- outward reinsurance and co-insurance premium* | | *(137,205)* | *(284,003)* |
| *- change in provision for unearned premiums* | | *18,295* | *47,560* |
| **Income from financial assets** | 22 | **85,940** | **90,699** |
| *- interest income* | | *68,017* | *77,122* |
| *- dividends* | | *935* | *2,276* |
| *- realized gains on disposals* | | *6,804* | *2,886* |
| *- other* | | *10,184* | *8,415* |
| **Other income from insurance operations** | 23 | **22,445** | **40,058** |
| *- fees and commission income* | | *10,745* | *25,185* |
| *- other insurance income* | | *11,700* | *14,873* |
| **Other income** | 24 | **5,192** | **10,445** |
| **Net claims incurred** | 25 | **535,240** | **665,745** |
| *- gross claims settled* | | *716,060* | *860,395* |
| *- income from claimed gross subrogated receivables* | | *(24,604)* | *(28,828)* |
| *- reinsurers' share* | | *(46,646)* | *(21,773)* |
| *- change in claims provisions* | | *(109,570)* | *(144,049)* |
| **Change in other insurance technical provisions** | 26 | **(435)** | **(3,490)** |
| **Expenses for bonuses and discounts** | 27 | **62,631** | **56,628** |
| **Operating expenses** | 28 | **295,313** | **273,386** |
| *- acquisition costs* | | *206,576* | *147,702* |
| *- other operating costs* | | *88,737* | *125,684* |
| **Expenses from financial assets and liabilities** | 29 | **13,289** | **7,879** |
| *- interest expense* | | *20* | *8* |
| *- impairment losses on financial assets* | | *518* | *456* |
| *- other* | | *12,751* | *7,415* |
| **Other insurance expenses** | 30 | **83,528** | **102,329** |
| **Other expenses** | 31 | **13,797** | **4,996** |
| **Profit before tax** | | **73,237** | **29,951** |
| Other tax expense | 32 | *4,181* | 2,272 |
| **Net profit for the accounting period** | | **69,056** | **27,679** |

| | | | |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic, profit for the year attributable to ordinary equity holders | | 1.147 | 0.460 |

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect reclassifications made, refer Note 2.4.

The financial statements of Triglav Insurance AD Skopje were approved by the Management Board on 27.03.2014.

Gjorgje Vojnović
Chief Executive Officer

*(All amounts are in MKD thousand unless otherwise stated)*

## STATEMENT OF OTHER COMPREHENSIVE INCOME

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| I. Net profit for the year after tax | 69,056 | 27,679 |
| II. Other comprehensive income after tax | (73) | 13,904 |
| 1. Net gains/losses from the re-measurement of available-for-sale financial assets | (73) | 13,904 |
| 1.1 Gains/losses recognised in fair value reserve | (73) | 13,904 |
| Tax on other comprehensive income | - | - |
| III. Comprehensive income for the year after tax | **68,983** | **41,583** |

## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Capital reserves | Legal and statutory reserves | FV reserve for long-term assets | FV reserve for short-term assets | Other FV reserve | Net profit brought forward | Net profit for the current year | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at January 1, 2012** | **185,223** | **41,972** | **242,524** | **(16,879)** | **12,394** | **1,610** | **5,332** | **21,568** | **493,744** |
| Comprehensive income for the the year after tax | **-** | **-** | **-** | **15,495** | **(1,591)** | **-** | **-** | **27,679** | **41,583** |
| Transfer to retained earnings | - | - | - | - | - | - | 21,568 | (21,568) | **-** |
| Transfer of net profit to reserves from profit | - | - | 7,189 | - | - | - | (7,189) | - | **-** |
| **Closing balance as at December 31, 2012** | **185,223** | **41,972** | **249,713** | **(1,384)** | **10,803** | **1,610** | **19,711** | **27,679** | **535,327** |
| **Opening balance as at January 1, 2013** | **185,223** | **41,972** | **249,713** | **(1,384)** | **10,803** | **1,610** | **19,711** | **27,679** | **535,327** |
| Comprehensive income for the the year after tax | **-** | **-** | **-** | 3,689 | (3,762) | - | - | 69,056 | 68,983 |
| Transfer to retained earnings | - | - | - | - | - | - | 27,679 | (27,679) | **-** |
| Transfer of net profit to reserves from profit | - | - | 9,226 | - | - | - | (9,226) | - | **-** |
| **Closing balance as at December 31, 2013** | **185,223** | **41,972** | **258,939** | **2,305** | **7,041** | **1,610** | **38,164** | **69,056** | **604,310** |

## CASH FLOW STATEMENT

| | Notes | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **Operating cash flow** | | | |
| **P&L statement items** | | **(92,548)** | **(202,173)** |
| Net written premium | 21 | 944,728 | 948,662 |
| Income from investment (less financial income) | | 16,988 | 11,302 |
| Other income from operations (except from valuation and without changes in provisions) and financial income from receivables from operations | | 26,368 | 50,504 |
| Net settled claims | 25 | (644,810) | (809,794) |
| Expenses for bonuses and discounts | | (62,631) | (56,628) |
| Net operating expenses less depreciation and changes in deferred acquisition costs | 28 | (281,266) | (261,588) |
| Expenses from investments without depreciation and financial expenses | | (13,807) | (8,335) |
| Other expenses from operations without depreciation (except from valuation and without changes in provisions) | | (73,937) | (76,296) |
| Corporate tax and other tax not included in expenses | | (4,181) | - |
| **Change of working capital (insurance receivables, other receivables, other assets, deferred taxes) of operating items of the balance sheet** | | **(27,760)** | **(54,574)** |
| Movement of receivables from direct insurance operations | | 81,618 | (43,102) |
| Movement of receivables from reinsurance | | 2,278 | 4,775 |
| Movement of other receivables from (re)insurance operations | | 6,010 | (57,947) |
| Movement of other receivables and assets | | (71,690) | (30,661) |
| Movement of liabilities from direct insurance operations | | (13,607) | 34,007 |
| Movement of liabilities from reinsurance | | (33,837) | 47,006 |
| Movement of other liabilities from operations | | (2,376) | 13,938 |
| Movement of other liabilities (less unearned premiums) | | 3,844 | (22,590) |
| **Net Cash flows used from operating activities** | | **(120,308)** | **(256,747)** |
| **Cash flows from investing activities** | | | |
| Receipts from interest from investments | 10 | 68,016 | 77,122 |
| Receipts from dividends from investments | 10 | 935 | 2,276 |
| Receipts from disposal of tangible fixed assets | 8 | 11,295 | 412 |
| Receipts from disposal of financial investments | 10 | 848,536 | 676,395 |
| Payments for purchase of intangible assets | 7 | (228) | (10,617) |
| Payments for purchase of tangible fixed assets | 8 | (6,054) | (6,705) |
| Payments for financial investments | 10 | (800,975) | (519,604) |
| **Net cash flows from investing activities** | | **121,525** | **219,279** |
| **Net increase / (decrease) in cash and cash equivalents** | | **1,217** | **(37,468)** |
| Cash and cash equivalents at beginning of the year | | 25,577 | 63,045 |
| Cash and cash equivalents at the end of the year | | 26,794 | 25,577 |

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect reclassifications made, refer Note 2.4.

# 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. on 15 November 2007 (70.36%).

In 2011, the shares of Zavarovalnica Triglav d.d. were transferred to Triglav Int. d.d 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.

As of 31 December 2013, the controlling interest in Triglav Insurance AD Skopje is held by Triglav INT d.d (73.38%). The ultimate holding company is Zavarovalnica Triglav d.d.

The company is licensed to perform 15 classes of non-life insurance. Among the most important insurance activities are accident insurance, land motor vehicles insurance, aircraft insurance, fire, natural forces and other damage to property insurance, motor TPL insurance, and general liability insurance.

**The address of the registered Company headquarters is:**

*bul.8-mi Septemvri 16*

*Business Center Hyperium*

*1000 Skopje*

*Republic of Macedonia*

## 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 Management Board.

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

- Mr. Gjorgje Vojnovic - Executive Member, MBA;
- Mr. Urosh Ivanc - President of the Management Board, MSc in Economic;
- Ms. Meta Berk Skok - Independent non-executive member, MSc in Economics until 4 June 2013;
- Ms. Marica Makoter - Non-executive member, BSc law;
- Mr. Andrej Knap - Non-executive member, BSc in mechanical engineering;
- Ms. Maja Gazvoda - Non-executive member, MSc in Finance since 4 December 2013
- Mr. Blaz Kmetec- Non-executive member, BSc of Economics-Banking and Finance since 4 December 2013.

During 2013, the Management Board held ten (10) sessions on which the most important issues within the scope of the Company's business activities were considered.

## 1. General information (continued)

### 1.2. Management bodies (continued)

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

### 1.3 Employees

As of 31 December 2013, the Company had 232 employees (2012:168).

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

| Type of employment | 31 December 2013 | 31 December 2012 | Variation |
|---|---|---|---|
| Internal employees | 138 | 135 | 3 |
| Agents | 94 | 33 | 61 |
| **Total** | **232** | **168** | **64** |

## 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.

### 2.2 Basis of measurement

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

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

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

For the preparation of the statement of financial position, the Company classifies individual items into groups of assets and liabilities depending on their nature, listed in the order of their liquidity and/or maturity. In additional disclosures, the Company posts current and non-current assets as well as current and noncurrent liabilities as separate items, depending on whether they are expected to be paid or settled within 12 months of the balance sheet date (current) or after more than 12 months of the balance sheet date (non-current).

### 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 Comparative figures

In order to maintain consistency with the current year presentation, where appropriate certain items have been reclassified for comparative purposes. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the financial statements. The reasons for reclassifications that have been made in these financial statements are presented in notes 25, 28, and 29.

### 2.5 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. Basis of preparation (continued)

### 2.6 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, except for the differences arising on translation of available-for sale equity instruments which are recognized directly in equity.

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 currencies the Company deals with are predominantly EUR based.

The exchange rates used for translation at 31 December 2013 and 2012 were as follows:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| | **MKD** | **MKD** |
| 1 EUR | 61.5113 | 61.5000 |

## 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, net cost of preventive activity, 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. These 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 | 25% |

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 3.10. No intangible assets were impaired as at December 31, 2013 (2012: null.).

## 3. Significant accounting policies (continued)

### 3.2 Property, plant and equipment

#### (i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant 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, plant 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, plant 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, plant 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, plant 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, plant 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, plant 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” and “other expenses” in the statement of profit or loss.

#### (v) *Impairment*

At each reporting date, items of property, plant 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 3.10. No item of property, plant and equipment was impaired as at December 31, 2013 (2012: null).

## 3. Significant accounting policies (continued)

### 3.3 Investment Property

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

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

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

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

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

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

| | Annual depreciation rate (%) |
|---|---|
| Buildings | 2.5% |

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

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

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

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

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

All income arising from investment property is rental income and is shown in the statement of profit or loss under "Other income". Expenses arising from investment property consist of the depreciation charges and maintenance costs of the investment property. In the statement of profit or loss they are disclosed under "Other expenses". Accounting policies regarding the impairment of investment property are described in note 3.10.

## 3. Significant accounting policies (continued)

## 3.4 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 2013 and 2012, all financial assets were classified as available-for-sale assets and loans and receivables.

### *(ii) Recognition and measurement*

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.

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.

***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. 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.

***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial asset with fixed or determinable payments and fixed maturities that the Company intends and is able to hold them to maturity. Financial assets held to maturity are measured at amortized cost reduced for impairment.

## 3. Significant accounting policies (continued)

## 3.4 Financial assets (continued)

### *(ii) Recognition and measurement (continued)*

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are represented by two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Irrespective of the sub-category, they are acquired with principal purpose of selling them in the short-term.

After initial recognition, financial assets measured at fair value through profit or loss, except for derivative financial markets not traded and not quoted on stock markets, are measured at fair value on the basis of prices quoted in an active market.

Gains and losses arising from a change in fair value are recognized in the statement of profit or loss in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss as part of the “Income from financial assets” when the Company’s right to receive payments is established.

***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. 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.

### *(iii) 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.

## 3.5 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:

- 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 to 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,

## 3. Significant accounting policies (continued)

### 3.5 Fair value of financial assets (continued)

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 that do have a quoted market price adjusted by the maturity spread.

### 3.6 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 general 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 3.18 premium income)*.

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

The value of these assets is measured based on the expected losses, i.e. claims provisions for reinsured claims in accordance with reinsurance contracts and taking into account unearned premiums.

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.

## 3. Significant accounting policies (continued)

### 3.6 Reinsurer's share of technical provisions (reinsurance assets) (continued)

Reinsurance assets are assessed for impairment at each balance sheet date. Accounting policies regarding the impairment of reinsurance assets are described in note 3.10.

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

### 3.7 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 3.10.

### 3.8 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.

### 3.9 Cash and cash equivalents

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

### 3.10 Impairments

#### *(i) Impairment of intangible assets and property, plant 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.

## 3. Significant accounting policies (continued)

### 3.10 Impairments (continued)

### *(ii) Impairment of Investment property*

The previously recognized impairment losses of property, plant 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.

The value of investment property is estimated on an annual basis in order to determine whether there are any objective signs of impairment. In the event of any sign of impairment of investment property, the recoverable amount (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 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 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.

## 3. Significant accounting policies (continued)

### 3.10 Impairments (continued)

#### *(iii) Impairment of financial assets (continued)*

***Loans and receivables***

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.

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. 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.

#### *(iv) Impairment of insurance receivables*

The adequacy of the value disclosed is tested for each group of insurance related 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”.

#### *(v) 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.

### 3.11 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.

## 3. Significant accounting policies (continued)

### *3.11.* Equity (continued)

#### *(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)* *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.

#### *(iv)* *Fair value reserves*

The fair value 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.

#### *(v)* *Dividends*

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

### 3.12 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.

### 3.13 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 unreported and inadequately reported claims (IBNR).

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

## 3. Significant accounting policies (continued)

### 3.13 Insurance technical provisions (continued)

Provisions for incurred but not reported claims (IBNR) are calculated by means of "triangle" methods (a combination of Chain Ladder and Bornhuetter- Ferguson methods for MTPL line of business and chain Ladder for other classes of insurance). The basis for calculation is a sample of past claims experience with appropriate allowance for future trends. For this purpose a several-year-long time series of settled claims is applied. The IBNRs are formed for 5 classes of insurance with which 99% of the gross claims settled are covered.

Provisions for outstanding claims are not discounted. The methods used and estimates made are reviewed at least on a quarterly basis.

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

*Other insurance technical provisions*

Provisions for bonuses (managerial insurance) are formed for risks that cover death out of illness and/or accident. The provision is created upon the conclusion of the contract, irrelevant of the payment pattern of the client.

### 3.14 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.

### 3.15 Employee benefits

#### *(i) Defined contribution plans*

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

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

#### *(ii) Short term benefits*

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

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

#### *(iii) Other long-term employee benefits*

In compliance with the local regulations, the Company pays two average salaries to its employees at the moment of retirement and jubilee awards in accordance with the General collective agreement. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement.

## 3. Significant accounting policies (continued)

### 3.16 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 statement 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.

### 3.17 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.

### 3.18 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.

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 3.13).

*Deferred acquisition costs*

The costs incurred in acquiring general 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 and other direct costs as well as indirect costs, such as administrative costs.

Deferred acquisition costs are amortized 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 represents the proportion of the acquisition costs which correspondents to the proportion of gross written premiums which is unearned at the balance sheet date.

### 3.19 Income from financial assets

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

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

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

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

## 3. Significant accounting policies (continued)

### 3.20 Other income from insurance operations

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

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

### 3.21 Other income

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

### 3.22 Claims incurred

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

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

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

### 3.23 Operating expenses

Gross operating costs are recognized as original expenses by natural type of cost. In the statement of profit or loss these costs are classified by function. Claim handling costs are a constituent part of claims incurred (note 3.22), asset management costs are a constituent part of expenses from financial assets and liabilities (note 3.24), 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.

*Operate 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.

### 3.24 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 2013 and 2012, the Company did not have such assets.

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

## 3. Significant accounting policies (continued)

### 3.25 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.

### 3.26 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.

### 3.27 Taxes

***Current tax***

The Company does not have to pay corporate income tax on its profit before tax (earned since 1 January 2009) until that profit is distributed in a form of dividend or other forms of profit distributions. Dividends distributed by Companies to resident legal entities are exempt from corporate income tax at the level of the distributing entity.

Dividends distributed to individuals and foreign legal entities are not exempt from corporate income tax and are subject to 10% tax at the level of the distributing entity and the corporate income tax liability arises at the time of the dividend payment.

Apart from distribution of dividends, the tax is still payable on the non-deductible (unrecognized) expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax relief's. The tax on non-deductible (unrecognized) expenses is recognized in the statement of profit or loss for the year.

- ***Tax on distributed dividends –*** where the tax base is the paid dividend;
- ***Tax on non-deductible (unrecognized expenses) –*** where the tax base is the amount of unrecognized expenses determined in the “Rule book for the calculation and payment manner of income tax, and prevention from double tax relief or double taxation”, decreased for the amount of the tax credits. This tax is payable regardless of whether the companies have generated profit or loss in the year.

During the year, the Company pays monthly advances which are calculated based on the tax balance for unrecognized 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 unrecognized expenses and any difference to the monthly advances paid is recorded as either tax asset or tax liability.

***Deferred income tax***

Due to changes in the Macedonian tax legislation effective from 1 January 2009, the tax rate for undistributed profits was effectively reduced to zero, as tax is only payable when profits are distributed only to foreign legal entities. According to IAS 12.52A and SIC 25, deferred tax assets and liabilities should be measured using the undistributed rate. This resulted in reversal of all deferred tax assets and liability balances for the companies that had them.

### 3.28 Adoption of new and revised IFRS

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year. Namely, the Company adopted the below mentioned new and amended IFRS and IFRIC interpretations effective as of 1 January 2013 which did not have any impact on the accounting policies, financial position or performance of the Company:

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013:

## 3. Significant accounting policies (continued)

### 3.28 Adoption of new and revised IFRS (continued)

**New and amended standards and interpretations (continued)**

- *IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income.*
- *IAS 19 Employee Benefits (Revised)*
- *IAS 28 Investments in Associates and Joint Ventures (Revised)*
- *IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 13 Fair Value Measurement*
- *Annual Improvements to IFRSs – 2009 – 2011 Cycle*

The adoption of the standards or interpretations is described below:

*IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment did not have any impact on the Company's financial position or performance.

*IAS 19 Employee Benefits (Revised)*

IAS 19 initiates a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment did not have any impact on the Company's financial position or performance.

*IAS 28 Investments in Associates and Joint Ventures (Revised)*

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. It is not expected that this revised standard would be relevant for the Company.

## 3. Significant accounting policies (continued)

## 3.28 Adoption of new and revised IFRS (continued)

### New and amended standards and interpretations (continued)

*IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendment did not have any impact on the Company's financial position or performance.

*IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The amendment did not have any impact on the Company's financial position or performance.

*IFRS 11 Joint Arrangements*

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment did not have any impact on the Company's financial position or performance.

*IFRS 12 Disclosures of Interests in Other Entities*

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment did not have any impact on the Company's financial position or performance.

## 3. Significant accounting policies (continued)

### 3.28 Adoption of new and revised IFRS (continued)

### New and amended standards and interpretations (continued)

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 10.

The **IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle**, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS.

- ***IAS 1 Presentation of Financial Statements:*** This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- ***IAS 16 Property, Plant and Equipment:*** This improvement clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory.
- ***IAS 32 Financial Instruments, Presentation:*** This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- ***IAS 34 Interim Financial Reporting:*** The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

*Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. The amendment did not have any impact on the Company's financial position or performance.

## 3. Significant accounting policies (continued)

### 3.28 Adoption of new and revised IFRS (continued)

**Standards issued but not yet effective**

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.

*IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014.These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Company is in the process of assessing the impact of this amendment on its financial position or performance.

*IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments to IFRS 9 and IFRS 7-Mandatory Effective Date and Transition Disclosures; Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*

IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The standard was initially effective for annual periods beginning on or after 1 January 2013 but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. The subsequent package of amendments issued in November 2013 initiate further accounting requirements for financial instruments. These amendments a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to

## 3. Significant accounting policies (continued)

### 3.28 Adoption of new and revised IFRS (continued)

**Standards issued but not yet effective (continued)**

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27 (continued))*

measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities. It is not expected that these amendments would be relevant for the Company.

*IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets*

This amendment is effective for annual periods beginning on or after 1 January 2014. These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The Company is in the process of assessing the impact of this standard on its financial statements.

*IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*

This amendment is effective for annual periods beginning on or after 1 January 2014. Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. The Company is in the process of assessing the impact of this standard on its financial statements.

*IAS 19 Defined Benefit Plans (Amended): Employee Contributions*

The amendment is effective from 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not expect that will have material financial impact in future financial statement.

*IFRIC Interpretation 21: Levies*

The interpretation is effective for annual periods beginning on or after 1 January 2014. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company does not expect that will have material financial impact in future financial statement.

## 3. Significant accounting policies (continued)

### 3.28 Adoption of new and revised IFRS (continued)

**Standards issued but not yet effective (continued)**

The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is in the process of assessing the impact of this standard on its financial statements.

- ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is re-valued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is re-valued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The **IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is in the process of assessing the impact of this standard on its financial statements.

- ***IFRS 3 Business Combinations:*** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- ***IFRS 13 Fair Value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- ***IAS 40 Investment Properties:*** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

### 3.29 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

## 3. Significant accounting policies (continued)

### 3.29 Segment reporting (continued)

Company 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 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. 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;

## 4. Accounting estimates and judgments (continued)

### 4.1 Insurance technical provisions (continued)

- 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.

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 2013 that had material effect on the financial statements.

### 4.2 Liability adequacy test

Liability adequacy test is performed to prove that all liabilities deriving from insurance contract (reduced for deferred acquisition costs) are adequate.

The Company forms reserves for unexpired risks for those lines of business where the expected loss ratio exceeds 100%. Additional reserves for unexpired risks are calculated by line of business as a product of unearned premiums and the difference between the value of the loss ratio and 100%.

Additional tests are performed to check the adequacy of the unearned premiums and unexpired risk reserves. At each balance sheet date, an assumption is made that claims development in the remaining term of portfolio at the balance sheet date will be the same as the claims development during the respective year on this portfolio. The amounts of future gross claims and gross claim handling costs are applied in these tests and compared with the amount of established provisions for unearned premiums reduced by deferred insurance acquisition costs.

The results of tests show that the level of unearned premiums reserves, together with the level of unexpired risk reserves, is sufficient.

If a shortfall is identified the related deferred acquisition costs are written down and, if necessary, an additional provision is established. The deficiency is recognized in the statement of profit or loss for the year.

# 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 2013, the Company has been pursuing and directing its risk management policy towards ensuring sustainable maintenance of the risk exposure level to a degree for which it is believed that it will not jeopardize its assets and business activities and which will ensure full protection of the interests of the policyholders, shareholders, damaged persons and other creditors of the Company. This risk management policy conducted by the Company is harmonized with the laws and regulations, as well as the internal rules and procedures.

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

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

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

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

## 5.2 Capital management and capital adequacy management

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

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

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

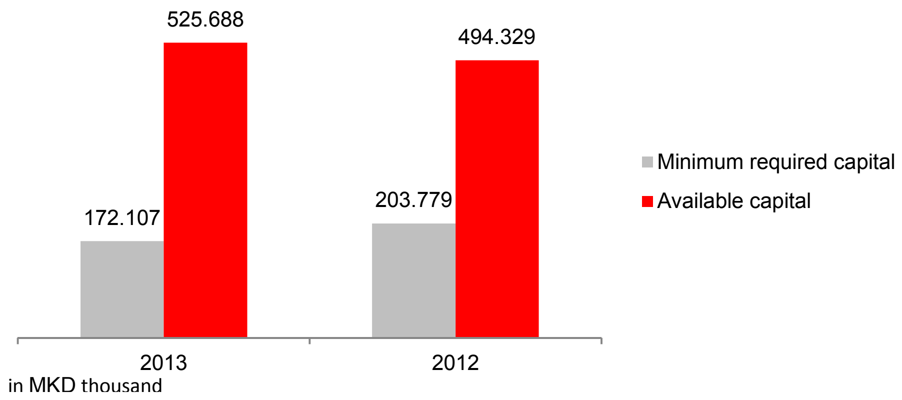
## 5. Risk management (continued)

### 5.2 Capital management and capital adequacy management (continued)

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

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

As at December 31, 2013, the available capital to minimum required capital ratio was 305% (2012: 243%).




### 5.3 Financial risk and sensitivity analysis

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

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

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

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

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.1 Credit risk

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

The main credit risk exposures arise from debt and equity securities holdings 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 1,561,152 MKD thousand (2012: 1,748,227 MKD thousand) as disclosed below.

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Financial investments | 1,118,341 | 1,092,225 |
| - Debt securities | 860,798 | 761,371 |
| - Deposits (term) and GF investments | 257,543 | 330,854 |
| Reinsurers' share of technical provisions | 55,696 | 165,609 |
| Receivables | 360,321 | 464,816 |
| Cash and cash equivalents | 26,794 | 25,577 |
| **Total financial assets exposed to credit risk** | **1,561,152** | **1,748,227** |

***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.

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

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.1 Credit risk (continued)

***Credit risk arising from financial investments (continued)***

Following is the credit-rating structure of the debt securities of Triglav Insurance AD Skopje for the years ended 31 December 2013 and 2012.

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Credit rating** | | |
| BBB | - | - |
| BB | 860,798 | 761,371 |
| **Total debt securities** | **860,798** | **761,371** |

*Other financial assets* - deposits (term), bank account and receivables are classified as “Undetermined” credit quality class.

*Exposure as per product type*

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

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

| **Type of investment** | **Limit** | **Limit** |
|---|---|---|
| | **2013** | **2012** |
| Debt securities and deposits | Min. 94% | Min. 94% |
| - 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 | Max. 6% | Max. 6% |

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

The table below shows the composition of the investment portfolio of the Company as of 31 December 2013 and 2012.

| | 31 December 2013 | % | 31 December 2012 | % |
|---|---|---|---|---|
| Debt securities, deposits and GF investments | 1,118,341 | 98% | 1,092,225 | 98% |
| - Debt securities issued by the state | 860,798 | 76% | 761,371 | 68% |
| - Deposits in banks | 231,231 | 20% | 303,223 | 27% |
| - Gurantee fund investments | 26,312 | 2% | 27,631 | 3% |
| Equity investments | 20,738 | 2% | 26,236 | 2% |
| **Total financial assets** | **1,139,079** | | **1,118,461** | |

As of 31 December 2013 and 2012, all investments are within the limits of the Company’s investment policy.

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.1 Credit risk (continued)

***Credit risk arising from financial investments (continued)***

In 2013, the single largest exposure of Triglav Insurance AD Skopje was related to the Eurobond issued by the Republic of Macedonia in amount of 475,804 MKD thousand with maturity until December 2015.

The single largest exposure in 2012 was also for Eurobond issued by the Republic of Macedonia in amount of 587,082 MKD thousand with maturity until December 2015.

*Exposure as per single issuer or group of connected issuers*

In addition, when making investments, the Company is following the capital model from the Solvency II directive where the investments in one issuer or group of connected issuers should not exceed the following limits:

- Max 6% for investments in single issuer or group of connected issuers with credit rating AAA to AA;
- Max 4.5% for investments in single issuer or group of connected issuers with credit rating A;
- Max 3 % for investments in single issuer or group of connected issuers with credit rating BBB;
- Max 2% for investments in single issuer or group of connected issuers with credit rating BB or lower or in equity instruments.

Exclusion to the above disclosed limits are the debt securities issued by the EEA countries in EEA currency or for the debt securities issued by the domicile country of the Company, i.e. R. Macedonia.

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

***Credit risk arising from insurance and reinsurance activities***

The Company is exposed to credit risk in case when the policyholders are unable to fulfill their financial liabilities arising from the insurance contracts. The receivables from the insurance operations are spread over large number of clients and therefore, there is small concentration as per client level which reduces the credit risk. The company manages the credit risk arising from insurance operations through selling insurance policies to clients with good credit history and through assessing the financial position and stability of individual clients. 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 12 for analysis of receivables by maturities); and
- Re-insurers’ credit ratings.

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

***Credit risk arising from cash and cash equivalents***

Triglav Insurance AD Skopje has defined limit exposures towards the banks in which it places its financial assets (gyro accounts and deposits) which are regularly monitored and complied with.

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.1 Credit risk (continued)

**Additional credit risk disclosures**

| 31 December 2013 | Neither past due nor impaired | Past due but not impaired | Impaired placements | Gross exposure | Allowance for impairment | Net exposure |
|---|---|---|---|---|---|---|
| Financial investments | 1,118,341 | - | 199,215 | 1,317,556 | (199,215) | 1,118,341 |
| - Debt securities | 860,798 | - | - | 860,798 | - | 860,798 |
| - Deposits (term), GF investments and loans | 257,543 | - | 199,215 | 456,758 | (199,215) | 257,543 |
| Reinsurers' share of technical provisions | 55,696 | - | - | 55,696 | - | 55,696 |
| Receivables | 146,397 | 85,117 | 786,495 | 1,018,009 | (657,688) | 360,321 |
| Cash and cash equivalents | 26,794 | - | - | 26,794 | - | 26,794 |
| **Total** | **1,347,228** | **85,117** | **985,710** | **2,418,055** | **(856,903)** | **1,561,152** |

| 31 December 2012 | Neither past due nor impaired | Past due but not impaired | Impaired placements | Gross exposure | Allowance for impairment | Net exposure |
|---|---|---|---|---|---|---|
| Financial investments | 1,092,225 | - | 209,801 | 1,302,026 | (209,801) | 1,092,225 |
| - Debt securities | 761,371 | - | - | 761,371 | - | 761,371 |
| - Deposits (term), GF investments and loans | 330,854 | - | 209,801 | 540,655 | (209,801) | 330,854 |
| Reinsurers' share of technical provisions | 77,713 | 87,896 | - | 165,609 | - | 165,609 |
| Receivables | 173,779 | 97,884 | 861,229 | 1,132,892 | (668,076) | 464,816 |
| Cash and cash equivalents | 25,577 | - | - | 25,577 | - | 25,577 |
| **Total** | **1,369,294** | **185,780** | **1,071,030** | **2,626,104** | **(877,877)** | **1,748,227** |

## 5. Risk management (continued)

### 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.1. Credit risk (continued)

**Additional credit risk disclosures**

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

| | Past due but not impaired | | | |
|---|---|---|---|---|
| | **Up to 30 days** | **30-180 days** | **Over 180 days** | **Total** |
| 2013 | 36,145 | 8,429 | 40,543 | 85,117 |
| 2012 | 52,843 | 5,891 | 39,150 | 97,884 |

| | Impaired receivables | | | |
|---|---|---|---|---|
| | **Up to 30 days** | **30-180 days** | **Over 180 days** | **Total** |
| 2013 | - | 93,012 | 35,795 | 128,807 |
| 2012 | - | 150,224 | 42,929 | 193,153 |

The impaired portion of category “Deposits (term), GF investments and loans” in amount of 199,215 MKD thousands (2012: 209,801 MKD thousands) relate to loans given in the past which are in delay of more than 365 days and therefore, they are fully impaired.

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.2 Liquidity risk

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

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

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

In 2013 and 2012, the Company did not obtain additional liquidity from credit lines.

The following tables show the contractual maturity structure of the Company's financial assets and liabilities.

| 31 December 2013 | Not defined | Under 1 year | From 1 to 5 years | Above 5 years | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial investments | 47,050 | 231,231 | 860,798 | - | 1,139,079 |
| - Debt securities (AFS) | - | - | 860,798 | - | 860,798 |
| - Equity investments (AFS) | 20,738 | - | - | - | 20,738 |
| - Deposits (term), and GF investments | 26,312 | 231,231 | - | - | 257,543 |
| Reinsurers' share of tech. provisions | - | 55,696 | - | - | 55,696 |
| Receivables | - | 360,321 | - | - | 360,321 |
| Cash and cash equivalents | - | 26,794 | - | - | 26,794 |
| Other assets | - | 3,452 | - | - | 3,452 |
| **Total financial assets** | **47,050** | **677,494** | **860,798** | **-** | **1,585,342** |
| **Financial liabilities (non-interest bearing)** | | | | | |
| Insurance technical provisions | - | 1,107,935 | - | - | 1,107,935 |
| Employee benefits | - | 115 | 413 | 4,853 | 5,381 |
| Operating liabilities | - | 65,708 | - | - | 65,708 |
| Other liabilities | - | 88,160 | - | - | 88,160 |
| Other financial liabilities | - | 6,156 | - | - | 6,156 |
| **Total financial liabilities** | - | **1,268,074** | **413** | **4,853** | **1,273,340** |
| **Maturity gap** | **47,050** | **(590,580)** | **860,385** | **(4,853)** | **312,002** |

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.2. Liquidity risk (continued)

| 31 December 2012 | Not defined | Under 1 year | From 1 to 5 years | Above 5 years | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial investments | 53,867 | 452,514 | 612,080 | - | 1,118,461 |
| - Debt securities (AFS) | - | 149,291 | 612,080 | - | 761,371 |
| - Equity investments (AFS) | 26,236 | - | - | - | 26,236 |
| - Deposits (term) and GF investments | 27,631 | 303,223 | - | - | 330,854 |
| Reinsurers' share of tech. provisions | - | 165,609 | - | - | 165,609 |
| Receivables | - | 464,816 | - | - | 464,816 |
| Cash and cash equivalents | - | 25,577 | - | - | 25,577 |
| Other assets | - | 2,061 | - | - | 2,061 |
| **Total financial assets** | **53,867** | **1,110,577** | **612,080** | | **1,776,524** |
| **Financial liabilities (non-interest bearing)** | | | | | |
| Insurance technical provisions | - | 1,318,976 | - | - | 1,318,976 |
| Employee benefits | - | 537 | 1,525 | 3,448 | 5,510 |
| Operating liabilities | - | 112,211 | - | - | 112,211 |
| Other liabilities | - | 86,482 | - | - | 86,482 |
| Other financial liabilities | - | 6,126 | - | - | 6,126 |
| **Total financial liabilities** | **-** | **1,524,332** | **1,525** | **3,448** | **1,529,305** |
| **Maturity gap** | **53,867** | **(413,755)** | **610,555** | **(3,448)** | **247,219** |

Due to the fact that the Company's financial investments is in AFS instruments, the debt securities maturing in 1 to 5 years can be sold earlier and thus cover the maturity gap that appears in the section under 1 year, if needed. As a result, it is unlikely that the Company will face any liquidity problems. In the long-term, the Company has positive gap for both, 2013 and 2012. 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.

### 5.3.3 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 the Republic of Macedonia.

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

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.3 Market risk (continued)

***Foreign currency risk management***

| **31 December 2013** | **EUR** | **USD** | **GBP** | **MKD** | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial investments | 834,608 | - | - | 304,471 | 1,139,079 |
| - Debt securities (AFS) | *834,608* | - | - | *26,190* | *860,798* |
| - Equity investments (AFS) | - | - | - | *20,738* | *20,738* |
| - Loans and receivables | - | - | - | *257,543* | *257,543* |
| Reinsurers' share of tech. provisions | 55,696 | - | - | - | 55,696 |
| Receivables | 3,817 | 99 | - | 356.405 | 360,321 |
| Cash and cash equivalents | 3,843 | 455 | - | 22,496 | 26,794 |
| Other assets | - | - | - | 3,452 | 3,452 |
| **Total financial assets** | **897,964** | **554** | | **686,824** | **1,585,342** |
| **Financial liabilities** | | | | | |
| Insurance technical provisions | - | - | - | 1,107,935 | 1,107,935 |
| Employee benefits | - | - | - | 5,381 | 5,381 |
| Operating liabilities | 18,413 | 3,433 | 83 | 43,779 | 65,708 |
| Other liabilities | 4,189 | - | - | 83,971 | 88,160 |
| Other financial liabilities | - | - | - | 6,156 | 6,156 |
| **Total financial liabilities** | **22,602** | **3,433** | **83** | **1,247,222** | **1,273,340** |

| **31 December 2012** | **EUR** | **USD** | **MKD** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial investments | 706,411 | - | 412,050 | 1,118,461 |
| - Debt securities (AFS) | *706,411* | - | *54,960* | *761,371* |
| - Equity investments (AFS) | - | - | *26,236* | *26,236* |
| - Loans and receivables | - | - | *330,854* | *330,854* |
| Reinsurers' share of tech. provisions | 165,609 | - | - | 165,609 |
| Receivables | 6,450 | - | 458,366 | 464,816 |
| Cash and cash equivalents | 258 | 69 | 25,250 | 25,577 |
| Other assets | - | - | 2,061 | 2,061 |
| **Total financial assets** | **878,728** | **69** | **897,727** | **1,776,524** |
| **Financial liabilities** | | | | |
| Insurance technical provisions | - | - | 1,318,976 | 1,318,976 |
| Employee benefits | - | - | 5,510 | 5,510 |
| Operating liabilities | 55,274 | 491 | 56,446 | 112,211 |
| Other liabilities | 11,440 | - | 75,042 | 86,482 |
| Other financial liabilities | - | - | 6,126 | 6,126 |
| **Total financial liabilities** | **66,714** | **491** | **1,462,100** | **1,529,305** |

## 5. Risk management (continued)

### 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.3 Market risk (continued)

***Foreign currency risk management***

*Foreign currency sensitivity analysis*

The Company is 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.

| | 31 December 2013 | 31 December 2012 |
|---|---:|---:|
| 1% drop in the FX rate to 60.9 (2012: 60.89) | (8,754) | (8,120) |
| 1% rise in the FX rate to 62.13 (2012: 62.12) | 8,754 | 8,120 |

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

***Interest rate risk management***

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

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

*Joint liability*

The Company has a liability towards National Insurance Bureau in respect of the Company's share in MTPL claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Insurance Law on supervision. On the investments in the Guarantee Fund, the Company receives interest payments with average interest rate of 5.24% for the year ended December 31, 2013 (2012: 6.193%).

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.

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.3 Market risk (continued)

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

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Financial assets** | | |
| **Non-interest bearing** | | |
| Equity investments (AFS) | 20,738 | 26,236 |
| Reinsurers' share of tech. provisions | 55,696 | 165,609 |
| Receivables | 360,321 | 464,816 |
| Cash and cash equivalents | 26,794 | 25,577 |
| Other assets | 3,452 | 2,061 |
| | **467,001** | **684,299** |
| **Fixed interest bearing** | | |
| Debt securities (AFS) | 860,798 | 761,371 |
| Loans and receivables | 70,162 | 90,235 |
| | **930,960** | **851,606** |
| **Variable Interest bearing** | | |
| Loans and receivables | 187,381 | 240,619 |
| | **187,381** | **240,619** |
| **Total financial assets** | **1,585,342** | **1,776,524** |
| **Financial liabilities** | | |
| **Non-interest bearing** | | |
| Insurance technical provisions | 1,107,935 | 1,318,976 |
| Employee benefits | 5,381 | 5,510 |
| Operating liabilities | 65,708 | 112,211 |
| Other liabilities | 88,160 | 86,482 |
| Other financial liabilities | 6,156 | 6,126 |
| **Total financial liabilities** | **1,273,340** | **1,529,305** |

*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% (0.6 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 2013 would be higher, i.e lower by 1,192 MKD thousand (2012: 2,376 MKD thousand).

## 5. Risk management (continued)

## 5.3 Financial risk and sensitivity analysis (continued)

### 5.3.3 Market risk (continued)

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

*Interest rate sensitivity analysis*

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| 15% increase in deposit interest rates | 1,192 | 2,376 |
| 15% decrease in deposit interest rates | (1,192) | (2,376) |

### 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 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 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | + 10% | - 10% | + 10% | -10% |
| Equity investments in R. Macedonia | 2,074 | (2,074) | 2, 624 | (2, 624) |
| **Total effect** | **2,074** | **(2,074)** | **2, 624** | **(2, 624)** |

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 2013 and 31 December 2012 were 10% above their disclosed values, the comprehensive income of the Company would be 2,074 MKD thousand and 2,624 MKD thousand higher. In contrast, if the prices of the equities in the portfolio as at 31 December 2013 and 31 December 2012 were 10% lower, the comprehensive income and profit of the Company would be 2,074 MKD thousand and 2,624 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 2012 in amount of 134 MKD thousand. The additional impairment in 2013 was in amount of 518 MKD thousand.

### 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 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

## 5. Risk management (continued)

### 5.4 Underwriting risk (continued)

***Reinsurance strategy (continued)***

- procedures, bases and criteria for establishing the highest probable loss arising from individual risks underwritten.

The Company has centralized system for management of reinsurance.

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

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

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

***Asset-liability harmonization***

The Law on insurance supervision applicable in R. 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 2013 the investments of the Company which serve as assets covering the technical provisions amounted to 1,139,561 MKD thousand (2012: 1,158,941 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:

## 5. Risk management (continued)

## 5.4 Underwriting risk (continued)

### *Reinsurance strategy (continued)*

### *Asset-liability harmonization (continued)*

| | Allowed % | 31 December 2013 | % | 31 December 2012 | % |
|---|---|---|---|---|---|
| Bank accounts and cash in hand | 3% | 26,794 | 2.4% | 26,136 | 2.3% |
| Bank deposits | 60% | 231,231 | 20.3% | 303,223 | 26.2% |
| Securities issued by R. Macedonia | 80% | 860,798 | 75.5% | 761,371 | 65.7% |
| Shares traded on a regulated market for securities in RM | 25% | 15,920 | 1.4% | 22,674 | 2% |
| Shares that are not traded on the regulated securities market if their issuer is legal entity established in R. Macedonia | 5% | 3,600 | 0.3% | 2,208 | 0.2% |
| Shares issued by investment funds registered in R. Macedonia | 20% | 1,218 | 0.1% | 1,354 | 0.1% |
| Long-term bonds and other long-term securities issued by foreign legal entity from a EU member or OECD member state | 20% | - | - | - | - |
| Other type of investments allowed by ISA and notwithstanding the requirements of the article 89 par. 2 of ISL. | * | - | - | 41,975 | 3.6% |
| **Total investment in assets** | | **1,139,561** | **100%** | **1,158,941** | **100%** |
| **Total net technical provisions** | | **1,052,239** | | **1,153,367** | |
| **Assets covering the technical provisions** | | **87,322** | | **5,574** | |

The assets covering the net insurance technical provisions were at surplus in amount of 87,322 MKD thousand as at 31 December 2013 (2012: surplus of 5,574 MKD thousand).

### *Third party liability insurance*

*Product features*

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

*Management of risk*

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

## 5. Risk management (continued)

### 5.4 Underwriting risk (continued)

***Property insurance***

*Product features*

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

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

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

*Management of risk*

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

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

***Motor insurance***

*Product features*

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

*Management of risk*

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

## 5. Risk management (continued)

### 5.4 Underwriting risk (continued)

***Development of loses***

The Company have not presented any information on the development of loses i.e. no comparison between paid damages and reserves, primarily because they usually are solved in less than a year.

***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.

***(i) Geographic and sectorial concentrations***

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

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

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

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

### 5.5 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

## 5. Risk management (continued)

### 5.5 Operational risks (continued)

fraudulent activity and reporting to the Management Board on the findings and initiated procedures.

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

The strategy for fraud prevention is based on three basic pillars such as prevention, detection and investigation of the fraud covering all business processes of the Company. This enables the Company to undertake the appropriate measures in the scope of its overall operations and business activities. In this direction, through SRPR, the Company tends to pursue comprehensive application of the best practices of the international organizations like ACFE (Association of Certified Fraud Examiners) and IAIS (International Association of Insurance Supervisors.

With the establishment of this department, Triglav Insurance AD Skopje has received new defence mechanism that is directed towards the protection of the Company's capital from irregular activities, insurance and other types of frauds as well as from illegal misappropriation of assets.

Another important segment of operational risks are compliance risks which are managed in the framework of the compliance function.

### 5.6 Strategic risks

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

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

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

#### Strategy

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

#### 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

## 5. Risk management (continued)

### 5.6 Strategic risks (continued)

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 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 2013 | Carrying amount | Fair Value |
|---|---|---|
| **Financial assets** | | |
| Financial investments | 1,139,079 | 1,139,079 |
| - Debt securities (AFS) | *860,798* | *860,798* |
| - Equity investments (AFS) | *20,738* | *20,738* |
| - Loans and receivables | *257,543* | *257,543* |
| Reinsurers' share of tech. provisions | 55,696 | 55,696 |
| Receivables | 360,321 | 360,321 |
| Cash and cash equivalents | 26,794 | 26,794 |
| Other assets | 3,452 | 3,452 |
| **Total financial assets** | **1,585,342** | **1,585,342** |
| **Financial liabilities** | | |
| Insurance technical provisions | 1,107,935 | 1,107,935 |
| Employee benefits | 5,381 | 5,381 |
| Operating liabilities | 65,708 | 65,708 |
| Other liabilities | 88,160 | 88,160 |
| Other financial liabilities | 6,156 | 6,156 |
| **Total financial liabilities** | **1,273,340** | **1,273,340** |

| 31 December 2012 | Carrying amount | Fair Value |
|---|---|---|
| **Financial assets** | | |
| Financial investments | 1,118,461 | 1,118,461 |
| - Debt securities (AFS) | *761,371* | *761,371* |
| - Equity investments (AFS) | *26,236* | *26,236* |
| - Loans and receivables | *330,854* | *330,854* |
| Reinsurers' share of tech. provisions | 165,609 | 165,609 |
| Receivables | 464,816 | 464,816 |
| Cash and cash equivalents | 25,577 | 25,577 |
| Other assets | 2,061 | 2,061 |
| **Total financial assets** | **1,776,524** | **1,776,524** |
| **Financial liabilities** | | |
| Insurance technical provisions | 1,318,976 | 1,318,976 |
| Employee benefits | 5,510 | 5,510 |
| Operating liabilities | 112,211 | 112,211 |
| Other liabilities | 86,482 | 86,482 |
| Other financial liabilities | 6,126 | 6,126 |
| **Total financial liabilities** | **1,529,305** | **1,529,305** |

## 5. Risk management (continued)

### 5. 7 Fair value of financial assets and liabilities (continued)

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

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

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

- Debt and equity AFS securities are evaluated by the Company based on price quotations at the reporting date. The fair value of unquoted AFS instruments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Please refer to note 3.5.

- The fair value of loans and receivables is measured using the discounted cash flow model on the basis of the historical effective interest rate.

  The fair value of technical provisions and their re-insurance share as well as the employee benefits is measured through use of various actuarial methods as disclosed in notes 3.6 and 3.13.

- 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 2013, the carrying amounts of such receivables, net of allowances, were not different from their calculated fair values.

## 6. Operational segments

***Products, services and major consumers***

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

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

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

***Geographical areas***

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

***Income from segments***

The income from the segments consists of the net premium income from insurance, income from financial assets, income from fees and commissions and other income.

| 31 December 2013 | Republic of Macedonia | Other | Total |
|---|---|---|---|
| Total income | 1,076,600 | - | 1,076,600 |
| Total costs/expenses (incl. taxes) | 1,007,544 | - | 1,007,544 |
| Total assets and liabilities | 1,877,650 | - | 1,877,650 |

| 31 December 2012 | Republic of Macedonia | Other | Total |
|---|---|---|---|
| Total income | 1,137,424 | - | 1,137,424 |
| Total costs/expenses (incl. taxes) | 1,109,745 | - | 1,109,745 |
| Total assets and liabilities | 2,064,632 | - | 2,064,632 |

## 7. Intangible assets

| | Software and licenses | Deferred acquisition costs | Total intangible assets |
|---|---|---|---|
| **Cost** | | | |
| As at 31 December 2011 | 6,309 | 82,647 | **88,956** |
| - increase | 10,617 | 12,961 | 23,578 |
| - decrease | - | (22,642) | (22,642) |
| As at 31 December 2012 | 16,926 | 72,966 | **89,892** |
| - Increase | 228 | 27,204 | 27,432 |
| As at 31 December 2013 | 17,154 | 100,170 | **117,324** |
| **Accumulated amortization** | | | |
| As at 31 December 2011 | 1,313 | - | **1,313** |
| - increase | 2,293 | - | 2,293 |
| As at 31 December 2012 | 3,606 | - | **3,606** |
| - Increase | 3,980 | - | 3,980 |
| As at 31 December 2013 | 7,586 | - | **7,586** |
| **Carrying amount** | | | |
| As at 31 December 2012 | 13,320 | 72,966 | **86,286** |
| As at 31 December 2013 | 9,568 | 100,170 | **109,738** |

No items of intangible assets were pledged as collateral as at 31 December 2013 or 31 December 2012.

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 3.23. For details, see expenses by nature and function in note 28.

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

The value of the new software ADInsure and the related licenses are in amount of 6,336 MKD thousand and represent 66% from the total value as at 31 December 2013 (2012: 8,685 MKD thousand).

## 8. Property, plant and equipment

| | Buildings | Equipment | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 31 December 2011 | 78,929 | 97,074 | 626 | **176,629** |
| - increase | - | 6,705 | - | 6,705 |
| - decrease | - | (14,200) | - | (14,200) |
| As at 31 December 2012 | 78,929 | 89,579 | 626 | **169,134** |
| - increase | - | 6,054 | - | 6,054 |
| - decrease | - | (5,857) | - | (5,857) |
| As at 31 December 2013 | 78,929 | 89,776 | 626 | **169,331** |
| **Accumulated depreciation** | | | | |
| As at 31 December 2011 | 17,024 | 73,121 | - | **90,145** |
| - increase | 1,974 | 7,532 | - | 9,506 |
| - decrease | - | (13,789) | - | (13,789) |
| As at 31 December 2012 | 18,998 | 66,864 | - | **85,862** |
| - increase | 1,968 | 8,098 | - | 10,066 |
| - decrease | - | (5,760) | - | (5,760) |
| As at 31 December 2013 | 20,966 | 69,202 | - | **90,168** |
| **Carrying amount** | | | | |
| As at 31 December 2012 | 59,931 | 22,715 | 626 | **83,272** |
| As at 31 December 2013 | 57,963 | 20,574 | 626 | **79,163** |

The market value of the buildings as at 31 December 2013 was in amount of 84,762 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, plant and equipment were pledged as collateral as at 31 December 2013 or 31 December 2012.

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 3.23. For details, see expenses by nature and function in note 28.

As at 31 December 2013 no item of property, plant and equipment was held under finance lease.

## 9. Investment Property

| 31 December 2013 | Buildings | Total |
|---|---|---|
| **Cost** | | |
| As at 31 December 2011 | 155,801 | **155,801** |
| - increase | - | - |
| As at 31 December 2012 | 155,801 | **155,801** |
| - decrease | (13,334) | **(13,334)** |
| As at 31 December 2013 | 142,467 | **142,467** |
| **Accumulated depreciation** | | |
| As at 31 December 2011 | 33,433 | **33,433** |
| - increase | 3,818 | 3,818 |
| As at 31 December 2012 | 37,251 | **37,251** |
| - increase | 3,641 | 3,641 |
| - decrease | (1,832) | (1,832) |
| As at 31 December 2013 | 39,060 | **39,060** |
| **Carrying amount** | | |
| As at 31 December 2012 | 118,550 | **118,550** |
| As at 31 December 2013 | 103,407 | **103,407** |

The market value of the buildings held as investment property as at 31 December 2013 was in amount of 131,753 MKD thousand and it is in excess over its carrying amount.

The valuation of the investment property has been performed by certified appraiser.

The fair value measurement was made using valuation technics for which the lowest level input that is significant to the fair measurement is directly or indirectly observable (level 2).

No item of investment property was pledged as collateral as at 31 December 2013 or 31 December 2012.

The rental income earned from investment property in 2013 was in amount of 2,575 MKD thousand (2012: 2,683 MKD thousand). The rental income earned is disclosed in “Other Income” in note 24.

The depreciation charge from investment property is disclosed in “Other Expenses” in note 31.

## 10. Financial Assets

### Overview of financial assets by type and investment group

| 31 December 2013 | Available-for-sale (AFS) | Loans and receivables (L&R) | Total financial assets |
|---|---|---|---|
| Debt and other fixed return securities | 860,798 | - | 860,798 |
| Shares, other floating rate securities and fund coupons | 20,738 | - | 20,738 |
| Bank deposits | - | 231,231 | 231,231 |
| Guarantee fund | - | 26,312 | 26,312 |
| **Total financial assets** | **881,536** | **257,543** | **1,139,079** |

| 31 December 2012 | Available-for-sale (AFS) | Loans and receivables (L&R) | Total financial assets |
|---|---|---|---|
| Debt and other fixed return securities | 761,371 | - | 761,371 |
| Shares, other floating rate securities and fund coupons | 26,236 | - | 26,236 |
| Bank deposits | - | 303,223 | 303,223 |
| Guarantee fund | - | 27,631 | 27,631 |
| **Total financial assets** | **787,607** | **330,854** | **1,118,461** |

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

## 10. Financial Assets (continued)

Following is disclosure of the interest rates of all interest bearing financial instruments, for both years ended 31 December, 2013 and 2012.

| | 31 December 2013 | I.R | 31 December 2012 | I.R |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Fixed interest bearing** | | | | |
| **Debt securities (AFS)** | **860,798** | | **761,371** | |
| MACEDO 4 5/8 12/08/2015 | 475,804 | 4.63% | 587,082 | 4.63% |
| MACGB 4.6 10/31/2018 | 38,205 | 4.60% | - | - |
| MACGB 5.15 01/24/2018 | 123,803 | 5.15% | - | - |
| MACGB 5.4 01/09/2018 | 196,795 | 5.40% | - | - |
| MACGB 5.7 09/29/2016 | 26,191 | 5.70% | 24,999 | 5.70% |
| MACEDO 9 7/8 01/08/2013 | - | - | 119,329 | 9.88% |
| MACTB 0 03/04/2013 | - | - | 29,961 | 4.00% |
| **Loans and receivables** | **70,162** | | **90,235** | |
| Deposit NLB Tutunska Banka | 40,125 | 4.75% | - | - |
| Deposit Ohridska Banka | 30,037 | 4.60% | - | - |
| Deposit NLB Tutunska Banka | - | - | 40,191 | 6.25% |
| Deposit Ohridska Banka | - | - | 30,044 | 5.50% |
| Deposit Halk Banka | - | - | 20,000 | 5.70% |
| | **930,960** | | **851,606** | |
| **Variable Interest bearing** | | | | |
| **Loans and receivables** | **187,381** | | **240,619** | |
| Deposit Halk Banka | 20,000 | 5.00% | - | - |
| Deposit Halk Banka | 20,000 | 4.30% | - | - |
| Deposit Halk Banka | 20,000 | 4.20% | - | - |
| Deposit Komercijalna Banka AD Skopje | 30,047 | 3.00% | - | - |
| Deposit Stopanska Banka Skopje | 30,224 | 4.00% | - | - |
| Deposit Stopanska Banka Skopje | 20,127 | 4.00% | - | - |
| Deposit Ohridska Banka | 20,672 | 4.60% | - | - |
| Gurantee Fund investment | 26,311 | 5.24% | 27,631 | 6.19% |
| Deposit NLB Tutunska Banka | - | - | 10,500 | 0.70% |
| Deposit NLB Tutunska Banka | - | - | 20,073 | 4.60% |
| Deposit Stopanska Banka Skopje | - | - | 182,415 | 7.20% |

## 10. Financial Assets (continued)

### Movements of financial assets

| | Available-for-sale (AFS) | Loans and receivables (L&R) | Total financial assets |
|---|---|---|---|
| **As at 31 December 2011** | **748,367** | **436,371** | **1,184,738** |
| Acquisitions | 384,104 | 135,500 | 519,604 |
| Maturity | (59,934) | (268,875) | (328,809) |
| Disposals | (347,586) | - | (347,586) |
| Valuation through equity | 13,902 | - | 13,902 |
| Movement in impairment allowance | (216) | 4,627 | 4,411 |
| Interest Income | 48,676 | 23,231 | 71,907 |
| Foreign exchange differences | 294 | - | 294 |
| **As at 31 December 2012** | **787,607** | **330,854** | **1,118,461** |
| Acquisitions | 495,975 | 305,000 | 800,975 |
| Disposals | (270,531) | - | (270,531) |
| Maturity | (179,797) | (398,210) | (578,007) |
| Valuation through equity | (73) | - | (73) |
| Movement in impairment allowance | (518) | 1,566 | 1,048 |
| Premiums and discounts | 4,457 | - | 4,457 |
| Interest Income | 44,251 | 18,333 | 62,584 |
| Foreign exchange differences | 165 | - | 165 |
| **As at 31 December 2013** | **881,536** | **257,543** | **1,139,079** |

### Financial assets according to valuation levels

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Available-for-sale (AFS)** | | |
| Level 1 | 496,542 | 757,646 |
| Level 2 | 384,994 | 29,961 |
| Level 3 | - | - |
| **Total available-for-sale financial assets** | **881,536** | **787,607** |

The price hierarchy that the Company is using in valuing financial assets at fair value is described in note 3.5

No reclassification of financial assets has been made during 2013 or 2012.

## 10. Financial Assets (continued)

### Financial assets according to valuation levels (continued)

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Loans and receivables (L&R)** | | |
| Level 1 | - | - |
| Level 2 | 257,543 | 330,854 |
| Level 3 | - | - |
| **Total available-for-sale financial assets** | **257,543** | **330,854** |

## 11. Reinsurers' share of technical provisions

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Reinsurers' share of unearned premiums | 40,844 | 66,026 |
| Reinsurers' share of claims | 14,852 | 99,583 |
| **Total assets from reinsurance contracts** | **55,696** | **165,609** |

## 12. Receivables

### Receivables by maturity

| 31 December 2013 | Receivables by maturity | | | |
|---|---|---|---|---|
| | Not overdue | Overdue up to 180 days | Overdue above 180 days | Total |
| **Receivables from direct insurance** | **132,353** | **127,109** | **34,984** | **294,446** |
| Receivables from insurers | 128,165 | 121,800 | 16,095 | 266,060 |
| Receivables from insurance brokers | 4,188 | 5,309 | 18,770 | 28,267 |
| Other receivables from direct | - | - | 119 | 119 |
| **Receivables from co-insurance and re-insurance** | **106** | **-** | **-** | **106** |
| Receivables from re-insurers' share in | (40) | - | - | (40) |
| Other receivables from co-insurance | 146 | - | - | 146 |
| **Other receivables** | **13,938** | **10,478** | **41,353** | **65,769** |
| Other short-term receivables from | 11,916 | 10,185 | 35,894 | 57,995 |
| Short term receivables from financing | - | - | 5,126 | 5,126 |
| Other short-term receivables | 2,022 | 293 | 333 | 2,648 |
| **Total receivables** | **146,397** | **137,587** | **76,337** | **360,321** |

## 12. Receivables (continued)

### Receivables by maturity (continued)

| 31 December 2012 | Receivables by maturity | | | |
|---|---|---|---|---|
| | Not overdue | Overdue up to 180 days | Overdue above 180 days | Total |
| **Receivables from direct insurance** | **147,309** | **198,429** | **43,958** | **389,696** |
| Receivables from insurers | 140,973 | 187,246 | 17,493 | 345,712 |
| Receivables from insurance brokers | 6,336 | 11,183 | 26,251 | 43,770 |
| Other receivables from direct | - | - | 214 | 214 |
| **Receivables from co-insurance and re-insurance** | **2,384** | **-** | **-** | **2,384** |
| Receivables from re-insurers' share in | 2,238 | - | - | 2,238 |
| Other receivables from co-insurance | 146 | - | - | 146 |
| **Other receivables** | **24,083** | **16,330** | **32,323** | **72,736** |
| Other short-term receivables from | 23,466 | 15,881 | 27,742 | 67,089 |
| Short term receivables from financing | 59 | 288 | 4,581 | 4,928 |
| Other short-term receivables | 558 | 161 | - | 719 |
| **Total receivables** | **173,776** | **214,759** | **76,281** | **464,816** |

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

| 31 December 2013 | Gross amount | Impairment | Net amount |
|---|---|---|---|
| Receivables from direct insurance | 909,837 | (615,391) | 294,446 |
| Receivables from co-insurance and re-insurance | 106 | - | 106 |
| Other receivables | 108,066 | (42,297) | 65,769 |
| **Total receivables** | **1,018,009** | **(657,688)** | **360,321** |

| 31 December 2012 | Gross amount | Impairment | Net amount |
|---|---|---|---|
| Receivables from direct insurance | 1,018,560 | (628,864) | 389,696 |
| Receivables from co-insurance and re-insurance | 2,384 | - | 2,384 |
| Other receivables | 111,948 | (39,212) | 72,736 |
| **Total receivables** | **1,132,892** | **(668,076)** | **464,816** |

## 12. Receivables (continued)

### Movement of bad debt provisions (impairment)

| 31 December 2013 | Opening balance | Increase | Use | Release | Reclassification | Ending balance |
|---|---|---|---|---|---|---|
| **Receivables from direct insurance** | **628,865** | **40,575** | **(26,003)** | **(28,046)** | **-** | **615,391** |
| Receivables from insurers | 628,086 | 39,736 | (26,003) | (28,046) | - | 613,773 |
| Other receivables from direct insurance | 779 | 839 | - | - | - | 1,618 |
| **Other receivables** | **39,211** | **3,826** | **-** | **(740)** | **-** | **42,297** |
| Other short-term receivables from insurance | 32,118 | 3,826 | - | (740) | - | 35,204 |
| Short term receivables from financing | 1,002 | - | - | - | - | 1,002 |
| Other short-term receivables | 6,091 | - | - | - | - | 6,091 |
| **Total receivables** | **668,076** | **44,401** | **(26,003)** | **(28,786)** | **-** | **657,688** |

| 31 December 2012 | Opening balance | Increase | Use | Release | Reclassification | Ending balance |
|---|---|---|---|---|---|---|
| **Receivables from direct insurance** | **644,845** | **110,679** | **(13,639)** | **(85,132)** | **(27,888)** | **628,865** |
| Receivables from insurers | 616,957 | 109,900 | (13,639) | (85,132) | - | 628,086 |
| Other receivables from direct insurance | 27,888 | 779 | - | - | (27,888) | 779 |
| **Other receivables** | **8,153** | **3,174** | **-** | **(4)** | **27,888** | **39,211** |
| Other short-term receivables from insurance | 8,153 | 3,048 | - | - | 20,917 | 32,118 |
| Short term receivables from financing | - | 50 | - | (4) | 956 | 1,002 |
| Other short-term receivables | - | 76 | - | - | 6,015 | 6,091 |
| **Total receivables** | **652,998** | **113,853** | **(13,639)** | **(85,136)** | **-** | **668,076** |

## 13. Other assets

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Other receivables | - | 1,457 |
| Other assets | 3,452 | 604 |
| **Total other assets** | **3,452** | **2,061** |

## 14. Cash and cash equivalents

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Cash in bank in MKD | 22,430 | 23,430 |
| Cash in bank in EUR | 3,835 | 229 |
| Cash in bank in other currencies | 455 | 69 |
| Cash on hand in MKD | 66 | 1,820 |
| Cash on hand in EUR | 8 | 29 |
| **Total cash and cash equivalents** | **26,794** | **25,577** |

## 15. Equity

As at 31 December 2013, the share capital of the Triglav Insurance AD Skopje is consisted of 60,184 common shares with total nominal capital of 185,223 MKD thousand. The nominal value per share is 3,078 MKD. The shares are registered and recorded as common shares with the Central Securities Depository of the Republic of Macedonia. To their holders, these shares bear dividend and voting rights for the Shareholders Assembly. One common share entitles to one vote at the Shareholders Assembly. The shares are issued in dematerialized form with ISIN code MKVROS101016. All of the shares are paid in full.

There was no increase in the share capital during 2013 or 2012.

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

| 31 December 2013 | Domestic | Foreign | Legal entities | Physical persons | Total |
|---|---|---|---|---|---|
| Number of shares | 13,224 | 46,960 | 47,545 | 12,639 | 60,184 |
| Number of shareholders | 70 | 19 | 8 | 81 | 89 |
| Number of shares - percentage | 21.97% | 78.03% | 79.00% | 21.00% | 100% |
| Number of shareholders – percentage | 78.65% | 21.35% | 8.99% | 91.01% | 100% |

## 15. Equity (continued)

| 31 December 2012 | Domestic | Foreign | Legal entities | Physical persons | Total |
|---|---|---|---|---|---|
| Number of shares | 13,224 | 46,960 | 47,545 | 12,639 | 60,184 |
| Number of shareholders | 69 | 19 | 8 | 80 | 88 |
| Number of shares - percentage | 21.97% | 78.03% | 79.00% | 21.00% | 100% |
| Number of shareholders – percentage | 78.41% | 21.59% | 9.09% | 90.91% | 100% |

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

| Shareholder | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Triglav Int. Holdinska Druzba d.d Ljubljana | 73.38% | 73.38% |
| Stojan Klopcevski | 8.19% | 8.19% |

**Dividends**

As of the date of preparation of these financial statements there were no dividends declared (2012: none).

**Reserves**

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 2013, the Company transferred 9,226 MKD thousand from retained earnings to statutory reserves. The amount transferred in 2012 was 7,189 MKD thousand.

**Fair value reserves**

The fair value 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 2013 the movement in the fair value reserve was negative 73 MKD thousand as opposed to the positive effect in 2012 in amount of 13,904 MKD thousand, as it is disclosed in the *"Statement of Comprehensive Income".*

The movements in the equity are specified in more detail in the "*Statement of Changes in Equity".*

## 16. Gross Insurance technical provisions

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Gross provisions for unearned premium | 469,472 | 485,776 |
| **Total gross provisions for unearned premium** | **469,472** | **485,776** |
| Gross provisions for incurred and reported claims (RBNS) | 263,469 | 451,218 |
| Gross provisions for incurred but not reported and/or not enough reported claims (IBNR/IBNER) | 312,629 | 314,579 |
| Provisions for claims handling costs (CHC) | 60,490 | 65,093 |
| **Total gross claims provisions** | **636,588** | **830,890** |
| **Gross provisions for bonuses and discounts** | **1,875** | **2,310** |
| **Total gross insurance technical provisions** | **1,107,935** | **1,318,976** |

### Analysis of changes in gross insurance technical provisions

| 31 December 2013 | Opening balance | Formation | Release | Ending Balance |
|---|---|---|---|---|
| Gross provisions for unearned premium | 485,776 | 152,424 | (168,728) | **469,472** |
| Gross claims provisions | 830,890 | 197,352 | (391,654) | **636,588** |
| Gross provisions for bonuses and discounts | 2,310 | 7,085 | (7,520) | **1,875** |
| **Total insurance technical provisions** | **1,318,976** | **356,861** | **(567,902)** | **1,107,935** |

| 31 December 2012 | Opening balance | Formation | Release | Ending Balance |
|---|---|---|---|---|
| Gross provisions for unearned premium | 493,766 | 247,011 | (255,001) | 485,776 |
| Gross claims provisions | 966,473 | 440,956 | (576,539) | 830,890 |
| Gross provisions for bonuses and discounts | 5,800 | 6,480 | (9,970) | 2,310 |
| **Total insurance technical provisions** | **1,466,039** | **694,447** | **(841,510)** | **1,318,976** |

## 16. Gross insurance technical provisions (continued)

### Analysis of gross insurance technical provisions by insurance class

| 31 December 2013 | Accident | Land motor vehicle | Aircraft and marine | Cargo | Property | Motor TPL | Aircraft and marine liability | General liability | Surety ship | Fin. loss | Travel | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross provisions for unearned premium | 27,839 | 93,656 | 61 | 998 | 83,596 | 233,266 | 79 | 16,435 | 33 | 7,633 | 5,876 | **469,472** |
| Gross claims provisions for RBNS | 3,582 | 26,940 | 4,700 | 101 | 11,879 | 203,853 | 10,544 | 101 | - | - | 1,769 | **263,469** |
| Gross claims provisions for IBNR and IBNER | 32,016 | 12,700 | - | - | 34,611 | 233,302 | - | - | - | - | - | **312,629** |
| Provisions for claims handling costs | 3,737 | 4,162 | 494 | 11 | 4,881 | 45,901 | 1,107 | 11 | - | - | 186 | **60,490** |
| Gross provisions for bonuses and discounts | 1,875 | - | - | - | - | - | - | - | - | - | - | **1,875** |
| **Total gross insurance technical provisions** | **69,049** | **137,458** | **5,255** | **1,110** | **134,967** | **716,322** | **11,730** | **16,547** | **33** | **7,633** | **7,831** | **1,107,935** |

## 16. Gross insurance technical provisions (continued)

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

| 31 December 2012 | Accident | Land motor vehicle | Aircraft and marine | Cargo | Property | Motor TPL | Aircraft and marine liability | General liability | Fin. loss | Travel | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross provisions for unearned premium | 29,096 | 93,891 | 57 | 1,186 | 117,945 | 221,160 | 70 | 12,635 | 2,751 | 6,985 | 485,776 |
| Gross claims provisions for RBNS | 6,209 | 30,210 | 6,700 | 881 | 83,105 | 300,551 | 20,989 | 157 | - | 2,416 | 451,218 |
| Gross claims provisions for IBNR and IBNER | 37,098 | 24,330 | - | - | 35,873 | 217,278 | - | - | - | - | 314,579 |
| Provisions for claims handling costs | 3,681 | 4,636 | 570 | 75 | 10,113 | 44,015 | 1,784 | 13 | - | 206 | 65,093 |
| Gross provisions for bonuses and discounts | 2,310 | - | - | - | - | - | - | - | - | - | 2,310 |
| **Total gross insurance technical provisions** | **78,394** | **153,067** | **7,327** | **2,142** | **247,036** | **783,004** | **22,843** | **12,805** | **2,751** | **9,607** | **1,318,976** |

## 16. Gross insurance technical provisions (continued)

### Analysis of changes in loss events for non-life insurance

| | Year of occurrence | | | | | | |
|---|---|---|---|---|---|---|---|
| **Cumulative loss assessment** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **Total** |
| at the end of year of occurrence | 1,020,251 | 799,740 | 766,079 | 785,670 | 662,583 | 603,408 | 4,637,731 |
| 1 year after year of occurrence | 974,315 | 774,330 | 825,540 | 723,768 | 645,758 | - | 3,943,711 |
| 2 year after year of occurrence | 968,018 | 755,317 | 820,102 | 706,105 | - | - | 3,249,542 |
| 3 year after year of occurrence | 974,184 | 745,806 | 751,385 | - | - | - | 2,471,375 |
| 4 year after year of occurrence | 988,143 | 743,128 | - | - | - | - | 1,713,271 |
| 5 year after year of occurrence | 951,796 | - | - | - | - | - | 951,796 |
| Cumulative loss assessment | **951,796** | **743,128** | **751,385** | **706,105** | **645,758** | **603,408** | **4,401,580** |
| Cumulative payments until balance sheet date | 919,492 | 718,317 | 698,354 | 648,039 | 347,140 | 347,140 | 3,865,147 |
| **CLAIMS PROVISIONS BALANCE** | **32,304** | **24,811** | **53,031** | **58,066** | **256,268** | **256,268** | **536,433** |

## 17. Employee benefits

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Provision for retirement benefits | 1,521 | 1,499 |
| Provisions for jubilee rewards | 3,860 | 4,011 |
| **Total provisions for employee benefits** | **5,381** | **5,510** |

The change in the provisions for jubilee rewards is disclosed under operating expenses in note 28.

## 18. Other financial liabilities

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Liabilities for dividends from previous years | 6,126 | 6,126 |
| Other liabilities | 30 | - |
| **Total other financial liabilities** | **6,156** | **6,126** |

## 19. Operating liabilities

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Liabilities towards policyholders | 16,110 | 39,221 |
| Liabilities towards brokers | 11,584 | 832 |
| Liabilities towards agents | 207 | 411 |
| Advances received | 473 | 473 |
| Liabilities for legal contributions related to insurance | 2,790 | 2,622 |
| Other liabilities from direct insurance operations | 10,563 | 11,775 |
| **Total liabilities from direct insurance operations** | **41,727** | **55,334** |
| Liabilities from re-insurance premiums | 20,921 | 55,514 |
| Liabilities from co-insurance premiums | 795 | 38 |
| **Total liabilities from co-insurance and re-insurance** | **21,716** | **55,552** |
| Current tax liabilities | 2,265 | 1,325 |
| **Total operating liabilities** | **65,708** | **112,211** |

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

## 20. Other liabilities

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Liabilities towards Guarantee Fund (GF) | 49,797 | 53,823 |
| Liabilities for salaries and contribution and taxes on salaries | 14,511 | 10,494 |
| Liabilities towards suppliers | 9,991 | 19,370 |
| Liabilities for taxes | 1,057 | 2,781 |
| Other short-term liabilities | 12,804 | 14 |
| **Total other liabilities** | **88,160** | **86,482** |

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

## 21. Premium income

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Gross written premium | 1,082,217 | 1,232,665 |
| Ceded co-insurance written premium | (284) | - |
| Reinsurance  written premium | (137,205) | (284,003) |
| Change in gross provisions for unearned premium | 43,508 | (1,657) |
| Change in reinsurers' share  of unearned premium | (25,213) | 49,217 |
| **Net premium income** | **963,023** | **996,222** |

**Overview of premium income by insurance class**

| 31 December 2013 | Gross written premium | Ceded co-insurance | Reinsurer's share | Net written premium |
|---|---|---|---|---|
| Accident insurance | 86,857 | - | - | 86,857 |
| Land motor vehicle insurance | 198,111 | - | - | 198,111 |
| Aircraft and marine insurance | 137 | - | - | 137 |
| Cargo insurance | 19,070 | - | (1,704) | 17,366 |
| Fire, natural forces and other property insurance | 240,357 | - | (78,743) | 161,614 |
| Motor TPL insurance | 463,430 | - | (11,509) | 451,921 |
| Aircraft and marine liability insurance | 57 | - | - | 57 |
| General liability insurance | 34,912 | (284) | (28,253) | 6,375 |
| Surety ship insurance | 46 | - | - | 46 |
| Financial loss insurance | 14,576 | - | (12,048) | 2,528 |
| Travel insurance | 24,664 | - | (4,948) | 19,716 |
| **Total** | **1,082,217** | **(284)** | **(137,205)** | **944,728** |

## 21. Premium income (continued)

### Overview of premium income by insurance class (continued)

| 31 December 2012 | Gross written premium | Reinsurers' share | Net written premium |
|---|---|---|---|
| Accident insurance | 100,236 | (5,635) | 94,601 |
| Land motor vehicle insurance | 194,637 | - | 194,637 |
| Aircraft and marine insurance | 58,613 | (58,461) | 152 |
| Cargo insurance | 27,792 | (96) | 27,696 |
| Fire, natural forces and other property insurance | 342,275 | (177,732) | 164,543 |
| Motor TPL insurance | 458,604 | (17,612) | 440,992 |
| Aircraft and marine liability insurance | 1,184 | (1,074) | 110 |
| General liability insurance | 26,218 | (23,393) | 2,825 |
| Financial loss insurance | 5,575 | - | 5,575 |
| Travel insurance | 17,531 | - | 17,531 |
| **Total** | **1,232,665** | **(284,003)** | **948,662** |

## 22. Income from financial assets

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Interest income | | |
| - AFS | 44,251 | 48,676 |
| - Deposits | 17,008 | 21,180 |
| - Interest on late payments of insurance receivables | 5,419 | 5,201 |
| - Investment in Guarantee fund | 1,325 | 2,050 |
| - Interest income from other investments | 14 | 15 |
| **Total interest income** | **68,017** | **77,122** |
| Dividends | | |
| - AFS | 935 | 2,276 |
| **Total dividend income** | **935** | **2,276** |
| Realized gains on disposals | 6,804 | 2,886 |
| Other financial income | 10,184 | 8,415 |
| **Total income from financial assets** | **85,940** | **90,699** |

The realized gains on disposals in amount of 6,804 MKD thousand relate to a sale of Euro bonds.

## 22. Income from financial assets (continued)

In 2013, other financial income is consisted of FX differences in amount of 8,420 MKD thousand, release of bad debt provision in amount of 1,621 MKD thousand and other small items of income in amount of 143 MKD thousand. In 2012, other financial income is consisted of FX differences in amount of 3,489 MKD thousand, release of bad debt provisions for receivables other than insurance premium in amount of 4,767 thousand and other small items of income in amount of 159 MKD thousand.

| | 31 December 2013 | 31 December 2012 |
|---|---:|---:|
| Foreign exchange differences | 8,420 | 3,489 |
| Release of impairment of L&R and other receivables not related to insurance premium | 1,621 | 4,767 |
| Other | 143 | 159 |
| **Total other financial income** | **10,184** | **8,415** |

## 23. Other income from insurance operations

| | 31 December 2013 | 31 December 2012 |
|---|---:|---:|
| Fees and commission income | | |
| - Reinsurance commission income and participation in profit | 10,745 | 25,185 |
| **Total fees and commission income** | **10,745** | **25,185** |
| Other income from insurance operations | | |
| - Compensation received from Guarantee fund | 7,464 | 9,678 |
| - Other income from insurance operations from previous years | 2,219 | 2,521 |
| - Other | 2,017 | 2,674 |
| **Total other income** | **11,700** | **14,873** |
| **Total other income from insurance operations** | **22,445** | **40,058** |

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

## 24. Other income

| | 31 December 2013 | 31 December 2012 |
|---|---:|---:|
| Investment property rental income | 2,575 | 2,683 |
| Gain from sale of non-current assets held for sale | 1,270 | 376 |
| Penalty interest charged | 1,000 | 2,000 |
| Write-off of liabilities | 347 | 2,003 |
| Compensation received for legal case won | - | 3,383 |
| **Total other income** | **5,192** | **10,445** |

## 25. Claims

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Gross claims settled | 716,060 | 860,395 |
| Income from claimed gross subrogated receivables | (24,604) | (28,828) |
| Reinsurers' share | (46,646) | (21,773) |
| Changes in gross provisions for claims outstanding | (194,301) | (135,583) |
| Changes in provisions for claims outstanding, re-insurers share | 84,731 | (8,466) |
| **Net claims incurred** | **535,240** | **665,745** |

Gross claims include gross claims settled and claims handling costs, not reduced by subrogation receivables (see note 28).

### Overview of net claims incurred by insurance class

| 31 December 2013 | Gross claims settled | Subrogated claims | Reinsurers' share | Net claims incurred |
|---|---|---|---|---|
| Accident insurance | 77,081 | - | - | 77,081 |
| Land motor vehicle insurance | 122,239 | - | - | 122,239 |
| Railway insurance | 12 | - | - | 12 |
| Aircraft and marine insurance | 893 | - | - | 893 |
| Cargo insurance | 5,854 | - | - | 5,854 |
| Fire, natural forces and other property insurance | 183,681 | - | (46,646) | 137,035 |
| Motor TPL insurance | 316,395 | (24,604) | - | 291,791 |
| Aircraft and marine liability insurance | 138 | - | - | 138 |
| General liability insurance | 2,139 | - | - | 2,139 |
| Financial loss | 153 | - | - | 153 |
| Travel insurance | 7,475 | - | - | 7,475 |
| **Total** | **716,060** | **(24,604)** | **(46,646)** | **644,810** |

| 31 December 2012 | Gross claims settled | Subrogated claims | Reinsurers' share | Net claims incurred |
|---|---|---|---|---|
| Accident insurance | 83,614 | - | - | 83,614 |
| Land motor vehicle insurance | 150,635 | - | - | 150,635 |
| Cargo insurance | 1,114 | - | - | 1,114 |
| Fire, natural forces and other property insurance | 297,075 | - | (21,773) | 275,302 |
| Motor TPL insurance | 320,235 | (28,828) | - | 291,407 |
| Aircraft and marine liability insurance | 1,880 | - | - | 1,880 |
| General liability insurance | 1,393 | - | - | 1,393 |
| Travel insurance | 4,449 | - | - | 4,449 |
| **Total** | **860,395** | **(28,828)** | **(21,773)** | **809,794** |

## 25. Claims (continued)

During 2013, the Company has reclassified expenses related to membership fee for Insurance Supervision Agency and National Bureau from “Gross operating expenses – Taxes not dependent on profit” to “Other insurance expenses” for a better presentation. As a result, the comparative figures for the year ended December 31, 2012 amounting MKD 4,422 thousand have been adjusted properly, in order to maintain consistency with the current year presentation. This has had effect on the claims handling costs (CHC) in this note, which present constituent part of the Gross claims settled. Please see note 28.

**Reinsurance and co-insurance result**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Reinsurance and co-insurance premiums | (137,489) | (284,003) |
| Change in provisions for the unearned premium | (25,213) | 49,217 |
| Reinsurers' share | 46,646 | 21,773 |
| Changes in provisions for claims outstanding, re-insurers share | (84,731) | 8,466 |
| **Net result from reinsurance operations** | **(200,787)** | **(204,547)** |
| Reinsurance commission | 10,745 | 25,185 |
| **Gross reinsurance result** | **(190,042)** | **(179,362)** |

## 26. Change in other insurance technical provisions

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Bonuses for managerial insurance | (435) | (3,490) |
| **Total change in other insurance technical provisions** | **(435)** | **(3,490)** |

## 27. Expenses for bonuses and discounts

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Expenses for bonuses and discounts (financial discounts) | 62,631 | 56,577 |
| Expenses for bonuses (jubilee discounts) | - | 51 |
| **Total expenses for bonuses and discounts** | **62,631** | **56,628** |

## 28. Operating expenses

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Acquisition costs | 206,576 | 147,702 |
| Other operating expenses | 88,737 | 125,684 |
| Claims handling costs – CHC* | 68,031 | 66,392 |
| Asset management costs** | 3,222 | 998 |
| **Total operating expenses** | **366,566** | **340,776** |
| **Total operating expenses less CHC and asset management costs** | **295,313** | **273,386** |

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

**Asset management costs are disclosed as financial expenses.

### Overview of operating expense by nature and function

| 31 December 2013 | Acquisition costs | Claim handling costs | Asset management costs | Other operating costs | Total |
|---|---|---|---|---|---|
| Acquisition costs | 53,513 | - | - | - | 53,513 |
| Depreciation and amortization of assets used in operations | 9,668 | 1,961 | 42 | 2,376 | 14,047 |
| Labor costs | 67,178 | 32,742 | 1,341 | 47,729 | 148,990 |
| - wages and salaries | 43,053 | 20,833 | 869 | 29,559 | 94,314 |
| - social security and pension insurance costs | 20,942 | 10,298 | 438 | 13,649 | 45,327 |
| - other insurance costs | 3,183 | 1,611 | 34 | 4,521 | 9,349 |
| Costs of services provided by outsourced natural persons | 1,098 | 492 | 16 | 664 | 2,270 |
| Other operating expenses | 75,119 | 32,836 | 1,823 | 37,968 | 147,746 |
| - advertisement, fairs, representation | 35,452 | - | - | - | 35,452 |
| - cost of materials, energy and maintenance | 8,697 | 5,773 | 162 | 7,129 | 21,761 |
| - maintenance costs | 2,453 | 1,095 | 32 | 1,520 | 5,100 |
| - travel expenses | 1,528 | 1,597 | 50 | 2,053 | 5,228 |
| - costs of intellectual services | 10,985 | 10,096 | 794 | 7,114 | 28,989 |
| - taxes, not dependent on profit | 874 | 83 | 3 | 128 | 1,088 |
| - transportation costs | 2,407 | 1,781 | 53 | 2,286 | 6,527 |
| - insurance premium costs | 791 | 317 | 10 | 408 | 1,526 |
| - bank charges | 633 | 303 | 290 | 2,296 | 3,522 |
| - rental expenses | 9,851 | 10,149 | 314 | 13,182 | 33,496 |
| - training expenses | 292 | 473 | 84 | 463 | 1,312 |
| - other services | 1,232 | 1,192 | 32 | 1,419 | 3,875 |
| - employee benefits | (76) | (23) | (1) | (30) | (130) |
| **Total** | **206,576** | **68,031** | **3,222** | **88,737** | **366,566** |

## 28. Operating expenses (continued)

### Overview of operating expense by nature and function (continued)

| 31 December 2012 | Acquisition costs | Claim handling costs | Asset management costs | Other operating costs | Total |
|---|---|---|---|---|---|
| Acquisition costs | 38,037 | - | - | - | 38,037 |
| Depreciation and amortization of assets used in operations | 3,509 | 2,817 | 36 | 5,436 | 11,798 |
| Labor costs | 49,433 | 27,941 | 478 | 49,464 | 127,316 |
| - wages and salaries | 32,276 | 18,118 | 320 | 31,413 | 82,127 |
| - social security and pension insurance costs | 15,771 | 8,881 | 146 | 14,388 | 39,186 |
| - other insurance costs | 1,386 | 942 | 12 | 3,663 | 6,003 |
| Costs of services provided by outsourced natural persons | 1,879 | 502 | 7 | 1,045 | 3,433 |
| Other operating expenses | 54,844 | 35,132 | 477 | 69,739 | 160,192 |
| - advertisement, fairs, representation | 18,131 | - | - | - | 18,131 |
| - cost of materials, energy and maintenance | 11,750 | 5,280 | 5 | 9,006 | 26,041 |
| - travel expenses | 1,178 | 638 | 23 | 1,801 | 3,640 |
| - costs of intellectual services | 9,095 | 17,852 | 286 | 36,921 | 64,154 |
| - taxes, not dependent on profit | 494 | 74 | 1 | 798 | 1,367 |
| - transportation costs | 2,632 | 1,492 | 20 | 2,748 | 6,892 |
| - insurance premium costs | 126 | 60 | - | 87 | 273 |
| - bank charges | 857 | 711 | 31 | 2,160 | 3,759 |
| - rental expenses | 9,748 | 7,627 | 104 | 14,875 | 32,354 |
| - training expenses | 196 | 124 | 1 | 348 | 669 |
| - other services | 629 | 458 | 6 | 961 | 2,054 |
| - employee benefits | 8 | 816 | - | 34 | 858 |
| **Total** | **147,702** | **66,392** | **998** | **125,684** | **340,776** |

During 2013, the Company has reclassified expenses related to membership fee for Insurance Supervision Agency and National Bureau from “Gross operating expenses – Taxes not dependent on profit” to “Other insurance expenses” for a better presentation. As a result, the comparative figures for the year ended December 31, 2012 amounting MKD 10.444 thousand have been adjusted properly, in order to maintain consistency with the current year presentation.

## 29. Expenses from financial assets and liabilities

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Foreign exchange differences | 9,512 | 6,211 |
| Impairment losses on equity AFS securities | 359 | 134 |
| Impairment losses on investments in Investment funds - AFS | 159 | 82 |
| Interest expenses | 20 | 8 |
| Other financial expenses | 3,239 | 1,204 |
| Impairment losses on L&R and other receivables not related to insurance premium | - | 240 |
| **Total expenses from financial assets and liabilities** | **13,289** | **7,879** |

During 2013, the Company has reclassified expenses related to membership fee for Insurance Supervision Agency and National Bureau from “Gross operating expenses – Taxes not dependent on profit” to “Other insurance expenses” for a better presentation. As a result, the comparative figures for the year ended December 31, 2012 amounting MKD 20 thousand have been adjusted properly, in order to maintain consistency with the current year presentation. This has had an effect on the asset management costs (part of other financial expenses above) in this note, which present constituent part of the Expenses from financial assets and liabilities. Please see note 28.

## 30. Other insurance expenses

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Expenses for preventive activity | 18,567 | 17,858 |
| Other insurance expenses from previous years | 16,366 | 15,666 |
| Contributions for claims on uninsured or unidentified vehicles | 15,822 | 16,400 |
| Membership fees | 13,926 | 14,886 |
| Impairment and direct write off on receivables for insurance premium* | 13,633 | 27,212 |
| Impairment on receivables other than for insurance premium | 3,085 | 3,048 |
| Expenses for travel assistance | 2,030 | - |
| Premium correction | 40 | 4,260 |
| Other insurance expenses | 59 | 804 |
| Credit memos | - | 2,195 |
| **Total other insurance expenses** | **83,528** | **102,329** |

* The position ”*Impairment and direct write off on receivables for insurance premium”* in 2013 in amount of 13,633 thousand MKD contains direct write offs in amount of 1,104 thousand MKD (2012: 1,505 thousand MKD).

During 2013, the Company has reclassified expenses related to membership fee for Insurance Supervision Agency and National Bureau from “Gross operating expenses – Taxes not dependent on profit” to “Other insurance expenses” for a better presentation. As a result, the comparative figures for the year ended December 31, 2012 have been adjusted properly amounting MKD 14.886 thousand, in order to maintain consistency with the current year presentation. Please see note 28.

## 31. Other expenses

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Extraordinary expenses | 6,069 | - |
| Depreciation on assets not used in operations | 3,641 | 3,818 |
| Realized losses on disposal of tangible assets not used in operations | 1,573 | - |
| Impairment on other receivables | 1,456 | 854 |
| Expenses for penalties | 1,023 | - |
| Other | 35 | 61 |
| Losses on disposal of tangible assets | - | 263 |
| **Total other expenses** | **13,797** | **4,996** |

Extraordinary expenses in amount of 6,069 MKD thousand relate to returned funds to one client for received premium in earlier years based on decision from the Supreme Court.

## 32. Other tax expenses

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Other tax expense | 4,181 | 2,272 |
| **Total other tax expenses** | **4,181** | **2,272** |

**Recapitulation of the tax expense**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Unrecognized expenses (tax on non-deductible expenses) | 5,438 | 6,052 |
| Tax credit used | (1,257) | (3,780) |
| **Total other tax expenses** | **4,181** | **2,272** |

## 33. Related party transactions

The services provided and received from the relates parties are rendered at arm's length prices.

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 2013 | Zavarovalnica Triglav | Triglav RE Ljubljana | Triglav Zagreb | Triglav Beograd | Triglav Saraevo | Triglav Nepremicnine | Total |
|---|---|---|---|---|---|---|---|
| **Income** | **(62,365)** | **(31,247)** | **-** | **49** | **50** | **-** | **(93,513)** |
| Outward reinsurance premium | (65,939) | (33,033) | - | - | - | - | (98,972) |
| Change in provisions for reinsurers' share of unearned premium | - | (1,179) | - | - | - | - | (1,179) |
| Other insurance income | 3,574 | 2,965 | - | 49 | 50 | - | 6,638 |
| **Expenses** | **41,347** | **(12,046)** | **(391)** | **-** | **-** | **(17)** | **28,893** |
| Gross claims settled | (53) | - | (92) | - | - | - | (145) |
| Reinsurers' share of claims | 45,753 | - | - | - | - | - | 45,753 |
| Change in claims provisions | - | (12,046) | - | - | - | - | (12,046) |
| Operating expenses | (4,353) | - | (299) | - | - | (17) | (4,669) |
| **Assets** | **457** | **19,143** | **-** | **70** | **-** | **-** | **19,670** |
| Reinsurers' share of technical provisions for unearned premium | - | 4,291 | - | - | - | - | 4,291 |
| Reinsurers' share of technical provisions for outstanding claims | - | 14,852 | - | - | - | - | 14,852 |
| Short-term receivables from insurance operations | 457 | - | - | 70 | - | - | 527 |
| **Liabilities** | **13,024** | **4,943** | **83** | **-** | **-** | **-** | **18,050** |
| Insurance technical provisions | - | - | 24 | - | - | - | 24 |
| Liabilities from reinsurance operations | 11,234 | 4,943 | - | - | - | - | 16,177 |
| Other short-term liabilities | 1,790 | - | 59 | - | - | - | 1,849 |

## 33. Related party transactions (continued)

| 31 December 2012 | Zavarovalnica Triglav | Triglav RE Ljubljana | Triglav Zagreb | Triglav Beograd | Triglav Saraevo | Lovcen Podgorica | Total |
|---|---|---|---|---|---|---|---|
| **Income** | **(60,331)** | **(91,788)** | **-** | **53** | **-** | **63** | **(152,003)** |
| Outward reinsurance premium | (63,168) | (109,302) | - | - | - | - | (172,470) |
| Change in provisions for reinsurers' share of unearned premium | - | 502 | - | - | - | - | 502 |
| Other insurance income | 2,837 | 17,012 | - | 53 | - | 63 | 19,965 |
| **Expenses** | **15,203** | **6,093** | **(572)** | **-** | **(12)** | **-** | **20,712** |
| Gross claims settled | (74) | - | - | - | - | - | (74) |
| Reinsurers' share of claims | 18,526 | 942 | - | - | - | - | 19,468 |
| Change in claims provisions | - | - | (79) | - | (12) | - | (91) |
| Change in provisions for reinsurers' share of claims | - | 5,151 | - | - | - | - | 5,151 |
| Operating expenses | (3,249) | - | (493) | - | - | - | (3,742) |
| **Assets** | **449** | **31,815** | **-** | **-** | **-** | **-** | **32,264** |
| Reinsurers' share of technical provisions for unearned premium | - | 5,469 | - | - | - | - | 5,469 |
| Reinsurers' share of technical provisions for outstanding claims | - | 25,696 | - | - | - | - | 25,696 |
| Receivables from reinsurers | - | 650 | - | - | - | - | 650 |
| Short-term receivables from insurance operations | 449 | - | - | - | - | - | 449 |
| **Liabilities** | **62,145** | **3,262** | **105** | **-** | **-** | **-** | **65,512** |
| Insurance technical provisions | - | - | 105 | - | - | - | 105 |
| Liabilities from reinsurance operations | 50,776 | 3,262 | - | - | - | - | 54,038 |
| Other short-term liabilities | 11,369 | - | - | - | - | - | 11,369 |

## 34. Members of the Management Board

In 2013, the Members of the Management Board were paid amount of 6,616 MKD thousand as compensation for their work (2012: 6,470 MKD thousand).

## 35. Amounts paid to auditors

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

The following amounts were charged for the services:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Statutory audit and other auditing services | 1,107 | 1,107 |
| | **1,107** | **1,107** |

## 36. Earnings per share

The calculation of the basic/diluted earnings by share (EPS) for the years ended 31 December 2013 and 31 December 2012 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 2013 | 31 December 2012 |
|---|---|---|
| Net profit attributable to shareholders of the Company | 69,056 | 27,679 |
| Number of shares | 60,184 | 60,184 |
| **Earnings per share** | **1147** | **0.460** |

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

## 37. 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. Decision from the Supreme Court is in anticipation.

The amount of the case is 154,664 MKD thousand. According to the latest developments, there is 40% likelihood that the plaintiff will lose the case, i.e. 60% likelihood that the decision will be in favor of the Company.

## 38. 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. The contract is non-cancelable for three years, and notice period of 9 months is required for cancelations made afterwards. The monthly rent that the Company is paying for the business premises is in amount of 2,474 MKD thousand (2012: 2,474 MKD thousand or 2,096 MKD thousand VAT exclusive).

## 39. Reviews by Supervision bodies

During 2013 no reviews were performed by any supervision bodies. Review by the Insurance Supervision Agency was carried out in 2012 for period 1 January 2011 to 31 March 2012 with complete scope over the operations of the Company, including compliance with laws and regulations, secondary legislative acts and rulebooks as well as internal controls.

## 40. 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.