Triglav Insurance AD Skopje

Financial Statements

For the year ended 31 December 2012

With the Report of the Auditors thereon

Dear Shareholders, Business partners and colleagues

Despite the difficult financial and economic situation in our country and the region, the business year 2012 for Triglav Insurance AD, Skopje finished successfully with 27,679 MKD thousands net profit. The strategy we determined and the goals we set for ourselves were achieved with great performance, effectively guided through the processes by our mother company.

Our core business

In 2012 Triglav Insurance AD, Skopje was operating on the insurance market with 13 classes of non- life insurance, thus achieving the goal set for 2012 to diversify the structure of the portfolio, resulting with increase in five non compulsory classes of insurance such as cargo insurance, fire and natural forces insurance, other damage to property insurance, general liability insurance, financial losses insurance and aircraft insurance. The achieved gross written premium was 1,232,665 MKD thousands, which represents a decrease by 0.76% compared to the previous year. However, considering the difficult economic surrounding it can be interpreted as a steady maintenance of the portfolio.

Implementation of new system

A significant factor for the overall accomplishment of the company, allowing us to improve our processes and therefore secure our success was the implementation of the new IT business solution, Adinsure and the Navision software. The process of implementation itself was very long, it demanded recruitment, dedication and support from each employee in the company and as the result of their professional performance today I can freely say that the implementation was done impeccably. However, our efforts will continue and we will proceed with the process of stabilization and adjustment of both solutions in manor to support us in providing the best service to our clients, and securing profits for our shareholders.

Reorganization

The activities of Triglav Insurance AD, Skopje were directed towards improvement of the processes and beside implementation of new IT solutions, reorganization was made through introduction of the department for Back Office, which will serve for a better support for the company's procedures, and better support for our clients.

Focuses for the future

The successfully finalized projects in 2012 represent higher motivation and responsibility in the year to come, where we will focus on increasing and strengthening of our sales network, thus providing continuous growth of premium, improving the paid premium, increasing the productivity and improving the cost efficiency of the sales units, focusing on qualitative risk assessment in order to decrease the claims. The processes we have initiated in 2012 are not short term, but will continue in the forthcoming years, whereas we strongly believe that their successful completion will bring long term benefits and stability for the company.

Therefore, the spotlight will be put on the qualitative human resource management in order to provide adequate organizational structure, proper corporate culture which will enable us to continue with the same dedication and enthusiasm in the forthcoming year to achieve our goals and strengthen the position of market leader in R. Macedonia.

Đorđe Vojnović
Chief Executive Officer
Triglav Insurance AD, Skopje

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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 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kalina Sukarova – Savovska
Administrator

Vladimir Sokolovski
Certified Auditor

Ernst & Young Certified Auditors Ltd.

Skopje, 27 March 2013

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Intangible assets	**7**	**86,286**	**87,643**	**59,296**
Property, plant and equipment	**8**	**83,272**	**86,484**	**159,787**
Investment property	**9**	**118,550**	**122,368**	**56,773**
Financial assets		**1,118,461**	**1,184,738**	**1,095,193**
-loans and deposits	10	*330,854*	*436,371*	*575,760*
-available for sale	10	*787,607*	*748,367*	*519,433*
Reinsurers' share of technical provisions	**11**	**165,609**	**107,926**	**96,727**
Receivables		**464,816**	**454,572**	**635,475**
- receivables from direct insurance	12	*389,696*	*373,806*	*558,718*
- receivables from re and co-insurance	12	*2,384*	*7,158*	*8,179*
- current tax receivables	12	-	*11,349*	-
- other receivables	12	*72,736*	*62,259*	*68,578*
Other assets	**13**	**2,061**	**3,586**	**11,484**
Cash and cash equivalents	**14**	**25,577**	**63,045**	**34,331**
TOTAL ASSETS		**2,064,632**	**2,110,362**	**2,149,066**
EQUITY AND LIABILITIES				
Equity		**535,327**	**493,744**	**492,373**
- share capital	15	*185,223*	*185,223*	*185,223*
- capital reserves	15	*41,972*	*41,972*	*41,972*
- legal and statutory reserves	15	*249,713*	*242,524*	*241,863*
- fair value reserve	15	*11,029*	*(2,875)*	*17,322*
- retained earnings	15	*19,711*	*5,332*	*4,012*
- net profit/loss for the period	15	*27,679*	*21,568*	*1,981*
Insurance technical provisions		**1,318,976**	**1,466,039**	**1,587,230**
- unearned premiums	16	*485,776*	*493,766*	*572,443*
- claims provisions	16	*830,890*	*966,473*	*1,014,787*
- other insurance technical provisions	16	*2,310*	*5,800*	-
Employee benefits	**17**	**5,510**	**4,652**	**-**
Other financial liabilities	**18**	**6,126**	**6,126**	**6,126**
Operating liabilities		**112,211**	**76,193**	**25,229**
- liabilities from direct insurance operations	19	*55,334*	*67,646*	*12,429*
- liabilities from re and co-insurance	19	*55,552*	*8,547*	*10,174*
- current tax liabilities operations	19	*1,325*	-	*2,626*
Other liabilities	**20**	**86,482**	**63,608**	**38,108**
TOTAL EQUITY AND LIABILITIES		**2,064,632**	**2,110,362**	**2,149,066**

INCOME STATEMENT

	Note	31 December 2012	31 December 2011
Net premium income	21	**996,222**	**1,182,933**
- *gross written premium*		*1,232,665*	*1,242,059*
- *ceded written premium*		-	*(646)*
- *outward reinsurance premium*		*(284,003)*	*(116,813)*
- *change in provision for unearned premiums*		*47,560*	*58,333*
Income from financial assets	22	**90,699**	**106,997**
- *interest income*		*77,122*	*83,212*
- *dividends*		*2,276*	*2,020*
- *realized gains on disposals*		*2,886*	*1,211*
- *other*		*8,415*	*20,554*
Other income from insurance operations	23	**40,058**	**43,573**
- *fees and commission income*		*25,185*	*8,288*
- *other insurance income*		*14,873*	*35,285*
Other income	24	**10,445**	**3,151**
Net claims incurred	25	**670,167**	**748,292**
- *gross claims settled*		*864,817*	*904,941*
- *income from claimed gross subrogated receivables*		*(28,828)*	*(31,616)*
- *reinsurers' share*		*(21,773)*	*(21,091)*
- *change in claims provisions*		*(144,049)*	*(103,942)*
Change in other insurance technical provisions	26	**(3,490)**	**5,800**
Expenses for bonuses and discounts	27	**56,628**	**57,181**
Operating expenses	28	**283,830**	**270,288**
- *acquisition costs*		*151,746*	*172,364*
- *other operating costs*		*132,084*	*97,924*
Expenses from financial assets and liabilities	29	**7,899**	**18,774**
- *interest expense*		*8*	*5,740*
- *impairment losses on financial assets*		*456*	*10,639*
- *other*		*7,435*	*2,395*
Other insurance expenses	30	**87,443**	**209,269**
Other expenses	31	**4,996**	**5,482**
Profit before tax		**29,951**	**21,568**
Income tax expense	32	(2,272)	-
Net profit for the accounting period		**27,679**	**21,568**

The financial statements of Triglav Insurance AD Skopje were approved by the Management Board on 27.03.2013.

Đorđe Vojnović
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME

	31 December 2012	31 December 2011
I. Net profit for the year after tax	27,679	21,568
II. Other comprehensive income after tax		
1. Net gains/losses from the re-measurement of available-for-sale financial assets	13,904	(20,197)
1.1 Gains/losses recognised in fair value reserve	13,904	(20,197)
III. Comprehensive income for the year after tax	41,583	1,371

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, 2011	185,223	41,972	241,863	1,684	14,028	1,610	4,012	1,981	492,373
Comprehensive income for the the year after tax	-	-	-	(18,563)	(1,634)	-	-	21,568	1,371
Transfer to retained earnings	-	-	-	-	-	-	1,981	(1,981)	-
Transfer of net profit to reserves from profit	-	-	661	-	-	-	(661)	-	-
Closing balance as at December 31, 2011	185,223	41,972	242,524	(16,879)	12,394	1,610	5,332	21,568	493,744
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**

CASH FLOW STATEMENT

	Notes	31 December 2012	31 December 2011
Operating cash flow			
Income statement items		**(202,173)**	**(71,789)**
Net written premium	21	948,662	1,124,601
Income from investment (less financial income)		11,301	21,765
Other income from operations (except from valuation and without changes in provisions) and financial income from receivables from operations		50,503	46,724
Net settled claims	25	(814,216)	(852,235)
Expenses for bonuses and discounts		(56,628)	(57,181)
Net operating expenses less depreciation and changes in deferred acquisition costs	28	(272,032)	(261,012)
Expenses from investments without depreciation and financial expenses		(8,355)	(9,644)
Other expenses from operations without depreciation (except from valuation and without changes in provisions)		(61,408)	(84,807)
Change of working capital (insurance receivables, other receivables, other assets, deferred taxes) of operating items of the balance sheet		**(54,574)**	**25,900**
Movement of receivables from direct insurance operations		(43,102)	60,450
Movement of receivables from reinsurance		4,775	1,020
Movement of other receivables from (re)insurance operations		(57,947)	11,925
Movement of other receivables and assets		(30,661)	(109,121)
Movement of liabilities from direct insurance operations		34,007	55,217
Movement of liabilities from reinsurance		47,006	(1,628)
Movement of other liabilities from operations		13,938	(19,491)
Movement of other liabilities (less unearned premiums)		(22,590)	27,528
Net Cash flows used from operating activities		**(256,747)**	**(45,889)**
Cash flows from investing activities			
Receipts from interest from investments	10	77,122	83,212
Receipts from dividends from investments	10	2,276	2,020
Receipts from disposal of tangible fixed assets	8	412	9,252
Receipts from disposal of financial investments	10	676,395	566,329
Payments for purchase of intangible assets	7	(10,617)	(5,476)
Payments for purchase of tangible fixed assets	8	(6,705)	(14,288)
Payments for financial investments	10	(519,604)	(566,446)
Net cash flows from investing activities		**219,279**	**74,603**
Net increase / (decrease) in cash and cash equivalents		**(37,468)**	**28,714**
Cash and cash equivalents at beginning of the year		63,045	34,331
Cash and cash equivalents at the end of the year		25,577	63,045

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 2012, 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. Trajce Latinovski, MSc in Economics - executive member until 22 December 2012;
- Mr. Gjorgje Vojnovik, MBA – non-executive member until 30 July 2012 and executive member afterwards;
- Mr. Igor Stebernak, BSC in electrical engineering – President of the Management Board until 30 June 2012;
- Mr. Uros Ivanc, MSc in Economics – independent non-executive member and President of the Management Board since 1 August 2012;
- Mr. Andrej Slapar, BSC in law – independent non-executive member until 29 June 2012;
- Ms. Aleksandra Vukovic Kacar, BSC in law – non-executive member until 29 June 2012;

- Mr. Andrej Knap, BSC in mechanical engineering – non-executive member since 1 July 2012;
- Ms. Marica Makoter, BSC in Law – non-executive member since 1 July 2012;
- Ms. Meta Berk Skok, MSc in Economics – non-executive member since 1 July 2012.

During 2012, the Management Board held twenty (20) sessions on which the most important issues within the scope of the Company's business activities were considered. 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 2012, the Company had 168 employees (2011:150).

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

Type of employment	31 December 2012	31 December 2011	Variation
Internal employees	135	130	5
Agents	33	20	13
Total	**168**	**150**	**18**

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (”IFRS”).

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). These financial statements for the year ended 31 December 2012 are the first the Company has prepared in accordance with IFRS.

Refer to Note 3.30 for information on how the Company adopted IFRS.

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.

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 2012 and 2011 were as follows:

	31 December 2012	31 December 2011	1 January 2011
	MKD	MKD	
1 EUR	61.5000	61.5050	61.5050

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. This is proportionate share of acquisition costs, which reduce gross unearned premium provision. 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 income statement 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 income statement as they are incurred.

(iii) Amortization

Amortization is recognized in the income statement 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, 2012 (2011:nill.).

3. Significant accounting policies (continued)

3.2 Property, plant and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of an item of property, 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 or 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 income statement as they are incurred.

(iii) Depreciation

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

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

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

Depreciation of an asset begins when it is available for use. The depreciation charge for each period is recognized in the income statement. 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 income statement.

(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, 2012 (2011: nill).

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 income statement 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 income statement under “Other income”. Expenses arising from investment property consist of the depreciation charges and maintenance costs of the investment property. In the income statement, 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 2012 and 2011, 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 income statement.

The trade date is used for the initial recognition of financial assets, except for loans and receivables, 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 income statement.

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 income statement as net realized gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company’s right to receive payments is established. Both are included in the “Income from financial assets” line in the income statement.

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 income statement in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the income statement 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 income statement.

(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

The fair value of financial instruments traded on organised financial markets is measured on the basis of their prices quoted as at the reporting date. In the event no quoted price is available, the price offered by stock brokers is used as the reference price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

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 arm's length transactions (if any), comparison with the current fair value of another instrument with similar key features, discounted cash flow analyses and option pricing models. If there is a valuation technique commonly used by market participants for establishing instrument prices and if such a technique has yielded reliable estimates of prices used in actual market transactions, such a technique is applied by the Company. In the discounted cash flow method, future cash flows and discount rates are applied as estimated by the management, reflecting interest rates on comparable instruments. When the fair value of financial instruments cannot be reliably measured, the financial instruments are measured at cost (paid or received amount) increased by expenses incurred in the underlying transaction.

3. Significant accounting policies (continued)

3.5 Fair value of financial assets (continued)

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 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.

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 income statement in the period in which the reinsurance premium is due. The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

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

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.

3. Significant accounting policies (continued)

3.7 Insurance receivables and payables (continued)

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.

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 income statement.

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.

(ii) Impairment of Investment property

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.

3. Significant accounting policies (continued)

3.10 Impairments (continued)

(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 income statement.

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 income statement. Impairment may be reversed if such a reversal can be objectively related to an event occurring after the previous impairment was recognized.

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

Loans and receivables

The impairment loss of a financial asset, measured at amortized cost, is calculated as the difference between that asset's carrying amount and the present value of expected future cash flows, determined on the basis of the historical effective interest rate.

A reversal of previously recognized impairment of financial assets measured at amortized cost is recognized in the income statement. 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)

(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 income statement.

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.

(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. Significant accounting policies (continued)

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 but not settled until the reporting date (RBNS). Claims provisions are 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%.

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 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. Significant accounting policies (continued)

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 income statement 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.

3.16 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.

3. Significant accounting policies (continued)

3.18 Net premium income (continued)

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 income statement, 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 income statement 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.

3.20 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 income statement 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.

3. Significant accounting policies (continued)

3.22 Claims incurred (continued)

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 income statement 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 income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement 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 income statement, 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 2012 and 2011, 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.

3.25 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 income statement 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 income statement 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 income statement for the year.

3. Significant accounting policies (continued)

3.27 Taxes (continued)

- ***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, except for the following amendments to IFRS effective as of 1 January 2012:

- *IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*
- *IFRS 1 First -Time Adoption of International Financial Reporting Standards (Amendment- Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures (Amendments)*
- *IFRS 7 Financial Instruments : Disclosures - Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Company's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to 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 - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

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 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1**

  The amendments to IAS 1 change the grouping of items presented in other comprehensive income (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 affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

- **IAS 19 Employee Benefits (Revised)**

  The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such asremoving the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.The Company is in the process of assessing the impact of this amendment on its financial position or performance.

- **IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**

  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. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

- **IFRS 1 Government Loans – Amendments to IFRS 1**

  These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20

  to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-

  market rate of interest. The amendment is effective for annual periods on orafter 1 January 2013. The amendment has no impact on the Company.

- **IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7**

  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 recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised 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. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

- **IFRS 9 Financial Instruments: Classification and Measurement**

  IFRS 9, as issued, reflects the first phase of the IASB's 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 standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

- **IFRS 9 Financial Instruments: Classification and Measurement (continued)**

  The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

  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 judgement 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.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

- **IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements (continued)**

  This standard becomes effective for annual periods beginning on or after 1 January 2013.The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

- **IFRS 11 Joint Arrangements**

  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.

- **IFRS 12 Disclosure of Interests in Other Entities**

  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, but has no impact on the Company's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- **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 Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013.

- **Annual Improvements May 2012**

  These improvements will not have an impact on the Company, but include:

  IFRS 1 First-time Adoption of International Financial Reporting Standards

  This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying 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 information 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.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

- **Annual Improvements May 2012 (continued)**

  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.

These improvements are effective for annual periods beginning on or after 1 January 2013.

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 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.

3.30 First time adoption of IFRS

These financial statements, for the year ended 31 December 2012, are the first the Company has prepared in accordance with IFRS. These financial statements are prepared in order to fulfill the reporting requirements towards the Group. In additions, the Company also prepared financial statements for the year ended 31 December 2012 in accordance with local generally accepted accounting principle (Local GAAP).

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2011, the Company's date of transition to IFRS.

This note explains the effect of restating the Company's Local GAAP statement of financial position as at 1 January 2011 and its published Local GAAP financial statements as at and for the year ended 31 December 2011

The financial statements for periods up to and including the year ended 31 December 2011 were prepared in accordance with the Accounting Principles ("Macedonian GAAP"), which are in accordance to the new Rulebook of Accounting published on 29 December 2009 (Official Gazette of Republic of Macedonia 159/09) effective from 1 January 2010 and updated with official gazette 164/2010. This Rulebook comprise the updated and translated international standards for financial reporting i.e. the basic text of IFRS's including SIC's and IFRIC's as issued by IASB at 1 January 2009 and concluded that there were no adjustments necessary for the restatement of its Local GAAP financial statements and the statement of financial position as at 1 January 2011.

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 expenses, 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 that the estimates of claims already reported, where more information is available. IBNR claims may often not be apparent to the Company until several years after the occurrence of the event giving rise to the claim.

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

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

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

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

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

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

4. Accounting estimates and judgments (continued)

4.1 Insurance technical provisions (continued)

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

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

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

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

Assumptions

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

No change in assumptions for non-life insurance contracts provision occurred in 2012 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 income statement 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 2012, 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

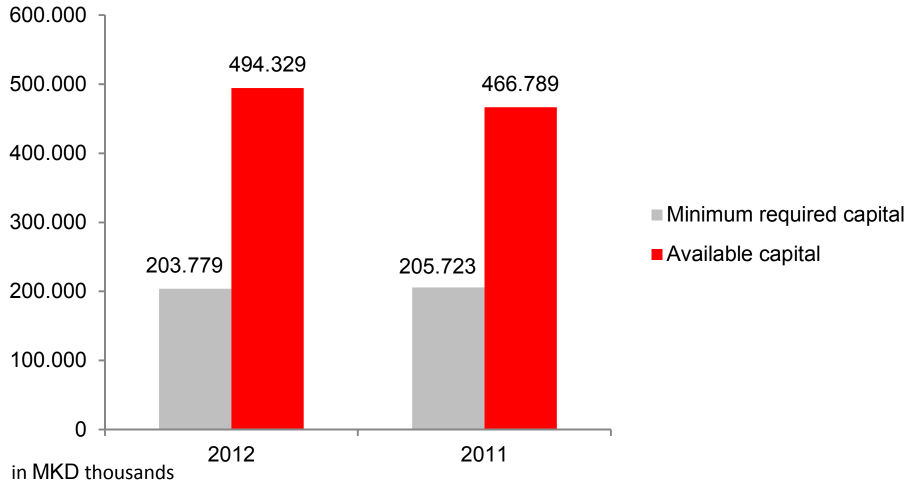
5. Risk management (continued)

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, 2012, the available capital to minimum required capital ratio was 243% (2011: 227%).



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 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 of is approved by the Assets and Liabilities Committee (ALCO) of the Triglav Group, which regularly monitors the all group members' exposure against investment limits.

5.3.1 Credit risk

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

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

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 1,774,463 MKD thousands (2011: 1,810,281 MKD thousands) as disclosed below.

	31 December 2012	31 December 2011
Financial investments	1,092,225	1,156,447
- Debt securities	761,371	720,076
- Deposits (term) and GF investments	330,854	436,371
Reinsurers' share of technical provisions	165,609	107,926
Receivables	464,816	454,572
Cash and cash equivalents	25,577	63,045
Total debt securities	**1,748,227**	**1,781,990**

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 2012 and 2011.

	31 December 2012	31 December 2011
Credit rating		
BBB	-	19,670
BB	761,371	700,406
Total debt securities	**761,371**	**720,076**

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
Debt securities and deposits	Min. 94%
- Debt securities issued by the state	60%
- Corporate debt securities issued by participant in financial sector including deposits in banks	30%
- Corporate debt securities issued by non-financial sector participants	10%
Equity investments	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 2012 and 2011.

	31 December 2012	%	31 December 2011	%
Debt securities and deposits	1,092,225	98%	1,156,447	98%
- Debt securities issued by the state	761,371	70%	720,076	62%
- Deposits in banks	303,223	28%	399,650	35%
- Gurantee fund unvestments	27,631	3%	36,721	3%
Equity investments	26,236	2%	28,291	2%
Total financial assets	**1,118,461**		**1,184,738**	

As of 31 December 2012 and 2011, all investments are within the limits of the Company's investment policy.

In 2012, the single largest exposure of Triglav Insurance AD Skopje was related to the Eurobond issued by the Republic of Macedonia in amount of 587,082 MKD thousands with maturity until December 2015.

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)

The single largest exposure in 2011 was also for Eurobond issued by the Republic of Macedonia in amount of 430,548 MKD thousands with maturity until January 2013.

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 BB;
- 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 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) and GF investments	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**

31 December 2011	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowance for impairment	Net exposure
Financial investments	1,155,576	-	215,299	1,370,875	(214,428)	1,156,447
- Debt securities	720,076	-	-	720,076	-	720,076
- Deposits (term) and GF investments	435,500	-	215,299	650,799	(214,428)	436,371
Reinsurers' share of technical provisions	32,030	75,896	-	107,926	-	107,926
Receivables	188,820	116,235	802,515	1,107,570	(652,998)	454,572
Cash and cash equivalents	63,045	-	-	63,045	-	63,045
Total	**1,439,471**	**192,131**	**1,017,814**	**2,649,416**	**(867,426)**	**1,781,990**

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.1 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 fulfil 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 2012 and 2011, 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 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
- Loans and receivables	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					
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**

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.2 Liquidity risk (continued)

31 December 2011	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	65,011	217,136	902,591	-	1,184,738
- Debt securities (AFS)	-	-	720,076	-	720,076
- Equity investments (AFS)	28,291	-	-	-	28,291
- Loans and receivables	36,720	217,136	182,515	-	436,371
Reinsurers' share of tech. provisions	-	107,926	-	-	107,926
Receivables	-	454,572	-	-	454,572
Cash and cash equivalents	-	63,045	-	-	63,045
Other assets	-	3,586	-	-	3,586
Total financial assets	**65,011**	**846,265**	**902,591**	**-**	**1,813,867**
Financial liabilities					
Insurance technical provisions	-	1,466,039	-	-	1,466,039
Employee benefits	-	330	1,353	2,969	4,652
Operating liabilities	-	76,193	-	-	76,193
Other liabilities	-	63,608	-	-	63,608
Other financial liabilities	-	6,126	-	-	6,126
Total financial liabilities	**-**	**1,612,296**	**1,353**	**2,969**	**1,616,618**
Maturity gap	**65,011**	**(766,031)**	**901,238**	**(2,969)**	**197,249**

Due to the fact that the Company's investment in financial assets in 2012 is only in the AFS category, 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. In the long-term, the Company has positive gap for both, 2012 and 2011.

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 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**

31 December 2011	EUR	USD	MKD	Total
Financial assets				
Financial investments	696,002	-	488,736	1,184,738
- Debt securities (AFS)	*696,002*	-	*24,074*	*720,076*
- Equity investments (AFS)	-	-	*28,291*	*28,291*
- Loans and receivables	-	-	*436,371*	*436,371*
Reinsurers' share of tech. provisions	107,926	-	-	107,926
Receivables	12,414	-	442,158	454,572
Cash and cash equivalents	173	-	62,872	63,045
Other assets	-	-	3,586	3,586
Total financial assets	**816,515**	**-**	**997,352**	**1,813,867**
Financial liabilities				
Insurance technical provisions	-	-	1,466,039	1,466,039
Employee benefits	-	-	4,652	4,652
Operating liabilities	8,796	-	67,397	76,193
Other liabilities	1,696	-	61,912	63,608
Other financial liabilities	-	-	6,126	6,126
Total financial liabilities	**10,492**	**-**	**1,606,126**	**1,616,618**

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 2012	31 December 2011
1% drop in the FX rate to 60.89	(8,120)	(8,060)
1% rise in the FX rate to 62.12	8,120	8,060

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 6.193% for the year ended December 31, 2012 (2011: 6.983%).

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 2012	31 December 2011
Financial assets		
Non-interest bearing		
Equity investments (AFS)	26,236	28,291
Reinsurers' share of tech. provisions	165,609	107,926
Receivables	464,816	454,572
Cash and cash equivalents	25,577	63,045
Other assets	2,061	3,586
	684,299	**657,420**
Fixed interest bearing		
Debt securities (AFS)	761,371	720,076
Loans and receivables	90,235	166,860
	851,606	**886,936**
Variable Interest bearing		
Loans and receivables	240,619	269,511
	240,619	**269,511**
Total financial assets	**1,776,524**	**1,813,867**
Financial liabilities		
Non-interest bearing		
Insurance technical provisions	1,318,976	1,466,039
Employee benefits	5,510	4,652
Operating liabilities	112,211	76,193
Other liabilities	86,482	63,608
Other financial liabilities	6,126	6,126
	1,529,305	**1,616,618**
Total financial liabilities	**1,529,305**	**1,616,618**

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% (1 percentage point) is applied, which is reasonable management assumption for the possible changes in the interest rate and which is based on historical movements of interest rates in MKD 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 2012 would be higher, i.e lower by 2.376 MKD thousands (2011: 2.566 MKD thousands).

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 2012	31 December 2011
15% increase in deposit interest rates	2,376	2,566
15% decrease in deposit interest rates	(2,376)	(2,566)

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 income statement of the Company is shown in the table below.

	31 December 2012		31 December 2011	
	+ 10%	**-10%**	**+ 10%**	**-10%**
Equity investments in R. Macedonia	2, 624	(2,624)	2,829	(2,829)
Total effect	**2, 624**	**(2,624)**	**2,829**	**(2,829)**

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 2012 and 31 December 2011 were 10% above their disclosed values, the comprehensive income and profit of the Company would be 2,624 MKD thousands and 2,829 MKD thousands higher. In contrast, if the prices of the equities in the portfolio as at 31 December 2012 and 31 December 2011 were 10% lower, the comprehensive income and profit of the Company would be 2,624 MKD thousands and 2,829 MKD thousands 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 2011 in amount of 3,577 MKD thousands. The additional impairment in 2012 was in amount of only 134 MKD thousands.

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.

5. Risk management (continued)

5.4 Underwriting risk (continued)

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 are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical and actuarial techniques.

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

Underwriting strategy

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

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

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

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

Reinsurance strategy

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

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

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

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.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Reinsurance strategy (continued)

The reinsurance contracts bear certain level of credit risk and such reinsurance assets recoverable 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 2012 the investments of the Company which serve as assets covering the technical provisions amounted to 1,158,941 MKD thousands MKD (2011: 1,306,454 MKD thousands). These investments consist of bank accounts and deposits, shares, government bills and bonds.

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

	Allowed %	31 December 2012	%	31 December 2011	%
Bank accounts and cash in hand	3%	26,136	2.3%	63,045	4.8%
Bank deposits	60%	303,223	26.2%	399,650	30.6%
Securities issued by R. Macedonia	80%	761,371	65.7%	690,185	52.8%
Shares traded on a regulated market for securities in RM	25%	22,674	2%	26,879	2.1%
Shares that are not traded on the regulated securities market if their issuer is legal entity established in R. Macedonia	5%	2,208	0.2%	-	-
Shares issued by investment funds registered in R. Macedonia	20%	1,354	0.1%	1,413	0.1%
Long-term bonds and other long-term securities issued by foreign legal entity from a EU member or OECD member state	20%	-	-	29,891	2.3%
Other type of investments allowed by ISA and notwithstanding the requirements of the article 89 par. 2 of ISL.	*	41,975	10%	95,391	20%
Total investment in assets		**1,158,941**	**100%**	**1,306,454**	**100%**
Total net technical provisions		**1,153,367**		**1,358,113**	
Assets covering the technical provisions		**5,574**		**(51,659)**	

*10% from unearned premium reserve (2011= 20%)

5. Risk management (continued)

5.4 Underwriting risk (continued)

Asset-liability harmonization (continued)

The assets covering the net insurance technical provisions were at surplus in amount of 5,574 MKD thousands as at 31 December 2012 (2011: deficit of 51,659 MKD thousands).

Third party liability insurance

Product features

The Company writes 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.

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.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Property insurance (continued)

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.

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.

5. Risk management (continued)

5.4 Underwriting risk (continued)

(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 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.

5. Risk management (continued)

5.5 Operational risks (continued)

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 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.

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 gross premium income from insurance, income from fees and commissions and investment income.

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

31 December 2011	Republic of Macedonia	Other	Total
Total income	1,336,654	-	1,336,654
Total costs/expenses (incl. taxes)	1,315,086	-	1,315,086
Total assets and liabilities	2,110,362	-	2,110,362

7. Intangible assets

	Software and licenses	Deferred acquisition costs	Total intangible assets
Cost			
As at 1 January 2011	833	59,269	**60,102**
- increase	5,476	23,378	28,854
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**
Accumulated amortization			
As at 1 January 2011	806	-	**806**
- increase	507	-	507
As at 31 December 2011	1,313	-	**1,313**
- increase	2,293	-	2,293
As at 31 December 2012	3,606	-	**3,606**
Carrying amount			
As at 1 January 2011	27	59,269	**59,296**
As at 31 December 2011	4,996	82,647	**87,643**
As at 31 December 2012	13,320	72,966	**86,286**

No items of intangible assets were pledged as collateral as at 31 December 2012 or 31 December 2011.

The amortization for the current year is disclosed in several items of the income statement, as income statement 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 8,685 MKD thousands and represent 65% from the total value as at 31 December 2012.

8. Property, plant and equipment

	Buildings	Equipment	Other	Total
Cost				
As at 1 January 2011	178,409	85,622	626	**264,657**
- increase	1,270	13,018	-	14,288
- decrease	-	(1,566)	-	(1,566)
- reclassification to investment properties	(100,750)	-	-	(100,750)
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**
Accumulated depreciation				
As at 1 January 2011	37,050	67,820	-	**104,870**
- increase	1,972	6,797	-	8,769
- decrease	-	(1,496)	-	(1,496)
- reclassification to investment properties	(21,998)	-	-	(21,998)
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**
Carrying amount				
As at 1 January 2011	141,359	17,802	626	**159,787**
As at 31 December 2011	61,905	23,953	626	**86,484**
As at 31 December 2012	59,931	22,715	626	**83,272**

The market value of the buildings as at 31 December 2012 was in amount of 93,326 MKD thousands and it is in excess over its carrying amount.

No items of property, plant and equipment were pledged as collateral as at 31 December 2012 or 31 December 2011.

The depreciation charge for the current year is disclosed in several items of the income statement, as income statement 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 2012 no item of property, plant and equipment was held under finance lease.

Buildings in amount of MKD 100,750 thousand have been reclassified to Investment Property on 30.11.2011 since the Company has moved its business premises to the business center Hyperium whereas the previously owner occupied premises have remained vacant and subject to future sale.

9. Investment Property

	Buildings	Total
Cost		
As at 1 January 2011	67,199	**67,199**
- decrease	(12,148)	(12,148)
- reclassification from property, plant and equipment	100,750	100,750
As at 31 December 2011	155,801	**155,801**
- increase	-	-
As at 31 December 2012	155,801	**155,801**
Accumulated depreciation		
As at 1 January 2011	10,426	**10,426**
- increase	3,974	3,974
- decrease	(2,965)	(2,965)
- reclassification from property, plant and equipment	21,998	21,998
As at 31 December 2011	33,433	**33,433**
- increase	3,818	3,818
As at 31 December 2012	37,251	**37,251**
Carrying amount		
As at 1 January 2011	56,773	**56,773**
As at 31 December 2011	122,368	**122,368**
As at 31 December 2012	118,550	**118,550**

The market value of the buildings held as investment property as at 31 December 2012 was in amount of 162,265 MKD thousands and it is in excess over its carrying amount.

No item of investment property was pledged as collateral as at 31 December 2012 or 31 December 2011.

The rental income earned from investment property in 2012 was in amount of 2,683 MKD thousands (2011: 3,151 MKD thousands). 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 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
Guarantee fund investments	-	27,631	27,631
Bank deposits	-	303,223	303,223
Total financial assets	**787,607**	**330,854**	**1,118,461**

31 December 2011	Available-for-sale (AFS)	Loans and receivables (L&R)	Total financial assets
Debt and other fixed return securities	720,076	-	720,076
Shares, other floating rate securities and fund coupons	28,291	-	28,291
Guarantee fund investments	-	35,850	35,850
Bank deposits	-	399,650	398,780
Loans	-	871	871
Total financial assets	**748,367**	**436,371**	**1,184,738**

1 January 2011	Available-for-sale (AFS)	Loans and receivables (L&R)	Total financial assets
Debt and other fixed return securities	470,575	-	470,575
Shares, other floating rate securities and fund coupons	48,858	-	48,858
Guarantee fund investments	-	42,950	42,950
Bank deposits	-	524,842	524,842
Loans	-	7,968	7,968
Total financial assets	**519,433**	**575,760**	**1,095,193**

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)

Movements of financial assets

	Available-for-sale (AFS)	Loans and receivables (L&R)	Total financial assets
As at 1 January 2011	**519,433**	**575,760**	**1,095,193**
Acquisitions	300,446	266,000	566,446
Maturity	(71,598)	(472,613)	(544,211)
Disposals	(22,118)	-	(22,118)
Valuation through equity	(4,484)	-	(4,484)
Movement in impairment allowance	(5,141)	26,624	21,483
Interest Income	32,362	40,600	72,962
Foreign exchange differences	(533)	-	(533)
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**

Financial assets according to valuation levels

	31 December 2012	31 December 2011	1 January 2011
Available-for-sale (AFS)			
Level 1	757,646	748,367	519,433
Level 2	29,961	-	-
Level 3	-	-	-
Total available-for-sale financial assets	**787,607**	**748,367**	**519,433**

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 2012 or 2011.

11. Reinsurers' share of technical provisions

	31 December 2012	31 December 2011	1 January 2011
Reinsurers' share of unearned premiums	66,026	16,809	61,239
Reinsurers' share of claims	99,583	91,117	35,488
Total assets from reinsurance contracts	**165,609**	**107,926**	**96,727**

12. Receivables

Receivables by maturity

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 insurance operations	-	-	214	214
Receivables from co-insurance and re-insurance	**2,384**	**-**	**-**	**2,384**
Receivables from re-insurers' share in claims	2,238	-	-	2,238
Other receivables from co-insurance and reinsurance	146	-	-	146
Other receivables	**24,083**	**16,330**	**32,323**	**72,736**
Other short-term receivables from insurance operations	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**

12. Receivables (continued)

Receivables by maturity (continued)

31 December 2011	Receivables by maturity			
	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	**181,605**	**185,961**	**6,240**	**373,806**
Receivables from insurers	165,699	185,961	6,240	357,900
Other receivables from direct insurance operations	15,906	-	-	15,906
Receivables from co-insurance and re-insurance	**7,158**	**-**	**-**	**7,158**
Receivables from re-insurers' share in claims	7,158	-	-	7,158
Other receivables	**-**	**64,466**	**9,142**	**73,608**
Other short-term receivables from insurance operations	-	-	9,142	9,142
Short term receivables from financing	-	5,892	-	5,892
Other short-term receivables	-	58,574	-	58,574
Total receivables	**188,763**	**250,427**	**15,382**	**454,572**

1 January 2011	Receivables by maturity			
	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	**-**	**292,548**	**266,170**	**558,718**
Receivables from insurers	-	292,548	245,952	538,500
Other receivables from direct insurance operations	-	-	20,218	20,218
Receivables from co-insurance and re-insurance	**221**	**7,958**	**-**	**8,179**
Receivables from re-insurers' share in claims	221	7,958	-	8,179
Other receivables	**10,641**	**34,191**	**23,746**	**68,578**
Other short-term receivables from insurance operations	-	21,024	-	21,024
Short term receivables from financing	-	-	14,679	14,679
Other short-term receivables	10,641	13,167	9,067	32,875
Total receivables	**10,862**	**334,697**	**289,916**	**635,475**

(All amounts are in MKD thousands unless otherwise stated)

12. Receivables (continued)

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

31 December 2012	Gross amount	Impairment	Net amount
Receivables from direct insurance	1,018,560	(628,865)	389,695
Receivables from co-insurance and re-insurance	2,384	-	2,384
Other receivables	111,948	(39,211)	72,737
Total receivables	**1,132,892**	**(668,076)**	**464,816**

31 December 2011	Gross amount	Impairment	Net amount
Receivables from direct insurance	1,018,652	(644,845)	373,807
Receivables from co-insurance and re-insurance	7,159	-	7,159
Other receivables	81,759	(8,153)	73,606
Total receivables	**1,107,570**	**(652,998)**	**454,572**

1 January 2011	Gross amount	Impairment	Net amount
Receivables from direct insurance	1,083,964	(525,246)	558,718
Receivables from co-insurance and re-insurance	8,179	-	8,179
Other receivables	71,789	(3,211)	68,578
Total receivables	**1,163,932**	**(528,457)**	**635,475**

12. Receivables (continued)

Movement of bad debt provisions (impairment)

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 operations	27,888	779	-	-	(27,888)	779
Other receivables	**8,153**	**3,174**	**-**	**(4)**	**27,888**	**39,211**
Other short-term receivables from insurance operations	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**

31 December 2011	Opening balance	Increase	Use	Release	Reclassification	Ending balance
Receivables from direct insurance	**525,246**	**261,411**	**-**	**(141,812)**	**-**	**644,845**
Receivables from insurers	504,964	253,686	-	(141,693)	-	616,957
Other receivables from direct insurance operations	20,282	7,725	-	(119)	-	27,888
Other receivables	**3,211**	**5,001**	**-**	**(59)**	**-**	**8,153**
Other short-term receivables from insurance operations	3,211	5,001	-	(59)	-	8.153
Total receivables	**528,457**	**266,412**	**-**	**(141,871)**	**-**	**652,998**

13. Other assets

	31 December 2012	31 December 2011	1 January 2011
Other receivables	1,457	3,249	10,684
Other assets	604	337	800
Total other assets	**2,016**	**3,586**	**11,484**

14. Cash and cash equivalents

	31 December 2012	31 December 2011	1 January 2011
Cash in bank in MKD	23,430	62,860	31,159
Cash in bank in EUR	229	175	3,045
Cash in bank in other currencies	69	-	54
Cash on hand in MKD	1,820	10	71
Cash on hand in EUR	29	-	2
Total cash and cash equivalents	**25,577**	**63,045**	**34,331**

15. Equity

As at 31 December 2012, the share capital of the Triglav Insurance AD Skopje is consisted of 60.184 common shares with total nominal capital of 185,223 MKD thousands. 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 2012 or 2011.

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

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%

15. Equity (continued)

31 December 2011	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	13,224	46,960	47,553	12,631	60,184
Number of shareholders	69	16	7	78	85
Number of shares - percentage	21.97%	78.03%	79.01%	20.99%	100%
Number of shareholders - percentage	81.18%	18.82%	8.23%	91.77%	100%

1 January 2011	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	15,041	45,143	45,896	14,288	60,184
Number of shareholders	75	16	7	84	91
Number of shares - percentage	24.99%	75.01%	76.26%	23.74%	100%
Number of shareholders - percentage	82.42%	17.58%	7.69%	92.31%	100%

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

Shareholder	31 December 2012	31 December 2011	1 January 2011
Zavarovalnica Triglav d.d.	-	-	70.36%
Triglav Int. Holdinska Druzba d.d LJubljana	73.38%	73.38%	-
Stojan Klopcevski	8.19%	8.19%	8.19%

During 2011, the shares of Zavarovalnica Triglav d.d. were transferred to the Triglav Int. Holdinska Druzba d.d. Ljubljana.

Dividends

As of the date of preparation of these financial statements there were no dividends declared (2011: 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 2012, the Company transferred 7.189 MKD thousands from retained earnings to statutory reserves. The amount transferred in 2011 was 660 MKD thousands.

15. Equity (continued)

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 2012 the movement in the fair value reserve was positive 13,904 MKD thousand as opposed to the negative effect in 2011 in amount of 20,197 MKD thousands, 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. Insurance technical provisions

	31 December 2012	31 December 2011	1 January 2011
Gross provisions for unearned premium	485,776	493,766	572,443
Total gross provisions for unearned premium	**485,776**	**493,766**	**572,443**
Gross provisions for incurred and reported claims (RBNS)	451,218	552,586	702,101
Gross provisions for incurred but not reported and/or not enough reported claims (IBNR/IBNER)	314,579	343,043	238,150
Provisions for claims handling costs (CHC)	65,093	70,844	74,536
Total gross claims provisions	**830,890**	**966,473**	**1,014,787**
Gross provisions for bonuses and discounts	**2,310**	**5,800**	**-**
Total insurance technical provisions	**1,318,976**	**1,466,039**	**1,587,230**

Analysis of changes in insurance technical provisions

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. Insurance technical provisions (continued)

31 December 2011	Opening balance	Formation	Release	Ending Balance
Gross provisions for unearned premium	572,443	163,749	(242,426)	493,766
Gross claims provisions	1,014,787	598,364	(646,678)	966,473
Gross provisions for bonuses and discounts	-	9,317	(3,517)	5,800
Total insurance technical provisions	**1,587,230**	**771,430**	**(892,621)**	**1,466,039**

Analysis of insurance technical provisions by insurance class

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 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. Insurance technical provisions (continued)

Analysis of insurance technical provisions by insurance class (continued)

31 December 2011	Accident	Land motor vehicle	Cargo	Property	Motor TPL	Aircraft and marine liability	General liability	Fin. loss	Travel	Total
Gross provisions for unearned premium	30,996	102,698	2,757	83,864	264,042	148	3,378	27	5,856	493,766
Gross claims provisions for RBNS	3,578	43,802	1,440	186,114	291,691	20,554	649	-	4,758	552,586
Gross claims provisions for IBNR and IBNER	39,924	14,542	-	24,760	263,817	-	-	-	-	343,043
Provisions for claims handling costs	3,441	4,615	19	16,620	44,036	1,626	51	60	376	70,844
Gross provisions for bonuses and discounts	5,800	-	-	-	-	-	-	-	-	5,800
Total insurance technical provisions	**83,739**	**165,657**	**4,216**	**311,358**	**863,586**	**22,328**	**4,078**	**87**	**10,990**	**1,466,039**

16. Insurance technical provisions (continued)

Analysis of changes in loss events for non-life insurance

	Year of occurrence						
Cumulative loss assessment	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
at the end of year of occurrence	836,961	1,020,251	799,740	766,079	785,670	662,583	4,871,284
1 year after year of occurrence	953,088	974,315	774,330	825,540	723,768	-	4,251,041
2 year after year of occurrence	955,222	968,018	755,317	820,102	-	-	3,498,659
3 year after year of occurrence	959,092	974,184	745,806	-	-	-	2,679,082
4 year after year of occurrence	934,943	988,143	-	-	-	-	1,923,086
5 year after year of occurrence	937,513	-	-	-	-	-	937,513
Cumulative loss assessment	**937,513**	**988,143**	**745,806**	**820,102**	**723,768**	**662,583**	**4,877,915**
Cumulative payments until balance sheet date	918,847	912,854	698,530	673,228	605,318	355,045	4,163,822
CLAIMS PROVISIONS BALANCE	**18,666**	**75,289**	**47,276**	**146,874**	**118,450**	**307,538**	**714,093**

17. Employee benefits

	31 December 2012	31 December 2011	1 January 2011
Provision for retirement benefits	1,499	1.665	-
Provisions for jubilee rewards	4,011	2,987	-
Total provisions for employee benefits	**5,510**	**4,652**	**-**

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

18. Other financial liabilities

	31 December 2012	31 December 2011	1 January 2011
Liabilities for dividends from previous years	6,126	6,126	6,126
Total other financial liabilities	**6,126**	**6,126**	**6,126**

19. Operating liabilities

	31 December 2012	31 December 2011	1 January 2011
Liabilities towards policyholders	39,221	21,326	8,143
Liabilities towards brokers	832	2,647	1,385
Liabilities towards agents	411	820	-
Advances received	473	35,770	1,776
Liabilities for legal contributions related to insurance	2,622	3,015	1,125
Other liabilities from direct insurance operations	11,775	4,068	-
Total liabilities from direct insurance operations	**55,334**	**67,646**	**12,429**
Liabilities from re-insurance premiums	55,514	8,547	9,762
Liabilities from co-insurance premiums	38	-	412
Total liabilities from co-insurance and re-insurance	**55,552**	**8,547**	**10,174**
Current tax liabilities	1,325	-	2,626
Total operating liabilities	**112,211**	**76,193**	**25,229**

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

20. Other liabilities

	31 December 2012	31 December 2011	1 January 2011
Liabilities towards Guarantee Fund (GF)	53,823	45,366	1,368
Liabilities for salaries and contribution and taxes on salaries	10,494	9,218	9,584
Liabilities towards suppliers	19,370	6,508	8,267
Liabilities for taxes	2,781	2,516	1,576
Other short-term liabilities	14	-	6,643
Subrogation liabilities	-	-	10,670
Total other liabilities	**86,482**	**63,608**	**38,108**

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

21. Premium income

	31 December 2012	31 December 2011
Gross written premium	1,232,665	1,242,059
Ceded co-insurance written premium	-	(646)
Reinsurance written premium	(284,003)	(116,813)
Change in gross provisions for unearned premium	(1,657)	102,023
Change in reinsurers' share of unearned premium	49,217	(43,690)
Net premium income	**996,222**	**1,182,933**

Overview of premium income by insurance class

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**

21. Premium income (continued)

Overview of premium income by insurance class (continued)

31 December 2011	Gross written premium	Ceded co-insurance	Reinsurers' share	Net written premium
Accident insurance	111,776	-	(929)	110,847
Land motor vehicle insurance	221,278	-	-	221,278
Aircraft and marine insurance	58,735	-	(56,994)	1,741
Cargo insurance	23,311	-	(1,126)	22,185
Fire, natural forces and other property insurance	212,473	(646)	(38,143)	173,684
Motor TPL insurance	586,265	-	(17,541)	568,724
Aircraft and marine liability insurance	1,314	-	-	1,314
General liability insurance	8,094	-	(2,054)	6,040
Financial loss insurance	163	-	-	163
Travel insurance	18,650	-	(26)	18,624
Total	**1,242,059**	**(646)**	**(116,813)**	**1,124,600**

22. Income from financial assets

	31 December 2012	31 December 2011
Interest income		
- AFS	48,676	32,362
- Deposits	21,180	37,860
- Investment in Guarantee fund	2,050	2,740
- Interest on late payments of insurance receivables	5,201	10,170
- Interest income from other investments	15	80
Total interest income	**77,122**	**83,212**
Dividends		
- AFS	2,276	2,020
Total dividend income	**2,276**	**2,020**
Realized gains on disposals	2,886	1,211
Other financial income	8,415	20,554
Total income from financial assets	**90,699**	**106,997**

22. Income from financial assets (continued)

In 2012, other financial income is consisted of FX differences in amount of 3,489 MKD thousands, release of bad debt provision in amount of 3,489 MKD thousands and other small items of income. In 2011, other financial income is consisted of FX differences in amount of 3,378 MKD thousands, release of bad debt provisions for receivables other than insurance premium in amount of 16,418 MKD thousands and other small items of income in amount of 758 MKD thousands

	31 December 2012	31 December 2011
Release of impairment of L&R and other receivables not related to insurance premium	4,767	16,418
Foreign exchange differences	3,489	3,378
Other	159	758
Total other financial income	**8,415**	**20,554**

23. Other income from insurance operations

	31 December 2012	31 December 2011
Fees and commission income		
- Reinsurance commission income and participation in profit	25,185	8,288
Total fees and commission income	**25,185**	**8,288**
Other income from insurance operations		
- Compensation received from Guarantee fund	9,678	7,907
- Other income from insurance operations from previous years	2,521	22,380
- Other	2,674	4,998
Total other income	**14,873**	**35,285**
Total other income from insurance operations	**40,058**	**43,573**

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

24. Other income

	31 December 2012	31 December 2011
Compensation received for legal case won	3,383	-
Investment property rental income	2,683	3,151
Write-off of liabilities	2,003	-
Penalty interest charged	2,000	-
Gain from sale of non-current assets held for sale	376	-
Total other income	**10,445**	**3,151**

25. Claims

	31 December 2012	31 December 2011
Gross claims settled	864,817	904,941
Income from claimed gross subrogated receivables	(28,828)	(31,616)
Reinsurers' share	(21,773)	(21,091)
Changes in gross provisions for claims outstanding	(135,583)	(48,314)
Changes in provisions for claims outstanding, re-insurers share	(8,466)	(55,628)
Net claims incurred	**670,167**	**748,292**

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 2012	Gross claims settled	Subrogated claims	Reinsurers' share	Net claims incurred
Accident insurance	84,044	-	-	84,044
Land motor vehicle insurance	151,410	-	-	151,410
Cargo insurance	1,119	-	-	1,119
Fire, natural forces and other property insurance	298,602	-	(21,773)	276,829
Motor TPL insurance	321,881	(28,828)	-	293,053
Aircraft and marine liability insurance	1,890	-	-	1,890
General liability insurance	1,400	-	-	1,400
Travel insurance	4,471	-	-	4,471
Total	**864,817**	**(28,828)**	**(21,773)**	**814,216**

31 December 2011	Gross claims settled	Subrogated claims	Reinsurers and co-insurers' share*	Net claims incurred
Accident insurance	80,088	-	-	80,088
Land motor vehicle insurance	179,178	(18)	-	179,160
Cargo insurance	4,274	-	-	4,274
Fire, natural forces and other property insurance	213,824	-	(21,091)	192,733
Motor TPL insurance	417,619	(31,598)	-	386,021
General liability insurance	2,284	-	-	2,284
Financial loss insurance	3	-	-	3
Travel insurance	7,671	-	-	7,671
Total	**904,941**	**(31,616)**	**(21,091)**	**852,234**

* 305 MKD thousands co-insurers' share and 20,786 MKD thousands re-insurers' share

25. Claims (continued)

Reinsurance result

	31 December 2012	31 December 2011
Reinsurance premiums	(284,003)	(116,813)
Change in provisions for the unearned premium	49,217	(43,690)
Reinsurers' share	21,773	20,786
Changes in provisions for claims outstanding, re-insurers share	8,466	55,628
Net result from reinsurance operations	**(204,547)**	**(84,089)**
Reinsurance commission	25,185	8,288
Gross reinsurance result	**(179,362)**	**(75,801)**

26. Change in other insurance technical provisions

	31 December 2012	31 December 2011
Bonuses for managerial insurance	(3,490)	5,800
Total change in other insurance technical provisions	**(3,490)**	**5,800**

27. Expenses for bonuses and discounts

	31 December 2012	31 December 2011
Expenses for bonuses and discounts (financial discounts)	56,577	54,435
Expenses for bonuses (jubilee discounts)	51	2,746
Total expenses for bonuses and discounts	**56,628**	**57,181**

28. Operating expenses

	31 December 2012	31 December 2011
Acquisition costs	151,746	172,364
Claims handling costs – CHC*	70,814	66,302
Asset management costs**	1,018	-
Other operating expenses	132,084	97,924
Total operating expenses	**355,662**	**336,590**
Total operating expenses less CHC and asset management costs	**283,830**	**270,288**

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

**Asset management costs are disclosed as financial expenses.

28. Operating expenses (continued)

Overview of operating expense by nature and function

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	58,888	39,554	497	76,139	175,078
- advertisement, fairs, representation	15,992	242	3	1,894	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 dependant on profit	6,677	4,254	18	5,304	16,253
- 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	**151,746**	**70,814**	**1,018**	**132,084**	**355,662**

28. Operating expenses (continued)

Overview of operating expense by nature and function (continued)

31 December 2011	Acquisition costs	Claim handling costs	Asset management costs	Other operating costs	Total operating costs
Acquisition costs	56,393	-	-	-	56,393
Depreciation and amortization of assets used in operations	3,686	2,022	-	3,568	9,276
Labor costs	45,457	24,942	-	44,006	114,405
- wages and salaries	28,779	15,791	-	27,861	72,431
- social security and pension insurance costs	13,492	7,403	-	13,062	33,957
- other insurance costs	3,186	1,748	-	3,083	8,017
Costs of services provided by outsourced natural persons	1,262	692	-	1,222	3,176
Other operating expenses	65,566	38,646	-	49,128	153,340
- advertisement, fairs, representation	18,932	-	-	-	18,932
- cost of materials, energy and maintenance	10,229	5,611	-	9,903	25,743
- travel expenses	1,234	677	-	1,194	3,105
- costs of intellectual services	8,160	17,671	-	7,094	32,925
- taxes, not dependant on profit	6,523	3,579	-	6,315	16,417
- transportation costs	2,708	1,486	-	2,622	6,816
- insurance premium costs	548	301	-	530	1,379
- bank charges	1,194	655	-	1,156	3,005
- rental expenses	12,770	7,007	-	12,363	32,140
- training expenses	159	87	-	154	400
- other services	3,109	1,572	-	7,797	12,478
Total	**172,364**	**66,302**	**-**	**97,924**	**336,590**

29. Expenses from financial assets and liabilities

	31 December 2012	31 December 2011
Foreign exchange differences	6,211	1,153
Impairment losses on L&R and other receivables not related to insurance premium	240	5,497
Impairment losses on equity AFS securities	134	3,577
Impairment losses on investments in Investment funds - AFS	82	1,565
Interest expenses	8	5,740
Other financial expenses	1,224	1,242
Total expenses from financial assets and liabilities	**7,899**	**18,774**

30. Other insurance expenses

	31 December 2012	31 December 2011
Impairment and direct write off on receivables for insurance premium*	27,212	124,541
Expenses for preventive activity	17,858	18,865
Contributions for claims on uninsured or unidentified vehicles	16,400	23,906
Other insurance expenses from previous years	15,666	16,547
Premium correction	4,260	4,847
Impairment on receivables other than for insurance premium	3,048	1,374
Credit memos	2,195	2,077
Other insurance expenses	804	17,112
Total other insurance expenses	**87,443**	**209,269**

*The position ”*Impairment and direct write off on receivables for insurance premium”* in 2012 in amount of 27,212 thousands MKD contains direct write offs in amount of 1,505 thousands MKD.

31. Other expenses

	31 December 2012	31 December 2011
Depreciation on assets not used in operations	3,818	3,973
Impairment on other receivables	854	-
Losses on disposal of tangible assets	263	-
Realized losses on disposal of tangible assets not used in operations	-	1,509
Other	61	-
Total other expenses	**4,996**	**5,482**

32. Taxes on unrecognized expenses

	31 December 2012	31 December 2011
Current tax expense	2,272	-
Total tax expenses	**2,272**	**-**

Recapitulation of the tax expense

	31 December 2012	31 December 2011
Unrecognized expenses	6,052	8,007
Tax credit used	(3,780)	8,007
Total tax expenses	**2,272**	**-**

In 2011 there was tax credit in amount of 113 thousands MKD which was not used in the year but transferred to the following periods.

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 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

33. Related party transactions (continued)

31 December 2011	Zavarovalnica Triglav	Triglav RE Ljubljana	Triglav Zagreb	Triglav Beograd	Triglav Saraevo	Lovcen Podgorica	Total
Income	**(13,236)**	**(85,444)**	**43**	**-**	**-**	**94**	**(98,543)**
Outward reinsurance premium	(13,431)	(95,236)	-	-	-	-	(108,667)
Change in provisions for reinsurers' share of unearned premium	-	994	-	-	-	-	994
Other insurance income	195	8,798	43	-	-	94	9,130
Expenses	**(5,735)**	**(556)**	**-**	**(11)**	**-**	**-**	**(6,302)**
Gross claims settled	(2,092)	-	-	(11)	-	-	(2,103)
Reinsurers' share of claims	3,862	16,924	-	-	-	-	20,786
Change in provisions for reinsurers' share of claims	-	(15,009)	-	-	-	-	(15,009)
Operating expenses	(7,505)	(2,471)	-	-	-	-	(9,976)
Assets	**3,923**	**28,850**	**-**	**-**	**-**	**-**	**32,773**
Reinsurers' share of technical provisions for unearned premium	-	5,007	-	-	-	-	5,007
Reinsurers' share of technical provisions for outstanding claims	-	20,546	-	-	-	-	20,546
Receivables from reinsurers	3,862	3,297	-	-	-	-	7,159
Short-term receivables from insurance operations	4	-	-	-	-	-	4
Other short-term receivables	57	-	-	-	-	-	57
Liabilities	**6,051**	**3,011**	**-**	**-**	**-**	**-**	**9,062**
Liabilities from reinsurance operations	4,362	3,011	-	-	-	-	7,373
Other short-term liabilities	1,689	-	-	-	-	-	1,689

34. Members of the Management Board

In 2102, the Members of the Management Board were paid amount of 6,470 MKD thousands as compensation for their work (2011: 4,111 MKD thousands).

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 2012	31 December 2011
Statutory audit and other auditing services	1,107	-
	1,107	**-**

36. Earnings per share

The calculation of the basic/diluted earnings by share (EPS) for the years ended 31 December 2012 and 31 December 2011 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 2012	31 December 2011
Net profit attributable to shareholders of the Company	27,679	21,568
Number of shares	60,184	60,184
Earnings per share	**0.460**	**0.358**

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 amount of the case is 154,664 MKD thousands. 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 2,096 MKD thousands.

39. Reviews by 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.

ISA produced report on its findings, which was received on 26 September 2012. The Company sent its comments to the findings on 8 October 2012 and received answer from the ISA on 25 December 2012. The final agreement on the actions that should be undertaken was achieved on 25 January 2013.

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.