Triglav Insurance AD Skopje

Financial Statements

For the year ended 31 December 2017

With the Report of the Auditors thereon

Steady, professional and reliable work in 2017

Through steady, professional and reliable work in 2017, Triglav Insurance AD Skopje realized gross written premium in the amount of 1,312,647 MKD thousand and maintained the leading position on the non-life insurance market, obtaining 17,4% market share. The clearest performance indicator that showed success in the primary field of insurance activities is the combined ratio, which was 97% in 2017. By reducing this indicator by 2.1 percentage points, Triglav Insurance AD Skopje has achieved an outcome that surpassed last year's achievement, since a ratio that is below 100 reflects positive operations in the field of non-life insurance.

The results that Triglav Insurance AD Skopje continuously accomplishes in the field of voluntary private health insurance are especially significant, and the end of 2017 marked an increase in growth written premium of 11% compared to the same period of the previous year. Apart from health insurance, we also achieved excellent results in nine other insurance classes.

Nevertheless, we believe that the outstanding results we accomplish in service provision are particularly important, because our services complement the existing products and they are an added value for our clients. More specifically, we refer to automobile and household assistance, whose main objective is to improve the quality of life of our clients. In 2017 we were the first company to introduce to the market insurance of receivables in domestic and foreign trade, which is a product that is first and foremost a form of protection against uncollected receivables, which would imply losses for a company in the bottom line. This product impacts many segments of the operations of any company, since, besides its primary protective role, it also enables improved performances, and the interest for this product shown by the corporate segment indicates that companies are recognizing the benefits provided by the insurance of receivables.

All of this is yet another validation that the strategy for insurance portfolio diversification and the focus on non-compulsory insurance classes is the right way to go and that we should maintain this course.

On the other hand, positive indicators are a reflection of the expertise and balanced management of the company and all of its processes, as well as the focus on our clients, which dictates adjustments of the supply correspondent to the demands of the market and it mandates superior service quality – as is provided by the Company.

Client satisfaction and loyalty are largely contributed to the ease with which we tackle our challenges, as well as the high share of paid out claims. As evidence of this is the high rating for client satisfaction, for claims-resolving services, a research was conducted and the grade was 4.8 out of 5. However, we believe that most of the credit for all of this goes to our staff, whose professionalism, expertise and commitment to the work provide the biggest contribution for our position as the best on the market.

Fundamental strategic goals

Our results confirm the successful implementation of the strategic goals of the Triglav Group. We continue with the serious approach toward the insurance market and with the development of products and services customized for the clients.

At the same time, we are constantly striving to increase the efficiency of the operations, as well as to achieve high professional knowledge of the employees of Triglav Insurance AD Skopje. In this regard, one of the key strategic goals of the Company and the Triglav Group itself is providing a stable information system and centralization of the management with IT, thus providing a quick response to the demands of the modern business environment.

Additionally, we are stimulating the processes in Triglav Insurance AD Skopje and the Triglav Group through aligning with the EU Directive Solvency II, which enables unification with the European insurance market.

One of the key strategic segments in our work was the founding of a new life insurance company, which we will support in upgrading its position on the life insurance market.

Expectations for 2018

As market leaders, we do not focus only on what the market has to offer, but also on its potential for growth and development. We are investing in new, innovative products and services, which will provide added value for clients, we are also improving our current products - in order to provide the best offer and to have satisfied clients.

The digitization of processes and communication channels is by all means one of the most important and the most inevitable challenges we are facing. Today, it is a prerequisite for the life-style, the habits, needs and preferences of people. We are starting to offer electronic renewal of insurance policies for motor third party liability (MTPL), and soon we will offer many other digital solutions for our clients.

MTPL is still the most dominant type of compulsory insurance on our market. In order to reach the highest potential of non-compulsory classes - where our focus should clearly be, insurance companies must educate the market by promoting these products. The preconceived notion that insurance is expensive and that it is not of vital importance often leave citizens unprotected and it is our duty to make an effort to overcome this prejudice. Furthermore, we believe that it is especially important for clients to be able to make informed decisions and to make the best choice when choosing an insurance company, having in mind all of the important aspects of our lives that are covered by insurance.
The advantage of Triglav Insurance AD Skopje is above all, the high quality of the services it offers and therefore the trust it builds with its customers, based on their satisfaction and loyalty. We firmly continue with our commitment to fulfill expectations and keep the given promises.

Chief Executive Director
Gjorgje Vojnovic, MBA

Executive Director
Rok Pivk

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Independent auditor's report

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

We have audited the accompanying financial statements of Triglav Insurance AD Skopje (the "Company"), which comprise the statement of financial position as of 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes, comprising 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija doo

PricewaterhouseCoopers Revizija doo
Skopje, Republic of Macedonia
10 May 2018

PricewaterhouseCoopers Revizija doo, 8th September 16, Hyperium Business Center, 2nd floor, 1000 Skopje, Republic of Macedonia, VAT No. MK4030008022586, T: +389 (02)31 40 900/901, F:+389 (02) 31 16 525, www.pwc.com/mk

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016
ASSETS			
Intangible assets	**7**	**132,452**	**120,739**
Property and equipment	**8**	**74,489**	**76,559**
Investment property	**9**	**5,577**	**24,286**
Investments in associates	**10**	**59,571**	**-**
Financial investments	**11**	**1,461,264**	**1,440,274**
Loans and receivables		627,626	437,979
Available for sale		833,638	1,002,295
Reinsurers' share of technical provisions	**12**	**139,240**	**156,614**
Receivables	**13**	**347,509**	**375,697**
Receivables from direct insurance operations		299,637	298,820
Receivables from reinsurance operations		217	10,603
Other receivables		47,655	66,274
Other assets		**2,013**	**1,877**
Cash and cash equivalents	**14**	**25,828**	**31,057**
TOTAL ASSETS		**2,247,943**	**2,227,103**
EQUITY AND LIABILITIES			
Equity	**15**	**831,105**	**750,577**
Share capital		185,223	185,223
Share premium reserves		41,972	41,972
Reserves from profit		342,669	312,482
Revaluation reserve		24,417	29,091
Retained earnings		151,622	127,249
Net profit for the period		85,202	54,560
Insurance technical provisions	**16**	**1,249,199**	**1,279,585**
Unearned premiums		540,583	564,737
Claims provisions		681,233	691,436
Bonuses and discounts		17,116	16,051
Other insurance technical provisions		10,267	7,361
Employee benefits	**17**	**6,276**	**4,673**
Deferred tax liabilities	**18**	**2,534**	**3,054**
Other financial liabilities	**19**	**1,724**	**2,557**
Operating liabilities	**20**	**63,615**	**100,705**
Liabilities from direct insurance operations		28,951	21,226
Liabilities from reinsurance and co-insurance operations		30,532	77,076
Current tax liabilities		4,132	2,403
Other liabilities	**21**	**93,490**	**85,952**
Total liabilities		**1,416,838**	**1,476,526**
TOTAL EQUITY AND LIABILITIES		**2,247,943**	**2,227,103**

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF PROFIT OR LOSS

	Note	31 December 2017	31 December 2016
Gross written premium		1,312,647	1,328,137
Outward reinsurance premium		(224,450)	(223,476)
Change in provision for unearned premiums		29,890	(10,752)
Change in provision for unearned premiums (reinsurers' share)		(23,156)	(2,534)
Net premium income	22	**1,094,931**	**1,091,375**
Interest income		55,392	55,854
Realised gains on disposals		2,989	1,263
Other income		14,199	7,910
Income from financial assets	23	**72,580**	**65,027**
Reinsurance fees and commission income		24,026	22,208
Other income from insurance operations		9,380	10,044
Other insurance income	24	**33,406**	**32,252**
Other Income	25	**7,887**	**9,827**
Gross claims settled		650,341	586,174
Income from claimed gross subrogated receivables		(18,087)	(17,803)
Reinsurers' share of claims settled		(10,293)	(46,740)
Changes in gross provisions for claims outstanding		(10,202)	31,828
Changes in provisions for claims outstanding (reinsurers' share)		(2,585)	(868)
Net claims incurred	26	**609,174**	**552,591**
Change in other insurance technical provisions	27	**2,905**	**7,361**
Net expenses for bonuses and discounts	28	**42,942**	**107,821**
Acquisition costs		284,993	288,648
Other operating costs		101,011	90,956
Operating expenses	29	**386,004**	**379,604**
Realised losses on disposals		-	39
Loss on impairment of financial assets		-	5
Other expenses		2,984	4,395
Expenses from financial assets and liabilities	30	**2,984**	**4,439**
Other insurance expenses	31	**54,526**	**66,732**
Other expenses	32	**10,504**	**16,210**
Share of loss of an associate	10	**2,056**	**-**
Profit before tax		**97,709**	**63,723**
Income tax expense	33	12,507	9,163
Net profit for the accounting period		**85,202**	**54,560**
Earnings per share	**37**		
Basic and diluted earnings per share		1,416	0,907

The financial statements of Triglav Insurance AD Skopje were approved by the Management Board on 30.04.2018.

Gjorgje Vojnovic
Chief Executive Officer

ТРИГЛАВ ОСИГУРУВАЊЕ АД СКОПЈЕ

Rok Pivk
Executive Officer

STATEMENT OF OTHER COMPREHENSIVE INCOME

	31 December 2017	31 December 2016
Net profit for the year after tax	85,202	54,560
Other comprehensive income after tax	(4,675)	37,518
Items which could be transferred into Statement of profit and loss in the following periods		
1. Net gains/losses from the re-measurement of available-for-sale financial assets	**(4,675)**	37,518
1.1 Gains/losses recognised in revaluation reserve	(5,195)	41,687
1.2 Tax on other comprehensive income	520	(4,169)
Comprehensive income / Loss for the year after tax	**80,527**	**92,078**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserves	Legal and statutory reserves	FV reserve for long-term AFS assets	FV reserve for short-term AFS assets	Other FV reserve	Net profit brought forward	Net profit for the current year	Total
As at 31 December 2015	**185,223**	**41,972**	**300,262**	**(12,902)**	**2,866**	**1,610**	**120,810**	**18,659**	**658,499**
Net profit for the current period	-	-	-	-	-	-	-	54,560	54,560
Other comprehensive income for the year after tax	-	-	-	37,046	472	-	-	-	37,518
Total comprehensive income				**37,046**	**472**			**54,560**	**92,078**
Transfer to retained earnings	-	-	-	-	-	-	18,659	(18,659)	-
Transfer of net profit to reserves from profit	-	-	12,220	-	-	-	(12,220)	-	-
As at 31 December 2016	**185,223**	**41,972**	**312,482**	**24,144**	**3,338**	**1,610**	**127,249**	**54,560**	**750,577**
As at 1 January 2017	**185,223**	**41,972**	**312,482**	**24,144**	**3,338**	**1,610**	**127,249**	**54,560**	**750,577**
Net profit for the current period	-	-	-	-	-	-	-	85,202	85,202
Other comprehensive income for the the year after tax	-	-	-	(5,703)	1,028	-	-	-	(4,675)
Total comprehensive income				**(5,703)**	**1,028**			**85,202**	**80,528**
Transfer to retained earnings	-	-	-	-	-	-	54,560	(54,560)	-
Transfer of net profit to reserves from profit	-	-	30,187	-	-	-	(30,187)	-	-
As at 31 December 2017	**185,223**	**41,972**	**342,669**	**18,441**	**4,366**	**1,610**	**151,622**	**85,202**	**831,105**

CASH FLOW STATEMENT

	Notes	31 December 2017	31 December 2016
Cash flow from operating activities			
Income statement items		**67,505**	**127,985**
Gross written premium	22	1,312,647	1,328,138
Outward reinsurance premium	22	(224,450)	(223,476)
Income from investment (less financial income)		69,591	63,803
Other income from operations (except from valuation and without changes in provisions) and financial income from receivables from operations		39,305	36,226
Gross settled claims (including recourses settled)	26	(632,254)	(568,370)
Reinsurer's share of claims	26	10,293	46,739
Expenses for bonuses and discounts	28	(42,942)	(107,821)
Operating expenses less depreciation	29	(372,312)	(366,241)
Expenses from investments (except from valuation and without changes in provisions)	30	(5,041)	(4,439)
Other expenses from operations without depreciation (except from valuation and without changes in provisions)		(74,825)	(67,412)
Corporate tax and other tax not included in expenses	33	(12,507)	(9,163)
Change of working capital (insurance receivables, other receivables, other assets, deferred taxes) of operating items of the balance sheet		**(41,844)**	**(77,800)**
Opening less closing balance of receivables from direct insurance operations		7,362	9,146
Opening less closing balance of receivables from reinsurance		10,386	(8,341)
Opening less closing balance of other receivables from (re)insurance operations		6,992	5,652
Opening less closing balance of other receivables and assets		(34,143)	(50,132)
Opening less closing balance of deferred tax assets		-	1,301
Closing less opening balance of liabilities from direct insurance operations		7,725	(6,853)
Closing less opening balance of liabilities from reinsurance		(46,544)	(28,876)
Closing less opening balance of other liabilities from operations		(1,902)	7,622
Closing less opening balance of other liabilities (less unearned premiums)		8,799	(10,186)
Closing less opening balance of deferred tax liabilities		(519)	2,868
Net cash flow from operating activities		**25,661**	**50,185**
Cash flow from investing activities			
Receipts from interest from investments	11	45,384	59,438
Receipts from disposal of tangible fixed assets		19,742	31,268
Receipts from disposal of financial investments	11	550,458	425,068
Payments for purchase of intangible assets	7	(11,090)	(6,731)
Payments for purchase of tangible fixed assets	8	(6,922)	(5,965)
Payments for investments in associates	10	(61,628)	-
Payments for financial investments	11	(566,834)	(549,654)
Net cash flow from investing activities		**(30,890)**	**(46,577)**
Net increase / (decrease) in cash and cash equivalents		**(5,229)**	**3,608**
Cash and cash equivalents at beginning of the year		**31,057**	**27,449**
Cash and cash equivalents at the end of the year	**14**	**25,828**	**31,057**

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.

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

As of 31 December 2017, the controlling interest in Triglav Insurance AD Skopje is held by Triglav INT d.d (79.94%). The ultimate holding company is Zavarovalnica Triglav d.d.

The company is licensed to perform 18 classes (2016:18) of non-life insurance. Among the most important insurance activities are accident insurance, land motor vehicles insurance, aircraft insurance, fire, natural forces and other damage to property insurance, motor TPL insurance, and general liability insurance.

The address of the registered Company headquarters is:

bul.8-mi Septemvri 16

Business Center Hyperium, 1000 Skopje, Republic of Macedonia

These financial statements have been approved for issue by the Management Board on 30 April 2018.

1.2 Management bodies

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

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

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

The names of the Board of Directors' members of the Company serving during the financial year, and to date of this report, are as follows:

- Mr. Tedo Djekanovic- President of the Board of Directors, MBA;
- Mr. Gjorgje Vojnovic - Executive Member, MBA;
- Ms. Sanja Tancevska – Executive Member, BSc in Mathematics and Certified Actuary until 28.02.2018;
- Mr. Rok Pivk – Executive Member, BA in Banking and Finance from 29.08.2017;
- Mr. Matej Ferlan – Independent non-executive member, MBA;
- Mr. Darko Popovski- Non-executive member, MBA;
- Ms. Maja Gazvoda – Independent non-executive member, MSc in Finance until 04.12.2017; and
- Mr. Blaz Kmetec- Independent non-executive member, BSc of Economics-Banking and Finance.
- Mr. Ljube Rajevski - Independent non-executive member, BSc of Economics from 02.03.2018.

1. General information (continued)

1.2 Management bodies (continued)

During 2017, the Board of Directors held seventeen (17) sessions on which the most important issues within the scope of the Company's business activities were considered.

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

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

The names od the audit commission members are as follows:

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

During 2017, the Audit comission held six (6) sessions on which the most important issues within the scope of its responsibilities were considered.

1.3 Employees

As of 31 December 2017, the Company had 244 employees (2016:256).

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

Type of employment	31 December 2017	31 December 2016	Variation
Internal employees	126	134	(8)
Agents	118	122	(4)
Total	**244**	**256**	**(12)**

2. Basis of preparation

2.1 Statement of compliance

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

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

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

2.2 Basis of measurement

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

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

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

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

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

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

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

2.5 Foreign currency transactions

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

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

2. Basis of preparation (continued)

2.5 Foreign currency transactions (continued)

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

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

The foreign currency the Company deals with is predominantly EUR.

The exchange rates used for translation at 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
	MKD	**MKD**
1 EUR	61.491	61.481

3. Significant accounting policies

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

3.1 Intangible assets

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Amortization

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

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

	Annual amortization rate (%)
Software and licenses	20%

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

(iv) Impairment

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. Accounting policies regarding the impairment of intangible assets are described in note 3.11. No intangible assets were impaired as at December 31, 2017 (2016: null.).

3. Significant accounting policies (continued)

3.2 Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

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

(iii) Depreciation

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

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

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

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

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

(iv) Derecognition

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

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

(v) Impairment

At each reporting date, items of property and equipment are reviewed for indications of impairment or changes in estimated future economic benefits. Accounting policies regarding the impairment of tangible assets are described in note 3.11. No item of property and equipment was impaired as at December 31, 2017 (2016: null).

3. Significant accounting policies (continued)

3.3 Investment Property

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

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

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

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

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

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

	Annual depreciation rate (%)
Buildings	2.5%

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

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

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

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

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

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

3. Significant accounting policies (continued)

3.4 Investment in associates

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

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

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

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

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

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

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

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

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

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

3.5 Financial assets

(i) Classification

The Company classifies its financial assets into four categories available-for-sale assets, loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. The classification is determined by the management at initial recognition and depends on the purpose for which the investment is acquired. During 2017 and 2016, all financial assets were classified as available-for-sale assets and loans and receivables.

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

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

(ii) Recognition and measurement

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

Available-for-sale financial investments

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

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

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

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

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

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

Loans and receivables (excluding receivables from insurance operations)

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

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

(ii) Derecognition

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

3.6 Fair value of financial assets

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

3. Significant accounting policies (continued)

3.6. Fair value of financial assets (continued)

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

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

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

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

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

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

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

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

In 2017 and 2016, as a basis for discounting, the Company used the yield to maturity of the government bonds quoted on the primary market in R. Macedonia as opposed to the yield to maturity of the Eurobonds issued by the government of R. Macedonia used in the previous periods. The change was made based on several factors among which was the change in the Law on Supervision of Insurance with which the insurance companies in R. Macedonia were forbiden to invest in such instruments. Furthermote, the change was impacted by the different nature and characteristics of the Eurobond as compared to the government bonds issued on the domestic market including the major differences in the yields to maturity even when the instruments had same maturities.

3. Significant accounting policies (continued)

3.6 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 non-life insurance business, reinsurance premiums are expensed over the period covered that the reinsurance cover is provided for based on the expected pattern of the reinsured risks *(note 3.19 net premium income)*.

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

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

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

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

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

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

3. Significant accounting policies (continued)

3.8 Insurance receivables and payables

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

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

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

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

3.9 Other assets

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

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

3.10 Cash and cash equivalents

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

3.11 Impairments

(i) Impairment of intangible assets and property and equipment

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

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

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

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

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

(ii) Impairment of Investment property

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

3. Significant accounting policies (continued)

3.11 Impairments (continued)

(ii) Impairment of Investment property (continued)

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

(iii) Impairment of investments in associates

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

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

(iv) Impairment of financial assets

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

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

Financial assets available-for-sale

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

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

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

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

3. Significant accounting policies (continued)

3.11 Impairments (continued)

(iv) Impairment of financial assets (continued)

Loans and receivables

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

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

(v) Impairment of insurance receivables

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

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

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

3.12 Equity

(i) Share capital

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

Ordinary shares

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

(ii) Treasury shares

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

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

(iii) Share premium reserves

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

3. Significant accounting policies (continued)

3.12 Equity (continued)

(iv) Reserves from profit

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

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

(v) Revaluation reserves

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

(vi) Dividends

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

3.13 Classification of the insurance contracts

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

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

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

3.14 Insurance technical provisions

Unearned premium provision

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

Claims provisions

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

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

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

3. Significant accounting policies (continued)

3.14. Insurance technical provisions (continued)

Claims provisions (continued)

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

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

Provisions for bonuses and discounts

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

Other insurance technical provisions

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

3.15 Other provisions

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

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

3.16 Employee benefits

(i) Defined contribution plans

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

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

(ii) Short term benefits

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

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

(iii) Other long-term employee benefits

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

3. Significant accounting policies (continued)

3.16. Employee benefits (continued)

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

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

3.17 Other financial liabilities

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

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

3.18 Operating and other liabilities

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

3.19 Net premium income

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

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

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

Deferred acquisition costs

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

3.20 Other insurance income

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

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

3.21 Other income

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

3.22 Net claims incurred

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

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

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

3.23 Change in other insurance technical provisions

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

3.24 Operating expenses

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

Operating lease

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

3.25 Expenses from financial assets and liabilities

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

In the statement of profit or loss, interest expense is recognized using the effective interest method, which does not apply to the financial assets measured at fair value through profit and loss. During 2017 and 2016, the Company did not have such expenses.

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

3 Significant accounting policies (continued)

3.26 Other insurance expenses

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

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

3.27 Other expenses

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

3.28 Taxes

Current income tax

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

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

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

Deferred income tax

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

3 Significant accounting policies (continued)

3.29 Adoption of new and revised IFRS

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of January 1, 2017.

IAS 12: Income Taxes – Recognition of Deferred Tax Assets for Unrealised losses (Amendments): The Amendments become effective for annual periods beginning on or after 1 January 2017. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. **The amendments did not have any impact on the amounts recognized in prior periods. It is not expected that the amendmends will affect current and future periods as well.**

IAS 7: Disclosure Initiative (Amendments): The Amendments are effective for annual periods beginning on or after 1 January 2017. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. **The amendments did not have any impact on the amounts recognized in prior periods. It is not expected that the amendmends will affect current and future periods as well.**

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

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

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

Standards issued but not yet effective and not early adopted

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

3 Significant accounting policies (continued)

3.29 Adoption of new and revised IFRS (continued)

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

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

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

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

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

3 Significant accounting policies (continued)

3.29 Adoption of new and revised IFRS (continued)

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

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments): The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. **It is not expected that these amendments would be relevant for the Company.**

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

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

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

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

3 Significant accounting policies (continued)

3.30 Segment reporting

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

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

4. Accounting estimates and judgments

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

4.1. Insurance technical provisions

Key sources of estimation uncertainty

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

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

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

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

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

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

The Company pays particular attention to current trends.

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

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

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

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

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

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

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

4. Accounting estimates and judgments (continued)

4.1 Insurance technical provisions (continued)

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

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

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

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

Assumptions

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

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

4.2 Liability adequacy test (LAT)

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

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

In the LAT for UPR, the Company performs tests to check the adequacy of the unearned premiums and unexpired risk reserves. Through these tests, the unearned premium reserves less deferred acquisition costs are compared to expected future cash flows from the insurance contracts. If a shortfall is identified the related deferred acquisition costs are written down and, if necessary, an additional provision is established for separate lines of business. The deficiency is recognized in the statement of profit or loss for the year. As a result, the Company booked unexpired risk reserves in amount of 2,905 MKD thousand as of 31 December 2017 (2016: 7,361 MKD thousand)

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

5. Risk management

5.1 Main characteristics of the risk management system

Objectives of the risk management system

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

Triglav Insurance AD Skopje continuously identifies, assesses and measures the risks to which it is exposed during the course of its business activities. The risk management policy in place contributes to having planned and systematic approach to identification, assessment and calculation of the risks. During 2017, the Company has been pursuing and directing its risk management policy towards ensuring sustainable maintenance of the risk exposure level to a degree for which it is believed that it will not jeopardize its assets and business activities and which will ensure full protection of the interests of the policyholders, shareholders, damaged persons and other creditors of the Company. This risk management policy conducted by the Company is harmonized with the laws and regulations, as well as the internal rules and procedures.

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

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

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

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

5.2 Capital management and capital adequacy management

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

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

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

5. Risk management (continued)

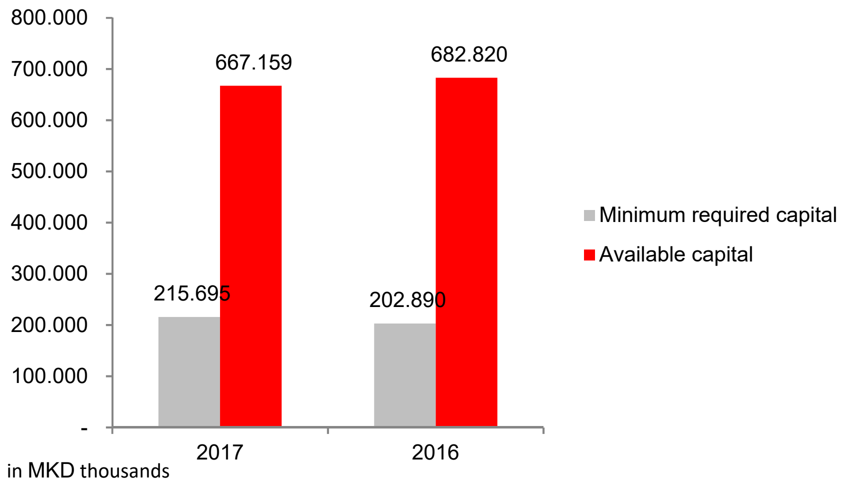
5.2 Capital management and capital adequacy management (continued)

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

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

As at December 31, 2017, the available capital to minimum required capital ratio was 309% (2016: 337%).

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



5.3 Financial risks and sensitivity analysis

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

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

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk

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

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

The Company's financial assets that may be exposed to credit risk (financial investments, reinsurance assets, receivables from insurance operations and cash and cash equivalents) amounted to 1,968,442 MKD thousand (2016: 1,998,430 MKD thousand) as disclosed below.

	31 December 2017	31 December 2016
Financial investments	1,455,865	1,435,062
AFS	828,239	997,083
Debt instruments	828,239	997,083
Loans and receivables	627,626	437,979
Deposits (term) and GF investments	397,282	369,334
Debt instruments (T-Bills and Government Bonds)	230,344	68,645
Reinsurance share of technical provisions	139,240	156,614
Receivables	347,509	375,697
Cash and cash equivalents	25,828	31,057
Total financial assets exposed to credit risk	**1,968,442**	**1,998,430**

Credit risk arising from financial investments

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

Exposure as per credit rating

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Credit risk arising from financial investments (continued)

Asset class	31 December 2017	Average Rating	31 December 2016	Average Rating
Debt instruments (T-Bills and Government Bonds)	1,058,583	Ba2	1,065,728	Ba2
Deposits (term)	371,445	Ba1	342,505	Ba1
Gurantee fund investments	25,837	-	26,829	-
Total	**1,455,865**	**Ba2**	**1,435,062**	**Ba2**

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

Following is the credit-rating structure of the debt securities of Triglav Insurance AD Skopje for the years ended 31 December 2017 and 2016.

Credit rating	31 December 2017	31 December 2016
AFS	**828,239**	**997,084**
BBB	-	65,099
BB	828,239	931,985
Loans and receivables	**230,344**	**68,644**
BB	230,344	68,644
Total debt securities	**1,058,583**	**1,065,728**

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

Exposure as per product type

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

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

Type of investment	Limit 31 December 2017	Limit 31 December 2016
Debt securities	**100%**	**100%**
Debt securities issued by the state	60%	60%
Corporate debt securities issued by participant in financial sector including deposits in banks	30%	30%
Corporate debt securities issued by non-financial sector participants	10%	10%
Equity investments	**0%**	**0%**

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Credit risk arising from financial investments (continued)

The table below shows the composition of the investment portfolio of the Company as of 31 December 2017 and 2016.

	31 December 2017	%	31 December 2016	%
Debt securities, deposits and GF investments	**1,455,865**	**99,6%**	**1,435,062**	**99.6%**
Debt securities issued by the state	1,058,583	73%	1,000,629	70%
Debt securities issued by other states	-	0%	65,099	5%
Corporate debt securities and	-	0%	-	-
Deposits in banks	371,445	26%	342,505	24%
Gurantee fund investments	25,837	2%	26,829	2%
Equity investments	**5,399**	**0,4%**	**5,212**	**0.4%**
Total financial assets	**1,461,264**		**1,440,274**	

As of 31 December 2017 and 2016, all investments are within the limits of the Company's investment policy.

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

The single largest exposure in 2016 was related to the government bond issued by the Republic of Macedonia in amount of 205,272 MKD thousand with maturity until January 2018.

Exposure as per single issuer or group of connected issuers

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

All investments made in financial assets are within the Republic of Macedonia (2016: Republic of Macedonia and Slovenia), i.e. there is no exposure on the global financial markets.

Credit risk arising from insurance and reinsurance activities

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Credit risk arising from insurance and reinsurance activities (continued)

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

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

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

	31 December 2017	31 December 2016
AA	4,277	3,814
A	129,018	149,060
BBB	1,485	1,392
No rating	4,460	2,348
Reinsurance share of technical provisions	**139,240**	**156,614**

Credit risk arising from cash and cash equivalents

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

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

Bank	31 December 2017	31 December 2016
Komercijalna Banka AD, Skopje	8,157	17,839
Stopanska Banka AD, Skopje	7,113	2,984
Halkbank AD, Skopje	6,010	1,104
NLB Banka AD, Skopje	3,741	6,528
UNI Banka AD, Skopje	543	881
Ohridska Banka AD, Skopje	222	895
ProCredit Banka AD, Skopje	35	753
Cash in Vault	7	73
Total Cash and cash equivalents	**25,828**	**31,057**

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures

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

31 December 2016	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowence for impairement	Net exposure
Financial investments	1,435,062	-	124,737	1,559,799	(124,737)	1,435,062
AFS	997,083	-	-	997,083	-	997,083
Debt insutruments	997,083	-	-	997,083	-	997,083
Loans and receivables	437,979	-	124,737	562,716	(124,737)	437,979
Deposits (term), GF investments and loans	369,334	-	124,737	494,071	(124,737)	369,334
Debt instruments (T-Bills)	68,645	-	-	68,645	-	68,645
Reinsurers’ share of technical provisions	156,614	-	-	156,614	-	156,614
Receivables	210,979	65,645	701,735	978,329	(602,662)	375,697
Cash and cash equivalents	31,057	-	-	31,057	-	31,057
Total	**1,833,712**	**65,645**	**826,472**	**2,725,829**	**(727,399)**	**1,998,430**

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1. Credit risk (continued)

Additional credit risk disclosures

The impaired portion of category "Deposits (term), GF investments and loans" in amount of 117,995 MKD thousands (2016: 124,737 MKD thousands) relate to loans given in the past which are in delay of more than 365 days and therefore, they are fully impaired. During 2017, 11,440 MKD thousands of impairment was released as a result of collected loan receivables (2016: 5,282 MKD thousands).

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

	Past due but not impaired			
	Up to 30 days	30 - 180 days	Over 180 days	Total
31 December 2017	38,844	1,427	29,196	69,467
31 December 2016	31,056	184	34,406	65,646

	Impaired receivables			
	Up to 30 days	30 - 180 days	Over 180 days	Total
31 December 2017	-	75,220	19,963	95,183
31 December 2016	-	76,448	22,624	99,072

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

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

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

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.1. Credit risk (continued)

Additional credit risk disclosures (continued)

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

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

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

31 December 2016	Gross amount	Impairment	Net amount	Impairment %
Receivables from direct insurace	**837,566**	**538,747**	**298,819**	
Not due	169,122	-	169,122	-
up to 30 days	30,625	-	30,625	-
from 31 to 60 days	23,755	2,376	21,379	10%
from 61 to 120 days	64,457	19,982	44,475	31%
from 121 to 270 days	54,048	27,564	26,484	51%
from 271 to 365 days	23,220	16,486	6,734	71%
more than 365 days	472,339	472,339	-	100%
Receivables from recourses	**32,258**	**32,258**	**-**	
more than 365 days	32,258	32,258	-	100%
Total receivables from direct insurance and recourses	**869,824**	**571,005**	**298,819**	

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.2 Liquidity risk

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

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

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

In 2017 and 2016, the Company did not obtain additional liquidity from credit lines.

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.2. Liquidity risk (continued)

31 December 2016	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	32,041	482,987	726,689	198,557	1,440,274
AFS	5,212	101,920	696,607	198,557	1,002,295
Debt instruments	-	101,920	696,607	198,557	997,083
Equity instruments	5,212	-	-	-	5,212
Loans and receivables	26,829	381,067	30,082	-	437,979
Deposits (term), GF investments and loans	26,829	312,423	30,082	-	369,334
Debt instruments (T- Bills)	-	68,644	-	-	68,644
Reinsurers' share of tech. Provisions	-	156,614	-	-	156,614
Receivables	-	375,697	-	-	375,697
Cash and cash equivalents	-	31,057	-	-	31,057
Other assets	-	1,877	-	-	1,877
Total financial assets	**32,041**	**1,048,232**	**726,689**	**198,557**	**2,005,519**
Financial liabilities					
Insurance technical provisions	-	1,279,585	-	-	1,279,585
Employee benefits	-	198	1,299	3,176	4,673
Financial liabilities	-	2,557	-	-	2,557
Operating liabilities	-	98,303	-	-	98,303
Other liabilities	-	76,009	-	-	76,009
Total financial liabilities	**-**	**1,456,652**	**1,299**	**3,176**	**1,461,127**
Maturity gap	**32,041**	**(408,420)**	**725,390**	**195,381**	**544,392**

Due to the fact that the Company's financial investments is in AFS instruments, the debt securities maturing in 1 to 5 years can be sold earlier and thus cover the maturity gap that appears in the section under 1 year, if needed. As a result, it is unlikely that the Company will face any liquidity problems. In the long-term, the Company has positive gap for both, 2017 and 2016. In addition, there is no risk that any of the disclosed amounts payable will differ significantly in amount or will be required to occur significantly earlier than indicated.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.3 Market risk

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

Foreign currency risk management

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

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.3 Market risk (continued)

Foreign currency risk management (continued)

31 December 2016	EUR	USD	Other FC	MKD	Total
Financial assets					
Financial investments	559,002	-	-	881,272	1,440,274
AFS	559,002	-	-	443,293	1,002,295
Debt instruments	559,002			438,081	997,083
Equity instruments	-	-	-	5,212	5,212
Loans and receivables	-	-	-	437,979	437,979
Deposits (term),GF investments and loans	-	-	-	369,334	369,334
Debt instruments (T-Bills)	-	-	-	68,645	68,645
Reinsurers’ share of tech. provisions	150,328	5,333	953	-	156,614
Receivables	14,776	146	-	360,775	375,697
Cash and cash equivalents	1,276	35	51	29,695	31,057
Other assets	-	-	-	1,877	1,877
Total financial assets	**725,382**	**5,514**	**1,004**	**1,273,619**	**2,005,519**
Financial liabilities					
Insurance technical provisions	230,903	-	19,081	1,029,601	1,279,585
Employee benefits	-	-	-	4,673	4,673
Financial liabilities	-	-	-	2,557	2,557
Operating liabilities	67,873	9,828	1,464	19,138	98,303
Other liabilities	563	-	-	75,446	76,009
Total financial liabilities	**299,339**	**9,828**	**20,545**	**1,131,415**	**1,461,127**

Foreign currency sensitivity analysis

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

	31 December 2017	31 December 2016
1% drop in the FX rate to 60.88 (2016: 60.87)	(3,734)	(4,260)
1% rise in the FX rate to 62.11 (2016: 62.10)	3,734	4,260

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

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

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.3 Market risk (continued)

Interest rate risk management

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

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

Joint liability

The Company has a liability towards National Insurance Bureau in respect of the Company's share in MTPL claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Insurance Law on supervision. On the investments in the Guarantee Fund, the Company receives interest payments with average interest rate of 1.36% for the year ended December 31, 2017 (2016: 2.84%).

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

	31 December 2017	31 December 2016
Financial assets		
Non-interest bearing		
AFS - Equity instruments	5,399	5,212
Loans and receivables – T-Bills	18,563	68,645
Reinsurers' share of technical provisions	139,240	156,614
Receivables	347,509	375,697
Cash and cash equivalnts	25,828	31,057
Other assets	2,013	1,877
	538,552	**639,102**
Fixed interest bearing		
Available for sale - Debt instruments	828,239	997,083
Loans and receivables	378,450	30,331
	1,206,689	**1,027,414**
Variable Interest bearing		
Loans and receivables	230,613	339,003
	230,613	**339,003**
Total financial assets	**1,975,854**	**2,005,519**
Financial liabilities		
Non-interest bearing		
Insurance technical provisions	1,249,199	1,279,585
Employee benefits	6,276	4,673
Financial liabilities	1,724	2,557
Operating liabilities	59,483	98,303
Other liabilities	86,978	76,009
Total financial liabilities	**1,403,660**	**1,461,127**

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.3 Market risk (continued)

Interest rate risk management (continued)

Interest rate sensitivity analysis

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

Therefore, in case the interest rates were higher/lower by 15% and all remaining variables remained constant, the profit of the Company for the year ended 31 December 2017 would be higher, i.e lower by 768 MKD thousand (2016: 1,037 MKD thousand).

Interest rate sensitivity analysis

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

	31 December 2017	31 December 2016
15% increase in deposit interest rates	768	1,037
15% decrease in deposit interest rates	(768)	(1,037)

5.3.4 Equity risk

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

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

	31 December 2017		31 December 2016	
	+ 10%	**- 10%**	**+ 10%**	**- 10%**
Equity investments in R. Macedonia	540	(540)	521	(521)
Total effect	**540**	**(540)**	**521**	**(521)**

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 2017 and 31 December 2016 were 10% above their disclosed values, the comprehensive income of the Company would be 540 MKD thousand and 521 MKD thousand higher. In contrast, if the prices of the equities in the portfolio as at 31 December 2017 and 31 December 2016 were 10% lower, the comprehensive income and profit of the Company would be 540 MKD thousand and 521 MKD thousand lower.

5. Risk management (continued)

5.3 Financial risks and sensitivity analysis (continued)

5.3.4 Equity risk (continued)

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

5.3.5 Sensitivity analyses

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

5.4 Underwriting risk

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

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

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

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

Underwriting strategy

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Underwriting strategy (continued)

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

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

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

Reinsurance strategy

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

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

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

The Company has centralized system for management of reinsurance.

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

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

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

Following table presents the reinsurance coverage and maximum retention of the Company by insurance type for years ended 31 December 2017 and 2016.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Reinsurance strategy (continued)

	31 December 2017		31 December 2016	
Type of insurance	Maximum retention	Reinsurance coverage	Maximum retention	Reinsurance coverage
Fire insurance and other damages (including business interuption as a result of fire and machine breakdown)	30,750	922,500	30,750	922,500
Other damage to property insurance (machine breakdown, electronic devices as well as CAR/EAR)	12,300	430,500	12,300	430,500
Insurance from burglary and robbery	24,600	492,000	24,600	492,000
Land motor vehicle insurance	6,150	30,750	6,150	30,750
Railway insurance	3,075	3,075	3,075	3,075
Aircraft insurance	6,150	6,150	6,150	6,150
Marine insurance	6,150	6,150	6,150	6,150
Cargo insurance	6,150	184,500	6,150	184,500
Motor TPL insurance	18,450	unlimited	18,450	unlimited
Aircraft liability insurance	3,075	3,075	3,075	3,075
Marine liability insurance	6,150	6,150	3,075	3,075
General liability insurance	9,225	9,225	9,225	9,225
Credit insurance	3,075	3,075	3,075	3,075
Suretyship insurance	3,075	3,075	3,075	3,075
Miscellaneous financial loss insurance	3,075	3,075	3,075	3,075
Accident insurance	6,150	6,150	6,150	6,150
All other types of insurance	3,075	3,075	3,075	3,075

Asset-liability harmonization

The Law on insurance supervision applicable in 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 2017 the investments of the Company which serve as assets covering the technical provisions amounted to 1,458,027 MKD thousand (2016: 1,443,996 MKD thousand). These investments consist of bank accounts and deposits, shares, government bills and bonds.

5. Risk management (continued)

5.4 Underwriting risk (continued)

Asset-liability harmonization (continued)

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

	Allowed %	31 December 2017	%	31 December 2016	%
Bank accounts and cash in hand	3%	25,821	1.8%	31,057	2.2%
Bank deposits	60%	368,225	25.3%	342,000	23.7%
Securities issued by R. Macedonia	80%	1,058,582	72.6%	1,000,629	69.3%
Shares that are not traded on the regulated securities market if their issuer is legal entity established in R. Macedonia	5%	3,600	0.2%	3,600	0.2%
Shares issued by investment funds registered in R. Macedonia	20%	1,799	0.1%	1,612	0.1%
Long-term bonds and other long-term securities issued by foreign legal entity from a EU member or OECD member state	20%	-		65,098	4.5%
Total investment in assets		**1,458,027**		**1,443,996**	**100%**
Total net technical provisions (technical procision less reinsurance part)		**1,109,959**		**1,122,971**	
Surplus of assets covering the technical provisions		**348,068**		**321,025**	

The assets covering the net insurance technical provisions were at surplus in amount of 348,068 MKD thousand as at 31 December 2017 (2016: surplus of 321,025 MKD thousand).

Third party liability insurance

Product features

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

Management of risk

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Property insurance

Product features

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

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

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

Management of risk

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

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

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

Region	31 December 2017	31 December 2016
Skopje region	41%	42%
Vardar region	18%	19%
Pelagoniski region	17%	14%
East region	7%	8%
Southeast region	7%	7%
Southwest region	5%	6%
Poloski region	3%	3%
Northeast region	2%	2%
Total	**100%**	**100%**

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Property insurance (continued)

Management of risk (continued)

		31 December 2017			31 December 2016		
Maximum possible claim	Medium possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim
0-1,538	769	12,052	77,111	10,105,689	9,743	93,910	9,778,347
1,538-3,075	2,306	5,408	31,695	17,519,017	5,043	23,570	16,654,852
3,075-6,153	4,614	2,119	17,345	14,514,441	2,038	19,474	13,776,570
6,153-15,375	10,764	1,041	30,376	15,639,686	1,005	33,456	15,305,245
15,375-30,750	23,063	348	15,687	12,795,755	366	18,885	12,744,196
30,750-61,500	46,125	203	15,617	14,540,586	173	15,614	13,350,556
61,500-123,000	92,250	65	7,327	10,236,101	92	12,483	13,039,350
123,000-184,500	153,750	28	5,031	7,649,992	32	6,152	8,181,171
184,500-307,500	246,000	20	12,006	11,456,016	29	12,419	12,564,877
307,500-615,000	461,250	15	5,636	15,128,959	20	11,170	17,309,310
615,000-1,230,000	922,500	20	6,596	20,678,820	23	4,335	17,572,834
1,230,000-3,075,000	2,152,500	24	4,532	31,863,725	8	4,553	23,232,896
> 3,075,000	-	18	43,681	315,163,776	21	49,632	266,712,944
		21,361	**272,641**	**497,292,563**	**18,593**	**305,652**	**440,223,147**

5. Risk management (continued)

5.4 Underwriting risk (continued)

Motor insurance

Product features

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

Management of risk

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

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Motor insurance (continued)

Management of risk (continued)

		31 December 2017			31 December 2016		
Maximum possible claim	Medium possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim	No of individual insurance risks	GWP	Aggregated maximum possible claim
0-615	308	2,408	13,370	227,095	2,679	15,470	297,038
615-1,230	923	2,042	31,243	1,737,425	2,165	39,028	1,921,657
1,230-1,845	1,538	973	24,970	1,481,793	927	29,316	1,407,978
1,845-3,075	2,460	555	21,486	1,326,402	575	26,519	1,362,831
3,075-6,150	4,613	1,234	58,886	5,574,759	1,126	69,539	5,113,591
6,150-12,300	9,225	138	12,774	1,168,247	189	25,469	1,628,586
12,300-18,450	15,375	41	4,839	633,816	53	8,908	822,111
18,450-30,750	24,600	9	1,541	225,035	14	2,477	339,158
> 30,750	-	-	-	-	1	105	36,761
		7,400	**169,109**	**12,374,573**	**7,729**	**216,831**	**12,929,711**

5. Risk management (continued)

5.4 Underwriting risk (continued)

Concentration of insurance risks

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

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

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

(i) Geographic and sectorial concentrations

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

(ii) High-severity, low-frequency concentrations

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

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

5. Risk management (continued)

5.5 Operational risks

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

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

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

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

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

5.6 Strategic risks

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

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

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

Strategy

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

5. Risk management (continued)

5.6 Strategic risks (continued)

Business processes

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

Assets and liabilities

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

5. Risk management (continued)

5.7 Fair value of financial assets and liabilities

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Financial investments	1,461,264	1,461,264	1,440,274	1,440,274
AFS	833,638	833,638	1,002,295	1,002,295
Debt instruments	828,239	828,239	997,083	997,083
Equity instruments	5,399	5,399	5,212	5,212
Loans and receivables	627,626	627,626	437,979	437,979
Deposits (term), GF investments and loans	397,282	397,282	369,334	369,334
Debt instruments (Treasury Bills)	230,344	230,344	68,645	68,645
Receivables	347,509	347,509	375,697	375,697
Cash and cash equivalents	25,828	25,828	31,057	31,057
Other assets	2,013	2,013	1,877	1,877
Total financial assets	**1,836,614**	**1,836,614**	**1,848,905**	**1,848,905**
Financial liabilities				
Financial liabilities	1,724	1,724	2,557	2,557
Operating liabilities	59,483	59,483	98,303	98,303
Other liabilities	86,978	86,978	76,009	76,009
Total financial liabilities	**148,185**	**148,185**	**176,869**	**176,869**

5. Risk management (continued)

5.7 Fair value of financial assets and liabilities (continued)

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

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

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

- Debt and equity AFS securities are evaluated by the Company based on price quotations at the reporting date. The fair value of unquoted AFS instruments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Please refer to note 3.6.

- The fair value of loans and receivables is measured using the discounted cash flow model on the basis of the historical effective interest rate (Level 2).

- The fair value of receivables and other assets, operating, financial and other liabilities is measured through parameters such as specific country risk factors, individual creditworthiness of the customer, experience regarding recoverability of receivables with similar maturities etc. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2017, the carrying amounts of such receivables, net of allowances, were not different from their calculated fair values.

6. Operating segments

Products, services and major consumers

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

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

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

Geographical areas

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

The income from the segments consists of the net premium income from insurance, income from financial assets, other insurance income and other income. The management measures the segment performance through analyzing the gross written premium, net premium income, net claims incurred, income from financial assets, other insurance income and expenses, operating expenses as well as through insurance related ratios such as cost ratio, expense ratio, claim ratio and combined ratio. Combined ratio which is below 100 is desirable ratio. The combined ratio of Triglav Insurance AD Skopje as of 31 December 2017 was 97 (2016:99).

The segment information provided to the Board of Directors for the reportable segment as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Gross insurance premium income	1,342,537	1,317,385
Insurance premium ceded to reinsurers	(247,606)	(226,010)
Net premium income	**1,094,931**	**1,091,375**
Income from financial assets	72,580	65,027
Other insurance income	33,406	32,252
Other income	7,887	9,827
Total income	**1,208,804**	**1,198,481**
Gross insurance claims settled	622,052	600,199
Insurance claims recovered from reinsurance	(12,878)	(47,607)
Net claims incurred	**609,174**	**552,591**
Change in other insurance technical provisions	2,905	7,361
Net expenses for bonuses and discounts	42,942	107,821
Operating expenses	386,004	379,604
Expenses from financial assets and liabilities	2,984	4,439
Other insurance expenses	54,526	66,732
Other expenses	10,504	16,210
Total expenses	**1,109,039**	**1,134,758**
Share of loss of an associate	2,056	-
Profit before tax	**97,709**	**63,723**

6. Operating segments (continued)

Depreciation and amortization	13,692	13,363
Interest income	55,392	55,854
Income tax expense	12,507	9,163
Share of loss of associates	2,056	-
Total assets	**2,247,944**	**2,227,103**
Total assets include:		
Investment in associates	59,571	-
Total liabilities	**2,247,944**	**2,227,103**

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7. Intangible assets

	Software and licenses	Deferred acquisition costs	Total intangible assets
Cost			
As at 31 December 2015	**25,925**	**104,315**	**130,240**
- Additions	6,731	-	6,731
- Increase in value	-	12,050	12,050
- Decrease in value	-	8,823	8,823
As at 31 December 2016	**32,656**	**107,542**	**140,198**
- Additions	11,090	-	11,090
- Increase in value	-	10,581	10,581
- Decrease in value	-	4,844	4,844
As at 31 December 2017	**43,746**	**113,279**	**157,025**
Accumulated amortization			
As at 31 December 2015	**15,097**	**-**	**15,097**
- Current year amortization	4,362	-	4,362
As at 31 December 2016	**19,459**	**-**	**19,459**
- Current year amortization	5,114	-	5,114
As at 31 December 2017	**24,573**	**-**	**24,573**
Carrying amount			
As at 31 December 2016	**13,197**	**107,542**	**120,739**
As at 31 December 2017	**19,173**	**113,279**	**132,452**

No items of intangible assets were pledged as collateral as at 31 December 2017 or 31 December 2016.

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

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

The value of the ADInsure software and the related licenses are in amount of 17,770 MKD thousand and represent 93% from the total value as at 31 December 2017 (2016: 10,926 MKD thousand or 83%).

(All amounts are in MKD thousand unless otherwise stated)

8. Property and equipment

	Buildings	Equipment	Paintings	Total tangible assets
Cost				
As at 31 December 2015	**80,782**	**104,194**	**626**	**185,602**
- Additions	-	5,965	-	5,965
- Disposals	-	(8,740)	(28)	(8,768)
- Reclassification	-	-	-	-
As at 31 December 2016	**80,782**	**101,419**	**598**	**182,799**
- Additions	-	6,922	-	6,922
- Disposals	-	(6,101)	-	(6,101)
- Reclassification	-	-	-	-
As at 31 December 2017	**80,782**	**102,240**	**598**	**183,620**
Accumulated depreciation				
As at 31 December 2015	**25,280**	**79,122**	**-**	**104,402**
- Current year depreciation	2,021	6,981	-	9,002
- Disposals	-	(7,164)	-	(7,164)
- Reclassification	-	-	-	-
As at 31 December 2016	**27,301**	**78,939**	**-**	**106,240**
- Current year depreciation	2,020	6,558	-	8,578
- Disposals	-	(5,687)	-	(5,687)
- Reclassification	-	-	-	-
As at 31 December 2017	**29,321**	**79,810**	**-**	**109,131**
Carrying amount				
As at 31 December 2016	**53,481**	**22,480**	**598**	**76,559**
As at 31 December 2017	**51,461**	**22,430**	**598**	**74,489**

The market value of the buildings as at 31 December 2017 was in amount of 85,483 MKD thousand and it is in excess over its carrying amount.

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

No items of property and equipment were pledged as collateral as at 31 December 2017 or 31 December 2016.

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

As at 31 December 2017 no item of property and equipment was held under finance lease.

9. Investment Property

	Buildings	Total investment property
Cost		
As at 31 December 2015	**137,515**	**137,515**
- Disposal	(95,210)	(95,210)
As at 31 December 2016	**42,305**	**42,305**
- Disposal	(24,877)	(24,877)
As at 31 December 2017	**17,428**	**17,428**
Accumulated depreciation and impairment		
As at 31 December 2015	**60,888**	**60,888**
- Current year depreciation	2,480	2,480
- Disposal	(35,498)	(35,498)
- Impairment on disposed assets	(9,851)	(9,851)
As at 31 December 2016	**18,019**	**18,019**
- Current year depreciation	864	864
- Disposal	(5,462)	(5,462)
- Impairment on disposed assets	(1,570)	(1,570)
As at 31 December 2017	**11,851**	**11,851**
Carrying amount		
As at 31 December 2016	**24,286**	**24,286**
As at 31 December 2017	**5,577**	**5,577**

In 2017, nine assets of investment property have been sold with cumulative gain of 881 MKD thousand (2016: eight assets with gain of 2,628 MKD thousand and loss of 930 MKD thousand). The gains and losses from investment properties are disclosed as part of “Other Income” in note 25 and “Other Expenses” in note 32.

In 2017, no impairment loss was recognized. In 2016, impairment loss of 1,349 MKD thousand was recognized. The impairment loss represented the write-down of certain items of investment property to the recoverable amount as a result of obsolescence. This was recognized in the statement of the profit or loss as “Other Expenses (note 32). The recoverable amount of 24,838 MKD thousand represented the fair value less costs to sell and was based on a valuation of all items performed by certified appraiser CBRE. The cash flows generated from these items of property as a rental income are insignificant and therefore, the value in use was not calculated. The fair value measurement was made using various valuation technics as disclosed on the next page. The valuations were performed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards. After impairing these items of property, the market value as at 31 December 2016 was in excess of its carrying amount.

31 December 2017	**Opening balance**	**Increase**	**Use**	**Release**	**Ending balance**
Impairment of investment property	5,379	-	(1,570)	-	3,809
31 December 2016	**Opening balance**	**Increase**	**Use**	**Release**	**Ending balance**
Impairment of investment property	15,230	1,349	(11,200)	-	5,379

No item of investment property was pledged as collateral as at 31 December 2017 or 31 December 2016.

The rental income earned from investment property in 2017 was in amount of 1,904 MKD thousand (2016: 1,900 MKD thousand). The rental income earned is disclosed in “Other Income” in note 25. The depreciation charge from investment property is disclosed in “Other Expenses” in note 32. Future rental payments are not expected to materially difer from the current one. The income earned from investment property is derived only from two properties which are cancellable with notice period of one month.

9. Investment Property (continued)

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

Since majority of the assets have been sold during the year with cumulative capital gain and no change in market conditions has occurred, no valuation was performed as of 31 December 2017

Following tables present information related to valuation performed as of 31 December 2016.

31 December 2016 Type of property	No of properties	Valuation approach	Level of vauation	Significant unobservable inputs	Range
Commercial property	2	Combination of income and market approach (Sales comparison approach	Level 2 and Level 3	Estimated rental value per sqm per month (eur) Discount rate Costs of refurbishment per sqm	2 -3 10% - 11% 200
Hotel appartments	1 property (15 appartments)	Market approach (Sales comparison approach)	Level 2	Disposal costs (as % of GDV*) Completion costs ('000 eur) Purchaser's costs (% of PP**) Financing structure Required rate of return Effective interest rate	5% 1,714 1.5% 40% equity 60 % debt 15% 7.5%
Residential property	2	Market approach (Sales comparison approach)	Level 2	n/a	n/a

The following table presents the level of valuation and market value of each item of property classified as Investment property.

31 December 2016 Property	Level of valuation	Market value
Hotel Eurotel - Struga	Level 2	7,992
Objekt Ohrid Galicica	Level 2 and Level 3	1,291
Objekt Prilep	Level 2 and Level 3	799
Stanben objekt Vodno	Level 2	14,755
		24,838

(All amounts are in MKD thousand unless otherwise stated)

10. Investment in associates

	31 December 2017	31 December 2016
Investment in associates	59,571	-
Total investment in associates	**59,571**	**-**

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

	31 December 2017	31 December 2016
Intangible assets	1,997	-
Property and equipment	1,426	-
Financial investments	233,943	-
Receivables	61,595	-
Other assets	1,339	-
Cash and cash equivalents	5,729	-
Provisions for employees	(94)	
Other liabilities	(8,644)	
Net assets	**297,291**	
Company's share in %	**20.04%**	
Company's share in MKD	**59,571**	

	31 December 2017	31 December 2016
Income from financial assets	554	-
Operating expenses	10,398	-
- Acquisition costs	8,951	-
- Other operating costs	1,447	-
Expenses from financial assets and liabilities	438	-
Net profit/loss	**(10,282)**	**-**
Total comprehensive income for the year	**(10,282)**	
Company's share of loss for the year	**(2,056)**	

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

No dividends were received from Triglav Insurance Life AD Skopje during the year ended 31 December 2017.

The associate had no contingent liabilities or capital commitments as at 31 December 2017.

11. Financial investments

Overview of financial investments by type and investment group

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

31 December 2016	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	997,083	-	997,083
Treasury Bills	-	68,645	68,645
Shares, other floating rate securities and fund	5,212	-	5,212
Guarantee Fund Investments		26,829	26,829
Bank deposits	-	342,505	342,505
Total financial investments	**1,002,295**	**437,979**	**1,440,274**

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

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

11. Financial investments (continued)

Following is disclosure of the interest rates of all interest bearing financial instruments, for both years ended 31 December, 2017 and 2016.

	31 December 2017	I.R	31 December 2016	I.R
Fixed interest bearing				
Debt securities (AFS)	**828,239**		**997,083**	
MACGB 5.4 01/09/2018	200,122	5.40%	205,272	5.40%
MACGB 3.9 10/16/2019	140,637	3.90%	140,066	3.90%
MACGB 3.9 10/02/2019	135,542	3.90%	135,036	3.90%
MACGB 5.15 01/24/2018	131,249	5.15%	134,284	5.15%
MACGB 4 5 10/30/2024	89,609	4.50%	86,476	4.50%
MACGB 4.6 10/31/2018	41,195	4.60%	41,649	4.60%
MACGB 2.8 10/20/18	40,512	2.80%	40,301	2.80%
MACGB 3.8 08/27/2025	21,716	3.80%	20,758	3.80%
MACGB 3.7 02/11/26	16,413	3.70%	15,652	3.70%
MACGB 4.3 03/31/31	11,244	4.30%	10,571	4.30%
MACGB 5.7 08/09/2017	-	-	10,408	5.70%
MACGB 3.65 10/02/2017	-	-	91,512	3.65%
SLOREP 4 5/8 09/09/24	-	-	65,098	4.63%
Loans and receivables	**378,449**		**30,331**	
MACGB 2.35 10/05/20	95,566	2.35%	-	-
MACGB 2.35 11/02/20	60,261	2.35%	-	-
Deposit Stopanska Banka Skopje	30,444	1.90%	30,331	1.90%
Deposit Stopanska Banka Skopje	30,224	1.50%	-	-
Deposit Halk Banka	30,000	2.40%	-	-
Deposit Halk Banka	30,000	3.00%	-	-
MACGB 2.1 05/04/19	33,200	2.10%	-	-
Deposit Ohridska Banka	20,002	1.30%	-	-
Deposit Komercijalna Banka AD Skopje	18,000	0.04%	-	-
MACGB 2.3 01/26/19	12,680	2.30%	-	-
MACGB 2.1 09/07/19	10,072	2.10%	-	-
Deposit NLB Tutunska Banka	8,000	0.03%	-	-
Variable Interest bearing				
Loans and receivables	**230,613**		**339,003**	
Deposit NLB Tutunska Banka	50,564	2.00%	-	-
Deposit Stopanska Banka Skopje	30,862	2.70%	30,082	2.70%
Deposit Stopanska Banka Skopje	30,739	2.60%	-	-
Deposit Sparkasse Banka	30,383	2.20%	-	-
Gurantee Fund investment	25,837	1.36%	26,829	3.42%
Deposit Halk Banka	20,000	2.00%	-	-
Deposit Halk Banka	20,000	2.70%	-	-
Deposit Halk Banka	20,000	2.40%	-	-
Deposit NLB Tutunska Banka	2,228	1.65%	-	-
Deposit NLB Tutunska Banka	-	-	40,058	2.30%
Deposit Ohridska Banka	-	-	30,007	1.80%

(All amounts are in MKD thousand unless otherwise stated)

11. Financial investments (continued)

	31 December 2017	I.R	31 December 2016	I.R
Deposit Halk Banka	-	-	30,000	2.40%
Deposit Halk Banka	-	-	30,000	2.30%
Deposit Ohridska Banka	-	-	20,004	1.80%
Deposit Komercijalna Banka AD Skopje	-	-	20,000	0.05%
Deposit Halk Banka	-	-	20,000	3.40%
Deposit Halk Banka	-	-	20,000	3.00%
Deposit Halk Banka	-	-	20,000	2.30%
Deposit NLB Tutunska Banka	-	-	20,000	0.03%
Deposit Stopanska Banka Skopje	-	-	17,000	0.04%
Deposit NLB Tutunska Banka	-	-	15,023	2.30%

Maturity and interest rate on all instruments is provided on pages 38,59 and 60. Deposits are with maturities of up to two years.

As at the year end, the Company has accrued interest in amount of 25,343 thousand MKD (2016: 23,780 thousand MKD) where 22,122 thousand MKD relates to debt securities and 3,221 thousand MKD relates to deposits.

Movements of financial investments

	Available for sale - AFS	Loand and receivables - L&R	Total
As at 31 December 2015	**976,897**	**303,218**	**1,280,115**
Acquisitions	129,384	420,270	549,654
Disposals	(77,189)	(745)	(77,934)
Maturities	(65,000)	(280,910)	(345,910)
Interest income inflow	(42,631)	(16,807)	(59,438)
Valuation through equity	41,687	-	41,687
Movement in impairment allowance	(5)	5,282	5,277
Interest income	40,143	7,670	47,813
Foreign exchange differences	(990)	-	(990)
As at 31 December 2016	**1,002,296**	**437,978**	**1,440,274**
Acquisitions	-	566,834	566,834
Disposals	(61,297)	(32)	(61,329)
Maturities	(100,000)	(388,742)	(488,742)
Interest income inflow	(40,600)	(5,744)	(46,344)
Valuation through equity	(5,193)	-	(5,193)
Movement in impairment allowance	-	6,742	6,742
Interest income	38,144	10,590	48,734
Foreign exchange differences	288	-	288
As at 31 December 2017	**833,638**	**627,626**	**1,461,264**

11. Financial investments (continued)

Financial investments according to valuation levels

	31 December 2017	31 December 2016
Available for sale - AFS		
Level 1	5,399	70,310
Level 2	828,239	931,985
Level 3	-	-
Total available for sale financial investments	**833,638**	**1,002,295**

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

No reclassification of financial assets has been made during 2017 or 2016.

12. Reinsurers' share of technical provisions

	31 December 2017	31 December 2016
Reinsurers' share of unearned premiums	55,216	78,372
Reinsurers' share of claims	77,934	75,348
Reinsurers' share of bonuses and discounts	6,090	2,893
Total reinsurers' share of technical provisions	**139,240**	**156,614**

Fair value is disclosed in note 5.7.

13. Receivables

Receivables by maturity

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

13. Receivables (continued)

Receivables by maturity (continued)

31 December 2016	Receivables by maturity: Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	**169,122**	**106,992**	**22,706**	**298,820**
Receivables from insurees	160,428	102,449	22,123	285,000
Receivables from insurer brokers	8,508	4,543	500	13,551
Other receivables from direct insurance operations	186	-	83	269
Receivables from reinsurance	**10,457**	**-**	**146**	**10,603**
Receivables from reinsurance share in claims	10,457	-	-	10,457
Other receivables from reinsurance	-	-	146	146
Other receivables	**31,400**	**695**	**34,179**	**66,274**
Other short-term receivables from insurance operations	6,833	126	33,969	40,928
Short term receivables from financing	-	471	32	504
Other short-term receivables	24,567	98	178	24,842
Total receivables	**210,979**	**107,687**	**57,031**	**375,697**

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

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

31 December 2016	Gross amount	Impairment	Net amount
Receivables from direct insurance	837,567	(538,747)	298,820
Receivables from reinsurance	10,603	-	10,603
Other receivables	130,189	(63,915)	66,274
Total receivables	**978,359**	**(602,662)**	**375,697**

13 Receivables (continued)

Movement of bad debt provisions (impairment)

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

31 December 2016	Opening balance	Increase	Use	Release	Ending balance
Receivables from direct insurance	**592,014**	**46,811**	**(64,261)**	**(35,817)**	**538,747**
Receivables from insurers	571,008	37,547	(64,169)	(32,132)	512,254
Receivables from insurer brokers	16,348	9,264	(92)	(3,436)	22,084
Other receivables from direct insurance operations	4,658	-	-	(249)	4,409
Other receivables	**71,831**	**1,371**	**(6,755)**	**(2,532)**	**63,915**
Other short-term receivables from insurance operations	34,353	371	(522)	(1,945)	32,257
Short term receivables from financing	31,128	-	(50)	(587)	30,491
Other short-term receivables	6,350	1,000	(6,183)	-	1,167
Total bad debt provision	**663,845**	**48,182**	**(71,016)**	**(38,349)**	**602,662**

14. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash in bank in MKD	25,013	29,624
Cash in bank in EUR	215	1,273
Cash in bank in other currencies	593	86
Cash on hand in MKD	7	71
Cash on hand in EUR	-	2
Total cash and cash equivalents	**25,828**	**31,057**

15. Equity

As at 31 December 2017, the share capital of the Triglav Insurance AD Skopje is consisted of 60,184 common shares with total nominal capital of 185,223 MKD thousand. The nominal value per share is 3,078 MKD. The shares are registered and recorded as common shares with the Central Securities Depository of the Republic of Macedonia. To their holders, these shares bear dividend and voting rights for the Shareholders Assembly. One common share entitles to one vote at the Shareholders Assembly. The shares are issued in dematerialized form with ISIN code MKVROS101016. All of the shares are paid in full.

There was no increase in the share capital during 2017 or 2016.

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

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

31 December 2016	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	13,585	46,599	47,492	12,692	60,184
Number of shareholders	70	19	7	82	89
Number of shares - participation	23%	77%	79%	21%	100%
Number of shareholders - participation	79%	21%	8%	92%	100%

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

Shareholder	31 December 2017	31 December 2016
Triglav Int. Holdinska Druzba d.d Ljubljana	79.94%	73.38%
Stojan Klopcevski	8.74%	8.74%

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

15. Equity (continued)

Dividends

As of the date of preparation of these financial statements there were no dividends declared (2016: none).

Reserves from profit

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

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

In 2017, the Company transferred 30,187 MKD thousand from retained earnings to statutory reserves. The amount transferred in 2016 was 12,220 MKD thousand.

Revaluation reserves

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

In 2017 the movement in the revaluation reserve was negative 5,193 MKD thousand (consisted of 7,037 MKD thousand increase and 12,230 MKD thousand decrease). In 2016 the movement in the revaluation reserve was positive 41,687 MKD thousand (consisted of 42,650 MKD thousand increase and 963 MKD thousand decrease).The Company is calculating deferred tax assets/liabilities on the revaluation reserves of its AFS instruments.

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

16. Insurance technical provisions

	31 December 2017	31 December 2016
Gross provisions for unearned premium (UPR)	540,583	564,737
Total gross unearned premium provisions	**540,583**	**564,737**
Gross provisions for incurred and reported claims (RBNS)	386,331	365,813
Gross provisions for incurred but not reported and/or not enough reported claims (IBNR)	240,609	264,829
Provisions for claims handling costs (CHC)	54,293	60,794
Total gross claims provisions	**681,233**	**691,436**
Gross provisions for bonuses and discounts	**17,116**	**16,051**
Gross provisions for other insurance technical provisions	**10,267**	**7,361**
Total gross insurance technical provisions	**1,249,199**	**1,279,585**

Analysis of changes in gross insurance technical provisions

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

(All amounts are in MKD thousand unless otherwise stated)

16. Insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class

31 December 2016	Opening balance	Formation	Use	Release	Final balance
Gross provisions for unearned premiums	550,757	564,152	-	(550,172)	564,737
Gross provisions for incurred and reported claims (RBNS)	343,097	621,481	(534,640)	(64,126)	365,812
Gross provisions for incurred but not reported claims (IBNR)	258,405	6,424	-	-	264,829
Provisions for claims handling costs (CHC)	58,105	2,689	-	-	60,794
Gross provisions for bonuses and discounts	2,357	16,051	-	(2,357)	16,051
Gross provisions for other insurance technical provisions	-	7,362	-	-	7,362
Total gross insurance technical provisions	**1,212,721**	**1,209,064**	**(534,640)**	**(616,655)**	**1,279,585**

16. Insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class

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

16. Insurance technical provisions (continued)

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

31 December 2016	Gross provisions for unearned premiums	Gross provisions for RBNS	Gross provisions for IBNR	Provisions for CHC	Gross provisions for bonuses and discounts	Gross provisions for other insurance technical provisions	Total
Accident insurance	39,012	9,422	22,283	3,056	13,158	-	86,931
Health insurance	5,100	443	-	43	-	-	5,586
Land motor vehicle insurance	113,069	37,560	4,570	4,061	-	7,312	166,572
Aircraft insurance	-	4,700	-	-	-	-	4,700
Marine insurance	184	-	-	453	-	-	637
Cargo insurance	5,266	-	-	-	-	-	5,266
Fire and natural forces insurance	41,054	4,405	5,095	916	2,893	-	54,363
Other damage to property insurance	59,352	6,045	6,992	1,257	-	3	73,649
Motor TPL insurance	268,908	283,993	225,889	49,153	-	-	827,943
Aircraft liability insurance	-	13,756	-	1,326	-	-	15,082
Marine liability insurance	158	-	-	-	-	-	158
General liability insurance	17,796	1,575	-	152	-	46	19,569
Suretyship insurance	63	-	-	-	-	-	63
Miscellaneous financial loss insurance	7,332	-	-	-	-	-	7,332
Travel assistance insurance	7,443	3,914	-	377	-	-	11,734
Total gross insurance technical provisions	**564,737**	**365,813**	**264,829**	**60,794**	**16,051**	**7,361**	**1,279,585**

16. Insurance technical provisions (continued)

Analysis of changes in loss events for non-life insurance

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

Cumulative loss assessment	Year of occurrence							Total
	before 2012	2012	2013	2014	2015	2016	2017	
at the end of year of occurrence	3,262,704	662,583	603,408	636,467	594,078	539,362	640,581	6,939,182
1 year after year of occurrence	3,717,314	645,758	562,469	592,385	562,648	532,327	-	6,612,900
2 year after year of occurrence	3,520,420	619,682	554,697	591,110	556,997	-	-	5,842,906
3 year after year of occurrence	3,535,538	610,379	540,210	589,219	-	-	-	5,275,346
4 year after year of occurrence	3,506,867	607,765	531,514	-	-	-	-	4,646,145
5 year after year of occurrence	3,476,769	604,488	-	-	-	-	-	4,081,257
6 + year after year of occurrence	3,311,529	-	-	-	-	-	-	3,311,529
Cumulative loss assessment	**3,311,529**	**604,488**	**531,514**	**589,219**	**556,997**	**532,327**	**640,581**	**6,766,655**
Cumulative payments until balance sheet date	3,182,215	569,425	510,939	547,536	500,102	447,579	381,920	6,139,715
Claims provisions balance	**129,314**	**35,063**	**20,575**	**41,683**	**56,895**	**84,748**	**258,661**	**626,940**

17. Employee benefits

	31 December 2017	31 December 2016
Provisions for retirement benefits	1,483	1,080
Provisions for jubilee rewards	4,793	3,593
Total provisions for employee benefits	**6,276**	**4,673**

The change in the provisions for jubilee rewards is disclosed under “Other labor costs” in operating expenses in note 29.

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

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

The Company has provided for the employees’ accrued entitlement to severance pay on retirement and jubilee rewards as at the end of 2017, based on best management estimate.

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

Further is disclosed sensitivity analysis which presents the impact of changes in parameters on the amount of provisions for employee benefits for both years ended 2017 and 2016.

	31 December 2017	31 December 2016
Interest rate		
Parallel shift in the discount rate curve for +0.25%	(152)	(109)
Parallel shift in the discount rate curve for -0.25%	158	114
Expected salary growth		
Change in annual salary growth for +0.50%	333	23
Change in annual salary growth for -0.50%	(309)	(23)
Life expectancy		
Steady increase in mortality for +20%	(88)	(64)
Steady increase in mortality for -20%	90	65

18. Deferred tax assets and liabilities

	31 December 2017	31 December 2016
Deferred tax assets	-	-
Total deferred tax assets	**-**	**-**

	31 December 2017	31 December 2016
Deferred tax liabilities	2,534	3,054
Total deferred tax liabilities	**2,534**	**3,054**

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

(All amounts are in MKD thousand unless otherwise stated)

19. Other financial liabilities

	31 December 2017	31 December 2016
Liabilities for dividends from previous years	1,724	2,557
Total other financial liabilities	**1,724**	**2,557**

20. Operating liabilities

	31 December 2017	31 December 2016
Liabilities towards policyholders	25,660	16,301
Liabilities towards brokers	2,672	4,512
Liabilities towards agents	615	372
Other liabilities from direct insurance operations	4	41
Total liabilities from direct insurance	**28,951**	**21,226**
Liabilities from reinsurance premiums	30,532	77,076
Total liabilities from reinsurance	**30,532**	**77,076**
Current tax liabilities	4,132	2,403
Total opreting liabilities	**63,615**	**100,705**

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

21. Other liabilities

	31 December 2017	31 December 2016
Financial other liabilities	**86,978**	**76,009**
Liabilities towards Gurantee Fund (GF)	30,868	31,181
Liabilities from subrogation	-	-
Liabilities for legal contributions related to the	4,542	4,655
Other short-term liabilities from insurance operations	2,047	2,139
Total other short-term liabililities from insurance operations	**37,457**	**37,975**
Liabilities for salaries	10,675	10,172
Total short-term liabililities towards employees	**10,675**	**10,172**
Liabilities towards suppliers	15,224	10,299
Liabilities from legal cases	372	371
Other short-term liabilities	23,250	17,192
Total other short-term liabilities	**38,846**	**27,862**
Non-financial other liabilities	**6,512**	**9,943**

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

22. Net premium income

	31 December 2017	31 December 2016
Gross written premium	1,312,647	1,328,137
Outward reinsurance written premium	(224,450)	(223,476)
Changes in gross provisions for unearned premium	24,153	(13,979)
Change in deferred acqusition costs	5,737	3,227
Change in provisions for the unearned premium (reinsurers share)	(23,156)	(2,534)
Net premium income	**1,094,931**	**1,091,375**

(All amounts are in MKD thousand unless otherwise stated)

22. Net premium income (continued)

Overview of net premium written by insurance class

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

22. Net premium income (continued)

Overview of net premium written by insurance class

31 December 2016	Gross written premium	Reinsurer's share	Net written premium
Accident insurance	111,986	(377)	111,609
Health insurance	25,753	(7,685)	18,068
Land motor vehicle insurance	216,831	(2,625)	214,206
Marine insurance	373	-	373
Cargo insurance	18,584	(16,299)	2,285
Fire and natural forces insurance	94,379	(48,757)	45,622
Other damage to property insurance	211,272	(66,647)	144,625
Motor TPL insurance	551,045	(24,513)	526,532
Marine liability insurance	298	-	298
General liability insurance	42,902	(34,800)	8,102
Suretyship insurance	103	(24)	79
Miscellaneous financial loss insurance	24,799	(21,749)	3,050
Travel assistance insurance	29,812	-	29,812
Total	**1,328,137**	**(223,476)**	**1,104,661**

23. Income from financial assets

	31 December 2017	31 December 2016
Interest income		
- AFS	38,144	40,143
- Deposits	6,801	6,240
- Investment in Gurantee fund	703	960
- Treasury Bills	3,089	474
- Interest on late payments of insurance receivables	6,655	8,037
Total interest income	**55,392**	**55,854**
Realised gains on disposals (AFS)	2,989	1,263
Other financial income	14,199	7,910
Total income from financial assets	**72,580**	**65,027**

In 2017, other financial income is consists of FX differences in the amount of 2,480 MKD thousand, release of bad debt provision in amount of 11,440 MKD thousand and other small items of income in the amount of 279 MKD thousand. In 2016, other financial income is consists of FX differences in the amount of 1,039 MKD thousand, release of bad debt provision in amount of 6,284 MKD thousand and other small items of income in the amount of 587 MKD thousand.

	31 December 2017	31 December 2016
Foreign exchange differences	2,480	13,315
Release of impairment of L&R and other receivables not related to insurance premium	11,440	1,031
Other	279	384
Total other financial income	**14,199**	**14,730**

24. Other insurance income

	31 December 2017	31 December 2016
Reinsurance commission income and participation in profit	24,026	22,208
Total fees and commission income	**24,026**	**22,208**
Compensation received from Gurantee fund	6,186	6,756
Other income from insurance operations from previous years	1,278	1,254
Other	1,916	2,034
Total other income	**9,380**	**10,044**
Total other insurance income	**33,406**	**32,252**

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

25. Other income

	31 December 2017	31 December 2016
Compensations received from legal cases	3,780	1,920
Investment property rental income	1,904	1,900
Gains from sale of Investment Property	881	2,628
Gain from sale of non-current assets	616	178
Write off of liabilities	491	3,046
Refunds	215	155
Total other income	**7,887**	**9,827**

26. Net claims incurred

	31 December 2017	31 December 2016
Gross claims settled	650,341	586,174
Income from claimed subrogated receivables	(18,087)	(17,803)
Reinsurers' share	(10,293)	(46,740)
Changes in gross provisions for claims outstanding	(10,202)	31,828
Changes in provisions for claims outstanding (reinsurers share)	(2,585)	(868)
Net claims incurred	**609,174**	**552,591**

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

Reinsurance result

	31 December 2017	31 December 2016
Outward reinsurance	(224,450)	(223,476)
Change in provisions for the unearned premium (reinsurers share)	(23,156)	(2,534)
Reinsurers' share in claims settled	10,293	46,740
Changes in provisions for claims outstanding (reinsurers share)	2,585	868
Net result from reinsurance operations	**(234,728)**	**(178,402)**
Reinsurance commission	24,026	22,208
Gross reinsurance result	**(210,702)**	**(156,194)**

26. Net claims incurred (continued)

Overview of net claims incurred by insurance class

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

26. Net claims incurred (continued)

Overview of net claims incurred by insurance class (continued)

31 December 2016	Gross claims settled	Subrogated claims	Reinsurer's share	Net claims incurred
Accident insurance	68,015	-	(407)	67,608
Health insurance	1,199	-	-	1,199
Land motor vehicle insurance	100,065	-	(28)	100,037
Aircraft insurance	1	-	(125)	(124)
Marine insurance	119	-	-	119
Cargo insurance	1,507	-	(71)	1,436
Fire and natural forces insurance	15,685	-	(1,365)	14,320
Other damage to property insurance	82,967	-	(513)	82,454
Motor TPL insurance	285,928	(17,803)	(23,770)	244,355
Aircraft liability insurance	19,647	-	(19,453)	194
Marine liability insurance	4	-	-	4
General liability insurance	3,854	-	(1,008)	2,846
Suretyship insurance	2	-	-	2
Miscellaneous financial loss insurance	500	-	-	500
Travel assistance insurance	6,681	-	-	6,681
Total	**586,174**	**(17,803)**	**(46,740)**	**521,631**

27. Change in other insurance technical provisions

	31 December 2017	31 December 2016
Unexpired risk reserve (URR)	2,905	7,361
Total change in other insurance technical	**2,905**	**7,361**

The calculations of the unexpired risk reserve as of Decembar 31, 2017 is made based on expected future gross claims and future expenses, which are compared with the amount of established provisions for unearned premiums reduced by deferred insurance acquisition costs. The calculation of URR is performed for each separate class of insurance and additional reserve has been booked only for 3 classes of insurance (2016: 3 classes of insurance).

28. Net expenses for bonuses and discounts

	31 December 2017	31 December 2016
Expenses for bonuses and discounts (financial discounts)	45,074	95,753
Expenses for non claim bonuses	-	1,267
Change in provisions for bonuses and discounts	(2,132)	10,801
Total net expenses for bonuses and discounts	**42,942**	**107,821**

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

29. Operating expenses

	31 December 2017	31 December 2016
Acquisition costs	284,993	288,648
Claims handling costs - CHC*	51,846	51,533
Costs of asset management**	2,289	2,165
Other operating expenses	101,011	90,956
Total operating expenses	**440,139**	**433,302**
Total net operating expenses less CHC and asset management costs	**386,004**	**379,604**

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

**Asset management costs are disclosed as financial expenses.

29. Operating expenses (continued)

Overview of operating expense by nature and function

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

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

29. Operating expenses (continued)

Overview of operating expense by nature and function (continued)

31 December 2016	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs – commission fee	77,771	-	-	-	77,771
Depreciation and amortisation of assets	9,580	1,485	46	2,252	13,363
Labour costs	101,765	28,298	1,409	55,783	187,255
- wages and salaries	64,645	17,720	902	36,900	120,167
- social security and pension insurance costs	31,749	8,828	457	16,383	57,417
- other insurance costs	5,371	1,750	50	2,500	9,671
Costs of services provided by outsourced natural persons	654	129	4	190	977
Other operating expenses	98,878	21,621	706	32,731	153,936
- advertisement, fairs, representation	47,771	-	-	-	47,771
- cost of materials and energy	8,079	3,703	122	5,689	17,593
- maintenance costs	6,420	1,248	41	1,723	9,432
- travel expenses	1,869	903	104	2,482	5,358
- costs of intelectual serviceñ	13,590	5,677	68	3,930	23,265
- taxes, not dependant on profit	1,279	207	8	345	1,839
- transportation costs	3,096	1,018	36	1,656	5,806
- insurance premium costs	1,122	412	15	686	2,235
- bank charges	870	17	8	1,988	2,883
- rental expenses	13,708	7,935	291	13,326	35,260
- training expenses	223	174	3	206	606
- other services	851	327	10	700	1,888
Total gross operating expenses	**288,648**	**51,533**	**2,165**	**90,956**	**433,302**

(All amounts are in MKD thousand unless otherwise stated)

30. Expenses from financial assets and liabilities

	31 December 2017	31 December 2016
Foreign exchange differences	661	2,229
Realized losses on disposal of investments	-	39
Other financial expenses	2,323	2,171
Total expenses from financial assets and liabilities	**2,984**	**4,439**

31. Other insurance expenses

	31 December 2017	31 December 2016
Expenses for preventive activity	22,078	21,196
Contributions for claims on uninsured or unidentified vehicles	18,287	16,380
Membership fees	15,039	14,585
Impairment on receivables for insurance premium	(8,181)	11,242
Expenses for travel assistance	2,694	2,301
Other insurance expenses from previous years	2,741	1,031
Impairment on receivables from recourses	(2,492)	(1,574)
Other insurance expenses	4,360	1,571
Total other insurance expenses	**54,526**	**66,732**

32. Other expenses

	31 December 2017	31 December 2016
Compensations paid for legal cases	9,404	8,463
Depreciation of investment properties	864	2,480
Impairment losses on investment property	-	1,349
Impairment losses on other receivables	-	1,000
Expenses for penalties	-	1,004
Realized losses on disposal of investment property	-	930
Extraordinary expenses	222	881
Realized losses on disposal of tangible assets	14	103
Total other expenses	**10,504**	**16,210**

During 2016, the Company booked impairment losses on investment property which represented write-down of certain items of investment property to the recoverable amount. The recoverable amount of the investment property was the fair value less costs to sell and was based on a valuation performed by certified appraisers. On details of the valuation techniques and assumptions taken please see “Investment Property” in note 9.

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

Compensation paid for legal cases in the year ended 31 December 2016 relates to a compensation from legal case with a former employee in which the Company was in capacity of defendant. The total amount of the compensation paid consists of of 4,560 MKD thousand indemnification of material damage and 3,649 MKD thousand penalty interests and 253 MKD thousand for court and other fees.

(All amounts are in MKD thousand unless otherwise stated)

33. Income Tax expenses

a) Current tax year charge

	31 December 2017	31 December 2016
Current year income tax assessment	12,507	9,163
Total income tax, recognised in profit or loss statement	**12,507**	**9,163**

Recapitulation of the Income tax expense

	31 December 2017	31 December 2016
Accounting profit	97,709	63,723
Legal tax rate - %	10	10
Income tax by use of legal tax rate	**9,771**	**6,372**
Non-deductable expenses	4,319	3,976
Tax credit used	(1,583)	(1,185)
Total income tax, recognised in profit or loss statement	**12,507**	**9,163**

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

	31 December 2017	31 December 2016
Deferred tax asset/(liability)	520	(4,169)
Total tax charge to other comprehensive income	**520**	**(4,169)**

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

As at 31 December 2015	**1,115**
Charged /(credited) to the income statement	-
Charged /(credited) to other comprehensive income	(4,169)
As at 31 December 2016	**(3,054)**
Charged /(credited) to the income statement	-
Charged /(credited) to other comprehensive income	520
As at 31 December 2017	**(2,534)**

34. Related party transactions

The services provided and received from the relates parties are rendered at arm’s length prices. All entities presented below are part of the Triglav Group.

Outstanding balances towards and from the related parties as at the reporting date as well as income and expenses during the period are presented below.

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

34. Related party transactions (continued)

31 December 2016	Zavarovalnica Triglav	Triglav RE Ljubljana	Triglav Zagreb	Triglav Osiguranje Beograd	Total
Income	**(109,742)**	**(57,058)**	**-**	**44**	**(166,755)**
Outward reinsurance premium	(117,607)	(74,731)	-	-	(192,337)
Other income from insurance operations	7,865	11,763	-	44	19,672
Change in provisions for the unearned premium (reinsurers share)	-	5,910	-	-	5,910
Expenses	**(2,431)**	**49,076**	**(371)**	**-**	**46,274**
Gross claims settled	(38)	-	(216)	-	(254)
Reinsurers' share of claims	1,520	44,898	-	-	46,418
Change in gross provisions for claims outstanding	(43)	-	-	-	(43)
Change in provisions for reinsurers' share of claims	(3,452)	4,178	-	-	726
Operating expenses	(417)	-	(155)	-	(573)
Assets	**102**	**105,892**	**-**	**-**	**105,994**
Reinsurers' share of technical provisions for unearned premium	-	20,018	-	-	20,018
Reinsurers' share of technical provisions for outstanding claims	94	75,363	-	-	75,457
Receivables from reinsurers		10,511	-	-	10,511
Short-term receivables from insurance operations	8	-	-	-	8
Liabilities	**28,001**	**10,383**	**156**	**-**	**38,539**
Gross insurance technical provisions	43	-	-	-	43
Liabilities from reinsurance operations	27,922	10,383	-	-	38,305
Other short-term liabilities	35	-	156	-	191

35. Members of the Board of Directors

In 2017, the executive members of the Board of Directors were paid amount of 16,303 MKD thousand as compensation for their work (2016: 11,180 MKD thousand).

The executive members of the Board of Directors were also paid out managerial insurance in amount of 235 MKD thousand. The managerial insurance paid out for the year ended 31 December 2016 was in amount of 235 MKD thousand.

An accrual related to bonus for the executve members of the Board of Directors has been booked in amount of 4,337 MKD thousand (2016: 3,346 MKD thousand).

The non-executive members of the Board of Directors were paid out by the Company an amount of 1,202 MKD thousand (2016: 1,060 MKD thousand) as compensation for their work including reimbursement of travel expenses and personal income taxes.

36. Amounts paid to auditors

The IFRS financial statements were audited by PricewaterhouseCoopers REVIZIJA DOO Skopje.

Following are the auditing expenses incurred for the year ended 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Statutory audit and other auditing services	1,021	1,381
	1,021	**1,381**

37. Earnings per share

The calculation of the basic/diluted earnings by share (EPS) for the years ended 31 December 2017 and 31 December 2016 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 2017	31 December 2016
Net profit attributable to shareholders of the Company	85,202	54,560
Number of shares	60,184	60,184
Earnings per share	**1,416**	**0.907**

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

38. Significant legal disputes

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

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

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

38. Significant legal disputes (continued)

submitted his opinion in relation to Triglav's expertise. On the hearing held on the 08 March 2016 the court decided that it`s necessary, additionally and with a separate formal decision to give an answer to the company objection on subject matter jurisdiction (that the court is not competent to act upon the complaint of Mr. Stojan Klopcevski), regarding the fact that in the contract for sale of shares with purchase option, jurisdiction is agreed to international arbitration in Vienna in case of a dispute. The Company objection on the subject matter jurisdiction was declined by the court and the company submited an appeal. The court dismissed the appeal of the company. On the hearing held on 24 April 2018 several witnesses testified. The next hearing is scheduled on 6 July 2018. The amount of the case is 154,664 MKD thousand. According to the latest developments, there is 49% likelihood that the plaintiff will win the case, i.e. 51% likelihood that the decision will be in favor of the Company.

- Case for compensation of damages, submitted on 28 May 2013 by several shareholders of Triglav Insurance Skopje against the Company and Zavarovalnica Triglav, d.d. The first preparatory hearing was scheduled by the Court on 6 June 2016 however it was postponed until 28 September 2016. With special formal decision the Court ruled on the objection of Zavarovalnica Triglav dd Ljubljana for lack of jurisdiction of the Macedonian court to act on the plaintiffs' claim against Zavarovalnica Triglav dd Ljubljana in a way that the court adopted the objection of Zavarovalnica Triglav dd Ljubljana and rejected the appeal of plaintiffs against Zavarovalnica Triglav dd Ljubljana. The next hearing is scheduled for 28 May 2018. The assessed amount of the case is 151.840 MKD thousand. According to the latest developments, there is 49% likelihood that the plaintiff will win the case, i.e. 51% likelihood that the decision will be in favor of the Company.

39. Contingent Liabilities

The Company has concluded rental contract for renting business premises in the business center Hyperium for 5 years starting from 17 January 2011, which was extended until 31 January 2019 in 2014. After change of ownership of the business center, the Company increased the leased space and managed to obtain lower prices per square meter. According to the latest annex, the contract is valid until 31 December 2028 with earliest termination possible on 31 December 2022. The monthly rent that the Company will be paying for the business premises starting 1 January 2018 is in amount of 2,556 MKD thousand (incl. VAT) including service fee of 3,5 eur per m2 (2016: 2,639 MKD thousand).

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

	Up to 1 year	2-5 years	Over 5 years
Rent arising from non-cancellable contract for headquarters	30,669	120,428	-
Total	**30,669**	**120,428**	**-**

Income tax liabilities

The Company's books and records for the fiscal years from 2011 to 2017 have not been audited by the tax authorities. Therefore, the Company's tax liabilities may not be considered finalized i.e. a provision for additional taxes and penalties, if any, that may be levied in event of a tax audit cannot, at this stage, be determined with any reasonable accuracy.

40. Reviews by Supervision bodies

During the year ended 31 December 2017, only control by the labor state insepctorate was performed in several branch offices. No irregularities were identified.

41. 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.