

Triglav Insurance AD Skopje

Financial Statements

For the year ended 31 December 2015

With the Report of the Auditors thereon

Dear Shareholders, Business partners and colleagues

As we are leaving 2015 behind, we have to recollect the positive developments that marked this year. Triglav Insurance SC, Skopje kept the market leading position in the non-life insurance segment and increased its gross written premium by 13%, compared to 2014.

These accomplishments are a result of the successful implementation of the Company's strategy, which focuses on the expansion of its own sales network, premium quality of products and services offered, continuous development of employees' expertise, as well as a proper organization of business processes in general.

Best Buy Award medal for best price-quality ratio, QUDAL- QUality meDAL medal for best quality which the Company received for the period 2014/2015, as well as the ranking of the Company in the list of best 100 insurance companies in Southeast Europe, SEE TOP 100 Insurers 2015, with highest rank among all Macedonian insurance companies, are a testament for the quality offered by Triglav and recognized by the public. These awards are indicators for the trust and satisfaction of our customers. We are especially proud of the fact that the Best Buy Award comes from the Millennials generation, as it means that we have achieved to be acknowledged by the generation that sets the trends and is the main pillar of the future. A generation that can recognize an honest approach and good quality.

The insurance market

The Macedonian insurance market has a great potential for further development, having into consideration that the insurance industry accounts for slightly more than 3% of the financial sector structure, whereas the level of density is 60 euro (2013: 57 euros) per capita insurance premium. This is far from the average density in the European Union, with around 2.000 euros per capita, but closer to the average in the Western Balkans countries, thus representing an additional motivation for our Company to contribute to the growth of the insurance market in Republic of Macedonia.

The Macedonian insurance market is composed of 15 insurance companies, out of which 11 offer non - life insurance products, and 31 brokerage companies, all performing in a very competitive environment.

Financial highlights

The gross written premium realized in 2015 was 1.294.400 MKD thousand, which represents 13% increase compared to the previous year and it was achieved mainly due to the intensive own sales network development. The growth in the gross written premium also corresponds to the growth of the gross written premium of the insurance market in 2015.

The gross claims settled in 2015 were 597 million MKD, while the obtained net profit amounted to 18.659 MKD thousand.


Our future focus

Triglav Insurance AD, Skopje is focused towards providing secure future for its business partners and employees, as well as providing welfare for its shareholders.

The Company in 2015 upgraded its Strategy for the period until the end of 2020. The upgraded company strategy, being the foundation for accomplishing Company's ambitious plans for outstanding performance and results on the market, represents a response to the newly developed market changes and requirements, encompassing appropriate adjustments of the key objectives and targets as well as setting new, innovative goals, appropriate for a market leader, developing the market in terms of industry growth and innovation.

Our vision remains to be maintaining the leading market position and increasing the profitability and security of our operations, achieving positive business result in the core insurance business and offering high quality insurance products.

We aim to be creators and drivers of the Macedonian insurance market development. Our Company is a market leader and a stable financial organization, providing safety for our clients, business partners, shareholders and employees, which is a confirmation that we fully apply the corporate standards and Group's values, such as professionalism, security, corporate social responsibility and simplicity.



Gjorgje Vojnovic
Chief Executive Officer
Triglav Insurance AD, Skopje



Sanja Tancevska
Executive Officer
Triglav Insurance AD, Skopje

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

We have audited the accompanying financial statements of Triglav Insurance AD Skopje ("the Company"), which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Certified Auditors Ltd.

Skopje, __ March 2016

Triglav Insurance AD Skopje
Financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2015	31 December 2014
ASSETS			
Intangible assets	7	115,143	105,271
Property and equipment	8	81,198	78,240
Investment property	9	76,627	96,823
Financial assets	10	1,280,115	1,224,150
Loans and deposits		303,218	284,298
Available for sale		976,897	939,852
Reinsurers' share of technical provisions	11	155,387	103,785
Receivables	12	373,894	405,888
Receivables from direct insurance operations		319,207	302,888
Receivables from reinsurance and coinsurance operations		2,263	45,955
Current tax receivables		3,342	-
Deferred tax	17	1,115	-
Other receivables		47,967	57,045
Other assets		1,853	1,674
Cash and cash equivalents	13	27,449	21,945
TOTAL ASSETS		2,111,666	2,037,776
EQUITY AND LIABILITIES			
Equity	14	658,499	677,973
Share capital		185,223	185,223
Share premium reserves		41,972	41,972
Reserves from profit		300,262	281,958
Fair value reserve		(8,427)	29,706
Retained earnings		120,810	84,201
Net profit for the period		18,659	54,913
Insurance technical provisions	15	1,212,721	1,131,794
Unearned premiums		550,757	486,947
Claims provisions		659,607	642,001
Other insurance technical provisions		2,357	2,846
Employee benefits	16	4,950	4,060
Deferred tax liabilities	17	-	3,122
Other financial liabilities	18	6,144	6,173
Operating liabilities	19	141,879	131,872
Liabilities from direct insurance operations		35,927	40,696
Liabilities from reinsurance and co-insurance operations		105,952	83,219
Current tax liabilities		-	7,957
Other liabilities	20	87,473	82,782
Total liabilities		1,453,167	1,359,803
TOTAL EQUITY AND LIABILITIES		2,111,666	2,037,776

Triglav Insurance AD Skopje
Financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF PROFIT OR LOSS

	Note	31 December 2015	31 December 2014
Net premium income	21	1,016,593	940,327
Gross written premium		1,294,416	1,144,929
Ceded written premium		(1,937)	(516)
Outward reinsurance premium		(242,326)	(200,518)
Change in provision for unearned premiums		(56,711)	(20,430)
Change in provision for unearned premiums (reinsurers' and coinsurers' share)		23,151	16,862
Income from financial assets	22	70,090	114,219
Interest income		54,969	70,064
Realised gains on disposals		391	29,613
Other income		14,730	14,542
Other income from insurance operations	23	36,848	31,144
Fees and commission income		20,580	15,427
Other income from insurance operations		16,268	15,717
Other Income	24	17,904	8,617
Net claims incurred	25	566,776	562,116
Gross claims settled		614,764	661,439
Income from claimed gross subrogated receivables		(17,068)	(22,619)
Reinsurers' and coinsurers' share		(20,075)	(50,939)
Changes in gross provisions for claims outstanding		17,606	5,413
Changes in provisions for claims outstanding (reinsurers' and coinsurers' share)		(28,451)	(31,178)
Change in other insurance technical provisions	26	(489)	971
Expenses for bonuses and discounts	27	86,362	68,485
Operating costs	28	360,469	314,196
Acquisition costs		271,408	230,696
Other operating costs		89,061	83,500
Expenses from financial assets and liabilities	29	14,506	20,860
Interest expense		18	253
Realised losses on disposals		499	405
Loss on impairment of financial assets		145	5,381
Other expenses		13,844	14,821
Other expenses from insurance operations	30	57,673	57,140
Other expenses	31	30,519	4,100
Profit before tax		25,619	66,439
Income tax expense	32	6,960	11,526
Net profit for the accounting period		18,659	54,913
Earnings per share	36		
Basic, profit for the year attributable to ordinary equity holders		0,310	0,912

The financial statements of Triglav Insurance AD Skopje were approved by the Management Board on 31.03.2016.

Gjorgje Vojnovic
Chief Executive Officer

Sanja Tancevska
Executive Officer

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

STATEMENT OF OTHER COMPREHENSIVE INCOME

	31 December 2015	31 December 2014
Net profit for the year after tax	18,659	54,913
Other comprehensive income after tax	(38,133)	18,750
<i>Items which could be transferred into Statement of profit and loss in the following periods</i>		
1. Net gains/losses from the re-measurement of available-for-sale financial assets	(38,133)	18,750
1.1 Gains/losses recognised in fair value reserve	(42,370)	21,872
1.2 Tax on other comprehensive income	4,237	(3,122)
Comprehensive income / Loss for the year after tax	(19,474)	73,663

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 2013	185,223	41,972	258,939	2,305	7,041	1,610	38,164	69,056	604,310
Comprehensive income for the the year after tax	-	-	-	23,301	(4,551)	-	-	54,913	73,663
Transfer to retained earnings	-	-	-	-	-	-	69,056	(69,056)	-
Transfer of net profit to reserves from profit	-	-	23,019	-	-	-	(23,019)	-	-
As at 31 December 2014	185,223	41,972	281,958	25,606	2,490	1,610	84,201	54,913	677,973
As at 1 January 2015	185,223	41,972	281,958	25,606	2,490	1,610	84,201	54,913	677,973
Comprehensive income for the the year after tax	-	-	-	(38,508)	376	-	-	18,659	(19,474)
Transfer to retained earnings	-	-	-	-	-	-	54,913	(54,913)	-
Transfer of net profit to reserves from profit	-	-	18,304	-	-	-	(18,304)	-	-
As at 31 December 2015	185,223	41,972	300,262	(12,902)	2,866	1,610	120,810	18,659	658,499

Triglav Insurance AD Skopje
Notes to the financial statements for the year ended 31 December 2015
(All amounts are in MKD thousand unless otherwise stated)
CASH FLOW STATEMENT

	Notes	31 December 2015	31 December 2014
Cash flow from operating activities			
Income statement items		74,521	(16,862)
Net written premium	21	1,050,153	943,895
Income from investment (less financial income), financed from:		70,090	44,155
Other income from operations (except from valuation and without changes in provisions) and financial income from receivables from operations		52,789	39,761
Net settled claims	25	(577,621)	(587,880)
Expenses for bonuses and discounts	27	(86,362)	(68,485)
Operating expenses less depreciation	28	(347,674)	(299,423)
Expenses from investments (except from valuation and without changes in provisions), financed from:	29	(14,361)	(20,362)
Other expenses from operations without depreciation (except from valuation and without changes in provisions)		(65,533)	(56,997)
Corporate tax and other tax not included in expenses	32	(6,960)	(11,526)
Change of working capital (insurance receivables, other receivables, other assets, deferred taxes) of operating items of the balance sheet		(2,832)	(71,763)
Opening less closing balance of receivables from direct insurance operations		(18,274)	(9,203)
Opening less closing balance of receivables from reinsurance		43,692	(45,849)
Opening less closing balance of other receivables from (re)insurance operations		5,993	4,185
Opening less closing balance of other receivables and assets		(17,229)	(101,361)
Opening less closing balance of deferred tax assets		(1,301)	-
Closing less opening balance of liabilities from direct insurance operations		(4,769)	(1,031)
Closing less opening balance of liabilities from reinsurance		22,732	61,503
Closing less opening balance of other liabilities from operations		(34,295)	20,898
Closing less opening balance of other liabilities (less unearned premiums)		434	(904)
Closing less opening balance of deferred tax liabilities		186	-
Net cash flow from operating activities		71,689	(88,625)
Cash flow from investing activities			
Receipts from interest from investments	10	48,065	70,064
Receipts from disposal of tangible fixed assets		630	1,244
Receipts from disposal of financial investments	10	334,054	861,919
Payments for purchase of intangible assets	7	(6,339)	(1,507)
Payments for purchase of tangible fixed assets	8	(10,657)	(8,548)
Payments for financial investments	10	(431,938)	(839,396)
Net cash flow from investing activities		(66,185)	83,776
Net increase / (decrease) in cash and cash equivalents		5,504	(4,849)
Cash and cash equivalents at beginning of the year		21,945	26,794
Cash and cash equivalents at the end of the year		27,449	21,945

1. General information

1.1 Company profile

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

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

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

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

As of 31 December 2015, the controlling interest in Triglav Insurance AD Skopje is held by Triglav INT d.d (73.38%). The ultimate holding company is Zavarovalnica Triglav d.d.

The company is licensed to perform 17 classes of non-life insurance. Among the most important insurance activities are accident insurance, land motor vehicles insurance, aircraft insurance, fire, natural forces and other damage to property insurance, motor TPL insurance, and general liability insurance.

The address of the registered Company headquarters is:

bul.8-mi Septemvri 16

Business Center Hyperium

1000 Skopje

Republic of Macedonia

These financial statements have been approved for issue by the Management Board on 31 March 2016.

1.2 Management bodies

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

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

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

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

- Mr. Tedo Djekanovic- President of the Board of Directors, MBA since 1 March 2015;
- Mr. Gjorgje Vojnovic - Executive Member, MBA since 10 November 2015;
- Ms. Sanja Tancevska – Executive Member, BSc in Mathematics and Certified Actuary;
- Mr. Matej Ferlan - Non-executive member, MBA since 1 March 2015;
- Mr. Darko Popovski- Non-executive member, MBA since 1 March 2015;
- Mr. Igor Zibrik- Non-executive member, MA in International economy since 1 March 2015;
- Ms. Maja Gazvoda – Independent non-executive member, MSc in Finance;
- Mr. Blaz Kmetec- Independent non-executive member, BSc of Economics-Banking and Finance;

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015**

(All amounts are in MKD thousand unless otherwise stated)

1. General information (continued)**1.2 Management bodies (continued)**

- Mr. Urosh Ivanc - President of the Management Board, MSc in Economic until 28 February 2015;
- Ms. Marica Makoter - Non-executive member, BSc law until 28 February 2015;
- Mr. Andrej Knap - Non-executive member, BSc in mechanical engineering until 28 February 2015.

During 2015, the Management Board held fourteen (14) sessions on which the most important issues within the scope of the Company's business activities were considered.

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

1.3 Employees

As of 31 December 2015, the Company had 260 employees (2014:256).

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

Type of employment	31 December 2015	31 December 2014	Variation
Internal employees	135	134	1
Agents	125	122	3
Total	260	256	4

2. Basis of preparation

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

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

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

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

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

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

2. Basis of preparation (continued)

2.5 Foreign currency transactions (continued)

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

The foreign currencies the Company deals with are predominantly EUR based.

The exchange rates used for translation at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
	MKD	MKD
1 EUR	61.595	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, net cost of preventive activity, fire tax, contribution to cover losses caused by unidentified vehicles, cost of supervisory authority) in gross premium written excluding co-insurance. It is subject to the restriction that the percentage for each insurance class does not exceed the expected (calculative) share in gross written premium, which is provided for operating costs, prevention and fire tax. These costs are recognized in the statement of profit or loss as a change in unearned premium provision.

(ii) Subsequent costs

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

(iii) Amortization

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

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

	Annual amortization rate (%)
Software and licenses	25%

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

(iv) Impairment

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. Accounting policies regarding the impairment of intangible assets are described in note 3.10. No intangible assets were impaired as at December 31, 2015 (2014: 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, plant and equipment comprises its purchase price and any other costs directly attributable to bringing the asset to the location and the conditions necessary for it to be capable of operating.

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

When parts of an item of property 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, plant and equipment.

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

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

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

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

(iv) Derecognition

When a depreciable item of property 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" and "other expenses" in the statement of profit or loss.

(v) Impairment

At each reporting date, items of property, plant and equipment are reviewed for indications of impairment or changes in estimated future economic benefits. Accounting policies regarding the impairment of tangible assets are described in note 3.10. No item of property and equipment was impaired as at December 31, 2015 (2014: null).

3. Significant accounting policies (continued)

3.3 Investment Property

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

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

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

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

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

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

	Annual depreciation rate (%)
Buildings	2.5%

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

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

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

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

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

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

3. Significant accounting policies (continued)

3.4 Financial assets

(i) Classification

The Company classifies its financial assets into four categories available-for-sale assets, loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. The classification is determined by the management at initial recognition and depends on the purpose for which the investment is acquired. During 2015 and 2014, all financial assets were classified as available-for-sale assets and loans and receivables.

(ii) Recognition and measurement

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

The trade date is used for the initial recognition of financial assets, except for loans and receivables (*excluding receivables from insurance operations*), for which the settlement date is used (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. Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss when the Company's right to receive payments is established. Both are included in the "Income from financial assets" line in the statement of profit or loss.

Held-to-maturity investments

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

3. Significant accounting policies (continued)

3.4 Financial assets (continued)

(ii) Recognition and measurement (continued)

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables (excluding receivables from insurance operations)

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

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

(iii) Derecognition

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

3.5 Fair value of financial assets

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

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

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

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

If there is no active market for a financial instrument, its fair value is measured by valuation techniques. These valuation techniques include the use of recent price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, comparison with the current fair value of another instrument with similar key features, discounted cash flow analyses and option pricing models. If there is a valuation technique commonly used by market participants for establishing instrument prices and if such a technique has yielded reliable estimates of prices used in actual market transactions,

3. Significant accounting policies (continued)

3.5 Fair value of financial assets (continued)

such a technique is applied by the Company. In the discounted cash flow method, future cash flows and discount rates are applied as estimated by the management, reflecting interest rates on comparable instruments. When the fair value of financial instruments cannot be reliably measured, the financial instruments are measured at cost (paid or received amount) increased by expenses incurred in the underlying transaction.

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

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

The Company uses discounted cash flows method, for valuation of the government bonds that do not have quoted market price on an active market (Level 2). The Company calculates present value of the investment, or in this case the clean price of the bond, by discounting the scheduled future cash flows. As a basis for discounting, the Company uses the yield to maturity rate of similar bonds issued by the same issuer that do have a quoted market price adjusted by the maturity spread.

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

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

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

Reinsurance premiums for ceded reinsurance are recognized as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period covered that the reinsurance cover is provided for based on the expected pattern of the reinsured risks (*note 3.18 premium income*).

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

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

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

3. Significant accounting policies (continued)

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

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

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

3.7 Insurance receivables and payables

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

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

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

Accounting policies regarding the impairment of insurance receivables are described in note 3.10.

3.8 Other assets

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

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

3.9 Cash and cash equivalents

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

3.10 Impairments

(i) Impairment of intangible assets and property and equipment

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

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

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

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

3. Significant accounting policies (continued)

3.10 Impairments (continued)

(i) Impairment of intangible assets and property and equipment (continued)

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

The value of investment property is estimated on an annual basis in order to determine whether there are any objective signs of impairment. In the event of any sign of impairment of investment property, the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) is assessed. If the carrying amount of investment property exceeds its recoverable amount, an impairment loss is recognized in an amount equaling the difference between the two.

(iii) Impairment of financial assets

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

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

Financial assets available-for-sale

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

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

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

3. Significant accounting policies (continued)

3.10 Impairments (continued)

(iii) Impairment of financial assets (continued)

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

Loans and receivables

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

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

(iv) Impairment of insurance receivables

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

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

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

3.11 Equity

(i) Share capital

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

Ordinary shares

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

(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.

3. Significant accounting policies (continued)

3.11 Equity (continued)

(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.

(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) Fair value reserves

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

(vi) Dividends

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

3.12 Classification of the insurance contracts

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

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

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

3.13 Insurance technical provisions

Unearned premium provision

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

Claims provisions

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

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

3. Significant accounting policies (continued)

3.13 Insurance technical provisions (continued)

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

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

Other insurance technical provisions

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

3.14 Other provisions

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

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

3.15 Employee benefits

(i) Defined contribution plans

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

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

(ii) Short term benefits

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

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

(iii) Other long-term employee benefits

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

3. Significant accounting policies (continued)

3.16 Other financial liabilities

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

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

3.17 Operating and other liabilities

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

3.18 Net premium income

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

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

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

Gross written premium is also adjusted by the change in gross provisions for unearned premiums taking into account the reinsurers' share in provision for unearned premium (in details explained in note 3.13).

Deferred acquisition costs

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

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

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

3.19 Income from financial assets

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

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

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

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

3. Significant accounting policies (continued)

3.20 Other income from insurance operations

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

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

3.21 Other income

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

3.22 Claims incurred

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

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

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

3.23 Operating expenses

Gross operating costs are recognized as original expenses by natural type of cost. In the statement of profit or loss these costs are classified by function. Claim handling costs are a constituent part of claims incurred (note 3.22), asset management costs are a constituent part of expenses from financial assets and liabilities (note 3.24), whilst insurance contract acquisition costs and other operating costs are separately disclosed in the statement within operating expenses headline. All operating costs are disclosed by natural type and function.

Operate lease

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

3.24 Expenses from financial assets and liabilities

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

In the statement of profit or loss, interest expense is recognized using the effective interest method, which does not apply to the financial assets measured at fair value through profit and loss. During 2015 and 2014, the Company did not have such assets.

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

3. Significant accounting policies (continued)

3.25 Other insurance expenses

Other insurance expenses include management fees, losses arising from the impairment of receivables, fire protection tax, prevention expenses and other insurance-related expenses. Other insurance expenses are disclosed in the statement of profit or loss once a service is provided.

3.26 Other expenses

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

3.27 Taxes

Current 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 tax balance for unrecognized expenses from the previous year. At the end of the reporting period, a final tax calculation is prepared for the current year based on the current year 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

3.28 Adoption of new and revised IFRS

The accounting policies adopted are consistent with those of the previous financial year. Namely, the Company adopted the below mentioned new and amended IFRS and IFRIC interpretations effective as of 1 January 2015 which did not have any impact on the accounting policies, financial position or performance of the Company.

Annual Improvements to IFRSs 2011 – 2013 Cycle

The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. The management has assessed that those amendments do not have any impact on the accounting policies, financial position or performance of the Company.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

Annual Improvements to IFRSs 2011 – 2013 Cycle (continued)

IFRS 3 Business Combinations: This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The improvement did not have any impact on the Company's financial position or performance.

IFRS 13 Fair Value Measurement: This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The improvement did not have any impact on the Company's financial position or performance.

IAS 40 Investment Properties: This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The improvement did not have any impact on the Company's financial position or performance.

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.

IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. It is not expected that these amendments would be relevant for the Company.

IAS 19 Employee benefits (Amended): Employee Contributions

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not expect that this amendment will have material financial impact in future financial statement.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

Standards issued but not yet effective and not early adopted (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. The Company is in the process of assessing the impact of this amendment on its financial position or performance.

IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. It is not expected that these amendments would be relevant for the Company.

IFRS 14 Regulatory Deferral Accounts

The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. 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. The Company is in the process of assessing the impact of this amendment on its financial position or performance.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

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

IAS 27 Separate Financial Statements (amended)

The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. It is not expected that these amendments would be relevant for the Company.

Amendment in 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

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. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant for the Company.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. It is not expected that these amendments would be relevant for the Company.

IAS 1: Disclosure Initiative (Amendment)

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The Company is in the process of assessing the impact of this amendment on its financial position or performance.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

Amendments in IAS 7 Statement of Cash Flows – Disclosure Initiative, effective 1 January 2017

The amendments require a reconciliation of the amounts in the opening and closing statements of financial position for each item classified as financing in the statement of cash flows. The reconciliations will be included in the notes to the financial statements once the amendments become effective. The amendments are effective for financial years beginning on or after 1 January 2017. Early application is permitted.

Amendments in IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses¹, effective 1 January 2017

The narrow-scope amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. As the Company does not have any debt instruments measured at fair value, the amendments will have no impact on the Company's financial position and performance. These amendments are effective for financial years beginning on or after 1 January 2017. Early adoption is permitted.

The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. The Company is in the process of assessing the impact of this standards on its financial statements.

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

The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. The Company is in the process of assessing the impact of this standards on its financial statements.

3. Significant accounting policies (continued)

3.28 Adoption of new and revised IFRS (continued)

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- **IFRS 7 Financial Instruments:** Disclosures: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.
- **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. It is not expected that these amendments would be relevant for the Company.

3.29 Segment reporting

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

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 2015 that had material effect on the financial statements.

4.2 Liability adequacy test

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

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

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

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

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

5. Risk management

5.1 Main characteristics of the risk management system

Objectives of the risk management system

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

Triglav Insurance AD Skopje continuously identifies, assesses and measures the risks to which it is exposed during the course of its business activities. The risk management policy in place contributes to having planned and systematic approach to identification, assessment and calculation of the risks. During 2015, the Company has been pursuing and directing its risk management policy towards ensuring sustainable maintenance of the risk exposure level to a degree for which it is believed that it will not jeopardize its assets and business activities and which will ensure full protection of the interests of the policyholders, shareholders, damaged persons and other creditors of the Company. This risk management policy conducted by the Company is harmonized with the laws and regulations, as well as the internal rules and procedures.

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

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

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

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

5.2 Capital management and capital adequacy management

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

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

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

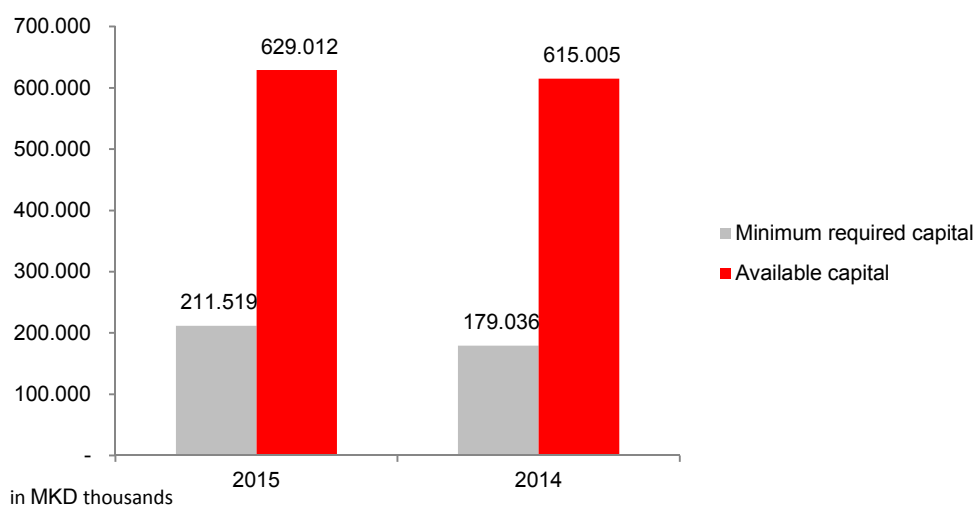
5. Risk management (continued)

5.2 Capital management and capital adequacy management (continued)

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

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

As at December 31, 2015, the available capital to minimum required capital ratio was 297% (2014: 344%).



5.3 Financial risk and sensitivity analysis

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

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

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

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

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

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

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

The Company's financial assets that may be exposed to credit risk (financial investments, reinsurance assets, receivables from insurance operations and cash and cash equivalents) amounted to 1,831,846 MKD thousand (2014: 1,750,868 MKD thousand) as disclosed below.

	31 December 2015	31 December 2014
Financial investments	1,275,117	1,219,165
AFS	971,899	934,867
Debt instruments	971,899	934,867
Loans and deposits	303,218	284,298
Deposits (term) and GF investments	293,318	277,430
Debt instruments (Treasury Bills)	9,900	6,868
Reinsurance share of technical provisions	155,387	103,785
Receivables	373,894	405,888
Cash and cash equivalents	27,449	21,945
Total financial assets exposed to credit risk	1,831,847	1,750,783

Credit risk arising from financial investments

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

Exposure as per credit rating

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

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

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

Credit risk arising from financial investments (continued)

Following is the credit-rating structure of the debt securities of Triglav Insurance AD Skopje for the years ended 31 December 2015 and 2014.

Credit rating	31 December 2015	31 December 2014
AAA	64,804	64,923
BB	916,995	876,812
Total debt securities	981,799	941,735

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

Exposure as per product type

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

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

Type of investment	Limit 31 December 2015	Limit 31 December 2014
Debt securities and deposits	100%	100%
Debt securities issued by the state	60%	60%
Corporate debt securities issued by participant in	30%	30%
Corporate debt securities issued by non-financial	10%	10%
Equity investments	0%	0%

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

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

The table below shows the composition of the investment portfolio of the Company as of 31 December 2015 and 2014.

	31 December 2015	%	31 December 2014	%
Debt securities, deposits and GF investments	1,275,117	99.6%	1,219,165	99.6%
Debt securities issued by the state	916,995	72%	876,812	72%
Corporate debt securities and	64,804	5%	64,923	5%
Deposits in banks	265,828	21%	251,652	21%
Gurantee fund investments	27,491	2%	25,778	2%
Equity investments	4,997	0.4%	4,985	0.4%
Total financial assets	1,280,115		1,224,150	

As of 31 December 2015 and 2014, all investments are within the limits of the Company's investment policy.

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Credit risk arising from financial investments (continued)

In 2015, the single largest exposure of Triglav Insurance AD Skopje was related to the government bond issued by the Republic of Macedonia in amount of 203,914 MKD thousand with maturity until January 2018.

The single largest exposure in 2014 was related to the government bond issued by the Republic of Macedonia in amount of 139,039 MKD thousand with maturity until October 2019.

In July 2014, there was new amendment to the *Law for supervision in insurance* issued under which no investments in Eurobonds was allowed. As a result, the Company disposed its investment during Q4 2014 realizing capital gain.

Exposure as per single issuer or group of connected issuers

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

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

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

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

Credit risk arising from insurance and reinsurance activities

The Company is exposed to credit risk in case when the policyholders are unable to fulfill their financial liabilities arising from the insurance contracts. The receivables from the insurance operations are spread over large number of clients and therefore, there is small concentration as per client level which reduces the credit risk. The company manages the credit risk arising from insurance operations through selling insurance policies to clients with good credit history and through assessing the financial position and stability of individual clients. As a result, through constant monitoring of the insurance portfolio, the Company is aiming towards diversification through various sectors and large number of clients.

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

- The maturity structure of receivables from insurance operations (refer below in this section and in note 12 for analysis of receivables by maturities); and
- Re-insurers' credit ratings.

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

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.1 Credit risk (continued)

Additional credit risk disclosures

31 December 2015	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowance for impairment	Net exposure
Financial investments	1,275,117	-	130,019	1,405,136	(130,019)	1,275,117
AFS	971,899	-	-	971,899	-	971,899
Debt instruments	971,899	-	-	971,899	-	971,899
Loans and deposits	303,218	-	130,019	433,237	(130,019)	303,218
Deposits (term), GF investments and loans	293,318	-	130,019	423,337	(130,019)	293,318
Debt instruments (Treasury Bills)	9,900	-	-	9,900	-	9,900
Reinsurers' share of technical provisions	155,387	-	-	155,387	-	155,387
Receivables	155,704	74,058	807,977	1,037,739	(663,845)	373,894
Cash and cash equivalents	27,449	-	-	27,449	-	27,449
Total	1,613,657	74,058	937,996	2,625,711	(793,864)	1,831,847

31 December 2014	Neither past due nor impaired	Past due but not impaired	Impaired placements	Gross exposure	Allowance for impairment	Net exposure
Financial investments	1,219,165	-	163,843	1,383,008	(163,843)	1,219,165
AFS	934,867	-	-	934,867	-	934,867
Debt instruments	934,867	-	-	934,867	-	934,867
Loans and deposits	284,298	-	163,843	448,141	(163,843)	284,298
Deposits (term), GF investments and loans	277,430	-	163,843	441,273	(163,843)	277,430
Debt instruments (Treasury Bills)	6,868	-	-	6,868	-	6,868
Reinsurers' share of technical provisions	103,785	-	-	103,785	-	103,785
Receivables	188,397	86,657	812,304	1,087,358	(681,470)	405,888
Cash and cash equivalents	21,945	-	-	21,945	-	21,945
Total	1,533,292	86,657	976,147	2,596,096	(845,313)	1,750,783

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

Additional credit risk disclosures

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

	Past due but not impaired			Total
	Up to 30 days	30 - 180 days	Over 180 days	
31 December 2015	34,257	6,756	33,044	74,057
31 December 2014	38,825	3,084	44,748	86,657

	Impaired receivables			Total
	Up to 30 days	30 - 180 days	Over 180 days	
31 December 2015	-	113,110	31,022	144,132
31 December 2014	-	95,378	35,456	130,834

The impaired portion of category "Deposits (term), GF investments and loans" in amount of 130,019 MKD thousands (2014: 163,843 MKD thousands) relate to loans given in the past which are in delay of more than 365 days and therefore, they are fully impaired.

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.2 Liquidity risk

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

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

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

In 2015 and 2014, 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 2015	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	32,487	226,677	931,836	89,116	1,280,115
AFS	4,997	66,028	816,755	89,116	976,897
Debt instruments	-	66,028	816,755	89,116	971,899
Equity instruments	4,997	-	-	-	4,997
Loans and deposits	27,490	160,648	115,080	-	303,218
Deposits (term), GF investments and loans	27,490	150,748	115,080	-	293,318
Debt instruments (Treasury Bills)	-	9,900	-	-	9,900
Reinsurers' share of tech. Provisions	-	155,387	-	-	155,387
Receivables	-	373,894	-	-	373,894
Cash and cash equivalents	-	27,449	-	-	27,449
Other assets	-	1,853	-	-	1,853
Total financial assets	32,487	785,259	931,836	89,116	1,838,697
Financial liabilities					
Insurance technical provisions	-	1,212,721	-	-	1,212,721
Employee benefits	-	380	1,330	3,240	4,950
Other financial liabilities	-	6,144	-	-	6,144
Operating liabilities	-	141,879	-	-	141,879
Other liabilities	-	87,473	-	-	87,473
Total financial liabilities	-	1,448,597	1,330	3,240	1,453,167
Maturity gap	32,487	(663,338)	930,506	85,876	385,530

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

5. Risk management (continued)

5.3 Financial risk and sensitivity analysis (continued)

5.3.2. Liquidity risk (continued)

31 December 2014	Not defined	Under 1 year	From 1 to 5 years	Above 5 years	Total
Financial assets					
Financial investments	30,763	258,520	854,884	79,983	1,224,150
AFS	4,985	-	854,884	79,983	939,852
Debt instruments	-	-	854,884	79,983	934,867
Equity instruments	4,985	-	-	-	4,985
Loans and deposits	25,778	258,520	-	-	284,298
Deposits (term), GF investments and loans	25,778	251,652	-	-	277,430
Debt instruments (Treasury Bills)	-	6,868	-	-	6,868
Reinsurers' share of tech. provisions	-	103,785	-	-	103,785
Receivables	-	400,922	4,966	-	405,888
Cash and cash equivalents	-	21,945	-	-	21,945
Other assets	-	1,674	-	-	1,674
Total financial assets	30,763	786,846	859,850	79,983	1,757,442
Financial liabilities					
Insurance technical provisions	-	1,131,794	-	-	1,131,794
Employee benefits	-	20	263	3,777	4,060
Other financial liabilities	-	6,173	-	-	6,173
Operating liabilities	-	131,872	-	-	131,872
Other liabilities	-	82,782	-	-	82,782
Total financial liabilities	-	1,352,641	263	3,777	1,356,681
Maturity gap	30,763	(565,796)	859,587	76,206	400,760

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, 2015 and 2014. 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 risk 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 2015	EUR	USD	MKD	Other	Total
Financial assets					
Financial investments	568,485	-	711,630	-	1,280,115
AFS	568,485	-	408,412	-	976,897
Debt instruments	568,485	-	403,415	-	971,900
Equity instruments	-	-	4,997	-	4,997
Loans and deposits	-	-	303,218	-	303,218
Deposits (term), GF investments and loans	-	-	293,318	-	293,318
Debt instruments (Treasury Bills)	-	-	9,900	-	9,900
Reinsurers' share of tech. provisions	150,036	4,986	-	365	155,387
Receivables	8,605	146	365,143	-	373,894
Cash and cash equivalents	2,674	704	24,071	-	27,449
Other assets	-	-	1,853	-	1,853
Total financial assets	729,800	5,836	1,102,697	365	1,838,698
Financial liabilities					
Insurance technical provisions	-	-	1,212,721	-	1,212,721
Employee benefits	-	-	4,950	-	4,950
Other financial liabilities	-	-	6,144	-	6,144
Operating liabilities	97,147	8,500	35,714	518	141,879
Other liabilities	7,994	-	79,479	-	87,473
Total financial liabilities	105,141	8,500	1,339,008	518	1,453,167

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

31 December 2014	EUR	USD	MKD	Total
Financial assets				
Financial investments	542,665	-	681,485	1,224,150
AFS	542,665	-	397,187	939,852
Debt instruments	542,665	-	392,202	934,867
Equity instruments	-	-	4,985	4,985
Loans and deposits	-	-	284,298	284,298
Deposits (term), GF investments and loans	-	-	277,430	277,430
Debt instruments (Treasury Bills)	-	-	6,868	6,868
Reinsurers' share of tech. provisions	103,785	-		103,785
Receivables	47,714	146	358,028	405,888
Cash and cash equivalents	162	-	21,783	21,945
Other assets	-	-	1,674	1,674
Total financial assets	694,326	146	1,062,970	1,757,442
Financial liabilities				
Insurance technical provisions	-	-	1,131,794	1,131,794
Employee benefits	-	-	4,060	4,060
Other financial liabilities	-	-	6,173	6,173
Operating liabilities	80,592	2,840	48,440	131,872
Other liabilities	1,670	-	81,112	82,782
Total financial liabilities	82,262	2,840	1,271,579	1,356,681

Foreign currency sensitivity analysis

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

	31 December 2015	31 December 2014
1% drop in the FX rate to 60.98 (2014: 60.87)	(6,391)	(6,121)
1% rise in the FX rate to 62.21 (2014: 62.10)	6,391	6,121

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

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

5. Risk management (continued)
 5.3 Financial risk 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 3.42% for the year ended December 31, 2015 (2014: 4.65%).

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 2015	31 December 2014
Financial assets		
Non-interest bearing	-	
AFS - Equity instruments	4,997	4,985
Loans and deposits - Treasury Bills	9,900	6,868
Reinsurers' share of tech. provisions	155,387	103,785
Receivables	373,894	405,888
Cash and cash equivalents	27,449	21,945
Other assets	1,853	1,674
	573,480	545,145
Fixed interest bearing		
Available for sale - Debt instruments	971,899	934,867
Loans and deposits	40,121	40,088
	1,012,020	974,955
Variable Interest bearing		
Loans and deposits	253,197	237,342
Total variable interest bearing	253,197	237,342
Total financial assets	1,838,697	1,757,442
Financial liabilities		
Non-interest bearing		
Insurance technical provisions	1,212,721	1,131,794
Employee benefits	4,950	4,060
Other financial liabilities	6,144	6,173
Operating liabilities	141,878	131,872
Other liabilities	87,473	82,782
Total financial liabilities	1,453,166	1,356,681

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

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 2015 would be higher, i.e. lower by 966 MKD thousand (2014: 1,281 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 2015	31 December 2014
15% increase in deposit interest rates	966	1,281
15% decrease in deposit interest rates	(966)	(1,281)

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 2015		31 December 2014	
	+ 10%	- 10%	+ 10%	- 10%
Equity investments in R. Macedonia	500	(500)	498	(498)
Total effect	500	(500)	498	(498)

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 2015 and 31 December 2014 were 10% above their disclosed values, the comprehensive income of the Company would be 500 MKD thousand and 498 MKD thousand higher. In contrast, if the prices of the equities in the portfolio as at 31 December 2015 and 31 December 2014 were 10% lower, the comprehensive income and profit of the Company would be 500 MKD thousand and 498 MKD thousand lower.

5. Risk management (continued)

5.3 Financial risk 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 realizing capital gain of 4,244 MKD thousand.

5.3.5 Sensitivity analyses

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

5.4 Underwriting risk

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

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

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

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

Underwriting strategy

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Underwriting strategy (continued)

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

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

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

Reinsurance strategy

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

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

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

The Company has centralized system for management of reinsurance.

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

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

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

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 2015 the investments of the Company which serve as assets covering the technical provisions amounted to 1,279,247 MKD thousand

5. Risk management (continued)

5.4 Underwriting risk (continued)

Asset-liability harmonization (continued)

(2014: 1,218,665 MKD thousand). These investments consist of bank accounts and deposits, shares, government bills and bonds.

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

	Allowed %	31 December 2015	%	31 December 2014	%
Bank accounts and cash in hand	3%	27,449	2%	21,945	2%
Bank deposits	60%	265,000	21%	250,000	21%
Securities issued by R. Macedonia	80%	916,995	72%	876,812	72%
Shares traded on a regulated market for securities in RM	25%	5	0%	5	0%
Shares that are not traded on the regulated securities market if their issuer is legal entity established in R. Macedonia	5%	3,600	0%	3,600	0%
Shares issued by investment funds registered in R. Macedonia	20%	1,393	0%	1,380	0%
Long-term bonds and other long-term securities issued by foreign legal entity from a EU member or OECD member state	20%	64,804	5%	64,923	5%
Total investment in assets		1,279,246	100%	1,218,665	100%
Total net technical provisions		1,057,334		1,028,009	
Assets covering the technical provisions		221,912		190,656	

The assets covering the net insurance technical provisions were at surplus in amount of 221,912 MKD thousand as at 31 December 2015 (2014: surplus of 190,656 MKD thousand).

Third party liability insurance

Product features

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

Management of risk

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Property insurance

Product features

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

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

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

Management of risk

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

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

Motor insurance

Product features

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

Management of risk

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

5. Risk management (continued)

5.4 Underwriting risk (continued)

Development of losses

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

Concentration of insurance risks

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

(i) *Geographic and sectorial concentrations*

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

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

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

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

5.5 Operational risks

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

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

In the scope of operational risks, insurance companies have a large potential exposure to insurance fraud. To manage this exposure, a special department was established and put in charge of the development and implementation of fraud indicators, research of potential

5. Risk management (continued)

5.5 Operational risks (continued)

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

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

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

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

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

5.6 Strategic risks

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

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

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

Strategy

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

Business processes

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

Assets and liabilities

Due to the nature of its operations, Triglav Insurance AD Skopje employs ALM system which is designed to allow optimum and efficient management of assets and liabilities. Synergies and information and expertise sharing from the parent company and the overall Group are used to facilitate and improve the Company's operations. The Company effectively manages assets

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015***(All amounts are in MKD thousand unless otherwise stated)***5. Risk management (continued)****5.6 Strategic risks (continued)**

risks by active monitoring of its liabilities, insurance premium inflow, investments and developments in financial and all other markets, which positively affects its financial results.

5.7 Fair value of financial assets and liabilities

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

	31 December 2015		31 December 2014	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Financial investments	1.280.114	1.280.114	1.224.150	1.224.150
AFS	976.896	976.896	939.852	939.852
Debt instruments	971.899	971.899	934.867	934.867
Equity instruments	4.997	4.997	4.985	4.985
Loans and deposits	303.218	303.218	284.298	284.298
Deposits (term), GF investments and loans	293.318	293.318	277.430	277.430
Debt instruments (Treasury Bills)	9.900	9.900	6.868	6.868
Reinsurers' share of tech. provisions	155.387	155.387	103.785	103.785
Receivables	373.894	373.894	405.888	405.888
Cash and cash equivalents	27.449	27.449	21.945	21.945
Other assets	1.853	1.853	1.674	1.674
Total financial assets	1.838.697	1.838.697	1.757.442	1.757.442
Financial liabilities				
Insurance technical provisions	1.212.721	1.212.721	1.131.794	1.131.794
Employee benefits	4.950	4.950	4.060	4.060
Other financial liabilities	6.144	6.144	6.173	6.173
Operating liabilities	141.878	141.878	131.872	131.872
Other liabilities	87.473	87.473	82.782	82.782
Total financial liabilities	1.453.166	1.453.166	1.356.681	1.356.681

5. Risk management (continued)

5.7 Fair value of financial assets and liabilities (continued)

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

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

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

- Debt and equity AFS securities are evaluated by the Company based on price quotations at the reporting date. The fair value of unquoted AFS instruments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Please refer to note 3.5.
- The fair value of loans and receivables is measured using the discounted cash flow model on the basis of the historical effective interest rate.
- The fair value of technical provisions and their re-insurance share as well as the employee benefits is measured through use of various actuarial methods as disclosed in notes 3.6, 3.13 and 3.15.
- 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 2015, the carrying amounts of such receivables, net of allowances, were not different from their calculated fair values.

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

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

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

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

Geographical areas

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

Income from segments

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

31 December 2015	Republic of Macedonia	Other	Total
Total income	1,141,925	-	1,141,925
Total costs/expenses (incl. taxes)	1,123,267	-	1,123,267
Total assets and liabilities	2,111,666	-	2,111,666

31 December 2014	Republic of Macedonia	Other	Total
Total income	1,094,307	-	1,094,307
Total costs/expenses (incl. taxes)	1,039,394	-	1,039,394
Total assets and liabilities	2,037,776	-	2,037,776

7. Intangible assets

	Software and licenses	Deferred acquisition costs, net	Total intangible assets
Cost			
As at 31 December 2013	17,152	100,171	117,323
- Additions	2,434	-	2,434
- Decrease in value	-	(2,955)	(2,955)
As at 31 December 2014	19,586	97,216	116,802
- Additions	6,339	-	6,339
- Net Increase in value	-	7,099	7,099
As at 31 December 2015	25,925	104,315	130,240
Accumulated amortization			
As at 31 December 2013	7,586	-	7,586
- Current year amortization	3,944	-	3,944
As at 31 December 2014	11,530	-	11,530
- Current year amortization	3,567	-	3,567
As at 31 December 2015	15,097	-	15,097
Carrying amount			
As at 31 December 2014	8,056	97,216	105,271
As at 31 December 2015	10,828	104,315	115,143

No items of intangible assets were pledged as collateral as at 31 December 2015 or 31 December 2014.

The amortization for the current year is disclosed in several items of the statement of profit or loss, as gross operating expenses are presented by functional group, as described in note 3.23. For details, see expenses by nature and function in note 28.

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

The value of the ADInsure software and the related licenses are in amount of 7,666 MKD thousand and represent 71% from the total value as at 31 December 2015 (2014: 4,218 MKD thousand or 52%).

8. Property and equipment

	Buildings	Equipment	Paintings	Total tangible assets
Cost				
As at 31 December 2013	78,930	89,775	626	169,331
- Additions	-	8,549	-	8,549
- Disposals	-	(2,287)	-	(2,287)
- Reclassification	-	2,602	-	2,602
As at 31 December 2014	78,930	98,639	626	178,195
- Additions	-	10,657	-	10,657
- Disposals	-	(5,102)	-	(5,102)
- Reclassification	1,852	-	-	1,852
As at 31 December 2015	80,782	104,194	626	185,602
Accumulated depreciation				
As at 31 December 2013	20,966	69,202	-	90,168
- Current year depreciation	1,973	8,856	-	10,829
- Disposals	-	(1,042)	-	(1,042)
As at 31 December 2014	22,939	77,016	-	99,955
- Current year depreciation	2,020	7,208	-	9,228
- Disposals	-	(5,102)	-	(5,102)
- Reclassification	323	-	-	323
As at 31 December 2015	25,282	79,122	-	104,404
Carrying amount				
As at 31 December 2014	55,991	21,623	626	78,240
As at 31 December 2015	55,500	25,072	626	81,198

The market value of the buildings as at 31 December 2015 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, plant and equipment were pledged as collateral as at 31 December 2015 or 31 December 2014.

The depreciation charge for the current year is disclosed in several items of the statement of profit or loss, as gross operating expenses are presented by functional group, as described in note 3.23. For details, see expenses by nature and function in note 28.

As at 31 December 2015 no item of property and equipment was held under finance lease.

9. Investment Property

	Buildings	Total investment property
Cost		
As at 31 December 2013	142,467	142,467
- Reclassification	(2,602)	(2,602)
- Impairment	(498)	(498)
As at 31 December 2014	139,367	139,367
- Reclassification	(1,852)	(1,852)
- Impairment	(15,230)	(15,230)
As at 31 December 2015	122,285	122,285
Accumulated depreciation		
As at 31 December 2013	39,060	39,060
- Current year depreciation	3,484	3,484
As at 31 December 2014	42,544	42,544
- Current year depreciation	3,437	3,437
- Reclassification	(323)	(323)
As at 31 December 2015	45,658	45,658
Carrying amount		
As at 31 December 2014	96,823	96,823
As at 31 December 2015	76,627	76,627

In 2015, the impairment loss of 15,230 MKD thousand 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 31)". The recoverable amount of 79,211 MKD thousand represented the fair value less costs to sell and was based on a valuation of all items performed by certified appraisers Jones Lang LaSalle and 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 2015 is in excess of its carrying amount.

No item of investment property was pledged as collateral as at 31 December 2015 or 31 December 2014.

The rental income earned from investment property in 2015 was in amount of 2,527 MKD thousand (2014: 2,380 MKD thousand). The rental income earned is disclosed in "Other Income" in note 24.

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

9. Investment Property (continued)

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

Type of property	No of properties	Valuation approach	Level of valuation	Significant unobservable inputs	Range
Residential property	2	Market approach (Sales comparison approach)	Level 1	n/a	n/a
Commercialproperty	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 Annual maintenance and tax expenses (%)	4-7 8%-9% 2.5%
Commercial property	6	Income approach	Level 3	Estimated rental value per sqm per month (eur) Discount rate Annual maintenance and tax expenses (%)	2-8.5 10.25%-10.5% 3.2%
Hotel apartments	1 property (16 appt)	Residual approach	Level 3	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%

10.

Financial investments**Overview of financial investments by type and investment group**

31 December 2015	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	971,899	-	971,899
Treasury Bills	-	9,900	9,900
Shares, other floating rate securities and fund	4,998	-	4,997
Guarantee Fund Investments		27,490	27,490
Bank deposits	-	265,828	265,828
Total financial investments	976,897	303,218	1,280,115

31 December 2014	Available for sale - AFS	Loand and receivables - L&R	Total
Debt and other fixed return securities	934,867	-	934,867
Treasury Bills	-	6,868	6,868
Shares, other floating rate securities and fund	4,985	-	4,985
Guarantee Fund Investments		25,778	25,778
Bank deposits	-	251,652	251,652
Total financial investments	939,852	284,298	1,224,150

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

10. Financial investments (continued)

Following is disclosure of the interest rates of all interest bearing financial instruments, for both years ended 31 December, 2015 and 2014.

	31 December 2015	I.R	31 December 2014	I.R
Fixed interest bearing				
Debt securities (AFS)	971,899		934,867	
MACGB 4.6 10/31/2018	40,579	4.60%	42,333	4.60%
MACGB 5.15 01/24/2018	133,021	5.15%	138,087	5.15%
MACGB 5.4 01/09/2018	203,914	5.40%	211,972	5.40%
MACGB 5.7 09/29/2016	25,688	5.70%	26,621	5.70%
MACGB 3.65 10/02/2017	90,088	3.65%	92,484	3.65%
MACGB 3.9 10/02/2019	127,880	3.90%	134,058	3.90%
MACGB 3.9 10/16/2019	132,562	3.90%	139,039	3.90%
MACGB 4 5 10/30/2024	72,380	4.50%	79,983	4.50%
MACGB 3 10/30/2016	40,341	3,00%	-	-
MACGB 5.7 08/09/2017	10,462	5,70%	-	-
MACGB 3.8 08/27/2025	16,736	3,80%	-	-
MACDEN 2 06/01/17	3,488	2,00%	5,166	2,00%
MACDEN 2 06/01/20	9,956	2,00%	-	-
KFW 11/4 10/17/19	64,804	1.25%	64,923	1.25%
MACDEN 2 06/01/19	-	-	201	2,00%
Loans and receivables	40,121		40,088	
Deposit Stopanska Banka Skopje	30,105	2%	-	-
Deposit Stopanska Banka Skopje	10,016	2%	-	-
Deposit NLB Tutunska Banka	-	-	40,088	3.50%
Variable Interest bearing				
Loans and receivables	253,197		237,342	
Deposit Halk Banka	20,000	3,40%	20,000	4.30%
Deposit Halk Banka	20,000	3,00%	20,000	4.20%
Deposit Halk Banka	20,000	2,30%	20,000	4.00%
Deposit Halk Banka	30,000	3,70%	-	-
Deposit NLB Tutunska Banka	15,023	2,30%	-	-
Deposit NLB Tutunska Banka	40,058	2,30%	-	-
Deposit Stopanska Banka Skopje	30,348	2,00%	30,172	3.20%
Deposit Ohridska Banka	20,265	1,60%	20,477	3.20%
Deposit Ohridska Banka	30,013	1,60%	30,026	3.20%
Deposit Stopanska Banka Skopje	-	-	20,365	3.20%
Deposit Stopanska Banka Skopje	-	-	10,023	3.10%
Deposit Stopanska Banka Skopje	-	-	20,047	3.10%
Deposit Sparkasse Bank Skopje	-	-	20,454	3.30%
Guarantee Fund investment	27,490	3,42%	25,778	4.65%

10. Financial investments (continued)

Maturity and interest rate on all instruments is provided on pages 39 and 58. Deposits are with maturities of up to two years.

As at the year end, the Company has accrued interest in amount of 23,181 thousand MKD (2014:25,535 thousand MKD) where 21,478 thousand MKD relates to debt securities, 828 thousand MKD relates to deposits and 875 thousand MKD relates to interest accrued on Guarantee Fund investment.

Movements of financial investments

	Available for sale - AFS	Loand and receivables - L&R	Total
As at 31 December 2013	881,536	257,544	1,139,079
Acquisitions	722,611	116,786	839,396
Disposals	(725,352)	(90,419)	(815,771)
Maturities	(15,455)	-	(15,455)
Interest income inflow	(20,287)	(10,406)	(30,693)
Valuation through profit and loss	29,208	-	29,208
Valuation through equity	21,872	-	21,872
Premiums and discounts	79	82	161
Interest income	45,213	10,712	55,924
Foreign exchange differences	428	-	428
As at 31 December 2014	939,852	284,298	1,224,150
Acquisitions	105,053	326,885	431,938
Disposals	(22,087)	-	(22,087)
Maturities	(3,826)	(308,031)	(311,857)
Interest income inflow	(38,534)	(9,531)	(48,065)
Valuation through profit and loss	-	-	-
Valuation through equity	(42,370)	-	(42,370)
Movement in impairment allowance	-	1,031	1,031
Interest income	37,885	8,567	46,451
Foreign exchange differences	924	-	924
As at 31 December 2015	976,897	303,218	1,280,115

Financial investments according to valuation levels

	31 December 2015	31 December 2014
Available for sale - AFS		
Level 1	83,242	75,274
Level 2	893,650	864,578
Level 3	5	-
Total available for sale financial investments	976,897	939,852

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

No reclassification of financial assets has been made during 2015 or 2014.

11. Reinsurers' share of technical provisions

	31 December 2015	31 December 2014
Reinsurers' share of unearned premiums	80,906	57,755
Reinsurers' share of claims	74,481	46,030
Total reinsurers' share of technical provisions	155,387	103,785

Fair value is disclosed in note 5.7

12. Receivables**Receivables by maturity**

31 December 2015	Receivables by maturity			
	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
Receivables from direct insurance	142,084	146,424	30,699	319,207
Receivables from insurers	142,015	146,409	30,669	319,093
Receivables from insurer brokers	-	-	-	-
Other receivables from direct insurance operations	69	15	30	114
Receivables from coinsurance and reinsurance	-	2,116	147	2,263
Receivables from reinsurance share in claims	-	1,920	-	1,920
Other receivables from coinsurance and reinsurance	-	196	147	343
Current tax receivables	3,342	-	-	3,342
Deferred tax receivables	-	-	-	1,115
Other receivables	9,163	5,551	33,253	47,967
Other short-term receivables from insurance operations	8,597	4,558	31,850	45,005
Short term receivables from financing	-	-	32	32
Other short-term receivables	566	993	1,371	2,930
Total receivables	155,704	154,091	64,099	373,894

12.

Receivables (continued)

Receivables by maturity (continued)

	Receivables by maturity			
	Not overdue	Overdue up to 180 days	Overdue above 180 days	Total
31 December 2014				
Receivables from direct insurance	136,286	131,930	34,672	302,888
Receivables from insurers	136,286	131,887	34,635	302,808
Receivables from insurer brokers	-	-	-	-
Other receivables from direct insurance operations	-	43	37	80
Receivables from coinsurance and reinsurance	45,809	-	146	45,955
Receivables from re-insurance share in claims	45,809	-	-	45,809
Other receivables from coinsurance and reinsurance	-	-	146	146
Other receivables	6,302	5,356	45,387	57,045
Other short-term receivables from insurance operations	5,571	5,318	42,920	53,809
Short term receivables from financing	621	-	45	666
Other short-term receivables	110	38	2,422	2,570
Total receivables	188,397	137,286	80,205	405,888

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

31 December 2015	Gross amount	Impairment	Net amount
Receivables from direct insurance	911,221	(592,014)	319,207
Receivables from coinsurance and reinsurance	2,263	-	2,263
Other receivables	124,256	(71,832)	52,424
Total receivables	1,037,740	(663,846)	373,894

31 December 2014	Gross amount	Impairment	Net amount
Receivables from direct insurance	901,391	(598,503)	302,888
Receivables from coinsurance and reinsurance	45,955	-	45,955
Other receivables	140,012	(82,967)	57,045
Total receivables	1,087,358	(681,470)	405,888

12. Receivables (continued)

Movement of bad debt provisions (impairment)

31 December 2015	Opening balance	Increase	Use	Release	Ending balance
Receivables from direct insurance	598,503	43,308	(12,373)	(37,424)	592,014
Receivables from insurers	597,021	39,937	(12,178)	(37,424)	587,356
Receivables from insurer brokers	-	-	-	-	-
Other receivables from direct insurance operations	1,482	3,371	(195)	-	4,658
Other receivables	82,967	382	(10,432)	(1,085)	71,832
Other short-term receivables from insurance operations	36,088	382	(1,031)	(1,085)	34,354
Short term receivables from financing	40,529	-	(9,401)	-	31,128
Other short-term receivables	6,350	-	-	-	6,350
Total bad debt provision	681,470	43,690	(22,805)	(38,509)	663,846

31 December 2014	Opening balance	Increase	Use	Release	Reclassification	Ending balance
Receivables from direct insurance	615,391	60,476	(14,636)	(62,753)	25	598,503
Receivables from insurers	613,773	60,447	(14,636)	(62,563)	-	597,021
Receivables from insurer brokers	-	-	-	-	-	-
Other receivables from direct insurance operations	1,618	29	-	(190)	25	1,482
Other receivables	42,297	6,672	(156)	(477)	34,631	82,967
Other short-term receivables from insurance	35,204	1,361	-	(477)	-	36,088
Short term receivables from financing	1,002	5,052	(156)	-	34,631	40,529
Other short-term receivables	6,091	259	-	-	-	6,350
Total bad debt provision	657,688	67,148	(14,792)	(63,230)	34,656	681,470

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015***(All amounts are in MKD thousand unless otherwise stated)***13. Cash and cash equivalents**

	31 December 2015	31 December 2014
Cash in bank in MKD	24,025	21,716
Cash in bank in EUR	2,670	156
Cash in bank in other currencies	704	-
Cash on hand in MKD	46	67
Cash on hand in EUR	4	6
Total cash and cash equivalents	27,449	21,945

14. Equity

As at 31 December 2015, 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 2015 or 2014.

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

31 December 2015	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 -	79%	21%	8%	92%	100%

31 December 2014	Domestic	Foreign	Legal entities	Physical persons	Total
Number of shares	13,549	46,635	47,528	12,656	60,184
Number of shareholders	69	19	7	81	88
Number of shares - participation	23%	77%	79%	21%	100%
Number of shareholders -	78%	22%	8%	92%	100%

14. Equity (continued)

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

Shareholder	31 December 2015	31 December 2014
Triglav Int. Holdinska Druzba d.d Ljubljana	73.38%	73.38%
Stojan Klopcevski	8.74%	8.74%

Dividends

As of the date of preparation of these financial statements there were no dividends declared (2014: 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 2015, the Company transferred 18,304 MKD thousand from retained earnings to statutory reserves. The amount transferred in 2014 was 23,019 MKD thousand.

Fair value reserves

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

In 2015 the movement in the fair value reserve was negative 42,370 MKD thousand as opposed to the positive effect in 2014 in amount of 21,872 MKD thousand, as it is disclosed in the *“Statement of Comprehensive Income”*. Due to change in tax legislation in 2014, the Company has started calculating deferred tax assets/liabilities on the fair value 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”*.

15. Gross Insurance technical provisions

	31 December 2015	31 December 2014
Gross provisions for unearned premium (UPR)	550,757	486,947
Total gross unearned premium provisions	550,757	486,947
Gross provisions for incurred and reported claims (RBNS)	343,098	327,939
Gross provisions for incurred but not reported and/or not enough reported claims (IBNR/IBNER)	258,404	259,759
Provisions for claims handling costs (CHC)	58,105	54,303
Total gross claims provisions	659,607	642,001
Gross provisions for bonuses and discounts (B&D)	2,357	2,846
Total gross insurance technical provisions	1,212,721	1,131,794

Analysis of changes in gross insurance technical provisions

31 December 2015	Opening balance	Formation	Release	Final balance
Gross provisions for unearned premiums	486,947	546,537	(482,727)	550,757
Gross provisions for outstanding claims	642,001	126,072	(108,466)	659,607
Gross provisions for bonuses and discounts	2,846	2,357	(2,846)	2,357
Total gross insurance technical provisions	1,131,794	674,966	(594,039)	1,212,721

31 December 2014	Opening balance	Formation	Release	Final balance
Gross provisions for unearned premiums	469,472	189,731	(172,256)	486,947
Gross provisions for outstanding claims	636,588	288,808	(283,395)	642,001
Gross provisions for bonuses and discounts	1,875	8,673	(7,702)	2,846
Total gross insurance technical provisions	1,107,935	487,212	(463,353)	1,131,794

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

15. Gross insurance technical provisions (continued)

Analysis of gross insurance technical provisions by insurance class

31 December 2015	Gross provisions for unearned premiums	Gross provisions for RBNS	Gross provisions for IBNR and IBNER	Provisions for CHC	Gross provisions for B&D	Total
Accident insurance	40,936	3,723	27,502	3,016	2,357	77,535
Health insurance	221	34	-	3	-	258
Land motor vehicle insurance	100,028	27,790	4,837	3,152	-	135,807
Aircraft insurance	-	4,700	-	-	-	4,700
Marine insurance	171	-	-	454	-	625
Cargo insurance	4,614	903	-	87	-	5,604
Fire and natural forces insurance	52,590	7,689	10,481	1,755	-	72,516
Other damage to property insurance	46,939	9,435	12,861	2,154	-	71,388
Motor TPL insurance	271,462	271,728	202,723	45,832	-	791,745
Aircraft liability insurance	-	13,543	-	1,308	-	14,851
Marine liability insurance	158	-	-	-	-	158
General liability insurance	15,917	1,695	-	164	-	17,776
Suretyship insurance	66	-	-	-	-	66
Miscellaneous financial loss insurance	9,452	48	-	5	-	9,504
Travel assistance insurance	8,203	1,810	-	175	-	10,188
Total gross insurance technical provisions	550,757	343,098	258,404	58,105	2,357	1,212,721

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

15. Gross insurance technical provisions (continued)

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

31 December 2014	Gross provisions for unearned premiums	Gross provisions for RBNS	Gross provisions for IBNR and IBNER	Provisions for CHC	Gross provisions for B&D	Total
Accident insurance	31,698	5,600	22,066	2,556	2,846	64,766
Health insurance	4	-	-	-	-	4
Land motor vehicle insurance	87,814	23,027	7,029	2,777	-	120,647
Aircraft insurance	-	4,700	-	-	-	4,700
Marine insurance	79	-	-	434	-	513
Cargo insurance	2,293	1,900	-	176	-	4,369
Fire and natural forces insurance	47,135	11,581	21,655	3,071	-	83,442
Other damage to property insurance	49,692	7,744	14,481	2,054	-	73,971
Motor TPL insurance	238,099	257,463	194,529	41,764	-	731,855
Aircraft liability insurance	-	13,543	-	1,251	-	14,794
Marine liability insurance	95	-	-	-	-	95
General liability insurance	18,116	1,239	-	114	-	19,469
Suretyship insurance	48	-	-	-	-	48
Miscellaneous financial loss insurance	4,479	-	-	(0)	-	4,479
Travel assistance insurance	7,395	1,142	-	106	-	8,643
Total gross insurance technical provisions	486,947	327,939	259,759	54,303	2,846	1,131,794

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

15. Gross 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 2010	2010	2011	2012	2013	2014	2015	
at the end of year of occurrence	1.603.280	766.079	785.670	662.583	603.408	636.467	594.078	5.651.565
1 year after year of occurrence	1.601.221	825.540	723.768	645.758	562.469	592.385	-	4.951.141
2 year after year of occurrence	1.651.494	820.102	706.105	619.682	554.697	-	-	4.352.080
3 year after year of occurrence	2.173.444	751.385	703.287	610.379	-	-	-	4.238.495
4 year after year of occurrence	2.062.930	787.168	702.018	-	-	-	-	3.552.116
5 year after year of occurrence	2.045.083	823.938	-	-	-	-	-	2.869.021
6 + year after year of occurrence	1.980.911	-	-	-	-	-	-	1.980.911
Cumulative loss assessment	1.980.911	823.938	702.018	610.379	554.697	592.385	594.078	5.858.406
Cumulative payments until balance sheet date	1.910.861	737.119	676.324	564.807	488.052	520.461	359.279	5.256.903
Claims provisions balance	70.049	86.819	25.694	45.572	66.645	71.924	234.799	601.502

16. Employee benefits

	31 December 2015	31 December 2014
Provisions for retirement benefits	1,185	1,063
Provisions for jubilee rewards	3,765	2,997
Total provisions for employee benefits	4,950	4,060

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

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 2015, 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 2015 and 2014.

	31 December 2015	31 December 2014
Interest rate		
Parallel shift in the discount rate curve for +0.25%	(110.407)	(91.384)
Parallel shift in the discount rate curve for -0.25%	114.673	94.821
Expected salary growth		
Change in annual salary growth for +0.50%	244.730	202.246
Change in annual salary growth for -0.50%	(228.267)	(189.036)
Life expectancy		
Steady increase in mortality for +20%	(63.003)	(51.179)
Steady increase in mortality for -20%	64.531	52.389

17. Deferred tax assets and liabilities

	31 December 2015	31 December 2014
Deferred tax assets	1,115	-
Total deferred tax assets	1,115	-

	31 December 2015	31 December 2014
Deferred tax liabilities	-	3,122
Total deferred tax liabilities	-	3,122

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 32.

17. Deferred tax assets and liabilities (continued)

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015**

(All amounts are in MKD thousand unless otherwise stated)

The company recognized the deferred tax asset as at the end of 2015 and deferred tax liability as at end of 2014 following a change in the Macedonian tax legislation this year. Until this change the tax rate for undistributed profits was effectively reduced to zero, as tax was only payable when profits are distributed only to foreign legal entities. According to IAS 12.52A and SIC 25, deferred tax assets and liabilities should be measured using the undistributed rate. The deferred tax assets are part of the "Receivables" position in the statement of financial position (note 12).

18. Other financial liabilities

	31 December 2015	31 December 2014
Liabilities for dividends from previous years	6,126	6,126
Other liabilities	18	47
Total other financial liabilities	6,144	6,173

19. Operating liabilities

	31 December 2015	31 December 2014
Liabilities towards policyholders	23,745	26,273
Liabilities towards brokers	3,298	4,193
Liabilities towards agents	754	90
Advances received	223	223
Liabilities for legal contributions related to the insurance	4,375	4,119
Other liabilities from direct insurance operations	3,532	5,798
Total liabilities from direct insurance	35,927	40,696
Liabilities from reinsurance premiums	103,304	78,153
Liabilities from coinsurance premiums	2,648	5,066
Total liabilities from coinsurance and reinsurance	105,952	83,219
Current tax liabilities	-	7,957
Total operating liabilities	141,879	131,872

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

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

20. Other liabilities

	31 December 2015	31 December 2014
Liabilities towards Gurantee Fund (GF)	35,564	48,490
Liabilities from subrogation	1,037	-
Total other short-term liabilities from insurance operations	36,601	48,490
Liabilities for salaries and contribution and taxes on salaries	14,248	13,486
Total short-term liabilities towards employees	14,248	13,486
Liabilities for taxes	2,373	1,128
Liabilities towards suppliers	19,037	12,370
Liabilities from legal cases	7,903	-
Other short-term liabilities	7,311	7,308
Total other short-term liabilities	36,624	20,806
Total other liabilities	87,473	82,782

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

21. Premium income

	31 December 2015	31 December 2014
Gross written premium	1,294,416	1,144,929
Ceded coinsurance written premium	(1,937)	(516)
Outward reinsurance written premium	(242,326)	(200,518)
Changes in gross provisions for unearned premium	(56,711)	(20,430)
Change in provisions for the unearned premium (reinsurers and coinsurance share)	23,151	16,862
Net premium income	1,016,593	940,327

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015***(All amounts are in MKD thousand unless otherwise stated)***21. Premium income (continued)****Overview of premium income by insurance class**

31 December 2015	Gross written premium	Ceded coinsurance	Reinsurer's share	Net written premium
Accident insurance	114,109	-	(11,440)	102,669
Health insurance	317	-	-	317
Land motor vehicle insurance	189,875	(1,095)	-	188,780
Marine insurance	329	-	-	329
Cargo insurance	16,662	-	(14,294)	2,368
Fire and natural forces insurance	113,973	-	(55,805)	58,168
Other damage to property insurance	206,473	-	(71,102)	135,371
Motor TPL insurance	540,103	-	(18,158)	521,945
Marine liability insurance	287	-	-	287
General liability insurance	38,061	(818)	(32,142)	5,101
Suretyship insurance	121	(24)	-	97
Miscellaneous financial loss insurance	36,131	-	(32,835)	3,296
Travel assistance insurance	37,975	-	(6,549)	31,426
Total	1,294,416	(1,937)	(242,326)	1,050,153

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015***(All amounts are in MKD thousand unless otherwise stated)***21. Premium income (continued)****Overview of premium income by insurance class**

31 December 2014	Gross written premium	Ceded coinsurance	Reinsurer's share	Net written premium
Accident insurance	97,951	-	-	97,951
Health insurance	5	-	-	5
Land motor vehicle insurance	169,596	-	-	169,596
Marine insurance	149	-	-	149
Cargo insurance	10,926	-	(6,940)	3,986
Fire and natural forces insurance	101,770	-	(44,698)	57,072
Other damage to property insurance	187,725	-	(67,350)	120,375
Motor TPL insurance	478,335	-	(20,299)	458,036
Marine liability insurance	176	-	-	176
General liability insurance	36,231	(516)	(28,444)	7,271
Suretyship insurance	125	-	-	125
Miscellaneous financial loss insurance	31,059	-	(26,361)	4,698
Travel assistance insurance	30,881	-	(6,426)	24,454
Total	1,144,929	(516)	(200,518)	943,895

22. Income from financial assets

	31 December 2015	31 December 2014
Interest income		
- AFS	37,885	45,213
- Deposits	7,502	9,512
- Investment in Gurantee fund	875	1,210
- Treasury Bills	194	81
- Interest on late payments of insurance receivables	8,513	14,048
Total interest income	54,969	70,064
Other financial income	14,730	14,542
Realised gains on disposals	391	29,613
Total income from financial assets	70,090	114,219

The gains on disposals realized in the year ended 31 December 2014, relate to:

- Disposal of equity instruments in amount of 4,244 MKD thousand; and
- Disposal of debt instruments in amount of 25,369 MKD thousand

In 2015, other financial income is consists of FX differences in the amount of 13,315 MKD thousand, release of bad debt provision in amount of 1,031 MKD thousand and other small items of income in the amount of 384 MKD thousand. In 2014, other financial income is consisted of FX differences in amount of 13,069 MKD thousand, release of bad debt provisions for receivables other than insurance premium in amount of 1,275 thousand and other small items of income in amount of 198 MKD thousand.

	31 December 2015	31 December 2014
Foreign exchange differences	13,315	13,069
Release of impairment of L&R and other receivables not related to insurance premium	1,031	1,275
Other	384	198
Total other financial income	14,730	14,542

23. Other income from insurance operations

	31 December 2015	31 December 2014
Reinsurance commission income and participation in profit	20,580	15,427
Total fees and commission income	20,580	15,427
Compensation received from Gurantee fund	10,180	8,127
Other income from insurance operations from previous years	4,017	5,678
Other	2,071	1,912
Total other income	16,268	15,717
Total other income from insurance operations	36,848	31,144

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

24. Other income

	31 December 2015	31 December 2014
Compensations received from legal cases	9,797	125
Refunds	2,987	454
Investment property rental income	2,527	2,380
Write off of liabilities	1,964	5,148
Gain from sale of non-current assets	629	260
Penalty interest charged	-	250
Total other income	17,904	8,617

Compensation received from legal cases in the year ended 31 December 2015 contains a compensation from legal case with a physical person in which the Company was in capacity of plaintiff. The total amount of the compensation received from this legal case was 9,102 MKD thousand and comprises of 6,561 MKD thousand indemnification of material damage and 2,541 MKD thousand penalty interests.

25. Claims

	31 December 2015	31 December 2014
Gross claims settled	614,764	661,439
Income from claimed subrogated receivables	(17,068)	(22,619)
Reinsurers' and coinsurer's share	(20,075)	(50,939)
Changes in gross provisions for claims outstanding	17,606	5,413
Changes in provisions for claims outstanding (reinsurers and coinsurance share)	(28,451)	(31,178)
Net claims incurred	566,776	562,116

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

Triglav Insurance AD Skopje**Notes to the financial statements for the year ended 31 December 2015***(All amounts are in MKD thousand unless otherwise stated)***25. Claims (continued)****Overview of net claims incurred by insurance class**

31 December 2015	Gross claims settled	Subrogated claims	Reinsurer's and coinsurance share	Net claims incurred
Accident insurance	68,282	-	-	68,282
Land motor vehicle insurance	92,550	-	-	92,550
Aircraft insurance	1	-	(426)	(425)
Marine insurance	110	-	-	110
Cargo insurance	625	-	(26)	599
Fire and natural forces insurance	13,046	-	(212)	12,834
Other damage to property insurance	161,076	-	(16,890)	144,186
Motor TPL insurance	271,704	(17,068)	(1,919)	252,717
Aircraft liability insurance	426	-	-	426
Marine liability insurance	3	-	-	3
General liability insurance	2,782	-	(602)	2,180
Suretyship insurance	1	-	-	1
Miscellaneous financial loss insurance	384	-	-	384
Travel assistance insurance	3,774	-	-	3,774
Total	614,764	(17,068)	(20,075)	577,621

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

26. Claims (continued)

Overview of net claims incurred by insurance class (continued)

31 December 2014	Gross claims settled	Subrogated claims	Reinsurer's and coinsurance share	Net claims incurred
Accident insurance	61,155	-	-	61,155
Land motor vehicle insurance	102,151	-	-	102,151
Aircraft insurance	10	-	-	10
Marine insurance	116	-	-	116
Cargo insurance	548	-	-	548
Fire and natural forces insurance	15,685	-	(54)	15,631
Other damage to property insurance	212,724	-	(50,885)	161,839
Motor TPL insurance	262,801	(22,619)	-	240,182
Aircraft liability insurance	100	-	-	100
Marine liability insurance	4	-	-	4
General liability insurance	1,009	-	-	1,009
Suretyship insurance	1	-	-	1
Miscellaneous financial loss insurance	318	-	-	318
Travel assistance insurance	4,817	-	-	4,817
Total	661,439	(22,619)	(50,939)	587,881

25. Claims (continued)

Reinsurance and coinsurance result

	31 December 2015	31 December 2014
Outward reinsurance and ceded coinsurance premium	(244,263)	(201,034)
Change in provisions for the unearned premium (reinsurers and coinsurance share)	23,151	16,861
Reinsurers' and Coinsurers' share in claims settled	20,075	50,939
Changes in provisions for claims outstanding (reinsurers and coinsurance share)	28,451	31,178
Net result from reinsurance and coinsurance operations	(172,586)	(102,056)
Reinsurance and coinsurance commission	20,580	15,427
Gross reinsurance and coinsurance result	(152,006)	(86,629)

26. Change in other insurance technical provisions

	31 December 2015	31 December 2014
Bonuses for managerial insurance	(489)	971
Total change in other insurance technical provisions	(489)	971

27. Expenses for bonuses and discounts

	31 December 2015	31 December 2014
Expenses for bonuses and discounts (financial discounts)	86,362	68,485
Total expenses for bonuses and discounts	86,362	68,485

28. Gross operating expenses

	31 December 2015	31 December 2014
Acquisition costs	271,408	230,696
Claims handling costs - CHC*	54,142	56,030
Costs of asset management**	1,897	1,944
Other operating expenses	89,061	83,500
Total gross operating expenses	416,508	372,170
Total gross operating expenses less CHC and asset management costs	360,469	314,196

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

**Asset management costs are disclosed as financial expenses.

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

28. Operating expenses (continued)

Overview of operating expense by nature and function

31 December 2015	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs – commission fee	71,406	-	-	-	71,406
Depreciation and amortisation of assets	8,695	1,671	42	2,385	12,793
Labour costs	96,684	29,649	1,240	54,556	182,129
- wages and salaries	61,543	18,176	801	35,311	115,831
- social security and pension insurance costs	29,553	9,037	406	16,330	55,325
- other insurance costs	5,588	2,436	33	2,915	10,973
Costs of services provided by outsourced natural persons	602	145	4	202	953
Other operating expenses	94,021	22,677	611	31,918	149,227
- advertisement, fairs, representation	46,051	-	-	-	46,051
- cost of materials and energy	8,468	4,376	113	6,437	19,395
- maintenance costs	7,700	865	16	1,029	9,609
- travel expenses	1,515	1,177	35	1,795	4,521
- costs of intellectual serviceñ	13,279	5,723	108	3,983	23,095
- taxes, not dependant on profit	-	97	3	798	898
- transportation costs	3,209	1,019	28	1,506	5,762
- insurance premium costs	1,276	329	9	495	2,109
- bank charges	582	13	44	2,187	2,826
- rental expenses	11,098	8,340	243	12,860	32,540
- training expenses	465	395	6	389	1,255
- other services	378	343	6	439	1,165
Total gross operating expenses	271,408	54,142	1,897	89,061	416,508

Triglav Insurance AD Skopje

Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

28. Operating expenses (continued)

Overview of operating expense by nature and function (continued)

31 December 2014	Acquisition costs	Claims handling costs	Asset management costs	Other operating costs	Total
Acquisition costs	50,951	-	-	-	50,951
Depreciation and amortisation of assets	10,915	1,721	33	2,104	14,773
Labour costs	83,414	28,926	1,243	46,483	160,066
- wages and salaries	54,302	18,657	832	31,152	104,943
- social security and pension insurance costs	26,143	9,219	404	13,697	49,463
- other insurance costs	2,969	42,491	7	1,634	47,101
Costs of services provided by outsourced natural persons	861	415	11	590	1,877
Other operating expenses	84,555	24,968	657	34,323	144,503
- advertisement, fairs, representation	36,503	-	-	-	36,503
- cost of materials and energy	8,421	4,958	135	7,378	20,892
- maintenance costs	5,259	975	22	1,279	7,535
- travel expenses	864	981	27	1,669	3,541
- costs of intellectual serviceñ	16,893	7,511	56	5,171	29,631
- taxes, not dependant on profit	1,212	124	79	184	1,599
- transportation costs	12,451	1,346	38	2,048	15,883
- insurance premium costs	1,748	314	7	415	2,484
- bank charges	667	14	44	2,481	3,206
- rental expenses	9,394	8,023	233	12,738	30,388
- training expenses	265	406	10	591	1,272
- other services	989	316	6	369	1,680
Total gross operating expenses	230,696	56,030	1,944	83,500	372,170

29. Expenses from financial assets and liabilities

	31 December 2015	31 December 2014
Foreign exchange differences	11,947	12,860
Realized losses on disposal of investments	499	405
Impairment losses on L&R and other receivables not related to insurance premium	145	5,381
Interest expenses	18	253
Other financial expenses	1,897	1,961
Total expenses from financial assets and liabilities	14,506	20,860

30. Other insurance expenses

	31 December 2015	31 December 2014
Expenses for preventive activity	20,950	18,398
Contributions for claims on uninsured or unidentified vehicles	15,245	17,203
Membership fees	13,646	14,124
Expenses for travel assistance	2,834	2,501
Impairment and direct write off on receivables for insurance premium*	2,513	(759)
Other insurance expenses from previous years	2,227	4,352
Impairment on receivables other than for insurance premium	(703)	885
Other insurance expenses	961	436
Total expenses from insurance operations	57,674	57,140

* The position "Impairment and direct write off on receivables for insurance premium" in 2014 in amount of positive 759 thousand MKD contains direct write offs of 1,354 thousand MKD. This position is positive due to the high releases of impairment made during the year. No direct write offs on receivables from insurance premiums are booked during 2015.

31. Other expenses

	31 December 2015	31 December 2014
Impairment losses on investment property	15,230	-
Compensations paid for legal cases	7,903	-
Depreciation of assets not used in operations	3,438	3,484
Impairment losses on other receivables	3,370	279
Expenses for penalties	411	53
Extraordinary expenses	163	245
Other	4	39
Total other expenses	30,519	4,100

During 2015, 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 legal cases in the year ended 31 December 2015 relates to a compensation from legal case with a physical person in which the Company was in capacity of defendant. The total amount of the compensation paid consists of of 4,829 MKD thousand indemnification of material damage and 2,423 MKD thousand penalty interests and 651 MKD thousand for court and other fees.

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

	31 December 2015	31 December 2014
Current year income tax assessment	6,960	11,526
Total income tax, recognised in profit or loss statement	6,960	11,526

Recapitulation of the Income tax expense

	31 December 2015	31 December 2014
Accounting profit	25,619	66,439
Legal tax rate - %	10	10
Income tax by use of legal tax rate	2,562	6,644
Non-deductable expenses	5,902	6,929
Tax credit used	(1,504)	(2,047)
Total income tax, recognised in profit or loss statement	6,960	11,526

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

	31 December 2015	31 December 2014
Deferred tax asset/(liability)	4,237	(3,122)
Total tax charge to other comprehensive income	4,237	(3,122)

32. Tax expenses (continued)

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

As at 31 December 2013	-
Charged /(credited) to the income statement	-
Charged /(credited) to other comprehensive income	(3,122)
As at 31 December 2014	(3,122)
Charged /(credited) to the income statement	-
Charged /(credited) to other comprehensive income	4,237
As at 31 December 2015	1,115

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Notes to the financial statements for the year ended 31 December 2015
(All amounts are in MKD thousand unless otherwise stated)
33. Related party transactions

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

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

31 December 2015	Zavarovalnica Triglav	Triglav RE Ljubljana	Triglav Zagreb	Triglav international	Total
Income	(107,907)	(46,904)	12	-	(154,799)
Outward reinsurance and ceded coinsurance premium	(114,405)	(64,706)	-	-	(179,111)
Other income from insurance operations	6,498	9,604	12	-	16,114
Change in provisions for the unearned premium (reinsurers and coinsurance share)	-	8,198	-	-	8,198
Expenses	20,670	28,332	(171)	-	48,831
Gross claims settled	(24)	-	(151)	-	(175)
Reinsurers' share of claims	17,563	541	-	-	18,104
Change in gross provisions for claims outstanding	3,541	27,791	-	-	31,332
Operating expenses	(410)	-	(20)	-	(430)
Assets	3,740	84,923	-	-	88,663
Reinsurers' share of technical provisions for unearned premium	-	14,033	-	-	14,033
Reinsurers' share of technical provisions for outstanding claims	3,543	70,890	-	-	74,433
Short-term receivables from insurance operations	197	-	-	-	197
Liabilities	42,983	18,850	-	34	61,867
Liabilities from reinsurance operations	42,074	18,850	-	-	60,924
Other short-term liabilities	909	-	-	34	943

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Notes to the financial statements for the year ended 31 December 2015

(All amounts are in MKD thousand unless otherwise stated)

33. Related party transactions (continued)

31 December 2014	Zavarovalnica Triglav	Triglav RE Ljubljana	Triglav Zagreb	Triglav Osiguranje Beograd	Triglav Osiguranje Sarajevo	Lovcen Osiguranje Podgorica	Total
Income	(77,279)	(38,640)	-	36	18	33	(115,832)
Outward reinsurance and ceded coinsurance premium	(82,490)	(48,608)	-	-	-	-	(131,098)
Other income from insurance operations	5,211	6,579	-	36	18	33	11,877
Change in provisions for the unearned premium (reinsurers and coinsurance share)	-	3,389	-	-	-	-	3,389
Expenses	(162)	80,257	(439)	-	-	-	79,656
Gross claims settled	(100)	-	(61)	-	-	-	(161)
Reinsurers' share of claims	61	50,879	-	-	-	-	50,940
Change in gross provisions for claims outstanding	-	29,378	-	-	-	-	29,378
Operating expenses	(123)	-	(378)	-	-	-	(501)
Assets	264	96,503	-	-	-	-	96,767
Reinsurers' share of technical provisions for unearned premium	-	7,678	-	-	-	-	7,678
Reinsurers' share of technical provisions for outstanding claims	-	43,025	-	-	-	-	43,025
Receivables from reinsurers	-	45,800	-	-	-	-	45,800
Short-term receivables from insurance operations	264	-	-	-	-	-	264
Liabilities	38,240	4,777	42	-	-	-	43,059
Liabilities from reinsurance operations	37,587	4,777	-	-	-	-	42,364
Other short-term liabilities	653	-	42	-	-	-	695

34. Members of the Management Board

In 2015, the Members of the Management Board were paid amount of 6,388 MKD thousand as compensation for their work (2014: 7,399 MKD thousand).

The executive members of the Management Board were also paid out managerial insurance with total insurance premium of 847 MKD thousand (2014: 221 MKD thousand).

The non-executive members of the Management Board were paid out by the Company an amount of 998 MKD thousand (2014: 854 MKD thousand) as compensation for their work including reimbursement of travel expenses and personal income taxes.

35. Amounts paid to auditors

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

The following amounts were charged for the services:

	31 December 2015	31 December 2014
Statutory audit and other auditing services	1,383	1,383
	1,383	1,383

36. Earnings per share

The calculation of the basic/diluted earnings by share (EPS) for the years ended 31 December 2015 and 31 December 2014 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 2015	31 December 2014
Net profit attributable to shareholders of the Company	18,659	54,913
Number of shares	60,184	60,184
Earnings per share	0.310	0.912

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

37. Significant legal disputes

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

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

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

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

37. Significant legal disputes (continued)

- 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 is scheduled by the Court on 6th June 2016. The assessed amount of the case is 151.840 MKD thousand. According to the latest developments, there is 49% likelihood that the plaintiff will lose the case, i.e. 51% likelihood that the decision will be in favor of the Company.

38. Contingent Liabilities

The Company has concluded rental contract for renting business premises in the business center Hyperium for 5 years starting from 17 January 2011, which was extended until 31 January 2019 during 2014. As a result, the contract is non-cancelable for three years from signing of the Annex (i.e non-cancelable until 31 January 2017), and notice period of 6 months is required for cancelations made afterwards. The monthly rent that the Company is paying for the business premises is in amount of 2,090 MKD thousand (2014: 2,090 MKD thousand MKD).

39. Reviews by Supervision bodies

An off-field review was carried out by the Insurance Supervision Agency. Subject to this review were the third quarter reports submitted to the Agency. The Agency issued Report no. JP1-08-2-18 dated 28.01.2016, which was received by the Company on 02.02.2016 according to which part of the outward reinsurance premium has been improperly presented as outward co-insurance premium. The Company submitted response to this report and is currently waiting for the feedback from the Agency and the final report on this off-field supervision.

Tax review was carried out in June 2015 for the period 1 January 2013 until 30 April 2015 for "Other items". No issues have been identified

In 2014, field supervision was carried out by the Insurance Supervision Agency in September and October 2014 covering the period from 1 January 2013 to 30 June 2014 with complete scope over the operations of the Company, including compliance with laws and regulations, secondary legislative acts and rulebooks as well as internal controls. As of the date of these financial statements, the Company is reconciled with all issues identified during this supervision.

40. Events after the reporting period

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