ANNUAL REPORT 2013

SKOPJE, 2014

Welcome to the family of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

VIG

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Wiener Versicherung Gruppe

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- BULSTRAD Life – VIENNA INSURANCE GROUP

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LATVIA
- COMPENSA – VIENNA INSURANCE GROUP

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- InterRisk – VIENNA INSURANCE GROUP

LIECHTENSTEIN
- VIENNA-LIFE – VIENNA INSURANCE GROUP

January 2014
www.vig.com

CONTENT:

Company name in full: Joint Stock Company for Insurance and Reinsurance Makedonija Skopje, Vienna Insurance Group

Abbreviated Company name: Insurance Makedonija a.d. Skopje, Vienna Insurance Group

Registered office address: 11 Oktomvri Street No. 25,1000 Skopje

Internet: www.insumak.mk

Audit Company: KPMG Makedonija DOO

VIENNA INSURANCE GROUP
COMPANY PROFILE

Vienna Insurance Group (VIG) has been one of the leading listed insurance groups in Austria and Central and Eastern Europe for years. Approximately 23,000 employees in around 50 Group companies in 24 countries generated about EUR 9.2 billion in premiums in 2013. As the leading insurance company in its core markets, Vienna Insurance Group provides its customers with an outstanding portfolio of products and services in all segments of life and non-life insurance.

At home in both Austria and Central and Eastern Europe

During a long history steeped in tradition – the Company's roots reach back to the year 1824 in Austria – VIG has successfully overcome all of the challenges of history, and has often taken on a pioneering role. This was the case in 1990, when Wiener Städtische became one of the first Western European insurance companies to recognise the exciting growth opportunities in Central and Eastern Europe and take a chance on entering the market in the former Czechoslovakia. That was the starting point for further expansion. Hungary followed in 1996, Poland in 1998, Croatia in 1999 and Romania in 2001 – to mention just a few examples. VIG now operates in 24 markets and is proud of its broad geographical orientation.

Number one in its core markets
In addition to Austria, VIG's core markets are the Czech Republic, Slovakia, Poland, Romania, Bulgaria, Croatia, Hungary, Serbia and the Ukraine. VIG's market share of approximately 18% makes it the number one insurance company in these markets, and VIG is working continuously to further consolidate this position.

More than half of all premiums written in 2013 came from markets in the CEE region, which provides impressive proof of VIG's successful expansion strategy. Indeed, given the economic convergence process taking place in Central and Eastern Europe and the increased need for insurance coverage it brings, this region will continue to grow in importance.

VIG RE, the reinsurance company that was established by VIG in 2008, has its registered office in the Czech Republic, thereby stressing the importance of the CEE region as a growth market for VIG.

24 markets, one objective: to continue the mutual success
In spite of the wide range of customer requirements and conditions in its individual markets, VIG has one common objective everywhere: to continue its business success by providing customers with the best possible insurance protection. This places a great responsibility on VIG, and the VIG Group companies are fully dedicated to meeting this responsibility, using professional, forward-looking advisory services and a flexible product portfolio. The use of a broad network of service centres and a variety of distribution channels ensures the customer proximity that this requires. At the same time the Group relies on established regional brands that are brought under the Vienna Insurance Group umbrella without losing their own identity or individual strengths. This is because it is the individual strengths and advantages of these companies that make VIG a strong family.

Stability based on binding values and a focus on core competences
Vienna Insurance Group is a progressive and highly risk-conscious insurer. Its activities are fully focused on its core business – the insurance business. However, Vienna Insurance Group offers various forms of security to more than its customers. Security in the form of reliability, trustworthiness and solidarity also receives top priority in dealings with business partners, employees and shareholders. Ethical values such as honesty, integrity,

leadership in matters large and small, diversity, equal opportunity and customer-orientation form the basis for all business decisions.

This fundamental approach is confirmed not only by a strategy of continuous sustainable growth, but also excellent creditworthiness. In June 2013, the rating agency Standard & Poor's confirmed its rating of A+ with a stable outlook, making VIG the best rated company in the ATX leading index of the Vienna Stock Exchange.

VIG and Erste Group – two strong partners
In 2008, two leading financial service providers in Central and Eastern Europe – VIG and the Erste Group – decided to further increase their success by working together. They therefore entered into a long-term strategic partnership that benefits both of them: Erste Group branches distribute VIG insurance products, and in return VIG companies offer Erste Group bank products.

Strong stock exchange presence, long-term principal shareholder
VIG's shares have been listed on the Vienna Stock Exchange since 1994. Its market capitalisation of more than EUR 4.6 billion at the end of 2013 makes it one of the largest listings on the exchange. It has also had a secondary listing on the Prague Stock Exchange since February 2008, which once again emphasises the great importance the Central and Eastern European region has for the Group.

Around 70% of VIG's shares are held by Wiener Städtische Versicherungsverein, a stable principal shareholder with a long-term orientation. The remaining shares are in free float.

Strong team, attractive employer
"Our success is based on people" – in addition to forming the basis for VIG's business success, this concept also guides its people management and thereby determines its position as an attractive employer. VIG develops and supports the know-how of its approximately 23,000 employees and their readiness to provide top performance. Identifying and developing the individual skills that each person brings to VIG's large team is particularly important, and a wide variety of training and advanced training opportunities, international exchange programmes and international cooperations exist within the Group to ensure that this happens.

Further information on VIG is available at www.vig.com and in the VIG Group Annual Report.

INSURANCE MAKEDONIJA COMPANY PROFILE

The Company underwrites insurance and reinsurance business including all classes of non-life insurance. The comprehensive diversity of products embraces different types of property insurance covers, motor insurance covers, personal accident covers, liability insurance covers and travel insurance covers.
Our Company provide a stable support to major economic industrial subjects as well as small and medium enterprises by delivering extensive range of products and services which reasonably satisfy the insurance market needs.
The insurance policies we sell provide perfect and secure protection including individual and family packages to physical entities and property covers for tangible and intangible assets.

History

- 1945 – Established as State Insurance Institute of Federal National Republic of Yugoslavia (FNRJ);
- 1974 – registered as Communities for property and life insurance (ZOIL);
- 1990 – transformation of the Company capital;
- 01.01.1991 – established as Joint Stock Company;
- 1993 – enlargement of the scope of business by reinsurance;
- 1998 – the Company undergoes process of privatisation;
- 2000 - QBE London becomes major shareholder;
- 2006 - QBE Re Dablin, R. Island becomes dominant shareholder by transfer of capital;
- 2013 - VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE is major shareholder with qualified participation

Share Capital:

Class of shares: 717.462 ordinary shares (100%);
The total issued capital include 94,25% or 676.208 shares hold by VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE (Qualified Shareholder); The residual of 5.75% or 41.215 shares are hold by other personal or legal entities; Nominal value of a share: Euro 20,08.

SUPERVISORY BOARD

*Mr. FRANZ DR. KOZINA, President of the Supervisory Board
Mr. HANS DKFM RAUMAUF, Vice-President of the Supervisory Board
Mr. ANDREJA JOSIFOVSKI, Member of Supervisory Board
Mr. REINHARD GOJER, Member of the Supervisory Board
Mr. MIHAEL MAG.HAG, Member of the Supervisory Board

*By the Decision issued on the General Shareholders Meeting in February 25, 2014 and upon prior resignation of Mr. FRANZ KOSYNA, two new members have been elected to the Supervisory Board:
Mr. PETER HOFINGER, President of the Supervisory Board
Mr. ROUMEN IVANOV YANTCHEV, Member of the Supervisory Board

BODIES OF THE COMPANY

MANAGEMENT BOARD

Pursuant to regulations and provision laid down by the Law on Trade Companies and the requirements set by the Law on Insurance Supervision, Joint Stock Company for Insurance and Reinsurance Makedonija Skopje, Vienna Insurance Group has changed its management system from one-tier system into two-tier system that is the Management Board and the Supervisory Board.

MANAGEMENT BOARD

Mr. BOSKO ANDOV, President of the Management Board
MR. RISTO SEKULOVSKI, Member of the Management Board
Mrs. VESNA GJORCEVA, Member of the Management Board

Company Network

The Company has been registered as a Joint Stock Company including 14 Branch Offices and a Head Office. The Head Office and the Branch Offices function through departments and units.
The Company employ 194 staff as of December 31, 2013 whereby 64 employees work as sales agents and 130 people work in administration.

MISSION

We strive to provide top quality protection to our clients by selling excellent policies which satisfy their needs and delivering best sales and claims services.

We appreciate all our clients' loyalty and treat them with honourable respect paying our tribute by the provision of superior and sustainable financial stability and safety. Our contemporary approach to underwriting ensures that we manage risks in a focused and understandable manner.

We are dedicated to provide professional support to our sales representatives. We are focused on effective client service delivery. Along our successful underwriting activities, we are especially proud of our financially superior and quality claim services when damages arise out of insured risk.

VALUES

The corporate behaviour of the Vienna Insurance Group toward its employees, customers and shareholders is guided by credibility and integrity, leadership in matters large and small, customer satisfaction, diversity and equal opportunity. Osiguruvanje Makedonija completely follows the corporate values of the Group.

CREDIBILITY AND INTEGRITY

Credibility and integrity are our top priority. Each one of us bears a personal responsibility for the highest standards of behaviour, credibility and integrity, which are to be taken as a given in every single aspect of our work.

ENTREPRENEURSHIP

Actions speak louder than words. All of our employees work toward the same goals, as is expected of them. We all lead through our expertise, creativity and teamwork.

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CUSTOMER SATISFACTION AND QUALITY OF SERVICE

We respect our customers, listen to their wishes, and understand their expectations. We strive to provide quality and service that exceeds our customers' expectations.

APPRECIATION AND RESPECT

We treat each other with respect and are proud of the considerable benefits brought by a diversity of employees and ideas. In order to continue our success, we need to provide our employees with opportunities for training and development, helping them grow to meet new responsibilities.

BUSINESS POLICY

The main long-term objective of the Company is to obtain insurance net profit and other gains from investment assets:

- Maximum presence on the insurance market, money market and capital market;
- Diversify insurance portfolio and increase in the quality of the portfolio;
- Increase the quality of insurance service delivery;
- Relative decrease in the operating expenses;
- Optimal placement of risks with co-insurers and reinsurers for the purpose of preserving portfolio stability;
- Effective accumulation, usage and placement and investment of financial funds, optimal securisation thereof and adequate record keeping;
- Sustain over 10% market share in terms of gross written premium and share increase in the total net written premium;
- Achieve optimal total income by employee;
- Organization and modus of work.

STRATEGIC DEVELOPMENTS

- Continuous development of the usage of insurance assets in an efficient and rational manner, improvement of the organisation of work, eliminations of the obstacles to insurance growth and development within Company, based on the economic principles of insurance supported by consistent fulfilment of liabilities to any management body or employees in their performing of insurance activities.
- Make continuous endeavours for the purpose of insurance needs and their determination and consideration under the circumstances of technical and scientific developments and standard of living movements.
- Develop and improve the quality of work in insurance industry based on the existing material conditions and possibilities and by implementing the technical and technological equipment and investing in new labour facilities which will significantly affect the level of efficiency and effectiveness.
- Continuous development of competence, work habits and creativity among the employees whereby the impact on quality work improvement will be obtained.

SUCCESSFUL PERFORMANCE

Considering the objectives and strategic developments, we are particularly concerned about achieving the following successful performance criteria:

- Optimal positive financial results in terms of total income and particularly in relation to insurance premium;
- Obtain balanced combined operating ratio whereby the positive financial result will be achieved and profitable underwriting result for shareholders as stimulating profit, and achieve optimal claim ratio (proportion of claims to premium);
- Efficient claims handling and settlement as a proportion of settled claims to reported claims;
- Relative decrease of operating costs in terms of total income;
- Premium income increase by employee of the Joint Stock Company;
- Interest increase of available investment assets;
- Increase of collected premium.

STABLE SOLVENCY AND LIQUIDITY

The Company is responsible to ensure that at any time the Company may operate and meet its liabilities to third parties which prove the high liquidity ratio of the Company. It should ensure that the funds which are used to cover technical reserves are legally invested. The Company should exceed the statutory minimum of guarantee capital and ensure legally approved coverage thereof. The Company should carry out insurance and co-insurance and reinsurance policy in a way that the achieved operating results will guarantee stability, solvency and liquidity at any time.

RISK MANAGEMENT MEASURES

The Company undertakes continuous activities for identification, assessment and evaluation of risks that the Company is exposed to in the course of its operation and manages those risks in such a manner that permanent sustainability of exposure level is obtained to avoid any risk to Company's capital and its operation, that is to protect the interests of shareholders, Insureds, damaged Third Parties and other trustees to Company all in compliance with legal acts and other statutory regulations and following bylaws and internal policies and procedures.

As a part of the business policy, several important risks have been identified together with controlling and management measures thereof that Company applies.

For this purpose the Company has prepared a special Risk Management Program including many different risks identified therein and controlling measures thereof. Moreover, this Program provides activities and procedures in details on risk control and management.

BOSKO ANDOV, President of the Management Board-General Manager
KEVSER LALICIC, IT Manager
FILIP MESKOV, Non-agent Sales Manager
TATJANA ANSAROVA - JOVANOVSKA, Internal Audit Manager
MARGARETA POPOVSKA-GOSEVA, Finance Manager
RISTO SEKULOVSKI, Member of the Management Board-Corporate Law & IT

OPERATING PERFORMANCE FOR 2013

During April 2013 when the takeover procedure governed by the Law on takeover of the joint stock companies completed, the Company was acquired by the Vienna Insurance Group through transaction on the Stock Exchange becoming thereby the major shareholder holding 94,3% of the total share capital of the Company as of December 31, 2013.

In June 2013 the Annual General Meeting issued the decision on statutory changes to Company Statute whereby the former company name of QBE Macedonia was changed to Osiguruvanje Makedonija a.d Skopje – Vienna Insurance Group. Therefore the former Company logo was also changed. Upon prior consent obtained from the Insurance Supervision Agency these changes thereafter were announced to the public and to our corresponding agents abroad.

The Annual General Meeting also approved the transformation of all preference shares to ordinary shares governed by the same decision on statutory changes. The transformation resulted from the purchase of all preference shares held by the Pension Fund by the Vienna Insurance Group.

VESNA GJORCEVA, Member of the Management Board-Underwriting & Claims
ZORAN ALEKSOVSKI, Regional Sales manager
JASMINKA ILIEVA, Underwriting manager
ZORAN TODOROVSKI, Extrajudicial Claims Manager
VESNA BOGDANOVSKA,HR Manager
MARJAN ORUCOSKI, Regional Sales manager
TATJANA DIMOV, Claims & Regress Litigation Manager

The same Statutory decision also approved the loss coverage for the previous year which resulted in decrease of the share capital and determination of a new nominal value on a share at the amount of Euro 20,084.

Following the changes of the Company Statute, the management system was also changed from one-tier system to two-tier system. A new Supervisory Board was elected comprising 5 members with the duration of term of office of 5 years. The new Management Board comprise 3 members with the duration of term of office of 3 years. These key, strategic and big changes completely marked out this year.

94%	Combined ratio
90,8 million MKD	Profit after tax

From the financial point of view, in 2013 Osiguruvanje Makedonija a.d. Skopje - Vienna Insurance Group, produced positive financial result and achieved profit after tax of MKD 93 million in non-life segment and loss of MKD 3 million in life segment or the consolidated profit after tax amount at about MKD 9.8 million.

Almost all key financial factors show improvements if compared to last year. The gross written premium of non-life business for 2013 increased by 1,3% or more than MKD 8 million with comparison to 2012 which is a positive result achieved for the first time after 13 years.

Almost all key financial factors show improvements if compared to last year. The gross written premium of non-life business for 2013 increased by 1,3% or more than MKD 8 million with comparison to 2012 which is a positive result achieved for the first time after 13 years. This result gives us the right to become more optimistic in the forthcoming year 2014. We state increase in Motor insurance and Accident insurance – Casualty but decrease in gross written premium for 2013 in terms of Goods in Transit and Casco businesses.

We record significant decrease in reported claims of 19% or in absolute figure it is MKD 56 million. The decrease is more evident with settled claims where the paid indemnities in comparison to last year differ for over MKD 44 million whereas the decrease in gross reserves as at year end 2013 exceeds MKD 11 million if compared to the last year.

The operating cost in aggregate value has been decreased by 12% or for about MKD 40 million. Although most of this decrease results from the deferred acquisition costs which amount at about MKD 28 million, yet the regular decrease in cost and expenses amount at MKD 12 million or 3,5% which stands as a positive indicator that even the reduced cost and expenses may lead to increase in premium.

For Non-Life insurance portfolio, the Motor insurance and Property businesses take the largest share of 32% respectively and then comes the Accident insurance of 13% and Casco insurance of 12%. All other classes of business take 11% of the total portfolio or below 10% respectively.

The combined ratio for 2013 is 94% in comparison with 106% of the last year. The combined ratio is the key indicator that the Company is making underwriting profit.

The total number of reserved claims for the year end 2013 is 1,156 or by 19% less than the number of totally reserved claims at the end of 2012. This fact together with the circumstance of only 1 (one) application on claim indemnity filed to Insurance Supervision Agency during 2013 clearly state that the decrease in the number of reserved claims comes from the experience and quality work of our sales force, the professional expertise of our underwrites and quality claims service delivery by our claim teams.

During 2013 the Company received 580 complaints in terms of claims indemnities. All complaints with no exceptions were handled within statutory stipulated term. We record decrease in number of complaints of 9% in comparison with 2012 and this is rather an optimistic fact.

The foregoing statements clearly prove that we have established system solutions to ensure complete support and provide proper management of claim handling processes including claims notification, assessment, settlement and prompt payments of determined indemnities for claim arising from incurred losses.

Another fact worth to mention hereto refers to passive court cases for claims in whatever lawsuits in which the Company is the party defendant the number of which decreased for 14% in total at the year end 2013 in comparison with the previous year and that number now reaches the figure of 103.

Gross written premium for Life insurance portfolio is by MKD 3 million less than in 2012. As it is well known the existing life insurance policies are serviced by Osiguruvanje Makedonija as a member country of VIG on run-off basis until the expiry date of life insurance agreements or upon prior requests from clients for prepayments of premium for the reason that we ceased underwriting this class of business in 2004.

Net investment income from rental property is by 14% or for MKD 5 million less if compared to 2012 due to reasonably increased reserves for outstanding receivables.

For 2013 we managed to obtain minor capital gains by disposals of property at the amount of MKD 1,5 million. During 2013 we continued to carry out the process to privatise the land we already thereon exercised the right to property usage.
Notwithstanding the significant decrease in interest rates during the year the percentage of decrease in net investment income earned from government bonds and bank deposits was almost 9%, but although we made large investments in non-life segment we still managed to keep the attenuation of this kind of income below the relatively decreased interest rates level of the financial market.

We record decrease in number of complaints of 9% in comparison with 2012 and this is rather an optimistic fact.

The market condition in terms of number of insurers operating on the Macedonian market remains unchanged. There are 11 insurance market participants underwriting non-life businesses and 4 underwriting life businesses. The 26 insurance brokerage companies operate on the insurance market and 6 of them gained licenses in insurance industry in 2013.

At the moment when we prepare and review our annual accounts and financial statements the data on the Macedonian insurance market key figures movement have not been officially published but no significant increase in gross written premium is expected in terms of non-life insurance lines which may reach about 1% whereas the percentage of increase in premium for life insurance lines is expected to exceed 20% whereby the total increase on the market may reach about 2,5 - 3%. This year it is expected from number of insurance companies to record profit after tax. We expect the combined ratio on a global market level to be about 98-99%.

Following the 2014 Business Plan we forecast 4,8% increase in gross written premium in comparison to obtained result for 2013. The estimated profit after tax shall remain at the same level as of this year.

The operating activities of our Company mainly target the same objectives that are keeping the good clients on one hand and targeting prospects which shall further increase the number of clients on the other for those types of insurance products which bring profitable results.

Further on it is certain that we expect to settle out the old court cases for claims the result of which may lead to reduction of claims reserves. Faced with the deteriorated market liquidity we do not expect tectonic movements in terms of premium collection capacity whereas we forecast the increase in collection of outstanding premium and settlement of old court cases which will further improve our liquidity besides the general market circumstances. Considering this segment we are proud to say that we perform well in long-term perspective and the collection of accounts receivable reaches about 98,5% to the gross written premium which is an excellent achievement.

Following the 2014 Business Plan we forecast 4,8% increase in gross written premium in comparison to obtained result for 2013.

The interest rates on deposits and other securities (government bonds) are expected to fall continuously during 2014 but subject to our old receivables collection forecast the total investment income is estimated to retain that level of 2013.

In 2014 we will continue with the disposals of property used for the purpose of the business of the Company or property hardly used for that purpose whereby we will increase our funds.

The number of staff by the year end 2013 reduces by 4 persons in comparison with 2012 and now the Company employs 194 people. By the end of 2014 we estimate further reduction in staff for the final number to be 185.

I wish to thank the management team and all staff for their work and engagement and for their contribution in accomplishing the strategic goals of the Company.

Notwithstanding the difficulties of the economic environment in which we operate we do wish and believe that we will have prosperous and successful year of 2014 and therefore I invite all our staff and business partners by taking professional approach to achieve the set targets.

Mr Boshko Andov
President of the Management Board - General manager

CORPORATE GOVERNANCE

The contemporary corporate governance assumes the continuous compliance of the operating activities with statutory regulations and regular control on risks exposures. For the purpose of protecting the shareholders wealth we are continuously devoted to everyday activities on meeting the obligations which arise out of compliance and risk management that according to legal regulations and corporate policies and procedures are to be followed and managed. By implementing the corporate compliance policies we ensure building the stable corporate culture for common and regular compliance.

During the last year the management team and the staff were challenged by a big change of the shareholding structure reflecting the change on the ownership of the majority shares in the capital of the Company. Following this change we faced many regulations and statutory requirements to meet in accordance with the law on Trade Companies, Securities Law, Law on Insurance Supervision and Law on foreign exchange operations, Macedonia Stock Exchange bylaws and many other legal and subordinate regulations. The hard and devoted work of all our staff ensured we meet all obligations and requirements laid down by respective legal regulations and bylaws in relation to this statutory changes and I may confirm that we successfully incorporated into the operating system of Vienna Insurance Group. As a new member country to Vienna Insurance Group we made particular changes in terms of the company name, names of our business units, the Company logo, management system and many other organisational changes which shall bring in the near future an increase in business effectiveness and efficiency, confidence and loyalty among all interested parties of the Company and improvement of our market position.

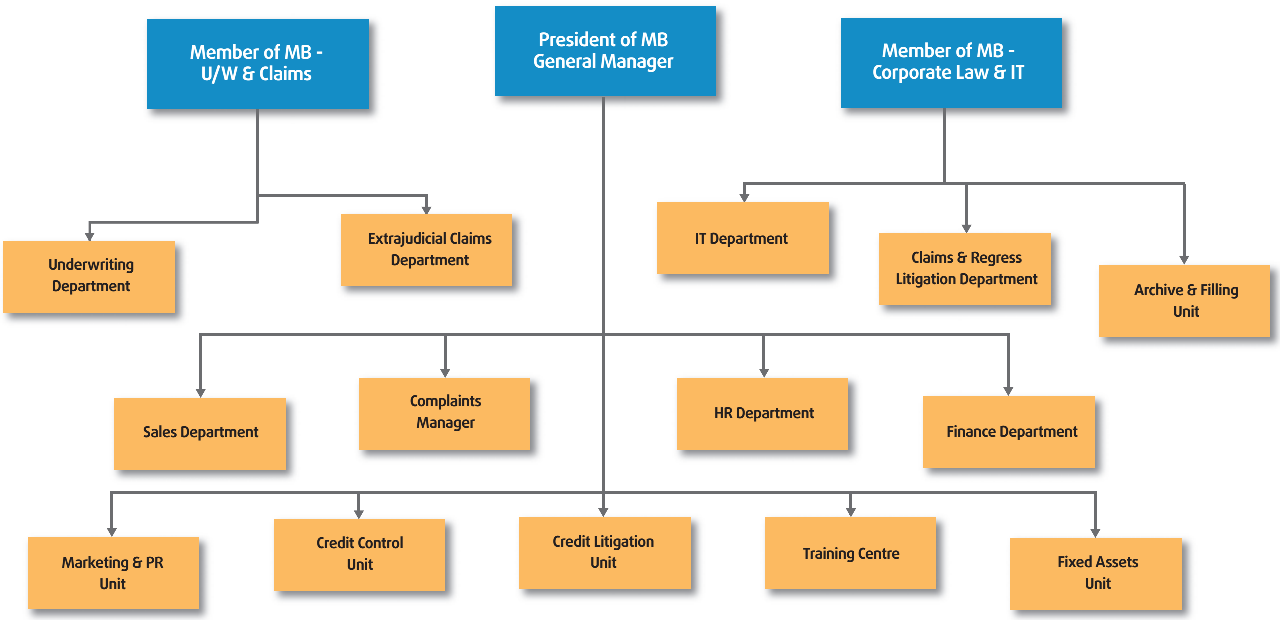
During 2013 the Insurance Supervision Agency conducted onsite supervision on the complete operation of the Company. It may be concluded that all operating activities of the Company were positively assessed by the experts of the Insurance Supervision Agency. The foregoing statement points out the fact that the management team together with the staff of the Company actively perform to ensure compliance with legal regulations, protection of the shareholders' interests and wealth and satisfaction of liabilities towards policyholders and claimants.

In 2013 the Board of Directors, now the Management Board, upon prior change of the management system of the company, at their regular meetings adopted resolutions based on particular legal requirements and bylaws which should have been met and other resolutions on meeting our liabilities to employees which arise out of employment agreements, personal data protection, meeting our liabilities to clients and entities with which the Company has established business and administrative relations. Particular attention should be drawn to the resolution issued by the Management Board according to which and in compliance with statutory changes the Company is listed under the sub-segment of "compulsory quotation on the stock exchange" governed by the Macedonian Stock Exchange.

In 2014 we will continue our activities to observe the legal regulations applied in R. Macedonia, provide control over risk exposures which the Company faces within its normal course of operation, and introduce any possible changes likely to be imposed by the operating system of the Vienna Insurance Group for the purpose of establishing complete synergy and compliance. We do hope that even 2014 will be a year of achievements which will serve as evidence for our long-term existence on the insurance market of the Republic of Macedonia.

Mr. Risto Sekulovski
Member of the Management Board

ORGANISATIONAL STRUCTURE



Organisational structure in 2014.

SALES – DISTRIBUTION CHANNELS

The sales force network of the Company is organised in a way that it provides availability of the insurance products to clients through various distribution channels for the purpose that the market needs will always be met. Our sales agent network for direct sale and the insurance representative agencies which sell only our policies are the mostly exposed distribution channel which makes our insurance covers available to clients. It is composed of well experienced and trained sales agents and also functions as another source for recruiting new insurance representatives, which will result in increase of our market share. Informally it is organised in West and East Region teams within Sales Agents Unit.

Non-Agent sales cover the market need of the clients who request comparative insurance covers offered by insurance brokers, banks, travel agencies and other partners.

In 2013 the sales results of all sales segments reassured our market position and our development which will positively affect our growth in the next period.

The achievement of the sale targets, premium collection, increase in number of insurance representatives and strengthening the sales network were the main objectives in 2013.

Compared with the preceding year a minor growth in terms of written premium was achieved by the sales agents by 0.1% whereas the non-agent sales force record increase by 5% which is by 1,3% in total.

Considering the direct sales and activities of insurance agents and representative agencies the sales results show 77% for the premium written for 2013.

For 2013 the West Region achieved total written premium of MKD 240 million and in comparison with 2012 obtained increase of 0.2%.

For 2013 the West Region achieved total written premium of MKD 240 million and in comparison with 2012 obtained increase of 0.2%. The East Region achieved total written premium of MKD 238.3 million which is by 0.3% less than for 2012.

The movement in the insurance market states a significant decrease in sale of motor insurance resulting in decrease of policies written for the motor business within total portfolio of the East Region, reflecting on the Casco business in terms of leased motor vehicles.

SALES TEAM WESTERN REGION

ZORE NIKOLOSKI, Sales Team manager
GORDANA JANKOSKA, Sales Team manager
ZORAN ALEKSOVSKI, Regional Sales manager
JOVO IVANOVSKI, Sales Team manager
EMIL DAMESKI, Sales Team manager

Our understanding of the market conditions shifted our focus to other types of property products, whereby we managed to underwrite the same amount of business as of the last year.

During 2013 we continued the process of building the external sales network by utilising the potential of the representative agencies:

- Building up active sales structure
- Keep the existing and recruiting sales oriented insurance representatives who are proactive and focused on establishing their own sales network
- Continue processes of education and supervision over the external insurance representatives under direct monitoring by internal coordinators
- Open new points of sale for the purpose of meeting the market needs and compliance with company strategy

SALES TEAM EAST REGION

TODORCO KOSTADINOV, Sales Team manager
DIMITRIJA DIMOV, Sales Team manager
MARJAN ORUCOSKI, Reagioanl Sales manager
DENKA ARSOVA, Sales Team manager
ILIJA RUMENOV, Sales Team manager
ALEKSANDAR PETKOVSKI, Sales Team manager

Our understanding of the market conditions shifted our focus to other types of property products, whereby we managed to underwrite the same amount of business as of the last year.

The Sales Agent Unit within its 2014 Plan and Projection focuses on following goals:

- Achievement of set targets – 10% increase
- Insurance portfolio growth
- Sales network improvement and development

In order to improve sales by utilising the potential of the insurance representative agencies a dozen of training courses and workshops were organised for new and the current insurance representatives, whereby they acquired the necessary sales skills and knowledge and experience. Some of them are already successful and ambitious enough that we may count on and consider them as a huge potential for improvement and development of our business.

For 2013 the non-agent sales account for 23% of the total company portfolio.

During the first half of the year the Unit performed with reduced power mostly because of termination of several large long-term insurance agreements. Some of them could have not been renewed by objective reasons mostly due to termination of concession agreements concluded between the clients and the government authorities or by the client being taken over by one large company, in our case, this was a bank.

During the second half of the year a significant increase in sales was achieved through insurance brokerage companies, especially in relation to motor third party liability. Total premium written by brokers for 2013 amounted at MKD 135 million and an achievement is obtained regarding MTPL and Green Card of 7% compared with 2012.

By the end of the year we entered into business agreements with 2 new brokerage companies the cooperation with which we expect to intensify and grow during 2014. Thereby the number of concluded agreements with brokerage companies has grown to 22.

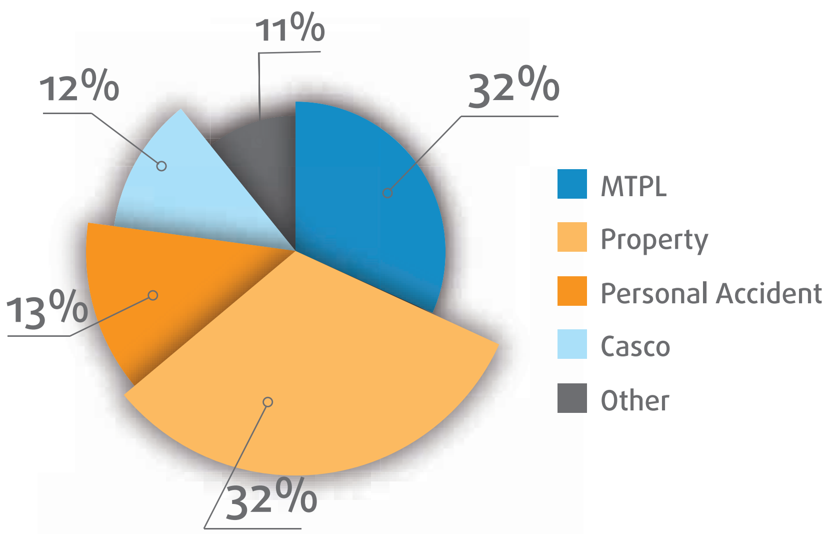
For 2013 the non-agent sales account for 23% of the total company portfolio.

Loan lines for buying homes and motor vehicles are mostly placed by three banks. The lower number of loans for buying homes and motor vehicles resulted in lower sales of Mortgage guarantee and Casco insurance policies through banks by 14% in total.

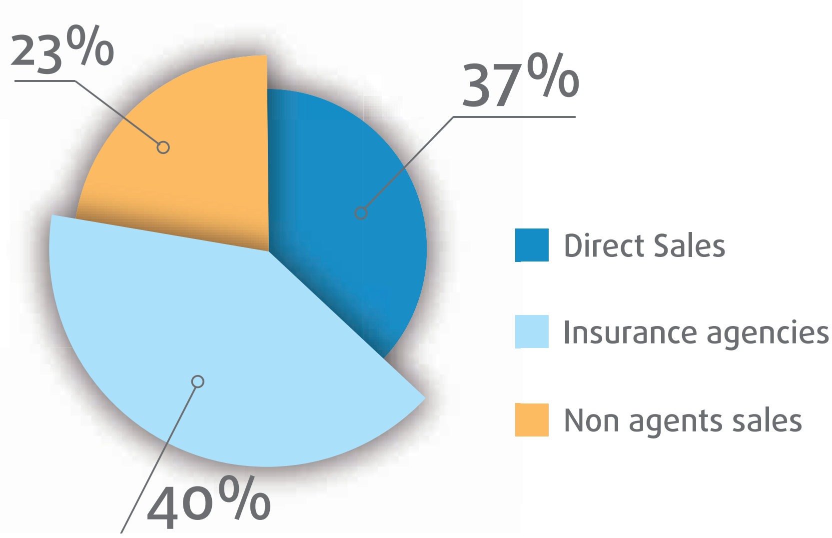
A significant increase is recorded in the sale of travel insurance policies through travel agencies where an increase of 56% is achieved if compared with 2012.

The total sale of insurance policies through Non-Agent distribution channels in 2013 has increased by 5% compared to 2012 and amounts to MKD 155 million.

PRODUCT MIX 2013 - WRITTEN PREMIUM



DISTRIBUTION CHANNELS PRODUCTION 2013 CHART



JASMINKA ILIEVA, Underwriting Manager
DANIELA KOZAROVA, Product Portfolio Manager

UNDERWRITING

The change of ownership almost always by the rule understands the change of the operating philosophy, for the purpose that the improved results and increased profitability be achieved. However, it does not imply any change to the systems which permanently provide good results for years, but only the improvements thereof. With all this, it is our consistency policy on control system practise in underwriting insurance which completely fits in. This policy almost always results in the positive technical result for all classes of business.

Therefore, by taking continuous care of our clients we achieved positive technical result for all classes of business for 2013 as well, even for those classes which traditionally prove negative on the insurance market such are motor insurances – third party liability and motor casco.

The achieved gross loss ratio for 2013 in regards to motor third party liability together with Green card and Border insurance is 45.4%. If compared to recorded result for 2012 of 57.8% we show loss ratio improvement despite the additional increase in no-claim bonuses payments which significantly affected the amount of premium written for this class of business.

The analysis on the actual results for Casco insurance has shown a decrease in gross loss ratio for all types of Casco policies offered by our Company. This is due to the extended scope of insurance coverage for this class of business and many adjustments to premium rates made to satisfy the needs of our clients for the purpose of becoming more competitive on the market where still negative price tendencies were evident during the preceding year.

The stable and unwavering performance for these two classes of business will ensure strengthening of our position on the insurance market. Furthermore, we will carry out detailed analysis on actual results and put additional effort to extend the scope of the current insurance covers and introduce novelties for the purpose of satisfying the needs of our loyal clients and attracting new prospects and clients among cautiously selected target groups.

We are particularly happy with the fact that with the Accident insurance we return to our previous position as market leader, while at the same time we managed to sustain the good technical result. This outcome mostly resulted from the changes and adjustments made in relation to benefits and definitions thereof, as well as cautiously selected insurance covers against accepted insurance risks. For this class of business we have established traditionally long-term relations with our clients, but we also strive to attract new clients by offering innovative and interesting solutions.

Compared to 2012, the Travel insurance premium for 2013 shows a reasonable increase and together with the good technical result it is one more reason for us to feel satisfied. The market need for this class of business, slowly but surely, directs towards more quality insurance offers and more appropriate quality to price proportion on a mutual satisfaction to clients and insurance companies.

Traditionally, property business shows good technical result which reflects the relatively conservative underwriting management approach for this class of business. Notwithstanding this approach, the retained clients' rate is extremely high, exceeding 85%, which is an evidence of the product price stability on the property insurance market. Furthermore our strategy on excellent service delivery and prompt payment of indemnities for claims pays its contribution.

The unutilised potential of household insurance even for 2014 will challenge us, and with constant presence of our agents on the field, we will try to increase our market share and generally contribute to the rising market trend for sale of this class of business.

The achieved gross loss ratio for 2013 in regards to motor third party liability together with Green card and Border insurance is 45.4%. If compared to recorded result for 2012 of 57.8% we show loss ratio improvement.

The Liability insurance, either General liability or especially Professional liability record an increase. This growth is evident not only in our portfolio, but the market itself. Our accounting books record premium increase by 23% if compared with 2012. For 2014 this class of business remains on top of our priorities, including amendments to current terms and conditions and tariffs, which have to observe contemporary trends and market needs.

The Cargo portfolio traditionally covers large transportation companies and banks, but we will try to expand the scope and include small and medium enterprises, which we believe are huge potential for this class of business. For 2014 we will work on expansion and adjustments of our offers to the market needs, as well as on continuous education for our sales force.

In general, our policy on the maintenance of profitable business classes shall remain our primary goal for 2014 also. Therefore we will further apply our strategy on positive selection of risks depending on their exposure and underlying history and provide full care for our clients for their loyalty as well as consider those insurance contracts which generate positive results.

Our major clients, sales agent networks, insurance agencies and brokerage companies still remain our primary focus. Therefore, the Sales Support Centre continues to perform its activities during 2013 as well for the purpose of ensuring complete and prompt administration of insurance policies and provides full support to sales force by operating under applicable system solutions and processes. The SSC managed to process more than 70,000 cases. Most of these cases referred to motor vehicle policies, but no less significant engagement was made in processing the cases in relation to other classes of business. Additionally, the tariff control is a significant ring in the risk management and control chain and therefore immensely contributes to profitable operation of our Company.

Mrs Vesna Gjorceva
Member of the Management Board

EFFICIENT AND FAIR CLAIM SERVICE DELIVERY ACCOMPANIED BY PROMPT PAYMENT

TOMICA IVANOVSKI, Resourses&Claims Application Manager
ZORAN TODOROVSKI, Extrajudicial Claims manager
ANETA KRSTIC, Claims Settlement Manager
GORAN STOJANOVSKI, Claims Assessment Manager

CLAIMS DEPARTMENT REPORT

The following values underlay our claim services:

- Claims team staffed with highly skilled professionals in terms of claims management
- Efficient and fair claim service delivery accompanied by prompt payment
- Leading insurer which provides direct and immediate claims control
- All claims are handled in close cooperation with the underwriting teams by utilising the database provided by the IT department
- Strict control over the appointment of service providers and their operation
- Constant and conservative, yet objective approach to claims reserves

The claims team enjoys the reputation of being highly professional within its scope of activities and is well known in terms of its technical skills and capacity to meet client's needs regarding different classes of insurance, including accident, property and motor vehicles. The team possesses unusually rich set of professional qualifications within the relevant business domains such as legal, insurance, medicine, engineering and machinery.

Osiguruvanje Makedonija often contributes to analysis and researches on claims in relation to technical matters and plays an active role as an adviser among insurance participants and related government institutions.

Reported Claims
The comparison of reported claims in the preceding year to 2013 shows decline in the number of reported claims by 12.26% and most of the reported claims refer to accident of 23.68% and Casco of 16.85%.

Number of reported claims

Accident	Casco	Property	MTPL	Other
989	947	1542	1468	289

Settled Claims
The same trend reflects decline in the number of settled claims but it is not so drastically evident so that we record decrease of only 1.67% compared to 2012.

Number of reported claims

Accident	Casco	Property	MTPL	Other
1029	972	1561	1770	475

Paid Claims
The number of paid claims this year is also lower than the last year's by 6,52%.

Number of paid claims

Accident	Casco	Property	MTPL	Other
1166	912	1373	1554	451

In 2013 the largest amount we pay for claim arouse from damage against industry risk and amounted at MKD 7 million.

The Claims Department of Osiguruvanje Makedonija employs 36 claims handling professionals and is the largest of this kind. The department has full capacity and competence to meet the needs of clients and brokers and it operates on 9 locations throughout Republic of Macedonia.

Moreover this year we made detailed allocation of claims handling expenses through extending the functionality of the claims processing application.

For 2014 we will continue to develop the professional competence and capacity of the claims staff to ensure that all needs of our clients are successfully met.

HUMAN RESOURCE

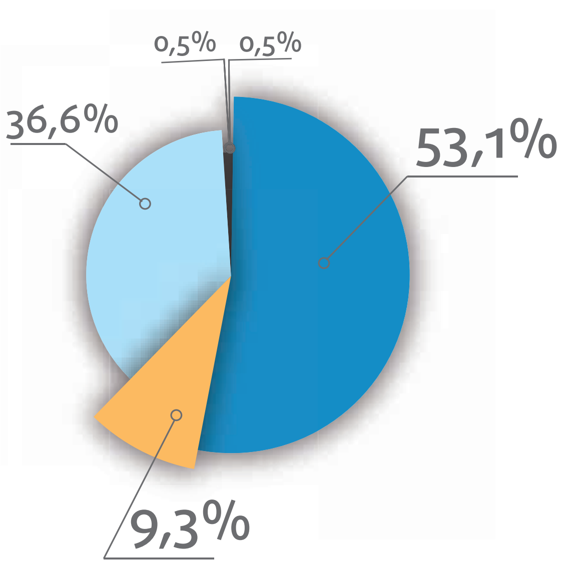
In 2013 our Company was acquired by Vienna Insurance Group. The Human Resources function was affected by this acquisition which reflected many new activities to be undertaken in terms of becoming aware of the human resource policies and procedures guided by Vienna Insurance Group and creating a reasonable environment for prompt implementation thereof.

Although being focused on novelties, the HR function still continued to meet their regular activities and duties. The already established basic tools for performance management, as well as for professional education and personal development, continued to be used. As a result, last year Osiguruvanje Makedonija a.d. Skopje - Vienna Insurance Group was selected among ten best companies in R. Macedonia which apply the best practices for personal development of their staff. The selection and analysis of the applied best practices was conducted by the Centre for Informal Education "Triangle" by engagement of HR experts from Sweden and Great Britain. Therefore, our Company was rewarded a Certificate for applying the best HR practices.

During 2013 the Company showed no significant workforce fluctuations. The number of employees was reduced as a consequence of normal outflow so that as of December 31, 2013 the total number of employees in our Company was 194, whereof 64 in sales and 130 in administration.

The workforce structure in terms of education and distribution by functions of the Company is the following:

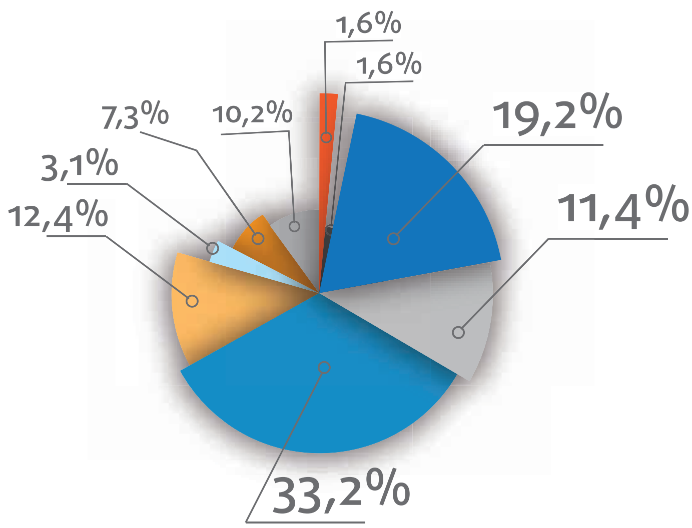
STRUCTURE BY EDUCATIONAL LEVEL



Degree High School Secondary

Qualified Elementary

STRUCTURE BY FUNCTION



Management Board - 1,6%
Internal Audit - 1,6%
Claims - 19,2%
Underwriting - 11,4%
Sales - 33,2%
Finance - 12,4%
Human Resources- 3,1%
IT- 7,3%
Other- 10,2%

BLAGORODNA GOGOVSKA, Credit Control Manager
SNEZANA KOMNENOVIC, Marketing & PR Coordinator
STEFAN HAGIEVSKI, Fixed Assets Manager
SVETO SMILJKOVIC, Credit Litigation Manager
DANIELA TODOSOVA-JEVTIC, L&D Manager
NATASA KRSTEVSKA, Complaints Manager

MARKETING AND PUBLIC RELATIONS

For 2013 the Marketing and Public Relations Office was engaged in the Company rebranding process. In order to determine the new company name, the Company had a research carried out. The outcome of the research confirmed the fact that we should incorporate the mostly recognised segment of our company name, that is the wording "Osiguruvanje Makedonija", which the best associates the brand awareness to our decades-long tradition in the insurance industry.

The change in the company name also resulted in rebranding the company assets and documentation and creating new company logo. The new company logo is a synergy of two values: long-term experience and profound insurance knowledge on the part of the Macedonian brand and dynamic and international experience and expertise of the major shareholder, Vienna Insurance Group.

The process of rebranding encompasses the complete stationary, including memos, policy forms and all other documentation and segments of electronic communications. Regarding PR activities the new company name and logo was publicly communicated. In this context, a press conference for the media and appropriate event for clients and business partners were organised in September 12, 2013, when the marketing campaign for rebranding was officially announced.

The change in the company name also resulted in rebranding the company assets and documentation and creating new company logo. The new company logo is a synergy of two values: long-term experience and profound insurance knowledge on the part of the Macedonian brand and dynamic and international experience and expertise of the major shareholder, Vienna Insurance Group.

The process of rebranding the company buildings also started, firstly with the Head Office in Skopje, and during 2014 we will continue rebranding the other buildings. For 2014 we will also rebrand and amend the insurance products' brochures and enhance the company's web site which in 2013 started functioning locally.

INTERNAL AUDIT

The Internal Audit of the Company, in accordance with the Annual Plan, carried out 6 (six) internal audits covering all key operational functions of the Company.

The Internal Audit report states 8 (eight) findings, 6 (six) of which were ranged as low risk and only 2 (two) findings were ranged as average risk.

The opinion of the Internal Audit was "Excellent" for reviewed functions of the Company and only one case was "Satisfactory", which means that the functioning of the implemented internal controls over the reviewed functions was assessed as effective from all material aspects.

The activities agreed with the Management team to eliminate the determined findings were completed in defined manner and within set deadlines.

In the beginning of 2013 the operation of the Company was subject to on-site supervision conducted by the Insurance Supervision Agency. The operating results achieved for 2012 and 2011 were subject to supervision. The agreed activities for implementation of recommendations issued by the Insurance Supervision Agency were completed in full and within set terms.

KEVSER LALICIC, IT Manager
BORO RUDIC, IT Operations Manager
DANIELA DIMITRIEVA, Software Development Manager

INFORMATION TECHNOLOGY

The IT Department of Osiguruvanje Makedonija a.d. – Vienna Insurance Group is designed in accordance with the necessities of business processes to ensure prompt and complete data processing and availability of documented information used in their operation.

Some of the more important IT projects in 2013 are:
- Change of the IT Strategy arising from the change of the Company's ownership structure (replacement of the DB servers, the number and type of DB licenses, migration to the new version of DB, 11g, replacement of the application servers and their licenses and migration to new version of Web Logic application server, 11g),
- Rebranding (registration of new domain @insumak.mk, creation of new email addresses, new signatures for electronic e-mails, alteration of all reports, forms, templates in terms of replacement of the logo and name).
- Alignment with VIG IT Strategy and Security Policy (introduction of second authentication factor for VPN users, introduction of second authentication factor for all MBA users, implementation of site-to-site VPN connection to Wiener for unified access to VIG Intranet for all employees).
- Compiling of MBA to version 11g (application servers)
- Implementation of document scanning integration to MBA
- Hosting of Winner and Wnner Life for BCP
- Creation of several web applications for products.

GORAN MATEVSKI, Investment & Finance Transaction Manager
MARGARETA POPOVSKA- GOSEVA, Finance Manager
SNEZANA KARAGA, Accounting & Finance Reporting Manager

FINANCIAL RESULTS

For 2013 the Company operated according to the strategic goals and the priority targets defined by the Financial Plan, Business Policy and in compliance with the Vienna Insurance Group's policies.

For the period of two years where number of new legal provisions and requirements issued by the Insurance Supervision Agency were carried out and implemented, the Company in 2013 reported positive financial result at the amount of MKD 93.2 million in terms of Non-life segment. For the same period in 2012 the Company reported negative financial result, due to calculated adjustments and corrected values of receivables as recommended by the Insurance Supervision Agency.

In the reporting year the Life insurance demonstrates negative financial result at the amount of MKD 3 million as an outcome of the completion of the process of calculated adjustments and corrected values of receivables as recommended by the Insurance Supervision Agency.

During 2013 the total gross written premium for non-life insurance is MKD 691.7 million which is by 1,3% more than the result reported in 2012. It was corrected by the amount of unearned premium for 2012 reported as assets and the amount of unearned premium for 2013 reported as liability whereas the total non-life earned premium achieved by the Company at the amount of MKD 620.5 million shows decrease of 2.6%.

The premium placed in reinsurance for 2013 is MKD 66.2 million and compared to 2012 is a decrease of 7.1%.

The amount of settled claims for non-life insurance for 2013 is MKD 273 million and if compared with 2012 they show decrease by 14% or for amount of MKD 44.3 million. The reserved claims value MKD 236.2 million which is 10% decrease in comparison with 2012 or for the amount of MKD 25.2 million.

The operating costs for 2013 amount to MKD 279.9 million which is a decrease for MKD 40.6 million or by 12% if compared to 2012, mostly subject to deferred acquisition costs calculations amounting to MKD 28.6 million and collection of reserved receivables.

Income tax calculated for 2013 including non-deductible expenses and understated revenues is MKD 2.4 million which additionally decrease the determined profit to the amount of MKD 90.8 million.

For 2013 the Life earned premium income is MKD 4.8 million and compared to 2012 demonstrates a decrease of 40%. The declining trend in income earned in relation to Life written premium is due to run-off, in fact the current life policies have only been serviced under insurance contracts concluded in the preceding years.

For 2013 the investment yield amounts to MKD 2.9 million.

In the reporting year the claims amount to MKD 28.9 million and compared to 2012 demonstrates decrease by 22.6% or for the amount of MKD 8.4 million. The mathematical reserve amounts to MKD 43.9 million and compared to 2012 demonstrates decrease by 35.8% or for the amount of MKD 24.4 million.

The outcome of the Company policy on accounts receivable analysis and receivable provisions is the write-off of uncollected receivables in regards to paid advances for claims at the amount of MKD 4.5 million.

Given the compensation of total liabilities at the amount of MKD 10.7 million with total assets for 2013 in regards to Life insurance the Company has revealed loss to the amount of MKD 3 million. The accounts receivable write off in terms of income tax is regarded as non-deductible expenses and resulted in income tax at the amount of MKD 456.622, whereby the total reported loss is MKD 3.4 million.

CLASSES OF BUSINESS

In compliance with the Article 5 of the Insurance Supervision Law the Company has been licensed to underwrite the following businesses for 2013:

- Accident Insurance
- Motor Vehicle Insurance (Casco)
- Insurance of Railway Vehicles (Casco)
- Aircraft Insurance (Casco)
- Vessel Insurance (Casco)
- Goods in Transit Insurance (Cargo)
- Property Insurance Against Risk of Fire and Natural Catastrophes
- Other Property Insurance
- Motor Third Party Liability Insurance
- Aircraft Liability Insurance
- Vessel Liability Insurance
- General Liability
- Credit Insurance
- Warranty Insurance
- Financial Loss Insurance
- Legal protection Insurance
- Travel Assistance Insurance

Note:

The Company only manages the current insurance policies for Life Insurance (in compliance with the Decision issued by the Constitutional Court the Company ceased to underwrite life business).

The Company has listed the insurance contracts entered into for 2013 stating the commercial name of any agreement and the class of business to which it refers

1. (1) Accident Insurance
2. (3) Motor Vehicle Insurance (Casco)
3. (6) Vessel Insurance (Casco)
4. (7) Goods in Transit Insurance (Cargo)
5. (8) Property Insurance Against Risk of Fire and Natural Catastrophes
6. (9) Other Property Insurance (excluding Crop and Livestock Insurance)
7. (10)Motor Third Party Liability Insurance
8. (12)Vessel Liability Insurance
9. (13)General Liability Insurance
10. (15)Warranty Insurance
11. (16) Financial Loss Insurance
12. (17) Travel Assistance Insurance

BRANCH OFFICES OF OSIGURUVANJE MAKEDONIJA A.D SKOPJE – VIENNA INSURANCE GROUP

Location	Address
Skopje	11 Oktomvri No.25
Gevgelija	Marshal Tito No.156 E
Sv. Nikole	Square Ilinden br.19
Gostivar	Boris Kidric No. 115
Tetovo	Marshal Tito bb
Resen	Tase Milosevski No.6
Prilep	Goce Delcev No.7a

Location	Address
Stip	Toso Arsov bb
Kocani	Dimitar Vlahov No.3
Kavadarci	Ilindenska No.11
Kumanovo	Dimitar Vlahov No.52 lokal 3
Ohrid	Dimitar Vlahov No.14
Bitola	Bulevar 1-vi Maj No.268
Veles	Dimitar Vlahov No.27

ACTUARIAL STATEMENT

According article 116, item 3 from Insurance Supervision Law the authorized actuary issue following statement.

The final conclusion on the operation of the insurance company shown by the financial statements and annual report is:

а) positive opinion   б) restrained opinion   в) negative opinion

The positive opinion about Companies operation and result presented in the Financial Statements and Annual Report is based on the following:

- In the observed year, the Company conducts only activities for which is registered
- The Company applies adopted Terms and Conditions and Tariffs on premium only
- The Company achieves a good level of claims settlements dynamics and claims payment dynamics
- The capital of the Company is above the required level of solvency margin and Guarantee Fund in accordance of statutory requirement and Company's policy
- The Unearned premium provision calculation is in accordance with adopted Book of regulation and recognized actuarial standards
- The claims reserving for reported claims is adequate and in accordance with adopted Book of regulation and recognized actuarial standards
- The claims reserving for incurred but not reported claims is adequate and in accordance with adopted Book of regulation and recognized actuarial standards
- The Company has achieved positive loss ratio per each class of business and in total
- The Company has achieved positive financial result in 2013

Premiums and technical reserves of the Company are calculated in accordance with the Law on insurance supervision and the Rulebook on minimum standards for calculation of technical reserves.

Considering the achieved positive loss ratios at the year end, the amount of own capital, policy with respect of setting technical provisions, the Company can regularly and in long term fulfil all liabilities arising from the insurance contracts.

Daniela Kozarova

Jasminka Ilieva

Gordana Minoska

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
WITH THE REPORT OF THE AUDITORS THEREON

ОСИГУРУВАЊЕ
МАКЕДОНИЈА
VIENNA INSURANCE GROUP

11 Oktomvri No. 25, 1000 Skopje
www.insumak.mk

Insurance MAKEDONIJA s.c. Skopje
- Vienna Insurance Group

Financial statements

For the year ended 31 December 2013

With the Report of the Auditors thereon

Content

Translation

KPMG Memo

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Fax.: +389 (2) 3111 811
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Website: www.kpmg.com.mk

Independent Auditors' Report to the shareholders of Insurance MAKEDONIJA s.c. Skopje - Vienna Insurance Group

Report on Financial Statements

We have audited the accompanying financial statements of Insurance MAKEDONIJA s.c. Skopje - Vienna Insurance Group ("the Company"), which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulation of the Agency for Insurance Supervision, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from any significant material misstatement, whether due to fraud or inadvertent 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 our 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, we 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the regulation of the Agency for Insurance Supervision.

Other matters

The financial statements of the Company for the year ended 31 December 2012 were audited by another auditor which expressed an unmodified opinion on those statements on 22 April 2013.

Report on other legal and regulatory requirements

Annual Report on the activities of the Company prepared in accordance with the requirements of article 384 of the Trading Companies Law

As required under article 34(d) from the Law on Auditing, we report that the historical financial information disclosed in the annual report of the Company, prepared by management as required under article 384 of the Trading Companies Law, is consistent, in all material aspects, with the financial information disclosed in the annual account of the Company and in the audited financial statements of the Company as of and for the year ended 31 December 2013. Management is responsible for the preparation of the annual account of the Company which was approved by the Supervisory Board of the Company on 27 February 2014 and for the preparation of the annual report of the activities of the Company approved by the Supervisory Board of the Company on 27 February 2014.

Place and date: Skopje, 13 March 2014

AUTHORISED AUDIT OF RM

Gordana Nikusevska,

(signature in writing)

KPMG Macedonia DOO Skopje

Manager

Gordana Nikusevska

(signature in writing)

Round seal of the Company is hereto affixed.

Тврдам дека правилно и точно го извршив преводот од македонски на англиски јазик.

Мирјана Кочоска – Стојановиќ
Овластен судски преведувач

24.03.2014 година

I hereby do confirm that the translation from Macedonian into English language is faithful and true to original.
In witnesses whereof I have hereunto set my hand and affix my seal this 24th day of March in the Year Two Thousand and Fourteen.

Mirjana Kocoska – Stojanovic
Court Authorised Translator

Statement of comprehensive income (Income Statement) – Non-Life insurance

	Note	Amount in MKD thousands	
		2013	**2012**
A. OPERATING INCOME		**760.767**	**874.662**
I. NET INSURANCE PREMIUM REVENUE	**6**	**620.598**	**637.389**
1. Gross written premium from insurance		691.738	683.113
2. Gross written premium from co-insurance		-	-
3. Gross written premium for reinsurance / retrocession		3.421	5.489
4. Gross written premium delivered in co-insurance		-	-
5. Written premium ceded to reinsurers		(66.265)	(71.334)
6. Change in the gross provision from unearned premium		8.289	17.838
7. Change in the gross provision from unearned premium – co-insurance share			
8. Change in gross reserve for unearned premium – reinsurance share		(7)	2.283
II. Investment income		**82.222**	**127.144**
1. Income from subsidiaries, associates and jointly controlled entities		**-**	
2. Income from investments in land and buildings		**33.831**	**37.448**
2.1 Rent income		32.295	37.448
2.2 Income from increasing of the land and buildings value			
2.3 Income from sale of land and buildings		1.536	
3. Interest income		**27.662**	**30.643**
4. Positive foreign exchange differences		**19.269**	**1.166**
5. Impairment (unrealised gains, measurement of fair value)			**51.994**
6. Realised gains from sale of financial assets – capital gain		**462**	**3.995**
6.1 Financial assets available for sale		462	914
6.2 Financial assets held for trading (with fair value)			3.081
6.3 Other financial asset			
7. Other investment income		**998**	**1.898**
III. OTHER INSURANCE TECHNICAL INCOME, NET OF REINSURANCE	**7**	**43.371**	**30.051**
IV. OTHER INCOME	**8**	**14.576**	**80.078**

Statement of comprehensive income (Income Statement) – Non-Life insurance (continued)

	Note	Amount in MKD thousands 2013	2012
B. OPERATING EXPENSES		**667.539**	**1.027.019**
I. NET INSURANCE CLAIMS AND BENEFITS INCURRED	**9**	**239.455**	**295.191**
1. Gross claims paid		273.097	317.446
2. Decrease for the income from gross realized receivables from recourse		(8.951)	(11.568)
3. Gross claims paid – co-insurance share			
4. Gross claims paid – reinsurance share		(1.617)	(424)
5. Change in gross reserves for claims		(22.444)	(11.015)
6. Change in gross reserves for claims - part for co-insurance			
7. Change in gross reserves for claims – part for reinsurance		(630)	752
II. CHANGES IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE		**-**	**-**
1. Changes in the mathematical reserve, net of reinsurance		**-**	**-**
1.1 Change in gross mathematical reserve		-	-
1.2 Change in gross mathematical reserve – part for co-insurance/ reinsurance		-	-
2. Changes in equalization reserve, net of reinsurance		**-**	**-**
2.1. Changes in gross equalization reserve		-	-
2.2 Changes in gross equalization reserve – part for co-insurance/reinsurance		-	-
3. Changes in other technical reserves, net of reinsurance		**-**	**-**
3.1 Changes in other gross technical reserves		-	-
3.2 Changes in other gross technical reserves – part for co-insurance and reinsurance		-	-
III. CHANGE IN GROSS MATHEMATICAL RESERVE FOR LIFE INSURANCE WHERE INVESTMENT RISK IS BORNE BY INSURED, NET OF REINSURANCE		**-**	**-**
1. Changes in gross mathematical reserve for life insurance where the investment risk is borne by insured, net of reinsurance		-	-
2. Changes in gross mathematical reserve for life insurance where the investment risk is borne by insured, net of reinsurance – part for co-insurance and reinsurance		-	-
IV. EXPENSES FOR BONUS AND DISCOUNTS, NET OF REINSURANCE		**18.327**	**18.883**
1. Expenses for bonus (depending from the profit)		2.113	1.888
2. Expenses for discounts (not depending from profit)		16.214	16.995
V. NET EXPENSES FOR INSURANCE EXPENSES	**10**	**296.536**	**338.510**
1. Acquisition costs		**113.711**	**137.120**
1.1 Commission		69.852	62.825
1.2 Other acquisition costs		72.524	74.295
1.3 Movement in DAC		(28.665)	
2. Administrative expenses		**182.825**	**201.390**
2.1 Depreciation of tangible assets used for operating purposes		12.966	15.342
2.2 Staff costs		90.487	102.126
2.3 Expenses for services from individuals		-	-
2.4 Other administrative expenses		79.372	83.922

Statement of comprehensive income (Income Statement) – Non-Life insurance (continued)

	Note	Amount in MKD thousands 2013	2012
VI. INVESTMENT COSTS		**51.212**	**28.381**
1. Depreciation and impairment for tangible assets not used for operating purposes		**24.221**	**22.832**
2. Interest expenses		**-**	**-**
3. Negative foreign exchange differences		**14.511**	**5.112**
4. Value adjustment (non-realised loss, measurement with fair value)		**3.372**	**-**
5. Realized loss from sale of financial assets – capital loss		**691**	**437**
5.1 Financial assets available for sale		691	437
5.2 Financial assets held for trading (fair value)		-	-
5.3 Other financial assets		-	-
6. Other investment costs		**8.417**	**-**
VII. OTHER INSURANCE TECHNICAL EXPENSES, NET OF REINSURANCE	**11**	**25.747**	**25.436**
1. Costs of prevention		-	-
2. Other insurance technical expenses, net of reinsurance		25.747	25.436
VIII. IMPAIRMENT OF INSURANCE PREMIUM RECEIVABLES		**7.084**	**139.289**
IX. OTHER EXPENSES INCLUDING OTHER IMPAIRMENT	**12**	**29.177**	**181.329**
X. PROFIT BEFORE TAX		**93.228**	**-**
XI. LOSS BEFORE TAX			**152.357**
XII. INCOME TAX	**13**	**2.443**	**12.663**
XIII. DEFERRED TAX		**-**	**-**
XIV. PROFIT FOR THE YEAR		**90.785**	**-**
XV. LOSS FOR THE YEAR			**165.020**

Statement of comprehensive income (Income Statement) - Life insurance

	Note	Amounts are in MKD thousands	
		2013	**2012**
A. OPERATING INCOME		**7.744**	**12.502**
I. NET INSURANCE PREMIUM REVENUE		**4.819**	**8.073**
1. Gross written premium from insurance		4.808	8.016
2. Gross written premium from co-insurance		-	-
3. Gross written premium for reinsurance / retrocession		-	-
4. Gross written premium delivered in co-insurance		-	-
5. Written premium ceded to reinsurers		-	-
6. Change in the gross provision from unearned premium		11	57
7. Change in the gross provision from unearned premium – co-insurance share		-	-
8. Change in gross reserve for unearned premium – reinsurance share		-	-
II. INVESTMENT INCOME		**2.925**	**4.429**
1. Income from subsidiaries, associates and jointly controlled entities		**-**	**-**
2. Income from investments in land and buildings		**-**	**-**
2.1 Rent income		-	-
2.2 Income from increasing of the land and buildings value		-	-
2.3 Income from sale of land and buildings		-	-
3. Interest income		2.827	4.261
4. Positive foreign exchange differences		**-**	**-**
5. Impairment (unrealised gains, measurement of fair value)		**-**	**-**
6. Realised gains from sale of financial assets – capital gain		**-**	**-**
6.1 Financial assets available for sale		-	-
6.2 Financial assets held for trading (with fair value)		-	-
6.3 Other financial asset		-	-
7. Other investment income		98	168
III. OTHER INSURANCE TECHNICAL INCOME, NET OF REINSURANCE		**-**	**-**
IV. OTHER INCOME		**-**	**-**

Notes on pages 26 to 97 are integral part of these financial statements

Statement of comprehensive income (Income Statement) - Life insurance (continued)

	Note	Amount in MKD thousand 2013	2012
B. OPERATING EXPENSES		**10.785**	**78.178**
I. NET INSURANCE CLAIMS AND BENEFITS INCURRED		**29.589**	**36.420**
1. Gross claims paid		28.986	37.450
2. Decrease for the income from gross realized receivables from recourse		-	-
3. Gross claims paid – co-insurance share		-	-
4. Gross claims paid – reinsurance share		-	-
5. Change in gross reserves for claims		603	(1.030)
6. Change in gross reserves for claims - part for co-insurance		-	-
7. Change in gross reserves for claims – part for reinsurance		-	-
II. CHANGES INN OTHER TECHNICAL RESERVES, NET OF REINSURANCE		**(24.475)**	**(25.335)**
1. Changes in the mathematical reserve, net of reinsurance		**(24.475)**	**(25.335)**
1.1 Change in gross mathematical reserve		(24.475)	(25.335)
1.2 Change in gross mathematical reserve – part for co-insurance/ reinsurance		-	-
2. Changes in equalization reserve, net of reinsurance		**-**	**-**
2.1. Changes in gross equalization reserve		-	-
2.2 Changes in gross equalization reserve – part for co-insurance/reinsurance		-	-
3. Changes in other technical reserves, net of reinsurance		**-**	**-**
3.1 Changes in other gross technical reserves		-	-
3.2 Changes in other gross technical reserves – part for co-insurance and reinsurance		-	-
III. CHANGE IN GROSS MATHEMATICAL RESERVE FOR LIFE INSURANCE WHERE INVESTMENT RISK IS BORNE BY INSURED, NET OF REINSURANCE		**-**	**-**
1. Changes in gross mathematical reserve for life insurance where the investment risk is borne by insured, net of reinsurance		-	-
2. Changes in gross mathematical reserve for life insurance where the investment risk is borne by insured, net of reinsurance – part for co-insurance and reinsurance		-	-
IV. EXPENSES FOR BONUS AND DISCOUNTS, NET OF REINSURANCE		**-**	**-**
1. Expenses for bonus (depending from the profit)		-	-
2. Expenses for discounts (not depending from profit)		-	-
V. NET EXPENSES FOR INSURANCE EXPENSES	**27**	**1.049**	**1.704**
1. Acquisition costs		**-**	**-**
1.1 Commission		-	-
1.2 Other acquisition costs		-	-
1.3 Movement in DAC		-	-
2. Administrative expenses		**1.049**	**1.704**
2.1 Depreciation of tangible assets used for operating purposes		-	-
2.2 Staff costs		-	-
2.3 Expenses for services from individuals		-	-
2.4 Other administrative expenses		1.049	1.704

Statement of comprehensive income (Income Statement) - Life insurance (continued)

	Note	Amounts are in MKD thousands	
		2013	**2012**
VI. INVESTMENT COSTS		**56**	**-**
1. Depreciation and impairment for tangible assets not used for operating purposes		**-**	**-**
2. Interest expenses		**-**	**-**
3. Negative foreign exchange differences		**56**	**-**
4. Value adjustment (non-realised loss, measurement with fair value)		**-**	**-**
5. Realized loss from sale of financial assets – capital loss		**-**	**-**
5.1 Financial assets available for sale		-	-
5.2 Financial assets held for trading (fair value)		-	-
5.3 Other financial assets		-	-
6. Other investment costs		**-**	**-**
VII. OTHER INSURANCE TECHNICAL EXPENSES, NET OF REINSURANCE		**-**	**-**
1. Costs of prevention		-	-
2. Other insurance technical expenses, net of reinsurance		-	-
VIII. IMPAIRMENT OF INSURANCE PREMIUM RECEIVABLES		**-**	**-**
IX. OTHER EXPENSES INCLUDING OTHER IMPAIRMENT	**29**	**4.566**	**65.389**
X. PROFIT BEFORE TAX		**-**	**-**
XI. LOSS BEFORE TAX		**3.041**	**65.676**
XII. INCOME TAX		**456**	**6.514**
XIII. DEFERRED TAX		**-**	**-**
XIV. PROFIT FOR THE YEAR		**-**	**-**
XV. LOSS FOR THE YEAR		**3.497**	**72.190**

Statement of financial position (Balance sheet) – Non-Life insurance

	Note	Amount in MKD thousands	
		2013	**2012**
ASSETS			
A. INTANGIBLE ASSETS	**14**	**2.537**	**401**
1. Goodwill		-	-
2. Other immaterial assets		2.537	401
B. INVESTMENTS		**1.675.582**	**1.587.106**
I. LAND, BUILDINGS AND OTHER TANGIBLE ASSETS		**884.820**	**821.292**
1. Land and buildings for operating activities		**256.428**	**204.823**
1.1 Land		6.348	4.537
1.2 Buildings	16	250.080	200.286
2. Land and buildings not for operating activities	**15**	**628.392**	**616.469**
2.1 Land		-	-
2.2 Buildings		628.392	616.469
2.3 Other tangible assets		-	-
II. FINANCIAL INVESTMENTS IN GROUP ENTITIES, SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES		**12.147**	**11.503**
1. Stocks, shares and other equities securities in companies in a group – subsidiaries		-	-
2. Debt securities issued from group entities, subsidiaries and loans of group entities - subsidiaries		-	-
3. Stocks, shares and other equities in associates		-	-
4. Debt securities issued from associates and loans of associates		-	-
5. Other financial investments in group entities - subsidiaries		-	-
6. Other financial investments in associates		-	-
7. Investments in National Insurance Bureau		12.147	11.503
III. OTHER FINANCIAL INVESTMENTS	**17**	**778.615**	**754.311**
1. Financial assets held to maturity		**176.826**	**156.412**
1.1 Debt securities with maturity less than one year		176.826	156.412
1.2 Debt securities with maturity more than one year		-	-
2. Financial assets available for sale		**33.589**	**26.148**
2.1 Debt securities with maturity less than one year		-	-
2.2 Debt securities with maturity more than one year		14.986	-
2.3 Stocks, shares and other equities		18.603	26.148
2.4 Stocks and shares in investment funds		-	-
3. Financial assets held for trading		**-**	**-**
3.1 Debt securities with maturity less than one year		-	-
3.2 Debt securities with maturity more than one year		-	-
3.3 Stocks, shares and other equities		-	-
3.4 Stocks and shares in investment funds		-	-
4. Deposits loans and other placements		**568.200**	**571.751**
4.1 Deposits		568.200	571.751
4.2 Collateralized loans		-	-
4.3 Other loans		-	-
4.4 Other placements		-	-
5. Derivative financial instruments		-	-

Statement of financial position (Balance sheet) – Non-Life insurance (continued)

	Note	Amounts in MKD thousands	
		2013	**2012**
IV. DEPOSITS IN ASSIGNORS OF REINSURANCE ENTITIES, BASED ON REINSURANCE CONTRACTS		**-**	**-**
C. CO-INSURANCE AND REINSURANCE SHARE IN GROSS TECHNICAL RESERVES		**10.258**	**9.636**
1. Co-insurance and reinsurance share in the gross reserve of unearned premium		9.349	9.357
2. Co-insurance and reinsurance share in the gross mathematical reserve		-	-
3. Co-insurance and reinsurance share in gross claims reserves		909	279
4. Co-insurance and reinsurance share in gross reserves for bonus and discounts		-	-
5. Co-insurance and reinsurance share in gross equalization reserve		-	-
6. Co-insurance and reinsurance share in other technical reserve		-	-
7. Co-insurance and reinsurance share in gross technical reserve for life insurance where the investment is carried by the insured		-	-
D. FINANCIAL INVESTMENT IN WHICH INSURED ASSUMES THE INVESTMENT RISK (INSURANCE CONTRACT)		**-**	**-**
E. DEFERRED AND CURRENT TAX ASSETS		**9.793**	**-**
1. Deferred tax assets		-	-
2. Current tax assets		9.793	-
F. RECEIVABLES		**261.657**	**262.472**
I. RECEIVABLES FROM IMMEDIATE WORK OF INSURANCE	**18**	**195.822**	**186.479**
1. Insurance receivables		195.822	186.479
2. Receivables from brokers			
3. Other receivables from insurance		-	-
II. REINSURANCE AND CO-INSURANCE RECEIVABLES		**3.031**	**21.214**
1. Premium receivables from co-insurance and reinsurance		2.281	664
2. Receivables from claims paid for co-insurance and reinsurance		750	20.550
3. Other receivables for co-insurance and reinsurance			
III. OTHER RECEIVABLES		**62.804**	**54.779**
1. Other receivables from direct insurance operations	19	48.114	36.697
2. Receivables from financial investments	20	13.514	17.038
3. Other receivables	21	1.176	1.044
IV. RECEIVABLES FROM CALLED NOT PAID CAPITAL		**-**	**-**
G. OTHER ASSETS		**87.515**	**52.904**
I. TANGIBLE ASSETS FOR OPERATIONS		**17.627**	**15.791**
1. Equipment	16	16.029	14.193
2. Other tangible assets	16	1.598	1.598
II. CASH AND CASH EQUIVALENTS	**22**	**69.485**	**36.730**
1. Cash at banks		69.462	36.685
2. Cash on hand		23	45
3. Cash to cover mathematical reserve		-	-
4. Other cash and cash equivalents		-	-
III. INVENTORY AND CONSUMABLE STORES		**403**	**383**

Statement of financial position (Balance sheet) – Non-Life insurance (continued)

	Note	Amount in MKD thousand	
		2013	**2012**
H. ACCRUALS AND PREPAID EXPENSES		**61.380**	**14.104**
1. Accrued interest income and rent income		-	-
2. Deferred acquisition costs		28.665	-
3. Other prepaid income and deferred expenses		32.715	14.104
3. NON CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUING OPERATIONS		**-**	**-**
I. TOTAL ASSETS		**2.108.722**	**1.926.623**
J. OFF BALANCE SHEET ITEMS - ASSETS		**22.674**	**17.097**
		-	**-**
LIABILITIES AND EQUITY		-	-
		-	-
A. EQUITY AND RESERVES	**26**	**1.224.027**	**1.038.363**
I. SHARED CAPITAL		**860.796**	**2.145.883**
1. Shared capital from ordinary shares		860.796	1.904.231
2. Shared capital from preference shares			241.652
3. Called but not paid capital		-	-
II. PREMIUM FOR ISSUED SHARES		**-**	**-**
III. REVALORISATION RESERVE		**272.446**	**177.567**
1. Tangible assets		279.936	180.884
2. Financial investments		(7.490)	(3.317)
3. Other revalorisation reserves		-	-
IV. RESERVES		**-**	**-**
1. Legal reserves		-	-
2. Statutory reserves		-	-
3. Reserves for equity shares		-	-
4. Repurchased equity shares		-	-
5. Other reserves		-	-
V. UNDISTRIBUTED NET PROFIT			**14.417**
VI. ACCUMULATED LOSS			**(1.134.485)**
VII. PROFIT FROM THE YEAR		**90.785**	**-**
VIII. LOSS FROM THE YEAR			**(165.020)**
B. SUBORDINATED LIABILITIES		**-**	**-**
C. GROSS TECHNICAL RESERVES	**23**	**538.173**	**552.328**
I. Gross reserves for unearned premium		297.292	289.004
II. Gross mathematical reserve			
III. Gross claims reserve		236.284	261.562
IV. Gross reserve for bonus and discounts		4.597	1.762
V. Gross equalization reserve		-	-
VI. Gross other technical reserves		-	-
D. GROSS TECHNICAL RESERVES FOR CONTRACTS IN WHICH THE INSURED BORNE THE INVESTMENT RISK		**-**	**-**
E. OTHER RESERVES		**-**	**-**
1. Employment benefits		-	-
2. Other reserves		-	-
F. DEFERRED AND CURRENT TAX LIABILITIES		**1.845**	**7.321**
1. Deferred tax liabilities			780
2. Current tax liabilities		1.845	6.541
G. LIABILITIES FROM REINSURANCE ENTITY DEPOSITS IN ASSIGNOR, BASED ON REINSURANCE CONTRACTS		**-**	**-**

Statement of financial position (Balance sheet) – Non-Life insurance (continued)

	Note	Amount in MKD thousands 2013	2012
H. LIABILITIES		**248.743**	**238.641**
I. LIABILITIES FROM DIRECT INSURANCE OPERATIONS		**1.088**	**396**
1. Claims payable		1.088	396
2. Liabilities to agents and dealers		-	-
3. Other liabilities from direct insurance operations		-	-
II. LIABILITIES FROM CO-INSURANCE AND REINSURANCE		**14.496**	**2.018**
1. Reinsurance premium payable		14.496	2.018
2. Liabilities for participation in claims paid		-	-
3. other liabilities from co-insurance and reinsurance		-	-
III. OTHER LIABILITIES	**24**	**233.159**	**236.227**
1. Other liabilities from direct insurance operations		209.209	212.763
2. Liabilities from financial investments		2	2
3. Other liabilities		26.948	23.462
3. ACCRUALS AND PREPAID REVENUES	**25**	**95.933**	**89.970**
S. NON CURRENT LIABILITIES FOR NON CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUING OPERATIONS		**-**	**-**
K. TOTAL LIABILITIES AND EQUITY		**2.108.722**	**1.926.623**
L. OFF BALANCE SHEET ITEMS – LIABILITIES AND EQUITY	**30**	**22.675**	**17.097**

Statement of financial position (Balance sheet) – Life insurance

	Note	Amount in MKD thousand 2013	2012
ASSETS			
A. INTANGIBLE ASSETS		**-**	**-**
1. Goodwill		-	-
2. Other immaterial assets		-	-
B. INVESTMENTS		**64.944**	**98.000**
I. LAND, BUILDINGS AND OTHER TANGIBLE ASSETS		**-**	**-**
1. Land and buildings for operating activities		-	-
1.1 Land		-	-
1.2 Buildings		-	-
2. Land and buildings not for operating activities		-	-
2.1 Land		-	-
2.2 Buildings		-	-
2.3 Other tangible assets		-	-
II. FINANCIAL INVESTMENTS IN GROUP ENTITIES, SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES		**-**	**-**
1. Stocks, shares and other equities securities in companies in a group – subsidiaries		-	-
2. Debt securities issued from group entities, subsidiaries and loans of group entities - subsidiaries		-	-
3. Stocks, shares and other equities in associates		-	-
4. Debt securities issued from associates and loans of associates		-	-
5. Other financial investments in group entities - subsidiaries		-	-
6. Other financial investments in associates		-	-
7. Investments in National Insurance Bureau		-	-
III. OTHER FINANCIAL INVESTMENTS		**64.944**	**98.000**
1. Financial assets held to maturity		**-**	**-**
1.1 Debt securities with maturity less than one year		-	-
1.2 Debt securities with maturity more than one year		-	-
2. Financial assets available for sale		**19.944**	**-**
2.1 Debt securities with maturity less than one year		-	-
2.2 Debt securities with maturity more than one year		19.944	-
2.3 Stocks, shares and other equities		-	-
2.4 Stocks and shares in investment funds		-	-
3. Financial assets held for trading		**-**	**-**
3.1 Debt securities with maturity less than one year		-	-
3.2 Debt securities with maturity more than one year		-	-
3.3 Stocks, shares and other equities		-	-
3.4 Stocks and shares in investment funds		-	-
4. Deposits loans and other placements		**45.000**	**98.000**
4.1 Deposits		45.000	98.000
4.2 Collateralized loans		-	-
4.3 Other loans		-	-
4.4 Other placements		-	-
5. Derivative financial instruments		-	-

Statement of financial position (Balance sheet) – Life insurance (continued)

	Note	Amount in MKD thousand 2013	2012
IV. DEPOSITS IN ASSIGNORS OF REINSURANCE ENTITIES, BASED ON REINSURANCE CONTRACTS		**-**	**-**
C. CO-INSURANCE AND REINSURANCE SHARE IN GROSS TECHNICAL RESERVES		**-**	**-**
1. Co-insurance and reinsurance share in the gross reserve of unearned premium		-	-
2. Co-insurance and reinsurance share in the gross mathematical reserve		-	-
3. Co-insurance and reinsurance share in gross claims reserves		-	-
4. Co-insurance and reinsurance share in gross reserves for bonus and discounts		-	-
5. Co-insurance and reinsurance share in gross equalization reserve		-	-
6. Co-insurance and reinsurance share in other technical reserve		-	-
7. Co-insurance and reinsurance share in gross technical reserve for life insurance where the investment is carried by the insured		-	-
D. FINANCIAL INVESTMENT IN WHICH INSURED ASSUMES THE INVESTMENT RISK (INSURANCE CONTRACT)		**-**	**-**
E. DEFERRED AND CURRENT TAX ASSETS		**5.584**	**-**
1. Deferred tax assets			
2. Current tax assets		5.584	
F. RECEIVABLES		**1.520**	**4.701**
I. RECEIVABLES FROM IMMEDIATE WORK OF INSURANCE		**-**	**-**
1. Insurance receivables		-	-
2. Receivables from brokers		-	-
3. Other receivables from insurance		-	-
II. REINSURANCE AND CO-INSURANCE RECEIVABLES		**-**	**-**
1. Premium receivables from co-insurance and reinsurance		-	-
2. Receivables from claims paid for co-insurance and reinsurance		-	-
3. Other receivables for co-insurance and reinsurance		-	-
III. OTHER RECEIVABLES	**28**	**1.520**	**4.701**
1. Other receivables from direct insurance operations			4.566
2. Receivables from financial investments		1.520	-
3. Other receivables			135
IV. RECEIVABLES FROM CALLED NOT PAID CAPITAL		**-**	**-**
E. OTHER ASSETS		**384**	**1.536**
I. TANGIBLE ASSETS FOR OPERATIONS		**-**	**-**
1. Equipment		-	-
2. Other tangible assets		-	-
II. CASH AND CASH EQUIVALENTS		**384**	**1.536**
1. Cash at banks		-	-
2. Cash on hand		-	-
3. Cash to cover mathematical reserve		384	1.536
4. Other cash and cash equivalents		-	-
III. INVENTORY AND CONSUMABLE STORES		-	-

Statement of financial position (Balance sheet) – Life (continued)

	Note	Amount in MKD thousand	
		2013	**2012**
H. LIABILITIES		**130**	**243**
I. LIABILITIES FROM DIRECT INSURANCE OPERATIONS		130	243
1. Claims payable		-	-
2. Liabilities to agents and dealers		-	-
3. Other liabilities from direct insurance operations		**-**	**-**
II. LIABILITIES FROM CO-INSURANCE AND REINSURANCE		**72.561**	**104.480**
1. Reinsurance premium payable		**-**	**-**
		-	**-**

Statement of financial position (Balance sheet) – Life (continued)

	Note	Amount in MKD thousand 2013	2012
LIABILITIES AND EQUITY			
A. LIABILITIES AND EQUITY		**24.014**	**27.512**
I. SHARED CAPITAL		**27.512**	**115.018**
1. Shared capital from ordinary shares		27.512	102.059
2. Shared capital from preference shares			12.959
3. Called but not paid capital		-	-
II. PREMIUM FOR ISSUED SHARES		**-**	**-**
III. REVALORISATION RESERVE		**-**	**-**
1. Tangible assets		-	-
2. Financial investments		-	-
3. Other revalorisation reserves		-	-
IV. RESERVES			**44.396**
1. Legal reserves			44.396
2. Statutory reserves		-	-
3. Reserves for equity shares		-	-
4. Repurchased equity shares		-	-
5 Other reserves		-	-
V. UNDISTRIBUTED NET PROFIT		**-**	**-**
VI. ACCUMULATED LOSS			**(59.712)**
VII. PROFIT FROM THE YEAR		**-**	**-**
VIII. LOSS FROM THE YEAR		**(3.497)**	**(72.190)**
B. SUBORDINATED LIABILITIES		**-**	**-**
C. GROSS TECHNICAL RESERVES		**46.203**	**70.086**
I. Gross reserves for unearned premium		1	11
II. Gross mathematical reserve		43.901	68.377
III. Gross claims reserve		2.301	1.698
IV. Gross reserve for bonus and discounts		-	-
V. Gross equalization reserve		-	-
VI. Gross other technical reserves		-	-
D. GROSS TECHNICAL RESERVES FOR CONTRACTS IN WHICH THE INSURED BORNE THE INVESTMENT RISK		**-**	**-**
E. OTHER RESERVES		**-**	**-**
1. Employment benefits		-	-
2. Other reserves		-	-
F. DEFERRED AND CURRENT TAX LIABILITIES		**550**	**6.514**
1. Deferred tax liabilities		-	-
2. Current tax liabilities		550	6.514
G. LIABILITIES FROM REINSURANCE ENTITY DEPOSITS IN ASSIGNOR, BASED ON REINSURANCE CONTRACTS		**-**	**-**
H. LIABILITIES		**620**	**368**
I. LIABILITIES FROM DIRECT INSURANCE OPERATIONS		**-**	**-**
1. Claims payable		-	-
2. Liabilities to agents and dealers		-	-
3. Other liabilities from direct insurance operations		-	-
II. LIABILITIES FROM CO-INSURANCE AND REINSURANCE			
1. Reinsurance premium payable		-	-
2. Liabilities for participation in claims paid		-	-
3. Other liabilities from co-insurance and reinsurance		-	-
III. OTHER LIABILITIES		**620**	**368**
1. Other liabilities from direct insurance operations		620	368
2. Liabilities from financial investments		-	-
3. Liabilities from financial investments		-	-
I. ACCRUALS AND PREPAID REVENUES		**1.174**	**-**
J. NON CURRENT LIABILITIES FOR NON CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUING OPERATIONS		**-**	**-**
K. TOTAL LIABILITIES AND EQUITY		**72.561**	**104.480**
L. OFF BALANCE SHEET ITEMS – LIABILITIES AND EQUITY		**-**	**-**

Statement of changes in equity – Non-Life insurance

	Note	Share capital	Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Reserves for treasury shares	Reserves: Other reserves	Reserves: Total reserves	Treasury shares	Revaluation reserves	Accumulated loss	Profit for the year	Total capital and reserves
Balance as at 1 January 2012		**1.031.840**	**-**	**4.856**	**-**	**-**	**-**	**-**	**-**	**195.301**	**40.415**	**(65.711)**	**1.206.700**
Change in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
Prior period correction		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 1 January 2012 corrected		**1.031.840**	**-**	**4.856**	**-**	**-**	**-**	**-**	**-**	**195.301**	**40.415**	**(65.711)**	**1.206.700**
Profit or loss for 2012		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(165.020)**	**(165.020)**
Profit or loss for 2012		-	-	-	-	-	-	-	-	-	-	(165.020)	(165.020)
Transfer from revalorisation reserve to accumulated gain		-	-	-	-	-	-	-	-	(14.417)	14.417	-	-
Transfer of legal reserves to accumulated loss		-	-	(4.856)	-	-	-	-	-	-	-	4.856	-
Non ownership changes in equity		-	-	-	-	-	-	-	-	-	(40.415)	40.415	-
Un-realized gains/losses from tangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from Available for sale financial assets		-	-	-	-	-	-	-	-	(3.317)	-	-	(3.317)
Realized gains/losses from Available for sale financial assets		-	-	-	-	-	-	-	-	-	-	-	-
Other non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Shareholders changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Increase/Decrease of share capital		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other payment by shareholders		1.114.043	-	-	-	-	-	-	-	-	(1.114.043)	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2012	**26**	**2.145.883**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**177.567**	**(1.099.626)**	**(185.460)**	**1.038.363**

Statement of changes in equity – Non-Life insurance (continued)

	Note	Share capital	Share premium	Reserves					Treasury shares	Revalorisation reserve	Accumulated loss	Profit for the year	Total capital and reserves
				Legal reserves	Statutory reserves	Reserves for treasury shares	Other reserves	Total reserves					
Balance as at 1 January 2013		**2.145.883**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**177.567**	**(1.099.626)**	**(185.460)**	**1.038.363**
Change in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
Prior period correction		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 1 January 2013 corrected		**2.145.883**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**177.567**	**(1.099.626)**	**(185.460)**	**1.038.363**
Profit or loss for 2013		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**90785**	**185664**
Profit or loss for 2013		-	-	-	-	-	-	-	-	-	-	90.785	90.785
Transfer from revalorisation reserve to accumulated gain		-	-	-	-	-	-	-	-	-	-	-	-
Transfer of legal reserves to accumulated loss		-	-	-	-	-	-	-	-	-	-	-	-
Transfer from accumulated profit to loss cover		-	-	-	-	-	-	-	-	-	-	-	-
Non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from tangible assets		-	-	-	-	-	-	-	-	99.052	-	-	99052
Un-realized gains/losses from Available for sale financial assets		-	-	-	-	-	-	-	-	(4.173)	-	-	(4.173)
Realized gains/losses from Available for sale financial assets		-	-	-	-	-	-	-	-	-	-	-	-
Other non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Shareholders changes in equity		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase/Decrease of share capital		(1.285.087)	-	-	-	-	-	-	-	-	1.099.626	185.461	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2013	**26**	**860.796**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**272,446**	**-**	**90.785**	**1.224.027**

Statement of changes in equity – Life insurance

	Note	Share capital	Share premium	Reserves					Treasury shares	Revaluation reserves	Accumulated loss	Profit for the year	Total capital and reserves
				Legal reserves	Statutory reserves	Reserves for treasury shares	Other reserves	Total reserves					
Balance as at 1 January 2012		**55.306**	**-**	**45.975**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1.579)**	**99.702**
Change in accounting policies		-											
Prior period correction													
Balance as at 1 January 2012 corrected		**55.306**	**-**	**45.975**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1.579)**	**99.702**
Profit or loss for 2012		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(72.190)**	**(72.190)**
Profit or loss for 2012		-	-	-	-	-	-	-	-	-	-	-	-
Transfer from profit to safety reserves		-	-	(1.579)	-	-	-	-	-	-	-	1.579	-
Non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from tangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from available for sale financial assets		-	-	-	-	-	-	-	-	-	-	-	-
Realized gains/losses from available for sale financial assets		-	-	-	-	-	-	-	-	-	-	-	-
Other non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Shareholders changes in equity		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase/Decrease of share capital		59.712	-	-	-	-	-	-	-	-	(59.712)	-	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2012													
Balance as at 1 January 2012	**26**	**115.018**	**-**	**44.396**	**-**	**-**	**-**	**-**	**-**	**-**	**(59..712)**	**(72.190)**	**27.512**

Statement of changes in equity – Life insurance (continued)

	Note	Share capital	Share premium	Reserves					Treasury shares	Revaluation reserves	Accumulated loss	Profit for the year	Total capital and reserves
				Legal reserves	Statutory reserves	Reserves for treasury shares	Other reserves	Total reserves					
Balance as at 1 January 2013		**115.018**	**-**	**44.396**	**-**	**-**	**-**	**-**	**-**	**-**	**(59..712)**	**(72.190)**	**27.512**
Change in accounting policies		-											
Prior period correction													
Balance as at 1 January 2013 corrected		**115.018**	**-**	**44.396**	**-**	**-**	**-**	**-**	**-**	**-**	**(59..712)**	**(72.190)**	**27.512**
Profit or loss for 2013		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41.355**	**-**
Profit or loss for 2013		-	-	-	-	-	-	-	-	-	-	(3.497)	(3.497)
Transfer of legal reserve to accumulated gain		-	-	(44.396)	-	-	-	-	-	-	44.396	-	-
Transfer of legal reserve to accumulated loss		-	-	-	-	-	-	-	-	-	-	-	-
Non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from tangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from Available for sale financial assets		-	-	-	-	-	-	-	-	-	-	-	-
Realized gains/losses from Available for sale financial assets		-	-	-	-	-	-	-	-	-	-	-	-
Other non ownership changes in equity		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shareholders changes in equity		(87.506)	-	-	-	-	-	-	-	-	15.316	72.190	-
Increase/Decrease of share capital		-	-	-	-	-	-	-	-	-	-	-	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders	**26**	**27.512**	**-**	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(3.497)	**24.015**

Share capital represents the nominal capital of the Company created by the issue of shares to shareholders. It may be used to cover losses after exhausting the Reserve.

The Company's Reserves represent additional capital increased by appropriation of net income. The Reserve is used to cover losses and is not distributable to shareholders except at Company liquidation.

During 2012 Company reconciled difference between nominal value of shares and its book value. Difference originates from 1998 when privatization process was processed in accordance with Law for supervision on insurance companies (Official Gazette of RM No. 49/97) and Law for transformation on State capital (Official Gazette of RM No. 38/98). Transformation process in accordance with above stipulated legislative was processed on the bases of Company valuation using discounted cash flows methodology.
Transformation process is in accordance with all current effective legislation which is supported with all necessary Decisions and Confirmations from Government of RM, Ministry of Finance, Agency for transformation on state owned companies and respective courts. Estimated value on company was 71.729.594 DEM i.e. 2.223.617.000 MKD. This value in accordance with Law for transformation on State capital was determined as capital amount of Company and in accordance with it 717.296 shares were issued. Share holder capital in accounting books was 1.046.332.690 MKD i.e. estimated value of Company was not presented in accounting evidence.
It is fact that in process of transformation on capital and during Company's current operations, difference between capital amount written in Company's statute and Register of Companies and share holders capital in the accounting books was not obstacle for Company's solvency and liquidity as well as for Company's daily activities. In order to prevent future unpredicted circumstances and to protect Company and Share holders' interests from risk management aspect reconciliation between Share capital in Register of Companies and Share Capital in accounting books was processed by accepting value of Capital in Register of Companies. Reconciliation was done by increase of Share Capital in total amount of 1.173.755 thousand MKD and negative value of retained unallocated profit, non life 1.114.043 thousand and non life 59.712 thousand MKD, that did not affect movement in total capital and total assets and liability in the Company's books. This reconciliation was approved and reviewed for its objectivity by Company's authorized auditor. Issued report for capital change was approved by Share holders Assembly.

Reconciliation of the capital, non-distributed profit posted as negative amount, reported loss during 2012 and carried forward losses from previous years during 2013 have required necessity of covering overall amount of loss. On Shareholders assembly which was held on 30.04.2013 decision was made to cover the loss according to article 449 from trade law i.e. simplified capital reduction. According to the decision - decrease of the nominal amount of ordinary shares issued by the Company was performed, the number of shares outstanding remains unchanged, i.e. 717,462 ordinary shares.
After the decrease of the nominal value by share, the price of one share was determined on 20.084 Euros. The company's equity after decrease of the value of the share was determine in whole amount of 14,409,474,26 Euros (717462 shares * 20,084 Euros) according to the average exchange rate of the National Bank of RM on 30.04.2013 (1euro = 61.6475 denars). Application for registration of the reduced amount of company's equity in the Central Registry was approved on 26.08.2013.

Cash flow statement – Non-Life insurance

	Note	Amounts in MKD thousands	
		2013	2012
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. CASH INFLOWS FROM OPERATING ACTIVITIES		**789.957**	**818.628**
1. Re-insurance and co-insurance premium and prepayments received		665.122	679.743
2. Re-insurance premium and retrocession		3.002	3.199
3. Inflows from share in paid claims		866	424
4. Interest received from insurance operations		24.976	28.132
5. Other inflows from operating activities		95.991	107.130
II. CASH OUTFLOWS FROM OPERATING ACTIVITIES		**684.774**	**814.851**
1. Claims paid, contractual insurance amounts, share in paid claims from co-insurance and prepayments		266.867	316.003
2. Claims paid and share in share in claims paid from reinsurance and retrocession		-	-
3. Co-insurance, reinsurance and retrocession premiums		47.341	123.094
4. Other personal expenses		167.312	187.728
5. Other insurance expenses		72.442	61.554
6. Interest paid		-	-
7. Income tax and other tax payables		28.172	13.196
8. Other outflows from operating activities		102.640	113.276
III. NET CASH INFLOWS FROM OPERATING ACTIVITIES		**105.181**	**3.777**
IV. NET CASH OUTFLOWS FROM OPERATING ACTIVITIES		**-**	**-**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**-**
I. CASH INFLOWS FROM INVESTING ACTIVITIES		**73.467**	**72.096**
1. Inflows from intangible assets		3.658	5.292
2. Inflows from material assets		17.303	5.003
3. Inflows from material assets not used for main activities (Investment property)		44.884	43.491
4. Inflows from investments in associates, subsidiaries and joint ventures		-	-
5. Inflows from Investments in available for sale assets (AFS)			9.772
6. Inflows from other financial investments		5.847	5.654
7. Dividends received and other share in profit		998	1.898
8. Interest received		777	986

Cash flow statement – Non-Life insurance (continued)

	Note	Amounts in MKD thousands	
		2013	**2012**
II. CASH OUTFLOWS FROM INVESTING ACTIVITIES		**145.516**	**110.524**
1. Outflow from intangible assets		3.153	4.577
2. Outflow from material assets		107.558	105.947
3. Outflows from material assets not used for main activities (Investment property)		-	-
4. Outflows from investments in associates, subsidiaries and joint ventures		-	-
5. Outflows from Investments in available for sale assets (AFS)		34.805	
6. Outflows from other financial investments		-	-
7. Dividends paid and other share in profit		-	-
8. Interest paid		-	-
III. NET CASH INFLOWS FROM INVESTING ACTIVITIES		**-**	**-**
IV. NET CASH OUTFLOWS FROM INVESTING ACTIVITIES		**72.048**	**38.428**
C. CASH FLOWS FROM FINANCING ACTIVITIES		**-**	**-**
I. CASH INFLOWS FROM FINANCING ACTIVITIES		**2.729**	**8.491**
1. Inflows from increase in share capital		-	-
2. Inflows from received long term and short term borrowed funds		-	-
3. Inflows from other long term and short term liabilities		2.729	8.491
II. CASH OUTFLOWS FROM FINANCING ACTIVITIES		**3.107**	**19.256**
1. Outflows from repayment of short term and long term borrowed funds and other liabilities		3.107	19.256
2. Outflows from repurchase of own shares		-	-
3. Dividends paid		-	-
III. NET CASH INFLOWS FORM FINANCING ACTIVITIES		**-**	**-**
IV. NET CASH OUTFLOWS FROM FINANCING ACTIVITIES		**3.107**	**10.765**
D. TOTAL CASH INFLOWS		**866.153**	**899.215**
E. TOTAL CASH OUTFLOWS		**833.397**	**944.631**
F. NET CASH INFLOWS		**32.756**	**-**
G. NET CASH OUTFLOWS			**45.416**
H. CASH AND CASH EQUIVALENTS AT 1 JANUARY		**36.729**	**82.145**
I. EFFECT ON CASH AND CASH EQUIVALENTS FROM CHANGES IN FOREIGN EXCHANGE RATES		**-**	**-**
J. CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**22**	**69.485**	**36.729**

Cash flow statement – Life Insurance

	Note	Amounts in MKD thousands	
		2013	2012
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. CASH INFLOWS FROM OPERATING ACTIVITIES		**7.492**	**12.778**
1. Re-insurance and co-insurance premium and prepayments received		4.809	8.125
2. Re-insurance premium and retrocession		-	-
3. Inflows from share in paid claims		-	-
4. Interest received from insurance operations		2.585	4.422
5. Other inflows from operating activities		98	231
II. CASH OUTFLOWS FROM OPERATING ACTIVITIES		**41.643**	**37.294**
1. Claims paid, contractual insurance amounts, share in paid claims from co-insurance and prepayments		28.985	37.228
2. Claims paid and share in share in claims paid from reinsurance and retrocession		-	-
3. Co-insurance, reinsurance and retrocession premiums		-	-
4. Other personal expenses		-	-
5. Other insurance expenses		103	66
6. Interest paid		-	-
7. Income tax and other tax payables		12.555	-
8. Other outflows from operating activities		-	-
III. NET CASH INFLOWS FROM OPERATING ACTIVITIES		**-**	**-**
IV. NET CASH OUTFLOWS FROM OPERATING ACTIVITIES		**34.151**	**24.515**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**-**
I. CASH INFLOWS FROM INVESTING ACTIVITIES		**33.000**	**22.364**
1. Inflows from intangible assets		-	-
2. Inflows from material assets		-	-
3. Inflows from material assets not used for main activities (Investment property)		-	-
4. Inflows from investments in associates, subsidiaries and joint ventures		-	-
5. Inflows from Investments in available for sale assets (AFS)		33.000	21.000
6. Inflows from other financial investments		-	1.364
7. Dividends received and other share in profit		-	-
8. Interest received		-	-

Cash flow statement – Life Insurance (continued)

	Note	Amounts in MKD thousands 2013	2012
II. CASH OUTFLOWS FROM INVESTING ACTIVITIES		**-**	**-**
1. Outflow from intangible assets		-	-
2. Outflow from material assets		-	-
3. Outflows from material assets not used for main activities (Investment property)		-	-
4. Outflows from investments in associates, subsidiaries and joint ventures		-	-
5. Outflows from Investments in available for sale assets (AFS)		-	-
6. Outflows from other financial investments		-	-
7. Dividends paid and other share in profit		-	-
8. Interest paid		-	-
III. NET CASH INFLOWS FROM INVESTING ACTIVITIES		**33.000**	**22.364**
IV. NET CASH OUTFLOWS FROM INVESTING ACTIVITIES		**-**	**-**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
I. CASH INFLOWS FROM FINANCING ACTIVITIES		**-**	**-**
1. Inflows from increase in share capital		-	-
2. Inflows from received long term and short term borrowed funds		-	-
3. Inflows from other long term and short term liabilities		-	-
II. CASH OUTFLOWS FROM FINANCING ACTIVITIES		**-**	**-**
1. Outflows from repayment of short term and long term borrowed funds and other liabilities		-	-
2. Outflows from repurchase of own shares		-	-
3. Dividends paid		-	-
III. NET CASH INFLOWS FORM FINANCING ACTIVITIES		**-**	**-**
IV. NET CASH OUTFLOWS FROM FINANCING ACTIVITIES		**-**	**-**
D. TOTAL CASH INFLOWS		**40.492**	**35.142**
E. TOTAL CASH OUTFLOWS		**41.643**	**37.294**
F. NET CASH INFLOWS		**-**	**-**
G. NET CASH OUTFLOWS		**1.151**	**2.152**
H. CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1.535**	**3.687**
I. EFFECT ON CASH AND CASH EQUIVALENTS FROM CHANGES IN FOREIGN EXCHANGE RATES		**-**	**-**
J. CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**384**	**1.536**
II. CASH OUTFLOWS FROM INVESTING ACTIVITIES		**-**	**-**

Financial statements shown on page 3 to 97 are approved by the Menagment board on 17 February 2014and are signed on their behalf from:

Mr. Bosko Andov

General Manger

1. General Information

Insurance MAKEDONIJA S.C. Skopje- Vienna Insurance Group (the Company) is Joint Stock Company incorporated in the Republic of Macedonia. Operating activities of the Company include: Life insurance, Personal Accident Insurance, Medical Insurance, Travel Insurance, Motor Vehicles Insurance, Household Insurance, Property Insurance, Agriculture Insurance, Insurance of goods in transit Marine and Aircraft Casco Insurance and Credit Insurance.
Pursuant to the new regulation and the Company's statute in September 2004 the Management Board of the Company made a decision by which the Company shall not write Life Insurance business any more.
The Company continues servicing the existing Life Insurance Contracts.

Qualified Shareholder participation in Insurance MAKEDONIJA sac. Skopje- Vienna Insurance Group is Austrian Insurance Company Vienna Insurance Group Wiener Versicherung Gruppe (VIG).

VIG have announced on 01.03.2013 in Official Gazette of RM No. 33 takeover bid for all shares issued by the Company. After the expiration of the period provided in the bid by the Commission for Securities (on assembly held on 29.03.2013) made a decision that the takeover bid is determined to be successful (VIG bought 92.9% of shares with voting rights in the Company). In accordance with the Law on Takeover of Joint Stock Companies and the Law on Securities, after payment for shares sold, subsequently entry of VIG as a new shareholder in the Company shareholders book was performed - which is kept in the Central Depository for Securities.

Regarding the procedure for taking the Company, the Board of directors has taken any binding action.

The Company has operations in one Head office and 14 representative offices within the country. As of 31 December 2013 the Company employed 130 administrative staff and 64 sales agents.

According to the provisions of the Companies Law, Law on Insurance Supervision and bylaws adopted by the Agency for Insurance Supervision, through amendments to the Statute of the Company, the Company made a change in the management system. Specifically one tier system of management was transformed to two-tier management system. Prior mean a lifting of the Board of Directors and the establishment of two new bodies Board and Supervisory Board.

The address of its registered office is as follows:

Blvd.11 Oktomvri no. 25
1000 – Skopje
Republic of Macedonia

2. Basis of preparations

(a) Statement of compliance

The financial statements have been prepared in accordance with accepted accounting standards in the Republic of Macedonia published in " Rules for accounting " in the Official Gazette No. 159/2009 and 164/2010 and " Rules on the method for valuation of the items of the balance sheet and preparation of business accounts " published in Official Gazette No. 169/2010 and 141/2013 , and are presented in accordance with the" Regulation on the form and content of financial statements and detailed content of the annual report of the insurance and / or reinsurance " published in the Official Journal No. 5 /2011 41/2011 and 64/2011

The Company applies all relevant standards and the amendments and interpretations which were published in the Official Gazette.

2. Basis of preparations (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and reporting 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.

(d) Use of estimates and judgement

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The preparation of financial statement requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.
Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimate is changes, if the change affects only that year, or in the year of the change and future years, if the change affects both current and future periods.

Judgment made by Management in the application of accounting policies that have significant effect on the financial statement and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates valid at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency using the exchange rate at that date.
The foreign currency gain or loss on monetary items is the difference between amortised cost in denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.
Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated into Macedonian denars at the exchange rate at the date that the fair value was determined.
Foreign currency differences arising on retranslation are recognised in profit or loss for the differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translates by using the exchange rate at the date of the transaction.

2. Basis for preparation of financial statements (continued)

(e) Foreign currency transactions (continued)

The foreign currency the Company deals with is predominantly Euro (EUR) based. The exchange rates used for translation as at 31 December 2013 and 2012 were as follows:

	2013 MKD	2012 MKD
USD	44,63	46,65
EUR	61,51	61,50
AUD	39,63	48,46
GBP	73,54	75,28

3. Significant accounting policies

Significant accounting policies used for preparation of the financial statements for the year ended 31 December 2013, are used consistently for all periods and are presented below:

3.1 Contracts for insurance and reinsurance

(i) Insurance

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts.

In the Financial statements, information is presented that identifies and explains the amounts that arise out of the contracts for insurance.

On the reporting date it will be assessed whether the recognised insurance liabilities are adequate.

On the date of acquisition of the insurance assets and liabilities the Company will measure them at fair value.

In the Financial statements information is disclosed which will enable:

- To assess the nature and extent of risk arising from insurance contracts, goals, policies and processes for risk management arising from insurance contracts and methods used for management of those risks, like credit risk, liquidity and market risk.

The Insurer presents information through sensitivity analysis which shows the impact on the profit/loss and equity if there is a significant risk change.

(ii) Reinsurance

Reinsurance contract is a contract for insurance issued by one Insurer (Reinsurer) to offset the losses of another Insurer (Cadent) occurred on a basis of a one or more contracts issued by the cadent.

Reinsurer is a party with an obligation according to the reinsurance contract to compensate the cadent if an insured event takes place.

3. Significant accounting polices (continued)

Reinsurance premiums are recognised as an expense in the income statement on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. The returns based on reinsurance are recognised as an income in the profit and loss statement. If the value of the reinsurance asset is decreased due to impairment the reinsurer will decrease its value and it will recognise loss due to impairment in the profit and loss statement. An asset is deemed impaired if there is objective evidence, that the Company may not recover all amounts under the contract for reinsurance.

Because the Company carries out international transactions related to reinsurance it is exposed to market risk arising from fluctuations in exchange rates. The Company does not use financial instruments to reduce these risks.

3.1.1 Recognition and measurements

Premiums

Gross premiums written reflect businesses written during the year, and exclude any taxes or duties based on premiums.
The earned proportion of premiums is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of the risks underwritten. The share from written premium which matures in the year that follows is allocated in the following accounting periods as outward premium.

In short-term insurance contracts with a single payment, the gross written premium is recognised at the moment of payment, and it is reduced for the amount of unexpected risk in the contract.

Outward reinsurance premiums are recognised 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 outward reinsurance premium is treated as expense and it reduced the premium income.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following financial year, computed separately for each insurance contract using the daily pro rate method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

3. Significant accounting policies (continued)

Claims

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions, but do not includes the expenses for appraisal of claims made by employed appraisers within the Company.

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

Collected claims recoverable from third parties and claims recoverable from third parties that are anticipated to be collected are deducted from claims settled.

Claims outstanding comprise provision for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal handling expenses and appropriate prudential margin.

Liability adequacy test

Liability adequacy tests are performed to determine if the insurance contract provisions, less deferred acquisition costs and any related intangible assets, such as those acquired in a business combination or portfolio transfer are adequate. If a shortfall is identified the related deferred acquisition cost and related intangible assets are written off and if necessary, an additional provision (reserve) is established. The deficiency is recognised in profit or loss for the year.

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. For the purposes of this analysis the amount of claims incurred in each year under insurance contracts valid at the balance sheet date is compared to the amount of unearned premium reserve at the balance sheet date.

Insurance receivables and payables

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

3. Significant accounting policies (continued)

3.2 Revenue

Revenues are measured at fair value of the consideration received or are required. Revenue is recognised if assets are increased or liabilities are decreased.

Revenue is recognised only when it is probable that economic benefits from a transaction will represent an inflow for the Company. When there is uncertainty referred to the chargeability of an amount already included in revenue, the unchangeable amount or amount for which the compensation is unlikely is recognised as an expense, and not as an adjustment to the amount already recognised as inflow.

3.2.1 Un derwriting result

The underwriting result of the non-life insurance has been determined on an annual basis.

Premiums written are stated as income for the year when matured.

The share of the income from the premiums that matures in the year that follows is deferred in the forthcoming periods as unearned premium reserve.

If at the time of occurrence of the event it is assessed that collection is not probable, revenue is deferred. Provisioning of receivables is performed for the realisation from the previous accounting periods and for the current accounting period and expenses are increased.

3.2.2 Investment income

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within ‘interest income’ and ‘interest expense’ in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

3.2.3 Fee and commission income

Fees and commission income includes fees received on the basis of passive reinsurance as well as on the basis of assessed and paid out claims.

3. Significant accounting policies (continued)

3.3 Expenses

In recognition of expenses the Company applies the following principles:

- Expenses can result in reduction of assets or increase of liabilities and it can be measured with certainty;
- Expenses have a direct connection with the incurred costs and special items of revenue;
- When the expected realisation of revenue is in the following accounting periods, then the recognition of expenses is performed with a procedure of reasonable allocation in accounting periods;
- The expense is recognised in the accounting period when no future economic benefits from it are expected, and there are no conditions for it to be recognised as an item in the balance sheet;
- The expense is recognised in the accounting period when the liability for it occurred, and there are no conditions to be recognised as an item in the balance sheet.

All costs and expenses that refer to the accounting period must be included in the financial statements.

The company must disclose the information to identify and explain the amounts in the financial statements arising from insurance contracts in the area of harmonization of changes in insurance liabilities related to defer acquisition costs.

The company needs to determine the value of insurance liabilities in respect of the acquisition costs. It should correct for deferred acquisition costs. The calculation for determining the deferred acquisition costs will be performed by the accounting department in accordance with actuaries.
Movement in deferred acquisition costs will be recognized through the income statement.

3.4 Employee benefits

Employee benefits are all forms of compensation provided by the Company in exchange of services rendered by employees as short term benefits, termination benefits.
Contributions based on salaries, are made to the pension and health funds, contributions for employment and personal tax.
The Company does not operate with pension schemes and has no liability in respect of pensions.
The company is not obliged to provide further benefits for current and former employees.
The Company also performs payment of allowances for employees in accordance with the local regulations.

3. Significant accounting policies (continued)

3.5 Taxation

The Company do not have to pay income tax on their profit before tax (earned since 1 January 2009) until that profit is distributed in a form of dividend or other forms of profit distributions. Dividends distributed by Companies to resident legal entities are exempt from corporate income tax at the level of the distributing entity. Dividends distributed to individuals and foreign legal entities are not exempt from corporate income tax and are subject to 10% at the level of the distributing entity and the corporate income tax liability arises at the time of the dividend payment.

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

3.6 Intangible assets

a) *Classification*

Intangible assets include patents and licences, brands, royalties, expenses for research and development, computer software, marketing rights and goodwill.

b) *Initial recognition*

Intangible assets are recognized only if it is probable that future economic benefits, attributable to the asset will flow to the company and if the cost of the asset can be measured reliably. If an intangible asset does not meet the criteria for recognition, the expense incurred should be recognized as an expense when incurred.

Research expenses cannot be recognised as an asset.

Costs incurred in acquiring a license for software as well as other long-term rights are amortized by straight-line method over the expected or contractual life, but not longer than 5 years.

Cost that significantly improves and extends the benefits of the software in terms of their original value is recognized as an additional investment and increase the initial cost of the software. Smaller improvements are regarded as costs of maintenance and are considered expenses in the current period

The basis for recognition of intangible assets includes: 1) manner of acquisition, 2) the expected period of economic benefit and 3) ability to sell. Intangible asset are initially measured by cost. The cost includes all costs of purchase and any other intangible asset costs necessary to put into operation.

c) *Measurement after initial recognition*

After initial recognition the asset is measured by cost less accumulated amortization and impairment loss.

3. Significant accounting policies (continued)

3.6 Intangible assets (continued)

d) Useful life

Intangible assets are amortized according to their expected useful life, but no longer than 5 years.

Intangible assets are written off at the moment of sale or when they are no longer in use, and no economic benefits are expected.

Gains or losses resulting from the withdrawal from use of the assets is determined as the difference between the estimated net gain/loss from sale of the asset and its carrying amount and is recognised as income or expense for the period in which it incurred.

3.7 Property, plant and equipment

a) Classification

Land

Land and buildings are stated at historical cost. After initial recognition the Company does not perform valuation of the land and land is not depreciated.

Tangible assets are consisted out of property, plant and equipment, furniture, vehicles, construction in progress and other tangible assets.

Tangible assets are assets that:

- Are kept for providing products and services, for rental to others or for administrative purposes
- Is expected to be used for more than one period.

b) Initial recognition and useful life

Tangible assets are recognized at purchase cost, if it is probable that the future economic benefits from use of the assets will flow to the company and if it can be reliably measured. The purchase value of the asset, which is depreciated during the useful life of the asset, is the amount of paid cash or cash equivalents, to acquire the tangible asset at the time of its acquisition or construction. Cost of the assets includes the purchase price, including import duties and non-refundable taxes, and all expenses that can be directly attributed to bringing the asset in condition to be use. All trade discounts and rebates are deducted to arrive at the purchase price.
Maintaining expenses of the assets are not recognised in the carrying amount of the asset, but as an expense in the income statement.
Useful life is the period over which is expected that the Company will use the asset.

3. Significant accounting policies (continued)

3.7. Property, plant and equipment (continued)

The useful life is determined as follows:

- Buildings	40 years
- Furniture and equipment	5-20 years
- Computers	4 years
- Vehicles	4 years

c) Measurement subsequent to initial recognition

For measurement after initial recognition the revaluation model is applied (fair value model), in accordance with IAS 16.
After the initial recognition, property whose value can be reliably determined, are measured at revalue amount which is the fair value at revaluation date, less subsequent accumulated depreciation and subsequent accumulated impairment losses.
Revaluation is carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

When the property is revaluated accumulated depreciation at the date of revaluation is proportional to the transformed gross carrying amount of the asset

The fair value of assets is determined by an evaluation by a qualified, certified appraiser. In some cases the assessment may be conducted by a committee which will be assigned by Management of the Company.

Properties up to 2004 were re valued at the end of the year by using the coefficients of price increase for industrial products of their cost or revaluated amount, and their impairment, so that an approximate amount would be calculated for the replacement of the cost. The effect from revalorisation is presented in the revalorisation reserve. From this moment and in the next years for buildings, depreciation has been calculated on the revaluated amount, which is the fair value after the date of revalorisation with determined rates and with proportional method.

For all other tangible assets (furniture, equipment, computers and vehicles), the cost model is used for subsequent valuation. The asset is recognised at cost less accumulated depreciation and accumulated loss due to impairment.
Depreciation of other material investments is calculated with the proportional method and with the determined depreciation rates.
Construction is progress is recognised by cost for construction including costs for expenses for third persons. For construction in progress depreciation is not calculated.
At the end of the process, all accumulated expenses are transferred to the appropriate material asset and equipment with appropriate depreciation rate.

3. Significant accounting policies (continued)

3.7. Property, plant and equipment (continued)

Depreciation is calculated separately for each asset within the group according annual depreciation rates of assets until the value of assets is fully depreciated. The applied annual depreciation rates are as follows:

Buildings	2,5%
Furniture and equipment	5-20%
Computers	25%
Vehicles	25%

When the value of the asset used as basis for calculation of depreciation is offset, depreciation is no longer calculated even though the asset is still in use.

Depreciation ceases for assets from property, plant and equipment when they are written off or reclassified as an asset held for sale.

d) Transfer of revalorisation reserve to retained earnings

Revaluation reserve based on revaluation of certain assets is transferred to retained earnings for the year in which the asset is disposed.
Transfer of revaluation reserve to retained earnings can be performed even if the asset is still in use. In this case, the amount transferred is the difference between depreciation based on revaluated amount and depreciation based on historical cost.

e) Leasehold improvements

Leasehold improvements are recognised as separate items of non-current assets and these kinds of investments are undertaken by the Company in its own name and for its own purposes in accordance with the contract for lease with the owner of the leased asset.

Depreciation of leased assets is calculated on a systematic basis over the estimated useful life of the asset, which can be equal or shorter than the contract for lease.

3. Significant accounting policies (continued)

3.8 Investment property

Investment property is property (land and buildings or part of building or both) held by the Company to earn rentals or for capital appreciation or both. Property used by the company in operational activities is not part from investment property.

Investment property is initially measured at cost and subsequently at cost less depreciation. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditures includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

Depreciation of investment property is calculated by using the straight line method and with the determined depreciation rates.
The useful life of building is estimated at 40 years at an annual rate of depreciation 2.5%.

Investments in property generate cash inflows independently from the other assets possessed by the Company.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

The criterion to distinguish investment property that is used for insurance operations and real estate that is not used to perform the activity will be calculated as split of net usable area of property according to the used space and available space for rent. Review of percentages will be performed annually.

The criteria used to distinguish between investment property and owner-occupied property is based on information from the income statement, more exactly rent income from investment property.
After initial recognition the Company uses the cost model for valuation of investment property. The company values its investments in accordance with IAS 16.

Subsequent to initial recognition as an asset item of property should be recorded at its historical cost less accumulated depreciation and accumulated impairment losses

3. Significant accounting policies (continued)

3.9 Financial instruments

The Company classifies its financial investments as assets held to maturity, assets held for sale and deposits, loans and other receivables.

a) Assets held to maturity

The Company qualifies assets as held to maturity if the:
- asset has fixed or determinable payments;
- assets has a fixed date of maturity ;
- assets for which the Company has a positive intention and ability to keep them to maturity;
- asset which at initial recognition is not recognised at fair value through the profit or loss;
- assets that are not recognised as available for sale;
- Assets that are not classified as loans and receivables.

Assets held to maturity include government bills issued by the Ministry of Finance.

The Company will recognise the asset as held to maturity in the statement of financial position on the day of trading. At initial recognition of assets held to maturity, the Company values it at its fair value plus transaction costs that are directly attributable to the acquisition of the asset.
Subsequently assets held to maturity are measured at amortised cost by using the effective interest method.

Gain or loss from subsequent measurement is recognised in profit or loss when the asset is derecognised or impaired.

b) Assets available for sale

The Company will classify as available for sale:

- non-derivative financial instruments that are designated as available for sale;
- assets which are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss;
- Any other financial asset classified in this category at initial recognition.

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

The Company initially recognises assets available for sale in the balance sheet at the trading date, at fair value, which is the cash consideration including any transaction costs. As available for sale assets the company has equity instruments.

After the initial recognition financial assets are measured at their fair value, without any deduction for transaction costs it may incur on sale or other disposal.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity (revaluation reserve), until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity, as well as the difference between carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed), is recognised in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, less impairment losses.

The Company measures investments in securities which are not quoted on an active market and whose maturity is not significant, by using individual assessment of the financial position of the issuer. The financial position is determined based on the following criteria, whose importance decreases subsequently:

- Solvency of the issuer;
- Liquidity of the issuer;
- Previous period cash flow and expected future cash flows;
- Profitability of the issuer;
- General market conditions and future perspectives of the issuer, as its market position;
- Timely settlement of the due liabilities as per contract;
- Management quality and expertise.

The Company should write off the financial asset when and only when:
a) The cash flows from the financial asset and contractual rights are expired;
b) When the financial asset is transferred.

c) Deposits, loans and other receivables

Deposits, loans and other receivables are presented in the balance sheet in amount of principal and interest less impairment for bad and doubtful debt. Impairment of receivables is determined by Management when there is evidence that the Company will not be able to collect all amounts due under previously established conditions.

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

d) Impairment of financial assets

(i) Assets carried at amortised cost

At each balance sheet date the Company assesses whether there is objective evidence that a financial asset or group of financial assets which are not measured at fair value are impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that 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 that can be reliably estimated.

The Company assesses whether objective evidence of impairment exists of individually significant financial assets or collectively for financial assets that are not individually significant. All individually significant assets which are assessed on an individual basis for impairment. If the entity determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are not individually significant are collectively assessed for impairment based on polls according to similar credit risk characteristics.

Objective evidence that financial assets are impaired may include delinquency in contractual payments, restructuring of receivables by the Company under conditions otherwise not considered, initiation of bankruptcy proceedings, disappearance of an active market for the financial asset or other observable data for a group of assets like adverse changes in the payment status of the owner or issuer of the financial asset, or economic conditions that correlate with defaults on the assets in the group.

The amount of loss due to impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.
Losses for impairment are recognised in the income statement and are reflected in the accounts for allowance of loans, allowance of receivables based insurance and other receivables.
If in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed by adjusting the allowance account.

(ii) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity – is removed from equity and recognised in the income statement a reclassification adjustment even though the financial asset has not been derecognised.

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

e) Derecognition

The Company will derecognise an asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights over the cash flows from the asset with a transaction in which all risks and rewards from ownership of the asset are transferred to other.
Every part from the transferred financial assets which the Company will retain is recognised as a separate asset or liability.
The Company will derecognise the financial liabilities when the contractual liabilities are settled, cancelled or expired.

3.10 Short term receivables

Receivables, receivables from customers, receivables from employees, receivables from the government and other institutions, are stated at carrying value plus interest in accordance with the signed contract or payment decision.

The receivables amount is appropriately adjusted for the allowance for impairment of bad and doubtful receivables.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of highly liquid assets. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

3. Significant accounting policies (continued)

3.11 Cash and cash equivalents (continued)

Cash and cash equivalents of the Company comprise of:

a) Cash on giro accounts and in MKD and foreign currency in domestic banks;
b) Petty cash (in MKD and foreign currency).

Cash flows are inflows and outflows of cash and cash equivalents.

The Company reports from cash flows from operating activities by using the direct method.

3.12 Prepaid expenses

Prepaid expenses are presented as expenses for goods or services that will be received in the near future and their values are expensed over time as the benefit is received through the income statement. The reason for deferral of the expense and the amounts that refer to future periods must be appropriately accounted for.

3.13 Equity

a) Equity

The equity of the Company is comprises of share capital and additional capital.

Subscribed share capital is stated on a separate account in amount that is written in the central registry during the founding of the Company, or during change of the value of the shared capital.

The acquired own shares do not reduce the number of issued shares, but only decrease the number of shares in circulation.

The equity of the Company comprises of:

- Share capital which is equal to the nominal value of issued shares (subscribed and paid-up capital)
- A capital increase based on realized difference between the nominal value of shares and the amounts for which they are sold (share premium).
- A capital increase based on distributed revaluation reserve, (accounted for revalorisation reserve from previous years) and
- Retained earnings/losses from previous years.

Share capital of the Company is consisted out of ordinary and preference shares, with nominal value of 20.084 EUR by share. All issued shares are paid in total.

An ordinary share gives the right to its owner a share in distributed dividends of the Company and voting rights at shareholders meetings (one share, one vote).

3. Significant accounting policies (continued)

3.13 Equity (continued)

b) *Reserves*

According to statutory regulation, the Company is obliged to crease statutory reserve. Statutory reserves are intended to cover the liabilities from the insurance contracts for a longer period of time. The Company is required to set aside at least 1/3 of the net profit for the year presented in the financial statement, if the profit is not used to cover losses from past years.

A Company that has set aside a safety reserve in the amount of at least 50% from the average earned insurance premium in the last two years, and these insurance premiums from past years are increased for the index of growth of retail prices, taking into account also the year in which the profit is distributed, is not obliged to allocate amounts from the profit to the safety reserve.

For Insurance Companies article No.485 from the Trading Law, considering the mandatory reserves is not applied.

In revalorisation reserve gains and losses from changes in the fair value of assets available for sale and noncurrent assets is presented, and it results in increase or decrease of equity (except for losses due to impairment and gains and losses from exchange differences, which are presented in the income statement).

Transfer of revaluation reserve to retained earning

The revaluation reserve which arises based on revaluation of certain classes tangible assets (such as properly) is transferred to retained earnings in the year when the asset is derecognised. However the transfer of revaluation reserve to retained earnings could be made while the asset is still in use. In that case, the amount of realised revaluation reserve which is transferred to retained earnings represents difference between the amount of depreciation calculated on the revaluated amount of the asset and the depreciation that would have been calculated if the asset has been measured under the cost method.

c) *Profit or loss*

Profit or loss for the current year is determined in accordance with statutory regulations. The realised profit for the period is transferred and allocated in the next one in accordance with a decision from the Shareholders Assembly.

(i) Recognition of retained earnings/losses

Retained earnings are presented separately from retained losses loss.

The loss from operational activities may be covered with the retained gains only with a decision from the Board of Directors and in accordance with the Law on trading companies.

If loss has incurred, it is covered from all positions from the equity. Shareholders are not bound by statute to cover losses with additional investments.

Dividend is paid out based on a decision from the Shareholders Assembly and in accordance with the Law on trading companies.

3. Significant accounting policies (continued)

3.13 Equity (continued)

(ii) Recognition of profit or loss for the current year

Profit or loss for the year is determined and presented in the income statement as profit/loss before tax.

In determining the profit or loss for the year, all items from the income and expenses must be included, with an exception of adjustments and changes in accounting policies.

Profit or loss from operational activities is presented from operational and non-operational activities.

3.14 Reserves

3.14.1Technical reserves

In order to enable permanent settlement of liabilities arising from insurance contracts, the insurance company creates technical reserves which are consisted of:

1) Unearned premium reserves (UPR);
2) reserve for bonuses and discounts;
3) Claims reserve;
4) Other technical reserve.

(i) Unearned premiums reserves

Unearned premiums reserves are allocated for the portion of premium that is going to be earned in the following accounting period, in proportion between the expired insurance period and the remaining period to expiry of the insurance contract.
The unearned premium is calculated based on a pro rata temporise for the calendar year with 360 days.

3. Significant accounting policies (continued)

(ii) Reserves for bonuses and discounts

Reserves for bonuses and discounts are allocated in the amount that is equal to the amount that insurers are entitled to receive based on:

1) The rights of share of profit and other rights arising from insurance contracts (bonuses);
2) Right for partially reducing the premium (discounts);
3) Right of return of a portion of the premium that refers to the unused period of insurance due to premature termination of the insurance contract (cancellation).

(iii) Claims reserves

Claim reserves are allocated in the amount of estimated liabilities that the insurance company is obliged to pay, based on insurance contracts where the insured event occurred at the end of the accounting period, whether the event is reported or not, including all costs that will result from untimely settlement of liabilities by the insurance company for the request based on a completed claim.

The claim reserves, besides the estimated liabilities for reported but not settled claims (IBNS), include estimated liabilities for incurred, but not reported claims (IBNR).

The reserve for claims handling costs, include reserve for direct and indirect expenses.

(iv) Other technical reserves

The Company will allocate the technical reserves for unexpired risks.
The calculation of other technical reserves is performed in accordance with the Rulebook for minimum standards for calculation of technical reserves.

3.14.2 Mathematical reserve

Mathematical reserve is allocated in the amount of present value of the estimated future liabilities of the insurance company arising from the contracts for life insurance, less present value of the future premium to be paid based on those agreements.

Mathematical reserves are calculated by using appropriate actuarial estimates that take into account all future liabilities of the insurance company arising from individual insurance contracts, including the following:

1) guaranteed payments to policyholders to which they are entitled to;
2) Bonuses to which the insured is entitled to, together with other insurers or individually, regardless of the type of bonus;
3) All rights that can be chosen by the insured based on the insurance contract and
4) Expenses, including fees.

3. Significant accounting policies (continued)

The reserved amount should be the best estimate of the expenditure sought to settle the present liability at the date of the balance sheet. Future events that may affect the amount required to settle the liability should be reflected in the reserved amount. Reserves are used only for amounts that are initially recognised. A liability for reserve for future receivables arising from the insurance contract cannot be recognised if it did not exist on the day of reporting.

3.14.3 Special reserve

Due to real assessment of the receivables based on insurance premium and interest, and receivables based on recourse and assessment of the risk of the un collectability thereof, the Company creates a special reserve.

The special reserve is created based on the matured unpaid premium receivables, interest and reprogrammed receivables. Maturity refers to the last day on which the client was supposed to pay a certain amount of money, in accordance with the insurance contract. At the date of maturity, on the outstanding balance of the receivables a special reserve is calculated.
Reprogrammed receivables in agreement with the debtor are classified according to the original due date.
Reprogrammed receivables with new debtors are classified in accordance with the due date of the new contract.
For clients that are bankrupted or in a process of liquidation, a 100% of reservation is allocated.
Special reserve is determined in accordance with the classification of arrears due categorised in different categories:

- A Category - Premium receivables and interest with maturity from 0 to 30 days;
- B Category - Premium receivables and interest with maturity from 31 to 60 days;
- C Category - Premium receivables and interest with maturity from 61 to 120 days;
- D Category - Premium receivables and interest with maturity from 121 to 270 days;
- E Category - Premium receivables and interest with maturity from 271 to 365 days;
- F Category - Premium receivables and interest with maturity longer than 365 days.

3. Significant accounting policies (continued)

Reserve for insurance premiums, interest and receivables based on recourse are formed by using the following percentages:

Category	Days in arrears	Impairment(in % from the total value of the individual receivable)
A	up to 30 days	0%
B	from 31 to 60 days	10%-30%
C	from 61 to 120 days	31%-50%
D	from 121 to 270 days	51%-70%
E	from 271 to 365 days	71%-90%
F	longer than 365 days	100%

The determined special reserve which is formed due to the outstanding receivables for insurance premium and interest is recognised through the income statement, and is presented in the balance sheet on a special account.
For all other receivables a reserve is determined based on the Rulebook for valuation of assets from the balance sheet and preparation of the business accounts. The determined amounts of reserve are recognised in the income statement.

3.15 Accrued expenses

In the current accounting period accrued expenses are calculated as expenses for which appropriate supporting documentation does not exist so that they could be recognised as a liability, and for which with certainty can be determined that they refer to the current accounting period. When documents will be obtained for recognition of the liability, an adjustment will be made for the accrued expense.

4. Accounting estimates

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.

(i) Technical and mathematical reserve for contracts from life and non-life insurance

The assumptions used in the estimation of insurance assets and liabilities are intended to result in reserves 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 reserve for outstanding claims, it is likely that the final outcome will prove to be different from the original liability established.

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

The reserve for claims is not discounted for the time value of money.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimates of claims already notified, 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.

Reserves for claims include:

- estimated liabilities for reported but not settled claims (IBNS);
- estimated liabilities for incurred but not reported claims (IBNR);
- Estimated liabilities for claims handling cost.

(a) Reserves for incurred but not settled (IBNS)

The reserve amount for reported but not settled amounts is based on the expect amount that will be paid, for each claim individually in accordance with available documentation for the claim.
The reserve is calculated permanently with inventory count of all claims for all types of insurance.
In determining the reserved amount the following calculations are used from:

4. Accounting estimates (continued)

- claims adjusters for all types of claims; and
- When a non-material damage is in question, the liquidator will determine the amount of reserve based on the available medical documentation. If the documentation is not considered as sufficient an opinion will be requested from a censor or another expert whose specialties are derived from the nature of the work, and are correlated with the insurance and judicial practice.

In determining the reserve amount for other material damages arising from non-material damages (life-long instalments, lost earnings, benefits for social insurance, etc), opinions from doctors, lawyers, actuaries and other persons with specialties in the domain will be used.

Reported but not settled claims which are paid out in a form of life-long instalments are provisioned and capitalised with the following amounts:

- current value; and
- estimate of future rents to be paid.

In calculation of reserves for claims with life-long instalments, the use of tables for determining the liabilities for payment of life-long instalments is compulsory and it can be used for calculation of reserves for life-long instalments.

The calculation of the reserved amount for life-long instalments is calculated by determining the yearly amount of instalment and it is multiplied by the appropriate factor from the Table of factors for determining of reserve and the liability for the genre and the age for the time in which the conditions for payment exist.

Claims that were reported and reserved at the end of the year, and were not liquidated or totally liquidated in the next year, will be reserved for the unpaid amount.

The amount of reserve is determined on the following basis:

1. Determination of the amount of reserve for claims at the end of the year;
2. Determination of the amount of reserve for claims at the end of the accounting period shorter than one year.

(b) Reserve for Incurred but not reported (IBNR)

Reserve for incurred but not reported claims is calculated on the basis of statistical data for the number and amount of incurred and reported claims, with technology for processing and payment of claims, and with other available data.

The reserve for incurred but not reported claims depending from the class of insurance and insurance portfolio will be calculated by using one of the following actuarial methods:

4. Accounting estimates (continued)

- Triangulation of claims (Basic Chain Ladder);
- Triangulation of claims adjusted for inflation (Chain Ladder adjusted for triangulation);
- Method of average value of the claim- provision in accordance with this method is calculated as a product of projected average amount of claim and projected expected number of claims;
- Method of expected claim coefficient – expected claim coefficient is determined by the Agency;
- Bornhuetter – Ferguson method, and
- Other actuarial methods.

The Company in calculation of the reserve for incurred but not reported claims uses the method of triangulation (basic or adjusted for inflation) as a primary method, except in cases when no historical data is available. Historical data needed includes data about the number and amount of incurred and reported, respectively liquidated claims on a yearly basis, at least for five previous years.

An exception can be applied for risk with a shorter tail and historical data needed could include data about the number and amount of incurred and reported, respectively liquidated claims on a yearly basis, at least for three previous years.

(c) Reserve for claims handling costs

Claims handling costs reserves includes reserve for direct and indirect costs.
Reserve for direct costs for claims handling costs are an integral part from the from the reserve for incurred and reported claims, and for incurred but not reported claims.

Reserve for indirect costs is created as coverage for expenses for claims handling in case of termination of Company operations.

The minimal coefficient for its calculation is 1.5% from the sum of the reserves for incurred and reported claims, reserves for incurred but not reported and reserves for direct expenses.

The amount of minimal coefficient for calculation of the reserves for indirect expenses for claims handling, will be determined with a decision from the Management Board of the Company.

4. Accounting estimates (continued)

d) Sensitivity analyses

The Company has estimated the impact on profit for the year, equity and the coverage coefficient at the end of the year of changes in key variables that have a material effect on them.

In line for current equity position the current result for the profit for the period, equity, coverage coefficient and coefficient of solvency with own capital as at 31 December 2013 and 31 December 2012 are shown in the tables below:

31 December 2013	**Profit for the period**	**Equity**	**Required level of margin of solvency**	**Coverage coefficient**	**Change in coverage coefficient**
Current equity position	87,288	1,248,042	**124,639**	**1001%**	**-**
Investment yield (+200 b.p.)	88,991	1,249,745	**124,639**	1003%	1%
Investment yield (-200 b.p.)	85,585	1,246,339	**124,639**	1000%	-1%
5% increase in claims incurred	86,613	1,247,367	**124,639**	1001%	-1%
5% decrease in claims incurred	87,963	1,248,717	**124,639**	1002%	1%
2% increase in total expenses	81,907	1,242,661	**124,639**	997%	-4%
2% decrease in total expenses	92,669	1,253,423	**124,639**	1006%	4%

31 December 2012	**Profit for the period**	**Equity**	**Required level of margin of solvency**	**Coverage ratio**	**Change in coverage ratio**
Current equity position	(237.210)	1.065.875	125.149	852%	-
Investment yield (+200 b.p.)	(234.579)	1.068.506	125.149	854%	2%
Investment yield (-200 b.p.)	(239.841)	1.063.244	125.149	850%	(2%)
5% increase in claims incurred	(242.144)	1.060.941	125.149	848%	(4%)
5% decrease in claims incurred	(232.276)	1.070.809	125.149	856%	4%
2% increase in total expenses	(243.842)	1.059.243	125.149	846%	(5%)
2% decrease in total expenses	(230.578)	1.072.507	125.149	857%	5%

5. Insurance and financial risk management

The Company is exposed to a variety of financial risks. The Company's risk management approach is focused on unpredictability of the financial market and seeks to minimise potential adverse effects. Risk management is carried out under policies approved by the Board of Directors

5.1 Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Risk management objectives and policies for mitigating insurance risk

This control ensures effective risk management in the underwriting process and ensuring adequate premium. Through formal procedures, which are well known by each employee, the Company underwrites premiums with clients that are going to ensure maintaining of the business profitability, and in the same time providing quality service to them.

The Company has implemented formal procedures and protocols for insurance risk management. Also there are implemented levels of authorisation for all employees in the Underwriting department and for all agents. The profitability is monitored continuously for each product individually, through detecting segments that could negatively impact on the result. The integrated system and data processing enables monitoring of the results for each client individually, which on other hand enables selection of clients with high quality and creating client portfolios for individual type of insurance that will provide positive results in accordance with Company's policies. In line with the day to day activities, based on analysis, if necessary, changes are made to the current terms, conditions and insurance tariffs.

5. Insurance and financial risk management (continued)

Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. Also the company buys, facultative reinsurance in certain specified circumstances, which is subject to pre-approval and the total expenditure on facultative reinsurance is regularly monitored.

Ceded reinsurance contains credit risk, and such reinsurance recoverable is reported after impairment provisions as a result of occurred recognition asset.

The Company continuously monitors the reinsurance programme and its ongoing adequacy.

The company concludes reinsurance agreement with the parent company and non-affiliated reinsurers in order to control its exposure to losses resulting from one occurrence.

5.1.1 *Concentrations of insurance risks*

The risk of concentration 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. Therefore, the Company puts special emphasis on the importance on management of the concentration risk, through diversification of the portfolio in terms of concentration of types of insurance contracts, geographical and industry sector concentration

Important aspect of concentration risk is that it may arise through risk accumulation of more separate classes of insurance.

Concentrations of risk can also 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.

5. Insurance and financial risk management (continued)

5.1.1 *Concentrations of insurance risks (continued)*

(a) Geographic and industry sector concentration

The majority of the risk to which the Company is exposed is located in Republic of Macedonia. Never the less there is diversification of the risk in different region and cities though the country and diversification in terms of different types of insurance contracts. The company closely monitors the risk arising from geographic concentration and accordingly and timely undertakes appropriate strategy of issuing or not insurance contracts, in cases where the risk is low, i.e. high respectively.

The management believes that the Company does not have significant exposure to concentration risk to any group of policy holders measured by social, professional, age or similar criteria.

(b) 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 has special strategy for insurance and reinsurance of such risk, according to which in order to issue insurance or reinsurance contract, among other procedures, a special approval from the Management is necessary.

The Company continuously monitors the reinsurance program, as well as the expenses related to the same.

5.2 Financial risk management

The Company is exposed to financial risk through its financial assets, financial liabilities, its reinsurance assets, insurance liabilities and reinsurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The financial risk comprises of interest rate risk, currency risk, liquidity risk and credit risk.

The Company's objective is to match insurance contract liabilities with assets subject to identical or similar risks. This policy ensures that the Company is able to meet its obligations under its contractual liabilities as they fall due.

5.2.1 Credit risk

The company is exposed to credit risk, which represents the risk of client's inability to settle its contractual obligations towards the Company, when they fall due.

Credit exposures of the company are composed of Loans and deposits in banks, Securities, Premium receivables and claims recoveries. This risk is defined as the potential loss in market value resulting from adverse charges in a borrower's ability to repay the debt.

5. Insurance and financial risk management (continued)

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Primarily, QBE Macedonia manages the credit risk through analysing client's solvency before it is accepted as such. Premium receivables are monitored regularly on a monthly basis. Based on established condition of the clients an appropriate provisioning level is determined and relevant measures for collection of receivables are undertaken by the control receivables department.

In accordance with the Law on Insurance Supervision, especially limits as regard to investment which covers the Mathematical reserves, Technical reserves and capital. QBE Macedonia is diversifying the risk with placing deposits in various banks.

The active market of Securities is regularly monitored and the investments are properly measured in accordance with the changes in the market.

Maximum exposure to credit risk before collateral held or other credit enhancement

	2013		2012	
	Life	**Non-Life**	**Life**	**Non-Life**
Financial assets				
- Debt securities - held to maturity	-	176.826	-	156.412
Debt securities -available for sale	19.944	14.986		
- Equity instruments –available for sale	-	18.603	-	26.148
- Term deposits	45.000	568.200	98.000	571.751
Reinsurance assets	-	10.258	-	9.636
Insurance receivables	-	198.853	-	207.693
Other receivables	1.520	62.804	4.701	54.779
Cash and cash equivalents	384	69.485	1.536	36.730
Total	**66.848**	**1.120.015**	**104.237**	**1.063.149**

The above table presents a worst case scenario of credit risk exposure to the company as at 31 December 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet items, the exposure set out above are based on net carrying amounts as reported in the balance sheet.

5. Insurance and financial risk management (continued)

As shown above, 16.75 % (2012: , 17.79%) of the total maximum exposure is derived from premium receivables from non-life insurance, 51.67% (2012: 57%) represents Term deposits (life and non-life insurance).

The investments securities comprise of financial instruments that are available for sale and debt securities that are held to maturity, i.e. government bonds / bills issued by R.Macedonia. The company has invested its term deposits from non-life insurance in big banks 496.200 thousands in Macedonia on one hand and MKD 72.000 thousands are in middle banks in R.Macedonia. The bank classification is in accordance with statutory regulation as defined by NBRM. The reinsurance assets are receivables from reinsurance companies with credit rating A+ assigned by Standard and Poor's

Management is confident that in its ability to continue to control and sustain minimum exposure to credit risk to the company resulting from premium receivables, receivables from claims and deposits in banks.

Aging analysis of the premium insurance receivable and recourse receivables (regress) is presented in the table below:

5. Insurance and financial risk management (continued)

Description	Undue	0-30 days			31 - 60 days			61 - 120 days			121 - 270 days			271 - 365			over 365 days			Total overdue receivables			Write off	Total
		Total rec.	Impa.	Carrin g amoun t	Total rec.	Impairment	Carryi ng amoun t	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairmen t	Carrying amount		
Premium receivables	**104,447**	**27,306**	**-**	**27,306**	**19,538**	**1,954**	**17,585**	**27,082**	**8,395**	**18,686**	**48,109**	**24,535**	**23,573**	**14,568**	**10,343**	**4,225**	**472,070**	**472,070**	**-**	**608,672**	**517,297**	**91,375**	**188.140**	**195,822**
accident	31,855	5,475	-	5,475	2,630	263	2,367	3,534	1,095	2,438	3,758	1,917	1,842	1,612	1,145	468	46,216	46,216	-	**63,226**	**50,636**	**12,590**	8.668	44,445
medical	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
Casco motor vehicles	5,554	2,032	-	2,032	1,697	170	1,527	2,384	739	1,645	5,159	2,631	2,528	1,987	1,411	576	69,957	69,957	-	**83,216**	**74,908**	**8,308**	36.694	13,862
Casco railway vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
Casco aircrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,648	4,648	-	**4,648**	**4,648**	**-**	-	-
Casco vessels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48	48	-	**48**	**48**	**-**	-	-
cargo	934	154	-	154	145	14	130	266	83	184	861	439	422	201	143	58	11,631	11,631	-	**13,258**	**12,310**	**949**	6.598	1,883
property fire and other ins.ev	10,375	2,232	-	2,232	1,830	183	1,647	3,555	1,102	2,453	6,423	3,276	3,147	1,955	1,388	567	201,543	201,543	-	**217,539**	**207,493**	**10,047**	109.269	20,421
properly other	25,078	5,045	-	5,045	4,266	427	3,839	3,681	1,141	2,540	10,701	5,458	5,244	2,269	1,611	658	61,953	61,953	-	**87,916**	**70,589**	**17,326**	13.418	42,404
Motor TPL(total)	26,947	11,671	-	11,671	8,579	858	7,721	13,061	4,049	9,012	19,061	9,721	9,340	6,182	4,389	1,793	51,434	51,434	-	**109,988**	**70,451**	**39,537**	10.374-	66,484
aircrafts TPL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,630	17,630	-	**17,630**	**17,630**	**-**	1.826	-
vessels TPL	15	-	-	-	-	-	-	6	2	4	28	14	14	-	-	-	21	21	-	**55**	**37**	**18**	-	33
General TPL	3,484	298	-	298	263	26	236	232	72	160	1,388	708	680	277	197	80	3,665	3,665	-	**6,122**	**4,668**	**1,454**	359	4,938
loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
guaranties	-	-	-	-	3	0	3	3	1	2	6	3	3	-	-	-	548	548	-	**560**	**552**	**8**	548	8
financial loss	49	63	-	63	-	-	-	-	-	-	-	-	-	-	-	-	100	100	-	**162**	**100**	**63**	14	112
Legal protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
Travel insurance	156	335	-	335	126	13	114	361	112	249	722	368	354	83	59	24	2,676	2,676	-	**4,303**	**3,227**	**1,076**	372	1,232
Regress receivables	-	498	-	498	1,973	197	1,776	584	181	403	1,935	987	948	1,147	814	333	22,576	22,576	-	**28,713**	**24,756**	**3,957**	15.112	3,957
TOTAL	**104,447**	**27,804**	**-**	**27,804**	**21,511**	**2,151**	**19,360**	**27,666**	**8,576**	**19,089**	**50,044**	**25,522**	**24,522**	**15,715**	**11,157**	**4,557**	**494,646**	**494,646**	**-**	**637,385**	**542,053**	**95,332**	**203.252**	**199,779**

5. Insurance and financial risk management (continued)

Receivables from claims recoveries – reinsurance

In 2013 the company has receivable for reinsurance recoveries from VIG RE. The reinsurance is used to decrease the risk from insurance.

During 2012 QBE Macedonia reconciled and netted intercompany payables and receivables with QBE Reinsurance (Europe) Limited. RI receivables and payables were part of the reconciliation.

5.2.2 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, and foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

5.2.2. Interest rate risk

The Company's exposure in interest rates is concentrated in the investment portfolio.

According to the Management the insurance contracts concluded by the Company are mainly short term insurance contracts and the interest risk is mitigated by matching the insurance liabilities with a portfolio of debt securities. The debt securities are exposed to interest rate risk, though most of them are fixed interest bearing instruments (government bills).

Short-term insurance and reinsurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

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 insurance supervision.

5. Insurance and financial risk management (continued)

Interest rate gap analysis of financial assets and liabilities – Non-life insurance

31 December 2013	Total	Floating rate instruments	Fixed rate instruments: Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Noninterest bearing
Assets								
Financial assets								
- Debt securities - held-to-maturity	**176.826**	-	-	11.812	165.014	-	-	-
- Debt securities - available for sale	**33.590**				-	14.986		18.604
- Term deposits	**568.200**	-	90.000	35.000	443,200	-	-	-
Reinsurance assets	**10.258**	-	-	-	-	-	-	**10.258**
Insurance receivables	**198.853**	-	-	-	-	-	-	**198.853**
Other receivables	**62.804**	-	-	-	-	-	-	**62.804**
Cash and cash equivalents	**69.485**	-	-	-	-	-	-	**69.485**
Liabilities								
Gross technical reserves	**538.173**	-	-	-	-	-	-	**538.173**
Reinsurance payables	**14.496**	-	-	-	-	-	-	**14.496**
Insurance payables	**1.088**	-	-	-	-	-	-	**1.088**
Other payables	**233.159**	-	-	-	-	-	-	**233.159**
Net interest rate gap	**333.100**	**-**	**90.000**	**46.812**	**608.214**	**14.986**	**-**	**(426.912)**

5. Insurance and financial risk management (continued)

Interest rate gap analysis of financial assets and liabilities – Non-life insurance

31 December 2012	Total	Floating rate instruments	Fixed rate instruments: Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Noninterest bearing
Assets								
Financial assets								
- Debt securities - held-to-maturity	**156.412**	-	29.677	126.735	-	-	-	-
- Term deposits	**571.751**	-	91.551	222.200	258.000	-	-	-
Reinsurance assets	**9.636**	-	-	-	-	-	-	9.636
Insurance receivables	**207.693**	-	-	-	-	-	-	207.693
Other receivables	**54.779**	-	-	-	-	-	-	54.779
Cash and cash equivalents	**36.730**	-	-	-	-	-	-	36.730
Liabilities								
Gross technical reserves	**552.328**	-	-	-	-	-	-	552.328
Reinsurance payables	**2.018**	-	-	-	-	-	-	2.018
Insurance payables	**396**	-	-	-	-	-	-	396
Other payables	**236.227**	-	-	-	-	-	-	236.227
Net interest rate gap	**246.032**	**-**	**121.228**	**348.935**	**258.000**	**-**	**-**	**(482.131)**

5. Insurance and financial risk management (continued)

Interest rate gap analysis of financial assets and liabilities –Life insurance

31 December 2013	Total	Floating rate instruments	Fixed rate instruments: Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Noninterest bearing
Assets								
Financial assets								
- Debt securities - held-to-maturity	**-**	-	-	-	-	-	-	-
- Debt securities - available for sale	**45.000**	-	-	-	45.000	-	-	-
- Term deposits	**19.944**				19.944	-		
Reinsurance assets	**-**	-	-	-	-	-	-	**-**
Insurance receivables	**-**	-	-	-	-	-	-	**-**
Other receivables	**1.520**	-	-	-	-	-	-	**1.520**
Cash and cash equivalents	**384**	-	-	-	-	-	-	**384**
Liabilities								
Gross technical reserves	**46.203**	-	-	-	-	-	-	**46.203**
Reinsurance payables	**-**	-	-	-	-	-	-	**-**
Insurance payables	**-**	-	-	-	-	-	-	**-**
Other payables	**620**	-	-	-	-	-	-	**620**
Net interest rate gap	**22.025**	**-**	**-**	**-**	**64.944**	**-**	**-**	**(48.727)**

5. Insurance and financial risk management (continued)

Interest rate gap analysis of financial assets and liabilities –Life insurance

31 December 2012			Instruments with fixed interest rate					
	Total	Floating rate instruments	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Noninterest bearing
Assets								
Financial assets								
- Debt securities - held-to-maturity	**-**	-	-	-	-	-	-	-
- Term deposits	**98.000**	-	9.000	45.000	44.000	-	-	-
Reinsurance assets	**-**	-	-	-	-	-	-	**-**
Insurance receivables	**-**	-	-	-	-	-	-	**-**
Other receivables	**4.701**	-	-	-	-	-	-	**4.701**
Cash and cash equivalents	**1.536**	-	-	-	-	-	-	**1.536**
Liabilities								
Gross technical reserves	**70.086**	-	-	-	-	-	-	**70.086**
Reinsurance payables	**-**	-	-	-	-	-	-	**-**
Insurance payables	**-**	-	-	-	-	-	-	**-**
Other payables	**368**	-	-	-	-	-	-	**368**
Net interest rate gap	**33.783**	**-**	**9.000**	**45.000**	**44.000**	**-**	**-**	**(64.217)**

5. Insurance and financial risk management (continued)

Interest rates sensitivity analysis- Non-life insurance

As at 31 December 2013 the company has interest bearing term deposits in amount of MKD 568.200 thousands (2012: MKD 571,751 thousands) and MKD 176.826 thousands (2012: MKD 156,412 thousands) government bills and 14.986 thosands government bonds. The remaining balance sheet items are non-interest bearing.

Interest rate sensitivity analysis focuses on the exposure of the Company's financial instruments to movements in interest rates at the balance sheet date. In case interest rates on deposits were higher/lower 0.5%, and all the remaining variables stayed unchanged, the Company's loss before tax as for the year ended 31 December 2013 would be higher, i.e. lower by MKD 1.262 thousands (2012: the profit before tax would be higher/lower by MKD 2,859 thousands).

Interest rates sensitivity analysis- Life insurance

As at 31 December 2013 the Company has interest bearing term deposits in amount of MKD 45,000 thousands (2012: 98,000) and government bonds 19.944 thousands. The remaining balance sheet items are non-interest bearing.

Interest rate sensitivity analysis focuses on the exposure of the Company's financial instruments to movements in interest rates at the balance sheet date. In case interest rates were higher/lower 0.5%, and all the remaining variables stayed unchanged, the Company's income before tax as for the year ended 31 December 2013 would be higher, i.e. lower by MKD 231 thousands (2012: the profit before tax would be higher/lower by MKD 490 thousands).

5. Insurance and financial risk management (continued)

5.2.2.2 *Foreign exchange risk*

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies.
For avoiding the losses from movements with negative impact from the exchange rate, the Company diversifies its risk by having assets and liabilities in EUR, USD,GBP and CHF. However mainly assets and liabilities are denominated in EUR. The Denar is pegged to the Euro and the monetary projections for 2013 form NBRM envisage stability of the exchange rate of the Denar against Euro.

The tables below summarise the Company's exposure to foreign currency exchange rate risk. The Company's assets and liabilities at carrying amounts are included in the table, categorised by currency at their carrying amount:

31 December 2013 - Non-life	**MKD**	**EUR**	**GBP**	**Other**	**Total**
Debt securities - held to maturity	**176.826**	-	-	-	**176.826**
Debt securities - available for sale	18.604	14.986			**33.590**
Term deposits	**568.200**	-	-	-	**568.200**
Reinsurance assets	**10.258**	-	-	-	**10.258**
Insurance receivables	**196.769**	429	-	1.655	**198.853**
Other receivables	**43.405**	19.172	-	227	**62.,804**
Cash and cash equivalents	64.064	4.889	7	525	69.485
Total assets	**1,078.126**	**39.476**	**7**	**2.407**	**1.120.016**
Gross technical reserves	538.173	-	-	-	538.173
Reinsurance payables	**11.353**	120	-	3.023	**14.496**
Insurance payables	**1.088**	-	-	-	**1.088**
Other payables	**42.713**	11.678	141222	37.546	**233.159**
Total liabilities	**593.327**	**11,798**	**141,222**	**40,569**	**786,916**
Net position	**484.799**	**27.678**	**(141.215)**	**(38.162)**	**333.100**

5. Insurance and financial risk management (continued)

31 December 2012- Non-life	MKD	EUR	Other	Total
Debt securities - held to maturity	156.412	-	-	-
Term deposits	571.751	-	-	-
Reinsurance assets	9.636	-	-	-
Insurance receivables	187.089	20.550	-	-
Other receivables	34.508	20.271	-	-
Cash and cash equivalents	33.928	2.238		564
Total assets	**993.324**	**43.059**	**-**	**564**
Gross technical reserves	552.328	-	-	-
Reinsurance payables	967	278	-	773
Insurance payables	396	-	-	-
Other payables	41.220	11.610	144.563	38.834
Total liabilities	**594.911**	**11.888**	**144.563**	**39.607**
Net position	**398.413**	**31.171**	**(144.563)**	**(39.043)**

31 December 2012- Life	MKD	EUR	Other	Total
Debt securities - held to maturity	-	-	-	-
Term deposits	45.000			45.000
Debt securities - available for sale	-	19.944		19.944
Reinsurance assets	-	-	-	-
Insurance receivables	-	-	-	-
Other receivables	1.520			1.520
Cash and cash equivalents	384	-	-	384
Total assets	**46.904**	**19.944**	**-**	**66.848**
Gross technical reserves	**46.203**	--	-	**46.203**
Reinsurance payables	**-**	--	-	**-**
Insurance payables	**-**	--	-	**-**
Other payables	**620**			**620**
Total liabilities	**46.823**	**--**	**--**	**46.823**
Net position	**81**	**19.944**	**-**	**20.025**

31 December 2012- Life	MKD	EUR	Other	Total
Debt securities - held to maturity	98.000			**98.000**
Term deposits	-	-	-	-
Reinsurance assets	-	-	-	-
Insurance receivables	-			-
Other receivables	4.701	-	-	**4.701**
Cash and cash equivalents	1.536	**-**	**-**	**1.536**
Total assets	**104.237**			**104.237**
Gross technical reserves	70.086	--	-	**70.086**
Reinsurance payables	-	--	-	**-**
Insurance payables	-	--	-	**-**
Other payables	368			**368**
Total liabilities	**70.454**	**--**	**--**	**70.454**
Net position	**33.783**	**-**	**-**	**33.783**

5. Insurance and financial risk management (continued)

Sensitivity to foreign currency fluctuations- Non-life insurance

The Company's functional currency is the Macedonian Denar. The Company has foreign receivables and payables mainly in mostly EUR and GBP. The Company operates internationally in relation to reinsurance and mother company; hence the Company is exposed to foreign exchange risk arising from local currency exposure to various major foreign currencies.

At 31 December 2013 the Company has positive net exposure of MKD 27,678 thousands in EUR, negative net exposure of MKD 141.215 thousands in GBP as well as negative net exposure of MKD 38.162 thousands in other currencies for non-life insurance (2012: positive net exposure MKD 31.171 thousands in EUR and negative net exposure of MKD 144.563.in GBP well as negative net exposure 39.044 thousands in other currencies). In life business Company have positive net exposure of MKD 19.994 thousands in EUR.

The sensitivity analysis of fluctuation of foreign exchange rates of different currencies is base on statistical data which show stability of the foreign exchange rate of the EUR towards MKD.

At 31 December 2013, had the exchange rate between the MKD and EUR and GBP increased or decreased by 0.5% the pre-tax profit for the twelve month period ended 31 December 2013 would have been approximately MKD 706 thousands higher or lower (2012: pre – tax profit – MKD567thousands).

5. Insurance and financial risk management (continued)

5.2.3 Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arises from available for sale investments. The Company holds available for sale investments which are subject to equity price risk.
The Company manages equity price risk by a maintaining diversified portfolio of equity investments.

At 31 December 2013, should equity prices had been 10% higher/ lower with all other variables held constant, the profit before tax for the twelve month period ended 31 December 2013 would respectively increase/decrease by MKD 1.860 thousands (2012: MKD 2.615 thousands).

5. Insurance and financial risk management (continued)

5.2.4 *Liquidity risk*

The liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments and obligations. According to Law for insurance supervision the Company calculates liquidity coefficient and minimal liquidity, which presents correlation between the liquid assets and matured liabilities, i.e. liabilities that will mature.

Planning expected cash inflows and outflows is a continuous control for maintaining stabile liquidity. Based on this the Company undertakes measures for mitigating or removing the reasons for possible illiquidity.

The Company is obliged to maintain its liquidity in accordance with the Law for Insurance supervision, which requires that the required level of equity for insurance company that offers life and /or non-life insurance or reinsurance, in each moment has to be at least equal to the required limit of solvency, calculated using the premium method or claims method, depending on which gives the more favourable outcome.

The Company has cash in banks and other high liquid assets, at any moment, in order to protect itself from unnecessary risk concentration and to be able settle its liabilities that are due to payment, as well as contingent liabilities.

Maturities of the financial assets and liabilities

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the contractual maturity date:

5. Insurance and financial risk management (continued)

Maturity analysis – Non-life insurance

31 December 2013	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Assets						
Financial assets						
- Debt securities - held-to-maturity	-	11.812	165.014	-	-	**176.826**
- Debt securities - available for sale	-	-	-	33.490	-	**33.490**
- Term deposits	90.000	35.000	443,200	-	-	**568.200**
Reinsurance assets	-	-	10.258	-	-	**10.258**
Insurance receivables	134.784	36.271	27.798			**198.853**
Other assets	25.946	10.708	14.705	11.445		**62.804**
Cash and cash equivalents	69.485	-	-	-	-	**69.485**
	320.215	**93.791**	**660.975**	**44.931**	**-**	**1.119.916**
Liabilities						
Gross technical reserves	8.619	14.004	391.441	66.148	57.961	**538.173**
Reinsurance payables		14.496	-	-	-	**14.496**
Insurance payables	849	63	176	-		**1.088**
Other payables	-	34.103	7.641	-	191.415	**233.159**
	9.468	**62.666**	**399.258**	**66.148**	**249.376**	**786.916**
Liquidity gap	**310.747**	**31.125**	**261.717**	**(21.213)**	**(249.376)**	**333.000**

5. Insurance and financial risk management (continued)

Maturity analysis – Non-life insurance (continued)

31 December 2012	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Assets						
Financial assets						
- Debt securities - held-to-maturity	29.677	126.735	-	-	-	**156.412**
- Term deposits	91.551	222.200	258.000	-	-	**571.751**
Reinsurance assets	-	-	9.636	-	-	**9.636**
Insurance receivables	144.624	35.632	27.437			**207.693**
Other assets	12.125	18.656	10.969	13.029		**54.779**
Cash and cash equivalents	36.730	-	-	-	-	**36.730**
	314.707	**403.223**	**306.042**	**13.029**	**-**	**1.037.001**
Liabilities						
Gross technical reserves	-	39.041	312.568	200.719		**552.328**
Reinsurance payables		-	-	2.018	-	**2.018**
Insurance payables	-		343	53		**396**
Other payables	28.456	1.510	10.073	-	196.188	**236.227**
	28.456	**40.551**	**322.984**	**202.790**	**196.188**	**790.969**
Liquidity gap	**286.250**	**362.672**	**(16.942)**	**(189.761)**	**(196.188)**	**246.032**

5. Insurance and financial risk management (continued)

Aging analysis- Life insurance (continued)

31 December 2013	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Assets						
Financial assets						
- Debt securities - held-to-maturity	-	-	-	-	-	
- Debt securities - available for sale	-	-	19.944	-	-	**19.944**
- Term deposits	-	-	45.000	-	-	45.000
Reinsurance assets	-	-	-	-	-	-
Insurance receivables	-	-	-	-	-	
Other assets	-	1.520	-	-	-	1.520
Cash and cash equivalents	384	-	-	-	-	384
	384	**1.520**	**64.944**	**-**	**-**	**66.848**
Liabilities						
Gross technical reserves	7.768.	4.786	11.691	15.737	6.220	46.203
Reinsurance payables	-	-	-	-	-	-
Insurance payables	-	-	-	-	-	-
Other payables	-	620	-	-	-	620
	7.768	**5.406**	**11.691**	**15.737**	**6.220**	**46.822**
Liquidity gap	**(7.384)**	**(3.886)**	**53.253**	**(15.737)**	**(6.220)**	**20.026**

5. Insurance and financial risk management (continued)

Aging analysis- Life insurance (continued)

31 December 2012	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Assets						
Financial assets						
- Debt securities - held-to-maturity	-	-	-	-	-	
- Term deposits	9.000	45.000	44.000	-	-	98.000
Reinsurance assets	-	-	-	-	-	-
Insurance receivables	-	-	-	-	-	
Other assets	-	4.701	-	-	-	4.701
Cash and cash equivalents	1.536	-	-	-	-	1.536
	10.536	**49.701**	**44.000**	**-**	**-**	**104.237**
Liabilities						
Gross technical reserves	70.086	-	-	-	-	70.086
Reinsurance payables	-	-	-	-	-	-
Insurance payables	-	-	-	-	-	-
Other payables	-	368	-	-	-	368
	70.086	**368**	**-**	**-**	**-**	**70.454**
Liquidity gap	**(59.550)**	**49.333**	**44.000**	**-**	**-**	**33.783**

5. Insurance and financial risk management (continued)

5.2.5 Fair value

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. As verifiable market prices are not available for a significant proportion of the Company's financial assets and liabilities, fair values have been based on management assumptions.

The fair value of quoted securities is measured at market price. The fair value of unlisted investment securities are based at the available financial statements.

Premium debts, loans and advances are shown net of specific and other provisions for impairment. The estimated fair value of premium debts, loans and advances represents the collectible amount derived by valuation of debtors' repayment history and capability as well as debtors' current financial position and status.

Fair values in respect of premium debts, loans and advances, as well as investments in shares and other securities approximate to their carrying amounts less impairment.

5. Insurance and financial risk management (continued)

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values for non-life insurance:

	Loans and receivables	Held-to-maturity	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2013						
Financial assets						
- Debt securities - held-to-maturity	-	176.826	-	-	176.826	176.826
- Equity securities available for sale	-	-	33.590	-	33.590	33.590
- Term deposits	568.200	-	-	-	568.200	568.200
Reinsurance assets	10.258	-	-	-	10.258	10.258
Insurance receivables	198.853	-	-	-	198.853	198.853
Other assets	62.804	-	-	-	62.804	62.804
Cash and cash equivalents	69.485	-	-	-	69.485	69.485
	909.600	**176.826**	**33.590**	**-**	**1.120.016**	**1.120.016**
Gross technical reserves	-	-	-	538.173	538.173	538.173
Reinsurance payables	-	-	-	14.496	14.496	14.496
Insurance payables	-	-	-	1.088	1.088	1.088
Other payables	-	-	-	235.602	235.602	235.602
	-	**-**	**-**	**789.359**	**789.359**	**789.359**
31 December 2012						
Financial assets						
- Debt securities - held-to-maturity	-	156.412	-	-	156.412	156.412
- Equity securities available for sale	-	-	26.184	-	26.184	26.184
- Term deposits	571.751	-	-	-	571.751	571.751
Reinsurance assets	-	-	-	9.636	9.636	9.636
Insurance receivables	207.693	-	-	-	207.693	207.693
Other assets	54.779	-	-	-	54.779	54.779
Cash and cash equivalents	36.730	-	-	-	36.730	36.730
	870.953	**156.412**	**26.184**	**9.636**	**1.063.185**	**1.063.185**
Gross technical reserves	-	-	-	552.328	552.328	552.328
Reinsurance payables	-	-	-	2.018	2.018	2.018
Insurance payables	-	-	-	396	396	396
Other payables	-	-	-	236.227	236.227	236.227
	-	**-**	**-**	**790.969**	**790.969**	**790.969**

5. Insurance and financial risk management (continued)

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values for life insurance

	Loans and receivables	Held-to-maturity	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2013						
Financial assets						
- Debt securities - held-to-maturity	-	-	-	-	-	-
- Equity securities available for sale	19.944	-	-	-	19.944	19.944
- Term deposits	45.000	-	-	-	45.000	45.000
Reinsurance assets	-	-	-	-	-	-
Insurance receivables	-	-	-	-	-	-
Other assets	1.520	-	-	-	1.520	1.520
Cash and cash equivalents	384	-	-	-	384	384
	66.848	**-**	**-**	**-**	**66.848**	**66.848**
Gross technical reserves	-	-	-	46.203	46.203	46.203
Reinsurance payables	-	-	-	-	-	-
Insurance payables	-	-	-	-	-	-
Other payables	-	-	-	620	620	620
	-	**-**	**-**	**46.822**	**46.822**	**46.822**
31 December 2012						
Financial assets						
- Equity securities available for sale	-	-	-	-	-	-
- Term deposits	98.000	-	-	-	98.000	98.000
Reinsurance assets	-	-	-	-	-	-
Insurance receivables	-	-	-	-	-	-
Other assets	4.701	-	-	-	4.701	4.701
Cash and cash equivalents	1.536	-	-	-	1.536	1.536
	104.237	**-**	**-**	**-**	**104.237**	**104.237**
Gross technical reserves	-	-	-	70.086	70.086	70.086
Reinsurance payables	-	-	-	-	-	-
Insurance payables	-	-	-	-	-	-
Other payables	-	-	-	368	368	368
	-	**-**	**-**	**70.454**	**70.454**	**70.454**

5. Insurance and financial risk management (continued)

5.2.6 Capital management

The company is obliged to hold at any time capital that is appropriate with the scope of its work and the classes in which it performs its insurance work as well as the risks on which the Company is exposed in performing such work.

The company's capital should at any time be at least equal to the necessary level of the solvency margin.

The Company's objectives regarding capital management are:

- To comply with the capital requirements according to the legislative regulation of the Ministry of Finance;
- To safeguard the Company's ability to provide dividends for the shareholders;
- To maintain a strong capital base to support the Company's development.

The Company is in compliance with the legislative regulation if the capital is adequate to the solvency margin. The solvency margin and the usage of the Company's own assets is regularly monitored by the company's management by using techniques prescribed by the Ministry of Finance and reports are issued on quarterly basis.

The Company's assets are comprised of the main capital which includes: ordinary and preference shares, reserves, revaluation reserves and retained earnings or accumulated losses.

According to the legislative regulation the Company's share capital should be at least as high as the Guarantee Fund. The above mentioned requirement does not apply for the life insurance since the Company does not own a life insurance licence and therefore in the table for life insurance real capital is presented instead of guaranteed capital.

According to the solvency margin calculations the minimum capital that QBE Macedonia needs to maintain as at 31 December 2013 is as following:

Solvency margin

	2013		2012	
	Non-life insurance	Life insurance	Non-life insurance	Life insurance
Solvency margin	122.796.243	1.843.063	122.312.846	2.859.118
Guaranteed capital amount	276.800.850	**27.512.020**	276.750.000	115.018.108

5. Insurance and financial risk management (continued)

5.2.6 Capital management (continued)

The Insurance Company's solvency margin is calculated by using the Premium Rate Method or the Claims Rate Method, depending on which method provides higher result

- According to the premium rate method the total amount of gross written premium for insurance and reinsurance for the last business year is reduced for the amount of cancelled premium in the same year and the result is multiplied with specified coefficients.

- According to the claims rate method the total amount of gross paid claims for insurance and reinsurance in the last three business years is increased for the amount of gross claim reserves for insurance and reinsurance at the end of the last business year of the period and decreased for gross claim reserves for insurance and reinsurance at the beginning of that period and the result is divided by three and then multiplied with specified coefficients.

5. Insurance and financial risk management (continued)

5.2.6 A required level of solvency margin for non-life insurance

		Non-life insurance except medical insurance in MKD	
		Current year 2013	**Previous year 2012**
Gross written premium	1	695.158.993	688.602.316
Gross written premium < 10 million EUR x 0.18	2	110.720.340	110.700.000
Gross written premium > 10 million EUR x 0.16	3	12.807.358	11.776.371
Gross written premium < 10 million EUR x 18/300	4		
Gross written premium > 10 million EUR x 16/300	5		
Total Gross written premium ([6]=[2] + [3] or [6]=[4] + [5])	6	123.527.699	122.476.371
Gross claims paid	7	273.096.860	317.446.020
Net claims paid	8	271.479.747	317.022.181
Coefficient ([9]=[8]/[7] or 0.50, if smaller)	9	1.00	1.00
Solvency margin - Premium rate method ([10]= [6]*[9])	**10**	**122.796.243**	**122.312.846**
Reference period (in years)	11	3	3
Gross claims paid in the reference period	12	952.973.733	1.130.494.175
Gross claims reserves at the end of the reference period	13	236.283.449	261.562.419
Gross claims reserves at the beginning of the reference period	14	240.678.346	261.060.372
Gross incurred claims ([15]=[12] + [13] - [14])/[11])	15	316.192.945	376.998.741
Gross incurred claims < 7 million EUR x 0,26	16	82.210.166	98.019.673
Gross incurred claims > 7 million EUR x 0,23	17	-	-
Gross incurred claims < 7 million EUR x 26/300	18	-	-
Gross incurred claims > 7 million EUR x 23/300	19	-	-
Total Gross incurred claims ([20=[16] + [17] or [20]=[18] + [19]	20	**82.210.166**	98.019.673
Solvency margin – Claims rate method ([21]= [20]*[9])	**21**	**81.723.367**	**97.888.801**
Required level of solvency margin ([22]=max([10],[21]))	**22**	**122.796.243**	**122.312.846**

5. Insurance and financial risk management (continued)

5.2.6 B required level of solvency margin for life insurance

		Life insurance in MKD	
		Current year 2013	**Current year2012**
Gross mathematical reserve	1	43.901.286	68.376.460
Net mathematical reserve	2	43.901.286	68.376.460
Coefficient 1 ([3]=[2]/[1] or 0,85, if smaller)	3	1,00	1,00
Relevant factor	4	4.00%	4.00%
First result ([5]=[1]*[3]*[4]	5	1.756.051	2.735.058
Gross risk	6		
capital (if not	7		
negative	8	13.856.684	14.180.172
number)	9	41.570	42.540
Net risk capital (if not negative number)	10	13.856.684	20.827.904
Coefficient 2 ([11]=[10]/([6]+[7]+[8]) or 0,50, if smaller)	11	1	1,00
Second result ([12]=[9]*[11])	12	41.570	62.484
Capitalised assets	13		
Solvency margin for life insurance	**14**	**1.797.621**	**2.777.599**

5.2.6 C Required additional level of solvency margin for life insurance

		Additional insurance	
		Current year 2013	**Previous year 2012**
Gross written premium	1	252.451	452.886
Gross written premium < 10 million EUR x 0.18	2	45.411	81.519
Gross written premium > 10 million EUR x 0.16	3	-	-
Total Gross written premium ([4]=[2] + [3])	4	45.411	81.519
Gross paid claims	5	181.411	179.630
Net paid claims	6	181.411	179.630
Coefficient ([7]=[6]/[5] or 0.50 if smaller)	7	1,00	1,00
Additional solvency margin ([8]=[4]*[7])		**45.411**	**81.519**

5. Insurance and financial risk management (continued)

5.2.7 *Asset/liability matching*

The Law on insurance supervision prescribes certain limits regarding Company's asset/liability matching policy, i.e. limits up to which the Company may invest the assets that are used as coverage for the technical/mathematical reserves.

The Company manages its financial position using an approach that balances quality, liquidity and investment return, taking into consideration the limits prescribed by the Law on insurance supervision. The key goal is to match the timing of cash flows from the respective assets and liabilities.

In the schedule are presented technical reserves of the Company and whole assets which are used for coverage of Technical reserves and the equity.

Non-Life insurance	**2013**	**2012**
Assets		
Cash and cash equivalents (limit up to3%)	69.485	36.730
Government bills issued by R.Macedonia (limit up to 80%)	176.826	156.412
Government bonds and other securities issued by R.Macedonia (limit up to 80%)	14.986	-
Loans and advances to banks (deposits) which have licence from NBRM (limit up to 60%)	568.200	571.751
	829.497	**764.892**
Liabilities (Technical reserves)		
Gross insurance contract reserves	538.173	552.328
Unearned premium net of reinsurance (reinsurance share)	(10.258)	(9.636)
Total net technical reserves	**527.915**	**542.693**
	301.582	**222.201**

Life insurance	**2013**	**2012**
Assets		
Cash and cash equivalents (limit up to3%)	384	1.536
Government bills issued by R.Macedonia (limit up to 80%)	-	-
Government bonds and other securities issued by R.Macedonia (limit up to 80%)	19.944	-
Loans and advances to banks (deposits) which have licence from NBRM (limit up to 60%)	45.000	98.000
	65.328	**99.536**
Liabilities (Technical reserves)		
Gross insurance contract reserves	46.203	70.086
Unearned premium net of reinsurance (reinsurance share)	-	-
Total net technical reserves	**46.203**	**70.086**
	19.125	**26.179**

Asset/liability matching (continued)

As per the Law on insurance supervision requirements, the short-term bank deposits may not exceed 60% of the total investments assigned against insurance provisions and bond or other securities issued and guaranteed by the Republic of Macedonia may not exceed 80% of the total investments assigned against insurance provisions.

Financial investments that cover the technical reserves- non-life insurance

At 31 December 2013, the Company's short-term bank deposits represent 58.3% (2012 :60.5%), i.e. MKD 316.500 thousands are used as assets to cover the technical reserves from total assets, while the government bills represent 35.4%,i.e MKD 191.812 thousands (2012: MKD 156.412 thousands) from the total assets shown in the table above. According to the required statutory regulation limit for cash and cash equivalents, which is 3%, the Company as at 31.12.2013 is in compliance (2.9%), i.e. in amount of MKD 16.285 thousands (2012:MKD 16.570 thousands i.e. 2.9%), which is used as assets to cover the technical reserves. The remaining amounts from the table above are used as coverage assets for equity.

Financial investments that cover the mathematical / technical reserves- life insurance

At 31 December 2013, the Company's short-term bank deposits represent 48.7% (2012: 92.7%) (Required statutory regulation limit 60%) from total assets used as coverage for mathematical reserves. There are investments in government bonds in amount of 19,943,682 MKD and represent 40.4% from total assets used as coverage for mathematical reserves. According to the required statutory regulation limit for cash and cash equivalents, which is 3%, the Company as at 31.12.2013 is in compliance with 0.8% (2012:1,8%).

6. Net earned premium

	Gross written premium	Written premiums ceded to reinsurers	Change in the gross provision for unearned premiums	Reinsurers' share of change in the provision for unearned premiums	Net earned premium
2013					
Accident	91.748	874	2.,773	-	88.101
Motor vehicles	79,589	107	(7.365)	422	86.425
Aircraft	-	-	-	-	-
Marine	71	-	(108)	-	179
Cargo	24.918	5.597	(630)	53	19.898
Property-fire	91.703	26.415	(353)	(803)	66.444
Property-other	136.521	11.049	(2.646)	3.184	124.934
Motor vehicle liability insurance	230.567	12.241	11.647	1.066	205.613
Aircraft liability insurance	-	-	-	-	-
Marine liability insurance	208	-	(10)	-	218
General liability insurance	23.596	8.788	4.986	(3.572)	13.394
Guarantees	66	-	(17)	-	83
Financial loss	2.253	1.194	30	(343)	1.372
Travel assistance	13.919	-	(18)	-	13.937
Total	**695.159**	**66.265**	**8.289**	**7**	**620.598**

In the total amount of gross written premium of MKD 695.159 thousands is included gross written premium in amount of MKD 691.738 thousands and gross written premium for reinsurance in amount of MKD 3.421 thousands.

6. Net earned premium (continued)

	Gross written premium	Written premiums ceded to reinsurers	Change in the gross provision for unearned premiums	Reinsurers' share of change in the provision for unearned premiums	Net earned premium
2012					
Accident	86.991	2.109	3.389	-	88.271
Motor vehicles	96.544	2.062	6.833	307	101.622
Aircraft	-	-	-	-	-
Marine	-	-	-	-	-
Cargo	32.786	3.521	(85)	(230)	28.950
Property-fire	89.750	18.768	1.573	619	73.174
Property-other	139.613	8.067	4.116	783	136.445
Motor vehicle liability insurance	211.688	33.826	2.606	1.409	181.877
Aircraft liability insurance	-	-	-	-	-
Marine liability insurance	254	-	(33)	-	221
General liability insurance	16.718	2.648	(1.144)	(605)	12.321
Guarantees	105	-	3	-	108
Financial loss	2.734	-	172	-	2.906
Travel assistance	11.419	333	408	-	11.494
Total	**688.602**	**71.334**	**17.838**	**2.283**	**637.389**

In the total amount of gross written premium of MKD 688.602 thousands is included gross written premium in amount of MKD 683.113 thousands and gross written premium for reinsurance in amount of MKD 5.489 thousands.

7. Other insurance technical income net of reinsurance

	2013	2012
Collected written off receivables	14.706	10.778
Reinsurance commission	10.917	-
Income from guarantee fund for recourses	2.614	7.247
Income from guarantee fund for unknown and uninsured vehicle	830	-
Compensation for claims paid	5.303	5.237
Transferable bonus premium	5.282	5.408
Other (recourses from previous years)	3.719	1.381
Total	**43.371**	**30.051**

8. Other income

Other income	**2013**	**2012**
Collected court costs	2.447	1.932
Rent income	5.627	6.185
Other insurance related income	984	1.637
IT service income	3.100	4.226
Income from disposal of property		-
Income from W/o Liabilities - Reinsurance	1.989	-
Income from penalties		-
W/O income		65.143
Other	429	955
Total	**14.576**	**80.078**

9. Claims incurred

	2013		**2012**	
	Gross claims paid	**Change in gross reserve for claims**	**Gross claims paid**	**Change in gross reserve for claims**
Accident	38.784	(63)	45.371	(1.287)
Motor vehicles	49.198	(2.952)	67.005	(4.400)
Aircraft			-	-
Marine			-	-
Cargo	165	24	1.008	(597)
Property-fire	10.602	4.632	11.655	(1.500)
Property-other	48.205	(9.207)	54.203	7.361
Motor vehicles liability insurance	121.932	(15.144)	134.512	(11.137)
Aircraft liability insurance			-	-
Marine liability insurance			-	-
General liability	685	507	501	(413)
Guarantees		13	-	1.079
Financial loss	176	(5)	446	(69)
Travel assistance	3.350	-249	2.745	(52)
Claims from active insurance			-	
Total	**273.097**	**(22.444)**	**317.446**	**(11.015)**
Decrease of income for recourses	**(8.951)**		**(11.568)**	
Change in gross reserves for claims	**(2.247)**		**328**	
Gross claims paid	**239.455**		**295.191**	

9. Claims incurred (continued)

Claims ratio, cost ration and combined ration-Non-life

	2013 Ratios			2012 Ratios		
Insurance class	**Claims**	**Cost**	**Combined**	**Claims**	**Cost**	**Combined**
Accident	44%	50%	94%	50%	54%	104%
Casco	51%	44%	85%	58%	49%	107%
Cargo	%	17%	17%	1%	59%	60%
Property – fire	1%	56%	57%	14%	66%	80%
Property – other	21%	69%	90%	45%	60%	105%
MTPL т	49%	55%	104%	64%	65%	129%
Marine liability insurance	0%	1%	1%	0%	55%	55%
General liability insurance	9%	86%	95%	1%	78%	79%
Guarantees	16%	32%	48%	1004%	45%	1049%
Financial loss	13%	1%	14%	13%	66%	79%
Travel assistance	18%	66%	84%	23%	69%	92%
Total	**38%**	**55%**	**93%**	**46%**	**60%**	**106%**

10. Net expenses for insurance

	2013	**2012**
Broker's fee	24.431	21.842
Advocacy agency's fee	44.789	40.152
RI commission	631	831
Salaries for agents	60.994	66.315
Marketing	8.012	5.950
Representation	2.485	1.603
Deferred acquisition cost	-28.665	-
Salaries for administration	88.059	94.465
Other employee benefits	2.428	7.661
Remuneration for members of the Management Board	4.585	4.287
Heat and electrical energy	21.752	24.753
Mailing costs	3.066	3.471
Mobile phone and internet	4.331	4.738
Utility costs	4.155	2.141
Current and investment maintenance	9.505	14.675
Security	5.030	5.407
Administrative court expenses	2.942	1.465
Insurance premium	3.716	3.786
Depreciation	12.966	15.342
Other administrative expenses	21.324	19.626
Total	**296.536**	**338.510**

Durring year 2013 Expenses of the company were corrected for Defered Aquisition costs.

11. Other insurance technical expenses

	2013	2012
Expenses for claims payment of uninsured and unknown vehicles	7.675	7.057
Contribution for fire prevention	6.940	7.070
Health contribution	2.199	2.040
Expenses for Supervisory Authority	6.077	6.613
National Biro for insurance financing	1.987	1.831
Other	869	825
Total	**25.747**	**25.436**

12. Other expenses including other impairment

	2013	2012
Write off of recourse debts		-
Write off of service paid claims	11	1.429
Impairment of receivables based on recourses	3.348	26.703
Impairment of the receivables	-	53
Impairment and write off of receivables based on rent	3.089	214
W/o on receivables from QBE	3.789	111.519
Regresses expenses	-	8.079
Other expenses	18.940	33.332
Total	**29.177**	**181.329**

13. Income Tax

	2012	2012
Income tax	2.442	12.663
Total	**2.442**	**12.663**

Reconciliation of effective tax rate

	2012		2012	
	Life	**Non-life**	**Life**	**Non-life**
Profit before tax	-	-	-	-
Loss before tax	3.041	93.228	65.143	152.357
Income tax using the domestic corporation tax rate	456	2.443	6.514	12.663
Non-deductable expenses	4.566	24.425	65.143	126.635
Tax credit	-	-	-	-
Income tax	**456**	**2.443**	**6.514**	**12.663**

The tax authorities are authorised to carry out a full-scope tax audit at the Company for the year ended 31 December 2013. The tax authorities may at any time inspect the books and records within 5 to 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

14. Investment in intangible assets

	2013	**2012**
Balance at 1 January		
Cost	15.124	15.104
Accumulated depreciation	(14.723)	(14.308)
Net book amount		
At 31 December	**401**	**796**
Opening net book amount	401	796
Additions	2.853	20
Depreciation charge	718	415
Closing net book amount at 31 December	2.536	401
Cost	17.977	15.124
Accumulated depreciation	(15.441)	(14.723)
Net carrying amount	**2.536**	**401**

15. Investment property

	2013	2012
At 1 January		
Cost	880.346	879.184
Accumulated depreciation	(263.877)	(241.099)
Net book amount	**616.469**	**638.085**
Year ended 31 December		
Opening net book amount	616.469	638.085
Additions	6.803	5.353
Disposals and write-off	(28.784)	(4.191)
Transfer from property and equipment book value	70.105	-
Transfer from property and equipment accumulated depreciation	(11.980)	
Depreciation charge	708	-
	(24.221)	(22.778)
Closing net book amount		
	628.392	**616.469**
At 31 December		
Cost		
Accumulated depreciation	927.762	880.346
	(299.370)	(263.877)
Net book amount	**628.392**	**616.469**

The fair value of the investment property as at 31 December 2013 is in the amount of MKD 727,475 thousand.

*The line item buildings in amount of MKD 249.864 thousands and assets in course of construction in amount of MKD 217 thousands are presented on total in the balance sheet in Buildings.
**The line item computers, furniture and equipment, motor vehicles and assets in course of construction equipment are presented on total in the balance sheet in Equipment.

16. Property and equipment

	Buildings	Computer	Furniture & Equipment	Motor vehicles	Assets in course of construction buildings	Assets in course of construction equipment	Other	Total
At 1 January 2012								
Cost	318.737	66.476	206.425	16.313	1.247	475	1.426	611.099
Accumulated depreciation	99.702	58.879	197.911	10.689				367.181
Net book amount	**219.035**	**7.597**	**8.514**	**5.624**	**1.247**	**475**	**1.426**	**243.918**
Year ended 31 December 2012								
Opening net book amount	219.035	7.597	8.514	5.624	1.247	475	1.426	**243.918**
Additions	1.328	1.317	1.311	1.651	4.799	4.734	172	**15.312**
Transfers from assets in course of construction	(1.916)	-	-	-	(3.903)	(4.614)	-	(10.433)
Transfers from investment property	(4.700)	-	-	-	-	-	-	(4.700)
Elimination and disposal		(2)	-	-	-	-	-	**(2)**
Depreciation charge	(7.761)	(3.459)	(1.799)	(2.586)	-	-	-	**(15.605)**
Closing net book amount at 31 December 2012	**205.986**	**5.453**	**8.026**	**4.689**	**2.143**	**596**	**1.598**	**228.490**
Cost	311.710	69.080	187.173	12.255	161.	1.307	1.598	583.284
Accumulated depreciation	111.584	65.176	181.023	9.424	-	-	-	367.206
Net book amount	**200.126**	**3.904**	**6.150**	**2.831**	**161**	**1.307**	**1.598**	**216.077**
Opening net book amount	200.126	**3.904**	**6.150**	**2.831**	**161**	**1.307**	**1.598**	**216.077**
Additions	1.620	2.663	4.059	1,906	56	263	0	10,567
Transfer from investment property - book cost	(70.105)							(70,105)
Transfer from investment property accumulated depreciation	25.228							25.228
Elimination and disposal		-95	-50					(145)
Efect to revaluated cost of properties	165.526							165,526
Efect to revaluated accumulated	(66.474)							(66,474)
Depreciation charge	(6.057)	(2.612)	(2.796)	(1501)				(12,966)
Closing net book amount as at 31 December 2013	249,864	3.860	7.363	3,236	217	1,570	1,598	267,708
Cost	**433.979**	**71.648**	**191,182**	**14,161**	**217**	**1.570**	**1.598**	**714.355**
Accumulated depreciation	**181.115**	**67,788**	**183,819**	**10,925**	**0**	**0**	**0**	**446.646**
Net book amount as at 31 December 2013	**249.864**	**3.860**	**7.363**	**3.236**	**217**	**1.570**	**1.598**	**267.708**

*The line item buildings in amount of MKD 249.864 thousands and assets in course of construction in amount of MKD 217 thousands are presented on total in the balance sheet in Buildings.
**The line item computers, furniture and equipment, motor vehicles and assets in course of construction equipment are presented on total in the balance sheet in Equipment.

17. Other financial investments

	2013	2012
Assets held to maturity	176.826	156.412
Deposits	568.200	571.751
	14.986	-
Financial assets available for sale	185.610	183.824
Banks	72.661	70.570
Other institutions	57.033	57.033
Total	**1.075.316**	**1.039.590**
Impairment	(296.701)	(285.279)
Net amount	**778.615**	**754.311**

18. Receivables from immediate work of insurance

	2013	2012
Insurance receivables	713.119	879.386
Other receivables from insurance	73.394	141.977
Total	**786.513**	**1.021.363**
Impairment	**(590.691)**	**(834.884)**
Total	**195.822**	**186.479**

Movement of imparement of receivables - immediate work of insurance

	2013	2012
Balance as at 1 of January	**834,884**	**710,088**
Additional impairment	19,833	137.508
Release of impairment	(11,570)	
Write off	(252,444)	**(12.712)**
Balance as at 31 of December	**590,691**	**834,884**

19. Other receivables from direct insurance operations

	2013	2012
Recourse receivables	28.713	43.511
Receivables for service claims paid	22.212	20.271
Receivables from the National Bureau	15.569	7.615
Receivables from QBE Reinsurance ltd.	4.548	-
Receivables for claims	5.156	5.157
Receivables based on given advances	5.415	5.415
Total receivables	**81.613**	**81.969**
Impairment	**(33.499)**	**(45.272)**
Total	**48.114**	**36.697**

19. Other receivables from direct insurance operations

Movement of imparement of other receivables

	2013	2012
Balance as at 1 of January	**45.272**	**25.527**
Additional impairment	5.050	28.132
Release of impairment	(1.692)	
Write off	(15.131)	**(8.387)**
Balance as at 31 of December	**33.499**	**45,272**

20. Receivables from financial investments

	2013	2012
Interest receivables	596	777
Receivable for rent	8.846	17.435
Receivables from trading securities	7.355	1.588
Total	**16.797**	**19.800**
Impairment	**(3.283)**	**(2.762)**
Total	**13.514**	**17.038**

21. Other receivables

	2013	2012
Receivables from employees	727	871
Receivables from QBE	114.607	111.519
Receivables from jointly controlled entities	419	158
Suppliers receivables - other		15
Other receivables	30	-
Total receivables	115.783	112.563
Provision	(114.607)	(111.519)
Net receivables	**1.176**	**1.044**

Movement of imparement of receivables - other

	2013	2012
Balance as at 1 of January	111.519	-
Additional impairment	3.088	111.519
Release of impairment	-	-
Write off	-	-
Balance as at 31 of December	114.607	111.519

The amount of MKD 114.607 thousands (2012 MKD 111.519) is receivable from QBE Insurance International that refers to optional rights of employees in Macedonia Insurance during the time period from 2002 up to 2013, paid out Macedonia Insurance in the name of QBE Insurance International. For them in 2012 and 2013 in accordance with reconciliation of intercompany receivables and payables with mother company, Makedonija made provision in total amount of MKD 114.607 thousands.

22. Cash and cash equivalents

	2013	2012
Cash on hand		
- in denars	23	46
- in foreign currency		
Cash in banks	64.041	33.884
-in denars		
- in foreign currency	5.421	2.800
Total	**69.485**	**36.730**

23. Technical reserves

	2013	2012
Gross reserves for unwritten premium	297.292	289.004
Gross reserves for incurred reported claims	131.417	159.201
Gross reserves for incurred but not reported claims	101.375	101.060
Reserves for bonuses and discounts	4.597	1.762
Other technical reserves	3.492	1.301
Gross technical reserves	**538.173**	**552.328**

24. Other liabilities

	2013	2012
Received insurance advances	7,639	8.853
Fees for agents	7,433	5.360
Liabilities towards QBE	191,415	196.188
Liabilities for contributions and membership	1,554	1.879
Liabilities towards the National Bureau	939	483
Liabilities for suppliers of material assets	1,573	1.307
Liabilities for suppliers of working capital	8,601	8.029
Liabilities towards employees	8,535	8.412
Liabilities for contributions and taxes	4,010	4.001
Liabilities for life insurance	1,460	1.715
Total	**233,159**	**236.227**

25. Accrued expenses

	2013	2012
Calculated liabilities for reinsurance	65,175	59.942
CalculatedcCommission	2,267	3.737
Calculated fees	2.876	11.159
Liabilities for contribution to fire brigade	18.961	14.088
Other	6.654	1.044
Total	**95.933**	**89.970**

26. Shareholders equity and reserves

Shareholders' equity

In number of shares	**2013**	**2012**
Issued and fully paid at 1 January	717.462	717.462
Issued during the year	-	-
Issued and fully paid at 31 December	**717.462**	**717.462**

At 31 December 2013 the authorised share capital **comprises 717.462** (2012: 636,645 ordinary shares with a par value of EUR 51.13 each and 80,817 preference participative shares with no voting right value of EUR 51.13). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

During 2013 the Company through stock exchange transaction was undertaken by the Vienna Insurance Group (Vienna Insurance Group VIG). Vienna Insurance Group - VIG is a leading name in Austria, as well as in Central and Eastern Europe with almost 190 years experience in the insurance business. On shareholders assembly all preferred shares which were previously owned by the Fund PIO were transformed into ordinary shares.

The shareholders' structure as at 31.12.2013 of the Company is as follows:

	% of voting share capital
Виена Иншуренс Груп (Vienna Insurance Group VIG)	94.25%
Other legal entities and individuals	5.75%

Dividends

After producing the balance sheet of the Company Board of Directors in accordance with settled law under legislation adopted draft decision on the distribution of part of the profits to pay dividends in gross amount of MKD 34.203 thousands, in amount of 43 MKD per share.

27. Administrative expenses- life insurance

	2013	**2012**
Bank charges	65	66
Other insurance related expenses	984	1.638
Total	**1.049**	**1.704**

28. Other receivables- life insurance

	2013	**2012**
Receivables for advance claims paid	-	4.566
Receivables of financial investments	1.520	-

Receivables from non-life insurance	-	135
Total	**1.520**	**4.701**

28. Other receivables- life insurance

During 2013 Company did analyse on other receivables in life. After review of the following balance of advance claims paid and due to their nature and aging (originated from before 2005) the company made decision for write off. Writte off is reported as expense in life business in amount of MKD 4.566 k thousands and as unrecognized tax expense is tax base for profit tax in life business.

In accordance with Instructions for processing of activities between National Bureau and Insurance companies in 2012 Company reported off balance sheet provision for uninsured and unknown motor vehicle claims in amount of MKD 17.097 thousands.

29. Related parties transactions

Parent and ultimate parent of the Company

The Company' major shareholder is Vienna Insurance Group VIG.

Related party transactions with the Parent

At the year end the balances from transactions with the Parent were as follows (comparing figures for 2012 are presented with QBE Reinsurance (Europe) Limited).

	2013	**2012**
Insurance and other receivables	5.014	-
Liabilities from reinsurance	10.620	50.444
Other liabilities	-	144.563
Net liabilities	**5.606**	**195.007**

During 2012 QBE Insurance Macedonia did intercompany reconciliation on receivables and payables with Mother Company. By this part of receivables were netted with payables, other part of payables was paid out.

During the year the transactions with Vienna Insurance Group VIG were as follows:

	2013	***2012***
Reinsurance payables	42.175	123.943
Income from provisions	8.695	424
	33.480	**123.519**

Transactions with key management personnel

Total remuneration to the Company's key management personnel, included in administrative expenses are as follows:

	2013	2012
Short-term benefits	4.585	4.287
	4.585	**4.287**

30. Contingencies and commitments

Legal proceedings

In the normal course of business, claims against the Company may be received. Based on its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

31. Post balance sheet events

No material events subsequent to the balance sheet date have occurred which require disclosure in the financial statements for the year ended 31 December 2013.

Changes in the income tax Law

According to the changes in the income tax Law, effective from the 30th of January 2014, reciveables for loans which are uncollected within the same year, are considered non-deductible expenses for tax purposes.