STOCK COMPANY FOR INSURANCE AND REINSURANCE QBE MACEDONIA
ANNUAL REPORT 2012

BUSINESS POLICY

QBE Makedonija Insurance continuously identifies, assesses and estimates the exposure of its operation to many risks and manages those risks in a way which will ensure that these are maintained at permanent risk level (risk tolerance) which may not significantly affect the property of the Company and its operation whereas it will ensure that the interest of the shareholders, insureds, any third parties and creditors of the Company are protected in compliance with the legal regulations and requirements and in accordance with the statutory regulations and internal policies and procedures. As a part of our business policy key areas of risk have been identified and effective way has been established to control and manage those risks.

HISTORY

- The Company was established in 1945 as a State Insurance Institute of Federal National Republic of Yugoslavia.
- 1974 the Communities for Property and Life Insurance were established or ZOIL;
- 1990 Company capital transformation;
- Since 01 January 1991 Stock Company for Insurance;
- 1993 the Company included reinsurance within its business portfolio;
- 1998 Company privatisation process initiated;
- 2000 QBE London became major Shareholder;
- 2006 Company capital transformation concluded and QBE Re Dublin, Republic of Ireland became Major Shareholder.

The Board of Directors' President's report

"QBE Macedonia Insurance is an insurer which rooted deeply in the Macedonian insurance market building subconscious brand awareness for clients as a stable, skilled and hard-working company which may survive under hard conditions and face any challenges."

MR. ANDREJA JOSIFOVSKI

For QBE Macedonia Insurance 2012 was a rather complicated year in terms of either the economic and market conditions under which the ordinary business operates or the specific situation which additionally featured the preceding year as it was the announcement of the shareholder QBE Insurance Group to sell its majority shareholding.

Given all factors which more than ever challenged the Management Team and the staff of the Company, we may say that the result we had expected was achieved to the extend which gave no jeopardy to shareholders' interest on a long term nor at any moment tempted our liabilities to clients.

This is only to confirm that QBE Macedonia Insurance is an insurer which rooted deeply in the Macedonian insurance market building subconscious brand awareness for clients as a stable, skilled and hard-working company which may survive under hard conditions and face any challenges.

Once more we certify that we remain long-standing player among leading insurers and quality decision makers in the insurance market. We balance between various requirements imposed by the insurance market and the possible solutions thereto which may not always advantage the lower price, but the stable and secure protection through profound risk understanding which proves to be more suitable solution to our clients who expect quality service delivery they recognise we provide.
Insurance is an act of taking responsible approach to any valuable item and everything which is created by love and effort and everything we take care of in our lives. We do respect the needs of our clients for safety and security when insurance is considered. We also respect the nature and all forms of her power. Therefore everything we do and the way we operate reflects our responsibility and respect towards our clients and to other people and to the nature in general.

Our contemporary approach to underwriting ensures that we manage risks in a focused and understandable manner. We build strong relations with our clients based on trust and soundness giving them continuous support in their developments. We are especially proud of our financially superior and top quality claims service delivery in terms of any losses against insured risks.

I wish to thank the Management team for their work and engagement in 2012. I wish to acknowledge the hard work and contribution of all staff for being diligent in fulfilling the strategic goals. It is the proactive approach that I particularly believe is expected for all of us in the year ahead by preserving the values we cherish.

GENERAL MANAGER'S REPORT

> "Our primary target for successful Company operation will be to retain quality clients and if possible increase their number for those classes of business which are more profitable."

MR. BOSKO ANDOV

In 2012 QBE Macedonia produced insurance loss after income tax of MKD 237 million. This insurance loss originated from the restricted insurance regulatory requirements governed by the Insurance Supervision Agency. During 2012 we created additional provisions of about MKD 140 million principally in terms of outstanding premium (premiums due but not yet collected) whereby we completely complied with the above mentioned regulations.

On the other hand our efforts directed to collecting old debts despite reduced premium volume resulted in decrease in our liabilities in total for the amount of MKD 74 million. The report of the regulatory bogy states that as at December 31, 2012 the liquidity ratio is 1.32 and in comparison with the ratio of 1.21 determined at the beginning of the business year it confirms that the company increased its liquidity ratio for 10%. As a significant fact I will point out that not any settled claims remain unpaid for more than 2 days although the statutory payment requirement is 14 days.

In 2012 written premium for non-life insurance business amounted to MKD 683 million which is for 8.1% less than for 2011 and it mostly considered motor third party liability for 8.2%.

Net written premium for life insurance business is MKD 8 million or for MKD 3.3 million less than for 2011. As it is well known for the present life insurance policies QBE Makedonija Insurance is obliged to service until either their expiry or premature redemption as the Company ceased to write this business in 2004.

We may conclude again that generally the conditions on the Macedonian insurance market did not make any progress whatsoever. The competition among 11 insurers in the insurance market with total written premium of about Euro 100 million for non-life insurance business continued its activities during 2012 whereat most of the insurers and especially those which entered the insurance market in the last few years tried to obtain their market share and acquire certain positions in the society by excessive decrease in premium rates and constant increase in commissioning for underwriting agencies and intermediaries which was already calculated loss or minimum profit for them. Even in 2012 the insurance profit resulted from underwriting activities under life insurance portfolio.

Similar to the results shown for 2011 it is in 2012 that more than 15% of the total gross written premium in the country was placed with reinsurers which shows that net written premium withhold by direct insurers primarily in terms of property insurance and aircraft hull and liability insurance is disturbingly small. Even just the fact itself that motor insurance takes such a high percentage of the total insurance premium shows that the general awareness for insurance in R. Macedonia is relatively low.

The combined ratio of total expenses incurred and commissions paid to underwriting agencies and intermediaries to net earned premiums written (gross written premium less reinsurance premium) for 2012 was also above 50% compared with around 40% which is evident for developed insurance markets. This is the main reason for a very low profitability of the Macedonian insurance market but also an indicator that total insurance premium in Macedonia shows unrealistic value and it seems that goes far beyond the rational premium volume.

Given the environment in which QBE Macedonia operates it is our essential assignment to ensure that financial stability and profitability of the company is maintained which we accomplish through our disciplined underwriting policy and rigorous control over solvency and liquidity of our clients.

The volume of incurred and reserved claims at 2012 was decreased from 1733 to 1431 or for more than 17% which was achieved by enormous engagements of all our claims staff. Hereby I would like to point out that we are absolutely the best providers of quality service delivery not only in prompt payment of indemnities for claims but also in the way we estimate claims whereby we avoid unpleasant moments with our clients in relation to lawsuits and litigations.

We instantly react in situations in which our clients face difficult moments and in fact prove our existence of being an insurance company for them. This is evidenced by the fact that we closed 2012 with less than 250 open passive litigations most of which were rather old – for some it took more than 3 years and this fact speaks for itself that no new insurance policies have been disputed. This is a 20% decrease compared with 2011. The changes we introduced in our philosophy for understating the claims settlement process resulted in this drastic decrease in disputed cases which on the other hand leads to additional financial stability and a possibility to ease cash flow management and increase investment income. This fact has been evidenced by the Insurance Supervision Agency confirming that our company proves to be the only insurer with minimum complains on its operations.

During 2012 we continued the process of developing our distribution network and using the opportunity for cooperation with underwriting agencies. During the year the underwriting agencies with which we cooperate have increased the number of their insurance agents which directly resulted in the increase in the volume of insurance premium written by them. As a company we show our intention of improving this cooperation on a higher level and our active efforts in providing proper training and education to insurance agents.

In 2012 the investment income was reduced compared with 2011 due to the fact that banks deposit interests were decreased for about 12.2% in average or from 4.2% to 3.69% in average. We managed to keep the property rental income at relatively high level, nevertheless the decrease thereof of MKD 4.681.655 is apparent and expected considering the actual condition of the real estate market in our country.

Our targets in terms of Company capital management have been fully accomplished which means that Company capital complies completely with the statutory requirements and therefore ensures stable and high quality foundation for development of the Company and protection of shareholders' wealth. Therefore during 2012 the Company made the adjustments of the nominal value of shares entered in the shareholder ledger to the book value entered in the accounting books of the Company. The difference in value originates in 1998 when following the provisions of the Insurance Law (Official Gazette of RM no. 49/97) and the Law on transformation of state owned enterprises (Official Gazette of RM no. 39/98) the state owned capital was transformed. When the transformation process was carried out and during the present operations of the Company the difference in value of the charter capital as entered into the Company Charter (and entered in the commercial register) to the booked share capital as entered in the accounting books did not affect the solvency and the liquidity capacity of the Company in its everyday operations. For the purpose of avoiding any future contingency and ensuring appropriate protection of the Company and its shareholders in terms of risk control management the reconciliation was carried out of the share capital value as registered in the Trade register to the booked share capital value as entered into the accounting books in relation to Share capital entered into the Trade register.

Furthermore, technical reserves are absolutely covered by legally approved investments. We are proud to emphasize that we are the most solvent insurer in this market. We may support this fact by our capital which is 4 times above the required level of guarantee capital or almost 2 times above the second ranged insurer's capital in this market and 3.5 times above the average level. Moreover our capital is almost 9 times beyond the required solvency margin or 2.5 times over the average amount noted in the market.

In 2013 we will be facing difficult challenges. It is inevitable that further pressure on premium rates is still expected. The increase in commissions for underwriting agencies and intermediaries is also expected to escalate more than it was the case in 2012. For the last several years we have witnessed that the total premium written by all insurers in terms of accident and casco insurance lines have been declining and the same trend is expected in 2013. During the same period total premium under motor liability insurance policies has increased but in 2013 I do not expect any further increase in this class of business. In relation to other classes of business they retain the constant volume of written premium for many years (property insurance, travel insurance) or the market share thereof is so small to show any significant increase which may affect the total premium written either by our company or other insurers in the market.

Our primary target for successful Company operation will be to retain quality clients and if possible increase their number for those classes of business which are more profitable.

Furthermore we certainly expect to settle old disputed claims which will result in decreasing the provision for incurred claims. In addition we expect to face difficulties in premium collection due to deteriorated liquidity of the economy whereas we forecast collection of outstanding premium and premium under old legal cases which will in some way affect our liquidity and improve it despite the general image of the environment.

The interests on bank deposits and treasury bills are foreseen to continue falling down but considering our forecast on collection of bed debts our total investment income may not be under the level as reached in 2012.

In 2013 we will continue the alienation of our property which is not used for insurance activities and therefore considerably improve our cash flow.

The number of staff at the end of 2012 was reduced compared with 2011 for 14 and totalled 198. By the end of 2013 we foresee that the number of staff will be around 180 employees.

I would like to acknowledge and thank the management team and all staff for their engagement and contribution in achieving the strategic goals of the Company.

Notwithstanding hard economic environment I wish prosperous and successful 2013 and do hope it shall be so and therefore invite all our employees and partners face the challenges by taking innovative, entrepreneurial and professional approach.

Corporate Governance

"In 2013 we will continue our activities to observe the legal regulations in R. Makedonija and develop and improve over 20 compliance policies from which the control over more than 35 risk exposures will be derived for the Company to face with in its normal course of operation. Given the above mentioned policies which we implement and the control over the risk exposures our Company proves to be an insurer focussed on protecting the shareholders' interests and wealth and policyholders and business partners."

MR. RISTE SEKULOVSKI

THE SECOND EXECUTIVE DIRECTOR'S REPORT

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 shareholder wealth we are continuously devoted to everyday activities on meeting the obligations which arise out of compliance and risk management which 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. I will say again that the Compliance function and generally the operation of the Company fully comply with the regulations and provisions laid down by the Law on Insurance as lex specialis for all insurers and other legislative requirements which regulate our industry.

In 2012 the Board of Directors at their regular meetings approved resolutions 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.

Hereto I would mention the change of ownership to shares in Company capital. Under the merger of several companies within QBE Group whereby one reinsurance company is established thereafter during 2012 the ownership to shares in the capital changed when qualified participation in the capital of the Company was acquired. Upon previous approval issued by the Insurance Supervision Agency and the proper registration in the Central Securities Depository the reinsurance company QBE RE (Europe) Limited became a new shareholder acquiring the qualifying participation in the Company capital.

In 2013 we will continue our activities to observe the legal regulations in R. Makedonija and develop and improve over 20 compliance policies from which the control over more than 35 risk exposures will be derived for the Company to face with in its normal course of operation. Given the above mentioned policies which we implement and the control over the risk exposures our Company proves to be an insurer focussed on protecting the shareholders' interests and wealth and policyholders and business partners.

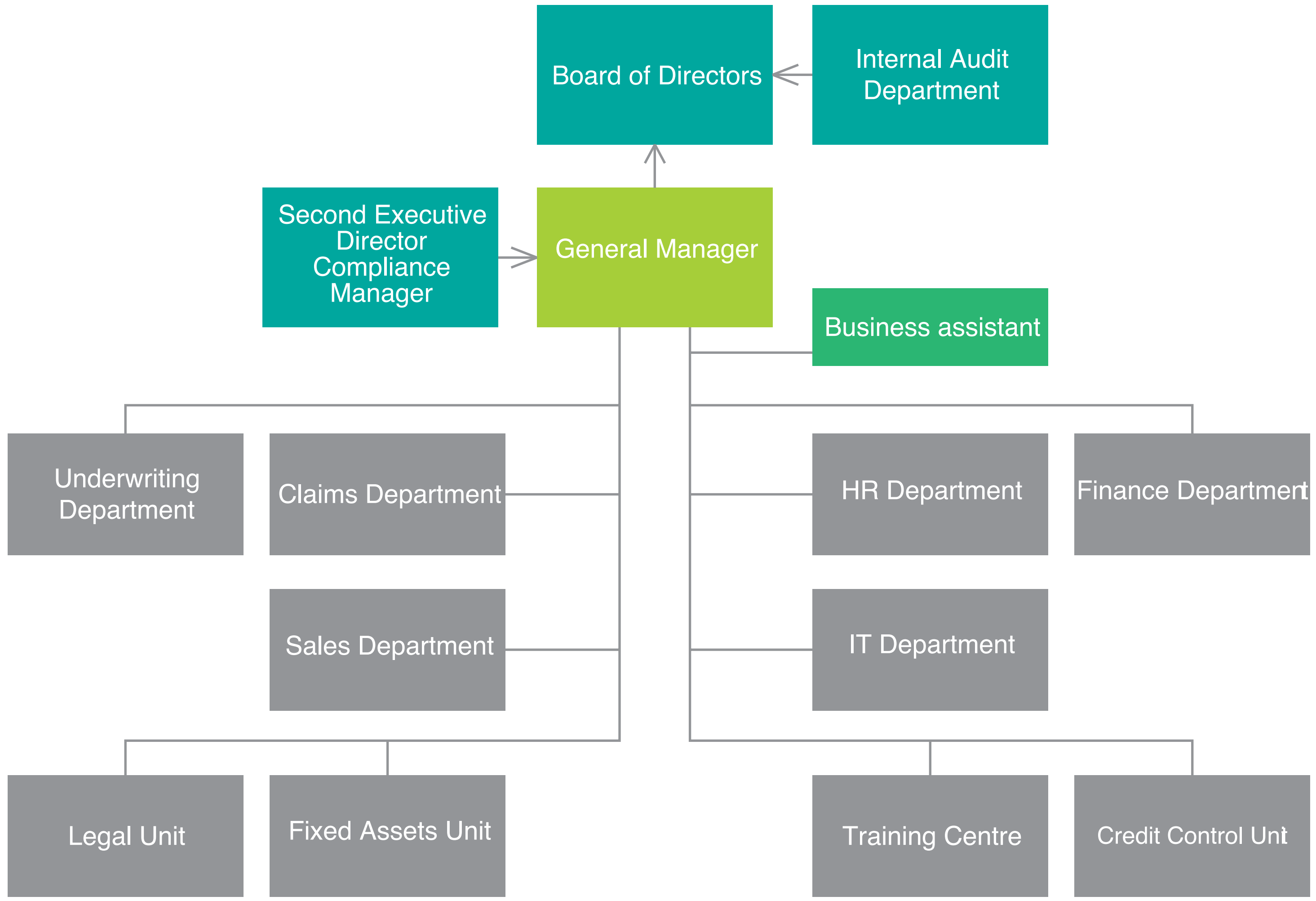
Besides the above mentioned in 2013 the mostly attracted issue will be the consideration for the transfer of ownership in the capital of the Company whereby certain necessary activities have already been carried out for the transfer of ownership from QBE Group to Insurance Group from Austria.

I wish to thank all my colleagues for their wholehearted support to the management team to ensure compliance with legal regulations in 2012.

Organisational Structure and Business Network

Pursuant to the Statute which complies with the Law on Insurance Supervision and the Trade Companies Law one-tier corporate governance system has been established that is in the Board of Directors.

The Board of Directors comprises 5 members: Andreja Josifovski (President of the Board of Directors), Bosko Andov (First executive member of the Board of Directors and the General Manager), Risto Sekulovski (Second executive member and Compliance Manager), and Dan Carroll and Petko Toncev (Non-executive members).



Management team

MR. FILIP MESHKOV, MR. ZORAN ALEKSOVSKI, MRS. VESNA GJORCEVA, MRS. VESNA BOGDANOVSKA, MR. BOSHKO ANDOV, MR. MARJAN ORUCOSKI, MRS. MARGARETA GOSHEVA, MRS. KEVSER LALICIC, MR. ZORAN TODOROVSKI

BOSHKO ANDOV, GENERAL MANAGER

Mr. Boshko Andov has worked at QBE Makedonija since 1993 beginning his 19 year experience in insurance as Property insurance underwriter. From 1999 up to 2002 he worked as Portfolio manager for property insurance. From 2002 to 2003 he was Assistant general manager for property insurance and from 2003 to 2004 Assistant General manager for all classes of insurance. He was appointed to the role of General manager in 2004 and since 2010 he has also been the First executive member of the Board of directors of the Company.

VESNA GJORCEVA, UNDERWRITING MANAGER

Mrs. Vesna Gjorceva has worked at QBE Makedonija since 1999 as Senior expert associate for insurance and building claims settlement officer. From June 2003 to October 2004 she held the function of Property manager and she was appointed Underwriting manager in October 2004. Today she manages the underwriting processes for all classes of business and administering insurance policies and their supporting documentation and is also responsible for marketing management.

ZORAN TODOROVSKI, CLAIMS MANAGER

Mr. Zoran Todorovski has extensive experience in insurance for 26 years. He worked at QBE Makedonija since 1986 as Senior expert for property insurance. From 1989 to 2000 he held many different functions for property insurance, motor insurance and claim assessment and settlement. He was appointed Head of Property office in 2000 and appointed Property manager in 2004. He has been appointed to the role of Claims manager in 2008.

ZORAN ALEKSOVSKI, WEST REGIONAL SALES MANAGER

Mr. Zoran Aleksovski has worked at QBE Makedonija since 1990 as an insurance solicitor for major property clients. He was appointed Sales team manager in 2003 and since 2003 he has been Regional sales manager responsible for businesses written by insurance agents and insurance agencies in Skopje and West region.

MARJAN ORUCOSKI, EAST REGIONAL SALES MANAGER

Mr. Marjan Orucoski has started his career in insurance in 1994 as an insurance agent in the insurance agency "Polisa" and continued as Sales team manager. He joined the Sales Department following the merger of Polisa to QBE Makedonija in 2002. He was appointed Regional sales manager in 2003 responsible for businesses written by insurance agents and insurance agencies in Skopje and East region.

FILIP MESHKOV, NON-AGENT SALES MANAGER

Mr. Filip Meshkov began his career in HR at QBE Makedonija in 1998. From 2001 to 2003 he was Assistant manager to Operating manager for the project "Secure Future" and from 2003 to 2004 he was Assistant manager to General manager. From 2004 to 2006 he held the function of Administration and service manager and was appointed Non-agent sales manager in 2006.

MARGARETA GOSHEVA, FINANCE MANAGER

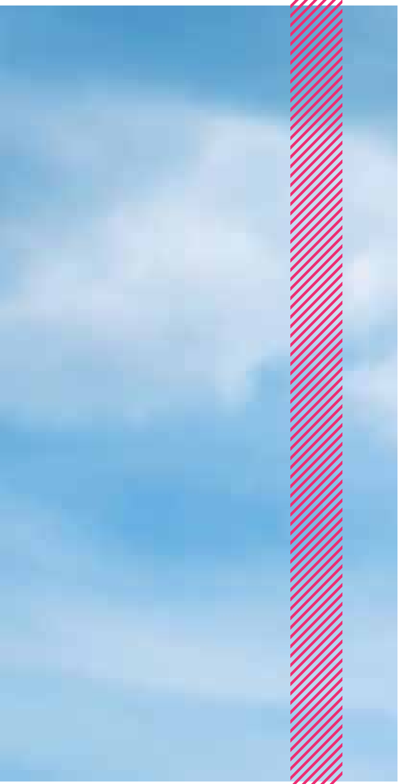
Mrs. Margareta Gosheva has worked at QBE Makedonija since 2002 as Financial reports manager. From 2004 to 2006 she held the function of Accounting manager and reporting. Today she runs the Finance Department being appointed Finance manager in 2006.

KEVSER LALICIC, IT MANAGER

Mrs. Kevser Lalicic has worked at QBE Makedonija since 1982 building her career in IT department as developer. From 1993 to 2003 she was Assistant to IT development team. She was appointed IT manager in 2003.

VESNA BOGDANOVSKA, HR MANAGER

Mrs. Vesna Bogdanovska has worked at QBE Makedonija since 1994 and began her career as insurance solicitor. From 2001 to 2002 she was Analyst for business processes and from 2002 to 2004 she was Project team leader for coordination and implementation of several projects. From 2004 to 2006 she was a member of the internal audit team. She was appointed Salary and Personnel manager in 2006 and appointed HR manager in 2008.



Operational Performance

Underwriting

> "Our general approach in terms of 2013 targets is the maintenance of profitable business classes which remains our primary goal. 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 and will consider insurance contracts of positive results."

MRS VESNA GJORCEVA

UNDERWRITING MANAGER

It is the consistency policy on control system practise in underwriting insurance that almost always results in the positive technical results for all classes of business.

This is the policy which in terms of the technical result was practised by the Underwriting every day during 2012 with absolute success whereat besides underwriting management and control we administer the recordkeeping process in terms of insurance policies and supporting documentation. This includes processing of over 78.000 underwriting cases, most of which are motor vehicle insurance policies, compulsory MTPL and Casco Insurance policies covering either passenger vehicles or transport vehicles and buses.

These classes of business have shown a slight decrease in written premium of 8,1% for MTPL and of 11,8% for Motor Vehicle Insurance (Casco) which is an expected result out of our general strategic approach to this class of business.

The decrease in the portfolio of compulsory insurances led to decrease in the amount of settled claims which at 2012 is MKD 129 million and if compared with the same period last year this result is reduced for 11,3%.

The achieved gross loss ratio for 2012 is 57,8% and if compared with the achieved loss ratio for 2011 of 76,2% we state a positive result besides additional increase in no claim bonuses paid which significantly decreased the amount of written premium.

On the other hand, the analysis on the actual results for Casco Insurance has shown an increase in gross loss ratio of 3,8% resulting from the extended scope of insurance cover for this class of business and the adjusted premium rates to the needs of our clients for the purpose of becoming more competitive in the market where more negative price trends were evident during the preceding year.

Our primary target for 2013 is to ensure stable and unwavering performance for these two classes of business and strengthen our position in the insurance market. In other to achieve these goals we will carry out detailed analysis on actual results and put additional efforts to extend the scope of 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.

This goal will also be targeted by underwrites for Accident Insurance where we have established a long-lasting relations with our clients which have become a tradition. The gross loss ratio is 48,6% which presents a significant increase when compared to the result achieved for the preceding year. This outcome mostly resulted from the changes and adjustments made in relation to benefits and definitions thereof. During 2012 we record decrease in gross written premium of 8,6% in comparison with 2011 which is mostly due to unstable social and economic conditions which significantly affect this class of business.

Furthermore at 2011 the tendency in reducing the amount of premium for Travel Insurance continued but at lower force and therefore the written premium decreased for 8,7% in comparison to 2011. Despite the fact we record good gross loss ratio of 23,6%.

The Life insurance portfolio including current insurance agreements was managed as we did it in the previous years. The premium records decrease of 30% in comparison with 2011 and this is an expected outcome because the number of active policies also reduced. The clients were regularly compensated under the agreements falling due in this period. The largest number of compensations will be paid in 2014 under life insurance agreements which expire by that time and we will continue to service these polices in accordance with the estimated annual forecast and financial plan.

In terms of Property insurance at 2012 it was evident that clients showed interest greater than before in quality product delivery which may inevitably result in cessation of the intention on reduced price policy regarding property insurance and improve the quality of delivered products. This will be our main focus in 2013 and we believe that we may ensure more or less adequate and affordable price for our insurance products of this class of business.

Furthermore, the analysis on the actual results achieved in these classes of business has shown that the targeted written premium was accomplished for 72% and the retained clients' rate was 89% which mostly came out of our strategy on excellent service delivery and prompt payment of indemnities for claims.

Our conservative underwriting management approach resulted in a rather important increase in the percentage of new written businesses to the total number of written policies for 2012 which is – 29%.

Even better loss ratio was recorded for Household insurance of 14% which gives us an extensive opportunity to make certain developments and improvements in terms of insurance cover scope and make more comfortable offers including additional risks for this class of business and our target for 2013 is increased amount of written premium and larger market share.

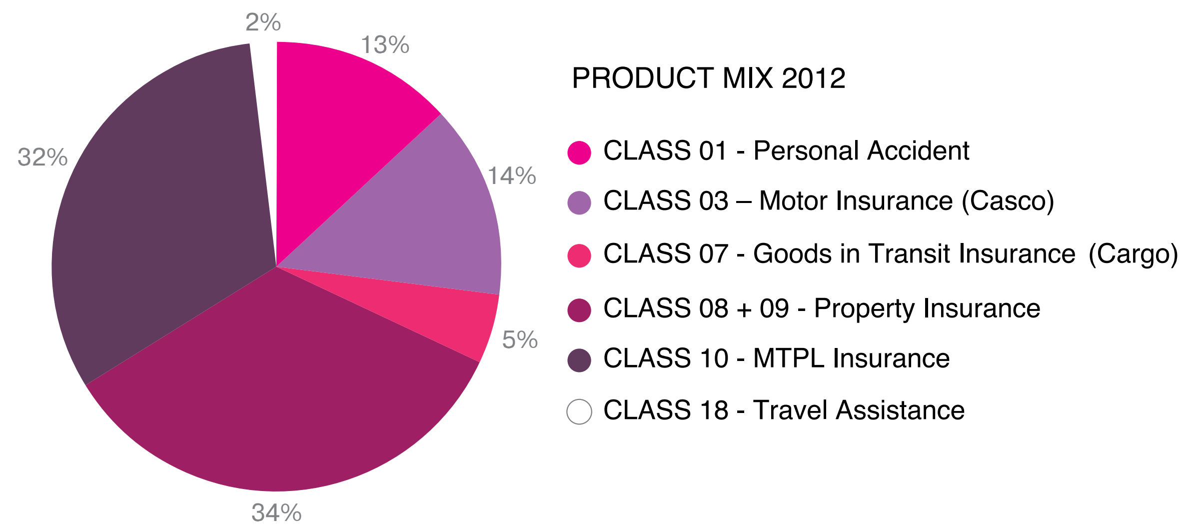
The Macedonian insurance market still holds a conservative approach to Liability insurance which is mostly caused by the legal regulations which unjustifiably favour only compulsory insurance against civil liability in respect of the use of vehicles while the casualty insurance which in the countries with developed insurance markets is the largest one and the most important class of business here is unreasonably neglected.
Notwithstanding we managed to achieve relatively satisfactory results primarily considering the educational plan for sales agents and the redesign of the existing terms and conditions and premium tariffs carried out in accordance with the real market needs. Gross loss ratio is excellent of 2%. Even in 2013 this class of business remains at the peak of our priorities and we focus on increase in written premium through activities to be undertaken by underwrites and sales agents.

Cargo insurance traditionally performs with excellent loss ratio which was also achieved in 2012. With loss ratio of 4% this class of business is our best portfolio, and we forecast the same ratio for 2013 which may be obtained by applying our underwriting standards and good business practice. Cargo insurance is a stable portfolio and traditionally covers larger export-import companies and banks whereas insurance contracts with small and medium enterprises are concluded accidentally and depend on the international terms determined by the purchase agreement. Cargo insurance has an excessive potential for development and in 2013 we will focus on the increase in the written premium and attracting new prospects whereby holding the loss ratio at the same level.
The interest is increasing among clients for CMR – Carrier's liability in local and international transport. CMR policy is very important condition for the carriers which operate in the EU countries and even wider. The CMR terms and conditions and policy warding thereof have been reviewed in order to meet the needs of carriers and therefore we expect this positive trend to continue in 2013 and consequently acquire new clients and increase written premium and our market share.

Our general approach in terms of 2013 targets is the maintenance of profitable business classes which remains our primary goal. 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 and will consider insurance contracts of positive results.

The restructured Sales Support Centre performed the same activities also in 2012 for the purpose of ensuring complete and prompt administration of insurance policies and provides full support to sales force by operating under amended system solutions and processes and at reduced costs. 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. SSC continuously maintains regular communication with IT Department, Finance Department and Credit Control.

Marketing activities in 2012 were mainly focused on the support to insurance covers for natural persons through advertising on Family packages and for this purpose we participated at the Furniture Fair. During summer period we offered 20% discount for insurance contracts concluded with new clients whereby we made them become more aware of the benefits that household cover provides. As a socially responsible corporation our Company took part in many activities organised by charities including support to families on Family Day and National Brest Cancer Awareness Month to increase awareness of the disease as potentially curable and this support has become tradition.



Distribution - Sales - Channels

"SALES OF INSURANCE BY SALES AGENTS AND UNDERWRITING AGENCIES - WESTERN REGION

Despite the continuous increase in competition among insurers we are proud to say that in 2012 we managed to retain all our major and important clients.

SALES OF INSURANCE BY SALES AGENTS AND UNDERWRITING AGENCIES - EASTERN REGION

Our plan to improve results for 2013 is based firstly on the enlarged sales force including newly recruited agents, and secondly on several experienced agents who joined our company by the end of this year coming from our competition and on the possibility of reasonably improving working conditions for insurance agents in terms of they being allowed more competitive commissioning fees for particular classes of business.

NON-AGENT SALES

By the end of the year we entered into business agreements with 3 new brokerage companies and we expect our cooperation to intensify and grow in 2013 whereby the number of brokerage companies has increased to 20."

SALES OF INSURANCE BY SALES AGENTS AND UNDERWRITING AGENCIES

REGIONAL SALES MANAGER
MR. ZORAN ALEKSOVSKI

In the financial year 2012 we focused on the planned operating results and the achievement thereof following the 2012 Business Plan and making our clients more aware of our operational strategy which follows the statutory regulations and fundamental principles of insurance industry.
In 2012 the gross written premium is MKD 239 million which is of 6% decrease in comparison with the last year.

Gross written premium by classes of business:

▪ Household	6.8%
▪ Industry	11.2%
▪ Transportation	5.3%
▪ MTPL	30 %
▪ Green Card	7.3%
▪ Casco	8.7%
▪ Fire	11.3%
▪ Accident	13.8%
▪ Travel	1.7%
▪ Other	3.9%

It is the compulsory motor insurance which still keeps the leading position among other classes of business in the portfolio structure and takes 30 %.

This dissatisfying outcome was created by a significant number of external factors which affected the financial result:

- bad economic and financial conditions restricted the insurance market;
- decreased purchasing power of our clients as a result from the global economic crisis which affected our country as well;
- insurance products price cutting;
- decrease in sale of new vehicles and increased competition among MTPL insurers resulted in fall of premium rates.

Sales force: The selling of insurance policies is maintained by 25 internal sales agents and the network created by DZO Trend-MP comprising 67 external licensed sales agents.

DZO Trend-MP takes 54% share of the total sale achieved by the Western Region. The activities on the enlargement of the sales network are hastily prepared.

Despite the continuous increase in competition among insurers we are proud to say that in 2012 we managed to retain all our major and important clients.

The West Sales Region will maintain their efforts to make its position stable in the market and even increase its share.

DISTRIBUTION - SALES - CHANNELS CONTINUED

SALES OF INSURANCE BY SALES AGENTS AND UNDERWRITING AGENCIES - EASTERN REGION

REGIONAL SALES MANAGER
MR. MARJAN ORUCOSKI

Given the specific circumstances and environment, our sales agents and underwriting agencies in the Eastern Region mainly accomplished business goals and targets set for 2012.

Despite any decrease of the written premium in comparison with 2011 which is almost 9% we may say that generally we successfully retained all clients which were important to us thanks to the motivated and in good trim sales force including both internal and external sales agents.

Gross written premium of the Eastern Region for 2012 is MKD 240.6 million and the premium collection remained at the same level of over 95% as it was last year. With comparison to last year when the gross written premium amounted above MKD 260 million, this year the decrease in written premium refer mainly to property insurance, casco insurance at purchase price and green card whereas we increased the written premium for accident and travel insurance. The household insurance retained the same results as last year.

The decrease in property and casco insurance premium mostly is a result of the decreased premium rates because of the activities of the competition whereas the amount of green card premium was affected by the tariff which was legally changed.

The negative outcome in terms of premium may to some extent be a result of two sales agents leaving our company (one in Kumanovo Branch and the other in Strumica Branch) who both wrote about MKD 7,3 million insurance premium in 2011.

A premium written by the sales agent from Kumanovo Branch (at the amount of about MKD 3 million) was transferred to West Sales Region balance and this premium refer to transportation cover for Stopanksa Banka Skopje.

During the second half of the year 2012 we undertook serious steps to overcome the problems in relation to premium decrease and we actively engaged new sales force by recruiting insurance agents who underwent particular training and workshops.

In several occasions we managed to organise effective training and workshops for insurance agents operating in other regions of Eastern part of Macedonia and in Skopje with excellent support with the experts from the Training Centre and underwriting and claims experts.

Our plan to improve results for 2013 is based firstly on the enlarged sales force including newly recruited agents, and secondly on several experienced agents who joined our company by the end of this year coming from our competition and on the possibility of reasonably improving working conditions for insurance agents in terms of they being allowed more competitive commissioning fees for particular classes of business.

Gross written premium growth for 2012 is foreseen to be 12% or approximately at the amount of MKD 30 million whereby the growth is primarily expected for motor third party liability and personal insurance businesses.

It is justified to expect that “Activa Insurance”, the underwriting agency which represents our region being already equipped with personnel and adequate technical facilities may through its sales force achieve excellent results for the next year.

I wish to thank all my colleagues who used their creativity, professional experience and determination to obtain this results operating under unfavourable conditions and I do hope that we will face challenges more successfully in the year to come.

NON-AGENT SALES

NON-AGENT SALES MANAGER
MR. FILIP MESKOV

For 2012 Non-Agent Sales covered 20% of the Company portfolio and its results were achieved by writing insurance businesses through several distribution channels:

- Insurance brokerage companies;
- Banks;
- Travel agencies.

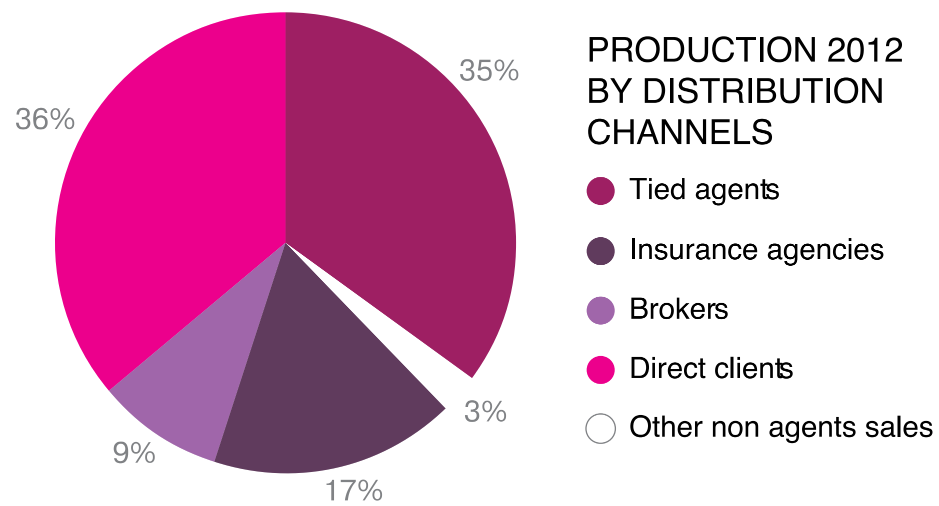
The successful business cooperation with brokers and brokerage companies sustained its intensity even in 2012. The economic crisis we also faced this year had serious impact on the insurance market. The crisis mostly affected the collection of premium. The cooperation with brokerage companies continued on offering them insurance proposals and policies with the most convenient insurance covers for their clients embracing all lines of business of QBE Makedonija Insurance portfolio. 2012 total insurance premium written by Brokers was MKD 126 million out of which MKD 35 million refer to MTPL and Green Card policies. The sales of MTPL policies show 15% decrease in comparison with 2011, particularly in the second half of the year. The decline merely arose from the non-competitive commissioning fees which were almost 3% lower than those offered by many other insurers.

Beside MTPL policies in terms of other lines of business we managed to retain the same level of sale as it was in 2011. By the end of the year we entered into business agreements with 3 new brokerage companies and we expect our cooperation to intensify and grow in 2013 whereby the number of brokerage companies has increased to 20.

Loan lines for buying homes and motor vehicles showed fall mostly due to economic crisis and because of increasing loan interest rates offered by banks to natural persons. Beside this fact the Household and Casco businesses placed by this distribution channel showed an insignificant fall of 3%. Banks managed to write insurance premium of MKD 19.1 million for 2012. It is worth mentioning that we signed an agreement with Procredit Bank in Q3 2012 and this is another channel of distribution for selling Mortgage guarantee and Casco insurance policies.

The established cooperation between Travel Insurance Promoter and travel agencies continued to function in 2012 which wrote travel insurance business for QBE Makedonija Insurance. The Promoter was also responsible for selling travel insurance policies through brokers. Given the general fact on decreasing interest for buying this insurance product, the travel agencies together with brokers wrote travel insurance policies at the amount of MKD 2.4 million in 2012 which is almost the same result as the one achieved in 2011.

The overall performance goals reached by the non-agent sales force in 2012 are 6% less to the achievements of 2011 and amounted at MKD 146 million solely due to sales decrease of MTPL and green card policies.



Claims Report

> "It is really any loss or damage which incur against risks when we can understand what insurance really is. We all in QBE Macedonia Insurance do believe that our existence is closely related to our clients helping them struggle with difficulties whenever they suffer loss or damage. Our goal is to settle claims in a prompt and correct manner."

MR. ZORAN TODOROVSKI

CLAIMS MANAGER

It is really any loss or damage which incur against risks when we can understand what insurance really is. We all in QBE Macedonia Insurance do believe that our existence is closely related to our clients helping them struggle with difficulties whenever they suffer loss or damage. Our goal is to settle claims in a prompt and correct manner.

Flexibility is the key element of our extraordinary claims service delivery. Our claims resolutions are so tailored as to meet the needs of our clients in terms of the size and nature of their businesses. We actively support the cooperation with our clients in order to ensure that we meet all their needs and establish open and comprehensible lines of communication. We try to minimize the effects caused by any loss occurrence and proactively manage claims handling processes and finally pay indemnities for proper claims on time.

The claims team handle about 7.000 new claims and every year we pay over MKD 430 million indemnities for claims. Being present at the market and knowing local conditions are aspects of vital importance to our industry. Strategically we operate in 9 locations across R. Macedonia. Our clients may directly contact decision makers in our Company who are authorised to fully involve in their cases and resolve them providing flexible solutions based on their experience and professional knowledge.

Net claims ratio for 2012 is 50% which gives a significant improvement in comparison with 2011 where the net claims ratio was 55%.

Given the global picture of the insurance market our company has shown a tendency of decrease in the market share which resulted in the volume of reported claims this year. If compared with last year this parameter will present a decrease of 12,18%. Furthermore we may conclude that the number of assessed claims in 2012 showed decrease of 8,32% if compared with 2011.

This trend was evident for settled claims also and the total number of settled claims in 2012 decreased for 14% compared to 2011.

For 2012 the number of legal actions about claims brought against our company decrease for 36% in comparison with 2011.

The legal actions brought against our company by classes of business are the following:

- 78% refer to motor claims;
- 17 % refer to accident claims;
- 5 % refer to property claims.

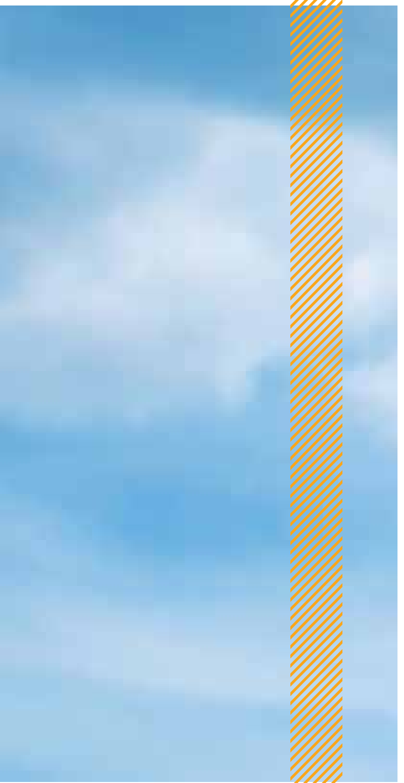
Only 2,54% of the total number of settled claims include lawsuits in claims related disputes.

In 2012 the number of legal actions brought against our recourse debtors showed a decrease of 53% in comparison with 2011.

For 2012 the collection of recourse receivables was decreased for 29,96% in comparison with 2011 and the amount of recoveries collected from Guarantee Fund of Macedonian increased up 3,02%.

In 2012 the largest amount we pay for claim arouse from damage against industry risk and amounted at MKD 7 million.
In 2012 we complied with the requirements provided for by the Insurance Supervision Agency in terms of Claims Handling Regulation and applied the solutions offered by MBA application. We introduced a new system of electronic record keeping including documents scanning by each handling phase.

For 2013 we will make more detailed claims handling cost analysis and therefore more developed and improved claims application will be designed. 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 Resources

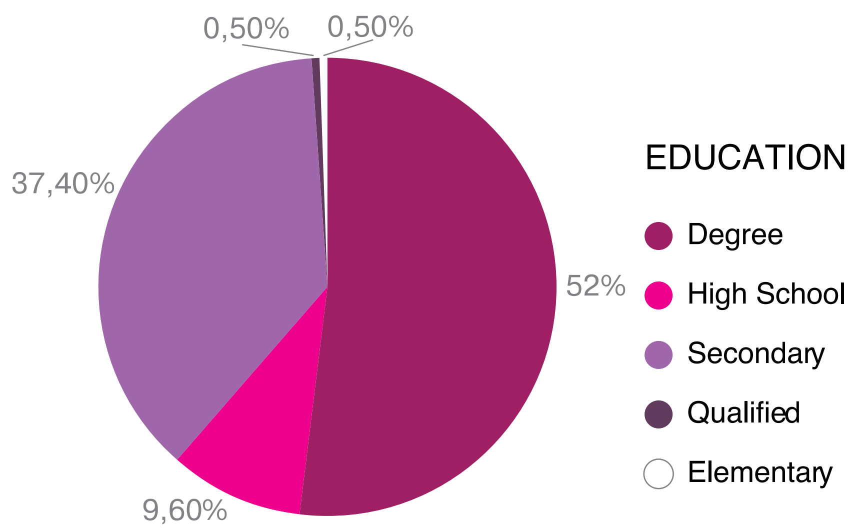
"QBE Makedonija Insurance established active communication and cooperation with several charitable organisations to support families under social risks and disabled persons in the beginning of the year. The financial support was provided either by QBE Foundation or our Company. Furthermore our staff was actively engaged to the charitable activities of the abovementioned organisations in Negotino, Strumica and Skopje."

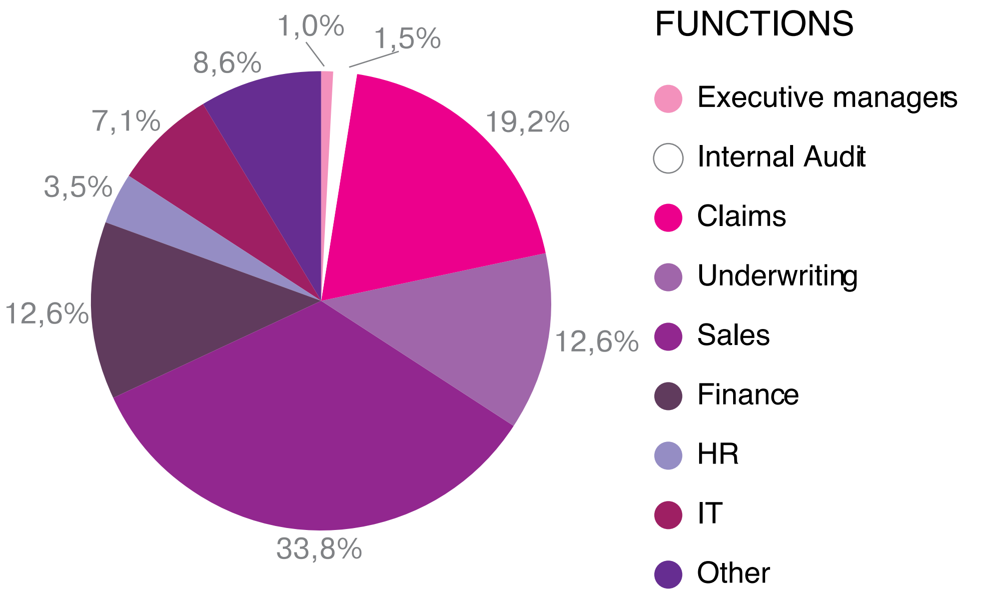
MRS. VESNA BOGDANOVSKA

HUMAN RESOURCES MANAGER

Although the conditions on the insurance market in Macedonia remained the same during 2012 with no improvements from previous years we may say that QBE Makedonija Insurance sustained its stability and successfully continued its work. Human Resources function through their activities in general ensured that the Company achieved already determined Vision and Values of QBE Group.

For the first time in 2012 after many years the Company did not carry our any organisational and structural changes. The number of employees reduced as a consequence of a natural outflow of personnel so that as at December 31, 2012 the total number of personnel working with QBE Makedonija Insurance was 198, where 54 were internal sales agents and 144 administration staff.
The Personnel structure with regard to their education and age is given bellow:



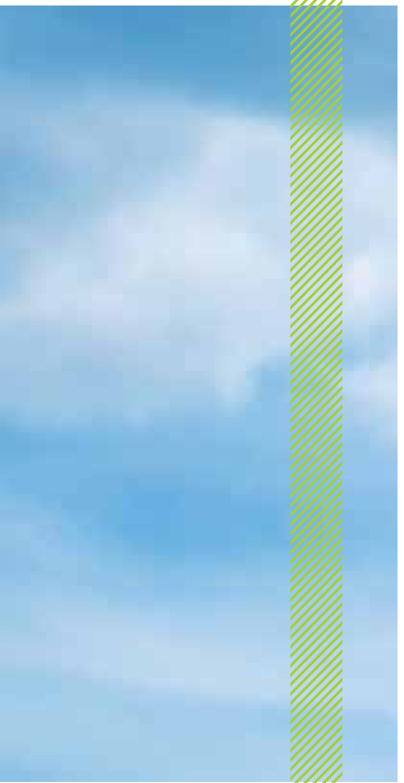


CORPORATE SOCIAL RESPONSIBILITY

Early in 2012 QBE European Operations established QBE Foundation (seated in London, Great Britain) its main goal being for companies within QBE European Operations and their employees to become aware of the corporate social responsibility by carrying out many activities:

- Support non-for-profit organisations to achieve their goals;
- Drive employee engagements to charitable organisations; and
- Support vocational opportunities allowing individuals or groups to gain necessary qualifications for the purpose of living finan cially independent.

Therefore QBE Makedonija Insurance established active communication and cooperation with several charitable organisations to support families under social risks and disabled persons in the beginning of the year. The financial support was provided either by QBE Foundation or our Company. Furthermore our staff was actively engaged to the charitable activities of the abovementioned organisations in Negotino, Strumica and Skopje.



IT Business Support

"IT Department comprises 15 professionals in a team which is equipped with technical knowledge and excessive experience in insurance industry and in constant pursue of contemporary improvements and developments in IT industry."

MRS. KEVSER LALICIC

IT MANAGER

QBE Makedonija Information Technology Department is designed in accordance with the necessities of business processes to ensure prompt and complete data processing and availability of documented information used in its operation.

IT Department comprises 15 professionals in a team which is equipped with technical knowledge and excessive experience in insurance industry and in constant pursue of contemporary improvements and developments in IT industry.

The key function of QBE Makedonija IT Department is a business support for more efficient and more successful operation:

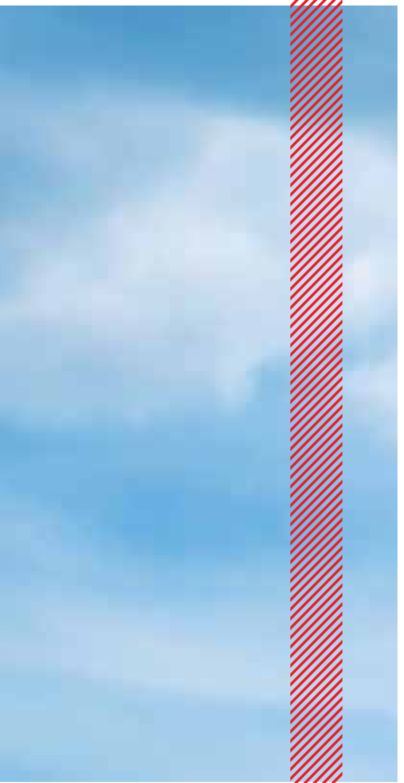
- by ensuring and participating in carrying out the Company Business Plan and Strategy and
- implementing Corporate and Company processes and procedures.

IT Department make achievements by operating in various directions:

- Development and maintenance of Applicative Software;
- Development and maintenance of database system, software, hardware, e-mail system and network;
- 24x7 access to applications and IT services from various geographic areas via internet only,
- Available IT services of 99,97% in 2012;
- Implementation of QBE Information Security Policy according to Group standards;
- Information Security Management including monitoring of IT Projects and resources and operation of UOSIT;
- Compliance of IT operation with local legal regulations;
- Development and maintenance of Applicative Software and technical support to QBE EO Countries (Ukraine);
- Daily synchronisation of data at BCP location;
- IT cost savings of 33,6 % or achievement of IT Expenses Plan by 66,4 %;

More significant projects on which IT was working in 2012:

- ISA – interface design for xml. files used for quarter reporting;
- Implementation of DMS software integrated with Oracle business applications by different functions;
- E-OFI interface design for quarter reporting to National Bank;
- Design of new own voting software used at the AGM;
- Implementation of separate NN and NV claims record;
- Recourse claims – updating
- Update of legal application;
- NBO – changes download MTPL / GC
- Implementation of Annex for MTPL / GC
- MBA Ukraine - hosting and solution software support designed by IT Department.



Finance

"For 2012 QBE Makedonija Insurance announced negative financial results. The largest impact was created by the Rulebook for the method of valuation of items in the balance sheet and preparation of statement of accounts and its comprehensive application."

MRS. MARGARETA GOSHEVA

FINANCE MANAGER

For 2012 QBE Makedonija Insurance announced negative financial results. The largest impact was created by the Rulebook for the method of valuation of items in the balance sheet and preparation of statement of accounts and its comprehensive application.

The complete implementation of the Rulebook for the method of valuation of items in the balance sheet impacted the accounts receivable which have been outstanding for longer period before 2010 and the reservation thereof of 100% was made whereby a special provision of accounts receivable in terms of premium and the reprogrammed accounts receivable in terms of premium have increased their value for MKD 104 million. The value of the outstanding accounts receivable in terms of premium was corrected as a result of the implementation of the valuation criteria for receivables in terms of premium and the adequate classification of receivables under particular categories according to ageing schedule or the delay in their collection amounted at MKD 139 million. Pursuant to the Rulebook for the method of valuation of items in the balance sheet the Company corrected the value of accounts receivable in terms of recourses and this adjustment caused an expense at the amount of MKD 27 million. All above mentioned items have been presented as expenses in the balance sheet.

The Company made further adjustments and corrected values of other receivables under Green Card insurance and the ones from the parent company at the amount of MKD 113 million whereas it wrote off receivable with no possibility to collect mostly in relation to premium, green card and recourses.

2012 Assets and Liabilities are explained in more details further bellow.

In the reporting year the income has been earned in relation to written premium services which are admitted to the extent of their completion as at Balance Sheet date and separately recorded for Life and Non Life class of business.

Non Life written premium in the amount of **MKD 688.6** million was corrected by unearned premium for 2011 regarded as assets and by unearned premium for 2012 regarded as liability whereas the total earned premium at the amount of **MKD 706.4** million shows decrease of 7.87% if compared with 2011.

Insurance premium income additionally reduced for that part of the premium which refers to reinsurance, investments return, proceeds from other insurance businesses compose the total Company income to the amount of **MKD 874.6** million which if compared with 2011 shows decrease of 4,8%.

The major liabilities in Non Life insurance at the amount of **MKD 295.1** million include the indemnities paid for claims, reserves on reported but unsettled claims and on incurred but not reported claims and the operating costs to the amount of **MKD 338.5** million and investment costs at **28.3** million and **MKD 364.9** million for other expenses including value adjustments.

The so declared values of assets and liabilities presented a negative financial result at the amount of **MKD 152.3** million achieved by the Company for the financial year 2012.

Income tax calculated for 2012 including unacceptable expenses and less calculated proceeds is **MKD 12.6** million which additionally increased the determined loss.

Life insurance demonstrate significant decrease for the period January-December 2012 due to run-off, in fact the

FINANCE CONTINUED

current life policies have only been serviced under insurance contracts concluded in preceding years and the total written premium is by 32% less than that collected in 2011. The total written premium at the amount of **MKD 8** million is increased by income gained from reduced reserves, reductions of mathematical provision, investment returns and other proceeds whereby the total income amounted at **MKD 12.5** million.

In terms of Life insurance the Company followed the accounts receivable analysis policy. The accounts receivable at the largest amount of **MKD 65.1** million refer to non-life. Considering the nature of the receivables (calculated interests) and the fact that they originate from earlier than 2005 the Board of Directors decided on writing off. Liabilities presented as a result from accounts receivable write off and increased by the claims handling expenses and operating costs amounted at total liabilities of **MKD 78.1** million.

Given the compensation of total liabilities with total assets in terms of Life insurance QBE Makedonija Insurance a.d. Skopje has revealed loss to the amount of **MKD 65.6** million.

The accounts receivable write off in terms of income tax is regarded unacceptable expense and resulted in income tax at the amount of **MKD 6.1** million.

CLASSES OF BUSINESS

According Article 5 from the Law of supervision of insurance, QBE Macedonia conducts insurance activities in the following classes of business:

1. Personal accident
3. Casco insurance of motor vehicles;
4. Casco insurance of railway vehicles;
5. Casco insurance of airplanes;
6. Casco insurance of sailing objects;
7. Cargo insurance;
8. Property insurance from fire and another natural perils;
9. Other property insurance;
10. Motor Third Party Liability;
11. Aircraft Third Party Liability;
12. Sailing objects Third Party Liability;
13. General Liability;
14. Credit insurance;
15. Insurance of guaranties;
16. Insurance against financial losses;
17. Insurance against legal protection;
18. Travel Insurance;
19. Life Insurance.*

* QBE Insurance conducts insurance activities in life business in run off (no new contracts are concluded for this business)

STOCK COMPANY FOR INSURANCE AND REINSURANCE QBE MAKEDONIJA

Financial statements
For the year ended 31 December 2012
With the Report of the Auditors thereon

Content **Page**

Independent auditor's report

To the Shareholders and the Board of the Directors of Stock Company for Insurance and Reinsurance QBE Macedonia

We have audited the accompanying financial statements of the Stock Company for Insurance and Reinsurance QBE Macedonia, which comprise the statement of financial position as of 31 December 2012 and the income statement and the statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with with Accounting Laws and Regulations applicable in the Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Stock Company for Insurance and Reinsurance QBE Macedonia as of 31 December 2012 and of its financial performance and its cash flows for the year than ended in accordance with Accounting Laws and Regulations applicable in the Republic of Macedonia.

General Manager	**Certified Auditor**
Ljube Gjorgjievski	**Ljube Gjorgjievski**

22 April 2013

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

	Note	Amount in MKD thousands	
		2012	**2011**
A. OPERATING INCOME		**874,662**	**918,860**
I. NET INSURANCE PREMIUM REVENUE	**6**	**637,389**	**752,103**
1. Gross written premium from insurance		683,113	742,194
2. Gross written premium from co-insurance		-	-
3. Gross written premium for reinsurance / retrocession		5,489	2,187
4. Gross written premium delivered in co-insurance		-	-
5. Written premium ceded to reinsurers		(71,334)	(21,746)
6. Change in the gross provision from unearned premium		17,838	22,394
7. Change in the gross provision from unearned premium – co-insurance share			
8. Change in gross reserve for unearned premium – reinsurance share		2,283	7,074
II. Investment income		**127,144**	**113,207**
1. Income from subsidiaries, associates and jointly controlled entities		**-**	**986**
2. Income from investments in land and buildings		**37,448**	**42,130**
2.1 Rent income		37,448	42,130
2.2 Income from increasing of the land and buildings value			
2.3 Income from sale of land and buildings			
3. Interest income		**30,643**	**32,849**
4. Positive foreign exchange differences		**1,166**	**1,243**
5. Impairment (unrealised gains, measurement of fair value)		**51,994**	**5,009**
6. Realised gains from sale of financial assets – capital gain		**3,995**	**28,988**
6.1 Financial assets available for sale		914	28,988
6.2 Financial assets held for trading (with fair value)		3,081	-
6.3 Other financial asset			
7. Other investment income		**1,898**	**2,002**
III. OTHER INSURANCE TECHNICAL INCOME, NET OF REINSURANCE	**7**	**30,051**	**29,989**
IV. OTHER INCOME	**8**	**80,078**	**23,561**

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

	Note	Amount in MKD thousands 2012	2011
B. OPERATING EXPENSES		**1,027,019**	**983,271**
I. NET INSURANCE CLAIMS AND BENEFITS INCURRED	**9**	**295,191**	**375,803**
1. Gross claims paid		317,446	362,431
2. Decrease for the income from gross realized receivables from recourse		(11,568)	(22,986)
3. Gross claims paid – co-insurance share			
4. Gross claims paid – reinsurance share		(424)	-
5. Change in gross reserves for claims		(11,015)	28,787
6. Change in gross reserves for claims - part for co-insurance			
7. Change in gross reserves for claims – part for reinsurance		752	7,571
II. CHANGES IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE		**-**	**695**
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		**-**	**695**
3.1 Changes in other gross technical reserves		-	695
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		**18,883**	**17,221**
1. Expenses for bonus (depending from the profit)		1,888	-
2. Expenses for discounts (not depending from profit)		16,995	17,221
V. NET EXPENSES FOR INSURANCE EXPENSES	**10**	**338,510**	**371,560**
1. Acquisition costs		**137,120**	**117,344**
1.1 Commission		62,825	52,358
1.2 Other acquisition costs		74,295	64,986
1.3 Movement in DAC			
2. Administrative expenses		**201,390**	**254,216**
2.1 Depreciation of tangible assets used for operating purposes		15,342	17,523
2.2 Staff costs		102,126	148,796
2.3 Expenses for services from individuals		-	-
2.4 Other administrative expenses		83,922	87,897

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

	Note	Amount in MKD thousands 2012	2011
VI. INVESTMENT COSTS		**28,381**	**41.202**
1. Depreciation and impairment for tangible assets not used for operating purposes		**22,832**	**21.711**
2. Interest expenses		**-**	**-**
3. Negative foreign exchange differences		**5,112**	**6.484**
4. Value adjustment (non-realised loss, measurement with fair value)		**-**	**13.000**
5. Realized loss from sale of financial assets – capital loss		**437**	**-**
5.1 Financial assets available for sale		437	-
5.2 Financial assets held for trading (fair value)		-	-
5.3 Other financial assets		-	-
6. Other investment costs		**-**	**7**
VII. OTHER INSURANCE TECHNICAL EXPENSES, NET OF REINSURANCE	**11**	**25,436**	**29.368**
1. Costs of prevention		-	-
2. Other insurance technical expenses, net of reinsurance		25,436	29.368
VIII. IMPAIRMENT OF INSURANCE PREMIUM RECEIVABLES		**139,289**	**47.678**
IX. OTHER EXPENSES INCLUDING OTHER IMPAIRMENT	**12**	**181,329**	**99.744**
X. PROFIT BEFORE TAX		**-**	**-**
XI. LOSS BEFORE TAX		**152,357**	**64.411**
XII. INCOME TAX	**13**	**12,663**	**5.719**
XIII. DEFERRED TAX		**-**	**-**
XIV. PROFIT FOR THE YEAR		**-**	**-**
XV. LOSS FOR THE YEAR		**165,020**	**70.130**

Statement of comprehensive income (Income Statement) - Life insurance

	Note	Amounts are in MKD thousands 2012	2011
A. OPERATING INCOME		**12,502**	**18,267**
I. NET INSURANCE PREMIUM REVENUE		**8,073**	**11,385**
1. Gross written premium from insurance		8,016	11,453
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		57	(68)
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		**4,429**	**6,882**
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		4,261	6,790
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**		168	92
III. OTHER INSURANCE TECHNICAL INCOME, NET OF REINSURANCE		**-**	**-**
IV. OTHER INCOME		**-**	**-**

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

	Note	Amount in MKD thousand	
		2012	2011
B. OPERATING EXPENSES		**78,178**	**19,846**
I. NET INSURANCE CLAIMS AND BENEFITS INCURRED		**36,420**	**43,307**
1. Gross claims paid		37,450	42,897
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		(1,030)	410
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		**(25,335)**	**(29,047)**
1. Changes in the mathematical reserve, net of reinsurance		**(25,335)**	**(29,061)**
1.1 Change in gross mathematical reserve		(25,335)	(29,061)
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		**-**	**14**
3.1 Changes in other gross technical reserves		-	14
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**	**1,704**	**2,355**
1. Acquisition costs		**-**	**-**
1.1 Commission		-	-
1.2 Other acquisition costs		-	-
1.3 Movement in DAC		-	-
2. Administrative expenses		**1,704**	**2,355**
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		1,704	2,355

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

	Note	Amounts are in MKD thousands	
		2012	2011
VI. INVESTMENT COSTS		**-**	**-**
1. Depreciation and impairment for tangible assets not used for operating purposes		**-**	**-**
2. Interest expenses		**-**	**-**
3. Negative foreign exchange differences		**-**	**-**
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**	**65,389**	**3,231**
X. PROFIT BEFORE TAX		**-**	**-**
XI. LOSS BEFORE TAX		**65,676**	**1,579**
XII. INCOME TAX		**6,514**	**-**
XIII. DEFERRED TAX		**-**	**-**
XIV. PROFIT FOR THE YEAR		**-**	**-**
XV. LOSS FOR THE YEAR		**72,190**	**1,579**

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

	Note	Amount in MKD thousands	
		2012	**2011**
ASSETS			
A. INTANGIBLE ASSETS	**14**	**401**	**796**
1. Goodwill		-	-
2. Other immaterial assets		401	796
B. INVESTMENTS		**1,587,106**	**1,637,892**
I. LAND, BUILDINGS AND OTHER TANGIBLE ASSETS		**821,292**	**850,615**
1. Land and buildings for operating activities		**204,823**	**212,530**
1.1 Land		4,537	4,401
1.2 Buildings	16	200,286	208,129
2. Land and buildings not for operating activities	**15**	**616,469**	**638,085**
2.1 Land		-	-
2.2 Buildings		616,469	638,085
2.3 Other tangible assets		-	-
II. FINANCIAL INVESTMENTS IN GROUP ENTITIES, SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES		**11,503**	**12,553**
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		11,503	12,553
III. OTHER FINANCIAL INVESTMENTS	**17**	**754,311**	**774,724**
1. Financial assets held to maturity		**156,412**	**118,764**
1.1 Debt securities with maturity less than one year		156,412	118,764
1.2 Debt securities with maturity more than one year		-	-
2. Financial assets available for sale		**26,148**	**33,967**
2.1 Debt securities with maturity less than one year		-	-
2.2 Debt securities with maturity more than one year		-	-
2.3 Stocks, shares and other equities		26,148	33,967
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		**571,751**	**621,993**
4.1 Deposits		571,751	621,993
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	
		2012	**2011**
IV. DEPOSITS IN ASSIGNORS OF REINSURANCE ENTITIES, BASED ON REINSURANCE CONTRACTS		**-**	**-**
C. CO-INSURANCE AND REINSURANCE SHARE IN GROSS TECHNICAL RESERVES		**9,636**	**8,105**
1. Co-insurance and reinsurance share in the gross reserve of unearned premium		9,357	7,074
2. Co-insurance and reinsurance share in the gross mathematical reserve		-	-
3. Co-insurance and reinsurance share in gross claims reserves		279	1,031
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		**-**	**4,602**
1. Deferred tax assets		-	-
2. Current tax assets		-	4,602
F. RECEIVABLES		**262,472**	**791,241**
I. RECEIVABLES FROM IMMEDIATE WORK OF INSURANCE	**18**	**186,479**	**328,736**
1. Insurance receivables		186,479	299,505
2. Receivables from brokers			
3. Other receivables from insurance		-	29,231
II. REINSURANCE AND CO-INSURANCE RECEIVABLES		**21,214**	**286,911**
1. Premium receivables from co-insurance and reinsurance		664	6,387
2. Receivables from claims paid for co-insurance and reinsurance		20,550	280,524
3. Other receivables for co-insurance and reinsurance			
III. OTHER RECEIVABLES		**54,779**	**175,594**
1. Other receivables from direct insurance operations	19	36,697	57,800
2. Receivables from financial investments	20	17,038	20,940
3. Other receivables	21	1,044	96,854
IV. RECEIVABLES FROM CALLED NOT PAID CAPITAL		**-**	**-**
G. OTHER ASSETS		**52,904**	**102,997**
I. TANGIBLE ASSETS FOR OPERATIONS		**15,791**	**20,363**
1. Equipment	16	14,193	18,765
2. Other tangible assets	16	1,598	1,598
II. CASH AND CASH EQUIVALENTS	**22**	**36,730**	**82,145**
1. Cash at banks		36,685	82,112
2. Cash on hand		45	33
3. Cash to cover mathematical reserve		-	-
4. Other cash and cash equivalents		-	-
III. INVENTORY AND CONSUMABLE STORES		**383**	**489**

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

	Note	Amount in MKD thousand 2012	2011
H. ACCRUALS AND PREPAID EXPENSES		**14,104**	**8,075**
1. Accrued interest income and rent income		-	-
2. Deferred acquisition costs		-	-
3. Other prepaid income and deferred expenses		14,104	8,075
3. NON CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUING OPERATIONS		**-**	**-**
I. TOTAL ASSETS		**1,926,623**	**2,553,708**
J. OFF BALANCE SHEET ITEMS - ASSETS		**17,097**	**-**
		-	**-**
LIABILITIES AND EQUITY		-	-
		-	-
A. EQUITY AND RESERVES	**26**	**1,038,363**	**1,206,700**
I. SHARED CAPITAL		**2,145,883**	**1,031,840**
1. Shared capital from ordinary shares		1,904,231	915,642
2. Shared capital from preference shares		241,652	116,198
3. Called but not paid capital		-	-
II. PREMIUM FOR ISSUED SHARES		**-**	**-**
III. REVALORISATION RESERVE		**177,567**	**195,301**
1. Tangible assets		180,884	195,301
2. Financial investments		(3,317)	-
3. Other revalorisation reserves		-	-
IV. RESERVES		**-**	**4,856**
1. Legal reserves		-	4,856
2. Statutory reserves		-	-
3. Reserves for equity shares		-	-
4. Repurchased equity shares		-	-
5. Other reserves		-	-
V. UNDISTRIBUTED NET PROFIT		**14,417**	**44,833**
VI. ACCUMULATED LOSS		**(1,134,485)**	**-**
VII. PROFIT FROM THE YEAR		**-**	**-**
VIII. LOSS FROM THE YEAR		**(165,020)**	**(70,130)**
B. SUBORDINATED LIABILITIES		**-**	**-**
C. GROSS TECHNICAL RESERVES	**23**	**552,328**	**581,181**
I. Gross reserves for unearned premium		289,004	306,841
II. Gross mathematical reserve			
III. Gross claims reserve		261,562	271,144
IV. Gross reserve for bonus and discounts		1,762	1,840
V. Gross equalization reserve		-	-
VI. Gross other technical reserves		-	1,356
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		**7,321**	**2,624**
1. Deferred tax liabilities		780	1,897
2. Current tax liabilities		6,541	727
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	
		2012	2011
H. LIABILITIES		**238,641**	**696,062**
I. LIABILITIES FROM DIRECT INSURANCE OPERATIONS		**396**	**1,631**
1. Claims payable		396	1,631
2. Liabilities to agents and dealers		-	-
3. Other liabilities from direct insurance operations		-	-
II. LIABILITIES FROM CO-INSURANCE AND REINSURANCE		**2,018**	**83,886**
1. Reinsurance premium payable		2,018	83,886
2. Liabilities for participation in claims paid		-	-
3. other liabilities from co-insurance and reinsurance		-	-
III. OTHER LIABILITIES	**24**	**236,227**	**610,545**
1. Other liabilities from direct insurance operations		212,763	510,392
2. Liabilities from financial investments		2	70,940
3. Other liabilities		23,462	29,213
3. ACCRUALS AND PREPAID REVENUES	**25**	**89,970**	**67,141**
S. NON CURRENT LIABILITIES FOR NON CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUING OPERATIONS		**-**	**-**
K. TOTAL LIABILITIES AND EQUITY		**1,926,623**	**2,553,708**
L. OFF BALANCE SHEET ITEMS – LIABILITIES AND EQUITY	**30**	**17,097**	**-**

Statement of financial position (Balance sheet) – Life insurance

	Note	Amount in MKD thousand 2012	2011
ASSETS			
A. INTANGIBLE ASSETS		**-**	**-**
1. Goodwill		-	-
2. Other immaterial assets		-	-
B. INVESTMENTS		**98,000**	**119,000**
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		**98,000**	**119,000**
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		**-**	**-**
2.1 Debt securities with maturity less than one year		-	-
2.2 Debt securities with maturity more than one year		-	-
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		**98,000**	**119,000**
4.1 Deposits		98,000	119,000
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	
		2012	**2011**
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		**-**	**-**
1. Deferred tax assets			
2. Current tax assets			
F. RECEIVABLES		**4,701**	**76,139**
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**	**4,701**	**76,139**
1. Other receivables from direct insurance operations		4,566	4,793
2. Receivables from financial investments		-	1,364
3. Other receivables		135	69,982
IV. RECEIVABLES FROM CALLED NOT PAID CAPITAL		**-**	**-**
E. OTHER ASSETS		**1,536**	**3,687**
I. TANGIBLE ASSETS FOR OPERATIONS		**-**	**-**
1. Equipment		-	-
2. Other tangible assets		-	-
II. CASH AND CASH EQUIVALENTS		**1,536**	**3,687**
1. Cash at banks		-	-
2. Cash on hand		-	-
3. Cash to cover mathematical reserve		1,536	3,687
4. Other cash and cash equivalents		-	-
III. INVENTORY AND CONSUMABLE STORES		-	-

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

	Note	Amount in MKD thousand	
		2012	**2011**
H. LIABILITIES		**243**	**405**
I. LIABILITIES FROM DIRECT INSURANCE OPERATIONS		243	405
1. Claims payable		-	-
2. Liabilities to agents and dealers		-	-
3. Other liabilities from direct insurance operations		**-**	**-**
II. LIABILITIES FROM CO-INSURANCE AND REINSURANCE		**104,480**	**199,231**
1. Reinsurance premium payable		**-**	**-**
		-	**-**

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

	Note	Amount in MKD thousand 2012	2011
LIABILITIES AND EQUITY			
A. LIABILITIES AND EQUITY		**27,512**	**99,702**
I. SHARED CAPITAL		**115,018**	**55,306**
1. Shared capital from ordinary shares		102,059	49,075
2. Shared capital from preference shares		12,959	6,231
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**	**45,975**
1. Legal reserves		44,396	45,975
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		**(72,190)**	**(1,579)**
B. SUBORDINATED LIABILITIES		**-**	**-**
C. GROSS TECHNICAL RESERVES		**70,086**	**96,508**
I. Gross reserves for unearned premium		11	68
II. Gross mathematical reserve		68,377	93,712
III. Gross claims reserve		1,698	2,714
IV. Gross reserve for bonus and discounts		-	-
V. Gross equalization reserve		-	-
VI. Gross other technical reserves		-	14
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		**6,514**	**-**
1. Deferred tax liabilities		-	-
2. Current tax liabilities		6,514	-
G. LIABILITIES FROM REINSURANCE ENTITY DEPOSITS IN ASSIGNOR, BASED ON REINSURANCE CONTRACTS		**-**	**-**
H. LIABILITIES		**368**	**3,021**
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		**368**	**3,021**
1. Other liabilities from direct insurance operations		368	3,012
2. Liabilities from financial investments		-	-
3. Liabilities from financial investments		-	8
I. ACCRUALS AND PREPAID REVENUES		**-**	**-**
J. NON CURRENT LIABILITIES FOR NON CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUING OPERATIONS		**-**	**-**
K. TOTAL LIABILITIES AND EQUITY		**104,480**	**199,231**
L. OFF BALANCE SHEET ITEMS – LIABILITIES AND EQUITY		**-**	**-**

Statement of changes in equity – Non-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 2011		**1,031,840**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**240,134**	**(4,418)**	**9,275**	**1,276,831**
Change in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
Prior period correction		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 1 January 2011 corrected		**1,031,840**	**-**	**-**	**-**	**-**		**-**	**-**	**240,134**	**(4,418)**	**9,275**	**1,276,831**
Profit or loss for 2011		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(70,130)**	**(70,130)**
Profit or loss for 2011		-	-	-	-	-	-	-	-	-	-	(70,130)	(70,130)
Transfer from revalorisation reserve to accumulated gain		-	-	-	-	-	-	-	-	(44,833)	44,833	-	-
Transfer of legal reserves to accumulated loss		-	-	4,856	-	-	-	-	-	-	-	(4,856)	-
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		-	-	-	-	-	-	-	-	-	-	-	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2011	**26**	**1,031,840**	**-**	**4,856**	**-**	**-**	**-**	**-**	**-**	**195,301**	**40,415**	**(65,711)**	**1,206,700**

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 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	-
Transfer from accumulated profit to loss cover		-	-	-	-	-	-	-	-	-	(40,415)	40,415	-
Non ownership changes in equity		-	-	-	-	-	-	-	-	-	-	-	-
Un-realized gains/losses from tangible assets		-	-	-	-	-	-	-	-	(3,317)	-	-	(3,317)
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		1,114,043	-	-	-	-	-	-	-	-	(1,114,043)	-	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
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 – 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 2011		**55,306**	**-**	**45,027**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**948**	**101,281**
Change in accounting policies		-											
Prior period correction													
Balance as at 1 January 2011 corrected		**55,306**	**-**	**45,027**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**948**	**101,281**
Profit or loss for 2011		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,579)**	**(1,579)**
Profit or loss for 2011		-	-	-	-	-	-	-	-	-	-	(1,579)	(1,579)
Transfer from profit to safety reserves		-	-	948	-	-	-	-	-	-	-	(948)	-
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		-	-	-	-	-	-	-	-	-	-	-	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2011													
Balance as at 1 January 2011	**26**	**55,306**	**-**	**45,027**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,579)**	**99,702**

Statement of changes in equity – Life insurance (continued)

	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		**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 of legal reserve to accumulated gain		-	-	(1,579)	-	-	-	-	-	-	-	1,579	-
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		59,712	-	-	-	-	-	-	-	-	(59,712)	-	-
Increase/Decrease of share capital		-	-	-	-	-	-	-	-	-	-	-	-
Other payment by shareholders		-	-	-	-	-	-	-	-	-	-	-	-
Paid dividends		-	-	-	-	-	-	-	-	-	-	-	-
Other transfers by shareholders	**26**	**115,018**	**-**	**44,396**	**-**	**-**	**-**	**-**	**-**	**-**	**(59,,712)**	**(72,190)**	**27,512**

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.

Cash flow statement – Non-Life insurance

	Note	Amounts in MKD thousands	
		2012	**2011**
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. CASH INFLOWS FROM OPERATING ACTIVITIES		**818,628**	**911,189**
1. Re-insurance and co-insurance premium and prepayments received		679,743	742,659
2. Re-insurance premium and retrocession		3,199	4,515
3. Inflows from share in paid claims		424	-
4. Interest received from insurance operations		28,132	34,455
5. Other inflows from operating activities		107,130	129,560
II. CASH OUTFLOWS FROM OPERATING ACTIVITIES		**814,851**	**793,718**
1. Claims paid, contractual insurance amounts, share in paid claims from co-insurance and prepayments		316,003	368,092
2. Claims paid and share in share in claims paid from reinsurance and retrocession		-	-
3. Co-insurance, reinsurance and retrocession premiums		123,094	33,163
4. Other personal expenses		187,728	202,148
5. Other insurance expenses		61,554	49,434
6. Interest paid		-	-
7. Income tax and other tax payables		13,196	24,621
8. Other outflows from operating activities		113,276	116,260
III. NET CASH INFLOWS FROM OPERATING ACTIVITIES		**3,777**	**117,471**
IV. NET CASH OUTFLOWS FROM OPERATING ACTIVITIES		**-**	**-**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**-**
I. CASH INFLOWS FROM INVESTING ACTIVITIES		**72,096**	**121,660**
1. Inflows from intangible assets		5,292	3,904
2. Inflows from material assets		5,003	57,745
3. Inflows from material assets not used for main activities (Investment property)		43,491	54,107
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		5,654	2,587
7. Dividends received and other share in profit		1,898	1,898
8. Interest received		986	1,419

Cash flow statement – Non-Life insurance (continued)

	Note	Amounts in MKD thousands	
		2012	**2011**
II. CASH OUTFLOWS FROM INVESTING ACTIVITIES		**110,524**	**227,578**
1. Outflow from intangible assets		4,577	4,323
2. Outflow from material assets		105,947	117,560
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)			105,695
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		**38,428**	**105,918**
C. CASH FLOWS FROM FINANCING ACTIVITIES		**-**	**-**
I. CASH INFLOWS FROM FINANCING ACTIVITIES		**8,491**	**3,926**
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		8,491	3,926
II. CASH OUTFLOWS FROM FINANCING ACTIVITIES		**19,256**	**2,652**
1. Outflows from repayment of short term and long term borrowed funds and other liabilities		19,256	2,652
2. Outflows from repurchase of own shares		-	-
3. Dividends paid		-	-
III. NET CASH INFLOWS FORM FINANCING ACTIVITIES		**-**	**1,274**
IV. NET CASH OUTFLOWS FROM FINANCING ACTIVITIES		**10,765**	**-**
D. TOTAL CASH INFLOWS		**899,215**	**1,036,775**
E. TOTAL CASH OUTFLOWS		**944,631**	**1,023,948**
F. NET CASH INFLOWS		**-**	**12,827**
G. NET CASH OUTFLOWS		**45,416**	**-**
H. CASH AND CASH EQUIVALENTS AT 1 JANUARY		**82,145**	**69,318**
I. EFFECT ON CASH AND CASH EQUIVALENTS FROM CHANGES IN FOREIGN EXCHANGE RATES		**-**	**-**
J. CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**22**	**36,729**	**82,145**

Cash flow statement – Life Insurance

	Note	Amounts in MKD thousands	
		2012	**2011**
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. CASH INFLOWS FROM OPERATING ACTIVITIES		**12,778**	**17,112**
1. Re-insurance and co-insurance premium and prepayments received		8,125	11,356
2. Re-insurance premium and retrocession		-	-
3. Inflows from share in paid claims		-	-
4. Interest received from insurance operations		4,422	5,631
5. Other inflows from operating activities		231	125
II. CASH OUTFLOWS FROM OPERATING ACTIVITIES		**37,294**	**42,848**
1. Claims paid, contractual insurance amounts, share in paid claims from co-insurance and prepayments		37,228	42,628
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		66	76
6. Interest paid		-	-
7. Income tax and other tax payables		-	-
8. Other outflows from operating activities		-	144
III. NET CASH INFLOWS FROM OPERATING ACTIVITIES		**-**	**-**
IV. NET CASH OUTFLOWS FROM OPERATING ACTIVITIES		**24,515**	**25,736**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**-**
I. CASH INFLOWS FROM INVESTING ACTIVITIES		**22,364**	**27,000**
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)		21,000	-
6. Inflows from other financial investments		1,364	27,000
7. Dividends received and other share in profit		-	-
8. Interest received		-	-

Cash flow statement – Life Insurance (continued)

	Note	Amounts in MKD thousands 2012	2011
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		22,364	27,000
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		35,142	44,112
E. TOTAL CASH OUTFLOWS		37,294	42,848
F. NET CASH INFLOWS		-	1,264
G. NET CASH OUTFLOWS		2,152	-
H. CASH AND CASH EQUIVALENTS AT 1 JANUARY		3,687	2,423
I. EFFECT ON CASH AND CASH EQUIVALENTS FROM CHANGES IN FOREIGN EXCHANGE RATES		-	-
J. CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,536	3,687
II. CASH OUTFLOWS FROM INVESTING ACTIVITIES		-	-

Financial statements shown on page 3 to 25 are approved by the Board of Directors on 27 February 2013 and are signed on their behalf from:

Mr. Bosko Andov

General Manger

Акционерско друштво за осигурување и реосигурување QBE КЈУБИ МАКЕДОНИЈА Скопје

1. General Information

Stock Company for Insurance and Reinsurance QBE Makedonija (the Company) is a 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.

The parent company of the Company is QBE Reinsurance (Europe) Limited, which is limited liability Company, and it is incorporated and domiciled in Ireland.

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.

The Company has operations in one Head office and 14 representative offices within the country. As of 31 December 2012 the company employed 131 administrative staff and 67 sales agents (2011: 114 administrative staff and 73 sales agents).

According to the Law on Insurance Supervision which came of governance in to force on July 3, 2008 the Company had to make changes in its system. This means that the Managing Board and the Supervisory Board have been replaced by a new body, the Board of Directors. The governance of this body is in accordance with the Law on Trade Companies and the Law on Insurance Supervision (article 23 and 28).

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

These financial statements are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/2011 and 166/2012), the requirements of the Law on Insurance Supervision (Official Gazette No. 27/2002, 84/2002, 98/2002, 33/2004, 88/05, 79/07, 08/08, 88/08, 56/09, 67/10, 44/2011 and 127/11) and the Rule Book for Accounting (published in Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) were published. This Rule Book of Accounting comprise International Financial Reporting Standards (IFRS) - IFRS 1 to IFRS 8, International Accounting Standards (IAS) - IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) - IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 1 to SIC 32, IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRIC 18, IFRIC 19 and IFRIC 20 are not included in the Rule Book for Accounting and are not applied by the Company. IFRS standards (including IFRS 1) were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in December 2010, effective for 2010.

Also based on the Law on Insurance Supervision (Official Gazette No. 67/2010, 44/2011), the Agency for Supervision prescribes the following:

- Rulebook on the form and content of the layout and the operation of the annual report on the operation of the insurance and/or reinsurance (Official Gazette 5/2011,44/2011 and 64/2011);
- Rulebook on the assets and characteristics of the assets covering technical reserves and assets covering mathematical reserve and detailed placement and restricting those investments and their limitation (Official Gazette 64/2011);
- Rulebook on the form and content of the supplementary financial statements of insurance companies (Official Gazette 30/2012);
- Detailed content of the annual report on the operations of the companies insurance;
- Method of recording and valuation of accounting items and preparation of financial statements (Official Gazette 169/2010);
- Rulebook on minimum standards for the calculation of technical reserves (Official Gazette 158/2010,169/2010 and 41/2011).

The abovementioned accounting laws and regulations are effective from 2011. The Company applies all relevant standards, amendments and interpretations that have been issued in the Official Gazette, as presented above.

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

.

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 2012 and 2011 were as follows:

	2012 MKD	**2011 MKD**
USD	46.65	47.53
EUR	61.50	61.50
AUD	48.46	48.34
GBP	75.28	73.63

3. Significant accounting policies

Significant accounting policies used for preparation of the financial statements for the year ended 31 December 2012, 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 Underwriting 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.

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.

3.5 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. Significant accounting policies (continued)

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.

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. Significant accounting policies (continued)

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)

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.

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)

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 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.

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 with maturity up to 90 days.

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)

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)

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)

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)

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 51.13 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).
A preference share owner doesn't have voting rights, but it has a right on dividend.

3. Significant accounting policies (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)

(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 0.5% 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 2012 and 31 December 2011 are shown in the tables below:

31 December 2012	**Profit for the period**	**Equity**	**Required level of margin of solvency**	**Coverage coefficient**	**Change in coverage coefficient**
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%

31 December 2011	**Profit for the period**	**Equity**	**Required level of margin of solvency**	**Coverage ratio**	**Change in coverage ratio**
Current equity position	**(71,710)**	**1,306,402**	**135,325**	**965%**	-
	(69,307)	1,308,804	135,325	967%	2%
Investment yield (+200 b.p.)	(74,111)	1,304,000	135,325	964%	(2%)
Investment yield (-200 b.p.)	(73,769)	1,304,343	135,325	964%	(2%)
5% increase in claims incurred	(69,650)	1,308,462	135,325	967%	2%
5% decrease in claims incurred	(80,091)	1,298,020	135,325	959%	(6%)
2% increase in total expenses	(63,327)	1,314,784	135,325	972%	6%

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)

(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

	2012		2011	
	Life	**Non-Life**	**Life**	**Non-Life**
Financial assets				
- Debt securities - held to maturity	-	156,412	-	118,764
- Equity instruments –available for sale	-	26,148	-	33,967
- Term deposits	98,000	571,751	119,000	621,993
Reinsurance assets	-	9,636	-	8,105
Insurance receivables	-	207,693	-	615,647
Other receivables	4,701	54,779	76,139	175,594
Cash and cash equivalents	1,536	36,730	3,687	82,145
Total	**104,237**	**1,063,149**	**198,826**	**1,656,215**

The above table presents a worst case scenario of credit risk exposure to the company as at 31 December 2012 and 2011, 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, 17.79% (2011: 33%) of the total maximum exposure is derived from premium receivables from non-life insurance, 57% (2011: 40%) represents Term deposits (life and non-life insurance).

The investments securities comprise of equity instruments that are available for sale and debt securities that are held to maturity, i.e. government bills issued by R.Macedonia. In 2012 the credit agency Fitch has assigned a BB+ credit rating to R.Macedonia.

The company has invested its term deposits from non-life insurance in big banks in Macedonia on one hand, and for non-life insurance MKD 95 thousands are placed in big banks and MKD 24 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 AA+ 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.	Carring amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount	Total rec.	Impairment	Carrying amount		
Premium receivables	**98,916**	**25,160**	**1**	**25,159**	**18,048**	**1,806**	**16,243**	**28,100**	**8,711**	**19,389**	**44,655**	**22,787**	**21,868**	**16,951**	**12,046**	**4,905**	**647,557**	**647,557**	**-**	**780,470**	**692,908**	**87,563**	**-**	**186,479**
accident	28,369	4,299	-	4,298	2,486	249	2,237	2,527	783	1,743	4,720	2,409	2,312	1,747	1,241	506	50,655	50,655	-	**66,434**	**55,338**	**11,097**	-	39,466
medical	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
Casco motor vehicles	6,491	1,468	-	1,468	1,973	197	1,776	2,235	693	1,542	5,207	2,656	2,552	2,410	1,711	699	107,428	107,428	-	**120,720**	**112,685**	**8,036**	-	14,527
Casco railway vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
Casco aircrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,837	4,837	-	**4,837**	**4,837**	**-**	-	-
Casco vessels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60	60	-	**50**	**50**	**-**	-	-
cargo	1,651	950	-	950	148	15	133	458	142	316	1,507	769	739	780	554	226	18,287	18,287	-	**22,129**	**19,766**	**2,363**	-	4,01
property fire and other ins.ev	12,316	2,603	-	2,603	1,939	194	1,745	3,941	1,222	2,719	7,998	4,083	3,915	2,849	2,024	825	313,393	313,393	-	**332,722**	**320,916**	**11,806**	-	24,122
properly other	26,926	5,891	-	5,890	4,067	407	3,660	5,687	1,763	3,924	7,888	4,027	3,861	3,348	2,378	970	64,636	64,636	-	**91,517**	**73,211**	**18,305**	-	45,231
Motor TPL(total)	22,420	9,590	-	9,590	7,193	720	6,473	12,714	3,942	8,772	15,683	8,002	7,681	4,918	3,493	1,425	56,895	56,895	-	**106,992**	**73,051**	**33,941**	-	56,361
aircrafts TPL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,538	18,538	-	**18,538**	**18,538**	**-**	-	-
vessels TPL	-	-	-	-	-	-	-	2	1	2	14	7	7	-	-	-	15	15	-	**32**	**23**	**9**	-	9
General TPL	376	107	-	107	120	12	108	268	83	185	1,341	684	657	833	592	242	2,764	2,764	-	**5,433**	**4,135**	**1,298**	-	1,674
loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
guaranties	-	3	-	3	-	-	-	3	1	2	10	5	5	3	2	1	6,812	6,812	-	**6,831**	**6,821**	**11**	-	11
financial loss	59	25	-	25	-	-	-	-	-	-	12	6	6	-	-	-	250	250	-	**287**	**256**	**31**	-	90
Legal protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-	-
Travel insurance	308	226	-	226	123	12	111	267	83	184	273	139	134	62	51	11	2,997	2,997	-	**3,948**	**3,282**	**666**	-	97
Regress receivables	**-**	**101**	**-**	**101**	**1,463**	**146**	**1,317**	**320**	**99**	**221**	**2,898**	**1,478**	**1,420**	**2,054**	**1,458**	**596**	**36,675**	**36,675**	**-**	**43,511**	**39,857**	**3,654**	**-**	**3,654**
TOTAL	**98,916**	**25,260**	**1**	**25,260**	**19,511**	**1,952**	**17,559**	**28,420**	**8,810**	**19,609**	**47,553**	**24,265**	**23,288**	**19,005**	**13,504**	**5,500**	**684,232**	**684,232**	**-**	**823,981**	**732,765**	**91,216**	**-**	**190,132**

5. Insurance and financial risk management (continued)

Receivables from claims recoveries – reinsurance

The reinsurance is used to decrease the risk from insurance. In the table below are the top two reinsurance by reinsurance receivables as at 31:

	2012	2011
Harris & Dixon	-	175,055
Heath Lambert	-	99,684

During 2012 QBE Macedonia reconciled and netted intercompany payables and receivables with mother Company. 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

			Fixed rate instruments					
31 December 2012	**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	**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 – Non-life insurance

31 December 2011	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	**118,764**	-	89,055	29,709	-	-	-	-
- Term deposits	**621,993**	-	88,761	267,732	265,500	-	-	-
Reinsurance assets	**8,105**	-	-	-	-	-	-	8,105
Insurance receivables	**615,647**	-	-	-	-	-	-	615,647
Other receivables	**175,594**	-	-	-	-	-	-	175,594
Cash and cash equivalents	**82,145**	-	-	-	-	-	-	82,145
Liabilities								
Gross technical reserves	**581,181**	-	-	-	-	-	-	581,181
Reinsurance payables	**83,886**	-	-	-	-	-	-	83,886
Insurance payables	**1,631**	-	-	-	-	-	-	1,631
Other payables	**610,545**	-	-	-	-	-	-	610,545
Net interest rate gap	**345,005**		**177,816**	**297,441**	**265,500**	**-**	**-**	**(395,752)**

5. Insurance and financial risk management (continued)

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

31 December 2012			Fixed rate instruments					
	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 rate gap analysis of financial assets and liabilities –Life insurance

31 December 2011			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	**119,000**	-	30,000	45,000	44,000	-	-	-
Reinsurance assets	**-**	-	-	-	-	-	-	**-**
Insurance receivables	**-**	-	-	-	-	-	-	**-**
Other receivables	**76,139**	-	-	-	-	-	-	**76,139**
Cash and cash equivalents	**3,687**	-	-	-	-	-	-	**3,687**
Liabilities								
Gross technical reserves	**96,508**	-	-	-	-	-	-	**96,508**
Reinsurance payables	**-**	-	-	-	-	-	-	**-**
Insurance payables	**-**	-	-	-	-	-	-	**-**
Other payables	**3,021**	-	-	-	-	-	-	**3,021**
Net interest rate gap	**99,297**	**-**	**30,000**	**45,000**	**44,000**	**-**	**-**	**(19,703)**

5. Insurance and financial risk management (continued)

Interest rates sensitivity analysis- Non-life insurance

As at 31 December 2012 the company has interest bearing term deposits in amount of MKD 571,751 thousands (2011: MKD 621,933 thousands) and MKD 156,412 thousands (2011: MKD 118,763 thousands) government bills. 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 2012 would be higher, i.e. lower by MKD 2,859 thousands (2011: the profit before tax would be higher/lower by MKD 3,110 thousands).

Interest rates sensitivity analysis- Life insurance

As at 31 December 2012 the Company has interest bearing term deposits in amount of MKD 98,000 thousands (2011: 119,000). 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 loss before tax as for the year ended 31 December 2012 would be higher, i.e. lower by MKD 490 thousands (2011: the profit before tax would be higher/lower by MKD 595 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 2012- Non-life	MKD	EUR	GBP	Other	Total
Debt securities - held to maturity	156,412	-	-	-	156,412
Term deposits	571,751	-	-	-	571,751
Reinsurance assets	9,636	-	-	-	9,636
Insurance receivables	187,089	20,550	-	-	207,639
Other receivables	34,508	20,271	-	-	54,779
Cash and cash equivalents	33,928	2,238		564	36,730
Total assets	**993,324**	**43,059**	**-**	**564**	**1,036,947**
Gross technical reserves	552,328	-	-	-	552,328
Reinsurance payables	967	278	-	773	2,018
Insurance payables	396	-	-	-	396
Other payables	41,220	11,610	144,563	38,834	236,227
Total liabilities	**594,911**	**11,888**	**144,563**	**39,607**	**790,969**
Net position	**398,413**	**31,171**	**(144,563)**	**(39,043)**	**245,978**

5. Insurance and financial risk management (continued)

31 December 2011- Non-life	MKD	EUR	Other	Total
Debt securities - held to maturity	118,764	-	-	118,764
Term deposits	538,961	83,032	-	621,993
Reinsurance assets	8,105	-	-	8,105
Insurance receivables	539,884	75,763	-	615,647
Other receivables	152,258	23,336	-	175,594
Cash and cash equivalents	51,612	30,164	369	82,145
Total assets	**1,409,584**	**212,295**	**369**	**1,622,248**
Gross technical reserves	581,181	-	-	581,181
Reinsurance payables	45,873	37,934	79	83,886
Insurance payables	1,631			1,631
Other payables	610,545			610,545
Total liabilities	**1,239,230**	**37,934**	**79**	**1,277,243**
Net position	**170,354**	**174,361**	**290**	**345,005**

31 December 2012- Life	MKD	EUR	Other	Total
Debt securities - held to maturity	-	-	-	-
Term deposits	98,000			**98,000**
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**

31 December 2011- Life	MKD	EUR	Other	Total
Debt securities - held to maturity	-	-	-	-
Term deposits	119,000			**119,000**
Reinsurance assets	-	-	-	-
Insurance receivables	-	-	-	-
Other receivables	76,139			**76,139**
Cash and cash equivalents	3,687	-	-	**3,687**
Total assets	**198,826**	**-**	**-**	**198,826**
Gross technical reserves	96,508	--	-	**96,508**
Reinsurance payables	-	--	-	**-**
Insurance payables	-	--	-	**-**
Other payables	3,021			**3,021**
Total liabilities	**99,529**	**--**	**--**	**99,529**
Net position	**99,297**	**-**	**-**	**99,297**

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 2012 the Company has positive net exposure of MKD 31,171 thousands in EUR, negative net exposure of MKD 144,563 thousands in GBP as well as negative net exposure of MKD 39,044 thousands in other currencies for non-life insurance (2011: positive net exposure MKD 174,361 thousands in EUR and MKD 290 thousands in other currencies). In life business Company doesn't have foreign exchange risk exposure towards other currencies.

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 2012, had the exchange rate between the MKD and EUR increased or decreased by 0.5% the pre-tax loss for the twelve month period ended 31 December 2012 would have been approximately MKD 567 thousands higher or lower (2011: pre – tax loss – MKD 872 thousands).

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 2012, should equity prices had been 10% higher/ lower with all other variables held constant, the loss before tax for the twelve month period ended 31 December 2012 would respectively increase/decrease by MKD 2,615 thousands (2011: MKD 3,397 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 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)

Maturity analysis – Non-life insurance (continued)

31 December 2011	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	89,055	29,709	-	-	-	**118,764**
- Term deposits	88,761	267,732	265,500	-	-	**621,993**
Reinsurance assets	-	-	8,105	-	-	**8,105**
Insurance receivables	140,007	16,734	46,132	103,019	309,755	**615,647**
Other assets	10,110	17,293	51,459	96,732	-	**175,594**
Cash and cash equivalents	82,145	-	-	-	-	**82,145**
	410,078	**331,468**	**371,196**	**199,751**	**309,755**	**1,622,248**
Liabilities						
Gross technical reserves	-	-	226,151	355,030	-	**581,181**
Reinsurance payables	-	-	83,886	-	-	**83,886**
Insurance payables	-	636	995	-	-	**1,631**
Other payables	39,324		7,525		563,696	**610,545**
	39,324	**636**	**318,557**	**355,030**	**563,696**	**1,277,243**
Liquidity gap	**370,754**	**330,832**	**52,639**	**(155,279)**	**(253,941)**	**345,005**

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)

Aging analysis- Life insurance (continued)

31 December 2011	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	30,000	45,000	44,000	-	-	**119,000**
Reinsurance assets	-	-	-	-	-	**-**
Insurance receivables	-	-	-	-	-	**-**
Other assets	-	1,364			74,775	**76,139**
Cash and cash equivalents	3,687	-	-	-	-	**3,687**
	33,687	**46,364**	**44,000**	**-**	**74,775**	**198,826**
Liabilities						
Gross technical reserves	-	-	35,990	49,774	10,744	**96,508**
Reinsurance payables	-	-	-	-	-	**-**
Insurance payables	-	-	-	-	-	**-**
Other payables	-	3,021	-	-	-	**3,021**
	-	**3,021**	**35,990**	**49,774**	**10,744**	**99,529**
Liquidity gap	**33,687**	**43,343**	**8,010**	**(49,774)**	**64,031**	**99,297**

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 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**
31 December 2011						
Financial assets						
- Debt securities - held-to-maturity	-	118,764	-	-	118,764	118,764
- Equity securities available for sale	-	-	33,967	-	33,967	33,967
- Term deposits	621,993	-	-	-	621,993	621,993
Reinsurance assets	-	-	-	8,105	8,105	8,105
Insurance receivables	615,647	-	-	-	615,647	615,647
Other assets	175,594	-	-	-	175,594	175,594
Cash and cash equivalents	82,145	-	-	-	82,145	82,145
	1,495,379	**118,764**	**33,967**	**8,105**	**1,656,215**	**1,656,215**
Gross technical reserves	-	-	-	581,181	581,181	581,181
Reinsurance payables	-	-	-	83,886	83,886	83,886
Insurance payables	-	-	-	1,631	1,631	1,631
Other payables	-	-	-	610,545	610,545	610,545
				1,277,243	**1,277,243**	**1,277,243**

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 2012						
Financial assets						
- Debt securities - held-to-maturity	-	-	-	-	-	-
- 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**
31 December 2011						
Financial assets						
- Equity securities available for sale	-	-	-	-	-	-
- Term deposits	119,000	-	-	-	119,000	119,000
Reinsurance assets	-	-	-	-	-	-
Insurance receivables	-	-	-	-	-	-
Other assets	76,139	-	-	-	76,139	76,139
Cash and cash equivalents	3,687	-	-	-	3,687	3,687
	198,826	**-**	**-**	**-**	**198,826**	**198,826**
Gross technical reserves	-	-	-	96,508	96,508	96,508
Reinsurance payables	-	-	-	-	-	-
Insurance payables	-	-	-	-	-	-
Other payables	-	-	-	3,021	3,021	3,021
	-	**-**	**-**	**99,529**	**99,529**	**99,529**

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 2012 is as following:

Solvency margin

	2012		2011	
	Non-life insurance	Life ısurance	Non-life insurance	Life ısurance
Solvency margin	122,312,846	2,859,118	131,401,936	3,923,624
Guaranteed capital amount	276,750,000	115,018,108	276,772,500	55,306,000

5. Insurance and financial risk 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 2012	**Previous year 2011**
Gross written premium	1	688,602,316	744,380,849
Gross written premium < 10 million EUR x 0.18	2	110,700,000	110,709,000
Gross written premium > 10 million EUR x 0.16	3	11,776,371	20,692,936
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	122,476,371	131,401,936
Gross claims paid	7	317,446,020	362,430,853
Net claims paid	8	317,022,181	362,430,853
Coefficient ([9]=[8]/[7] or 0.50, if smaller)	9	1,00	1,00
Solvency margin - Premium rate method ([10]= [6]*[9])	**10**	**122,312,846**	**131,401,936**
Reference period (in years)	11	3	3
Gross claims paid in the reference period	12	1,130,494,175	1,379,824,980
Gross claims reserves at the end of the reference period	13	261,562,419	272,499,745
Gross claims reserves at the beginning of the reference period	14	261,060,372	323,144,976
Gross incurred claims ([15]=[12] + [13] - [14])/[11])	15	376,998,741	443,059,916
Gross incurred claims < 7 million EUR x 0,26	16	98,019,673	111,939,100
Gross incurred claims > 7 million EUR x 0,23	17	-	2,880,731
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	98,019,673	114,819,831
Solvency margin – Claims rate method ([21]= [20]*[9])	**21**	**97,888,801**	**114,819,831**
Required level of solvency margin ([22]=max([10],[21]))	**22**	**122,312,846**	**131,401,936**

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 2012	**Current year2011**
Gross mathematical reserve		1	68,376,460	93,711,627
Net mathematical reserve		2	68,376,460	93,711,627
Coefficient 1 ([3]=[2]/[1] or 0,85, if smaller)		3	1.00	1.00
Relevant factor		4	4,00%	4%
First result ([5]=[1]*[3]*[4]		5	2,735,058	3,748,465
Gross risk capital (if not negative number)	Death risk up to 3 years			
	Death risk from 3 to 5 years			
	Death risk (except [6] and [7])		14,180,172	20.827.904
	Total ([6]*0, 1% + [7]*0,15% + [8]*0,3%)		42,540	62.484
Net risk capital (if not negative number)		10	14,180,172	20,827,904
Coefficient 2 ([11]=[10]/([6]+[7]+[8]) or 0,50, if smaller)		11	1.00	1.00
Second result ([12]=[9]*[11])		12	42,540	62,484
Capitalised assets		13		
Solvency margin for life insurance		**14**	**2,777,599**	**3,810,949**

5.2.6 C Required additional level of solvency margin for life insurance

		Additional insurance	
		Current year 2012	**Previous year 2011**
Gross written premium	1	452,886	625,976
Gross written premium < 10 million EUR x 0.18	2	81,519	112,676
Gross written premium > 10 million EUR x 0.16	3	-	-
Total Gross written premium ([4]=[2] + [3])	4	81,519	112,676
Gross paid claims	5	179,630	269,000
Net paid claims	6	179,630	269,000
Coefficient ([7]=[6]/[5] or 0.50 if smaller)	7	1.00	1.00
Additional solvency margin ([8]=[4]*[7])		**81,519**	**112,676**

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.

Presented below are assets/liabilities matching according to the local regulatory requirements, in relation to assets covering the technical provisions:

Non-Life insurance	**2012**	**2011**
Assets		
Cash and cash equivalents (limit up to3%)	36,730	82,145
Government bills issued by R.Macedonia (limit up to 80%)	156,412	118,764
Government bonds and other securities issued by R.Macedonia (limit up to 80%)	-	-
Loans and advances to banks (deposits) which have licence from NBRM (limit up to 60%)	571,751	621,993
	764,892	**822,902**
Liabilities (Technical reserves)		
Gross insurance contract reserves	552,328	581,181
Unearned premium net of reinsurance (reinsurance share)	(9,636)	(8,105)
Total net technical reserves	**542,693**	**573,076**
	222,201	**249,826**

Life insurance	**2012**	**2011**
Assets		
Cash and cash equivalents (limit up to3%)	1,536	3,687
Government bills issued by R.Macedonia (limit up to 80%)	-	-
Government bonds and other securities issued by R.Macedonia (limit up to 80%)	-	-
Loans and advances to banks (deposits) which have licence from NBRM (limit up to 60%)	98,000	119,000
	99,536	**122,687**
Liabilities (Technical reserves)		
Gross insurance contract reserves	70,086	96,508
Unearned premium net of reinsurance (reinsurance share)	-	-
Total net technical reserves	**70,086**	**96,508**
	29,450	**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 2012, the Company's short-term bank deposits represent 60.5% (2011 :62%), i.e. MKD 344,551 thousands (2011: MKD 368,794 thousands) are used as assets to cover the technical reserves from total assets, while the government bills represent 27.5% (2001: 20%) i.e MKD 156,412 thousands (2011: MKD 118,763 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 31.12.2012 is in compliance (2.9%), i.e. in amount of MKD 16,570 thousands (2011: MKD 17,192 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 technical reserves- non-life insurance

At 31 December 2012, the Company's short-term bank deposits represent 92.7% (2011: 93.2%) (required statutory regulation limit 60%) from total assets used as coverage for technical reserves, while there are no investments in government bills According to the required statutory regulation limit for cash and cash equivalents, which is 3%, the Company as at 31.12.2012 is in compliance with 1.8% (2011:2.5%).

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
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.

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
2011					
Accident	95,301	-	2,342	-	97,643
Motor vehicles	109,270	246	4,055	115	113,194
Aircraft	-		-	-	-
Marine	-	-	22	-	22
Cargo	33,589	1,666	981	48	32,952
Property-fire	93,742	8,830	31,413	2,299	118,624
Property-other	153,902	9,634	(15,747)	4,076	132,597
Motor vehicle liability insurance	230,445	527	(1,771)	244	228,391
Aircraft liability insurance	-	-	-	-	-
Marine liability insurance	123	-	36	36	195
General liability insurance	11,998	843	251	256	11,662
Guarantees	126	-	3	-	129
Financial loss	3,321	-	28	-	3,349
Travel assistance	12,564	-	781	-	13,345
Total	**744,381**	**21,746**	**22,394**	**7,074**	**752,103**

In the total amount of gross written premium of MKD 744,381 thousands is included gross written premium in amount of MKD 742,194 thousands and gross written premium for reinsurance in amount of MKD 2,187 thousands.

7. Other insurance technical income net of reinsurance

	2012	**2011**
Collected written off receivables	10,778	14,366
Income from guarantee fund for recourses	7,247	2,582
Income from guarantee fund for unknown and uninsured vehicle	-	-
Compensation for claims paid	5,237	4,729
Transferable bonus premium	5,408	5,595
Other (recourses from previous years)	1,381	2,717
Total	**30,051**	**29,989**

8. Other income

Other income	**2012**	**2011**
Collected court costs	1,932	6,784
Rent income	6,185	5,864
Other insurance related income	1,637	2,293
IT service income	4,226	-
Income from disposal of property	-	3,309
Collected extraordinary income	-	3,241
Fees from Harris and Dixon	-	-
Income from penalties	-	320
Other income from write off life payable	65,143	-
Other	955	1,750
Total	**80,078**	**23,561**

9. Claims incurred

	2012		**2011**	
	Gross claims paid	**Change in gross reserve for claims**	**Gross claims paid**	**Change in gross reserve for claims**
Accident	45,371	(1,287)	59,464	5,200
Motor vehicles	67,005	(4,400)	66,890	8,040
Aircraft	-	-	-	-
Marine	-	-	-	(2)
Cargo	1,008	(597)	1,664	(1,923)
Property-fire	11,655	(1,500)	23,099	(4,680)
Property-other	54,203	7,361	59,296	1,159
Motor vehicles liability insurance	134,512	(11,137)	146,895	27,513
Aircraft liability insurance	-	-	-	-
Marine liability insurance	-	-	-	(6)
General liability	501	(413)	680	1,098
Guarantees	-	1,079	-	(4)
Financial loss	446	(69)	193	(77)
Travel assistance	2,745	(52)	4,250	124
Claims from active insurance			-	(84)
Total	**317,446**	**(11,015)**	**362,431**	**36,358**
Decrease of income for recourses	**(11,568)**		**(22,986)**	
Gross claims paid for reinsurance	**328**		**-**	
Gross claims paid	**295,191**		**375,803**	

9. Claims incurred (continued)

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

	2012 Ratios			2011 Ratios		
Insurance class	**Claims**	**Cost**	**Combined**	**Claims**	**Cost**	**Combined**
Accident	50%	54%	104%	66%	58%	124%
Casco	58%	49%	107%	66%	55%	121%
Cargo	1%	59%	60%	1%	53%	52%
Property – fire	14%	66%	80%	16%	63%	79%
Property – other	45%	60%	105%	45%	62%	107%
MTPL т	64%	65%	129%	66%	52%	118%
Marine liability insurance	0%	55%	55%	17%	-	17%
General liability insurance	1%	78%	79%	13%	92%	105%
Guarantees	1004%	45%	1049%	3%	43%	40%
Financial loss	13%	66%	79%	3%	58%	62%
Travel assistance	23%	69%	92%	33%	80%	112%
Total	**46%**	**60%**	**106%**	**50%**	**56%**	**106%**

10. Net expenses for insurance

	2012	2011
Broker's fee	21,842	23,561
Advocacy agency's fee	40,152	28,798
RI commission	831	-
Salaries for agents	66,315	51,290
Marketing	5,950	10,213
Salaries for administration	94,465	134,623
Other employee benefits	7,661	14,173
Remuneration for members of the Management Board	4,287	4,253
Heat and electrical energy	24,753	22,464
Mailing costs	3,471	4,037
Mobile phone and internet	4,738	5,187
Utility costs	2,141	2,859
Current and investment maintenance	14,675	16,503
Security	5,407	5,536
Administrative court expenses	1,465	3,616
Insurance premium	3,786	3,940
Depreciation	15,342	17,523
Other administrative expenses	21,229	22,984
Total	**338,510**	**371,560**

11. Other insurance technical expenses

	2012	2011
Expenses for claims payment of uninsured and unknown vehicles	7,057	8,713
Contribution for fire prevention	7,070	8,994
Health contribution	2,040	1,158
Expenses for Supervisory Authority	6,613	7,335
National Biro for insurance financing	1,831	1,981
Other	825	1,187
Total	**25,436**	**29,368**

12. Other expenses including other impairment

	2012	2011
Write off of recourse debts	-	17,489
Write off of service paid claims	1,429	15,975
Impairment of receivables based on recourses	26,703	13,511
Impairment of the receivables	53	7,094
Impairment and write off of receivables based on rent	214	2,945
Writte off on receivables from QBE	111,519	-
Regresses expenses	8,079	-
Other expenses	33,332	42,730
Total	**181,329**	**99,744**

13. Income Tax

	2012	2011
Income tax	12,663	5,719
Total	**12,663**	**5,719**

Reconciliation of effective tax rate

	2012		2011	
	Life	**Non-life**	**Life**	**Non-life**
Profit before tax	-	-	-	-
Loss before tax	65,675	152,357	1,579	64,411
Income tax using the domestic corporation tax rate	6,514	12,663		
Non-deductable expenses	65,143	126,635	-	51,194
Tax credit	-	-	-	-
Income tax	**6,514**	**12,663**	**-**	**5,719**

The tax authorities are authorised to carry out a full-scope tax audit at the Company for the year ended 31 December 2012. 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

	2012	2011
Balance at 1 January		
Cost	15,104	14,788
Accumulated depreciation	(14,308)	(13,561)
Net book amount		
At 31 December	**796**	**1,227**
Opening net book amount	796	1,227
Additions	20	316
Depreciation charge	415	(747)
Closing net book amount at 31 December		
Cost	15,124	15,104
Accumulated depreciation	(14,723)	(14,308)
Net carrying amount	**401**	**796**

15. Investments in property, plant and equipment

	2012	2011
At 1 January		
Cost	879,184	893,814
Accumulated depreciation	(241,099)	(225,404)
Net book amount	**638,085**	**668,410**
Year ended 31 December		
Opening net book amount	638,085	668,410
Additions	5,353	7,127
Disposals and write-off	(4,191)	(16,486)
Transfer to property and equipment	-	1,916
Depreciation charge	(22,778)	(22,882)
Closing net book amount	**616,469**	**638,085**
At 31 December		
Cost	880,346	879,184
Accumulated depreciation	(263,877)	(241,099)
Net book amount	**616,469**	**638,085**

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 2011								
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	**219,0345**	**7,597**	**8,514**	**5,624**	**1,247**	**475**	**1,426**	**243,918**
Year ended 31 December 2011								
Opening net book amount	219,035	7597	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	**15,313**
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 2011	**205,986**	**5,454**	**8,025**	**4,689**	**2,143**	**596**	**1,598**	**228,491**
Cost	309,796	67,644	197,220	14,190	2,143	596	1,598	**593,186**
Accumulated depreciation	103,810	62,190	189,195	9,500	-	-	-	**364,695**
Closing net book amount at 31 December 2011	**205,986**	**5,454**	**8,025**	**4,689**	**2,143**	**596**	**1,598**	**228,491**
Net book amount								
Year ended 31 December 2012	205,986	5,454	8,025	4,690	2,143	596	1,598	**228,491**
Opening net book amount	1,914	1,436	63	371	-	711	-	**4,495**
Additions	-	-	-	-	-	-	-	-
Transfers from assets in course of construction	-	-	-	-	(1,982)	-	-	**(1,982))**
Transfer from investment property		-	-	-	-	-	-	-
Elimination and disposal	(7,774)	(2,986)	(1,937)	(2,230)	-	-	-	**(14,927)**
Closing net book amount as at 31 December 2012	**200,126**	**3,904**	**6,150**	**2,831**	**161**	**1,307**	**1,598**	**216,077**
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 as at 31 December 2012	**200,126**	**3,904**	**6,150**	**2,831**	**161**	**1,307**	**1,598**	**216,077**

*The line item buildings in amount of MKD 200,126 thousands (2011:MKD 205,986 thousands) and assets in course of construction in amount of MKD 161 thousands (2011: MKD 2,143 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

	2012	2011
Assets held to maturity	156,412	118,764
Deposits	571,751	621,993
Financial assets available for sale	183,824	202,625
Banks	70,570	68,626
Other institutions	57,033	57,033
Total	**1,039,590**	**1,069,041**
Impairment	(285,279)	(294,317)
Net amount	**754,311**	**774,724**

Deposits from non-life with maturity up to 91 days in amount of MKD 310,200 thousands and interest rate from 3.50% to 3.65%; deposits up to one year MKD 258,000 thousands with interest rate of 4.5% on annual basis and deposits places for two days in amount of MKD 3,551 thousands with interest rate of 0.6%.

18. Receivables from immediate work of insurance

	2012	2011
Insurance receivables	879,386	894,941
Other receivables from insurance	141,977	143,883
Total	**1,021,363**	**1,038,824**
Impairment	**(834,884)**	**(710,088)**
Total	**186,479**	**328,736**

19. Other receivables from direct insurance operations

	2012	2011
Recourse receivables	43,511	42,785
Receivables for service claims paid	20,271	17,737
Receivables from the National Bureau	7,615	6,652
Receivables from QBE Reinsurance ltd.	-	5,148
Receivables for claims	5,157	5,589
Receivables based on given advances	5,415	5,416
Total receivables	**81,969**	**83,327**
Impairment	**(45,272)**	**(25,527)**
Total	**36,697**	**57,800**

20. Receivables from financial investments

	2012	2011
Interest receivables	777	986
Receivable for rent	17,435	21,661
Receivables from trading securities	1,588	1,237
Total	**19,800**	**23,884**
Impairment	**(2,762)**	**(2,944)**
Total	**17,038**	**20,940**

21. Other receivables

	2012	2011
Receivables from employees	871	1,322
Receivables from QBE	111,519	92,399
Receivables from jointly controlled entities	158	2,813
Suppliers receivables - other	15	-
Other receivables	-	320
Total receivables	112,563	96,854
Provision	(111,519)	-
Net receivables	**1,044**	**96,854**

The amount of MKD 111,519 thousands (2011 MKD 93,399) is receivable from QBE Insurance International that refers to optional rights of employees in QBE Macedonia during the time period from 2002 up to 2012, paid out QBE Macedonia in the name of QBE Insurance International. For them in 2012, in accordance with reconciliation of intercompany receivables and payables with mother company, QBE Makedonija made provision in total amount of MKD 111, 519 thousands.

(All amounts in MKD thousands unless otherwise stated)

22. Cash and cash equivalents

	2012	2011
Cash on hand		
- in denars	46	33
- in foreign currency		
Cash in banks	33,884	51,578
-in denars		
- in foreign currency	2,800	30,534
Total	**36,730**	**82,145**

23. Technical reserves

	2012	2011
Gross reserves for unwritten premium	289,004	306,841
Gross reserves for incurred reported claims	159,201	161,619
Gross reserves for incurred but not reported claims	101,060	109,525
Reserves for bonuses and discounts	1,762	1,840
Other technical reserves	1,301	1,356
Gross technical reserves	**552,328**	**581,181**

24. Other liabilities

	2012	2011
Received insurance advances	8,853	10,112
Fees for agents	5,360	4,166
Liabilities towards QBE	196,188	493,933
Liabilities for contributions and membership	1,879	1,874
Liabilities towards the National Bureau	483	308
Liabilities for suppliers of material assets	1,307	2,992
Liabilities for suppliers of working capital	8,029	9,298
Liabilities towards employees	8,412	11,235
Liabilities for contributions and taxes	4,001	4,452
Liabilities for life insurance	1,715	72,175
Total	**236,227**	**610,545**

25. Accrued expenses

	2012	2011
Calculated liabilities for reinsurance	59,942	60,544
Calculated fees	3,737	2,506
Liabilities for contribution to fire brigade	11,159	4,091
Other	15,132	-
Total	**89,970**	**67,141**

26. Shareholders equity and reserves
Shareholders' equity

In number of shares	**2012**	**2011**
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 2012 the authorised share capital comprises 636,645 (2011: 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.

The shareholders' structure of the Company is as follows:

	% of voting share capital
QBE Reinsurance (Europe) Limited	73.51%
Other legal entities and individuals	26.49%

Dividends

After preparation date on Company's Balance Sheet, Management Board didn't proposed dividends.

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.

27. Administrative expenses- life insurance

	2012	**2011**
Bank charges	66	61
Other insurance related expenses	1,638	2,294
Total	**1,704**	**2,355**

28. Other receivables- life insurance

	2012	**2011**
Receivables for advance claims paid	4,566	4,794
Receivables from National Insurance Bureau	-	1,364
Receivables from non-life insurance	135	69,981
Total	**4,701**	**76,139**

29. Other expenses, including impairment (life)

During 2012 Company did analyse on life and non-life receivables. Due to their nature and aging (originated from before 2005) Decision for writte off was passed. Writte off is reported as expense in life business in amount of MKD 65,389 thousands and as unrecognized tax expense is tax base for profit tax in life busines.

30. Off balance sheet items (Non-life)

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.

31. Related parties transactions

Parent and ultimate parent of the Company

The Company is a wholly – owned subsidiary of QBE Reinsurance (Europe) Limited.

Related party transactions with the Parent

At the year end the balances from transactions with the Parent were as follows

	2012	**2011**
Insurance and other receivables	-	103,453
Liabilities from reinsurance	50,444	366,369
Other liabilities	144,563	189,710
Net liabilities	**195,007**	**452,626**

During 2012 QBE Insurance Makedonija did intercompany reconciliation on receivables and payables with Mother company. By which part of receivables were netted with payables and other part of payables was paid out.

During the year the transactions with QBE Reinsurance (Europe) Limited were as follows:

	2012	**2011**
Reinsurance payables	123,943	28,575
Income from provisions	424	-
	123,519	**28,575**

Transactions with key management personnel

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

	2012	2011
Short-term employee benefits	4,287	4,253
	4,287	**4,253**

32. 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.

33. 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 2012. Annuel accounts for 2012 were approved on 27.02.2013 by Board of Directors. On 01.03.2013 Vienna Insurance Group AG Wiener Versicherung Gruppe - VIG published official offer for redumption of all shares issued by the Company (Official Gazette of RM No.33). After due term stipulated in the offer Security exchange commission on its meeting held on 23.03.2013 passed Decision proclaiming redumption successful (VIG bought 92,9% from ordinary shares of the Company). In accordance with Law on takeovers and Law on securities, after payment on bought shares VIG will be recorded in Company's share holders book (in Central register) as new share holder. For process of Company takeover Board of Directors did all obligatory activities.

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