

Pursuant to Article 182, paragraph 5 of the Insurance Law (RS Official Gazette, No 139/2014) and Article 15, paragraph 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012 and 14/2015), the Executive Board of the National Bank of Serbia issues the following

DECISION

ON THE CONTENT OF REPORT ON THE AUDIT OF FINANCIAL STATEMENTS OF AN INSURANCE/REINSURANCE UNDERTAKING

Introductory provisions

1. This Decision sets out the content of report of a licensed certified auditor employed at an audit firm (hereinafter: auditor) on the audit of financial statements of an insurance/reinsurance undertaking (hereinafter: undertaking).

2. The auditor's report on the audit of financial statements of an undertaking (hereinafter: audit report) shall be prepared in accordance with the law governing the audit of financial statements, the Insurance Law and this Decision.

Content of the audit report

3. The audit report shall contain:

- 1) the auditor's opinion;
- 2) audited financial statements;
- 3) opinion on whether the report on operations is in agreement with the financial statements for the same business year;
- 4) letter on financial statement presentation;
- 5) letter to the management;
- 6) analyses for the purposes of the National Bank of Serbia.

4. The auditor's opinion referred to in Section 3, provision 1) hereof shall mean an opinion on whether the undertaking's financial statements subject to the audit were prepared in accordance with law and by-laws governing accounting, and whether they give a true and fair view, in all material respects, of the undertaking's financial position, business results and cash flows.

5. The financial statements referred to in Section 3, provision 2) hereof shall be enclosed in summary form, which means that the forms of such

statements are in accordance with the decision on forms and content of items in financial statement forms for insurance activities, but shall not contain items with value equal to zero, nor ADP codes, while positive and negative values of some items may be presented as net amounts.

6. The opinion on whether the report on activities is in agreement with financial statements referred to in Section 3, provision 3) hereof shall also contain the auditor's statement on whether the report on the undertaking's activities contains any additional elements stipulated by the regulations of the National Bank of Serbia.

7. The letter on financial statement presentation referred to in Section 3, provision 4) hereof, signed by responsible persons at the undertaking, shall confirm that the undertaking's financial statements give a true and fair view in accordance with the law of the undertaking's financial position, business results, cash flows and changes in equity for the year to which the financial statements refer.

8. The letter to the management referred to in Section 3, provision 5) hereof shall in particular contain the auditor's findings and recommendations regarding the efficiency of the undertaking's management system, with special emphasis on the efficiency of the undertaking's information system.

The letter to the management shall contain separately disclosed recommendations regarding the efficiency of the undertaking's information system.

The auditor shall state in detail the following information in the letter to the management: information on irregularities, weaknesses and omissions in the undertaking's operations established in the course of the audit, recommendations for their removal, and activities the undertaking has taken in line with the previous year's auditor's recommendations.

9. The analyses for the purposes of the National Bank of Serbia shall include:

- 1) analysis of the undertaking's financial statements;
- 2) business quality analysis of the undertaking.

Analysis of the undertaking's financial statements

10. The analysis of the undertaking's financial statements shall contain the auditor's brief comment on the following: balance sheet, income statement, statement of other income, cash flow statement, statement of

changes in equity, and notes to financial statements, with special emphasis on items which are notably different from those in the previous, and/or the most recent comparable reporting period.

The analysis of the undertaking's financial statements shall also contain a description of adjustments if any were made by the auditor, and/or the undertaking according to the auditor's findings.

The analysis of the undertaking's financial statements shall also contain an assessment of the previously prepared comparative overview of income and expenses and the disclosed results of third party liability insurance for owners of motor vehicles (hereinafter: motor third party liability insurance), in accordance with the applicable law.

If an undertaking, in accordance with the Insurance Law, pursues both life and non-life insurance activities, the analysis of financial statements shall also contain the auditor's opinion on whether the undertaking keeps its business books and discloses income, expenses and results of life and non-life insurances in its financial statements in the manner specified by the provisions of the Law.

A separate part of this analysis shall refer to the auditor's analysis and assessment of the manner of keeping business books by the undertaking.

Business quality analysis of the undertaking

11. The business quality analysis of the undertaking shall in particular refer to:

- 1) compliance with the capital adequacy requirements;
- 2) balance and changes in technical provisions;
- 3) structure of the undertaking's investments and other assets;
- 4) system of governance at the undertaking;
- 5) the undertaking's information system;
- 6) professional and organisational capacity of the undertaking;
- 7) maintaining records of policy forms
- 8) claims for damages;
- 9) channels for insurance sales;
- 10) criteria for the classification of indirect (general and joint) income and expenses by class of insurance;
- 11) business performance indicators;
- 12) findings of external controls.

12. The analysis of compliance with the capital adequacy requirements shall contain information on whether the undertaking has fulfilled the

stipulated capital adequacy requirements during the period covered by the audit.

The analysis referred to in paragraph 1 hereof shall also contain data on shareholders who acquired/increased their qualifying holding in the undertaking's core capital (name, address and value of investment), and data on shareholders of the undertaking, down to natural persons – end owners, and/or to the level of legal entities recognisable in the market within the meaning of the regulation which closely specifies the issuance of approval for the acquisition/increase of qualifying holding in the undertaking.

13. The analysis of the balance and changes in technical provisions shall contain a description of the data used as the basis for the calculation and disclosure of items on which the certified actuary gives his opinion (technical provisions – unearned premium reserves, unexpired risk reserves, reserves for bonuses and rebates, outstanding claims reserves, mathematical reserves, reserves for insurance where the investment risk is borne by the insured, risk equalisation reserves and other technical provisions).

The analysis referred to in paragraph 1 hereof shall also contain a description of the balance of technical provisions at the beginning and end of the year, their changes through the year and the description of the methods in which the undertaking calculates technical provisions, including an explanation of how the changes in those methods affected the financial result and the position of the undertaking, if any occurred in the period covered by the audit.

14. The analysis of the structure of investments and other assets shall contain the opinion on whether the undertaking adhered to rules of investing insurance funds in the period covered by the audit in the manner stipulated by the Insurance Law and by-laws.

The analysis shall also contain a detailed overview of the structure of the undertaking's investment portfolio, which includes financial instruments, deposits with banks, cash and cash equivalents, investment property, etc., and shall separately disclose data on investment of technical provisions, with particular emphasis on investment of mathematical reserves.

The analysis shall also contain an overview of the structure of intangible investments, property used to carry out activities, equity interests in subsidiaries and the undertaking's receivables.

15. The analysis of the undertaking's system of governance shall disclose whether the undertaking has adopted the appropriate procedures to ensure an adequate system of internal controls and consistent implementation of strategies, rules and procedures for the identification, measurement,

assessment and management of risk, as well as whether the undertaking has adopted the procedures for regular reporting on the manner of risk management to the undertaking's bodies and the National Bank of Serbia.

The analysis referred to in paragraph 1 hereof shall also contain a description of functioning of internal audit, including the data on whether the internal audit has been organised in the stipulated way, the internal audit's activities throughout the year, as well as reports, findings and proposed measures and the action taken by the executive and supervisory boards of the undertaking according to those findings and measures.

The analysis shall also contain an assessment of whether the undertaking's certified actuary has been engaged in accordance with the law as well as his opinion on the undertaking's financial statements.

16. The analysis of the undertaking's information system shall contain an opinion on whether the undertaking has fulfilled the minimum standards of information system management and business continuity management, in order to achieve an adequate level of protection of the undertaking in line with the nature, scope and complexity of its operations.

The analysis shall contain data and an opinion on whether the undertaking has established an appropriate framework for information system management which ensures the system is secure and functional and reduces exposure to information system risks.

17. The analysis of professional and organisational capacity of the undertaking shall contain data on the undertaking's human resources, including the total number of employees: members of the supervisory board (name, last name, and the legal entity which employs them) and executive board; management, experts and support staff; it shall give an overview of the organisational network of the undertaking with its organisational parts (branches, business units) and headquarters.

The analysis shall also contain total gross and net wages, compensations and other benefits of the president and members of the supervisory board, as well as total gross and net wages, compensations and other benefits of the president of the executive board and an aggregate amount for other members of the executive board – earned in the undertaking (data on whether the wages are one-off or regular, and/or whether they are fixed or variable, and to what extent, shall be separately disclosed).

18. The analysis of maintaining records of policy forms shall contain the auditor's assessment of whether physical records of unfilled policy forms, insurance proposals and other strict accountability forms are kept in the

stipulated manner in the undertaking and by the persons charged with those forms.

The analysis shall also contain an overview of the stock of strict accountability forms by class of insurance (at the beginning and end of the year), changes in the stock of those forms during the reporting period (printed, used – realised, cancelled), and if it is determined by inventory that there is a difference between their real and accounting stock, the manner in which the undertaking has reconciled its accounting and real stock shall be disclosed.

19. The analysis of claims for damages shall contain data from the book of claims, by class of insurance, comparing them with the relevant data from the ledger and/or financial statement, as follows:

- data on the number and amount of claims transferred from an earlier period, by year of occurrence (regular and court);
- data on the number of claims reported during the year covered by the audit;
- data on the number and amount of claims settled during the year, in particular the data on the number and amount of paid claims, by year of occurrence (regular and court);
- data on the number and amount of reported outstanding claims, by year of occurrence (regular and court).

The analysis shall also contain data on the timeliness of settlement of claims and payment of settled claims, as well as the auditor's opinion on whether the undertaking adheres to the provisions of regulations governing the procedure and deadlines for decision-making on the claim for compensation of damages by motor third party liability insurance contract.

20. The analysis of channels for insurance sales shall contain the auditor's presentation of the structure of collected premium and paid commission by sales channel (direct sale, insurance brokerage undertaking/insurance agency, entrepreneurs – insurance agents, banks, financial leasing providers, public postal operator, technical inspections, other insurance undertakings, and/or other persons performing the activities of sale of insurance policies) and an assessment of the efficiency of the channels for the sale of insurance used by the undertaking in the reporting period.

The analysis shall also contain data on the largest insurance brokerage undertakings/insurance agencies, entrepreneurs – insurance agents and other persons who performed the activities of sale of the undertaking's insurance policies in the reporting period, as well as information on collected commissions arising therefrom.

21. The analysis of the criteria for the classification of indirect income and expenses by class of insurance shall contain a description of the criteria on the basis of which the undertaking classifies indirect expenses by class of insurance, and separately for motor third party liability insurance.

The analysis shall also contain the auditor's opinion on the objectivity and suitability of the criteria referred to in paragraph 1 hereof, and the consistency of their implementation from one period to the next.

22. The analysis of business performance indicators shall contain data on: performance indicators of the undertaking's business (liquidity, cost-effectiveness and profitability); structure of income and expenses, including a profitability analysis of the undertaking – by segment of operations for which a separate balance sheet is determined; structure of the undertaking's liabilities; indicators of the physical volume of operations (quantitative business indicators), by class of insurance, and a comparative overview of the achieved and planned results and the analysis of the causes why results were or were not achieved.

23. The analysis of findings of external controls shall disclose whether the undertaking was subject to external audit by a competent body as regards other legal and regulatory requirements in the period covered by the audit, including an overview of those controls.

The analysis shall also contain data on the findings and measures of external control, and/or on the action taken by the undertaking's bodies according to those findings and measures.

Final provisions

24. This Decision repeals the Decision on the Content of Reports on the Audit of Financial Statements of an Insurance Company (RS Official Gazette, Nos 21/2005, 24/2005 and 54/2005).

25. This Decision shall be published in the RS Official Gazette and shall enter into force on 27 June 2015.

NBS Executive Board No 35
11 May 2015

Belgrade

Chairperson
Executive Board of the
National Bank of Serbia
at the meeting of 11 May 2015
Vice-Governor
of the National Bank of Serbia

Veselin Pješčić