ERSTE OSIGURANJE VIENNA INSURANCE GROUP d.d.

Financial statements

For the year 2017

Contents

VIENNA INSURANCE GROUP

COMPANY PROFILE

» We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times. «

Over 25,000 employees work for the Vienna Insurance Group (VIG), at around 50 companies in 25 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

EXPERTISE AND STABILITY

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

FOCUS ON CENTRAL AND EASTERN EUROPE

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

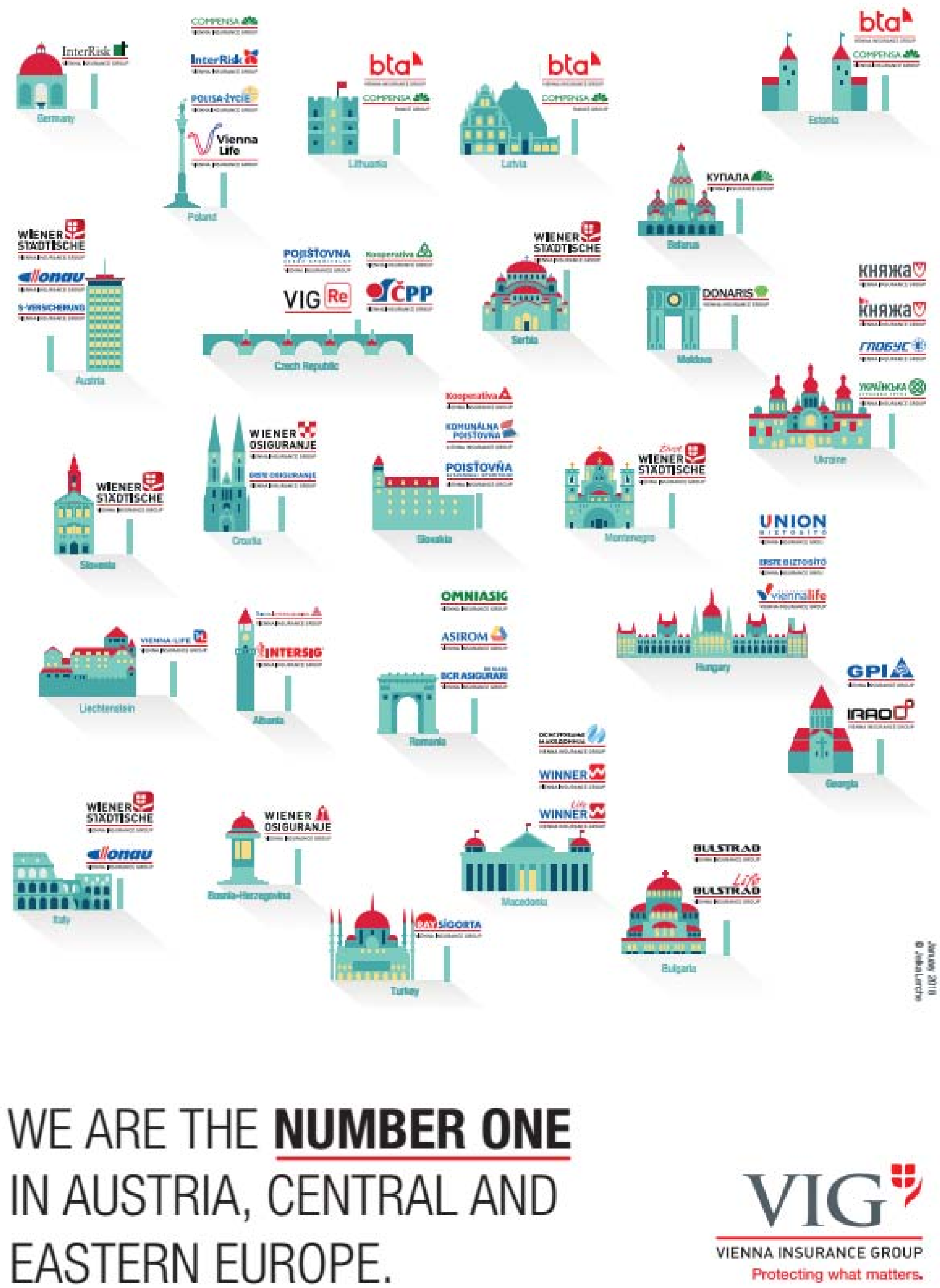
LOCAL MARKET PRESENCE

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

STRONG FINCANCES AND CREDIT RATING

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

Vienna Insurance Group members



THE VIG MISSION **STATEMENT**

VIENNA INSURANCE GROUP
Protecting what matters.

OUR VISION

We want to be the first choice for our customers. Our stakeholders see us as a stable and reliable partner. This enables us to consolidate our position as the leading insurance group in Austria, Central and Eastern Europe.

OUR MISSION

We stand for stability and competence in the field of risk protection. We use our experience, know-how and diversity to move closer to our customers. We see it as our responsibility to protect the values that matter to our customers.

OUR VALUES

Diversity
Customer proximity
Responsibility

OUR PROMISE

We enable customers to live a safer and better life: Protecting what matters.

CORPORATE STRATEGY | SUSTAINABILITY STRATEGY | EMPLOYER BRANDING

Annual Management Board's report

The Management Board is submitting its report together with the audited financial statements for the year ended 31 December 2017.

Review of operations

The result for the year ended 31 December 2017 of the Company is set out in the statement of comprehensive income on page 16.

Management Board of Erste osiguranje Vienna Insurance Group d.d.

The Management Board, during the course of 2017 and up to the date of the signing of this report, comprised:

Snježana Bertoncelj	President of the Management Board
Daliborka Dedić	Member of the Management Board

Supervisory Board of Erste osiguranje Vienna Insurance Group d.d.

The Supervisory Board, during the course of 2017 and up to the date of the signing of this report, comprised:

Peter Franz Höfinger	President of the Supervisory Board since August 21, 2017
Roland Gröll	stopped being President of the Supervisory Board on August 21, 2017
Erwin Hammerbacher	stopped being Deputy President of the Supervisory Board since December 06, 2017
Jurica Smoljan	Member of the Supervisory Board and Deputy President of the Supervisory Board since December 07, 2017
Johann Franz Josef Bichler	Member of the Supervisory Board
Anita Markota Štriga	stopped being Member of the Supervisory Board on October 31, 2017

Annual Management Board's report (continued)

Introduction

Erste osiguranje Vienna Insurance Group d.d. started its operations on 1 July 2005. The seat of the Company is in Zagreb, Slovenska 24, and the Company has no own subsidiaries.
The total premium income for the year 2017 amounts to HRK 182.3 million, which represents an increase of 4.2 percent from the prior year.
In the same period, the life insurance market reported a premium increase of 0.75 %, whereby 7 of a total of 13 companies reported a premium growth, while 6 companies reported premium levels lower than in 2016.
As at 31 December 2017 the market share of Erste osiguranje Vienna Insurance Group d.d. in the life-insurance business was 6.2 percent, and in 2016 it was 6.0 percent.
In 2017 the Company reported profit before tax in the amount of HRK 19.2 million, 15.2 percent more than in 2016.
The Company's operations in 2017 were stable, recording the increase in both gross premium and profit before tax.

Shareholders' structure

The shareholders of Erste osiguranje Vienna Insurance Group d.d. are as follows:
Vienna Insurance Group AG Wiener Versicherung Gruppe, Vienna, with an interest of 95 percent,
Wiener osiguranje Vienna Insurance Group d.d., with an interest of 5 percent.

Selling activities and gross premium written

The Company has an agency and business cooperation agreement with Erste & Steiermärkische Bank d.d.
The selling activities are focused mainly on retail business. Of the total of HRK 182.3 million of the gross premium written, HRK 121.3 million are in respect of new premiums, and HRK 61.0 million reflect premiums from previous years.
In 2017 an excellent sales performance in single-premium guaranteed endowment policy was achieved (sBenefit Plus) recording a premium income of HRK 79.2 million. In addition to the single-premium business, the sales activities were focused on term insurance generating a premium income of HRK 10.5 million, of which HRK 8.4 million relate to single-premium policies for the new sKredit product (term life insurance with a decreasing insured amount, sold only with Erste & Steiermärkische Bank d.d. cash loans).

Operating expenses

In 2017 gross claims paid amounted to HRK 119.4 million, which represents an increase of 42.9 percent from 2016. The balance is largely the result of surrenders (HRK 60.3 million) and lapses (HRK 53.9 million). Such development was expected because of the maturing portfolio.
Net expense ratio at 31 Decebmer 2017 amounts to 18.1 percent which is 0.1 percent higher compared to 2016 when it amounted to 18.0 percent.

Increase in technical provisions

Total technical provisions increased by HRK 45.8 million (5.9%), compared to 2016 and amount to HRK 779.3 million. Mathematical reserves in the amount of HRK 588.4 million represent the largest share, which is in line with the portfolio structure dominated by endowment assurances. The share of technical provisions for life assurances where the investment risk is borne by the policyholder decreased from HRK 212.3 million in 2016 to 190.9 million in 2017 (10.1%) due to the maturity of part of the portfolio.

Capital and investments

As at 31.12.2017. shareholders' equity amounted to HRK 125.8 million, representing an increase of HRK 17.4 million or 16.0% compared to 2016. The Company's investment portfolio increased from HRK 651.5 million as at 31.12.2016 to HRK 744.5 million as at 31.12.2017. representing 14.3% increase. The investment structure in 2017 remained relatively unchanged with government bonds prevailing with 97.1% share in the total investments.

Annual Management Board's report (continued)

Risk management

Risk management at the Company is performed methodically on an on-going basis. It enables risk identification, quantification, analysis and management.
The risks the Company is facing can be divided into market, credit, life assurance risks, operational, strategic and reputational risk.
For each of the risk categories, the Company takes measures to minimise the risk. Each measure is developed based on a detail analysis of residual risks determined on the basis of internal controls and planned risk levels, adverse scenarios and stress tests as part of the ORSA process.
The Company has risk management system in place, which is responsible for organisation and implementation of responsibilities that are attributed to key functions. The system and the internal documents which regulate the work of key functions are adequiate to the size and complexity of the Company.
The Company manages the risks using internally developed policies which define the risk management strategy, the level and nature of the risks taken on by the Company in its operations as well as the way the Company determines technical reserves. The assets and liabilities management, liquidity and concentration risks management, the investment strategy, operational risk management, mamagement of the internal control system, reporting and reinsurance process, and other risk mitigation techniques are defined in a clear and comprehensive manner.

Human resources

At 31 December 2017 the Company had 44 employees, with an average premium per-employee of HRK 4.1 million, which places the Company as one of the market leader by efficiency.
During the year, in line with the human resource development strategy, the Management invested in the education, advanced training and motivation of its staff as its key strength.
This included professional trainings and conferences, in particular from the areas of actuarial mathematics, accounting, risk management, IT and other areas of the Company's activities.

Social responsibility

Erste osiguranje VIG has made significant efforts to align business goals to social and ecological matters in a sustainable way. Social responisbilty is shown by promoting various social and cultural projects. The Company’s most important social initiative is Social Active Day, which is groupwide initiative in Vienna Insurance Group. Activity has started in 2011 and the goal is to encourage all employees to do voluntary work. Besides that, different institutions and projects are being supported through sponsorships and donations in the areas of culture and heritage, sports and health, life and security.

Corporate values promoted by the Company are client committment, team work, knowledge and innovation, reliability and responisbility, ethics and transparency. Our goal is to create a society which will care about needs of all its members – clients, employees and shareholders.

Planned business development in 2018

Due to decrease in technical interest rates and share in sale of index linked products, where the insurers are facing increasing chalenges in finding the right guarantees, we expect the market to stagnate or experience slight decline in 2018. The expansion of bank assurances is one of the strategic goals of Vienna Insurance Group. Accordingly, the VIG has made the decision to maximize the benefits for customers, Erste Bank and insurers by merging the resources and expertise of Erste osiguranje and Wiener osiguranje Vienna Insurance Group. The merger of Erste osiguranje with Wiener osiguranje is planned to be completed in 2018 after the approval of the Croatian Financial Services Supervisory Agency.

Annual Management Board's report (continued)

The merger is expected to intensify co-operation with Erste Bank, further strengthening bank assurance as a sale channel and alow for simpler business operations between Erste Bank and one single company, both in business communication and in the bank channel product development. Combining knowledge and skills in the sale of life and non-life insurance products through the bank channel will ultimately result in synergy of knowledge, and as a result in the growth of premium income of the new Company.

The merger will result in better use of both human and IT resources for both companies and further continuation of investments in professional training and motivation of employees as the bearer of the Company's overall development. Also, risk management measures will be intensively implemented and continually improved.

In the course of 2018, we will concentrate on, further expanding our products and service lines, with the focus of maintaining a high level co-operation with Erste & Steiermärkische Bank d.d., continuous work on high-quality and positive relationship with our clients, increasing their financial literacy and as a result of all activities, raising the portfolio quality and further strengthening the Company's position on the Croatian insurance market.

Snježana Bertoncelj	Daliborka Dedić
President of the Management Board	Member of the Management Board

[2] Erste osiguranje
Vienna Insurance Group d.d.
ZAGREB, Slovenska 24

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), which give a true and fair view of the state of affairs and results of Erste osiguranja Vienna Insurance Group d.d. ("the Company") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for preparation and content of the annual report in accordance with the article 21 of the Accounting Act.

Signed by the Management Board on February 19, 2018

Snježana Bertoncelj President of the Management Board	Daliborka Dedić Member of the Management Board

2 Erste osiguranje
Vienna Insurance Group d.d.
ZAGREB, Slovenska 24

Independent Auditors' report to the shareholders of Erste osiguranje Vienna Insurance Group d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Erste osiguranje Vienna Insurance Group d.d. ("the Company"), which comprise the statement of financial position of the Company as at 31 December 2017, and the statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on those statements on 15 March 2017.

Independent Auditors’ report to the shareholders of Erste osiguranje Vienna Insurance Group d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of life assurance provisions

As at 31 December 2017, life assurance provisions amounted to HRK 777,795, representing 94.3% of the Client’s total liabilities (31 December 2016: 732,095 thousand, 94.9%).

Please refer to pages 32 to 33 (Significant accounting policies), page 35 (Accounting estimates and judgements) and Note 1.18 Life assurance provisions.

Key audit matter	How our audit addressed the matter
Insurance provisions represent the Company’s single largest liability in its statement of financial position. Measurement thereof is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions which are used as inputs into a valuation model that uses standard actuarial methodologies. At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, ‘LAT’) with an aim to determine whether its recognized insurance provisions are adequate. The test is based on the comparison of the management’s current estimates of the present value of the future cash flows arising from the in-force insurance contracts with the stated amounts of related provisions net of deferred acquisition costs. In case the LAT test shows that the amounts of insurance provisions are insufficient, the deficiency is recognized in profit or loss.	Our audit procedures in this area included, among others: ▪ Evaluating the methodology applied by the Company in measuring insurance provisions against relevant regulatory and financial reporting requirements. Also, assessing the consistency of valuation methodologies applied in the reporting period; ▪ Testing the design, implementation and operating effectiveness of selected key controls and also, assisted by our own IT specialists, testing general IT controls associated with data collection, extraction and validation; Supported by our own actuarial specialists: ▪ Reconciling the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data used to the underlying policy and claims documentation;

Independent Auditors' report to the shareholders of Erste osiguranje Vienna Insurance Group d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Measurement of life assurance provisions (continued)

Key audit matter	How our audit addressed the matter
The key assumptions used in the estimation of expected future cash flows include those in respect of expected expenses, surrenders, maturity and mortality rates, investment yields and discount rates. Relatively minor changes in management's assumptions can have a significant effect on the recognized amounts of insurance provisions. The complexity of the models may also give rise to errors as a result of inaccurate/incomplete data inputs thus the completeness and accuracy of the data underlying the actuarial projections is also an area of our audit focus. In view of the above-mentioned factors, we consider measurement of insurance provisions to be a key risk in our audit.	▪ Performing our own independent estimation of claims liabilities for selected lines of business, on a sample basis, by, inter alia: o Assessing whether key assumption of surrenders, maturity and mortality rates used by management in the LAT test were properly extracted from the Company's experience studies; o Performing a retrospective assessment of the Company's LAT test model by comparing the predictions of the previous year's model with actual outcomes; ▪ Assessing the Company's disclosures in respect of insurance provisions against the requirements of the relevant financial reporting standards.

KPMG

Independent Auditors' report to the shareholders of Erste osiguranje Vienna Insurance Group d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Annual Management Board's report and information about Vienna Insurance Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Management Board's report we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Annual Management Board's report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Annual Management Board's report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Annual Management Board's report has been prepared, in all material respects, in accordance with the requirements of Articles 21 of the Accounting Act,

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Management Board's report and other information. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Independent Auditors' report to the shareholders of Erste osiguranje Vienna Insurance Group d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditors' report to the shareholders of Erste osiguranje Vienna Insurance Group d.d. *(continued)*

Report on Other Legal and Regulatory Requirements

Pursuant to the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (Official Gazette 37/16), the Management Board of the Company has prepared the financial information of the Company set out on pages 79 to 87 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2017, and of the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), as presented on pages 88 to 89 , of the Schedules with the financial statements as presented on pages 15 to 78. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Company set out on pages 15 to 78 on which we have expressed an unmodified opinion as set out above.

We were appointed by those charged with governance on 3 May 2017 to audit the financial statements of Erste osiguranje Vienna Insurance Group d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is one year.

We confirm that:

- our audit opinion is consistent with the additional report communicated to the Audit Committee of the Company dated 15 February 2018.
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
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19 February 2018

Goran Horvat
Director, Croatian Certified Auditor

Statement of financial position
At 31 December

	Notes	**2017**	2016
		HRK'000	HRK'000
Assets			
Equipment	*1.10*	1,434	2,172
Investment property	*1.11*	7,671	8,069
Intangible assets	*1.12*	4,402	5,079
Held-to-maturity investments	*1.13*	68,277	68,815
Available-for-sale financial assets	*1.13*	654,666	561,413
Loans and receivables	*1.13*	13,891	13,318
Investments for account and risk of life insurance policyholders	*1.13*	190,929	212,324
Technical provisions, reinsurers' share	*1.14*	2,784	3,443
Deferred tax assets	*1.15*	2,351	2,331
Insurance and other receivables	*1.16*	566	1,026
Cash and cash equivalents	*1.17*	2,994	1,871
Total assets		**949,965**	879,861
Shareholders' equity			
Share capital	*1.23*	30,000	30,000
Fair value reserve	*1.23*	48,145	35,444
Actuarial gains and losses		1	(6)
Statutory reserves		21,248	21,248
Retained earnings		26,368	21,715
Total shareholders' equity		**125,762**	108,401
Liabilities			
Life assurance provisions	*1.18*	777,795	732,095
Discretionary profit participation provision	*1.19*	1,500	1,385
Other provisions	*1.22*	1,010	532
Insurance and other payables	*1.20*	32,981	29,324
Deferred tax liability	*1.15*	10,569	7,780
Current tax liability	*1.21*	348	344
Total liabilities		**824,203**	771,460
Total liabilities and equity		**949,965**	879,861

The significant accounting policies and other notes on pages 19 to 78 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	Notes	**2017**	2016
		HRK'000	HRK'000
Gross premium written	*1.25*	**182,325**	175,033
Outward reinsurance premiums	*1.25*	**(1,571)**	(1,577)
Net premium written		**180,754**	173,456
Changes in the gross unearned premium reserve	*1.25*	**52**	(5)
Changes in the gross unearned premium reserve, reinsurer's share	*1.25*	**(32)**	(40)
Net premium earned		**180,774**	173,411
Fee and commission income	*1.26*	**1,070**	449
Financial income	*1.27*	**39,845**	45,016
Other operating income	*1.28*	**400**	642
Net operating income		**222,089**	219,518
Claims incurred	*1.29*	**(165,271)**	(163,757)
Claims incurred, reinsurer's share	*1.29*	**(398)**	(155)
Claims incurred, net		**(165,669)**	(163,912)
Acquisition costs	*1.30*	**(22,116)**	(20,717)
Administrative expenses	*1.31*	**(11,737)**	(11,271)
Other operating expenses	*1.32*	**(360)**	(294)
Profit from operations		**22,207**	23,324
Financial expenses	*1.33*	**(2,968)**	(6,622)
Profit before tax		**19,239**	16,702
Income tax	*1.34*	**(3,486)**	(3,662)
Profit for the year		**15,753**	13,040
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains / losses on pension plans with defined pensions		**7**	(14)
Items that may be reclassified subsequently to profit or loss:			
Gains / losses on remeasurement of available-for-sale assets at fair value, net of deferred tax		**12,701**	15,961
Other comprehensive income, net of income tax		**12,708**	15,947
Total comprehensive income		**28,461**	28,987
Profit per share		**HRK**	HRK
Basic and diluted earnings per share		**525**	434

The significant accounting policies and other notes on pages 19 to 78 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital HRK'000	Fair value reserve HRK'000	Statutory reserves HRK'000	Retained earnings HRK'000	Total capital and reserves HRK'000
Balance at 1 January 2017	**30,000**	**35,438**	**21,248**	**21,715**	**108,401**
Net losses on remeasurement of available-for-sale financial assets at fair value, net of realised amounts (Note 1.23)	-	15,489	-	-	15,489
Deferred tax on net losses on available-for-sale assets, net of realised amounts (Note 1.15)	-	(2,788)	-	-	(2,788)
Other comprehensive income, net of income tax	-	12,701	-	-	12,701
Other non-owner change of capital	-	7			7
Profit for the year	-	-	-	15,753	15,753
Total comprehensive income for the period	-	12,708	-	15,753	28,461
Dividends paid	-	-	-	(11,100)	(11,100)
Transactions with equity holders recognised directly in equity	-	-	-	(11,100)	(11,100)
Balance at 31 December 2017	**30,000**	**48,146**	**21,248**	**26,368**	**125,762**

	Share capital HRK'000	Fair value reserve HRK'000	Statutory reserves HRK'000	Retained earnings HRK'000	Total capital and reserves HRK'000
Balance at 1 January 2016	**30,000**	**19,491**	**21,248**	**19,145**	**89,884**
Net losses on remeasurement of available-for-sale financial assets at fair value, net of realised amounts (Note 1.23)	-	18,871	-	-	18,871
Deferred tax on net losses on available-for-sale assets, net of realised amounts (Note 1.15)	-	(2,910)	-	-	(2,910)
Other comprehensive income, net of income tax	-	15,961	-	-	15,961
Other non-owner changes in equity		(14)			(14)
Profit for the year	-	-	-	13,040	13,040
Total comprehensive income for the period	-	15,947	-	13,040	28,987
Dividends paid	-	-	-	(10,470)	(10,470)
Transactions with equity holders recognised directly in equity	-	-	-	(10,470)	(10,470)
Balance at 31 December 2016	**30,000**	**35,438**	**21,248**	**21,715**	**108,401**

The significant accounting policies and other notes on pages 19 to 78 form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December

	Note	**2017** **HRK '000**	2016 HRK '000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**19,239**	16,702
Adjustments for:			
Depreciation of equipment	*1.10*	**831**	824
Depreciation of investment property	*1.11*	**273**	282
Amortization of intangible assets	*1.12*	**1,171**	1,068
Impairment losses		**132**	237
Net fair value gains on financial assets		**(12,516)**	(18,346)
Interest income		**(26,540)**	(25,848)
Amortization of premium / discount		**(157)**	(157)
Increase / decrease in operating assets and liabilities			
Increase in available-for-sale financial assets		**(49,361)**	(5,957)
Net decrease in held-to-maturity investments		**4,329**	4,297
Net increase in loans and receivables		**(19)**	(444)
Net decrease / (increase) of UL investment		**27,861**	(56,646)
Net decrease of reinsurance share in technical provisions		**659**	932
Net decrease in insurance and other receivables		**460**	12,203
Net increase in life assurance provisions		**45,700**	80,012
Net increase in discretionary profit participation provision		**115**	185
Net increase in other provisions		**485**	84
Net increase in insurance and other liabilities		**3,657**	7,808
Income taxes paid		**(3,502)**	(4,450)
Net cash flows from operating activities		**12,817**	12,786
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		**(95)**	(1,019)
Purchases of intangible assets		**(499)**	(422)
Net cash used in investing activities		**(594)**	(1,441)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(11,100)**	(10,470)
Net cash used in financing activities		**(11,100)**	(10,470)
Net increase in cash and cash equivalents		**1,123**	875
Cash and cash equivalents at the beginning of period	1.17	**1,871**	996
Cash and cash equivalents at the end of period	1.17	**2,994**	1,871

The significant accounting policies and other notes on pages 19 to 78 form an integral part of these financial statements.

Notes to the financial statements

1.1 Reporting entity

Erste osiguranje Vienna Insurance Group d.d. ("the Company"), Zagreb, Slovenska 24 is a public limited company incorporated and domiciled in the Republic of Croatia.

The Company offers life insurance products in Croatia, and is regulated by the Croatian Financial Services Supervision Agency ("CFSSA").

The majority shareholder of the Company (95% voting rights), is Vienna Insurance Group AG Wiener Versicherung Gruppe, joint stock company incorporated and domiciled in Austria.

1.2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by EU ("IFRS"). The financial statements were authorised for issue by the Management Board on February 15, 2018 for approval by the Supervisory Board.

(b) Functional and presentation currency

The financial statements are presented in the currency of the primary economic environment in which the Company operates (their functional currency), which is the Croatian kuna (HRK), rounded to the nearest thousand.

(c) Basis of measurement

These financial statements are prepared on a historical cost or amortised cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, 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, and information available at the date of preparation of the financial statements, 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 those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.5 Insurance Risk Management.

(e) Comparatives

In 2017, the Company changed the classification of interest accrued from "Insurance and other receivables" to respective position within "Held-to-maturity investments", "Available-for-sale financial assets" and "Loans and receivables". The effects of these changes on comparative figures of statement of financial position as at 31 December 2016 are stated in a table below. There were no effect on total profit or loss or other comprehensive income for the year ended 31 December 2016.

	As originaly reported	**Reclassification**	**Reported as comparative**
	31.12.2016	**31.12.2016**	**31.12.2016**
	HRK ’000	**HRK ’000**	**HRK ’000**
Investments held to maturity	67,700	1,115	68,815
Financial assets available for sale	551,058	10,355	561,413
Loans and receivables	12,376	942	13,318
Insurance and other receivables	13,438	(12,412)	1,026
	644,572	**-**	**644,572**

1.2 *Basis of preparation (continued)*

(f) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the mid exchange rate of the Croatian National Bank (CNB) prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the mid exchange rate of the CNB in effect at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary items denominated in foreign currencies represent the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments made during the year, and amortised cost in the foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are retranslated to the functional currency using the exchange rate at the date of fair value measurement. Foreign exchange differences arising on translation are recognised in profit or loss.

Changes in the fair value of monetary securities denominated in, or linked to foreign currency, that are classified as available for sale are split into exchange differences arisen from the changes in the amortised cost and into other changes of the carrying amount of the security. Exchange differences are recognised in profit or loss as foreign exchange gains or losses arisen on remeasurement of monetary assets and liabilities and are included within investment income or expense.

For non-monetary financial assets denominated in, or linked to foreign currency, classified as available for sale, exchange differences on revaluation are recognised in other comprehensive income.

In addition to the Croatian kuna (HRK), the principal currency in which the Company's assets and liabilities are denominated is euro (EUR). The exchange rate for Euro, applied as of 31 December 2017 was EUR 1 = HRK 7.514 (2016: EUR 1 = HRK 7.558).

(g) New standards and Interpretations

Certain new standards and amendments, are effective for annual periods beginning on or after 1 January 2017. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

Several new and revised standards and interpretations issued by the International Accounting Standards Board and its Interpretations Committee for International Financial Reporting have been approved for issuance but have not yet been applied to entities reporting in accordance with IFRS in the period ending 31 December 2017 and / or have not been adopted by the European Union and have not been applied in the preparation of these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, which will have a significant impact on the classification and measurement of financial assets and financial liabilities of the Company as well as measurement of expected credit losses, is fully completed and issued by the International Accounting Standards Board in 2014. with mandatory application from 1 January 2018. According to the standard, reporting entities should disclose key determinants of the methodological approach used in the application of IFRS 9 as well as effects on balance sheet items and capital level on the first day of application (January 1, 2018) in the financial statements for 2017. The Company meets the criteria for a temporary exemption from IFRS 9 and intends to deffer the application of IFRS 9 until the effective date of the new insurance contract standard (IFRS 17) effective for periods beginning on or after 1 January 2021., as described further below.

Amendments to IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to resolve issues arising from different effective dates of IFRS 9 and a new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

During the year, the Company carried out insurance predmoninance test and concluded that its activities were primarily related to insurance as at 31 December 2015. During 2017 no significant changes occurred in the Company's activities requiring re-evaluation. The Company intends to apply a temporary exemption from IFRS 9 and continue to apply IAS 39 in the next reporting period.

1.2. Basis of preparation (continued)

(g) New standards and Interpretations (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts that includes recognition and measurement, presentation and disclosure, replacing IFRS 4 Insurance Contracts.

In contrast to IFRS 4 requirements, which are largely based on the monitoring of previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by a variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt a new standard on the Effective Date together with IFRS 9.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaced by IAS 17 Leases. IFRS 16 prescribes the principles for recognising, measuring, presenting and publishing the leases and requires the lessees to take into account all leases within a single accounting model similar to the financial lease accounting under IAS 17. The Standard includes two exceptions from the recognition of lessors - lease of assets of low value (eg personal computers) and short-term rentals (ie leases up to 12 months). At the beginning of the lease, the lessee will recognize the obligation to pay the lease and the property that represents the right to use the asset during the lease period (that is, the right to use property). The lessee will be required to separately recognise the interest expense on the lease and the depreciation cost on the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted but not before the entity applies IFRS 15.

1.3 Significant accounting policies

(a) Equipment

Equipment includes assets that are held for use in the supply of services or other administrative purposes.

Recognition and measurement

Equipment is recognised at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure

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

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful life of equipment.

The estimated useful lives are presented below:

	2017	**2016**
Furniture and fittings	4 years	4 years
IT equipment	4 years	4 years
Vehicles	5 years	5 years
Other equipment	10 years	10 years

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation methods and useful lives are reassessed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts, and are included in profit or loss.

(b) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods and services, or for administrative purposes or sale in the ordinary course of business.

Investment property is measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2017	**2016**
Investment property	30 years	30 years

1.3 Significant accounting policies (continued)

(c) Intangible assets

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are presented below:

	2017	**2016**
Software	4 years	4 years
Leasehold improvements	Over the lease term/ 4 years	Over the lease term/ 4 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts, and are included in profit or loss.

(d) Financial instruments

Classification, recognition and reclassification

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of financial assets and financial liabilities at initial recognition and, where appropriate, re-evaluates this designation at every reporting date. Items are classified as designated at fair value through profit or loss only on initial recognition.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities which are classified as held for trading or on initial recognition designated by the Company as at fair value through profit or loss. The Company does not apply hedge accounting. As stated above, this category has two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short-term profit or position taking.

The Company designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments at fair value through profit or loss comprise investments in investment fund units and structured bonds for the account of policyholders.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivable arise when the Company provides money to a debtor with no intention of trading with the receivable and include advances to insurees.

Receivables arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments include Government debt securities as well as municipal debt securities.

Available-for-sale financial assets

Financial assets available for sale are non-derivatives that are either designated as available for sale are not classified elsewhere. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include investment funds, equity securities, structured bonds, treasury bills and commercial papers.

Other financial liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss. The Company does not have financial liabilities designated at fair value through profit or loss except those related to the unit-linked and index-linked products described in accounting policy 1.3 (v). Liabilities arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*. Other financial liabilities are disclosed in the statement of financial position under line item “Insurance and other payables”.

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and financial assets available for sale are recognised on the trade date which is the date that the Company becomes a party to the contractual provisions of the investment. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. The Company derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on financial assets. This occurs when the Company transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

A financial liability is derecognised only when it no longer exists, i.e. when it is discharged, cancelled or expired. If the terms of a financial liability change, the Company will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Company measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs.

Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairment losses. Financial liabilities not designated at fair value through profit or loss or available for sale are measured at amortised cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss.

Gains or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in fair value reserve within other comprehensive income. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to profit or loss. In case of non-monetary financial assets available for sale, all changes of fair value, including those relating to exchange differences are recognized in other comprehensive income. Upon sale or other derecognition of financial assets available for sale, any cumulative gains or losses are transferred from other comprehensive income to profit or loss.

Interest income on monetary assets at fair value through profit or loss is recognised as interest income at the coupon rate.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the profit or loss, when a financial instrument is derecognised or when its value is impaired.

Apart from gains and losses arising from the change in fair value of available-for-sale financial assets which are recognised in the other comprehensive income, as described above, all other gains and losses and interest are recognised in the profit or loss under line items “Financial income” and “Financial expense”.

Fair value measurement principles

The fair value of financial assets and liabilities at fair value through profit or loss and available for sale financial instruments is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Company establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. When using pricing model, the Company uses market values at the reporting date.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Company considers evidence of impairment at a specific asset level. All individually significant financial assets are individually assessed for specific impairment. Individually significant assets which are not assessed as impaired are then collectively assessed for any impairment incurred but not yet identified at the reporting date. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest income on the impaired asset continues to be recognised through the amortisation of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

In case of equity and debt securities available for sale significant or prolonged decrease in fair value below cost is taken into consideration when assessing whether the value is impaired. For such equity securities available for sale cumulative impairment loss recognised as a difference between its cost and current fair value, less any impairment loss previously recognised in the profit or loss is transferred from equity and recognised as profit or loss. For equity securities, impairment losses recognised in profit or loss in the statement of comprehensive income are not subsequently reversed through profit or loss.

Any subsequent recovery in the fair value of impaired available-for-sale debt securities is recognised in profit or loss. However, any subsequent recovery of the fair value of an equity security available for sale previously impaired is recognized through other comprehensive income. Movements in the impairment allowance resulting from the time value of money are included in interest income.

Specific instruments

Embedded derivatives within insurance contracts and investment contracts

Sometimes, a derivative may be part of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary similarly to stand-alone derivative. Such derivatives are referred to as embedded derivatives.

Embedded derivatives are separated from the host contract and are measured at fair value. Changes in fair value of embedded derivatives are included in profit or loss if the following conditions are met:

• the economic characteristics and risks of embedded derivatives are not closely related to the economic characteristics and risks of the host contract,

• a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,

• the hybrid instrument is not measured at fair value and changes its fair value are not recognized in profit or loss.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Specific instruments (continued)

Embedded derivatives within insurance contracts and investment contracts (continued)

Embedded derivatives that meet the definition of an insurance contract can not be separated from the host contract. Furthermore, the Group used advantage of the exemptions within IFRS 4:

• it does not separate and measure fair value of option of insurer to buy back an insurance contract for a fixed amount (or an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of insurance liability;
• does not separate and measure fair value of option of policyholder to repurchase contract with discretionary participation features.

Repurchase agreements

The Company enters into purchases and sales of securities under agreements of resell or repurchase substantially identical securities on a specified future date at a fixed price. Investments, purchased under reverse repurchase agreement in the future, are not recognized in the statement of financial position. Expenses are recognized as loans and receivables.

The receivables are shown as collateralised by underlying security. Securities sold under repurchase agreements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset measured at amortized cost or at fair value.
Proceeds from sales of securities are reported as liabilities to either banks or customers.

The difference between the amount to be paid at the sale and the amount to be paid in repurchase is amortised over the period of the transaction and it is included in interest income or in interest expense.

Debt securities

Debt securities are classified as financial assets at fair value through profit or loss, held to maturity or available for sale, depending on the purpose for which the debt securitie is acquired.

Deposits with banks

Bank deposits are classified as loans and receivables and are measured at amortized cost less any impairment losses.

Loans to customers

Loans to customers are classified as loans and receivables and are stated net of impairment allowances in order to reflect the estimated recoverable amounts.

Equity securities

Equity securities are classified as financial assets at fair value through profit or loss or as available for sale and carried at fair value. If the fair value can not be reliably measured, the equity investments are measured at cost less impairment.

Investment funds

Investment funds are classified as financial assets at fair value through profit or loss and as financial assets available for sale and are carried at fair value.

Investments for the account and risk of life insurance policyholders

Investments where the life insurance policyholder bears the risk of return include investments in unit-linked and index-linked products and are classified as financial assets at fair value through profit and loss. The Company has formed Internal fund which consists of security increased for accrued interest (based on coupon) on the date of beginning of insurance. The insurer keeps the security for the entire period of insurance contract and adds the daily accrued interest to its market value.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Specific instruments (continued)

Insurance and other receivables

Insurance and other receivables are carried at cost less impairment loss. Trade and other payables are measured initially at fair value and subsequently at amortised cost.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or when gains and losses arise from a group of similar transactions.

(e) Assets under lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. There were no such leases at the Company at the reporting date. Other leases are operating leases where leased assets are not recognised in the Company's statement of financial position.

Payments under operating leases, where the Company is the lessee, are recognised in the statement of comprehensive income over the term of the underlying lease.

(f) Cash and cash equivalents

Cash and cash equivalents consists of balances with banks and cash in hand.

(g) Staff costs

Pension funds with defined contribution amount

Obligations for contributions to pension plans are recognized as an expense in profit or loss in the period in which they are incurred.

Jubilee awards and statutory redundancy

Liabilities under long-term employee benefits, such as jubilee awards and statutory redundancy payments are included in the net present value of the defined benefit obligation at the reporting date. For calculation of present value of benefit obligations projected unit credit method is used. The discount rate used is market yield on government bonds at the reporting date.

Retirement benefits that relate to the early termination of employment are recognized as an expense when there is evidence that the Company is committed, without realistic possibility of withdrawal, on implementation of a detailed formal plan which entails termination of employment before the normal retirement date or severance pay based on the offer, which is given as an incentive to voluntarily leaving the workplace. Retirement benefits for voluntarily leaving employment are recognized when the Company has made an offer to voluntarily leave the workplace, if there is high probability that the offer will be accepted and if it is possible to reliably estimate the number of offers that will be accepted. If severance payments are due for payment more than 12 months after the date of the financial statements, they will be discounted to their present value.

(h) Income tax

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

1.3 Significant accounting policies (continued)

(h) Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

Deferred tax assets and liabilities are not discounted and are presented within non-current assets and/or non-current liabilities

(i) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) Discretionary profit participation provision

Insured persons or beneficiaries, in the case of mixed insurance (according to price lists HR11, HR11U, HR21, HR21U, HR31, HR31U, HR41, HR41U, HR51, HR51U_EUR, HR51U_HRK, HR61_EUR, HR61_HRK, HRC1, HRC2, HRC3, HRC4_EUR and HRC4_HRK) and life insurance where the risk insured is death (HR14, HR24, HR34_EUR, HR34_HRK) have a share in the profit of the Company realized through the management of life insurance funds. The right on share in the profit is calculated following the expiry of the third year of insurance policies with the installment payments of premiums and after the first year in case of the insurance policies with one-time payment of premiums. Level of the profit is determined by management. The discretionary element of these contracts is evidented as a liability in the provision for profit-sharing.

(k) Share capital

Ordinary share capital

Ordinary share capital represents the nominal value of paid-in ordinary shares classified as equity and is denominated in HRK.

Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

Statutory reserves

Statutory reserves are formed in accordance with the Companies Act. The Company has the obligation to allocate 5 percent of its annual net profit decreased for accumulated losses to legal reserve until it reaches 5 percent of the issued share capital.

The legal reserve funds may be utilised to cover prior-period losses, unless loss is covered from the profit for the year or other reserves are available to cover the loss. Statutory reserve is formed through shareholders' contribution for coverage of losses.

Fair value reserve

The fair value reserve represents unrealised gains and losses arising from a change in the fair value of available-for-sale financial assets, net of deferred tax.

Retained earnings

Any profit for the year retained after appropriations is transferred to reserves based on the shareholders' decision or left in retained earnings. Retained earnings are available for distribution to shareholders.

(l) Impairment

The carrying amounts of the Company's assets, other than financial assets (see accounting policy 1.3 (d)) and deferred tax assets (see accounting policy 1.3 (h)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

1.3 Significant accounting policies (continued)

(l) Impairment (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that can be separately identified from those of other assets or groups of assets. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present net value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

(m) Revenue

The accounting policy for the recognition of revenue under concluded insurance contracts is described in Note 1.3 (p) Premiums.

Financial income

Interest income from all interest-bearing financial instruments measured at amortised cost is recognised in the profit or loss as it accrues using the effective yield on the asset by applying the rate that discounts expected future cash flows to the net present value over the term of the underlying contract or the currently applicable interest rate. Interest income from monetary assets at fair value through profit or loss is recognized as income at coupon rate.

Financial income also includes net foreign exchange differences from calculation of monetary assets and liabilities at the exchange rate at the reporting date, dividends, net gains from changes in fair value of financial assets at fair value through profit or loss and net realized gains on derecognition of financial assets available for sale.Dividend income is recognised in profit or loss on the date that the dividend is declared.

The accounting policy in relation to financial income recognition is disclosed in note 1.3 (d) Financial instruments under "Gains and losses".

Income from investment property consists of realized gains from sale of property, rental income and other income related to investments in real estate. Rental income from investment properties and other operating leases are recognized in profit or loss on a straight-line basis over the entire term of the lease.

Fee and commission income

Commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. Fee and commission income includes various reinsurance commission income.

(n) Expenses

Operating expenses

Operating expenses consist of policy acquisition costs and administrative expenses.

Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts such as the sales staff costs, commission expenses and marketing and advertising expenses.

Life commission expenses are recognised on a cash basis consistent with the related income recognition criteria (see accounting policy 1.3 (p) Premiums).

1.3 Significant accounting policies (continued)

(n) Expenses (continued)

Administrative expenses

Administrative expenses include staff costs, depreciation and amortisation, electricity costs and other costs. Other costs consist mainly of costs of premium collection, policy termination costs, portfolio management costs and administration costs relating to reinsurance.

Operating lease expenses

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

Financial expenses

Financial expenses include negative foreign exchange differences resulting from translating monetary assets and liabilities using the exchange rate at the reporting date, impairment of available-for-sale financial assets, unrealised losses from changes in fair value of financial assets through profit or loss and realised losses on the sale of financial instruments.

The accounting policy in relation to financial income recognition is disclosed in note 1.3 (d) Financial instruments under “Gains and losses”.

(o) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or another beneficiary of insurance are classified as insurance contracts. Insurance risk differs from financial risk. Financial risk is the risk of a possible future change in one or more of a specified variables: interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract. Insurance contracts can also transfer a certain level of the financial risk.

Contracts that do not pass significant insurance risk from the policyholder to the Company are classified as investment contracts. The Company had no investment contracts at reporting date.

Contracts with discretionary participation features

Insurance and investment contracts may include discretionary participation features. A contract with a discretionary participation feature represents the contractual right of the policyholder to receive, as a supplement to minimum guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits and whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract;
- realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
- the profit or loss of the company, fund or other entity that issues the contract.

The discretionary feature of such contracts is accounted for as discretionary profit participation provision.

The provision for discretionary benefits comprises amounts arising from the right of profit participation, the allocation of which to policyholders has not been specified at the reporting date.

Discretionary profit participation provision

Policyholders or beneficiaries of endowment and policyholders of life insurance are entitled to a share in the profits of the Company realised through the management of life assurance funds. The entitlement is calculated following the expiry of the first or third year of insurance depending on the pricing. The level of the profit entitlement is determined by management and approved by the General Assembly.

The discretionary feature of such contracts is accounted for as discretionary profit participation provision.

The provision for discretionary bonus amounts from the policies with discretionary profit participation whose allocation is not specified at the reporting date. Once the allocation is determined, the amounts are transferred to the mathematical reserve.

1.3 Significant accounting policies (continued)

(p) Premiums

Written premiums include all premiums written during the year and they are recorded at the date stated on the insurance contract. Premiums include any corrections of premiums written in previous accounting periods.

The earned portion of premiums received, including unclosed business, is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

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.

In accordance with the exemption afforded by IFRS 4 *Insurance Contracts*, premiums in respect of life assurance business continue to be accounted for on a cash receipts basis.

(q) Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, calculated based on a "pro rata temporis" method.

The provision for unearned premiums in respect of life insurance is included within the life insurance provision.

For the calculation of the reinsurance portion of unearned premiums, the same methodology is applied.

(r) Life assurance provision (mathematical reserve) based on accounting regulations

The life insurance provision based on accounting regulations has been determined by the Company’s actuary, taking into account the principles set out in the rules for determining the mathematical provision for life insurers issued by CFSSA. The life insurance provision has been calculated on the basis of current premiums using the Zillmer rates, by taking into account all actual costs of acquisition, collection and administrative expenses, as well as all guaranteed payments and benefits, both those declared and proposed. The prospective net method has been adopted.

The Zillmer rates range from 0% to 4.5% of the total insurance premium, depending on the life insurance tariff. The Zillmer rates applied by the Company are within the limits specified by CFSSA and it is taking account that Zillmer rate is not higher than 3.5%.

The provision is initially measured using the assumptions applied in determining the corresponding premiums that remain unchanged, except in case of liability inadequacy or unless CFSSA prescribes otherwise. The bonuses attributable to the policyholders are determined at the reporting date and are presented as discretionary profit participation provision.

The amount of bonus to be allocated to policyholders is irrevocably fixed at the reporting date and is presented within the reserve for participation in the profits. The Company has no policy to reduce subsequent discretionary participation in the Company's favor once the reserves are set aside for discretionary bonuses.

(s) Claims

Reserves for reported claims are recorded as claims are processed and recognised i.e. determined in the amount of the outflow required to settle the claim. Settled claims are increased by the amount of the claims settlement process.

Settled claims are reduced by the amounts of claims recovered or to be recovered by third parties.

Claims provision, determined on the basis of individual claim assessment and using the statistical methods, represent the Company’s provision for the estimated ultimate cost of settlement of all claims incurred but not settled at the reporting date, whether reported or not, together with the related internal and external claims processing charges and appropriate margins for prudence. Claims provisions are determined by reviewing individual claims and establishing a provision for claims incurred but not reported, taking into account the internal and external predictable events, such as changes in the claims processing procedure, inflation, court trends, changes in the underlying legislation, as well as historical experience and trends.

Amounts recovered from reinsurance and otherwise are estimated in a manner similar to the one as those used in estimating the claims provision.

Although the management considers the gross claim provision and the related recoveries from reinsurance as being adequately disclosed based on the currently available information and events, the ultimate liability may vary as a result of subsequent information and events, and may result in significant adjustments to the amounts provided against. The adjustments to the claims provisions established in prior years are reflected in the financial statements in the period of the adjustments and are disclosed separately if material. The methods and the underlying estimates and assumptions are regularly reviewed.

1.3 Significant accounting policies (continued)

(t) Reinsurance

Receivables under reinsurance contracts are reviewed for impairment at each reporting date. It is assumed that such assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due from the reinsurer and that the event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the profit or loss and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not pass significant insurance risk (e.g. financial reinsurance) are accounted for as deposits. The Company had no such contracts at the reporting date.

Reinsurance assets include amounts receivable from reinsurer for the liabilities ceded out of insurance. Amounts due from the reinsurer are estimated in a manner consistent with the one applied in determining the claims provisions or for claims settled on the basis of a reinsurance policy.

Reinsurance assets include actual or estimated amounts recoverable, based on the underlying reinsurance contracts, from the reinsurer in connection with technical provisions. Reinsurance assets related to technical provisions are established on the basis of the terms and conditions of the underlying reinsurance contract and measured on the same basis as the related reinsured liabilities. The Company establishes a provision for estimated unrecoverable reinsurance assets if required.

Reinsurance and profit-based commissions

Included in the reinsurance and profit-based commissions are commissions received or receivable from the reinsurer and the share in the profit in accordance with the underlying reinsurance contracts.

(u) Liabilities and related assets under liability adequacy test

Insurance contracts are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs and any related assets. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss.

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Company assesses at the end of calendar year whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under all of its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (increased by related deferred acquisition costs) are inadequate in the light of the estimated future cash flows, the entire deficiency is charged to profit or loss. The estimates of future cash flows are based on realistic actuarial assumptions taking into consideration claim occurrence experience, demographic tables adopted for experience in mortality, aspects of mortality, morbidity, investment return, expenses and inflation.

(v) Measurement of liabilities under unit-linked and index-linked contracts

Liabilities in relation to unit-linked and index-linked insurance contracts are classified at fair value through profit and loss. Transaction costs and front-end fees in respect of financial liabilities measured at fair value are not included in the initial measurement amount and are recognised as an expense where incurred. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract.

(w) Insurance receivables and payables

Insurance receivables and payables are accounted for in accordance with IFRS 4. Insurance receivables and payables include receivables and payables arising from insurance and reinsurance contracts entered by the Company. Life assurance premiums are recognised on cash receipt basis.

1.4 Accounting estimates and judgements

The disclosures set out below amend the Note 1.37 Financial risk management and Note 1.5. Insurance risk management.

The Company makes estimates and assumptions about the future. Accounting estimates vary inherently from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1.4.1 Key sources of estimation uncertainty

Impairment losses on loans and receivables

Impairment of assets carried at amortised costs is assessed as described in Accounting Policy 1.3 (d) “Impairment of financial assets”.

Impairment with respect to individual exposures within total impairment losses are assessed on the basis of the management’s best assessment of the present value of expected future cash inflows. In estimating those inflows, the management assesses the financial position of the debtor and the net selling price of the security instrument obtained. Each impaired item of assets is subject to an individual assessment, while the credit risk function passes the recovery strategy independently, as well as provides an estimate of the recoverable cash flows.

Fair value measurement

Fair values of financial assets with no quoted market prices require the use of the measurement methods described in Accounting Policy 1.3 (d) “Financial Instruments”. The fair value of financial instruments that are rarely traded and with non-transparent prices is less objective and requires a different level of judgement, depending on liquidity, concentration, uncertainty of risk factors, pricing assumptions and other risks that affect an individual instrument.

Loans and receivables are measured at amortised cost less impairment

The market value of loans and receivables with residual maturities of less than 12 months approximates book value due to their short remaining maturities. The carrying value of loans and receivables with remaining maturities over 12 months and fixed rates is not significant at the reporting date.

Debt securities classifed as financial assets available for sale are measured at fair value based on closing average prices at the reporting date.

Level 2 category includes instruments valued using: quoted market prices in active markets for underlying financial assets of index-linked debt securities or other valuation techniques as discounted cash flows in which all significant inputs are directly or indirectly observable from market data.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair value of financial instruments is based on quoted price (unadjusted) in an active market.
- Level 2: Fair value of finacial instruments is estimated by using estimation techniques which use inputs that are measurable, either direct (prices) or indirect (derived from prices).
- Level 3: Fair value of finacial instruments is estimated by using estimation techniques which use inputs that are not measurable.

1.4 Accounting estimates and judgements (continued)

1.4.1 *Key sources of estimation uncertainty (continued)*

At 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Available-for-sale financial assets				
~ Debt securities	654,001	665	-	654,666
~ Investment funds	-	-	-	-
Investments for the benefit of index-/unit-linked products	-	190,929	-	190,929
Total financial assets at fair value	**654,001**	**191,594**	**-**	**845,595**

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Available-for-sale financial assets				
~ Debt securities	554,910	3,100	-	558,010
~ Investment funds	3,403	-	-	3,403
Investments for the benefit of index-/unit-linked products	-	212,324	-	212,324
Total financial assets at fair value	**558,313**	**215,424**	**-**	**773,737**

During 2017 there were no movements between levels of fair value hierarchy.

Estimation uncertainty in relation to technical provisions

The most significant estimates in relation to the Company's financial statements relate to technical provisions. Key assumptions in calculating the life assurance provision are set out in Note 1.18(g) Principal actuarial assumptions for life assurance.

Insurance risk is described in detail in Note 1.6 *Key assumptions with most significant impact on the recognised assets, liabilities, income and expenses from insurance operations*, whereas provisions for life assurance contracts are analysed in Note 1.18 Life assurance provisions.

Taxes

The Company establishes a tax liability in accordance with the tax legislation of the Republic of Croatia. Tax returns are subject to inspection by tax authorities, authorised to inspect the business records of a taxpayer subsequent to the tax period.

Regulatory requirements

CFSSA is authorised to review the Company's operations and may require modifications to the carrying amounts of assets and liabilities in accordance with applicable regulations.

1.4 Accounting estimates and judgements (continued)

1.4.2 Key accounting judgements in the application of the Company's accounting policies

The key accounting judgements in the application of the Company's accounting policies are as follows:

Classification of financial assets and liabilities

The Company's accounting policies provide for the initial classification of assets and liabilities, in certain circumstances, into various accounting categories. In classifying financial assets and liabilities as held for trading, the Company is satisfied that they meet the definition of assets and liabilities held for trading as disclosed in Accounting Policy 1.3 (d) Financial instruments. In designation of financial assets at fair value through profit or loss, the Company has determined that it meets one of the criteria for this designation set out in accounting policy 3 (f). Reclassification of financial assets and financial liabilities in portfolio held at fair value through profit or loss is allowed in rare cases. Investments held to maturity may be classified as such if the Company has the positive intentions and abilities to hold these assets to maturity.

Valuation of financial assets

The accounting policies of the Company related to financial assets at fair value through profit or loss are shown in Accounting policy 1.3 (d). The Company measures the fair market value using a hierarchy of market values as it is disclosed in Note 1.4.1 as part of the financial risk management.

Classification of products

The Company's accounting policy pertaining to the classification of insurance contracts is described in Note 1.3 (o) Classification of contracts.

Estimated useful life of equipment and intangible assets

The Company continued to use certain equipment and intangible assets in use that are fully depreciated. The depreciation rates were determined initially using the best estimate of the useful life of those assets

The Management believes that this is appropriate, as the Company will soon cease to use those assets.

Impairment test for AFS equity instruments

The Company as of 31 December 2016 has no equity instruments classified as available for sale.

1.5 Insurance risk management

Insurance risk relates to uncertainties in insurance operations. The most significant insurance risk components are the premium risk and the reserve risk. They are associated with the adequacy of premium tariffs and reserves to the insurance liabilities and capital base.

Premium risk is present at the point of issuing an insurance policy before the insured risk occurs. The risk is that expenses and incurred losses will be higher than the premium received. Reserve risk is the risk that the absolute level of technical provisions may be misestimated.

Life insurance underwriting risk includes biometric risk (which includes mortality, life expectancy, sickness and disability risks) and cancellation risk. Cancellation risk represents a higher or a lower rate of cancelling or terminating insurance policies, changes in the capitalisation status (default in premium payment) and surrender.

Risk management

The Company manages the insurance risks by setting acquisition limits, clearly defined approval procedures for transactions involving new products or exceeding the set limits, the pricing and structure of its products and managing reinsurance arrangements.

The acquisition strategy is aimed at establishing a balanced portfolio, based on a large portfolio of similar risks over the years, which minimises the variability of the results.

The Company arranges reinsurance for all the risks it underwrites so as to manage its loss exposure and safeguard its capital base.

Reinsurance ceded contains the credit risk, and such insurance receivables are presented net of uncollectible amounts. The Company monitors the financial condition of reinsurers and majority signs the contracts with reinsurers who are rated A. The Company has a proportional reinsurance contract for its products.

Adequacy of liabilities is assessed taking into account the asset (fair and book value, currency and interest rate sensitivity), changes in interest rates and exchange rates and the development of mortality, morbidity, lapses and expenses as well as general market conditions.

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of underwriting risk, which determines the extent to which a particular event or series of events could impact significantly the Company's liabilities. Such concentrations may arise from a single insurance contract or a number of related contracts. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Risk concentrations may arise from low-frequency, high-severity events such as natural disasters or unexpected changes in trends, such as unexpected changes in the mortality or behaviour of the insured; or where significant legal actions or regulatory risks may result in high individual losses or produce significant effects that spread over a large number of contracts.

The Company's underwriting risks is present mainly in the Republic of Croatia.

There is no significant geographical concentration of risks under contracts that include policyholder death coverage. However, the sum insured can affect the claim settlement ratio on the portfolio level. Value at risk of the sums insured under life assurance are as follows:

Line of insurance	**Value at risk**			
		2017		**2016**
	HRK'000	**%**	**HRK'000**	%
Life assurance – traditional products	1,270,369	34.57%	1,011,617	27.90%
Life-assurance products where the investment risk is borne by the policy holder	17,050	0.46%	19,526	0.54%
Supplementary insurance	2,387,816	64.97%	2,594,854	71.56%
Balance at 31 December	**3,675,235**	**100.00%**	**3,625,997**	**100.00%**

1.5 Insurance risk management (continued)

Concentrations of insurance risk (continued)

The table presenting long-term insurance contracts below shows risk concentrations through six insurance classes grouped by sum insured per insured person:

Sum insured per insured person at the end of 2017	Total sum insured			
	Before reinsurance		After reinsurance	
HRK	HRK'000	%	HRK'000	%
< 20,000	202,067	10.04%	201,934	10.91%
20,001-40,000	334,381	16.62%	335,905	18.14%
40,001-60,000	167,597	8.33%	169,913	9.18%
60,001-80,000	177,979	8.84%	175,387	9.47%
80,001-100,000	135,244	6.72%	134,447	7.26%
> 100,001	995,247	49.45%	834,042	45.04%
Balance at 31 December 2017	**2,012,515**	**100.00%**	**1,851,628**	**100.00%**

Sum insured per insured person at the end of 2016	Total sum insured			
	Before reinsurance		After reinsurance	
HRK	HRK'000	%	HRK'000	%
< 20,000	229,125	13.40%	230,270	14.93%
20,001-40,000	349,557	20.45%	351,399	22.79%
40,001-60,000	143,386	8.39%	146,444	9.50%
60,001-80,000	150,282	8.79%	147,039	9.54%
80,001-100,000	99,755	5.83%	97,796	6.34%
> 100,001	737,545	43.14%	569,136	36.90%
Balance at 31 December 2016	**1,709,650**	**100.00%**	**1,542,084**	**100.00%**

1.6 Key assumptions with most significant impact on the recognised assets, liabilities, income and expenses from insurance operations

At the reporting date, a provision is made 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 costs, less amounts already paid.

The liability for reported, but not settled claims ("RBNS") is assessed on a case-by-case basis, with due regard to the circumstances surrounding the claim, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and updated as and when new information arises.

The estimation of claims incurred, but not reported ("IBNR") is generally subject to a greater degree of uncertainty than reported claims. The IBNR reserve is assessed by the Company's actuaries using statistical techniques.

The key methods, which have remained consistent with those used in the prior year, are as follows:

- average cost per IBNR claim, which is based on the Company's historical claims experience;
- the best estimate method, which relies on the experience in a comparable, more developed insurance Company so as to assess the claims.

1.6 Key assumptions with most significant impact on the recognised assets, liabilities, income and expenses from insurance operations (continued)

The IBNR reserve is initially assessed in gross amount, with a separate calculation made to determine the reinsurer's share.

Mathematical reserve is determined using the prospective net method and interest rates applied in determining the tariff. Mathematical reserve is determined in accordance with the Rules on the Minimum Standards, Method of Calculation and Criteria for Determining Technical Provisions. The assumptions used are determined on the inception of the insurance policy and remain in effect until the liability is expired, except in case of inadequate liability, or unless the CFSSA prescribes otherwise. Life insurance policies are tied to EUR.

The guaranteed technical interest rate included in the policies is:
- 3.25% for the tariffs HR11, HR11U, HRR and HRRU,
- 2.75% for HRC1
- 2.5% for HRR2, HRR2U, HRR3, HRR4, HRR4U, HRR5, HRIL1U, HRIL2U, HRIL3U, HRIL4U, HR21, HR31, HR41, HR21U, HR31U, HRC2,
- 2.25% for HRR6, HRR7, HR41U, HR51, HRIL5U and HRC3,
- 2% za HR14, HR24, HR61_HRK, HR51U_HRK, HRR8_HRK, HRR9_HRK, HRR10_HRK. HRC4_HRK, HR34_HRK,
- 1.75% for HR61U_EUR
- 1% for HRG1U
- 1.25% for HR61_EUR, HRR8_EUR, HRR9_EUR, HRR5U_EUR, HR51U_EUR, HRC4_EUR, HR34_EUR, HRIL6U and HRIL7U by reference to the actual technical interest rate used in determining the premium.

The principal assumptions used in determining the significant components of the mathematical reserve are disclosed in Note 1.18 (d) Life assurance provision.

There were no changes in the assumptions underlying the measurement of life insurance operations during 2017.

Discretionary bonus participation

The insured persons or beneficiaries of mixed insurances (as per price lists HR11, HR11U, HR21, HR21U, HR31, HR31U, HR41, HR41U, HR51U_EUR, HR51U_EUR, HR51, HR61_EUR, HR61_HRK, HRC1, HRC2, HRC3, HRC4_EUR and HRC4_HRK) and endowment insurances (HR 14, HR24, HR34_EUR and HR34_HRK) are entitled to a discretionary share in the Company's return achieved as a result of managing life insurance funds. The participation in the return on those funds is determined as of 31 December each year following the expiry of the first year (HR11U, HR21U, HRK31U, HR41U, HR51U_EUR and HR51U_HRK) and the third year (HR11, HR21, HR31, HR41, HR51, HR61_EUR, HR61_HRK,HRC1, HRC2, HRC3,HRC4_EUR, HRC4_HRK, HR14, HR24, HR34_HRK, HR34_EUR) of insurance. In case of survival to maturity, the participation is paid together with the sum insured. In case of death, the Company disburses the sum insured and the participation accrued as of the date of death. The Company provides amounts of discretionary bonus participation to policy holders within the life insurance provision.

1.7 Liability adequacy test

The life assurance provision (mathematical reserve) is tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, expenses and exercise of policyholder options. For this purpose, the Company tests the profit for the most products within its portfolio. Where reliable market information is available, the assumptions are derived from them.

However, due to a lack of the market transactions in the economic environment in which the Company operates, there are often significant problems in revising the assumptions arrived from the observable market conditions.

Assumptions that cannot be based reliably on the market values are based on the current assumptions arrived at using the Company's internal models and public sources of information (e.g. demographic information published by the national bureaus of statistics).

Because of the level of uncertainty in connection with the future development of the insurance market and the Company's portfolio, the Company uses reasonably conservative margins to reflect those risks and uncertainties.

The original assumptions are revised annually in accordance with the most recent experience.

The key assumptions generally used while performing liability adequacy tests are:

1.7 Liability adequacy test (continued)

Segmentation

The Company segments the products into several homogenous groups according to the characteristics of individual products. Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining the additional liability to be established.

The net present value of future cash flows calculated using the assumptions described below is compared with the insurance liabilities for each product group separately. If that comparison shows that the carrying amount of the insurance liabilities is inadequate in the light of the estimated cash flows, the entire deficiency is recognised in profit or loss, by establishing an additional provision.

Mortality and morbidity

Mortality and morbidity are usually based on data supplied by the Croatian Statistical Bureau and amended by the Company based on a statistical backtesting of the Company's mortality experience.

For calculation of mathematical reserves mortality rates of the Republic of Croatia that are used for calculation of premium are used. Company is additionally testing mathematical reserves calculation every year using newest probability tables of Republic of Croatia. If such calculation gives higher amounts the Company records such higher amounts.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are estimated based on the Company’s past experience with insurance policies (split by type and policy durations). The Company regularly investigates its actual persistency rates by product type and duration and amends its assumptions accordingly.

Expenses

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Company’s current experience. For future periods, cash flows are increased by the factor which equals future inflation rate.

Expected investment return and discount rate

The future investment returns are determined using the Croatian kuna risk-free rate curve.

Profit allocation

Whilst, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Company, the assessment of the liability adequacy takes into account future discretionary bonuses.

1.8 The sensitivity of liability adequacy test’s future cash flows to changes in significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, cancellation rate, expense rate and discount rates which are estimated for calculating the adequate value of insurance liabilities during the liability adequacy test.

The Company has estimated the impact of changes in key variables that may have a material effect on the net present value of future cash outflows and net present value of future cash inflows at the end of the year.

Liability adequacy test – modelled future cash flows

	HRK’000
Base run ('initial value')	**735,760**
Investment return –100bp	**776,730**
Mortality +5%	**734,830**
Policy maintenance expenses +10%	**741,320**

The liability adequacy test was performed on the total portfolio.

Base run („initial value“) represents LAT future cash flows calculated using the assumptions described under note 1.7 Liability adequacy test.

Changes in variables represent reasonably possible changes which, had they occurred, would have led to significant changes in insurance liabilities at the reporting date. The reasonably possible changes represent neither expected changes in variables nor worst-case scenarios.

1.8 The sensitivity of liability adequacy test's future cash flows to changes in significant variables (continued)

The analysis was prepared for a change in variable with all other assumptions remaining unchanged and ignores changes in values of the related assets.

The sensitivity was calculated for an unfavourable movement, therefore the sensitivity to changes in mortality was calculated by estimating the effect on LAT future cash flows of an increase of mortality for life insurance products by 5%. The sensitivity to changes in expense rate was calculated by estimating the effect on LAT future cash flows of a 10% increase in policy maintenance expenses.

The profit or loss and insurance liabilities (as evidenced by LAT cash flow above) are mostly influenced by a decrease in the interest rates and increase in policy maintenance expenses.

1.9 Terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows

Discretionary profit participation

Traditional life insurance contracts include an entitlement to participate in profit in accordance with the underlying insurance terms and conditions. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed by the Management Board and approved by General Shareholders' Assembly in accordance with the relevant legal requirements. Once allocated to policyholders, the bonuses become guaranteed.

Premiums

Premiums may be payable in regular instalments or as a single premium at inception of the policy. Some endowment-type insurance contracts contain a premium indexation option which may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums are not increased by an agreed index.

Term life insurance products

Traditional term life insurance products comprise risks of death. The premium is paid regularly or as a single premium. Policies offer a fixed sum insured for death. Death benefits are paid only if the policyholder dies during the term of insurance.

Life-long endowment

Life-long endowment includes risk of death. Premiums are paid regularly, for a maximum period of 10 years. Policies offer a fixed sum insured for death.

Endowment products

These are traditional life insurance products providing long term financial protection. A majority of these policies give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer cover for risks of death and endowment. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid on a one-off basis.

Unit-linked life assurance

Unit-linked life assurance combines traditional term life assurance, with the risk of death and the possibility to invest regular premium or an extra single premium into certain investment funds. The policyholder defines the fund where payments are to be invested and can change the fund during the contract. The policyholders can pay an additional single premium or withdraw a part of the policy value.

Index-linked life assurance

Index-linked life assurance is a product with single premium which includes term life insurance product and a savings product with guaranteed return. The savings component is invested into structured instruments with a guaranteed value at maturity (issuers guarantee). As a result, policyholders have the insured sum at maturity guaranteed; however there is no guarantee in case of surrender.

1.10 Equipment

	Motor vehicles HRK'000	**Equipment and furniture HRK'000**	**Total HRK'000**
Cost			
Balance at 1 January 2016	998	3,963	4,961
Additions	867	152	1,019
Disposals	(536)	(529)	(1,065)
Balance at 31 December 2016	**1,329**	**3,586**	**4,915**
Balance at 1 January 2017	1,329	3,586	4,915
Additions	-	95	95
Disposals	-	(9)	(9)
Balance at 31 December 2017	**1,329**	**3,672**	**5,001**
Accumulated depreciation and impairment			
Balance at 1 January 2016	725	2,253	2,978
Charge for the year	189	635	824
Disposals	(537)	(522)	(1,059)
Balance at 31 December 2016	**377**	**2,366**	**2,743**
Balance at 1 January 2017	377	2,366	2,743
Charge for the year	237	594	831
Disposals	-	(7)	(7)
Balance at 31 December 2017	**614**	**2,953**	**3,567**
Net book value			
At 1 January 2016	273	1,710	1,983
At 31 December 2016	**952**	**1,220**	**2,172**
At 1 January 2017	952	1,220	2,172
At 31 December 2017	**715**	**719**	**1,434**

The depreciation charge is recognised under administrative expenses in the statement of comprehensive income.

1.11 Investment property

	Total
	HRK'000
Cost	
Balance at 1 January 2016	10,021
Additions	-
Impairment	(231)
Balance at 31 December 2016	**9,790**
Balance at 1 January 2017	9,790
Additions	-
Impairment	(125)
Balance at 31 December 2017	**9,665**
Accumulated depreciation and impairment	
Balance at 1 January 2016	1,439
Charge for the year	282
Impairment	-
Balance at 31 December 2016	**1,721**
Balance at 1 January 2017	1,721
Charge for the year	273
Impairment	-
Balance at 31 December 2017	**1,994**
Net book value	
At 1 January 2016	8,582
At 31 December 2016	**8,069**
At 1 January 2017	8,069
At 31 December 2017	**7,671**

Investment property comprises four properties rented out to related party Wiener Vienna Insurance Group d.d. which Company acquired on 27 September 2011 for HRK 11,748 thousand based on a valuation report from licensed real estate appraiser. The appraiser used sales comparison method for initial valuation of purchase price. Investment property is measured at cost less accumulated depreciation and impairment losses.

The fair value of investment property was appraised by certified court appraiser. Value appraisal of investment property that is valued at cost has been conducted per method prescribed by Real estate valuation Act (NN 78/15 – comparable method, income method or cost method, depending on type of property and its specifics. It was appraised that book value of investment property is HRK 125 thousand (2016: HRK 231 thousand) higher that appraised value. Investment property are classified in fair value hierarchy level 3.

The depreciation charge is recognised through profit or loss under financial expenses.

Rental income in the amount of HRK 789 thousand *(2016: HRK* 822 *thousand)* is recognised as a separate line within Note 1.27 Financial income.

1.12 Intangible assets

	Licences	Investments in software	Leasehold improvements	Intangible assets under development	Total
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Cost					
Balance at 1 January 2016	2,066	784	4,606	-	7,456
Additions	-	130	-	292	422
Transfer	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 31 December 2016	**2,066**	**914**	**4,606**	**292**	**7,878**
Balance at 1 January 2017	2,066	914	4,606	292	7,878
Additions	235	226	-	38	499
Disposals	-	-	-	(5)	(5)
Transfer	-	287	-	(287)	-
Balance at 31 December 2017	**2,301**	**1,427**	**4,606**	**38**	**8,372**
Accumulated amortisation and impairment					
Balance at 1 January 2016	450	553	728	-	1,731
Charge for the year	479	129	460	-	1,068
Disposals	-	-	-	-	-
Balance at 31 December 2016	**929**	**682**	**1,188**	**-**	**2,799**
Balance at 1 January 2017	929	682	1,188	-	2,799
Charge for the year	464	246	461	-	1,171
Disposals	-	-	-	-	-
Balance at 31 December 2017	**1,393**	**928**	**1,649**	**-**	**3,970**
Net book value					
At 1 January 2016	1,616	231	3,878	-	5,725
At 31 December 2016	**1,137**	**232**	**3,418**	**292**	**5,079**
At 1 January 2017	1,137	232	3,418	292	5,079
At 31 December 2017	**908**	**499**	**2,957**	**38**	**4,402**

The depreciation charge is recognised under administrative expenses in the statement of comprehensive income.

1.13 Financial investments

	31 December 2017 HRK'000	31 December 2016 HRK'000
Held-to-maturity investments	**68,277**	68,815
Available-for-sale financial assets (including funds)	**654,666**	561,413
Loans and receivables	**13,891**	13,318
Investments where life insurance policyholder bears investment risk	**190,929**	212,324
	927,763	855,870

The Company classified its financial instruments into following categories:

	Held-to-maturity investments HRK'000	**Financial assets available for sale HRK'000**	**Financial assets at fair value through profit or loss HRK'000**	**Loans and receivables HRK'000**	**Total HRK'000**
31 December 2017					
Croatian government bonds (RH)	68,277	649,929	-	-	718,206
Foreign government bonds	-	4,072	-	-	4,072
Structured bond	-	665	-	-	665
Fixed-rate debt securities, listed	**68,277**	**654,666**	**-**	**-**	**722,943**
Index linked	-	-	190,929	-	190,929
Investments where life insurance policyholder bears investment risk	**-**	-	190,929	**-**	190,929
Loans	-	-	-	477	477
Deposits	-	-	-	13,414	13,414
Loans and receivables	**-**	-	-	**13,891**	**13,891**
	68,277	**654,666**	**190,929**	**13,891**	**927,763**

1.13 Financial investments (continued)

	Held-to-maturity investments	Financial assets available for sale	Financial assets at fair value through profit or loss	Loans and receivables	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2016					
Croatian government bonds (RH)	68,815	540,034	-	-	608,849
Foreign government bonds	-	4,006	-	-	4,006
Corporate bonds	-	10,870	-	-	10,870
Structured bond	-	3,100	-	-	3,100
Fixed-rate debt securities, listed	**68,815**	**558,010**	**-**	-	**626,825**
Open-ended investment funds	-	3,403	-	-	3,403
Investment funds – listed	**-**	**3,403**	**-**	-	**3,403**
Index linked	-	-	212,324	-	212,324
Investments where life insurance policyholder bears investment risk	**-**	-	**212,324**	**-**	**212,324**
Loans	-	-	-	434	434
Deposits	-	-	-	12,884	12,884
Loans and receivables	**-**	-	-	**13,318**	**13,318**
	68,815	**561,413**	**212,324**	**13,318**	**855,870**

1.14 Technical provisions, reinsurers' share

	Notes	31 December 2017	31 December 2016
		HRK'000	HRK'000
Reinsurers' share in provision for unearned premiums	*1.18 a)*	**316**	348
Reinsurers' share in RBNS provisions	*1.18.b)*	**72**	-
Reinsurers' share in IBNR provisions	*1.18.c)*	**2,159**	2,848
Reinsurance share in life insurance provision	*1.18.d)*	**237**	247
		2,784	3,443

The reinsurers' share in the technical provisions represents the expected future claims to be settled by the Company's reinsurer, as well as the reinsurers' share in the premium written. Premiums ceded by the Company to reinsurance do not release the Company from its direct liability towards insured. Thus, the credit risk exposure exists within the reinsurers' share to the extent that the reinsurer is not able to settle the claim as specified in the underlying contract.

1.15 Deferred tax (liability) /asset

	31 December 2017 HRK'000	31 December 2016 HRK'000
Deferred tax assets		
Impairment of loans and receivables	**354**	344
Impairment of investment property	**1,440**	1,440
Provisions - tax non-deductible expenses	**557**	547
	2,351	2,331
Deferred tax liability		
Unrealised gains on financial assets available for sale	**(10,569)**	(7,780)
Net deferred tax liability	**(8,218)**	(5,449)

	At 1 January 2017 HRK'000	Recognised in profit or loss HRK'000	Recognised in other comprehensive income HRK'000	At 31 December 2017 HRK'000
Deferred tax asset /(liability)				
Unrealised losses on financial assets available for sale	(7,780)	-	(2,788)	(10,569)
Impairment of investment property	344	10	-	354
Impairment of loans and receivables	1,440	-	-	1,440
Impairment of financial assets available for sale	-	-	-	-
Provisions - tax non-deductible expenses	547	10	-	557
	(5,449)	20	(2,788)	(8,218)

	At 1 January 2016 HRK'000	Recognised in profit or loss HRK'000	Recognised in other comprehensive income HRK'000	At 31 December 2016 HRK'000
Deferred tax assets				
Unrealised losses on financial assets available for sale	(4,870)	-	(2,910)	(7,780)
Impairment of investment property	350	(6)	-	344
Impairment of loans and receivables	1,600	(160)	-	1,440
Impairment of financial assets available for sale		-	-	-
Provisions - tax non-deductible expenses	465	82	-	547
	(2,455)	(84)	(2,910)	(5,449)

1.16 Insurance and other receivables

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Receivables from bankruptcy estate	**8,000**	8,000
Receivables from reinsurance	**208**	269
Prepaid expenses	**147**	581
Other receivables	**211**	176
	8,566	9,026
Impairment	**(8,000)**	(8,000)
	566	1,026

Receivables from bankruptcy estate include receivables on deposit of Credo banka (bankrupt) in the amount of HRK 8,000 thousands on 31st December 2011 the Company has carried out impairment of deposit in the amount of HRK 6,751 thousands recognized through item of financial costs, in 2015 additonal impairment of HRK 1,249 thousands are recorded and the net book value of mentioned receviable amounts to HRK 0 as of December 31, 2017.

1.17 Cash and cash equivalents

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Cash with banks	**2,994**	1,871
	2,994	1,871

1.18 Life assurance provisions

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Unearned premium provision	**965**	1,017
Mathematical reserves	**572,676**	505,682
Life assurance provision for unit-linked and index-linked products	**190,929**	212,324
Reserve for reported but not settled claims (RBNS)	**4,855**	3,536
Reserve for incurred but not reported claims (IBNR)	**4,920**	5,496
Other technical insurance provisions	**3,450**	4,040
Total Life assurance provisions	**777,795**	732,095

1.18 Life assurance provisions (continued)

a) Analysis of movements in unearned premium provision

	2017 Gross amount HRK'000	2017 Reinsurer's share HRK'000	2017 Net HRK'000	2016 Gross amount HRK'000	2016 Reinsurer's share HRK'000	2016 Net HRK'000
Balance at 1 January	**1,017**	**348**	**669**	**1,012**	**389**	**623**
Premium written during the year	6,246	1,571	4,675	6,571	1,577	4,994
Less: premium earned durinig the year	(6,298)	(1,603)	(4,695)	(6,566)	(1,618)	(4,948)
Balance at 31 December	**965**	**316**	**649**	**1,017**	**348**	**669**

b) Analysis of movements in provisions for reported but not settled claims (RBNS)

	2017 Gross amount HRK'000	2017 Reinsurer's share HRK'000	2017 Net HRK'000	2016 Gross amount HRK'000	2016 Reinsurer's share HRK'000	2016 Net HRK'000
Balance at 1 January	**3,536**	**-**	**3,536**	**2,256**	**2**	**2,254**
Claims for the year	2,693	145	2,548	2,282	379	1,903
Movements in prior-year claims	117	155	(38)	85	356	(271)
Claims paid	(1,491)	(228)	(1,263)	(1,087)	(737)	(350)
Balance at 31 December	**4,855**	**72**	**4,783**	**3,536**	**-**	**3,536**

c) Analysis of movements in provisions for incurred but not reported claims (IBNR)

	2017 Gross amount HRK'000	2017 Reinsurer's share HRK'000	2017 Net HRK'000	2016 Gross amount HRK'000	2016 Reinsurer's share HRK'000	2016 Net HRK'000
Balance at 1 January	**5,496**	**2,848**	**2,648**	**6,072**	**3,711**	**2,361**
Additions recognised during the year	(576)	(689)	113	(576)	(863)	287
Transferred to reported claims provision	-	-	-	-	-	-
Balance at 31 December	**4,920**	**2,159**	**2,761**	**5,496**	**2,848**	**2,648**

1.18 Life assurance provisions (continued)

d) Analysis of movements in mathematical reserve

	2017 Gross amount HRK'000	2017 Reinsurer's share HRK'000	2017 Net HRK'000	2016 Gross amount HRK'000	2016 Reinsurer's share HRK'000	2016 Net HRK'000
Balance at 1 January	**505,682**	**247**	**505,435**	**496,055**	**273**	**495,782**
Premium allocation	152,379	237	152,142	80,907	247	80,660
Release of liabilities due to benefits paid, surrenders and other terminations	(92,595)	(247)	(92,348)	(81,250)	(273)	(80,977)
Unwinding of discount/accretion interest	13,339	-	13,339	12,968	-	12,968
Changes in the unearned premium reserve	(2,227)	-	(2,227)	864	-	864
Change in Zillmer adjustment	(533)	-	(533)	1,322	-	1,322
Exchange differences	(3,369)	-	(3,369)	(5,184)	-	(5,184)
Balance at 31 December	**572,676**	**237**	**572,439**	**505,682**	**247**	**505,435**

e) Analysis of movements in life assurance provision for unit-linked and index-linked products

	2017 HRK'000	2016 HRK'000
Balance at 1 January	**212,324**	146,188
Premium allocation	**-**	66,136
Funds released during the year due to surrenders and benefits	**(21,395)**	-
Balance at 31 December	**190,929**	212,324

f) Analysis in movement in other technical insurance provisions, gross amount

	2017 '000 kn	2016 '000 kn
Balance at 1 January	**4,040**	500
Allocation of premium	**-**	3,540
Funds released during the year due to surrenders and benefits	**(590)**	-
Balance at 31 December	**3,450**	4,040

1.18 Life assurance provisions (continued)

g) Principal actuarial assumptions for life assurance

Description	Price list	Interest rate	Mortality tables
Endowment products	HR11	3.25%	1990-91
	HR11U		
	HR21	2.50%	2000-02
	HR21U		
	HR31		
	HR31U		Unisex 2000-02
	HR41		
	HR51	2,25%	Unisex 2000-02
	HR61_EUR	1,25%	Unisex 2010-12
	HR61_HRK	2,00%	Unisex 2010-12
	HR51U_EUR	1,25%	Unisex 2010-12
	HR51U_HRK	2,00%	Unisex 2010-12
	HR61U	1,75%	Unisex 2010-12
Term life insurance products	HRR	3.25%	1990-91
	HRRU		
	HRR2	2.50%	2000-02
	HRR2U		
	HRR4		Unisex 2000-02
	HRR4U		
	HRR3		
	HRR5		
	HRR6	2,25	Unisex 2000-02
	HRR7	2,25	Unisex 2000-02
	HRR8_EUR	1,25%	Unisex 2010-12
	HRR8_HRK	2,00%	Unisex 2010-12
	HRR9_EUR	1,25%	Unisex 2010-12
	HRR9_HRK	2,00%	Unisex 2010-12
	HRR5U_EUR	1,25%	Unisex 2010-12
	HRR10_HRK	2,00%	Unisex 2010-12
	HRG1U_H	1,00%	Unisex 2010-12

1.18 Life assurance provisions (continued)

g) Principal actuarial assumptions for life assurance (continued)

Description	Price list	Interest rate	Mortality tables
Children insurance	HRC1	2.75%	2001-02
	HRC2	2,50%	Unisex 2000-02
	HRC3	2,25%	Unisex 2000-03
	HRC4_EUR	1,25%	Unisex 2010-12
	HRC4_HRK	2,00%	Unisex 2010-12
Life-long endowment	HR14	2,00%	2001-02
	HR24	2,00%	Unisex 2000-02
	HR34_EUR	1,25%	Unisex 2010-12
	HR34_HRK	2,00%	Unisex 2010-12
Supplementary life insurance	HRUI, HRUT		
	HRUI2, HRUT2		
	HRUIC, HRUIC2, HRCI		
	HRUT3, HRCC		
	HRUT4, HRCC2		
	HRUT5, HRCC3		
	HRUT6, HRCC4		
	HRUI2_EUR, HRUI2_HRK		
	HRUT2_EUR, HRUT2_HRK		
	HRUT6_EUR, HRCC4_EUR		
	HRUT6_HRK, HRCC4_HRK		
	HRUT7_HRK		
	HRSC, HRSC2, HRSC3		
	HRSC4_HRK, HRSC4_EUR		
	HRUIC2_EUR, HRCI_EUR		
	HRUIC2_HRK, HRCI_HRK		
Life-assurance products where the investment risk is borne by the policy holder	HRUL1, HRUL1U		1990-91
	HRIL1U	2,50%	2001-02
	HRIL2U		
	HRIL3U		
	HRIL4U		
	HRIL5U	2,25%	
	HRIL6U	1,25%	
	HRIL7U	1,25%	

1.18 Life assurance provisions (continued)

h) Development of claims provision for life assurance products at 31 December 2017

	For the year ended 31 December 2013	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2017	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	54,449	54,924	62,548	81,621	119,087	-
One year later	53,971	55,121	63,701	80,541	-	-
Two years later	53,340	54,546	63,266	-	-	-
Three years later	54,546	54,488	-	-	-	-
Four years later	52,755	-	-	-	-	-
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	52,755	54,488	63,266	80,541	119,087	370,137
Cumulative payments	**(51,954)**	**(54,147)**	**(62,561)**	**(78,299)**	**(113,656)**	**(360,617)**
Amount recognised at 31 December	801	341	705	2,242	5,431	9,520
Claims handling costs	-	-	-	-	-	255
Amount recognised at 31 December 2017	801	341	705	2,242	5,431	9,775

i) Remaining maturities of insurance liabilities as at 31 December 2017

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Unearned premium provision	965	-	-	-	965
RBNS and IBNR reserves	9,775	-	-	-	9,775
Life assurance provision and life assurance provision for unit linked and index linked products and discretionary profit participation provision	110,199	340,080	187,898	128,878	767,055
Insurance liabilities	**120,939**	**340,080**	**187,898**	**128,878**	**777,795**

1.18 Life assurance provisions (continued)

j) Analysis of assets backing life assurance (mathematical) provision

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Asset used for backing life assurance mathematical provision		
Securities issued by the Republic of Croatia	**688,594**	549,603
Bonds and other debt securities traded on regulated stock exchange in Croatia	**1,951**	11,309
Advances in the amount of surrender value	**477**	433
Deposits in banks situated in Republic of Croatia	**13,414**	12,884
Balances on giro account of the Company	**2,660**	989
Total assets backing life assurance (mathematical) provision	**707,096**	575,218
Life assurance provision and discretionary profit participation provision, net of reinsurance	**573,939**	506,821
Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance	**4,640**	3,475
Required backing of mathematical provision	**578,579**	510,296

In 2017 the Company's yield on assets used for backing life insurance provision amounted to 4,87% *(2016: 5,40%).*

The following table details assets investments to back life assurance provision, analysed by relevant maturity groupings based on the remaining period, and the estimated remaining period to maturity for life assurance provision and claims provision required to be covered:

	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**More than 10 years**	**Total**
31 December 2017	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Assets backing life assurance mathematical provision	7,772	167,982	373,945	157,397	**707,096**
Life assurance provision and discretionary profit participation provision, net of reinsurance	(40,411)	(215,832)	(188,552)	(129,144)	**(573,939)**
Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance	(4,640)	-	-	-	**(4,640)**
Maturity gap	**(37,279)**	**(47,850)**	**185,393**	**28,253**	**128,517**
31 December 2016					
Assets backing life assurance mathematical provision	9,476	127,691	435,154	2,897	**575,218**
Life assurance provision and discretionary profit participation provision, net of reinsurance	(31,298)	(152,319)	(194,863)	(128,341)	**(506,821)**
Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance	(3,475)	-	-	-	**(3,475)**
Maturity gap	**(25,297)**	**(24,628)**	**240,291**	**(125,444)**	**64,922**

1.18 Life assurance provisions (continued)

j) Analysis of assets backing life assurance (mathematical) provision (continued)

At 31 December 2017 the majority of assets used for backing mathematical provision were classified as available for sale.

The following table details the assets used to back life insurance provision, analysed by relevant groupings based on the currency in which they are denominated. The mathematical provision is denominated in euros, and presented in kunas.

	EUR	**EUR-linked**	**Total EUR-denominated and EUR-linked**	**HRK denominated**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
31 December 2017					
Structure of assets backing life assurance mathematical provision	**75,040**	**512,531**	**587,571**	**119,525**	**707,096**
31 December 2016					
Assets backing life assurance mathematical provision	**71,511**	**360,334**	**431,845**	**143,373**	**575,218**

k) Assets backing technical provisions

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Assets backing technical provisions		
Securities issued by the Republic of Croatia	18,206	2,531
Financial instruments issued by HBOR	**-**	11,731
Units and shares of investment funds registered in Croatia	**-**	867
Total assets backing technical provisions	**18,206**	15,129
Unearned premium reserve, net of reinsurers' share	**650**	668
Claims provision, net of reinsurers' share	**2,904**	2,709
Other technical insurance provision	**3,450**	4,040
Required backing of technical provisions	**7,004**	7,417

Accounting policies for financial assets used for backing life assurance and technical provision are described in accounting policy 1.3. d).

1.18 Life assurance provisions (continued)

l) Structure of assets used for backing technical provision

The following table details the financial assets backing technical provisions, analysed by relevant maturity groupings based on the remaining period to maturity, and the estimated remaining contractual maturities of technical provisions required to be covered:

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	More than 10 years HRK'000	Total HRK'000
31 December 2017					
Assets backing technical provisions	-	2,017	16,189	-	**18,206**
Unearned premium reserve, net of reinsurers' share	(650)	-	-	-	**(650)**
Claims provision, net of reinsurers' share	(2,904)	-	-	-	**(2,904)**
Other technical insurance provision	-	(3,450)	-	-	**(3,450)**
Maturity gap	**(3,554)**	**(1,433)**	**16,189**	**-**	**11,202**
31 December 2016					
Assets backing technical provisions	11,731	1,337	1,194	867	**15,129**
Unearned premium reserve, net of reinsurers' share	(668)	-	-	-	**(668)**
Claims provision, net of reinsurers' share	(2,709)	-	-	-	**(2,709)**
Other technical insurance provision	-	(3,265)	(775)	-	**(4,040)**
Maturity gap	**8,354**	**(1,928)**	**419**	**867**	**7,712**

As of 31 December 2017 all the assets backing technical provisions were classified as available for sale, which enables the Company to easily dispose of these assets if required.

The following table details the assets backing technical provisions based on the currency in which they are denominated. The technical provisions are denominated in euros and presented in kunas.

	EUR HRK'000	EUR-linked HRK'000	Total EUR-denominated and EUR-linked HRK'000	HRK denominated HRK'000	Total HRK'000
31 December 2017					
Assets backing technical provisions	**-**	**18,206**	**18,206**	**-**	**18,206**
31 December 2016					
Assets backing technical provisions	11,732	3,397	15,129	-	15,129

1.19 Discretionary profit participation provision

	2017	2016
	HRK'000	HRK'000
Balance at 1 January	**1,385**	1,200
Additions recognised during the year	**1,368**	993
Amounts allocated during the year	**(1,253)**	(808)
Balance at 31 December	**1,500**	1,385

1.20 Insurance and other payables

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Insurance contract payables		
- To policyholders	**21,269**	17,944
- To intermediaries	**5,046**	3,980
	26,315	21,924
Other liabilities		
Reinsurance contract payables	**36**	180
Deposits retained from reinsurance business	**1,870**	2,466
Trade payables	**416**	714
Salaries payable	**784**	846
Other liabilities and accrued expenses	**3,560**	3,194
	6,666	7,400
	32,981	29,324

The Company retains deposits from reinsurance business arising from the Quota Share reinsurance treaty with VIG Holding. The Company maintains and invests deposit in accordance with the terms and conditions of reinsurance contract and pays interest rate on retained deposits. Interest rate is calculated on quarterly basis as an average of BID and ASK 3M ZIBOR price at the beginning of the accounting period increased by 0.5 percentage points.

1.21 Current tax liability

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Current tax liability	**348**	344

1.22 Other provisions

	Provisions for jubilee bonuses	Provisions for retirement and termination benefits	Provisions for unused vacation days	Total
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Balance at 1 January 2017	**76**	**22**	**434**	**532**
Reversed as unutilised	(5)	-	-	(5)
New provisions made during the year	11	313	159	483
Balance at 31 December 2017	**82**	**335**	**593**	**1,010**
Balance at 1 January 2016	**57**	**18**	**373**	**448**
Reversed as unutilised	(6)	-	-	(6)
New provisions made during the year	25	4	61	90
Balance at 31 December 2016	**76**	**22**	**434**	**532**

1.23 Capital and reserves

Share capital

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Authorised, issued and fully paid in		
30,000 (2016: 30,000) ordinary shares of HRK 1,000.00 each	**30,000**	30,000

The Company's share capital is denominated in Croatian kunas. The nominal value per share is HRK 1,000.00. All the shares are fully paid in.

The shareholders of the Company at the year end are as follows:

	2017	2016
Vienna Insurance Group AG Wiener Versicherung Gruppe	**95%**	90%
Erste&Steiermärkische Bank d.d.	**-**	5%
Wiener osiguranje Vienna Insurance Group d.d.	**5%**	5%
	100%	100%

During the year the General Assembly decleared dividend to be paid to the shareholers in the amount of HRK 11,100,000 (*2016: HRK* 10,470,000), that is HRK 370 per share, which were paid before the end of the year.

Fair value reserve

Fair value reserve represents cumulative unrealised net changes in the fair value of available-for-sale financial assets.

Movement in fair value reserve is as follows:

	2017	2016
	HRK'000	HRK'000
Balance at 1 January	**35,444**	19,483
Movement in fair value reserve of available-for-sale financial assets	**15,489**	18,871
Movement in deferred tax asset	**(2,788)**	(2,910)
Balance at 31 December	**48,145**	35,444

1.23 Capital and reserves (continued)

Statutory reserves

Statutory (legal reserve) represents cumulative allocation from retained earnings in accordance with the Insurance Act effective until 31 December 2005, under which minimum one-third of the Company's profit after tax needed to be allocated to unallocated legal reserve until it reaches one half of the average earned premium over the past two years. In the previous years based on the General Assembly's decision, allocation to legal reserves was calculated taking into consideration previous year's results.

From 2006, a new Insurance Act is effective, according to which the allocation to legal reserves is no longer required. However, according to the Companies Act, the Company has the obligation to allocate 5% of its annual net profit to legal reserve until it reaches 5% of the issued share capital.

Legal reserve may be utilised to cover prior-period losses, unless the loss is covered from the profit for the year or other reserves are available to cover the loss.

1.24 Capital management

As of 1 January 2016 the new Insurance act has been in force. The new act is compliant with Solvency II directive. New regulatory framework established by new Insurance act replaces previous capital adequacy and solvency margin requirements and establishes new capital adequacy calculation model which takes into consideration risk profile of the Company. That should result in greater transparency, efficiency in risk management and improvement of level of customer protection.

Within the risk assessment process, all risks arising form Company's business model are qualitatively and quantitavely identified and capital adequacy is deternmined by taking all those risks into consideration. In qualitative risk assessments, the area of activity and effectiveness of the management system is assessed on the basis of assessments of authorized persons (the Management Board, the Key Functions and Directors). The quantitative estimate implies the calculation of certain indicators (general indicators, solvency indicators, liquidity indicators, efficiency indicators and profitability indicators) as well as stress testing.

The insurance company is required to have sufficient own funds to cover the minimum capital requirement. The minimum capital requirement is the lowest recquired level of capital, while the required solvent capital represents the level of capital that allows the Company to absorb all harmful events and solvency of operations with respect to the risks assumed.

The Company manages capital in a way to be able to maintain available capital at a level well above the minimum requirements, maintain an optimal capital structure, protect the capital base that ensures sufficient stability for policyholders, adds new economic value through efficient business development, achieves business goals and maximises return to shareholders.

The Company assesses capital requirements on quarterly basis and compares it to the projected capital levels by conducting risks and sensitivity analysis. Procedures and results of these assessments are approved by Management Board. Standard formula is used for solvency capital requirements calculation and analysis of own risks and solvency position is performed in order to identify specific risks and quantify their effect on capital. The Company calculates solvency capital at least once a year and minimum capital requirement at least quarterly.

Solvency II (unaudited)	**2017**	2016
	HRK'000	HRK'000
Available capital	**135,457**	138,704
Solvency capital requirement	**33,288**	31,602
Minimum capital requirement	**28,860**	28,860
Ratio of available capital to solvency capital requirement	**407%**	439%
Ratio of available capital to minimum capital requirement	**469%**	481%

1.25 Premiums

	Gross premium written HRK'000	Outward reinsurance premiums HRK'000	Change in the gross unearned premium provision HRK'000	Change in unearned premium provision, reinsurers' share HRK'000	Premium earned HRK'000
2017					
Life insurance	176,079	(481)	-	-	175,598
Supplementary life insurance	6,246	(1,090)	52	(32)	5,176
Life-assurance products or annuities where the investment risk is borne by the policy holder	-	-	-	-	-
	182,325	**(1,571)**	**52**	**(32)**	**180,774**
2016					
Life insurance	105,813	(464)	-	-	105,349
Supplementary life insurance	6,571	(1,113)	(5)	(40)	5,413
Life-assurance products or annuities where the investment risk is borne by the policy holder	62,649	-	-	-	62,649
	175,033	**(1,577)**	**(5)**	**(40)**	**173,411**

Gross premiums written include premiums of HRK 0 thousand *(2016: HRK 62,649 thousand)* in respect of index-linked products.

	2017	2016
Types of contracts		
Individual premiums	**182,325**	175,033
	182,325	175,033
Regular premium contracts	**68,698**	71,448
Single premium contracts	**113,627**	103,585
	182,325	175,033
Premiums for non-profit contracts	**10,494**	1,991
Premiums for with-profit contracts	**171,831**	110,393
Premiums for contracts under which the investment risk is borne by the policyholder	**-**	62,649
	182,325	175,033

1.26 Fee and commission income

	2017	2016
	HRK'000	HRK'000
Reinsurance commission income	**1,070**	449

1.27 Financial income

	Investment income from capital funds	**Investment income from mathematical reserves**	**Investment income from UL/IL technical provisions**	**Investment income - other technical provisions**	**Total financial income**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
2017					
Interest income	-	3,634	-	-	**3,634**
– Held-to-maturity (HTM) investments	751	20,533	-	1,068	**22,352**
– Available-for-sale financial assets	-	554	-	-	**554**
– Loans and receivables	-	-	6,466	-	**6,466**
Net unrealised gains on financial assets at fair value through profit or loss	2,249	3,675	-	126	**6,050**
Net realised gains on financial assets available for sale	789	-	-	-	**789**
Rental income					
	3,789	**28,396**	**6,466**	**1,194**	**39,845**
2016					
Interest income					
– Held-to-maturity (HTM) investments	-	3,681	-	-	**3,681**
– Available-for-sale financial assets	1,740	19,140	-	761	**21,641**
– Loans and receivables	-	526	-	-	**526**
Net unrealised gains on financial assets at fair value through profit or loss	-	-	9,490	-	**9,490**
Net realised gains on financial assets available for sale	39	8,817	-	-	**8,856**
Rental income	822	-	-	-	**822**
Other financial income					
	2,601	**32,164**	**9,490**	**761**	**45,016**

1.28 Other operating income

	2017	2016
	HRK'000	HRK'000
Income from sale of equipment	**3**	214
Reversal of unused provisions and accrued expenses	**7**	53
Income from support of sale of life insurances	**227**	238
Other operating income	**163**	137
	400	642

1.29 Claims incurred

	2017	2016
	HRK'000	HRK'000
Gross claims paid	**(119,404)**	(83,565)
Reinsurer's share	**228**	737
Changes in mathematical reserve, gross		
Gross amount	**(66,994)**	(9,627)
Reinsurer's share	**(9)**	(27)
Change in other technical provisions	**590**	(3,540)
Change in the reserve for reported but not settled claims (RBNS)		
Gross amount	**(1,319)**	(1,280)
Reinsurer's share	**72**	(2)
Reserve for incurred but not reported claims (IBNR)		
Gross amount	**576**	576
Reinsurer's share	**(689)**	(863)
Change in the provision for unit-linked and index-linked products, gross and net	**21,395**	(66,136)
Change in the discretionary profit participation provision	**(115)**	(185)
Total gross claims incurred	**(165,271)**	(163,757)
Claims incurred, reinsurer's share	**(398)**	(155)
Claims incurred, net of reinsurance	**(165,669)**	(163,912)

1.30 Acquisition costs

2017	**Life insurance**	**Supplementary life insurance**	**Annuities where the investment risk is borne by the policy holder**	**Total insurance**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Commission expense	12,631	869	-	**13,500**
Staff costs	3,174	1,578	-	**4,752**
Other acquisition costs	2,581	1,283	-	**3,864**
	18,386	**3,730**	**-**	**22,116**
2016				
Commission expense	8,728	868	1,887	11,483
Staff costs	2,338	2,067	71	4,476
Other acquisition costs	2,485	2,197	76	4,758
	13,551	**5,132**	**2,034**	**20,717**

1.31 Administrative expenses

	Life insurance	Supplementary life insurance	Annuities where the investment risk is borne by the policy holder	Total insurance
2017	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Depreciation of equipment and amortisation of intangible assets	1,758	195	49	2,002
Staff costs	5,020	558	139	5,717
Rental costs	1,395	155	39	1,589
Audit fees	216	24	6	246
Material and services	1,917	213	53	2,183
	10,306	**1,145**	**286**	**11,737**

	Life insurance	Supplementary life insurance	Annuities where the investment risk is borne by the policy holder	Total insurance
2016	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Depreciation of equipment and amortisation of intangible assets	1,653	184	55	1,892
Staff costs	4,739	527	157	5,423
Rental costs	1,404	156	47	1,607
Audit fees	253	28	8	289
Material and services	1,801	200	59	2,060
	9,850	**1,095**	**326**	**11,271**

The total fees paid to the Company's auditor for statutory financial statement audits for year 2017 amount to HRK 246 thousand *(2016: HRK* 289 *thousand)*, the tax advisor services amounts to HRK 10 thousand *(2016: HRK* 20 *thousand)*, and the fee paid to the attorney amounts to HRK 21 thousand *(2016: HRK* 70 *thousand).*
In 2017 the average number of employees of the Company was 44 *(2016:* 44*).*

1.32 Other operating expenses

	2017 HRK'000	2016 HRK'000
Taxes, contributions and membership fees	**168**	**160**
Expenses for support in sale of non-life insurance	**106**	**100**
Other technical charges	**86**	**34**
	360	**294**

1.33 Financial expenses

	Investment of capital funds HRK'000	Investment of mathematical reserve funds HRK'000	Investment of other technical provisions HRK'000	Total financial expenses HRK'000
2017				
Impairment of investment property	273	-	-	**273**
Impairment of property	125	-	-	**125**
Net loss from fx differences	95	452	325	**872**
Other expenses	73	1,586	39	**1,698**
	566	**2,038**	**364**	**2,968**

	Investment of capital funds HRK'000	Investment of mathematical reserve funds HRK'000	Investment of other technical provisions HRK'000	Total financial expenses HRK'000
2016				
Impairment of investment property	282	-	-	**282**
Impairment of property	231	-	-	**231**
Net loss from fx differences	180	4,230	136	**4,546**
Other expenses	185	1,378	-	**1,563**
	878	**5,608**	**136**	**6,622**

1.34 Income tax

Income tax recognised in the statement of comprehensive income

	2017	2016
	HRK'000	HRK'000
Currrent tax	**(3,506)**	**(3,578)**
Deferred income tax credit (Note 1.15)	**20**	**(84)**
Income tax	**(3,486)**	**(3,662)**

Reconciliation of accounting profit for the period to income tax expense at the rate of 20%.

	2017	2016
	HRK'000	HRK'000
Accounting profit for the period before income taxes	**19,239**	**16,702**
Income tax at the rate of 20% *(2016: 20%)*	**(3,463)**	**(3,340)**
Net non-deductible income/(expenses)	**(23)**	**(322)**
Total income tax expense	**(3,486)**	**(3,662)**
Effective tax rate	**18.12%**	**21.93%**

1.35 Operating leases

The Company uses business premises and motor vehicles under operating lease arrangements. All leases are cancellable and typically run for an initial period of one to seven years. None of the lease arrangement include contingent rentals.

For the year ended 31 December 2017 HRK 1,588 thousand were recognised as an expense in the Company's statement of comprehensive income in respect of operating leases *(2016: HRK* 1,606 *thousand)*.

1.36 Related parties

Parent Company

At the year-end, the majority shareholder of the Company was Vienna Insurance Group AG Wiener Versicherung Gruppe, with a shareholding of 95% since 19 December 2017 *(2016: 90%)*. The remaining 5% is held by the minority shareholder Wiener osiguranje Vienna Insurance Group d.d. *(2016:5%).* As at 31 December 2017 Erste&Steiermärkische Bank d.d. has 0% holdings in the Company *(2016: 5%)*.

In several countries Vienna Insurance Group AG Wiener Versicherung Gruppe has decided to initiate process of merging the companies from the former bankassurance group sVersicherung with other VIG Group companies within the same country, with the aim of strengthening competitiveness and increasing its market share. Erste osiguranje and Wiener osiguranje are VIG's subsidiaries on the Croatiam market. Pursuant to the Group plan Erste osiguranje VIG is to be merged with Wiener osiguranje VIG in 2018.

1.36 Related parties (continued)

Key management personnel

Included in key management personnel are Management and Supervisory Board members. During 2017 the Company did not approve loans to Management Board members. The remuneration of the Management Board amounted to HRK 3,211 thousand (*2016: HRK 3,017 thousand),* and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic salaries and bonuses, benefits in kind, pension and other retirement benefits, and life assurance. The remuneration to Supervisory Board amounted to HRK 119 thousand *(2016: HRK* 132 *thousand)* representing gross fees. The pension contributions paid on behalf of the key management personnel in 2017 amount to HRK 196 thousand *(2016: HRK 243 thousand).*

Other related parties

Erste&Steiermärkische Bank d.d. is the distribution channel of the Company.

The Company cedes reinsurance to VIG RE, VIG Group member company and to other related companies Sparkassen Versicherung AG and VIG holding. The result of these transactions are reinsurance premiums and recoveries during the year as well as receivable and payable balances at the end of the year.

The Company lets out premises classified as investment property to the related party Wiener Vienna Insurance Group d.d.

Assets, liabilities, income and expense as at 31 December resulting from the transactions with related parties were as follows:

2017	**Assets**	**Liabilities**	**Revenue**	**Expenses**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Key management personnel	-	1,697	-	3,330
Camelot Informatik und Consulting Gesellschaft m.b.H.	-	-	-	1,850
Erste&Steiermärkische Bank d.d.	2,987	5,046	-	13,731
Sparkassen Versicherung AG	-	-	-	313
VIG RE zajišťovn, a.s.	662	1,319	238	575
Wiener osiguranje Vienna Insurance Group d.d.	36	49	1,016	1,457
Vienna Insurance Group AG Wiener Versicherung Gruppe	1,316	286	554	782
	5,001	**8,397**	**1,808**	**22,038**

2016	**Assets**	**Liabilities**	**Revenue**	**Expenses**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Key management personnel	-	1,115	-	3,392
Camelot Informatik und Consulting Gesellschaft m.b.H.	-	-	-	2,185
Erste&Steiermärkische Bank d.d.	1,806	4,001	-	11,638
Sparkassen Versicherung AG	-	-	-	176
VIG RE zajišťovn, a.s.	753	2,013	399	581
Wiener osiguranje Vienna Insurance Group d.d. za osiguranje	-	78	918	1,693
Vienna Insurance Group AG Wiener Versicherung Gruppe	1,871	278	170	343
	4,430	**7,485**	**1,487**	**20,008**

1.37 Financial risk management

The primary objective of the Company's risk and financial management framework is to protect the Company's policyholders and shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. The management is aware of the importance of an efficient and effective risk management system.

Transactions with financial instruments result in the Company assuming financial risks. These include market risk, credit risk (including reinsurance credit risk) and liquidity risk. Each of these financial risks is described below, including a summary of Company's risk management.

Market risk

Market risk includes three types of risk:

- Currency risk, which is the risk that the value of financial instruments will fluctuate as a result of changes in exchange rates;
- Interest rate risk, which is the risk that the value of financial instruments will fluctuate due to changes in market rates;
- Price risk, which is the risk that the value of financial instruments will fluctuate as a result of fluctuation in market prices, either due to a security or issuer specific factors, or factors affecting all instruments traded on the market.

Market risk embodies the potential loss but also a potential gain.

Matching of assets and liabilities

The Company manages its assets actively and applies approaches that balance the quality, diversification, and matching of assets and liabilities, liquidity and return on investments. The objective of the investment process is to optimise the risk-adjusted after-tax return on investments and the total risk-adjusted return, by managing assets and liabilities on the basis of the timing of cash flows. The management reviews and approves the target portfolios periodically, determines the investment guidelines and limits, and monitors the asset and liability management process. Due attention is paid to compliance with the rules provided in the Insurance Act.

The Company establishes the target portfolios in accordance with regulatory requirements, which represents investments strategies used to provide an advantageous funding for the liabilities at an acceptable level of risk. The strategies include targeted effective duration, yield curve, liquidity, concentrations of assets by industry, and credit quality. Estimates used in determining the approximate amounts and timing of payments to the policyholders under insurance contracts are regularly reviewed.

Most of the estimates are subjective in their nature and may affect the ability of the Company to accomplish its asset and liability management objectives.

1.37 Financial risk management (continued)

Interest rate risk

The Company's exposure to the market risk of changes in interest rates is concentrated in its investment portfolio. The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts.

The Company is also exposed to the risk of changes in future cash flows arising from changes in market interest rates. However, this risk is limited, as the majority of the Company's interest-bearing assets were at fixed rates at the reporting date.

Mathematical provision is discounted using the lower of the technical interest rate and the regulatory prescribed rate. The latter reflects, to a certain extent, the expected trends in interest yield over a longer period of time.

Consequently, any changes in the value of investments that are not attributable to changes in interest rates will not be mitigated in partly by accompanying opposite changes in the economic value of reserves for insurance contracts.

The Company monitors this exposure by occasionally reviewing the balance of its assets and liabilities. Cash flow estimates, and the effects of changes in interest rates within the investment portfolio and technical provisions are regularly modelled and reviewed. The overall objective of the strategies is to limit changes in the net value of assets and liabilities arising from changes in interest rates.

The Company seeks to match future recoveries on those assets with its insurance liabilities by purchasing government bonds. However, given the relatively short maturity of those bonds and the longer period of liabilities under life insurance, as well as the inability of the Company to purchase interest-rate swaps in Croatia, the Company is exposed to interest rate risk.

Under the current insurance agreements, the Company has to charge interest at an annual rate from 2.0% to 3.25% annually on the premiums paid under life insurance policies for the purpose of making payments to policy holders upon the expiry of the policies and is currently not able to protect itself from the future interest rate risk exposure with respect of the funds investments to provide for the coverage of its future liabilities.

The analysis of changes in interest rates on the financial assets of the Company at the reporting date is disclosed in Note 1.39 Interest rate risk analysis.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, certain variables are separately modified.

An assumption of a change of 0.25 basis points in the interest rate is taken in the analysis, which is done separately for the kuna and euro interest rate. Those are the only currencies in which the Company's investments are denominated. Only financial assets at fair value through profit or loss and available-for-sale financial assets and held to maturity were considered.

Change in interest rate		**Impact on profit or loss 2017 HRK'000**	**Impact on profit or loss 2016 HRK'000**
HRK	+0.25% / (0.25)%	321 / (321)	430 / (430)
EUR	+0.25% / (0.25)%	1,520 / (1,520)	1,169 / (1,169)

1.37 Financial risk management (continued)

Price risk

The Company's portfolio includes trading equities, which are carried at fair value in the statement of financial position, and represents the Company's exposure to price risk. The price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market rates, either due to a security or issuer specific factors, or factors affecting all instruments traded on the market.

It is the objective of the Company to achieve a competitive yield, by investing in a diversified security portfolio. The portfolio characteristics are regularly reviewed. At the reporting date, included in the Company's portfolio is one equity security of a single issuer, due to high price risks and caps set by the top management.

Equity market risk affects equity securities, equities and mutual investment funds. The Company invests only in debt securities on the domestic market. Therefore, Crobex, the local index, is the appropriate measure. The impact of the equity security market risk on equity and on mutual financial funds is different. As the impact on equity funds is higher, they have a higher correlation to Crobex. Domestic investment funds invest on foreign markets as well, however, the related exposure is too low to be monitored separately. Equity funds have been analysed by types of assets involved.

	Impact on profit or loss 2017 HRK'000	**Impact on equity 2017 HRK'000**	**Impact on profit or loss 2016 HRK'000**	**Impact on equity 2016 HRK'000**
Change in the price of ± 2.9%	0/(0)	0/(0)	0/(0)	81/(81)

Foreign exchange risk

The Company is exposed to the risk of fluctuation of foreign exchange rates, which is the risk that the value of a financial instrument will vary due to changes in the underlying foreign exchange rate.

The Company is exposed to foreign exchange risk through its investment activities, as well as its premium income, the calculation of technical provisions and settled claims under insurance policies with a currency clause. The currency in which the risk arises is euro.

The Company manages its foreign exchange risk exposure, by seeking to reduce the gap between the assets and liabilities denominated in foreign currencies or those under currency clause. Investments for the purpose of covering the mathematical provision are mainly EUR denominated, i.e. 80 % in accordance with the Insurance Act, whereas the mathematical reserve funds are denominated in EUR.

The analysis of financial assets of the Company by currency at the reporting date is provided in Note 1.40 Currency risk analysis.

The following analysis was prepared based on the assumptions of possible movement in foreign exchange rate, showing the impact on profit which stems from the change in value od financial instrument. The analysis does not take into account the impact of the change in exchange rate on the value of the mathematical reserve whis is also denominated in euro. Correlation of certain variables would have significant impact on the final currency risk, however, in order to present the impact certain variables are separately modified.

Change in fx rate	**7.513648**	**Impact on profit or loss 2017 HRK'000**	**Impact on profit or loss 2016 HRK'000**
EUR	+3% / (3%)	19,189/(19,189)	16,353/(16,353)

1.37 Financial risk management (continued)

Credit risk

Fixed-yield security portfolios and, to a lesser extent, current and other investments are subject to credit risk. Credit risk is defined as a potential decline in the market value as a result of adverse changes in the ability of the debtor to repay the debt.

The Company manages this risk by applying a strict analysis of credit risks in advance, regular management reviews and meetings to monitor credit risk trends.

The management has a credit policy in place, and the credit risk exposure is monitored on an on-going basis. Life insurance policies past due beyond 90 days that do not qualify for capitalisation are cancelled.

The Company has adopted a prudent investment policy. Accordingly, the following significant concentration has been identified with respect to amounts due from the Republic of Croatia at the reporting date:

	31 December 2017	31 December 2016
	HRK'000	HRK'000
Government bonds	**718,206**	608,782
Interest accrued on government bonds	**12,509**	11,186
	730,717	619,968

The total credit risk exposure with respect to bonds issued by the Republic of Croatia is 101,89% *(2016.: 105,10%)* of the total financial assets of the Company.

In order to reduce the risk of default on receivables past due from the reinsurer, the Company has established a set of operating and financial standards for approving reinsurers and brokers, which include ratings of significant rating agencies and take into account the current market information. Most of the reinsurance agreements are entered into with company VIG RE.

1.37 Financial risk management (continued)

The Company's exposure to credit risk by type of asset is set out in the table below:

	AAA-A HRK'000	BBB-B HRK'000	Not rated HRK'000	Total HRK'000
31 December 2017				
Held-to-maturity investments				
Debt securities	-	68,277	-	**68.277**
Available-for-sale financial assets				
Debt securities	1,951	652,715	-	**654.666**
Investment funds	-	-	-	**-**
Investments for account and risk of life insurance policyholders				
Index-linked	-	190,929	-	**190.929**
Loans and receivables				
Prepayments made	-	-	477	**477**
Deposit	-	13,414	-	**13,414**
Cash and cash equivalents	-	2,994	-	**2,994**
Technical provisions, reinsurers' share	2,784	-	-	**2,784**
Insurance and other receivables	-	-	566	**566**
Total financial assets	**4,735**	**928,329**	**1,043**	**934,107**

	AAA-A HRK'000	BBB-B HRK'000	Not rated HRK'000	Total HRK'000
31 December 2016				
Held-to-maturity investments				
Debt securities	-	68,815	-	**68,815**
Available-for-sale financial assets				
Debt securities	-	558,010	-	**558,010**
Investment funds	-	-	3,403	**3,403**
Investments for account and risk of life insurance policyholders				
Index-linked	-	212,324	-	**212,324**
Loans and receivables				
Prepayments made	-	-	434	**434**
Deposit	-	12,884	-	**12,884**
Cash and cash equivalents	-	1,871	-	**1,871**
Technical provisions, reinsurers' share	3,443	-	-	**3,443**
Insurance and other receivables	-	-	1,026	**1,026**
Total financial assets	**3,443**	**853,904**	**4,863**	**862,210**

1.37 Financial risk management (continued)

Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

The Company maintains a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuity in business and meet legal requirements.

The Company's liquidity position is satisfactory, and statutory requirements for timely claims settlement during the year were met.

Note 1.38 discloses the maturity analysis of the Company's financial assets at the reporting date.

Other liabilities disclosed in Note 1.20 Insurance and other payables as of 31 December 2017 amounted to HRK 7,094 thousand (2016: HRK 7,400 thousand), which also represents their expected cash outflows in period of less than 6 months.

Note 1.18 discloses the maturity analysis of the Company's technical provisions.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, on an arm's length basis. Financial instruments available for sale and financial assets at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortised cost less impairment. The management believes that the carrying amounts of those instruments do not differ materially from their fair values, provided that all payments under exposures not impaired will be collected as agreed and without taking account of any future losses. The fair value of the held-to-maturity portfolio has been assessed to be HRK thousand 8,860 higher *(2016:* 8,934 *thousand higher)* than its carrying amount.

	31 December 2017		**31 December 2016**	
	Book value	**Fair value**	**Book value**	**Fair value**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Investments held to maturity	68,277	77,137	68,815	77,749
Financial assets available for sale	654,666	654,666	561,413	561,413
Loans and receivables	13,891	13,891	13,318	13,318
Investments where risk is borne by the policyholder	190,929	190,929	212,324	212,324
Technical provisions, reinsurers' share	2,784	2,784	3,443	3,443
Receivables from insurance contracts and other receivables	566	566	1,026	1,026
Cash and cash equivalents	2,994	2,994	1,871	1,871
Total financial assets	**934,107**	**942,967**	**862,210**	**871,144**
Total financial liabilities	**33,409**	**33,409**	**29,324**	**29,324**

1.37 Financial risk management (continued)

Fair value (continued)

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Fair value as at

Financial assets/financial liabilities	**31 December 2017**	**31 December 2016**	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobserva-ble inputs**	**Relationship of unobservable inputs to fair value**
Available for sale assets						
Debt securities	**642,514**	**544,555**	Level 1	Price quoted on a stock exchange – average trade or bid price on the last day in the month	Not applicable	Not applicable
Debt securities	**665**	**3,100**	Level 2	The bond is priced by discounting the expected cashflow at maturity using an appropriate credit spread	Not applicable	Not applicable
Open-end investment fund shares	**-**	**3,403**	Level 1	Quoted price issued by the fund	Not applicable	Not applicable
Financial assets at fair value through profit or loss						
Debt securities	**190,929**	**212,324**	Level 2	Quoted market prices in active markets for underlying financial assets of index-linked debt securities or other valuation techniques as discounted cash flows in which all significant inputs are directly or indirectly observable from market data	Not applicable	Not applicable

1.38 Maturity analysis

The tables below analyses the financial assets and financial liabilities within the scope of IAS 39 of the Company at 31 December 2017 and 31 December 2016 into relevant maturity groupings based on the remaining contractual maturity. The maturities of investments in open-ended Investment funds are disclosed according to their secondary liquidity of 6 months.

	Up to 6 months HRK'000	**6 to 12 months HRK'000**	**1 to 3 years HRK'000**	**3 to 5 years HRK'000**	**Over 5 years HRK'000**	**Total HRK'000**
31 December 2017						
Held-to-maturity investments						
Debt securities	-	-	43,020	-	25,257	**68,277**
Available-for-sale financial assets						
Debt securities	-	8,064	89,050	39,023	518,529	**654,666**
Investment funds						
Loans and receivables						
Prepayments made	306	66	81	4	20	**477**
Deposits	-	-	-	13,414	-	**13,414**
Investments for account and risk of life insurance policyholders						
Index-linked	-	69,618	100,461	20,850	-	**190,929**
Technical provisions, reinsurers' share	2,784	-	-	-	-	**2,784**
Cash and cash equivalents	2,994	-	-	-	-	**2,994**
Insurance and other receivables	566	-	-	-	-	**566**
Total financial assets	**6,650**	**77,748**	**232,612**	**73,291**	**543,806**	**934,107**
Total financial liabilities	**20,380**	**2,791**	**8,556**	**1,254**	**-**	**32,981**
31 December 2016						
Held-to-maturity investments						
Debt securities	-	-	25,942	17,293	25,580	**68,815**
Available-for-sale financial assets						
Debt securities	11,731	10,870	13,014	88,802	433,593	**558,010**
Investment funds	3,403	-	-	-	-	**3,403**
Loans and receivables						
Prepayments made	-	76	314	40	4	**434**
Deposits	-	-	-	-	12,884	**12,884**
Investments for account and risk of life insurance policyholders						
Index-linked	-	26,923	122,409	43,500	19,492	**212,324**
Technical provisions, reinsurers' share	1,722	1,721	-	-	-	**3,443**
Cash and cash equivalents	1,871	-	-	-	-	**1,871**
Insurance and other receivables	1,026	-	-	-	-	**1,026**
Total financial assets	**19,753**	**39,590**	**161,679**	**149,635**	**491,553**	**862,210**
Total financial liabilities	**16,089**	**4,202**	**7,646**	**1,074**	**313**	**29,324**

1.39 Interest rate gap analysis

The following tables present the Company's financial assets and financial liabilities within the scope of IAS 39 analysed according to repricing dates determined as the earlier of the remaining contractual maturity and the contractual repricing.

The tables are management's estimate of the interest rate risk for the Company as at 31 December 2017 and 31 December 2016 and are not necessarily indicative of the positions at other times but, taking into account the interest rate assumptions on which the calculation of the mathematical reserve is based (Note 1.18 (d) Life assurance provisions), provide some indication of the sensitivities of the Company's earnings to movements in interest rates. The profit will also be affected by the currency of the assets and liabilities and equity. The Company has a significant proportion of interest-earning assets and interest-bearing liabilities in a foreign currency.

	Fixed interest rate	**Up to 6 months**	**6 to 12 months**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**	**Fixed interest rate**
		HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
31 December 2017									
Held-to-maturity investments									
Debt securities	3-4	-	-	43,020	-	25,257	-	**68,277**	68.277
Available-for-sale financial assets									
Debt securities	2-4	-	8,064	89,050	39,023	518,529	-	**654,666**	654.666
Investment funds	n/a								
Loans and receivables									
Prepayments made	5	306	66	81	4	20	-	**477**	477
Deposits	4,1	-	-	-	13,414	-	-	**13,414**	13,414
Investments for account and risk of life insurance policyholders									
Index-linked	2-4	-	69,618	100,461	20,850	-	-	**190,929**	190.929
Technical provisions, reinsurers' share	n/a	-	-	-	-	-	2,784	**2,784**	-
Cash and cash equivalents	n/a	2.994	-	-	-	-	-	**2,994**	-
Insurance and other receivables	n/a	-	-	-	-	-	566	**566**	-
Total financial assets		**3.300**	**77,748**	**232,612**	**73,291**	**543,806**	**3,350**	**934,107**	**927,763**
Total financial liabilities		**-**	**-**	**-**	**-**	**-**	**32,981**	**32,981**	**-**
31 December 2016									
Held-to-maturity investments									
Debt securities	3-4	-	-	25,942	17,293	25,580	-	**68,815**	68.815
Available-for-sale financial assets									
Debt securities	2-4	11,731	10,870	13,014	88,802	433,593	-	**558,010**	558.010
Investment funds	n/a	3,403	-	-	-	-	-	**3,403**	-
Loans and receivables									
Prepayments made	5	-	76	314	40	4	-	**434**	434
Deposits	4,1	-	-	-	-	12,884	-	**12,884**	12,884
Investments for account and risk of life insurance policyholders									
Index-linked	2-4	-	26,923	122,409	43,500	19,492	-	**212,324**	212.324
Technical provisions, reinsurers' share	n/a	-	-	-	-	-	3,443	**3,443**	-
Cash and cash equivalents	n/a	1.871	-	-	-	-	-	**1,871**	-
Insurance and other receivables	n/a	-	-	-	-	-	1,026	**1,026**	-
Total financial assets		**17.005**	**37,869**	**161,679**	**149,635**	**491,553**	**4,469**	**862,210**	**852,467**
Total financial liabilities	**n/a**	**-**	**-**	**-**	**-**	**-**	**29,324**	**29,324**	**-**

1.40 Currency risk analysis

The Company's financial assets and financial liabilities within the scope of IAS 39 were denominated as follows as at 31 December 2017 and 31 December 2016:

	EUR and EUR-linked HRK'000	HRK HRK'000	Total HRK'000
31 December 2017			
Held-to-maturity investments			
Debt securities	68,277	-	68.277
Available-for-sale financial assets			
Debt securities	539,810	114,856	654.666
Investment funds			
Financial assets at fair value through profit and loss			
Loans and receivables			
Prepayments made	477	-	477
Deposits	-	13,414	13.414
Investments for account and risk of life insurance policyholders			
Index-linked	190,929	-	190.929
Technical provisions, reinsurers' share	2.784	-	2,784
Cash and cash equivalents	36	2,958	2,994
Insurance and other receivables	208	358	566
Total financial assets	**802.521**	**131,586**	**934,107**
Total financial liabilities	**1,934**	**31,047**	**32,981**

	EUR and EUR-linked HRK'000	HRK HRK'000	Total HRK'000
31 December 2016			
Held-to-maturity investments			
Debt securities	68,815	-	68,815
Available-for-sale financial assets			
Debt securities	398,850	159,160	558,010
Investment funds	867	2,536	3,403
Financial assets at fair value through profit and loss			
Loans and receivables			
Prepayments made	434	-	434
Deposits	-	12,884	12,884
Investments for account and risk of life insurance policyholders			
Index-linked	212,324	-	212,324
Technical provisions, reinsurers' share	3,443	-	3,443
Cash and cash equivalents	75	1,796	1,871
Insurance and other receivables	269	757	1,026
Total financial assets	**685,077**	**177,133**	**862,210**
Total financial liabilities	**2,648**	**26,676**	**29,324**

1.41 Events after the reporting period

Vienna Insurance Group AG Wiener Versicherung Gruppe, parent company and majority shareholder of the Company (95% voting rights) decided to consolidate operations of its subsidiaries in Croatia and thus legally merge the Company, into the related company Wiener osiguranje Vienna Insurance Group owned by Vienna Insurance Group AG Wiener Versicherung Gruppe, into the Company (97.82% voting rights). The merger contract was signed on 6 February 2018 and merger is expected to take place in the first half of 2018, subject to the approval of HANFA.

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency

Statement of financial position – Assets at 31 December

in HRK

Item #	Sum components	Item#	Item descriptions	Prior period			Current period		
				Life	Non-life	Total	Life	Non-life	Total
1	002+003	**I**	**INTANGIBLE ASSETS**	**5,078,702**		**5,078,702**	4,401,283		4,401,283
2		1	Goodwill						
3		2	Other intangible assets	**5,078,702**		**5,078,702**	4,401,283		4,401,283
4	005+006+007	**II**	**TANGIBLE ASSETS**	**2,172,186**		**2,172,186**	1,434,204		1,434,204
5		1	Land and buildings used by the company in its business						
6		2	Equipment	2,083,095		**2,083,095**	1,346,955		1,346,955
7		3	Other tangible assets and inventories	89,091		**89,091**	87,249		87,249
8	009+010+014+033	**III**	**INVESTMENTS**	**651,548,827**		**651,548,827**	744,504,917		744,504,917
9		**A**	Investments in land and buildings used by the company in its business	**8,069,388**		**8,069,388**	7,671,293		7,671,293
10	011+012+013	**B**	**Investments in subsidiaries, associates and joint ventures**						
11		1	Equity shares in subsidiaries						
12		2	Equity shares in associates						
13		3	Interests in joint ventures						
14	015+018+023+029	**C**	**Financial assets**	**643,479,438**		**643,479,438**	736,833,624		736,833,624
15	016+017	**1**	**Held-to-maturity investments**	**68,814,904**		**68,814,904**	68,276,965		68,276,965
16		*1.1*	*Debt securities and other fixed-income securities*	68,814,904		**68,814,904**	68,276,965		68,276,965
17		*1.2*	*Other*						
18	019+020+021+022	**2**	**Available-for-sale investments**	**561,346,929**		**561,346,929**	654,666,057		654,666,057
19		*2.1*	Equities and other variable-income securities						
20		*2.2*	Debt securities and other fixed-income securities	557,944,133		**557,944,133**	654,666,057		654,666,057
21		*2.3*	Units and shares in investment funds	3,402,796		**3,402,796**			
22		*2.4*	Other						
23	024+025+026+027 +028	**3**	**Investments at fair value through profit or loss**						
24		*3.1*	Equities securities						
25		*3.2*	Debt securities						
26		*3.3*	Derivative financial instruments						
27		*3.4*	Units and shares in investment funds						
28		*3.5*	Other						
29	030+031+032	**4**	**Loans and receivables**	**13,317,605**		**13,317,605**	13,890,602		13,890,602
30		*4.1*	Deposits with credit institutions (banks)	12,884,476		**12,884,476**	13,414,213		13,414,213
31		*4.2*	Loans	433,129		**433,129**	476,389		476,389
32		*4.3*	Other loans and receivables						
33		**D**	**Deposits on the basis of insurance business transferred to reinsurance**						
34		**IV**	**INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS**	**212,324,145**		**212,324,145**	190,929,058		190,929,058

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency (continued)

Statement of financial position – Assets at 31 December (continued) in HRK

35	036+037+038+039 +040+041+042	**V**	**REINSURANCE SHARE IN TECHNICAL RESERVES**	**3,442,695**		**3,442,695**	2,784,216		2,784,216
36		1	Unearned premium, reinsurers' share	348,111		**348,111**	316,017		316,017
37		2	Life assurance provision (mathematical reserve), reinsurers' share	246,584		**246,584**	237,274		237,274
38		3	Claims provision, reinsurers' share	2,848,000		**2,848,000**	2,230,925		2,230,925
39		4	Bonuses and rebates provisions, reinsurers' share						
40		5	Equalisation reserve, reinsurers' share						
41		6	Other technical provisions, reinsurers' share						
42		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurers' share						
43	044+045	**VI**	**CURRENT AND DEFERRED TAX ASSETS**						
44		1	Deferred tax assets						
45		2	Current tax assets						
46	047+050+051	**VII**	**RECEIVABLES**	**511,668**		**511,668**	419,222		419,222
47	048+049	**1**	**Receivables from direct insurance operations**						
48		*1.1*	From insured persons						
49		*1.2*	Receivables from insurance agents and brokers						
50		**2**	**Receivables from co-insurance and reinsurance operations**	**269,479**		**269,479**	207,966		207,966
51	052+053+054	**3**	**Other receivables**	**242,189**		**242,189**	211,256		211,256
52		*3.1*	Receivables from other insurance operations	2,808		**2,808**	14,581		14,581
53		*3.2*	Receivables for return on investments	66,528		**66,528**			
54		*3.3*	Other receivables	172,853		**172,853**	196,675		196,675
55	056-060+061	**VIII**	**OTHER ASSETS**	**1,870,631**		**1,870,631**	2,994,248		2,994,248
56	057+058+059	**1**	**Cash with banks and in hand**	**1,870,631**		**1,870,631**	2,994,248		2,994,248
57		*1.1*	Balances on the business account	881,729		**881,729**	334,171		334,171
58		*1.2*	Assets on mathematical reserve backing asset account	988,903		**988,903**	2,660,077		2,660,077
59		*1.3*	Cash in hand						
60		**2**	**Non-current assets held for sale and discontinued operations**						
61		**3**	**Other**						
62	063+064+065	**IX**	**PREPAID EXPENSES AND ACCRUED INCOME**	**580,86**		**580,86**	147,123		147,123
63		1	Accrued interest and prepaid rentals						
64		2	Accrued interest and prepaid rentals						
65		3	Other prepaid expenses and accrued income	580,86		**580,86**	147,123		147,123
66	001+004+008+034 +035+043+046+05 5+062	**X**	**TOTAL ASSETS**	**877,529,714**		**877,529,714**	947,614,270		947,614,270
67		**XI**	OFF-BALANCE SHEET ITEMS						

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency (continued)

Statement of financial position – Equity and liabilities at 31 December in HRK

68	069+072+073+077 +081+084	**XII**	**CAPITAL AND RESERVES**	**108,400,466**		**108,400,466**	**125,761,320**		**125,761,320**
69	070+071	**1**	**Subscribed capital**	**30,000,000**		**30,000,000**	**30,000,000**		**30,000,000**
70		1.1	Paid-in capital - ordinary shares	30,000,000		**30,000,000**	30,000,000		**30,000,000**
71		1.2	Paid-in capital - preference shares						
72		**2**	**Share premium (capital reserves)**						
73	074+075+076	**3**	**Revalorizacijske rezerve**	**35,438,017**		**35,438,017**	**48,146,256**		**48,146,256**
74		3.1	Land and buildings						
75		3.2	Financial investments AFS	35,443,990		**35,443,990**	48,145,405		**48,145,405**
76		3.3	Other revaluation reserves	-5,973		**-5,973**	850		**850**
77	078+079+080	**4**	**Reserves**	**21,247,508**		**21,247,508**	**21,247,508**		**21,247,508**
78		4.1	Legal reserves	21,247,508		**21,247,508**	21,247,508		**21,247,508**
79		4.2	Statutory reserve						
80		4.3	Other reserves						
81	082+083	**5**	**Retained earnings / Accumulated losses**	**8,675,264**		**8,675,264**	**10,614,940**		**10,614,940**
82		5.1	Retained earnings	8,675,264		**8,675,264**	10,614,940		**10,614,940**
83		5.2	Accumulated losses (-)						
84	085+086	**6**	**Profit or loss for the period**	**13,039,676**		**13,039,676**	**15,752,616**		**15,752,616**
85		6.1	Profit for the period	13,039,676		**13,039,676**	15,752,616		**15,752,616**
86		6.2	Loss for the period (-)						
87		**XIII**	**SUBORDINATED DEBT**						
88		**XIV**	**MINORITY INTEREST**						
89	090+091+092+093 +094+095	**XV**	**Technical reserves**	**521,155,491**		**521,155,491**	**588,366,389**		**588,366,389**
90		1	Unearned premium reserve, gross	1,016,484		**1,016,484**	965,629		**965,629**
91		2	Mathematical reserve, gross	507,067,092		**507,067,092**	574,175,754		**574,175,754**
92		3	Claims reserve, gross	9,031,916		**9,031,916**	9,775,006		**9,775,006**
93		4	Bonuses and rebates reserve, gross						
94		5	Equalization reserve, gross						
95		6	Other technical reserves, gross	4,040,000		**4,040,000**	3,450,000		**3,450,000**
96		**XVI**	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross	**212,324,145**		**212,324,145**	**190,929,058**		**190,929,058**
97	098+099	**XVII**	**Other reserves**	**532,17**		**532,17**	**582,109**		**582,109**
98		1	Provisions for retirement benefits and similar obligations	532,17		**532,17**	582,109		**582,109**
99		2	Other reserves						
100	101+102	**XVIII**	**CURRENT AND DEFERRED TAX LIABILITIES**	**5,793,353**		**5,793,353**	**8,566,067**		**8,566,067**
101		1	Deferred tax liability	5,448,669		**5,448,669**	8,217,620		**8,217,620**
102		2	Current tax liability	344,684		**344,684**	348,447		**348,447**
103		**XIX**	DEPOSITS RETAINED FROM OUTWARD REINSURANCE BUSINESS						
104	105+106+107	**XX**	**FINANCIAL LIABILITIES**						
105		1	Borrowings						
106		2	Liabilities in respect of issued securities						
107		3	Other financial liabilities						

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency (continued)

Statement of financial position – Equity and liabilities at 31 December (continued) in HRK

108	109+110+111+112	**XXI**	**OTHER LIABILITIES**	**23,725,477**		**23,725,477**	27,618,452		27,618,452
109		1	Liabilities from direct insurance operations	21,924,028		**21,924,028**	26,314,953		26,314,953
110		2	Liabilities arising from co-insurance and reinsurance operations	180,314		**180,314**	35,868		35,868
111		3	Liabilities in respect of disposals and discontinued operations						
112		4	Other liabilities	1,621,136		**1,621,136**	1,267,631		1,267,631
113	114+115	**XXII**	**ACCRUED EXPENSES AND DEFERRED INCOME**	**5,598,612**		**5,598,612**	5,790,876		5,790,876
114		1	Accrued reinsurance commission						
115		2	Other accrued expenses and deferred income	5,598,612		**5,598,612**	5,790,876		5,790,876
116	068+087+088+089+096+097+100+103+104+108+113	**XXIII**	**TOTAL LIABILITIES AND EQUITY**	**877,529,714**		**877,529,714**	947,614,270		947,614,270
117		**XXIV**	**OFF-BALANCE SHEET ITEMS**						

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Comprehensive Income for the year ended 31 December in HRK

Item #	Sum components	Item #	Item description	Prior accounting period			Current accounting period		
				Life	Non-life	Total	Life	Non-life	Total
1	002+003+004+005 +006	**I**	**Premium earned**	**173,410,362**		**173,410,362**	**180,772,381**		**180,772,381**
2		1	Gross premium written	175,032,720		**175,032,720**	182,324,938		**182,324,938**
3		2	Impairment allowance and reversal of impairment allowance on insurance/coinsurance premiums						
4		3	Outward reinsurance premiums (-)	-1,577,012		**-1,577,012**	-1,571,318		**-1,571,318**
5		4	Change in the gross unearned premium reserve (+/-)	-4,935		**-4,935**	50,855		**50,855**
6		5	Change in the gross unearned premium reserve, reinsurers' share, (+/-)	-40,411		**-40,411**	-32,094		**-32,094**
7	008+009+010+011 +012+013+014	**II**	**Investment income**	**82,910,408**		**82,910,408**	**86,989,525**		**86,989,525**
8		1	Income from subsidiaries, associates and joint ventures						
9		2	Income from investments in land and buildings	821,995		821,995	789,445		789,445
10		3	Interest income	25,847,598		25,847,598	26,538,971		26,538,971
11		4	Unrealised gains on FVTPL investments						
12		5	Realised gains on investments	8,857,854		8,857,854	6,179,515		
13		6	Net exchange gains	36,200,729		36,200,729	45,474,563		45,474,563
14		7	Other investment income	11,182,233		11,182,233	8,007,030		8,007,030
15		**III**	**Fee and commisssion income**	**448,727**		**448,727**	**1,070,123**		**1,070,123**
16		**IV**	**Other technical income, net of reinsurers' share**	**642,438**		**642,438**	**400,245**		**400,245**
17		**V**	**Other income**						
18	019+022	**VI**	**Expenditure for claims incurred, net**	**-84,397,067**		**-84,397,067**	**-120,535,886**		**-120,535,886**
19	020+021	1	Settled claims	-82,827,946		-82,827,946	-119,175,720		-119,175,720
20		*1.1*	*Gross amount (-)*	-83,564,465		-83,564,465	-119,404,204		-119,404,204
21		*1.2*	*Reinsurers' share (+)*	736,519		736,519	228,484		228,484
22	023+024	2	Change in claims reserves (+/-)	-1,569,121		-1,569,121	-1,360,165		-1,360,165
23		*2.1*	*Gross amount (-)*	-703,978		-703,978	-743,09		-743,09
24		*2.2*	*Reinsurers' share (+)*	-865,144		-865,144	-617,075		-617,075
25	026+029	**VII**	**Change in mathematical reserves and in other technical provisions, net of reinsurers' share**	**-13,379,213**		**-13,379,213**	**-66,527,972**		**-66,527,972**
26	027+028	1	Change in the mathematical reserve (+/-)	-9,839,213		-9,839,213	-67,117,972		-67,117,972
27		*1.1*	*Gross amount (-)*	-9,812,327		-9,812,327	-67,108,662		-67,108,662
28		*1.2*	*Reinsurers' share (+)*	-26,886		-26,886	-9,31		-9,31
29	030+031	2	Change in other technical provisions, net of reinsurers' share (+/-)	-3,540,000		-3,540,000	590		590
30		*2.1*	*Gross amount (-)*	-3,540,000		-3,540,000	590		590
31		*2.2*	*Reinsurers' share (+)*						
32	033+034	VIII	Change in specific life assurance technical provisions where the investment risk is borne by the policyholders, net of reinsurance (+/-)	-66,135,831		-66,135,831	21,395,087		21,395,087
33		1	*Gross amount (-)*	-66,135,831		-66,135,831	21,395,087		21,395,087
34		2	*Reinsurers' share (+)*						
35	036+037	IX	Expenses on return of premiums, net of reinsurers' share						
36		1	Result dependent (bonuses)						
37		2	Result independent (discounts)						

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Comprehensive Income for the year ended 31 December in HRK

38	039+043	X	Operating expenses, net	-31,987,640		-31,987,640	-33,853,292		-33,853,292
39	040+041+042	1	Acquisition costs	-20,716,917		-20,716,917	-22,115,906		-22,115,906
40		*1.1*	*Commission*	-11,482,758		-11,482,758	-13,500,118		-13,500,118
41		*1.2*	*Other acquisitions costs*	-9,234,159		-9,234,159	-8,615,788		-8,615,788
42		*1.3*	*Change in deferred acquisition costs*						
43	044+045+046	2	Administrative expenses	-11,270,724		-11,270,724	-11,737,386		-11,737,386
44		*2.1*	*Depreciation*	-823,507		-823,507	-830,965		-830,965
45		*2.2*	*Payroll, taxes and contributions*	-5,422,574		-5,422,574	-5,718,565		-5,718,565
46		*2.3*	*Other administrative expenses*	-5,024,642		-5,024,642	-5,187,856		-5,187,856
47	048+049+050+051+052+053+054	XI	Investment expenses	-44,516,433		-44,516,433	-50,112,227		-50,112,227
48		1	Depreciation of land and buildings not used by the company for business purposes	-280,984		-280,984	-273,276		-273,276
49		2	Interest						
50		3	Impairment of investment	-231,484		-231,484	-124,819		-124,819
51		4	Realised gains on investments	-976		-976	-141,159		-127,695
52		5	Realised losses on investments						
53		6	Net foreign exchange losses	-40,747,412		-40,747,412	-46,334,778		-46,334,778
54		7	Other investment expenses	-3,255,577		-3,255,577	-3,328,195		-3,328,195
55	056+057	XII	Other technical expenses, net of reinsurers' share	-293,771		-293,771	-359,55		-359,55
56		1	Expenses for preventive operations						
57		2	Other technical expenses	-293,771		-293,771	-359,55		-359,55
58		XIII	Other expenses, including value adjustment						
59	001+007+015+016+017+018+025+032+035+038+047+055+058	XIV	Profit or loss for the period before tax (+/-)	16,701,980		16,701,980	19,238,434		19,238,434
60	061+062	XV	Income tax or tax loss	-3,662,304		-3,662,304	-3,485,818		-3,485,818
61		1	Current tax expense	-3,579,264		-3,579,264	-3,504,983		-3,504,983
62		2	Deferred tax expense (income)	-83,04		-83,04	19,165		19,165
63	059+060	**XVI**	**Profit or loss for the period after tax (+/-)**	**13,039,676**		**13,039,676**	15,752,616		15,752,616
64		1	Attributable to the equity holders of the parent						
65		2	Attributable to the non-controlling interest						
66	001+007+015+016+017+062	**XVII**	**Total income**	257,328,896		257,328,896	269,251,438		269,251,438
67	018+025+032+035+038+047+055+058+061	**XVIII**	**Total expenses**	-244,289,220		-244,289,220	-253,498,822		-253,498,822
68	069+070+071+072+073+074+075+076	**XIX**	**Other comprehensive income**	**15,947,468**		**15,947,468**	12,708,238		12,708,238
69		1	Gains/losses on retranslation of financial statements of foreign operations						
70		2	Gains/losses on revaluation of financial assets available for sale	15,961,240		**15,961,240**	12,701,415		12,701,415
71		3	Gains/losses on revaluation of land and buildings not used by the company for business purposes						
72		4	Gains/losses on revaluation of other tangible (except land and buildings) and intangible assets						
73		5	Effects of cash flow hedging instruments						
74		6	Actuarial gains/losses on defined retirement benefit plans	-13,772		**-13,772**	6,823		6,823
75		7	Share in other comprehensive income of associates						
76		8	Income tax on other comprehensive income						
77	078+079	**XX**	**Total comprehensive income**	**28,987,145**		**28,987,145**	28,460,854		28,460,854
78		1	Attributable to the equity holders of the parent						
79		2	Attributable to the non-controlling interest						
80		**XXI**	**Reclassification adjustments**						

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Cash Flow Statement for the year in HRK

Item #	Sum components	Item #	Item description	Current period	Comparative prior period
1	002+013+031	**I**	**CASH FlOWS FROM OPERATING ACTIVITIES**	8,644,899	11,197,930
2	003+004	**1**	**Cash flows before working capital change**	-17,390,807	-25,097,505
3		1.1	Profit/(Loss) before tax	19,238,434	16,701,980
4	005+006+007 8+9+10 11+12	1.2	Adjusted by:	-36,629,241	-41,799,485
5		*1.2.1*	*Depreciation*	1,104,241	1,104,492
6		*1.2.2*	*Amortisation of intangible assets*	1,170,502	1,068,300
7		*1.2.3*	*Impairment losses and gains/losses on remeasurement at fair valu*	-6,418,853	-9,247,860
8		*1.2.4*	*Interest expense*		
9		*1.2.5*	*Interest income*	-26,538,971	-25,847,598
10		*1.2.6*	*Share in profit of associates*		
11		*1.2.7*	*Gains/losses on disposal of tangible assets (including land and buildings)*	-3,369	
12		*1.2.8*	*Other adjustments*	-5,942,790	-8,876,819
13	014+015+…+030	**2**	**Increase/decrease in operating assets and liabilities**	29,536,926	40,746,348
14		2.1	Increase/decrease in available for sale assets	-49,362,403	-17,249,787
15		2.2	Increase/decrease of investments at fair value through profit or loss		
16		2.3	Increase/decrease in given loans and receivables	-18,949	-27,842
17		2.4	Increase/decrease of outward reinsurance deposits		
18		2.5	Increase/decrease of investments for the account and risk of life assurance policyholders	27,861,498	-56,632,810
19		2.6	Increase/decrease of reinsurer's share in technical provisions	658,479	932,441
20		2.7	Increase/decrease in tax assets	-19,165	83,04
21		2.8	Increase/decrease in receivables	25,918	26,148,806
22		2.9	Increase/decrease in other assets		
23		2.10	Increase/decrease in prepaid expenses and accrued income	433,737	-512,832
24		2.11	Increase/decrease in technical provisions	67,210,897	14,061,240
25		2.12	Increase/decrease in technical provisions for life insurance with the risk borne by the policyholder	-21,395,087	66,135,831
26		2.13	Increase/decrease in tax liabilities		
27		2.14	Increase/decrease in deposits retained from outward reinsurance business	-595,909	-288,042
28		2.15	Increase/decrease in financial liabilities	6,823	
29		2.16	Increase/decrease in other liabilities	3,942,914	7,288,200
30		2.17	Increase/decrease in accrued expenses and deferred income	788,173	808,104
31		**3**	**Income taxes paid**	-3,501,219	-4,450,913

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Cash Flow Statement for the year (continued) in HRK

32	033+034+…+046	**II**	**Cash flows from inv esting activ ities**	3,578,717	146,667
33		1	Proceeds from sale of tangible assets		-214,1
34		2	Payments for purchases of tangible assets	-95,503	-798,444
35		3	Proceeds from sale of intangible assets		
36		4	Payments for purchases of intangible assets	-498,098	-421,661
37		5	Payments for purchases of land and buildings not used by the company in its business		
38		6	Payments for purchases of land and buildings not used by the company in its business		
39		7	Increase/decrease of investments in subsidiaries, associates and joint ventures		
40		8	Proceeds from held-to-maturity investments	4,172,319	1,580,873
41		9	Payments made for held-to-maturity investments		
42		10	Proceeds from sale of securities and units		
43		11	Payments made for investments in securities and equities		
44		12	Dividends received		
45		13	Proceeds from given short-term and long-term loans		
46		14	Given short-term and long-term loans		
47	048+049+050 103	**III**	**CASH FLOWS FROM FINANCING ACTIVITIES**	-11,100,000	-10,470,000
48		1	Cash received from share capital increase		
49		2	Proceeds from short-term and long-term borrowings		
50		3	Repayments of short-term and long-term borrowings		
51		4	Cash paid for purchase of own shares		
52		5	Dividends paid	-11,100,000	-10,470,000
53	001+032+047		**NET CASH**	1,123,616	874,598
54		**IV**	EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		
55	053+054	**V**	**NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS**	1,123,616	874,598
56		1	Cash and cash equivalents at beginning of period	1,870,631	996,034
57	**055+056**	**2**	**Cash and cash equiv alents at end of period**	2,994,248	1,870,631

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Changes in Equity

in HRK

Item #	Item description	Attributable to the equity holders of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid in capitla (ordinary and preference shares)	Share premium	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or accumulated losses	Profit/loss for the year	Total capital and reserves		
I.	**At 1 January of the prior year**	30,000,000		19,490,549	21,247,508	6,839,018	12,306,246	89,883,321		89,883,321
1.	Changes in accounting policies									
2.	Correction of prior period errors									
II.	**At 1 January of the prior year (as restated)**	30,000,000		19,490,549	21,247,508	6,839,018	12,306,246	89,883,321		89,883,321
III.	**Comprehensive income or loss for prior year**			15,947,468			13,039,676	28,987,145		28,987,145
1.	Profit or loss for the period						13,039,676	13,039,676		13,039,676
2.	**Other comprehensive income or loss for the prior year**			15,947,468				15,947,468		15,947,468
2.1.	Unrealised gains or losses on tangible assets (land and buildings)									
2.2.	Unrealised gains or losses on financial assets available for sale			15,961,240				15,961,240		15,961,240
2.3.	Realised gains/losses on financial assets available for sale									
2.4.	Other changes in equity not attributable to the equity holders in their capacity as owners			-13,772				-13,772		-13,772
IV.	**Transactions with owners (prior period)**					1,836,246	-12,306,246	-10,470,000		-10,470,000
1.	Increase/decrease in subscribed capital									
2.	Other payments made by the owners									
3.	Dividends paid						-10,470,000	-10,470,000		-10,470,000
4.	Other distributions to the owners					1,836,246	-1,836,246			
V.	**Closing balance for the prior year**	30,000,000		35,438,017	21,247,508	8,675,264	13,039,676	108,400,466		108,400,466
VI.	**At 1 January of the current year**	30,000,000		35,438,017	21,247,508	8,675,264	13,039,676	108,400,466		108,400,466
1.	Changes in accounting policies									
2.	Correction of prior-period error									
VII.	**At 1 January of the current year (restated)**	30,000,000		35,438,017	21,247,508	8,675,264	13,039,676	108,400,466		108,400,466
VIII.	**Comprehensive income or loss for the year**			12,708,238			15,752,616	28,460,854		28,460,854
1.	Profit or loss for the period						15,752,616	15,752,616		15,752,616
2.	**Other comprehensive income or loss for the current year**			12,708,238				12,708,238		12,708,238
2.1.	Unrealised gains or losses on tangible assets (land and buildings)									
2.2.	Unrealised gains or losses on financial assets available for sale			12,701,415				12,701,415		12,701,415
2.3.	Realised gains/losses on financial assets available for sale									
2.4.	Other changes in equity not attributable to the equity holders in their capacity as owners			6,823				6,823		6,823
IX.	**Transactions with owners (current period)**					1,939,676	-13,039,676	-11,100,000		-11,100,000
1.	Increase/decrease in subscribed capital									
2.	Other payments made by the owners									
3.	Dividends paid						-11,100,000	-11,100,000		-11,100,000
4.	Dividends paid					1,939,676	-1,939,676			
X.	**Closing balance for the current year**	30,000,000		48,146,256	21,247,508	10,614,940	15,761,616	125,761,320		125,761,320

Reconciliation between financial statements for Croatian Financial Services Supervisory Agency

Statement of financial position

Receivables from insurance contracts and other receivables presented in audited financial statements, including interest receivables, in the financial statements for Croatian Financial Services Supervisory Agency are presented in the following positions:

- 50 - Insurance receivables

- 51 - Other receivables

- 62 - Prepaid expenses and accrued income

Advance income tax is netted against following position: Current tax liabilities in the financial report.

Technical provisions and discretionary profit participation provision shown in the audit financial statement are recorded in the financial statements for Croatian Financial Services Supervisory Agency on positions:

- 90 to 96

Insurance and other payablesshown in the audit financial statement are recorded in the financial statements for Croatian Financial Services Supervisory Agency on positions:

- 108 and 113

Statement of comprehensive income

Position Financial income in the financial report includes the auditor's financial report for the Croatian Agency for Supervision of Financial Services position:

- 09 - Income from investments in land and buildings

- 10 – Interest income

- 12 - Gain on sale (realization) of financial assets (netted against position 51- Realised investment losses)

- 14 - Other income from investments, netted with position 54- Other investment expenses (unrealized and realized investment results for the name and account of policyholders who bear the investment risk)

Position Claims incurred in the audit financial statement are presented in the financial report for the Croatian Agency for Supervision of Financial Services on following positions:

- 20 - Liquidated claims: Gross

- 23 - Change in provision for claims: Gross

- 27 - Change in mathematical provision: Gross

- 27 - Change in other technical provisions: Gross

- 33 - Changes in special reserves for insurance on life insurance where the policyholder takes the investment risk, net of reinsurance: Gross amount.

Position Reinsurers' share of claims incurred in the audit financial statement are presented in the financial report for the Croatian Agency for Supervision of Financial Services on following positions:

- 21 - Liquidated claims: Reinsurers' share

- 24 - Change in provision for claims: Reinsurers' share

- 28 - Change in mathematical provision: Reinsurers' share.

Position Financial expenses in the audit financial statement includes in the financial report for the Croatian Agency for Supervision of Financial Services following positions:

- 48- Depreciation of land and equipment not used for basic business

- 50- Impairment of investment

- 53 – Net exchange losses netted with position 13- Net exchange gains

- 54- Other investment expenses, netted with position 14- Other investment income (positive exchange differences on the investments for the account and risk of policyholders)

Reconciliation between financial statements for Croatian Financial Services Supervisory Agency (continued)

Cash Flow Statement

Depreciation of equipment and investment property in the cash flow statement are presented in financial statements for the Croatian Financial Services Supervisory Agency in the position:

- 005 - Depreciation of property and equipment

Value adjustments in the cash flow statement are presented in the financial statements for the Croatian Financial Services Supervisory Agency in positions:

- 011 - Gains / losses on the sale of tangible assets (including land and buildings) and
- 007 - Impairment losses and gains / losses on fair value adjustments

Net gain on the change in the fair value of financial assets in the cash flow statement is presented in the financial statements for the Croatian Financial Services Supervisory Agency in positions:

- 007 - Impairment losses and gains / losses on fair value adjustment i
- 012 - Other adjustments

Amortization of premium / discount in the cash flow statement is presented in the financial statements for the Croatian Financial Services Supervisory Agency in the position:

- 040 - Receipts from investments held to maturity

Net increase in available-for-sale financial assets in the cash flow statement is presented in the financial statements for the Croatian Financial Services Supervisory Agency in the position:

014 - Increase / decrease in available-for-sale investments

Net increase in technical provisions and the net increase in the reserve for profit participation in the cash flow statement are presented in the financial statement for the Croatian Financial Services Supervisory Agency in positions:

- 024 - Increase / decrease in technical reserves
- 025 - Increase / decrease in technical life assurance provision when the investor carries the investment risk

Net increase in other provisions and insurance and other payables in the statement of cash flows is presented in the financial statements for the Croatian Financial Services Supervisory Agency in positions:

- 027 - Increase / decrease of deposits held from work relocated to reinsurance
- 029 - Increase / decrease in other liabilities
- 030 - Increase / decrease in deferred payment of expenses and income for the future period