

**Wiener osiguranje Vienna Insurance Group**

**Management Board report and  
financial statements  
for 2016**

## **Contents**

Management Board report	1
Responsibilities of the Management Board for the preparation and approval of the annual financial statements and the Management Board report	6
INDEPENDENT AUDITOR'S REPORT	7
Statement of financial position	10
Statement of comprehensive income	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14
Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency	115
Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules	129

## Management Board report

The Management Board is submitting its Management Board report together with the audited financial statements for the year ended 31 December 2016.

Wiener osiguranje Vienna Insurance Group d.d. (the “Company”) is a joint stock company offering life and non-life insurance products, with headquarters in Zagreb, Slovenska 24. The major shareholder of the Company and the parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe (“VIG” or “the Group”). The ultimate parent company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group.

The Company’s membership to the Group is not only demonstrated by using the „family-name“ Vienna Insurance Group, but also by promoting its values as part of the strategic corporate governance of the Company.

### Vienna Insurance Group

VIG is well established in all lines of business and thus offers a comprehensive customer-oriented portfolio of products and services with more than 50 Group companies and more than 24,000 employees in 25 countries . The Group generated around EUR 9 billion in premiums in 2016, further strengthening its market leader position in Austria and in Central and Eastern Europe (CEE), where VIG has been operating for more than 25 years.

VIG’s successful expansion into the CEE region - VIG’s roots reach back more than 190 years in Austria, during which time it developed from its start as a local insurer in 1824 to an international insurance group.

Using its combined strengths to become number 1 - VIG has worked its way to the top of the insurance market in many countries in previous years. Using a focused growth strategy and long-term perspective, it created a stable base that led to double-digit market shares in many markets.

The figures for the region show that the decision to expand into the CEE region was correct. In 2016, around half of VIG’s total premium volume was generated in the CEE markets. The Group continues to believe in the potential offered by the ongoing economic growth in the region, which brings with it a rising demand for insurance products.

Focusing together on the core business - The decisions above underscore the path followed by VIG and strengthen the focus on insurance as the clear core business. It pursues a progressive and highly risk-conscious insurance strategy. Reliability, trustworthiness and solidity define its relationships with business partners, employees and shareholders.

This fundamental approach is also reflected in its strategy of continuous sustainable growth and excellent creditworthiness. The international rating agency Standard & Poor’s has confirmed VIG’s development with an A+ rating with stable outlook for many years. VIG continues to have the best rating of all companies in the ATX, the leading index of the Vienna Stock Exchange.

Side-by-side with our customers - Customer loyalty and customer proximity are major factors in VIG’s success. Local employees know the needs of their customers the best, which is why VIG places its trust in these employees and local entrepreneurship.

In order to create stability and trust, the Group uses a multi-brand strategy that retains established brands and unites them under the Vienna Insurance Group umbrella. This also allows a wide variety of distribution channels to be used. The Group’s strategic orientation is rounded off by a conservative investment and reinsurance policy.

Erste Group and VIG: strong together - The strategic partnership between Erste Group and VIG has grown and strengthened over the past years.

Stable dividend policy of the Group - VIG has been listed on the Vienna stock exchange since 1994. Today, it is one of the top companies in the “prime market” segment, and offers an attractive dividend policy with a dividend payout ratio of at least 30% of Group profits (after taxes and non-controlling interests) for shareholders.

Searching for the best together - All VIG Group companies strive to attract the most talented and intelligent employees. As a result, identifying and developing individual skills is a central priority in human resources management. Promoting diversity is also highly important, as is creating a framework that offers appropriate development opportunities for employees. This is because it is clear to VIG that its success is built on the dedication of its more than 24,000 employees.

Further information on Vienna Insurance Group is available at [www.vig.com](http://www.vig.com) or in the VIG Group Annual Report.

## Management Board report (continued)

### The Company

In 2016, the Company records its best business year since VIG entered the Croatian market in 1999, with extraordinary performances in premium growth, as well as profit generating. Through more than 100 sales points located across the country, more than 550 sales employees and strong external sales channels, as well as starting web-sales, the Company's goal is to constantly provide clients with complete insurance cover and to make claims handling faster and more efficient. With stability based on core competences, the Company is a conscious insurer. The Company always strives for reliability and trustworthiness in dealings with customers and business partners, employees and shareholders.

The business results for 2016 are indicator of further strengthening of the position of the Company. As one of the top four leading insurers, the Company is aware of its role as promoter of the modern insurance culture on the Croatian insurance market, which goes in line with the digitization process of sales and portfolio management the Company plans to introduce step by step.

With almost 800 motivated and educated employees, the Company demonstrates its readiness to provide top performance also in the next years.

### Business performance

In 2016, the Company reported net profit of HRK 26.1 million, which reflects stability in operations of the Company, strict cost management and conservative investment policy. Although implemented the growth strategy, the Company was following selective underwriting policy in order to be even more earning oriented, regardless of possible premium losses. This management principle will be continued also in the following years.

The Company wrote gross premiums of HRK 591.2 million, representing an outstanding increase by 8.24% in comparison to 2015, while the market stagnated with 0.42%, which positioned the Company on fourth place among insurance companies in Croatia, with a total market share of 6.75%. In life insurances, the Company realizes remarkable growth by 9.92% and holds third place with market share of 10.0%. In non-life insurances, the Company records growth in gross written premiums by 6.65% and further increases its market share on 5.12%. As in previous years, the largest share in total premium relates to life insurance (49%) and motor insurance (27%). The other non-life insurances recorded positive trend while the corporate business grew by 17% and the SME business by 9%.

In 2016, net policyholder claims and benefits incurred amounted to HRK 343.4 million, which is, compared to the previous year, an increase by HRK 54.1 million (19%). Total acquisition, administrative and other operating expenses (including technical expenses) amounted to HRK 226.0 million, which is a decrease by HRK 0.5 million, compared to the previous year.

As of 31 December 2016, the Company's total assets amounted to HRK 3.6 billion, increasing by HRK 119.9 million or 3% compared to the end of the previous year.

The Company has strong capital base and was in compliance with all regulatory capital requirements during 2016. Strong capital base provides security to our policyholders.

Due to the still ongoing liberalization of the motor third party liability market in Croatia the Company is making a lot of effort in careful monitoring and reacting on market trends, strictly following the profitability strategy. In order to offset the negative impacts of these market trends in car insurances, the Company puts stronger focus on more profitable lines of business.

During 2016, the Company started the implementing process of the voluntary health insurance and finally launched the very attractive and competitive supplementary health insurance product supported by a marketing campaign.

As a reaction on market developments and legal requirements, the Company launched in 2016 the new tariff generation in segment of life insurances, calculated with adapted guaranteed interest rate and the latest mortality tables.

In order to maintain financial stability and security, business objectives of the Company are focused on further increase of profitability of the Company, through growth of premium income and market share, in combination with new underwriting measures and reduction of overall operating costs.

## Management Board report (continued)

### Risk management

The management of risks to which the Company is exposed in its ordinary business is conducted on regular basis. Risk management allows for identification, analysis, quantification and control of risks. The main risks to which the Company is exposed to are: insurance risks, credit risk, market risks (price risk, interest rate risk, and foreign exchange risk), liquidity risk, operational risks, strategic risks and reputational risks. In each risk category, the Company undertakes measures for management and control of risks in order to limit the risks to acceptable level. Exposure to these risks is shown in the notes to the financial statements.

The changes to the European insurance supervisory system referred to as Solvency II entered into force at the beginning of 2016 and implemented by all member states of the EU, present great challenges for the whole insurance industry. The Company has been part of the Group-wide "Solvency project" during which standardized guidelines, calculation and reporting solutions and advanced risk management processes were developed and implemented with the assistance of experts from the Group companies. When the new regime entered into force, the Company was already well prepared for the qualitative and quantitative requirements of Solvency II.

### Croatian insurance market

According to statistical data from the Croatian Insurance Bureau, in 2016 total gross written premium of the insurance companies increased by 0.42% compared to 2015. The main factors, which influenced the insurance business on the Croatian market, were closure of many companies, unemployment and stagnation in construction. Significant impact was also due to the continued regulation regarding prebankruptcy procedures.

In 2016, 24 insurance companies operating on the Croatian insurance market recorded a gross written premium of HRK 8.8 billion. Non-life segment experienced growth of 0.91% compared to 2015 while the life segment decreased by 0.55% in comparison to 2015.

### Social responsibility

Corporate Social Responsibility is the continuing commitment by business to ensure sustainable development, behave ethically and contribute to economic development while improving the quality of life of the workforce and of the local community and the society at large. It includes meeting quality requirements in internal operations – in dealing with employees, as well as externally – in dealing with shareholders, policyholders, partners, the regulator and the community.

The Company therefore considers an obligation to provide support for cultural and social concerns through social projects (Social Active Day) and donations and sponsorships to community. In 2016, in the context of the Social Active Day the Company was focused on seniors. The number of employees participating in various social activities is increasing year by year.

## Management Board report (continued)

### Corporate Governance

The Company considers responsible Corporate Governance to be a prerequisite for the creation of sustainable values, growth and creation of values to shareholders, policyholders and other stakeholders.

The Company implements both external and internal regulations, as well as the regulations of its parent company, Vienna Insurance Group, provided these are not in conflict with the regulations in force in the Republic of Croatia and it also monitors the alignment of its organizational structure, to be able to modify and adjust promptly if needed.

The shareholders exercise their voting rights in the General Assembly, which is convened by the Management Board after the Supervisory Board approves the decisions that are to be adopted by the Assembly based on the Statute and law. The Assembly in particular decides on the appointment of the Supervisory Board members, the annual financial statements, profit distribution, appointment of the Company's auditor.

The Management Board is responsible for the management of the Company's activities and represents the Company toward third parties. It ensures that the Company operates in line with risk management regulations, that is secures and maintains an adequate level of capital, manages control functions, the performance of external and internal audit, draws up financial and other reports in line with accounting regulations and standards and reports to the Croatian Financial Services Supervisory Agency.

The Management Board, during the course of 2016 and up to the date of the signing of this report, comprised:

Walter Leonhartsberger	President
Tamara Rendić	Member
Jasminka Horvat Martinović	Member
Božo Šaravanja	Member

The Supervisory Board monitors the performance of the Company's activities, appoints and recalls members of the Management Board, participates in the development of annual financial reports, submits a written supervisory report to the General Assembly, represents the Company before the Management Board and grants prior approval to Management Board decisions when this is prescribed by law or the Statute of the Company.

The Supervisory Board, during the course of 2016 and up to the date of the signing of this report, comprised:

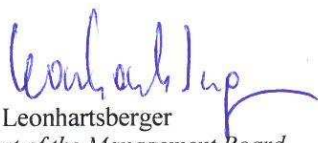
Roland Gröll	Chairman from 27 April 2016, Member until 26 April 2016
Peter Franz Höfner	Chairman until 27 April 2016
Wolfgang Petschko	Deputy Chairman from 27 April 2016, Member until 26 April 2016
Franz Fuchs	Deputy Chairman until 27 April 2016
Zoran Dimov	Member
Svemir Kovač	Member
Johann Franz Josef Bichler	Member from 27 April 2016
Philippe Bardas	Member from 27 April 2016
Erwin Hammerbacher	Member from 27 April 2016
Natalia Cadek	Member until 27 April 2016

## Management Board report (continued)

### Corporate governance (continued)

Efficient cooperation has been established between the Company's Management Board and the Supervisory Board. The Management Board reports regularly (through quarterly and annual reports) to the Supervisory Board about the Company's operations, performance and financial plan realization.

21 March 2017



Walter Leonhartsberger  
*President of the Management Board*



Tamara Rendić  
*Member of the Management Board*



Jasminka Horvat Martinović  
*Member of the Management Board*



Božo Šaravanja  
*Member of the Management Board*

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ZAGREB 7

## Responsibilities of the Management Board for the preparation and approval of the annual financial statements and the Management Board report

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 (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of 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 financial statements and the Management Board report in accordance with the article 21 of the Accounting Act.

For and on behalf of Wiener osiguranje Vienna Insurance Group d.d., as at 21 March 2017:



Walter Leonhartsberger  
*President of the Management Board*



Tamara Rendić  
*Member of the Management Board*



Jasminka Horvat Martinović  
*Member of the Management Board*



Božo Šaravanja  
*Member of the Management Board*

**WIENER OSIGURANJE**  
VIENNA INSURANCE GROUP d.d.

ZAGREB 7



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Wiener osiguranje Vienna Insurance Group d.d.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Wiener osiguranje Vienna Insurance Group d.d. (the Company), which comprise the statement of financial position as at December 31, 2016, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and 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 (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information.

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 Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21 of the Accounting Act.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Other Information (continued)**

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

- 1) Information included in the other information is, in all material respects, consistent with the attached annual financial statements for the year,
- 2) Management Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the 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 and fair presentation of the financial statements in accordance with IFRSs, adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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. Supervisory Board is responsible for overseeing the Company's financial reporting process.

### **Auditor's 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 auditor's 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 ISAs 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 ISAs, 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 control.

## INDEPENDENT AUDITOR'S REPORT (continued)

### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 control.
- 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 auditor's 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 auditor's 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 control that we identify during our audit.

### Report on Other Legal and Regulatory Requirements

The Management Board has prepared reporting forms in accordance with the Regulation on the Structure and Content of Annual Financial Statements of Insurance and Reinsurance companies (NN 37/16 - "the Regulation"), adopted by the Croatian Financial Services Supervisory Agency. The reporting forms are provided as a supplement to these financial statements, set out on pages 115 to 138, and comprise the statement of financial position and the statement of comprehensive income, statement of cash flows, statement of changes in equity for the year then ended and notes of reconciliation. These reporting forms are the responsibility of the Company's management and do not form an inseparable part of the financial statements set out on pages 10 to 114, but rather a requirement specified by the Regulation.

  
**Branislav Vrtačnik, President of Management Board**

March 21, 2017

  
**Vanja Vlák, Certified auditor**

**Deloitte d.o.o.**

Radnička cesta 80, Zagreb

## Statement of financial position

as at 31 December

	Note	2016 HRK'000	2015 HRK'000
<b>Assets</b>			
Property and equipment	12	75,782	89,936
Investment property	13	54,809	62,079
Intangible assets			
Deferred acquisition costs	14	24,403	21,309
Other intangible assets	15	11,482	9,508
Held-to-maturity investments	17	941,378	949,780
Available-for-sale financial assets	17	1,047,506	1,064,126
Financial assets at fair value through profit or loss	17	519,271	343,637
Loans and receivables	17	218,788	219,893
Reinsurers' share of technical provisions	18	501,277	492,445
Deferred tax asset	19	5,966	5,078
Inventories		70	136
Insurance and other receivables	20	164,814	190,220
Assets held for sale	21	1,009	6,096
Cash and cash equivalents	22	12,730	5,693
		<u>          </u>	<u>          </u>
<b>Total assets</b>		<b>3,579,285</b>	<b>3,459,936</b>
		<u>          </u>	<u>          </u>
<b>Shareholders' equity</b>			
Share capital	23a)	235,795	235,795
Capital reserves	23	50,453	50,453
Legal and statutory reserve	23	4,188	4,188
Other reserves	23	122,838	122,838
Fair value reserve	23f)	63,092	44,092
Retained earnings		89,563	85,266
		<u>          </u>	<u>          </u>
<b>Total equity</b>		<b>565,929</b>	<b>542,632</b>
		<u>          </u>	<u>          </u>
<b>Liabilities</b>			
Technical provisions	25	2,350,433	2,232,705
Discretionary profit participation provision	26	42,674	46,343
Subordinated loan	27	15,116	15,270
Borrowings	28	-	764
Provisions for liabilities and charges	29	8,547	8,359
Deferred tax liability	19	13,850	11,023
Current income tax liability	40c)	2,908	9,351
Insurance and other payables	30	579,828	593,489
		<u>          </u>	<u>          </u>
<b>Total liabilities</b>		<b>3,013,356</b>	<b>2,917,304</b>
		<u>          </u>	<u>          </u>
<b>Total liabilities and equity</b>		<b>3,579,285</b>	<b>3,459,936</b>
		<u>          </u>	<u>          </u>

The accounting policies and other explanatory notes on pages 14 to 114 form an integral part of these financial statements.

## Statement of comprehensive income

for the year ended 31 December

	Note	2016 HRK'000	2015 HRK'000
Gross premiums written	31	591,752	544,984
Written premiums ceded to reinsurers	31	(163,788)	(171,655)
<b>Net premiums written</b>		<b>427,964</b>	373,329
Change in the gross provision for unearned premiums	31	(2,901)	(7,270)
Reinsurers' share of change in the provision for unearned premiums	31	(1,782)	1,111
<b>Net earned premiums</b>		<b>423,281</b>	367,170
Fees and commission income	32	49,754	52,255
Financial income	33	153,404	150,133
Other operating income	34	7,797	8,152
<b>Operating income</b>		<b>634,236</b>	577,710
Claims and benefits incurred	35	(460,036)	(406,621)
Reinsurers' share of claims and benefits incurred	35	116,680	117,298
<b>Net policyholder claims and benefits incurred</b>		<b>(343,356)</b>	(289,323)
Acquisition costs	36	(106,055)	(98,465)
Administrative expenses	37	(97,413)	(103,340)
Other operating expenses	38	(22,504)	(24,624)
Financial expenses	39	(28,388)	(27,941)
<b>Profit before income tax</b>		<b>36,520</b>	34,017
Income tax expense	40a)	(10,425)	(7,452)
<b>Profit for the year</b>		<b>26,095</b>	26,565
<b>Other comprehensive income for the year</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax		19,000	(18,919)
<b>Total comprehensive income for the year</b>		<b>45,095</b>	7,646
<b>Earnings per share</b>		<b>HRK</b>	<b>HRK</b>
Basic and diluted earnings per share	24	70	71

The accounting policies and other explanatory notes on pages 14 to 114 form an integral part of these financial statements.

## Statement of changes in equity

	Share capital	Capital reserves	Legal and statutory reserve	Other reserves	Fair value reserve	Retained earnings	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>At 1 January 2015</b>	<b>235,795</b>	<b>50,453</b>	<b>4,188</b>	<b>122,838</b>	<b>63,011</b>	<b>79,604</b>	<b>555,889</b>
<b>Total comprehensive income for the year</b>							
<i>Profit for the year</i>	-	-	-	-	-	26,565	26,565
<i>Other comprehensive income</i>							
Change in fair value of available-for-sale financial assets, net of amounts realised and impairment (Note 23 f)	-	-	-	-	(23,649)	-	(23,649)
Deferred tax on change in fair value of available-for-sale financial assets, net of amounts realised and impairment, including change in income tax rate (Note 23 f)	-	-	-	-	4,730	-	4,730
<i>Total other comprehensive income</i>	-	-	-	-	(18,919)	-	(18,919)
<b>Total comprehensive income for the year</b>	-	-	-	-	(18,919)	26,565	7,646
<b>Transactions with owners recognised directly in equity</b>							
Dividends for 2014 (Note 23 e)	-	-	-	-	-	(20,903)	(20,903)
<b>At 31 December 2015</b>	<b>235,795</b>	<b>50,453</b>	<b>4,188</b>	<b>122,838</b>	<b>44,092</b>	<b>85,266</b>	<b>542,632</b>
<b>At 1 January 2016</b>	<b>235,795</b>	<b>50,453</b>	<b>4,188</b>	<b>122,838</b>	<b>44,092</b>	<b>85,266</b>	<b>542,632</b>
<b>Total comprehensive income for the year</b>							
<i>Profit for the year</i>	-	-	-	-	-	26,095	26,095
<i>Other comprehensive income</i>							
Change in fair value of available-for-sale financial assets, net of amounts realised and impairment (Note 23 f)	-	-	-	-	21,827	-	21,827
Deferred tax on change in fair value of available-for-sale financial assets, net of amounts realised and impairment including change in income tax rate (Note 23 f)	-	-	-	-	(2,827)	-	(2,827)
<i>Total other comprehensive income</i>	-	-	-	-	19,000	-	19,000
<b>Total comprehensive income for the year</b>	-	-	-	-	19,000	26,095	45,095
<b>Transactions with owners recognised directly in equity</b>							
Dividends for 2015 (Note 23 e)	-	-	-	-	-	(21,798)	(21,798)
<b>At 31 December 2016</b>	<b>235,795</b>	<b>50,453</b>	<b>4,188</b>	<b>122,838</b>	<b>63,092</b>	<b>89,563</b>	<b>565,929</b>

The accounting policies and other explanatory notes on pages 14 to 114 form an integral part of these financial statements.

**Statement of cash flows***for the year ended 31 December*

	<i>Note</i>	<b>2016</b>	2015
		<b>HRK'000</b>	HRK'000
<b>Cash flows from operating activities</b>			
Profit for the year before tax		<b>36,520</b>	34,017
<b>Adjustments for:</b>			
Depreciation and impairment losses on property and equipment	12,13	<b>11,702</b>	14,144
Amortisation and impairment losses on intangible assets	15	<b>2,848</b>	1,536
Change in deferred acquisition costs	14	<b>(3,094)</b>	(5,795)
Depreciation of small inventory		<b>191</b>	378
Impairment losses on financial assets	39	<b>1,369</b>	5,181
Impairment losses on investment in associate	39	<b>-</b>	6
Impairment losses on insurance and other receivables	20,38,39	<b>(979)</b>	2,141
Net fair value gains on financial assets	33	<b>(39,767)</b>	(30,640)
Net foreign exchange losses	39	<b>9,304</b>	2,351
Dividend income	33	<b>(1,022)</b>	(680)
Interest income	33	<b>(108,648)</b>	(114,938)
Interest expense	39	<b>10,572</b>	13,086
Profit on disposal of equipment	34	<b>(528)</b>	(700)
Net loss on disposal of investment property	39	<b>493</b>	-
Provisions for liabilities and charges	29	<b>328</b>	1,008
Equipment write off	38	<b>415</b>	633
<b>Changes in operating assets and liabilities</b>			
Net decrease in held-to-maturity investments		<b>606</b>	20,665
Net decrease / (increase) in available-for-sale financial assets		<b>47,447</b>	(3,761)
Net increase in financial assets at fair value through profit or loss		<b>(157,789)</b>	(2,706)
Net decrease / (increase) in loans and receivables		<b>3,638</b>	(41,119)
Net decrease / (increase) in investment property		<b>14,096</b>	(471)
Net (increase) / decrease in reinsurance share in technical provisions		<b>(8,832)</b>	14,428
Net decrease / (increase) in receivables and other assets		<b>12,129</b>	(8,877)
Net decrease in assets held for sale		<b>4,727</b>	2,189
Net increase in technical provisions		<b>114,061</b>	36,175
Net (decrease) / increase in insurance and other liabilities		<b>(4,698)</b>	31,385
Interest received		<b>118,501</b>	117,204
Interest paid		<b>(10,664)</b>	(12,918)
Dividend received		<b>1,022</b>	680
Income tax paid		<b>(17,756)</b>	(1,423)
<b>Net cash from operations</b>		<b>36,192</b>	73,179
<b>Cash flow from investing activities</b>			
Purchases of property and equipment		<b>(2,322)</b>	(3,162)
Purchases of other intangible assets		<b>(4,819)</b>	(2,614)
Proceeds from sale of equipment		<b>551</b>	923
<b>Net cash used in investing activities</b>		<b>(6,590)</b>	(4,853)
<b>Cash flows from financing activities</b>			
Repayment of borrowings		<b>(767)</b>	(48,545)
Dividends paid		<b>(21,798)</b>	(20,903)
<b>Net cash used in financing activities</b>		<b>(22,565)</b>	(69,448)
<b>Net decrease in cash and cash equivalents</b>		<b>7,037</b>	(1,122)
Cash and cash equivalents at 1 January		<b>5,693</b>	6,815
<b>Cash and cash equivalents at 31 December</b>	22	<b>12,730</b>	5,693

The accounting policies and other explanatory notes on pages 14 to 114 form an integral part of these financial statements.

# Notes to the financial statements

## 1 Reporting entity

Wiener osiguranje Vienna Insurance Group d.d. (the “Company”) whose registered address is at Slovenska ulica 24, Zagreb is a joint stock company incorporated and domiciled in Croatia. The former name of the Company was Kvarner Vienna Insurance Group d.d. which was changed into Wiener osiguranje Vienna Insurance Group d.d. as of 31 May 2013.

The Company is a composite insurer offering life and non-life insurance products in Croatia, regulated by the Croatian Financial Services Supervision Agency (“HANFA” or “the Agency”).

The Company’s major shareholder (99.47% of voting rights) is Vienna Insurance Group AG Wiener Versicherung Gruppe, which is a joint stock company, incorporated and domiciled in Austria, Vienna and ultimate parent company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group, mutual insurance association, founded and domiciled in Vienna, Austria.

As of 1 October 2015, following a decision of the majority shareholder to undertake a reorganization of its operations in Croatia, a daughter company Wiener nekretnine d.o.o. (“Wiener nekretnine”) was legally and operationally merged into the Company, as a result of which Wiener nekretnine ceased to exist as a separate legal entity. Prior to the merger, Wiener nekretnine was a limited liability company domiciled in Croatia, 100% owned by the Company. The effects of the merger are set out in Notes 2 (e) and 11.

## 2 Basis of preparation

### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS” as adopted by EU).

The financial statements were authorised for issue by the Management Board on 21 March 2017 for approval by the Supervisory Board.

### (b) Basis of measurement

These financial statements are prepared on a historical or amortised cost basis except for the following assets which are measured at their fair value: available-for-sale financial assets and financial assets at fair value through profit or loss.

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by EU 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 these estimates.



## 2 Basis of preparation (continued)

### (d) Use of estimates and judgements (continued)

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. Information about judgments made by management in the application of IFRS as adopted by EU that have significant effect on the financial statements and information about estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in Note 4.

### (e) Legal merger with Wiener nekretnine d.o.o.

As of 1 October 2015, based on a decision of major shareholder, Wiener nekretnine was legally merged into the Company and ceased to exist as a separate legal and operational entity.

The assets and liabilities acquired as a result of the merger were recognised at the carrying amounts recognised immediately prior to the merger in the financial statements of Wiener nekretnine. The merger was accounted for at the carrying amounts given that the merger involved companies under common control i.e. the combining companies were ultimately controlled by the same party both before and after the merger, and that control is not transitory. The components of equity of Wiener nekretnine were added to the same components within the Company's equity. Issued capital of Wiener nekretnine was eliminated on merger against the Company's investment in Wiener nekretnine. The assets, liabilities and equity assumed on merger are summarised in Note 11. The comparative figures of the statement of financial position reflect the position of the consolidated statement of financial position as at 31 December 2015. The comparative figures relating to the statement of comprehensive income, statement of changes in equity, and statement of changes in cash flows reflect the position of the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of changes in cash flows taking into account the legal merger with Wiener nekretnine d.o.o..

### (f) Comparatives

In 2016, the Company changed classification of accrued interest 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 2015 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 2015.

	As originally reported 2015 HRK'000	Reclassification 2015 HRK'000	Reported as comparative 2016 HRK'000
Held-to-maturity investments	930,431	19,349	949,780
Available-for-sale financial assets	1,042,650	21,476	1,064,126
Loans and receivables	204,148	15,745	219,893
Insurance and other receivables	246,790	(56,570)	190,220
	<hr/>	<hr/>	<hr/>
	2,424,019	-	2,424,019
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 2 Basis of preparation (continued)

### (g) New standards and interpretations

#### *Initial application of new amendments to the existing standards effective for the current reporting period*

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company’s financial statements.

## 2 Basis of preparation (continued)

### (g) New standards and interpretations (continued)

#### *Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective*

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 “Financial Instruments” - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

#### *New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU*

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 21 March 2017 (the effective dates stated below is for IFRS in full):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 15 “Revenue from Contracts with Customers” - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

## 2 Basis of preparation (continued)

### (g) New standards and interpretations (continued)

#### *New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)*

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 21 March 2017 (the effective dates stated below is for IFRS in full) (continued):

- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements, if applied as at the balance sheet date.

### 3 Significant accounting policies

#### (a) Property and equipment

Property and equipment are held for use in the provision of services or for administrative purposes.

##### *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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

##### *Reclassification to investment property*

When the use of property changes from owner-occupied to investment property, the property is reclassified as investment property with unchanged carrying amount of transferred property.

##### *Subsequent costs*

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

##### *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Land and assets acquired but not brought into use are not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	<b>2016</b>	<b>2015</b>
Buildings	50 years	50 years
Equipment and furniture	4 -10 years	4 -10 years
Motor vehicles	5 years	5 years
Leasehold improvements	over the period of the lease	over the period of the lease

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3 Significant accounting policies (continued)

#### (b) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in supply of services or for administrative purposes. The Company also holds some investment property acquired through the enforcement of security over mortgage loans to policyholders.

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. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of investment property changes from investment property to owner-occupied, the property is reclassified as owner-occupied with unchanged carrying amount of transferred 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:

	2016	2015
Investment property	50 years	50 years

#### (c) Intangible assets: Deferred acquisition costs (DAC) – insurance contracts

Those direct and indirect costs incurred during the financial period arising from actually acquiring or renewing of insurance contracts are capitalised as an intangible asset (DAC) to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred. DAC is amortised over the terms of the policies as premium is earned.

Costs subject to deferral include: employee, agent or broker commissions for successful contract acquisitions, renewal commissions, bonuses to agents or brokers, portion of employees' salaries and bonuses relating to defined acquisition activities that lead to the successful issuance or renewal of an insurance contract, contract issuance material costs, advertising costs and other acquisition costs which result directly from and are essential to the contract transaction and would not have been incurred by the Company had that contract transaction not occurred.

For life assurance business, except part of life rider products, acquisition costs are taken into account in calculating life provisions by means of Zillmerisation. As such, a separate deferred acquisition cost asset for the life assurance business is not recognised at the reporting date.

The recoverable amount of deferred acquisition costs is assessed at each reporting date as part of the liability adequacy test.

#### (d) Other intangible assets

##### *Goodwill*

All business combinations are accounted for by applying the acquisition method. Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the Company's share of the underlying net identifiable assets acquired, including intangible assets, at the date of acquisition. Bargain purchase gain arising on an acquisition is recognised directly in profit or loss.

Goodwill represents amounts arising on acquisition of subsidiaries and is included in intangible assets.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is not amortised but is tested annually for impairment (Note 4.2). Impairment losses on goodwill are not reversed.

### 3 Significant accounting policies (continued)

#### (d) Other intangible assets (continued)

##### *Acquired present value of in-force business*

Insurance contracts acquired in business combinations and portfolio transfers are measured at fair value at the acquisition date. The difference between the fair value of the insurance contracts and the liability measured in accordance with the accounting policies for the insurance contracts is recorded as the acquired present value of in-force business (“acquired PVIF”) and is amortised over the estimated life of the insurance contracts. It is tested for impairment at each reporting date. Best estimate actuarial assumptions for interest, mortality, persistency and expenses are used in calculating acquired PVIF.

##### *Other intangible assets*

Other intangible assets that are acquired by the Company and 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.

##### *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Assets acquired but not brought into use are not depreciated. The estimated useful lives are as follows:

	<b>2016</b>	<b>2015</b>
Software	4 years	4 years
Acquired present value of in-force business	10 years	10 years

Amortisation 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 amount, and are included in profit or loss.

#### (e) Non-current assets and disposal groups classified as held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Company’s accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

### 3 Significant accounting policies (continued)

#### (f) Financial instruments

##### *Classification and recognition*

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at fair value through profit or loss 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.

##### *Reclassification*

In 2011 and 2012, the Company reclassified part of its available-for-sale financial assets, for which it has the intent and ability to hold to maturity, in the category of held-to-maturity investments.

On reclassification of the available-for-sale financial assets to held-to-maturity category, the fair value of financial asset available for sale immediately prior to the reclassification becomes the new amortised cost. Following reclassification of a financial asset with a fixed maturity, any gain or loss previously recognised in other comprehensive income, and the difference between the newly established cost and the maturity amount are both amortised over the remaining term of the financial asset using the effective interest method. For a financial asset with no stated maturity, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss when the financial asset is disposed of or impaired. The impact of the above reclassifications is shown in Note 17.

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

Financial assets and financial liabilities at fair value through profit or loss are financial assets 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 are those assets 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 financial liabilities at fair value through profit or loss when either:

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

Financial assets at fair value through profit or loss include equity securities, debt securities and investments in investment fund units, both for the Company's own account and for the account of policyholders.

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 3(z). Payables arising from insurance contracts are accounted for under IFRS 4 *Insurance contracts*.



### 3 Significant accounting policies (continued)

#### (f) 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, other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the management upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables arise when the Company provides money to a debtor with no intention of trading with the receivable and include deposits with banks, mortgage loans and advances to policyholders from the life assurance provision. 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 other than those that meet definition of loans and receivables that the Company has the positive intention 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.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. 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 investments in debt securities, equity securities and investment funds.

##### *Other financial liabilities*

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. 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 available for sale, financial assets at fair value through profit or loss and held-to-maturity investments 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 other financial liabilities carried at amortised cost are recognised when advanced to borrowers or received from lenders.

The Company derecognises financial assets (in full or part) when the contractual rights to receive cash flows from the financial assets have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Company transfers substantially all the risks and rewards of ownership to another business entity and loses control over these assets or when the rights are realised, surrendered or have expired.

The Company derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability substantially change, the Company will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

### 3 Significant accounting policies (continued)

#### (f) 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 asset or financial liability 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 assets at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reasons, 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, and discounted cash flow analysis.

Loans and receivables and held-to-maturity investments are measured at amortised cost less impairment losses. Other financial liabilities 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 at fair value through profit or loss are recognised in the profit or loss.

Gains or losses arising from a change in the fair value of available-for-sale are recognised directly in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in profit or loss. For non-monetary financial assets available for sale all changes in fair value, including those related to translation difference, are recognised in other comprehensive income. Upon sale or other de-recognition of available-for-sale financial assets, any cumulative gains or losses on the instrument are transferred from other comprehensive income to profit or loss.

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

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in 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 other comprehensive income, as described above, all other gains and losses and interest are recognised in profit or loss under line items "Financial income" (Note 33) and "Financial expense" (Note 39).

##### *Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at the date. The fair value of liability reflects its non-performance risk. When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

In accordance with HANFA valuation rules the following prices are used: average weighted mid prices for domestic debt and equity securities, closing bid prices for securities of foreign issuers and prices quoted per unit by investment management companies for units in investment funds.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

### 3 Significant accounting policies (continued)

#### (f) Financial instruments (continued)

##### *Fair value measurement principles (continued)*

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate applicable at the reporting date for a financial instrument with similar terms and conditions.

##### *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 a negative effect on the estimated future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, 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.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' 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 unwinding of the discount. When a subsequent event causes the amount of impairment loss for a financial asset carried at amortised cost to decrease, the impairment loss is reversed through profit or loss.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its original cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity securities are not subsequently reversed through profit or loss, but all value increases until the final sale are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Changes in impairment provisions attributable to the time value of money are reflected as a component of interest income.

##### *Specific instruments*

##### ***Embedded derivatives within insurance and investment contracts***

Sometimes, a derivative may be a component of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Such derivatives are sometimes known as „embedded derivatives“.

Embedded derivatives are separated from their host contract, measured at fair value and changes in their fair value included in profit or loss if they meet the following conditions:

- the economic characteristics and risks of the 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 and,
- the hybrid instrument is not measured at fair value and changes in its fair value are not recognised in profit or loss.

### 3 Significant accounting policies (continued)

#### (f) Financial instruments (continued)

##### *Specific instruments (continued)*

##### *Embedded derivatives within insurance and investment contracts (continued)*

Embedded derivatives which satisfy the definition of an insurance contract do not need to be separated from their host contract. In addition, the Company took advantage of the following exemptions available within IFRS 4:

- not to separate and measure at fair value a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate) even if the exercise price differs from the carrying amount of the host insurance liability;
- not to separate and measure at fair value a policyholder's option to surrender contracts with discretionary participation features.

##### *Debt securities*

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

##### *Deposits with banks*

Deposits with banks are classified as loans and receivables and are carried at amortised cost less any impairment.

##### *Loans to customers*

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

##### *Equity securities*

Equity securities are classified as financial assets at fair value through profit or loss or available-for-sale financial assets and carried at fair value, unless there is no reliable measure of the fair value, in which case equity securities are stated at cost, less impairment.

##### *Investments in investment funds*

Investments in investment funds are classified as financial assets at fair value through profit or loss and as available-for-sale financial assets and are carried at current fair value.

##### *Investments held on account and at risk of life assurance policyholders*

Investments held on account and at the risk of life assurance policyholders comprise policyholders' investments in unit-linked products and index-linked products and are classified as financial assets at fair value through profit or loss.

##### *Trade and other receivables*

Trade and other receivables are stated at their amortised cost less impairment losses. Trade and other receivables are classified as loans and receivables.

### 3 Significant accounting policies (continued)

#### (f) Financial instruments (continued)

##### *Specific instruments (continued)*

##### ***Investment in associate***

Investment in associate is accounted at cost less impairment.

##### ***Loans, borrowings and subordinated debt***

Interest-bearing loans, borrowings and subordinated debt are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between proceeds (less attributable transaction costs) and redemption value being recognised in profit or loss over the term of the borrowings on an effective interest basis.

##### ***Trade and other payables***

Trade and other payables are initially recognised at fair value and then subsequently at amortised cost. Trade and other payables are classified as other liabilities.

##### ***Offsetting of financial instruments***

Financial assets and liabilities are offset and the net amount 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, including gains and losses arising from a group of similar transactions.

#### (g) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The Company does not have such leases at the reporting date.

Other leases are operating leases where leased assets are not recognised on the Company's statement of financial position. The accounting policy for recognising leasing costs is described in accounting policy 3 (p), under *Operating lease payments*.

#### (h) Cash and cash equivalents

For the purpose of the statement of financial position and cash flow statement, cash and cash equivalents comprise cash with banks and cash in hand.

#### (i) Employee benefits

##### ***Defined contribution plans***

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

### 3 Significant accounting policies (continued)

#### (i) Employee benefits (continued)

##### *Jubilee awards and termination benefits*

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The market yield on government bonds on the reported date is used as the discount rate.

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

#### (j) Income tax

Income tax expense comprises current and deferred tax. 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 it is recognised in other comprehensive income.

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or non-current liabilities.

#### (k) Provisions for liabilities and charges

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.

##### *Restructuring*

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

##### *Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Accounting policy for onerous insurance contracts is disclosed under 3 (t) *Unexpired risk provision*.

### 3 Significant accounting policies (continued)

#### (l) 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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

##### *Capital reserves*

Capital reserves consist of share premium reserve and other payments of shareholders into capital reserves. The share premium reserve represents the accumulated positive difference between the par value of shares issued and the amount received upon issue of share capital.

##### *Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

##### *Dividends*

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

##### *Legal reserve*

As required by Company Act, the Company is required to appropriate 5% of its annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital. Legal and capital reserves formed under the Companies Act can be used for covering prior period losses up to 5% of issued capital, if they are not covered by profit in the current period or if other reserves are not available.

##### *Other reserves*

Other reserves can be used for share capital increase, loss coverage or other purposes at the discretion of the Company's General Assembly.

##### *Fair value reserve*

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

#### (m) Impairment

The carrying amounts of the Company's assets, other than deferred acquisition costs (see accounting policy 3 (c)), financial assets (see accounting policy 3 (f)) and deferred tax assets (see accounting policy 3 (j)), are tested for impairment at each reporting date. If any indication of impairment 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.

### 3 Significant accounting policies (continued)

#### (m) 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 or group of assets that generates cash flows that are largely independent from the Company's other assets and liabilities. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the 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 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 depreciation or amortisation, if no impairment loss had been recognised.

#### (n) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments, which include life assurance segment and non-life insurance segment.

##### *Allocation of costs between the life assurance and non-life insurance segments*

Investment income, realised and unrealised gains and losses, expenses and charges representing non-life business funds and shareholders' funds are attributed to the non-life business segment.

Investment income, realised and unrealised gains and losses, expenses and charges arising on life assurance business and shareholders' funds are included in the life assurance business segment.

During the year, direct administration costs, marketing and other acquisition costs are directly charged to the non-life and life segments. Allocation is performed automatically based on cost allocation keys. The principal categories used in the calculation of allocation keys for life and non-life segments are: gross written premium (at the Company level), technical reserves, number of claims paid and financial investments.

Commissions and part of personnel expenses are recorded directly to the life and non-life insurance segments.

##### *Allocation of equity and assets*

Property and equipment, intangible assets and investment property are allocated to the non-life and life segments. Financial investments are allocated according to source of funds. Financial investments from equity are allocated to both non-life and life segments. Equity is allocated according to minimal regulatory capital requirements and share issued by the shareholders. Other receivables and payables are allocated based on those segments from which they originate.



### 3 Significant accounting policies (continued)

#### (o) Revenue

The accounting policy in relation to revenue recognition from insurance contracts is disclosed in Note 3 (r).

##### *Financial income*

Interest income is recognised in profit or loss as it accrues for all interest bearing financial assets measured at amortised cost using the effective interest rate method, i.e. the interest rate that discounts expected future cash flows to net present value during the period of the contract or at the currently effective variable interest rate. Interest income from monetary assets at fair value through profit or loss, is recognised as interest income at the coupon interest rate.

Financial income also includes net positive foreign exchange differences resulting from translation of monetary assets and liabilities using the exchange rate applicable at the reporting date, dividends, net gains on the change in the fair value of financial assets at fair value through profit or loss and realised net gains from 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 3 (f) under “*Gains and losses*”.

Income from investment property comprises realised gains upon derecognition, rental income and other income related to investment property. Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of each lease.

##### *Fees 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. Fees and commission income includes reinsurance commission income.

#### (p) Expenses

##### *Operating expenses*

Operating expenses consist of policy acquisition costs, administration costs and other operating expenses.

##### *Acquisition costs*

Acquisition costs comprise all direct and indirect costs arising from the acquiring or renewal of insurance contracts such as employee, agent or broker commissions, bonuses to agents or brokers, employees' salaries and benefits relating to acquisition activities, contract issuance material costs, advertising costs, medical and inspection cost and other acquisition costs. Non-life commission expenses are recognised on an accruals basis, while life commission expenses are recognised on a cash basis consistent with the related income recognition criteria (see accounting policy 3 (r)).

##### *Administration costs*

Administration costs include personnel expenses, depreciation of property and equipment, amortisation of intangible assets, energy 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 payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

##### *Financial expenses*

Financing expenses include interest expenses recognised using the effective interest rate method and net negative foreign exchange differences resulting from translation of monetary assets and liabilities using the exchange rate at the reporting date.

### 3 Significant accounting policies (continued)

#### (p) Expenses (continued)

##### *Financial expenses (continued)*

Financial expenses also include net losses from changes in the fair value of financial assets at fair value through profit or loss and net realised losses on derecognition of financial assets available for sale. The accounting policy in relation to financial expense recognition is disclosed in Note 3 (f) under “*Gains and losses*”.

#### (q) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a 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 may also transfer some financial risk.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts. At the reporting date the Company did not have any investment contracts.

##### *Contracts with discretionary participation features*

Both insurance and investment contracts may contain discretionary participation features. A contract with a discretionary participation feature is a contractual right held by a policyholder to receive, as a supplement to guaranteed minimum payments, additional payments that are likely to be a significant portion of the total contractual payments, 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 that issues the contracts.

##### *Discretionary profit participation provision*

Policyholders or beneficiaries of endowment, pure endowment, endowment with fixed age at maturity (whole life), term-fix and annuity assurance policies 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, second or third year of insurance, depending on the tariff and type of premium payment. The level of the profit entitlement is determined by management. The discretionary element of those contracts is accounted for as a liability in the discretionary profit participation provision.

#### (r) Premiums

Non-life business written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods.

Premiums written include adjustments to reflect write-offs of amounts due from policyholders and the movement in impairment allowances for premiums due from policyholders.

The earned portion of premiums received 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, and in line with the prevailing market practice, premiums in respect of life assurance business continue to be accounted for on a cash receipts basis.

### 3 Significant accounting policies (continued)

#### (s) Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following financial years, computed using the “pro rata temporis” or 365 method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

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

Unearned premium provision for individual insurance contracts is formed in the amount of the part of written premium which relates to insurance coverage for the insurance period after the accounting period for which the provision is calculated. For the calculation of gross unearned premium for non-life insurance with equal risk dispersion, the “pro-rata temporis” method is used.

The reinsurance share in unearned premium provision is calculated according to reinsurance contracts.

#### (t) Unexpired risk provision

Provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisition costs and administrative expenses likely to arise after the end of the financial year) attributable to the unexpired periods of policies in force at the date of financial position exceeds the provision for unearned premiums related to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately using the liability adequacy test by reference to classes of business which are managed together, without taking into account expected investment returns. Liability adequacy testing for both life and non-life and related assets is disclosed in more detail in accounting policy 3 (y) and in Note 7.

#### (u) Claims provisions

The provisions represent the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the reporting date and includes provisions for reported claims and provisions for incurred but not reported claims.

#### (v) Life assurance provisions

The life assurance provision has been computed by the Company’s actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life insurers, issued by HANFA. The prospective net premium valuation method has been adopted with the exception of unit-linked and index-linked products where the provision is based on the fair value of the underlying assets.

The life assurance provision has been computed on an in-force premium basis, applying a Zillmer type valuation method, and taking into account actual acquisition, collection and administrative costs as well as all guaranteed benefits and bonuses already declared.

The Company uses the full Zillmer rate of 3.5% in the year of policy inception. The applied Zillmer rate is within the limits prescribed by HANFA.

The provision is initially measured using the assumptions defined HANFA. At each subsequent reporting date, the reserve is calculated on the same principles. A liability adequacy test (“LAT”) is performed at each reporting date by the Company’s actuaries using current estimates of future cash flows under its insurance contracts (refer to Liability adequacy test). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in profit or loss with a corresponding increase to the life assurance provision.

The amount of bonus allocated to policyholders has been determined at the reporting date and is presented within the discretionary profit participation provision. The Company does not have a policy to decrease the discretionary profit participation provision, in favour of the Company, once provision has been formed.

### 3 Significant accounting policies (continued)

#### (w) Claims

##### *Claims arising from non-life business*

Claims incurred in respect of non-life business consist of claims and claims-handling costs settled during the financial year, together with the movement in the provision for outstanding claims.

Claims settled are recorded in the moment of processing the claim and are recognised (determined) as the amount to be paid to settle the claim. Claims settled are increased by claims-handling costs. Collected claims recoverable from third parties are deducted from claims settled.

Claims outstanding based on case estimates and statistical methods comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred up to but unpaid at the reporting date, whether reported or not, together with the related internal and external claims-handling expenses and an appropriate margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends.

Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance is determined according to contracts valid at the time in which claims occurred.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately, if significant. The methods used, and the estimates made, are reviewed regularly, which is further discussed in Note 6.

##### *Claims arising from life assurance business*

Life assurance business claims reflect the cost of all claims and benefits arising during the year, including policyholder bonuses allocated in anticipation of a bonus declaration.

#### (x) Reinsurance

The Company cedes premium to 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 profit or loss on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. The cost of reinsurance related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date applying the same methodology as applied for loans and receivables as described in Note 3 f). The Company records an allowance for estimated irrecoverable reinsurance assets, if any. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

### 3 Significant accounting policies (continued)

#### (x) Reinsurance (continued)

##### *Reinsurance commissions and profit participations*

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are based on earned premium.

#### (y) Liabilities and related assets under liability adequacy test

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Company assesses at each reporting date 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, Croatian demographic tables, aspects of mortality, morbidity, investment return, expenses and inflation.

#### (z) Liability measurement of unit-linked and index-linked contracts

Liabilities in relation to unit-linked and index-linked insurance contracts are classified at fair value through profit or loss. The financial liability is measured based on the carrying value of the assets that are held to back the contract.

#### (aa) 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.

#### (bb) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate on the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available for sale equity instruments classified as available for sale which are recognised in other comprehensive income.

Changes in the fair value of monetary securities denominated in or linked to foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amount are recognised in other comprehensive income.

The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in their fair value.

The most significant foreign currency in which the Company holds assets and liabilities is Euro. The exchange rate used for translation at 31 December 2016 was EUR 1 = HRK 7.557787 (2015: EUR 1 = HRK 7.635047).

## 4 Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 43) and insurance risk management (Note 5).

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements relating to technical provisions represent the major source of uncertainty of judgements. The estimates and judgements 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.

### 4.1. Key sources of estimation uncertainty

#### *Estimation uncertainty in relation to technical provisions*

The most significant estimates in relation to the Company's financial statements relate to technical provisions. The Company takes a reasonably prudent approach to reserving and applies HANFA regulations. The Company employs certified actuaries.

The Company's policy is to make provision for unexpired risks arising from non-life insurance business where the claims, deferred acquisition costs and administrative expenses likely to arise after the end of the financial year in respect of insurance contracts concluded before that date are expected to exceed the unearned premiums and premiums available under those contracts.

Major assumptions in calculating the life assurance provision are set out in Note 6 and all technical provisions are analysed in Note 25.

#### *Impairment losses of loans and receivables*

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3 (f) "Impairment of financial assets".

The need for impairment is assessed individually for each exposure based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral.

#### *Determining fair values*

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (f). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### *Estimation uncertainty in relation to court cases*

A significant source of estimation uncertainty stems from court cases. At 31 December 2016, the Company was involved in 982 (2015: 943) claims-related court cases for which HRK 74,923 thousand (2015: HRK 74,748 thousand) was provided as part of the claims reserve for reported but not yet settled claims. At 31 December 2016, the Company was involved in 39 (2015: 56) non-insurance court cases for which HRK 7,769 thousand (2015: HRK 7,784 thousand) was provided as provision for non-insurance related legal claims (Note 29). The management believes that the related provisions are sufficient.

#### *Tax*

The Company provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

## **4 Accounting estimates and judgements (continued)**

### **4.1. Key sources of estimation uncertainty (continued)**

#### ***Regulatory requirements***

HANFA is entitled to carry out regulatory inspections of the Company's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

#### ***Joint liability***

The Company has a liability towards the Croatian Insurance Bureau in respect of the Company's share in motor third party liability ("MTPL") claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the Croatian market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Insurance Act.

### **4.2. Critical accounting judgements in applying the Company's accounting policies**

Critical accounting judgements made in applying the Company's accounting policies include:

#### ***Financial asset and liability classification***

The Company's accounting policies provide the scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances. In classifying financial assets as "trading", the Company has determined that it meets the definition of trading assets set out in accounting policy 3 (f) "*Financial assets at fair value through profit or loss*". In designating financial assets at fair value through profit or loss, the Company has determined that it has met one of the criteria for this designation set out in accounting policy 3 (f). Reclassification of financial assets and financial liabilities at fair value through profit or loss is allowed in certain rare circumstances and is explained in accounting policy 3 (f) under paragraph "Reclassification". Held-to-maturity investments can be classified as such only if the Company has the positive intention and the ability to hold these investments to maturity.

#### ***Valuation of financial instruments***

The Company's accounting policy on fair value measurements is discussed in accounting policy 3 (f). The Company measures fair values using the fair value hierarchy as discussed in Note 43 on financial risk management.

In accordance with the Agency regulations and as allowed by IFRS 13 *Fair Values*, the Company uses weighted average prices as a measure of fair value on active markets for domestic debt and equity securities.

#### ***Classification of products***

The Company's accounting policy on classification of contracts as insurance or investment contracts is disclosed in accounting policy 3 (q). At the reporting date, the Company had no insurance products which should be classified as investment contracts.

#### ***Classification of property between investment property and owner-used property***

The Company classifies as investment properties all properties that are not used in the performance of its own activities but are held to earn rental income or for capital appreciation

## **4 Accounting estimates and judgements (continued)**

### **4.2. Critical accounting judgements in applying the Company's accounting policies (continued)**

#### *Dual-use property*

The Company has property that has dual use purpose (part of the property is used for own activities and part of the property is used as investment property). A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out separately under finance lease contract.

#### *Valuation of investment property*

The estimated fair value of investment property held by the Company amounts to HRK 67,409 thousand as of 31 December 2016 (2015: HRK 73,905 thousand). Fair value is determined by an independent appraiser having an appropriate professional qualification. Fair values were determined using a mixture of different valuation techniques, which would in hierarchy of fair value be classified as Level 3.

#### *Useful economic life of equipment and intangible assets*

The Company continues to use certain equipment and intangible assets which have been fully depreciated. Amortisation/depreciation rates were initially determined in accordance with the best estimate of the useful life of these equipment and intangible assets.

#### *Allocation of indirect expenses between life and non-life*

The allocation of expenses between life and non-life insurance segments is described in accounting policy 3 (n).

#### *Impairment allowance for insurance receivables*

Insurance receivables are evaluated for impairment at each reporting date in order to identify potential impairment allowance, on the basis of best estimate of the recoverability of these assets. Each receivable is assessed on its merits based on the expected amount and date of collection and possible collaterals. The management believes that insurance receivables are recoverable.

#### *Control over debtors in financial difficulties*

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Company regularly reassess whether it has control over significant activities of debtors in financial difficulties. For 2016, the Company concluded that there are no debtors which should be consolidated, which is consistent with 2015.



## 4 Accounting estimates and judgements (continued)

### 4.2. Critical accounting judgements in applying the Company's accounting policies (continued)

#### *Goodwill*

In accordance with IFRS 3 "*Business Combinations*" the Company discontinued to amortise goodwill from 1 January 2005. At the beginning of 2005 the Company eliminated the carrying amount of the related accumulated amortisation against the gross value of goodwill. Goodwill is tested for impairment in accordance with IAS 36 "*Impairment of Assets*".

The Company has performed impairment test of goodwill for the year ended 31 December 2016, which indicated that the carrying amount of goodwill is recoverable.

The recoverable amount of goodwill has been determined based on value-in-use calculations for cash generating units. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

The key assumptions used for value-in-use calculations in 2016 are as follows:

Long term growth rate	1%
Discount rate (pre-tax)	12%

Management determined compound annual volume growth rate for cash generating unit to be a key assumption. The volume of non-life gross written premium in each period is the main driver for revenue and costs. The compound annual volume growth rate is based on past performance and management's expectations of market development.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in a 8.2% decrease of the recoverable amount of goodwill. Despite the decrease, the net recoverable amount of goodwill would still exceed its carrying value.

#### *Deferred acquisition costs*

Deferred acquisition costs are assessed at each reporting date for recoverability. The calculation is based on the Company's assumptions for allocation of acquisition costs over the duration of the related insurance contract. Management believes that deferred acquisition costs are recoverable during the remaining duration of insurance contracts active at the reporting date.

#### *Impairment allowance of investment in associate*

Recognition of impairment allowance against investment in associate is based on the management's best estimate of its recoverable amounts.

#### *Impairment of available-for-sale investments*

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. The impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In 2016, as a result of impairment test, the Company recognised impairment loss in the amount of HRK 878 thousand (2015: HRK 22 thousand).

## 5 Insurance risk management

The Company is exposed to insurance risk arising from a wide range of life and non-life products offered to customers: whole life, traditional life products, annuity products, unit-linked products, index-linked products and all lines of non-life products (property, accident, travel health, motor vehicle, third party liability, marine and transport).

Insurance risk relates to the uncertainty of the insurance business. The most significant components of insurance risk are premium risk and reserve risk. These concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base.

Premium risk is present when the policy is issued before any insured event has happened. The risk is that expenses and incurred losses will be higher than the premium received. Reserve risk represents the risk that the absolute level of the technical provisions is misestimated or that the actual claims will fluctuate around the statistical mean value.

Non-life underwriting risk includes also catastrophe risk, which stems from irregular events that are not sufficiently covered by premium and reserve risk. Underwriting risk components of the life business include biometric risk (comprising mortality, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rates of policy lapses, terminations, changes to pay up status (cessation of premium payment) and surrenders.

### Risk management

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. The most of the non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

For the non-life business, the Company buys non-proportional reinsurance treaty to reduce the net exposure for an individual risk to amount of EUR 75 thousand for casco, a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure for an individual risk to amount of EUR 250 thousand (effectively EUR 125 thousand) for motor third party liability, EUR 150 thousand for property, EUR 200 thousand for liability, EUR 100 thousand for marine and aviation risks and EUR 100 thousand for personal accident. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe agreement provides cover for the first EUR 849.85 million (2015: EUR 849.85 million) of losses exceeding the first EUR 150 thousand.

For life business the Company has more than one proportional treaty for savings products and more than one non-proportional treaty for the policies which include death risk and permanent disability risk. The combination of both treaties reduces net exposure to EUR 30 thousand sum at risk.

Ceded reinsurance contains credit risk and such reinsurance receivables are reported after deductions for known uncollectible items. The Company monitors the financial condition of reinsurers and enters into reinsurance agreements with mostly A graded reinsurers by Standard & Poor's.

The adequacy of liabilities is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for life business. For a detailed description of the liability adequacy test, refer to accounting policy 3 (y) and Note 7.

## 5 Insurance risk management (continued)

### Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could significantly impact the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. 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.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Company is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

The risks underwritten by the Company are primarily located in the Republic of Croatia.

### Non-life insurance

Within non-life insurance, the management believes that the Company has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Company arises from catastrophe events, such as earthquake, flood or storm damage. The techniques and assumptions that the Company uses to calculate these risks are as follows:

- measurement of geographical accumulations;
- assessment of probable maximum losses;
- excess of loss reinsurance.

### Life assurance

The management believes that for life assurance contracts covering the risk of death there is no significant geographic concentration of risk, although the concentration of the value at risk can affect the ratio of insurance payments on the portfolio level. Values at risk for life assurance are as follows:

Line of insurance	Value at risk			
	2016		2015	
	HRK'000	%	HRK'000	%
Life assurance – traditional products	4,483,467	49.2	4,582,249	51.0
Unit-linked and index-linked products	63,816	0.7	76,128	0.8
Supplementary risks to life assurance	4,570,938	50.1	4,344,918	48.2
<b>As at 31 December</b>	<b>9,118,221</b>	<b>100.0%</b>	<b>9,003,295</b>	<b>100.0%</b>

## 5 Insurance risk management (continued)

### Concentration of insurance risk (continued)

#### *Life assurance (continued)*

Table for long-term insurance stated below shows risk concentration through three insurance classes grouped by sum insured per policy.

#### Sum insured per policy at 31 December 2016

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 100,000	1,815,132	29.01	1,473,313	30.51
100,000 – 250,000	3,154,397	50.41	2,494,069	51.65
>250,000	1,287,384	20.58	861,344	17.84
<b>At 31 December 2016</b>	<b>6,256,913</b>	<b>100.00</b>	<b>4,828,726</b>	<b>100.00</b>

#### Sum insured per policy at 31 December 2015

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 100,000	2,029,867	30.12	1,644,213	32.26
100,000 – 250,000	3,681,464	54.63	2,736,697	53.70
>250,000	1,027,885	15.25	715,597	14.04
<b>At 31 December 2015</b>	<b>6,739,216</b>	<b>100.00</b>	<b>5,096,507</b>	<b>100.00</b>

## 6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses

### *Non-life insurance*

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

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

Reinsurers' share is determined through individual calculation based on the reinsurance contract valid at the moment when the claim occurred.

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

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the Company's expectation of the loss ratio for a class of business.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- economic, legal, political and social trends (resulting in different than expected levels of inflation);
- changes in the mix of insurance contracts incepted;
- random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated in the gross amount and a separate calculation is carried out to estimate the size of reinsurance recoveries.

The assumptions which have the greatest effect on the measurement of non-life insurance liabilities are as follows:

### *Expected claims ratio*

The expected claims ratio represents the ratio of expected claims incurred to premiums earned. The assumptions in respect of expected claims ratios for the most recent accident year, per class of business, have the greatest influence on the level of provisions.

### *Tail factors*

For long-tail business, the level of provision is significantly influenced by the estimate of development of claims from the latest development year for which historical data is available to ultimate settlement. These tail factors are estimated prudently or are based on actuarial judgment.

## 6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses (continued)

### *Non-life insurance (continued)*

#### *Discounting*

Non-life claims provisions are not discounted.

In 2016 there have been no major changes in assumptions used to measure non-life insurance assets and liabilities.

#### *Life assurance*

The life assurance provision is calculated by a prospective net premium method. The life assurance provision is calculated in accordance with HANFA regulations. Assumptions used are specified at the beginning of the policy and they remain in force until the expiration of policy, except in the case of liability inadequacy or if HANFA does not specify otherwise.

The following mortality tables for the calculation of mathematical reserve are used:

MT RH 1980-82, MT RH 1989-91, MT RH 2000-02, JUG 1970, Wiener unisex 1 (based on HR2000-02), Wiener unisex 2 ((based on HR2000-02), Wiener Unisex table 3 (based on HR2010) as well as GC. In accordance with regulation of Republic Croatia which from 1 July 2013 requires that insurer provides equal treatment for both sexes, the Company introduced new, unisex mortality tables. The use of the JUG 1970, 1980-82, 1989-91, Wiener unisex 1 (based on HR2000-02) and Wiener unisex 2 ((based on HR2000-02) mortality tables results in a higher life assurance provision than if it would be calculated with 2010 mortality tables, therefore in some products these mortality tables for calculation of mathematical provision are used. For critical illness, the original morbidity and mortality tables are used and for additional surgery and child birth rider the original biometric tables are used.

According to the guidelines and the rules issued by HANFA, the maximum interest rate used for discounting when calculating life assurance provision is 3.3% for the policies concluded before year 2010, 3% for the policies concluded during 2010, 2.75% for the policies concluded from 2010 to 2016, 2% for the policies concluded in HRK after 1 July 2016 and 1,75% for the policies with currency clause in EUR concluded after 1 July 2016. The tariffs that have technical interest rate used for premium determination which is lower than those prescribed percentage amounts, use that lower interest rate for life provision calculation.

The principal assumptions underlying the calculation of the significant components of the life assurance provision are stated in the following table.

## 6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses (continued)

### Life assurance (continued)

#### Principal assumptions for life assurance business

Description	Product	TIR for calculating reserve	Mortality tables for calculating reserve
	H11, H11J, H21, H31, H31J, L11, L11J	3.30%	MT HR 2000
	L21, L31, L31J, W11, W11J, W21, W21J, C31	3.30%	MT HR 2000
	A11, A12, AUR20, AUR21, AURDC	3.30%	MT HR 2000
	L41, L41J, H51	2.50%	MT HR 2000
	B11, A2011, DJ11, CE-N11, C11, CE11	2.50%	MT HR 2000
	C, C03, B, A07, CE, CE-N	3.00%	MT HR 2000
	AWS	3.00%	MT HR 1980-82
	DJ	3.00%	MT HR 1989-91
	A13, B13, C13, CS13, CS-N13, CS-N14	2.50%	Wiener unisex tables 1
	D16-HRK, CI16, GW16	2.00%	Wiener unisex tables 3
Endowment	D16-EUR	1.75%	Wiener unisex tables 3
Endowment - group	G11, G12, G13, G14, G16, G17, G18, G32, G33, G35, G36	3.30%	MT HR 2000
	BR	3.00%	Wiener Unisex table 3
	D11, D11J	3.30%	MT HR 2000
	D41, D41J	2.50%	MT HR 2000
Pure endowment	BR11, BR13	2.50%	Wiener Unisex table 3
	IK, IKD,	3.00%	MT HR 1989-91
	IKE, IKE-B06, IK-F	3.00%	MT HR 2000
	SSA	2.50%	MT HR 2000
	IK13	2.50%	Wiener unisex tables 2
	IKS13, IKD13, IKD13B	2.50%	Wiener unisex tables 1
	POS	3.30%	MT HR 2000
	T11, T11J	3.30%	MT JUG 1970
	T41, T41J, IK-F11, IK11, IKD11, IKE11, IKD12	2.50%	MT HR 2000
Term	IK16, IKD16	1.75%	Wiener Unisex table 3
	E, VF1	3.00%	MT HR 2000
Term fix	E11, VF11	2.50%	MT HR 2000
Join life	AUR02	3.30%	MT HR 1980-82
Permanent working disability	PWD, PWDU1	2.50%	GC
Critical Illness	KB1	3.30%	GC
Pension annuity	Z11, Z12, Z12J, Z22J	3.30%	MT HR 2000
Scholarships annuity	Z13F, Z13S, Z13JF, Z13JS, Z14F, Z14S, Z14JF, Z23JF	3.30%	MT HR 2000
Whole Life annuity	WLR	2.50%	MT HR 2000
Whole Life	WLGW	3.30%	MT HR 2000
Whole Life	L-100	3.30%	MT HR 2000
Whole Life	WLU1	2.50%	MT HR 2000
Whole Life	WLP	3.30%	MT HR 2000
Whole Life	WLGW-25	2.50%	MT HR 2000
Whole Life	WL16	1.75%	Wiener Unisex table 3
	EB, EG, EIL-2009	2.50%	MT HR 2000
	EURO-IL, WLBT	3.30%	MT HR 2000
Index-linked	IL	3.00%	MT HR 1989-91
	IL-CRO18, IL-CRO19, IL-CRO19B	2.50%	Wiener unisex tables 1
	IL-CRO20EUR, IL-CRO22	1.75%	Wiener unisex tables 3
Unit-linked with internal fund	IL-CRO20HRK	2%	Wiener unisex tables 3
	UL, ULS, FI, UL-07	-	MT HR 1980-82
Unit-linked	UL13, ULS13, UL13-O, FI13	-	Wiener unisex tables 1

## 7 Liability adequacy test

### *Life assurance*

The life assurance provision 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, policyholder bonuses, expenses and exercise of policyholder options. For this purpose the Liability adequacy test (LAT) is used. No additional liabilities are established as a result of the liability adequacy test.

Where reliable market data is available, assumptions are derived from observable market prices.

Assumptions which cannot be reliably derived from market values are based on current estimates calculated by reference to the Company's own internal models and publicly available resources (e.g. demographic information published by the Croatian Statistical Bureau).

Due to levels of uncertainty in the future development of insurance markets and the Company's portfolio, the Company uses margins for risk and uncertainty within the liability adequacy test.

Input assumptions are revised and updated annually based on recent experience.

The methodology of testing considers current estimates of all future contractual cash flows. This methodology enables quantification of the correlation between all risks factors.

The principal assumptions used are:

### *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 investigation of the Company's mortality experience.

### *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.



## 7 Liability adequacy test (continued)

### *Life assurance (continued)*

#### *Expected investment return and discount rate*

The Company uses risk free interest rate term structure. It applies HRK forward rates for all of its products. The applied curve comes from yield curve estimation issued by EIOPA.

#### *Profit sharing*

Whilst, for majority of 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, calculated as a fixed percentage of the excess of the estimated investment return over the guaranteed technical interest rate on individual policies. The percentage applied is consistent with the Company's current business practice for bonus allocation.

### *Non-life insurance*

Insurance liabilities in respect of non-life insurance are calculated by using current (not historical) assumptions.

The liability adequacy test for non-life insurance is therefore limited to the unexpired portion of existing contracts. It is performed by comparing the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date with the amount of unearned premiums in relation to such policies after deduction of deferred acquisition costs. Expected cash flows relating to claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur.

The test is performed by product groups which comprise insurance contracts with a similar risk profile.

At 31 December 2016, a provision of HRK 2,530 thousand has been established (2015: HRK 2,450 thousand) as a result of the liability adequacy test and is presented as unexpired risk provision.

## 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, lapse rate, expense rate, discount rates, and investment return 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 LAT - modelled future cash flows at the end of the year.

### *Life assurance*

	<b>LAT future cash flow -modelled HRK'000</b>
Base run	1,486,549
Interest rates down SII (discounting and investment return)	1,570,473
Mortality +15%	1,494,461
Policy maintenance expenses +10%	1,506,021

The portfolio modelled represents 96.33% of in force life assurance provision (HRK 1,590,879 thousand life assurance provision together with profit participation reserve modelled).

Base run represents future cash flows calculated using the assumptions described under Note 7 during liability adequacy testing.

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.

The analysis has been 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 direction of 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 15%. 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 sensitivity to changes in interest rates was calculated by estimating the effect on LAT future cash flows in case of decrease of the interest rates using the SII shock down term structure.

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.

### *Non-life insurance*

In non-life insurance, the insurance variables which would have the greatest impact on insurance liabilities relate to MTPL court claims. Court claims related liabilities are sensitive to legal, judicial, political, economic and social trends. Management believes it is not practicable to quantify the sensitivity of non-life reserves to changes in these variables.

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

### *Non-life insurance contracts*

The Company offers many types of non-life insurance, mainly motor, property, liability, marine, transport, travel health and accident insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at 3 months' notice. The Company is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and reject fraudulent claims.

Future insurance claims are the main source of uncertainty which influences the amount and the timing of future cash flows.

The amount of particular claim payments is limited by the sum insured which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the statute of limitation, which is effective 3 years from the date when the policyholder becomes aware of the claim but not later than 5 years from the beginning of the year following the year of occurrence. This feature is particularly significant in case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

The characteristics of particular insurance types, if they are significantly different from the above mentioned features, are described below.

### *Motor insurance*

The Company motor insurance portfolio comprises both motor third party liability insurance (MTPL) and motor (casco) insurance. MTPL insurance covers bodily injury claims and property claims in the Republic of Croatia as well as claims caused abroad by motorists insured under the Green Card system.

Material damage under MTPL and casco claims are generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

The amount of claims relating to bodily injury and related losses of earnings are influenced by directives set by the Supreme Court which influence court practice.

MTPL is regulated by the Law on Obligatory Traffic Insurance. Minimum sums insured are regulated by legislation. Policyholders are entitled to a no-claims bonus on renewal of their policy where the conditions are fulfilled.

Casco insurance represents standard insurance against damage; claim payment is limited by the sum insured.

### *Property insurance*

This is broadly split into industrial and personal lines. For Industrial lines, the Company uses risk management techniques to identify risks and analyse losses and hazards and also cooperates with reinsurers. Personal property insurance consists of standard buildings and contents insurance.

Claims are normally notified promptly and can be settled without delay.

## **9 Terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows (continued)**

### *Non-life insurance contracts (continued)*

#### *Liability insurance*

This covers all types of liability and includes commercial liability, product liability and professional indemnity as well as personal liability. All liability covers are written on a “loss occurrence basis”.

#### *Accident insurance*

Accident insurance is traditionally sold as an add-on to life products or to MTPL products offered by the Company, but is also sold as a stand alone product.

### *Life assurance contracts*

#### *Bonuses*

Almost all of the Company’s traditional life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Management Board in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are 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 inflation.

#### *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 or sum insured which is decreasing over time. Death benefits are paid only if the policyholder dies during the term of insurance.

#### *Endowment products*

These are traditional life assurance products providing long term financial protection. 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 in a lump-sum.

#### *Pure endowments*

These are also traditional life insurance products providing life-long financial protection at expiry. The premium under this product is paid annually or in instalments and it covers the risk of endowment and accident rider, if included.

## **9 Terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows (continued)**

### *Life assurance contracts (continued)*

#### *Endowment at the fixed age at maturity (Whole Life assurance)*

Whole Life insurance products comprise risk of death during the entire lifetime (until the age of 100 when policy matures). Premium is paid annually, semi-annually, quarterly or monthly. Surrender values are guaranteed in a fixed amount and specified at the contract start. Insurance benefits are paid in a lump-sum. The Company has six generations of Whole Life and only the sixth generation, Whole Life Benefit, is active. Four additional riders can be added to the main coverage:

- Terminal Illness Rider (TI16) allows payment of 50% sum insured in case of terminal illness;
- Accidental Death Benefits Rider (ADB) guarantees payment of additional 100% sum insured in case of accidental death;
- surgery – additional payment in case of surgery;
- childbirth – additional payment in case of child birth.

#### *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 chooses the investment portfolio (predefined combination of funds) where payments are to be invested and can change the portfolio during the contract. Policyholders can pay an additional single premium or withdraw a part of the fund value.

#### *Unit-linked with internal fund*

Unit-linked with internal fund is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into the internal fund. The internal fund's asset is invested into the Croatian government bonds. Policyholders have therefore guaranteed value at policy maturity, however the amount of surrender value is not guaranteed.

#### *Index-linked life assurance*

Index-linked life assurance is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into a structured note with a guaranteed maturity value (guaranteed by the note issuer). Policyholders have therefore guaranteed value at policy maturity, however the amount of surrender value is not guaranteed.

## 10 Segment reporting

### Statement of financial position by business segment as at 31 December 2016

	Non-life HRK'000	Life HRK'000	Total HRK'000
<b>Assets</b>			
Property and equipment	27,144	48,638	75,782
Investment property	32,699	22,110	54,809
Intangible assets			
Deferred acquisition costs	24,119	284	24,403
Other intangible assets	7,892	3,590	11,482
Held-to-maturity investments	62,938	878,440	941,378
Available-for-sale financial assets	350,399	697,107	1,047,506
Financial assets at fair value through profit or loss	35,409	483,862	519,271
Loans and receivables	35,840	182,948	218,788
Reinsurers' share of technical provisions	206,489	294,788	501,277
Deferred tax asset	3,055	2,911	5,966
Inventories	70	-	70
Insurance and other receivables	121,550	43,264	164,814
Assets held for sale	-	1,009	1,009
Cash and cash equivalents	3,127	9,603	12,730
<b>Total assets</b>	<b>910,731</b>	<b>2,668,554</b>	<b>3,579,285</b>
<b>Shareholders' equity</b>			
Share capital	101,491	134,304	235,795
Capital reserves	43,700	6,753	50,453
Legal and statutory reserve	561	3,627	4,188
Other reserves	33,937	88,901	122,838
Fair value reserve	22,989	40,103	63,092
Retained earnings	33,480	56,083	89,563
<b>Total equity</b>	<b>236,158</b>	<b>329,771</b>	<b>565,929</b>
<b>Liabilities</b>			
Technical provisions	436,857	1,913,576	2,350,433
Discretionary profit participation provision	-	42,674	42,674
Subordinated loan	15,116	-	15,116
Provisions for liabilities and charges	4,992	3,555	8,547
Deferred tax liability	5,047	8,803	13,850
Current income tax liability	1,575	1,333	2,908
Insurance and other payables	210,986	368,842	579,828
<b>Total liabilities</b>	<b>674,573</b>	<b>2,338,783</b>	<b>3,013,356</b>
<b>Total liabilities and equity</b>	<b>910,731</b>	<b>2,668,554</b>	<b>3,579,285</b>

**10 Segment reporting (continued)****Statement of financial position by business segment as at 31 December 2015**

	Non-life HRK'000	Life HRK'000	Total HRK'000
<b>Assets</b>			
Property and equipment	34,580	55,356	<b>89,936</b>
Investment property	37,398	24,681	<b>62,079</b>
Intangible assets			
Deferred acquisition costs	21,061	248	<b>21,309</b>
Other intangible assets	7,496	2,012	<b>9,508</b>
Held-to-maturity investments	62,915	886,865	<b>949,780</b>
Available-for-sale financial assets	340,874	723,252	<b>1,064,126</b>
Financial assets at fair value through profit or loss	40,843	302,794	<b>343,637</b>
Loans and receivables	36,895	182,998	<b>219,893</b>
Reinsurers' share of technical provisions	204,309	288,136	<b>492,445</b>
Deferred tax asset	2,541	2,537	<b>5,078</b>
Inventories	135	1	<b>136</b>
Insurance and other receivables	140,912	49,308	<b>190,220</b>
Assets held for sale	-	6,096	<b>6,096</b>
Cash and cash equivalents	1,852	3,841	<b>5,693</b>
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>931,811</b>	<b>2,528,125</b>	<b>3,459,936</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Shareholders' equity</b>			
Share capital	101,491	134,304	<b>235,795</b>
Capital reserves	43,700	6,753	<b>50,453</b>
Legal and statutory reserve	561	3,627	<b>4,188</b>
Other reserves	33,937	88,901	<b>122,838</b>
Fair value reserve	14,489	29,603	<b>44,092</b>
Retained earnings	31,045	54,221	<b>85,266</b>
	<hr/>	<hr/>	<hr/>
<b>Total equity</b>	<b>225,223</b>	<b>317,409</b>	<b>542,632</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
Technical provisions	435,834	1,796,871	<b>2,232,705</b>
Discretionary profit participation provision	-	46,343	<b>46,343</b>
Subordinated loan	15,270	-	<b>15,270</b>
Borrowings	-	764	<b>764</b>
Provisions for liabilities and charges	4,583	3,776	<b>8,359</b>
Deferred tax liability	3,622	7,401	<b>11,023</b>
Current income tax liability	3,871	5,480	<b>9,351</b>
Insurance and other payables	243,408	350,081	<b>593,489</b>
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>706,588</b>	<b>2,210,716</b>	<b>2,917,304</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and equity</b>	<b>931,811</b>	<b>2,528,125</b>	<b>3,459,936</b>
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## 10 Segment reporting (continued)

### Statement of comprehensive income by business segment for the year ended 31 December 2016

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	299,812	291,940	591,752
Written premiums ceded to reinsurers	(131,564)	(32,224)	(163,788)
<b>Net premiums written</b>	<b>168,248</b>	<b>259,716</b>	<b>427,964</b>
Change in the gross provision for unearned premiums	(3,174)	273	(2,901)
Reinsurers' share of change in the provision for unearned premiums	(1,047)	(735)	(1,782)
<b>Net earned premiums</b>	<b>164,027</b>	<b>259,254</b>	<b>423,281</b>
Fees and commission income	46,070	3,684	49,754
Financial income	24,022	129,382	153,404
Other operating income	6,364	1,433	7,797
<b>Operating income</b>	<b>240,483</b>	<b>393,753</b>	<b>634,236</b>
Claims and benefits incurred	(182,241)	(277,795)	(460,036)
Reinsurers' share of claims and benefits incurred	82,333	34,347	116,680
<b>Net policyholder claims and benefits incurred</b>	<b>(99,908)</b>	<b>(243,448)</b>	<b>(343,356)</b>
Acquisition costs	(60,472)	(45,583)	(106,055)
Administrative expenses	(36,355)	(61,058)	(97,413)
Other operating expenses	(17,241)	(5,263)	(22,504)
Financial expenses	(7,424)	(20,964)	(28,388)
<b>Profit before income tax</b>	<b>19,083</b>	<b>17,437</b>	<b>36,520</b>
Income tax expense	(5,946)	(4,479)	(10,425)
<b>Profit for the year</b>	<b>13,137</b>	<b>12,958</b>	<b>26,095</b>
<b>Other comprehensive income for the year</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	8,500	10,500	19,000
<b>Total comprehensive income for the year</b>	<b>21,637</b>	<b>23,458</b>	<b>45,095</b>



**10 Segment reporting (continued)****Statement of comprehensive income by business segment for the year ended 31 December 2015**

	<b>Non-life HRK'000</b>	<b>Life HRK'000</b>	<b>Total HRK'000</b>
Gross premiums written	279,390	265,594	<b>544,984</b>
Written premiums ceded to reinsurers	(130,064)	(41,591)	<b>(171,655)</b>
<b>Net premiums written</b>	<b>149,326</b>	<b>224,003</b>	<b>373,329</b>
Change in the gross provision for unearned premiums	(7,515)	245	<b>(7,270)</b>
Reinsurers' share of change in the provision for unearned premiums	1,177	(66)	<b>1,111</b>
<b>Net earned premiums</b>	<b>142,988</b>	<b>224,182</b>	<b>367,170</b>
Fees and commission income	41,571	10,684	<b>52,255</b>
Financial income	24,393	125,740	<b>150,133</b>
Other operating income	5,631	2,521	<b>8,152</b>
<b>Operating income</b>	<b>214,583</b>	<b>363,127</b>	<b>577,710</b>
Claims and benefits incurred	(163,246)	(243,375)	<b>(406,621)</b>
Reinsurers' share of claims and benefits incurred	81,203	36,095	<b>117,298</b>
<b>Net policyholder claims and benefits incurred</b>	<b>(82,043)</b>	<b>(207,280)</b>	<b>(289,323)</b>
Acquisition costs	(53,757)	(44,708)	<b>(98,465)</b>
Administrative expenses	(32,854)	(70,486)	<b>(103,340)</b>
Other operating expenses	(20,760)	(3,864)	<b>(24,624)</b>
Financial expenses	(7,738)	(20,203)	<b>(27,941)</b>
<b>Profit before income tax</b>	<b>17,431</b>	<b>16,586</b>	<b>34,017</b>
Income tax expense	(3,920)	(3,532)	<b>(7,452)</b>
<b>Profit for the year</b>	<b>13,511</b>	<b>13,054</b>	<b>26,565</b>
<b>Other comprehensive income for the year</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	(629)	(18,290)	<b>(18,919)</b>
<b>Total comprehensive income for the year</b>	<b>12,882</b>	<b>(5,236)</b>	<b>7,646</b>

## 10 Segment reporting (continued)

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy note.

The main business segments of the Company are Non-life insurance and Life assurance. Note 9 of these financial statements provides further information about the significant terms and conditions of insurance products.

Segment results, assets and liabilities include items directly attributable to the segment, as well as those which have been allocated on a reasonable basis.

The main products and services offered by the reported business segments include:

Non-life:

- Property and liability
- Motor third party liability
- Motor casco
- Accident and travel health
- Marine and transport
- Supplementary health

Life:

- Endowment
- Endowment with fixed age at maturity (Whole Life)
- Term insurance
- Unit-linked
- Index-linked

### Geographical segment

The Company operates mostly in the Republic of Croatia. Almost the entire income from insurance contracts is generated from clients in the Republic of Croatia, therefore no geographical segment information is presented.

## 11 Merger with Wiener nekretnine d.o.o.

As of 1 October 2015 the Company legally merged Wiener nekretnine d.o.o., whereby Wiener nekretnine d.o.o. ceased to exist as a separate legal and operational entity. The assets and liabilities acquired by the Company as a result of merger are recognised at the carrying amounts immediately prior to the merger in the financial statements of Wiener nekretnine d.o.o. Retained earnings of Wiener nekretnine d.o.o. are added to the Retained earnings of the Company while cost of investment in Wiener nekretnine d.o.o. in the amount of HRK 1,600 thousand is eliminated with original net assets of Wiener nekretnine d.o.o. at acquisition date.

### *Effect of legal merger*

The legal merger of Wiener nekretnine d.o.o. as at 1 October 2015 had the following effect on the Company's assets and liabilities in 2015:

	<b>Acquired on merger</b>
	<b>HRK'000</b>
<b>Assets and liabilities assumed</b>	
Property and equipment	51,198
Investment property	9,276
Other receivables	2,563
Cash and cash equivalents	219
Borrowing	(55,208)
Provisions for liabilities and charges	(29)
Current income tax liability	(137)
Other payables	(1,630)
<i>Investment of the Company in Wiener nekretnine d.o.o.</i>	(1,600)
	<hr/>
<b><i>Net identifiable assets and liabilities</i></b>	<b>4,652</b>
	<hr/> <hr/>
<b>Recognised as part of equity as follows:</b>	
Retained earnings	4,652
	<hr/>
<b>Total</b>	<b>4,652</b>
	<hr/> <hr/>

## 12 Property and equipment

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
<b>Cost</b>					
At 1 January 2015	114,404	7,474	43,637	7,683	173,198
Additions	93	266	2,382	266	3,007
Disposals	(74)	(3,693)	(38)	-	(3,805)
Write offs	-	-	(1,226)	(4,164)	(5,390)
Reclassification to investment property (Note 13)	(14,220)	-	-	-	(14,220)
Reclassification from investment property (Note 13)	6,530	-	-	-	6,530
Reclassification from asset held for sale	919	-	-	-	919
Reclassification	1,189	(10)	150	(1,329)	-
<b>At 31 December 2015</b>	<b>108,841</b>	<b>4,037</b>	<b>44,905</b>	<b>2,456</b>	<b>160,239</b>
At 1 January 2016	108,841	4,037	44,905	2,456	160,239
Additions	114	-	3,211	124	3,449
Disposals	-	(2,023)	(92)	-	(2,115)
Write offs	-	-	(26,059)	(234)	(26,293)
Reclassification to investment property (Note 13)	(14,976)	-	-	-	(14,976)
Reclassification from asset held for sale	360	-	-	-	360
Reclassification to other intangible assets (Note 15)	-	-	(7)	-	(7)
<b>At 31 December 2016</b>	<b>94,339</b>	<b>2,014</b>	<b>21,958</b>	<b>2,346</b>	<b>120,657</b>
<b>Depreciation and impairment losses</b>					
At 1 January 2015	21,300	6,138	38,725	5,334	71,497
Depreciation charge for the year (Note 37)	1,779	680	1,946	468	4,873
Disposals	(43)	(3,548)	(36)	-	(3,627)
Write offs	-	-	(1,190)	(3,567)	(4,757)
Impairment (Note 38)	4,618	-	-	-	4,618
Reclassification to investment property (Note 13)	(3,560)	-	-	-	(3,560)
Reclassification from investment property (Note 13)	1,259	-	-	-	1,259
Reclassification	546	(10)	39	(575)	-
<b>At 31 December 2015</b>	<b>25,899</b>	<b>3,260</b>	<b>39,484</b>	<b>1,660</b>	<b>70,303</b>
At 1 January 2016	25,899	3,260	39,484	1,660	70,303
Depreciation charge for the year (Note 37)	1,674	365	2,102	199	4,340
Disposals	-	(1,976)	(89)	-	(2,065)
Write offs	-	-	(25,672)	(206)	(25,878)
Impairment (Note 38)	4,239	-	-	-	4,239
Reclassification to investment property (Note 13)	(6,060)	-	-	-	(6,060)
Reclassification to other intangible assets (Note 15)	-	-	(4)	-	(4)
<b>At 31 December 2016</b>	<b>25,752</b>	<b>1,649</b>	<b>15,821</b>	<b>1,653</b>	<b>44,875</b>
<b>Carrying amounts</b>					
At 1 January 2015	93,104	1,336	4,912	2,349	101,701
<b>At 31 December 2015</b>	<b>82,942</b>	<b>777</b>	<b>5,421</b>	<b>796</b>	<b>89,936</b>
At 1 January 2016	82,942	777	5,421	796	89,936
<b>At 31 December 2016</b>	<b>68,587</b>	<b>365</b>	<b>6,137</b>	<b>693</b>	<b>75,782</b>

Included within land and buildings is non-depreciable land with a carrying amount of HRK 14,337 thousand (2015: HRK 18,132 thousand). As of 31 December 2016, land and buildings of the Company was not pledged as collateral for borrowing of the Company (2015: HRK 7,597 thousand).

In 2016, the Company changed the use of business premises with carrying amount of HRK 8,916 thousand (2015: HRK 10,660 thousand) from owner-occupied to investment property and reclassified these premises as such. In 2015, the Company changed the use of business premises with carrying amount of HRK 5,271 thousand from investment property to owner-occupied and reclassified these premises as such. In 2016, the Company changed the intention to sell asset held for sale with carrying amount of HRK 360 thousand (2015: HRK 919 thousand) and started to use it as owner-occupied.

During 2016 and 2015 there were no capitalised borrowing costs related to the acquisition of property and equipment.

## 13 Investment property

	<b>HRK'000</b>
<b>Cost</b>	
At 1 January 2015	71,191
Acquired in lieu of uncollected loans	1,347
Additions	510
Reclassifications from property and equipment (Note 12)	14,220
Reclassification to property and equipment (Note 12)	(6,530)
<b>At 31 December 2015</b>	<b>80,738</b>
At 1 January 2016	80,738
Acquired in lieu of uncollected loans	1,185
Additions	211
Disposals	(18,551)
Reclassifications from property and equipment (Note 12)	14,976
<b>At 31 December 2016</b>	<b>78,559</b>
<b>Depreciation and impairment losses</b>	
At 1 January 2015	11,705
Depreciation charge for the year (Note 39)	1,072
Impairment (Note 39)	3,581
Reclassifications from property and equipment (Note 12)	3,560
Reclassification to property and equipment (Note 12)	(1,259)
<b>At 31 December 2015</b>	<b>18,659</b>
At 1 January 2016	18,659
Depreciation charge for the year (Note 39)	1,065
Disposals	(4,092)
Impairment (Note 39)	2,058
Reclassifications from property and equipment (Note 12)	6,060
<b>At 31 December 2016</b>	<b>23,750</b>
<b>Carrying amounts</b>	
At 1 January 2015	59,486
<b>At 31 December 2015</b>	<b>62,079</b>
At 1 January 2016	62,079
<b>At 31 December 2016</b>	<b>54,809</b>

The rental income arising during the year amounted to HRK 2,898 thousand for the Company (2015: HRK 2,959 thousand) and is recognised in profit or loss within "Financial income" (Note 33). The depreciation charge is recognised in profit or loss under "Financial expenses" (Note 39). Direct operating expenses (including repairs and maintenance) arising from investment property during the year amounted to HRK 2,194 thousand (2015: HRK 1,332 thousand) are recognised in profit or loss within "Financial expenses - other" (Note 39).

In 2016, the Company changed the use of business premises with carrying amount of HRK 8,916 thousand (2015: HRK 10,660 thousand) from owner-occupied to investment property and reclassified these premises as such. In 2015, the Company changed the use of business premises with carrying amount of HRK 5,271 thousand from investment property to owner-occupied and reclassified these premises as such.

## 14 Deferred acquisition costs

As part of the Company's insurance business, certain acquisition costs are deferred. For the life assurance business, acquisition costs are taken into account in calculating the life assurance provisions by means of Zillmerisation as a result of which a separate deferred acquisition cost asset for the life assurance business is not recognised at the reporting date. For segment reporting purposes, life rider business is classified as life assurance business.

An analysis of deferred costs is shown below:

	Non-life		Life rider		Total	
	2016 HRK'000	2015 HRK'000	2016 HRK'000	2015 HRK'000	2016 HRK'000	2015 HRK'000
At 1 January	21,061	15,251	248	263	21,309	15,514
Net change recognised in profit or loss (Note 36)	3,058	5,810	36	(15)	3,094	5,795
<b>At 31 December</b>	<b>24,119</b>	<b>21,061</b>	<b>284</b>	<b>248</b>	<b>24,403</b>	<b>21,309</b>

**15 Other intangible assets**

	<b>Goodwill HRK'000</b>	<b>Acquired value of in- force business HRK'000</b>	<b>Computer software HRK'000</b>	<b>Computer software not brought into use HRK'000</b>	<b>Other HRK'000</b>	<b>Total HRK'000</b>
<b>Cost</b>						
At 1 January 2015	3,552	3,450	43,375	2,482	62	52,921
Additions	-	-	2,497	51	-	2,548
Transfer into use	-	-	328	(328)	-	-
<b>At 31 December 2015</b>	<b>3,552</b>	<b>3,450</b>	<b>46,200</b>	<b>2,205</b>	<b>62</b>	<b>55,469</b>
At 1 January 2016	3,552	3,450	46,200	2,205	62	55,469
Additions	-	-	3,929	890	-	4,819
Transfer into use	-	-	291	(291)	-	-
Reclassification from property and equipment (Note 12)	-	-	7	-	-	7
<b>At 31 December 2016</b>	<b>3,552</b>	<b>3,450</b>	<b>50,427</b>	<b>2,804</b>	<b>62</b>	<b>60,295</b>
<b>Amortisation and impairment losses</b>						
At 1 January 2015	-	3,105	41,258	-	62	44,425
Amortisation for the year (Note 37)	-	345	1,191	-	-	1,536
<b>At 31 December 2015</b>	<b>-</b>	<b>3,450</b>	<b>42,449</b>	<b>-</b>	<b>62</b>	<b>45,961</b>
At 1 January 2016	-	3,450	42,449	-	62	45,961
Amortisation for the year (Note 37)	-	-	2,014	-	-	2,014
Impairment	-	-	-	834	-	834
Reclassification from property and equipment (Note 12)	-	-	4	-	-	4
<b>At 31 December 2016</b>	<b>-</b>	<b>3,450</b>	<b>44,467</b>	<b>834</b>	<b>62</b>	<b>48,813</b>
<b>Carrying amounts</b>						
At 1 January 2015	3,552	345	2,117	2,482	-	8,496
<b>At 31 December 2015</b>	<b>3,552</b>	<b>-</b>	<b>3,751</b>	<b>2,205</b>	<b>-</b>	<b>9,508</b>
At 1 January 2016	3,552	-	3,751	2,205	-	9,508
<b>At 31 December 2016</b>	<b>3,552</b>	<b>-</b>	<b>5,960</b>	<b>1,970</b>	<b>-</b>	<b>11,482</b>

## 16 Investment in associate

a) Associate was as follows:

	Industry	Domicile	Ownership at 31 December 2016	Ownership at 31 December 2015
Vile Baredine d.o.o.	Construction and services	Croatia	-	30%

b) Investment in associate was as follows:

	2016 HRK'000	2015 HRK'000
Vile Baredine (30%)	-	-

Cost of investment in associate, Vile Baredine d.o.o., in the amount of HRK 6 thousand was fully impaired and provided for as of 31 December 2015. Provision has been included in 'Financial expenses' in the income statement (Note 39).

During 2016, Vile Baredine d.o.o. was liquidated and deregistered from the Court register.

c) Summarised financial information for associate, Vile Baredine d.o.o. were as follows:

	2016 HRK'000	2015 HRK'000
Current assets	-	32
Non-current assets	-	1,870
Current liabilities	-	(2,111)
<b>Net assets</b>	-	(209)
<b>Share of associates' profit</b>	-	(2)



**17 Financial investments**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Held-to-maturity investments	<b>941,378</b>	949,780
Available-for-sale financial assets	<b>1,047,506</b>	1,064,126
Financial assets held for trading	<b>169,854</b>	120,357
Financial assets designated at fair value through profit or loss	<b>349,417</b>	223,280
Financial assets at fair value through profit or loss	<b>519,271</b>	343,637
Loans and receivables	<b>218,788</b>	219,893
	<b>2,726,943</b>	2,577,436

***Financial assets at fair value through profit or loss***

As at 31 December 2016 and 31 December 2015 there were no past due financial assets at fair value through profit or loss.

***Available-for-sale financial assets***

In 2016, the Company recognised an impairment loss on equity securities available for sale through profit or loss, which decreased profit before tax by HRK 878 thousand (2015: decreased profit before tax by HRK 22 thousand, due to impairment of debt securities).

***Held-to-maturity investments***

As at 31 December 2016 and 31 December 2015 there were no past due held-to-maturity investments.

***Loans and receivables***

Loans and receivables consist of deposits with banks and loans to customers. Loans to customers and deposits with banks are stated net of impairment allowance as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Loans to customers	<b>92,551</b>	101,711
Deposits with banks	<b>188,513</b>	183,679
Impairment allowance on loans to customers	<b>(30,348)</b>	(33,569)
Impairment allowance on deposits with banks	<b>(31,928)</b>	(31,928)
Loans to customers, net of impairment allowance	<b>62,203</b>	68,142
Deposits with banks, net of impairment allowance	<b>156,585</b>	151,751
	<b>218,788</b>	219,893

## 17 Financial investments (continued)

### *Loans and receivables (continued)*

Loans and receivables are analysed as shown below:

	<b>2016</b> <b>HRK'000</b>	2015 HRK'000
Not due and not impaired	212,365	210,796
Due but not impaired	1,165	1,108
Due and impaired	67,534	73,486
Impairment	<u>(62,276)</u>	<u>(65,497)</u>
	<u><b>218,788</b></u>	<u>219,893</u>

Out of the Company's past due but not impaired loans and receivables in the amount of HRK 1,165 thousand (2015: HRK 1,108 thousand), HRK 634 thousand (2015: HRK 694 thousand) is secured by mortgages on real estate, HRK 529 thousand (2015: HRK 402 thousand) is secured by the redemption value of life assurance policies while, HRK 2 thousand is not secured (2015: HRK 12 thousand).

Out of past due and impaired loans and receivables in the amount of HRK 67,534 thousand (2015: HRK 73,486 thousand), HRK 35,606 thousand (2015: 41,558 thousand) relate to past due and impaired loans and HRK 31,928 thousand (2015: HRK 31,928 thousand) relate to past due and fully impaired deposits with banks. Out of past due and impaired loans in the amount of HRK 35,606 thousand (2015: 41,558 thousand), HRK 23,249 thousand (2015: HRK 29,068 thousand) is secured by mortgages on real estate, while HRK 12,357 thousand (2015: 12,490 thousand) is not secured, however is fully impaired.

In 2016 and 2015 there was no interest income recognised on impaired loans.

The movement in impairment allowance for loans to customers during the year was as follows:

	<b>2016</b> <b>HRK'000</b>	2015 HRK'000
<b>At 1 January</b>	<u><b>33,569</b></u>	<u>32,583</u>
Impairment losses	<b>896</b>	1,824
Collection of amounts previously provided for	<u>(405)</u>	<u>(36)</u>
Impairment losses on loans to customers, net (Note 39)	<b>491</b>	1,788
Write offs	<u>(3,712)</u>	<u>(802)</u>
<b>At 31 December</b>	<u><b>30,348</b></u>	<u>33,569</u>

In 2015, the Company foreclosed properties in exchange of uncollected loans and interest receivables due to which amounts charged to the impairment allowance for loans have been written off in amount HRK 326 thousand. In 2016, no such write off occurred.

## 17 Financial investments (continued)

### *Loans and receivables (continued)*

The movement in impairment allowance for deposits with banks during the year was as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
<b>At 1 January</b>	<b>31,928</b>	28,557
Impairment losses on deposits with banks (Note 39)	-	3,371
<b>At 31 December</b>	<b>31,928</b>	31,928

**17 Financial investments (continued)**

	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>2016</b>					
Listed	-	7,969	845	-	8,814
Unlisted	-	26,010	-	-	26,010
<b>Equity securities</b>	<b>-</b>	<b>33,979</b>	<b>845</b>	<b>-</b>	<b>34,824</b>
Government bonds of the Republic of Croatia	941,378	916,011	-	-	1,857,389
Corporate bonds – domestic	-	58,141	-	-	58,141
Corporate bonds – foreign	-	3,757	36,597	-	40,354
Corporate bonds – assets backing index-linked products, foreign	-	-	84,301	-	84,301
Government bonds of the Republic of Croatia – assets backing unit and index linked products – domestic	-	-	221,345	-	221,345
<b>Debt securities – fixed rate, listed</b>	<b>941,378</b>	<b>977,909</b>	<b>342,243</b>	<b>-</b>	<b>2,261,530</b>
Investment funds – open ended, quoted	-	35,618	132,412	-	168,030
Investment funds – assets backing unit-linked products, domestic	-	-	43,771	-	43,771
<b>Investment funds</b>	<b>-</b>	<b>35,618</b>	<b>176,183</b>	<b>-</b>	<b>211,801</b>
Deposits with banks	-	-	-	156,585	156,585
Loans to customers – secured by the redemption value of life assurance	-	-	-	51,800	51,800
Loans to customers - secured by mortgages on real estate	-	-	-	7,504	7,504
Loans to customers - other	-	-	-	2,899	2,899
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>218,788</b>	<b>218,788</b>
	<b>941,378</b>	<b>1,047,506</b>	<b>519,271</b>	<b>218,788</b>	<b>2,726,943</b>
<b>2015</b>					
Listed	-	4,877	718	-	5,595
Unlisted	-	24,365	-	-	24,365
<b>Equity securities</b>	<b>-</b>	<b>29,242</b>	<b>718</b>	<b>-</b>	<b>29,960</b>
Government bonds of the Republic of Croatia	949,159	944,698	-	-	1,893,857
Municipal bonds – domestic	621	317	-	-	938
Corporate bonds – domestic	-	57,259	-	-	57,259
Corporate bonds – foreign	-	-	32,852	-	32,852
Corporate bonds – assets backing index-linked products, foreign	-	-	85,889	-	85,889
Government bonds of the Republic of Croatia – assets backing index-linked products - domestic	-	-	100,461	-	100,461
<b>Debt securities – fixed rate, listed</b>	<b>949,780</b>	<b>1,002,274</b>	<b>219,202</b>	<b>-</b>	<b>2,171,256</b>
Investment funds – open ended, quoted	-	32,610	86,787	-	119,397
Investment funds – assets backing unit-linked products, domestic	-	-	36,930	-	36,930
<b>Investment funds</b>	<b>-</b>	<b>32,610</b>	<b>123,717</b>	<b>-</b>	<b>156,327</b>
Deposits with banks	-	-	-	151,751	151,751
Loans to customers – secured by the redemption value of life assurance	-	-	-	53,706	53,706
Loans to customers - secured by mortgages on real estate	-	-	-	11,140	11,140
Loans to customers - other	-	-	-	3,296	3,296
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>219,893</b>	<b>219,893</b>
	<b>949,780</b>	<b>1,064,126</b>	<b>343,637</b>	<b>219,893</b>	<b>2,577,436</b>

## 17 Financial investments (continued)

### Reclassification of financial assets

From 2011 to 2012 upon decision of the Management Board, based on paragraph 54 of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, the Company reclassified available-for-sale financial assets as held-to-maturity investments. The Company has intent and ability to hold the reclassified assets to maturity.

Reclassification date	Net book value at the reclassification date	Effective interest rate at the reclassification date	Other comprehensive income up to the reclassification date
	HRK'000	%	HRK'000
5 October 2011	219,132	6.38	(1,759)
2 November 2011	296,041	6.80	(8,764)
20 March 2012	139,508	6.57	3,543
<b>Total</b>	<b>654,681</b>	<b>6.61</b>	<b>(6,980)</b>

	At the reclassification date		31 December 2016		31 December 2015	
	Net book value HRK'000	Fair value HRK '000	Net book value HRK'000	Fair value HRK'000	Net book value HRK'000	Fair value HRK'000
<b>Assets reclassified in 2011:</b>						
Debt securities	<u>515,173</u>	<u>515,173</u>	<u>518,973</u>	<u>601,636</u>	<u>521,409</u>	<u>602,120</u>
<b>Assets reclassified in 2012:</b>						
Debt securities	<u>139,508</u>	<u>139,508</u>	<u>139,726</u>	<u>167,493</u>	<u>141,168</u>	<u>163,252</u>
	<u><b>654,681</b></u>	<u><b>654,681</b></u>	<u><b>658,699</b></u>	<u><b>769,129</b></u>	<u><b>662,577</b></u>	<u><b>765,372</b></u>

The following table shows the amounts recognised in profit or loss and other comprehensive income from reclassified assets in 2016:

	2016		2015	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
<b>Available-for-sale financial asset reclassified to held-to-maturity investment 2011 to 2012</b>				
Exchange rate differences	(4,114)	-	(1,405)	-
Interest income	43,385	-	43,566	-
Amortisation of premium	237	-	223	-
Amortisation of fair value reserve to profit or loss	(1,160)	-	(1,238)	-
Change in fair value reserve, net of income tax	-	951	-	991
	<u><b>38,348</b></u>	<u><b>951</b></u>	<u><b>41,146</b></u>	<u><b>991</b></u>

## 17 Financial investments (continued)

### Reclassification of financial assets (continued)

The following table shows the amounts that would be recognised in profit or loss and other comprehensive income from reclassified assets in 2016 if there was no reclassification:

	2016		2015	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
<b>Available-for-sale financial asset reclassified to held-to-maturity investment 2011 to 2012</b>				
Exchange rate differences	(4,857)	-	(1,640)	-
Interest income	43,385	-	43,566	-
Amortisation of premium	(1,234)	-	(1,156)	-
Change in fair value reserve, net of income tax	-	15,048	-	9,746
	<u>37,294</u>	<u>15,048</u>	<u>40,770</u>	<u>9,746</u>

## 18 Reinsurers' share of technical provisions

	Note	2016	2015
		HRK'000	HRK'000
<b>Non-life</b>			
Reinsurance share in provision for unearned premiums	25 a)	59,747	60,794
Reinsurance share in reported but not settled claims reserve	25 b)	88,589	87,787
Reinsurance share in incurred but not reported claims reserve	25 c)	58,153	55,728
<b>Total Non-life</b>		<u>206,489</u>	<u>204,309</u>
<b>Life</b>			
Reinsurance share in provision for unearned premiums	25 a)	6	741
Reinsurance share in reported but not settled claims reserve	25 b)	1,755	2,584
Reinsurance share in incurred but not reported claims reserve	25 c)	617	1,120
Reinsurance share in life assurance provision	25 f)	292,410	283,691
<b>Total Life</b>		<u>294,788</u>	<u>288,136</u>
<b>Total reinsurers' share of technical provisions</b>		<u>501,277</u>	<u>492,445</u>

Reinsurers' share in technical provisions represents expected future claims that will be charged to reinsurers, and reinsurers' share in unearned premium. Premiums ceded to reinsurance do not relieve the Company from its direct obligations towards policyholders. Accordingly, the Company incurs a credit risk up to the extent that the reinsurer would not be able to settle its liability under the reinsurance agreement.

## 19 Deferred tax asset/liability

	Deferred tax asset			Deferred tax liability		
	Impairment losses HRK'000	Unrealised losses HRK'000	Provisions for liabilities and charges HRK'000	Total deferred tax asset HRK'000	Fair value reserve HRK'000	Total deferred tax liability HRK'000
<b>At 1 January 2015</b>	2,054	75	226	<b>2,355</b>	(15,753)	<b>(15,753)</b>
Credited to the income statement (Note 40)	2,663	7	53	<b>2,723</b>	-	-
Credited to other comprehensive income (Note 23f)	-	-	-	-	4,730	<b>4,730</b>
<b>At 31 December 2015</b>	<b>4,717</b>	<b>82</b>	<b>279</b>	<b>5,078</b>	<b>(11,023)</b>	<b>(11,023)</b>
<b>At 1 January 2016</b>	<b>4,717</b>	<b>82</b>	<b>279</b>	<b>5,078</b>	<b>(11,023)</b>	<b>(11,023)</b>
<i>Income statement</i>						
Impact of change in tax rate	(337)	(6)	(24)	<b>(367)</b>	-	-
Credited to the income statement	1,005	197	53	<b>1,255</b>	-	-
<i>Net credit to the income statement (Note 40)</i>	<i>668</i>	<i>191</i>	<i>29</i>	<i>888</i>	-	-
<i>Other comprehensive income</i>						
Impact of change in tax rate	-	-	-	-	1,102	<b>1,102</b>
Debited to other comprehensive income	-	-	-	-	(3,929)	<b>(3,929)</b>
<i>Net debit to other comprehensive income (Note 23f)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(2,827)</i>	<i>(2,827)</i>
<b>At 31 December 2016</b>	<b>5,385</b>	<b>273</b>	<b>308</b>	<b>5,966</b>	<b>(13,850)</b>	<b>(13,850)</b>

**20 Insurance and other receivables**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Receivables arising from insurance contracts		
- from policyholders	<b>81,073</b>	94,556
- from recourses	<b>28,226</b>	30,448
- from intermediaries	<b>685</b>	853
- from other	<b>13,061</b>	18,873
Receivables from reinsurance		
- for claims recoveries	<b>48,201</b>	47,003
- for reinsurance commission	<b>24,879</b>	32,884
- for reinsurance deposits	<b>8,726</b>	16,857
Other receivables		
- accrued interest	<b>18,428</b>	19,811
- other	<b>10,184</b>	6,546
Prepaid expenses	<b>284</b>	976
Impairment allowance		
- for receivables from policyholders	<b>(40,615)</b>	(48,549)
- for recourse receivables	<b>(4,806)</b>	(4,979)
- for other receivables arising from insurance contracts	<b>(39)</b>	-
- for accrued interest	<b>(18,295)</b>	(19,662)
- for other receivables	<b>(5,178)</b>	(5,397)
<b>Total insurance and other receivables</b>	<b><u>164,814</u></b>	<u>190,220</u>

The analysis of insurance and other receivables is given below:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Not due and not impaired	<b>129,471</b>	143,691
Due but not impaired	<b>35,343</b>	46,529
Due and impaired	<b>68,933</b>	78,587
Impairment allowance	<b>(68,933)</b>	(78,587)
	<b><u>164,814</u></b>	<u>190,220</u>

Impairment losses related to insurance receivables are recognised based on internal analysis of uncollected premiums.



**20 Insurance and other receivables (continued)**

## a) Receivables from policyholders

The movement in impairment allowance for receivables from policyholders during the year was as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
At 1 January	<b>48,549</b>	55,810
Increase in provisions	<b>4,718</b>	11,038
Decrease in provisions due to collection	<b>(5,339)</b>	(9,855)
<b>(Reversal of impairment loss)/impairment losses</b>	<b>(621)</b>	1,183
Write off of provision	<b>(7,313)</b>	(8,444)
<b>At 31 December</b>	<b>40,615</b>	48,549

Impairment losses for receivables from policyholders are offset against gross premiums written.

## b) Receivables from recourses

The movement in impairment allowance for recourse receivables during the year was as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
At 1 January	<b>4,979</b>	4,996
Decrease in provisions due to collection (Note 34)	<b>(173)</b>	(17)
<b>At 31 December</b>	<b>4,806</b>	4,979

## c) Other receivables arising from insurance contracts

The movement in impairment allowance for other receivables arising from insurance contracts during the year was as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
At 1 January	-	-
Increase in provisions	<b>39</b>	-
<b>At 31 December</b>	<b>39</b>	-

Impairment losses for other receivables arising from insurance contracts relate to receivables for co-insurance premiums and are offset against gross premiums written.

## 20 Insurance and other receivables (continued)

### d) Receivables for accrued interest

The movement in impairment allowance for accrued interest during the year was as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
At 1 January	<b>19,662</b>	20,282
Increase in provisions	-	134
Decrease in provisions due to collections	<b>(5)</b>	-
<b>(Reversal of impairment loss)/impairment loss (Note 39)</b>	<b>(5)</b>	134
Write off of provisions	<b>(1,362)</b>	(754)
<b>At 31 December</b>	<b>18,295</b>	19,662

### e) Other receivables

The movement in impairment allowance for other receivables during the year was as follows:

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
At 1 January	<b>5,397</b>	4,053
Increase in provisions	<b>3</b>	1,428
Decrease in provisions due to collections	<b>(222)</b>	(53)
<b>(Reversal of impairment loss)/impairment loss</b>	<b>(219)</b>	1,375
Write off of provisions	-	(31)
<b>At 31 December</b>	<b>5,178</b>	5,397

## 21 Assets held for sale

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Property	<b>1,009</b>	6,096

Assets held for sale comprise residential flats in city of Pula. The Company is actively selling these properties.

## 22 Cash and cash equivalents

	2016 HRK'000	2015 HRK'000
Cash at bank	12,724	5,693
Cash on hand	6	-
Total cash and cash equivalents	<u>12,730</u>	<u>5,693</u>

## 23 Equity

### a) Share capital

	2016 HRK'000	2015 HRK'000
<b>Authorised, issued and fully paid</b> 374,278 (2015:374,278) ordinary shares of HRK 630	<u>235,795</u>	<u>235,795</u>

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued is HRK 630.

At the reporting date, the shareholders of the Company are as follows:

	2016 % ownership	2015 % ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	99.47	99.47
Minority shareholders	0.53	0.53
	<u>100.00</u>	<u>100.00</u>

The parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe and the ultimate parent company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group.

### b) Capital reserves

Capital reserves consist of share premium reserve and other payments of shareholders into capital reserves. The share premium reserve represents the accumulated positive difference between the par value of shares issued and the amount received upon issue of share capital.

### c) Legal reserve

The legal reserve represents accumulated appropriations from retained earnings in accordance with the previous Insurance Act, which required a minimum of one third of the Company's net profit to be transferred to a non-distributable legal reserve. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

## 23 Equity (continued)

### d) Other reserves

Other reserves can be used for share capital increase, loss coverage or other purposes at the discretion of the Company's General Assembly.

### e) Dividends per share

In 2016, the Company paid dividends for 2015 in the amount of HRK 21,798 thousand or HRK 58.24 per share (in 2015 for 2014: HRK 20,903 thousands or HRK 55.85 per share), following their declaration by shareholders in General Assembly. A dividend in respect of the year ended 31 December 2016 of HRK 59.26 per share, amounting to a total dividend of HRK 22,180 thousand, is to be proposed at the annual general meeting in May 2016.

### f) Fair value reserve

The fair value reserve represents the cumulative realized gains and losses from change in fair value of financial assets available-for-sale, net of deferred tax. All movements are presented in other comprehensive income in the Statement of comprehensive income, net of tax. Movements in the fair value reserve were as follows:

	2016 HRK'000	2015 HRK'000
<b>At 1 January</b>		
Gross fair value reserve	55,115	78,764
Deferred tax (Note 19)	(11,023)	(15,753)
<b>Net</b>	<b>44,092</b>	<b>63,011</b>
Net gains/(losses) from change in fair value of available-for-sale financial assets	42,666	(174)
Impairment losses on financial assets available for sale – transfer to profit or loss (Note 39)	878	22
Net gains on disposal of available-for-sale financial assets – transfer to profit or loss (Note 33)	(21,717)	(23,497)
	21,827	(23,649)
Impact of change in income tax rate on deferred tax (Note 19)	1,102	-
Deferred tax on net (gains)/losses from change in fair value of available-for-sale financial assets, net of amounts realized and impairment losses (Note 19)	(3,929)	4,730
<i>Net credit/(debit) recognised in other comprehensive income</i>	<i>19,000</i>	<i>(18,919)</i>
<b>At 31 December</b>		
Gross fair value reserve	76,942	55,115
Deferred tax (Note 19)	(13,850)	(11,023)
<b>Net</b>	<b>63,092</b>	<b>44,092</b>

## 23 Equity (continued)

Solvency II regulatory framework came into force on 1 January 2016 and has replaced the Solvency I capital requirements as the binding regulatory regime. The new Solvency II regime has fundamentally changed the calculation of solvency capital, measurement of assets and liabilities, Solvency II introduced a number of new requirements in risk management and placed a greater emphasis on the assessment and documentation of risks and controls, including the development of an articulation of 'risk appetite'. In order to systematise risk management in 2016, the Company established and adopted the policies that cover the framework of risk management, own risk and solvency assessments (ORSA) and risk management for each risk category.

### Capital management objectives, policies and approach

The Company established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company and thereby providing sufficient security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on employed capital meet the requirements of shareholders;
- To retain financial flexibility by maintaining strong liquidity;
- To align the profile of assets and liabilities taking into account the risks inherent in the business.

The operations of the Company are also subject to regulatory requirements imposed by Croatian Financial Services Supervisory Agency. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency of the insurance companies to meet unforeseeable liabilities as they arise. The Company has met all of these requirements throughout the financial year.

In reporting of financial strength, capital and solvency are measured using the rules prescribed by the European Insurance and Occupational Pensions Authority (EIOPA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written. The Company's capital management policy for its insurance is to hold sufficient capital to cover the statutory requirements based on the EU directives and regulations as well as Croatian Insurance Act.

### Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders. The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The capital requirements are routinely forecast on a periodic basis and assessed against the forecast available capital including risk and sensitivity analyses. The process is ultimately subject to approval by the Management Board. The Company is using the standard Solvency II formula to calculate eligible own funds and the solvency capital requirement and performs own risk and solvency assessment to identify the risks and quantify their impact on the economic capital.

## 23 Equity (continued)

### Approach to capital management (continued)

ORSA is one of the requirements of the Solvency II legislation. ORSA is a process that ensures compliance of the business strategy with the risk strategy and capital requirements in the context of the general risk management framework. It aims to ensure that the insurer is fully aware of the relationship between its business strategy, the risks that the insurer is taking in the short term as well as in the medium to long term and the capital requirements arising from those risks. In line with legislation, ORSA incorporates the following three key elements:

- the insurance company's assessment of overall solvency needs,
- the assessment of compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions, and
- the assessment of the significance of the deviation of the insurance company's risk profile from the assumptions underlying the Solvency Capital Requirement in accordance with the standard formula.

The Company's objective is to maintain available capital at the level that is significantly above the minimum requirements indicated and consistent with the Company's risk profile, risk appetite and capital management strategy.

### Solvency II regulatory capitalisation (unaudited)

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Eligible own funds	715,363	731,993
Solvency capital requirement	183,848	243,280
Minimum capital requirement	81,607	69,986
Solvency ratio	<b>389.1%</b>	300.9%

At 31 December 2016, the solvency ratio amounted to at 389,1% (2015: 300.9%). Therefore, the insolvency risk that Company is exposed to is small.

## 24 Earnings per share

For the purposes of calculating earnings per share, earnings is calculated as the profit for the year attributable to equity holders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic and diluted earnings per share was 374,278 (2015: 374,278). Given that there are no effect of options, convertible bonds or similar instruments, the diluted earnings per share is the same as the basic earnings per share.

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Profit attributable to ordinary shareholders for earnings per share	<b>26,095</b>	26,565
	<b>2016</b>	2015
	<b>HRK</b>	HRK
Basic and diluted earnings per share	<b>70</b>	71

## 25 Technical provisions

	<i>Note</i>	<b>2016</b>	2015
		<b>HRK'000</b>	HRK'000
<i>Non-life insurance business</i>			
Provision for unearned premiums	25 a)	<b>143,924</b>	140,750
Reported but not settled claims reserve	25 b)	<b>169,498</b>	174,060
Incurred but not reported claims reserve	25 c)	<b>120,892</b>	118,338
Unexpired risk provision	25 d)	<b>2,530</b>	2,450
Other technical provision	25 e)	<b>13</b>	236
<b>Total Non-life insurance business</b>		<b>436,857</b>	435,834
<i>Life assurance business</i>			
Provision for unearned premiums	25 a)	<b>1,951</b>	2,224
Reported but not settled claims reserve	25 b)	<b>11,479</b>	12,141
Incurred but not reported claims reserve	25 c)	<b>2,524</b>	2,695
Life assurance provision for traditional products	25 f)	<b>1,548,205</b>	1,556,531
Provision for unit-linked and index-linked	25 g)	<b>349,417</b>	223,280
<b>Total Life assurance business</b>		<b>1,913,576</b>	1,796,871
<b>Total technical provisions</b>		<b>2,350,433</b>	2,232,705

## 25 Technical provisions (continued)

### a) Analysis of movement in provision for unearned premium

	2016	2016	2016	2015	2015	2015
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance business</i>						
<b>At 1 January</b>	<b>140,750</b>	<b>60,794</b>	<b>79,956</b>	133,235	59,617	73,618
Premiums written during the year	299,812	131,564	168,248	279,390	130,064	149,326
Less: premiums earned during the year	(296,638)	(132,611)	(164,027)	(271,875)	(128,887)	(142,988)
<b>At 31 December</b>	<b>143,924</b>	<b>59,747</b>	<b>84,177</b>	140,750	60,794	79,956
<i>Life assurance business</i>						
<b>At 1 January</b>	<b>2,224</b>	<b>741</b>	<b>1,483</b>	2,469	807	1,662
Premiums written during the year	9,786	(425)	10,211	10,163	5,142	5,021
Less: premiums earned during the year	(10,059)	(310)	(9,749)	(10,408)	(5,208)	(5,200)
<b>At 31 December</b>	<b>1,951</b>	<b>6</b>	<b>1,945</b>	2,224	741	1,483

### b) Analysis of movements in reported but not settled claims reserve

	2016	2016	2016	2015	2015	2015
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance business</i>						
<b>At 1 January</b>	<b>174,060</b>	<b>87,787</b>	<b>86,273</b>	207,747	111,954	95,793
Current year claims	183,811	82,576	101,234	168,513	77,701	90,812
Change in previous year claims	(3,980)	(2,668)	(1,312)	(3,294)	90	(3,384)
Claims paid	(184,393)	(79,106)	(105,286)	(198,906)	(101,958)	(96,948)
<b>At 31 December</b>	<b>169,498</b>	<b>88,589</b>	<b>80,909</b>	174,060	87,787	86,273
<i>Life assurance business</i>						
<b>At 1 January</b>	<b>12,141</b>	<b>2,584</b>	<b>9,557</b>	11,680	2,190	9,490
Current year claims	162,190	25,627	136,563	156,236	31,441	124,795
Change in previous year claims	1,634	504	1,130	23,035	(167)	23,202
Claims paid	(164,486)	(26,960)	(137,526)	(178,810)	(30,880)	(147,930)
<b>At 31 December</b>	<b>11,479</b>	<b>1,755</b>	<b>9,724</b>	12,141	2,584	9,557



**25 Technical provisions (continued)****c) Analysis of movements in incurred but not reported claims reserve**

	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000	2015 Gross HRK'000	2015 Reinsurance HRK'000	2015 Net HRK'000
<i>Non-life insurance business</i>						
<b>At 1 January</b>	<b>118,338</b>	<b>55,728</b>	<b>62,610</b>	119,883	52,316	67,567
Additions recognised during the year	34,746	17,707	17,039	30,649	21,104	9,545
Transfer to claims reported provision	(32,192)	(15,282)	(16,910)	(32,194)	(17,692)	(14,502)
<b>At 31 December</b>	<b>120,892</b>	<b>58,153</b>	<b>62,739</b>	118,338	55,728	62,610
<i>Life assurance business</i>						
<b>At 1 January</b>	<b>2,695</b>	<b>1,120</b>	<b>1,575</b>	2,750	1,161	1,589
Additions recognised during the year	1,497	404	1,093	3,445	709	2,736
Transfer to claims reported provision	(1,668)	(907)	(761)	(3,500)	(750)	(2,750)
<b>At 31 December</b>	<b>2,524</b>	<b>617</b>	<b>1,907</b>	2,695	1,120	1,575

**d) Analysis of movements in unexpired risk provision**

	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000	2015 Gross HRK'000	2015 Reinsurance HRK'000	2015 Net HRK'000
<b>At 1 January</b>	<b>2,450</b>	-	<b>2,450</b>	2,816	-	2,816
Release in profit or loss	(2,450)	-	(2,450)	(2,816)	-	(2,816)
Increase in profit or loss	2,530	-	2,530	2,450	-	2,450
<b>At 31 December</b>	<b>2,530</b>	-	<b>2,530</b>	2,450	-	2,450

**e) Analysis of movements in other technical provision**

	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000	2015 Gross HRK'000	2015 Reinsurance HRK'000	2015 Net HRK'000
<b>At 1 January</b>	<b>236</b>	-	<b>236</b>	298	-	298
Release in profit or loss	(236)	-	(236)	(298)	-	(298)
Increase in profit or loss	13	-	13	236	-	236
<b>At 31 December</b>	<b>13</b>	-	<b>13</b>	236	-	236

**25 Technical provisions (continued)****f) Life assurance provisions**

	<b>2016</b>	<b>2016</b>	<b>2016</b>	2015	2015	2015
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>	Gross	Reinsurance	Net
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	HRK'000	HRK'000	HRK'000
<b>At 1 January</b>	<b>1,556,531</b>	<b>283,691</b>	<b>1,272,840</b>	1,563,715	278,829	1,284,886
Premium allocation	120,299	27,446	92,853	127,796	26,899	100,897
Release of liabilities due to benefits paid, surrenders and other terminations	(167,302)	(25,046)	(142,256)	(182,522)	(30,412)	(152,110)
Unwinding of discount/accretion of interest	43,066	7,759	35,307	42,902	7,701	35,201
Change in Zillmer adjustment	7,920	1,584	6,336	11,135	2,341	8,794
Change in provision for unearned premium	(487)	(35)	(452)	(3,350)	(705)	(2,645)
Foreign currency translations	(11,822)	(2,989)	(8,833)	(3,145)	(962)	(2,183)
	<u>1,548,205</u>	<u>292,410</u>	<u>1,255,795</u>	<u>1,556,531</u>	<u>283,691</u>	<u>1,272,840</u>
<b>Balance at 31 December</b>	<b>1,548,205</b>	<b>292,410</b>	<b>1,255,795</b>	<b>1,556,531</b>	<b>283,691</b>	<b>1,272,840</b>

**g) Provision for unit-linked and index-linked**

	<b>2016</b>	<b>2016</b>	<b>2016</b>	2015	2015	2015
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>	Gross	Reinsurance	Net
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	HRK'000	HRK'000	HRK'000
<b>At 1 January</b>	<b>223,280</b>	-	<b>223,280</b>	148,631	-	148,631
Premium allocation	109,446	-	109,446	68,777	-	68,777
Unrealised gains on funds where policyholder investments were allocated	18,585	-	18,585	6,283	-	6,283
Foreign currency translations	(1,894)	-	(1,894)	(411)	-	(411)
	<u>349,417</u>	<u>-</u>	<u>349,417</u>	<u>223,280</u>	<u>-</u>	<u>223,280</u>
<b>Balance at 31 December</b>	<b>349,417</b>	<b>-</b>	<b>349,417</b>	<b>223,280</b>	<b>-</b>	<b>223,280</b>

## 25 Technical provisions (continued)

### h) Development of claims reported by policyholders at 31 December 2016

	Prior to 2010	2010	2011	2012	2013	2014	2015	2016	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	1,649,564	271,673	256,743	255,690	252,345	264,291	282,225	288,606	-
One year later	1,610,720	248,638	253,868	233,968	252,262	256,099	274,386	-	-
Two years later	1,622,602	236,086	246,337	206,367	248,910	236,355	-	-	-
Three years later	1,624,637	228,038	242,548	200,907	231,411	-	-	-	-
Four years later	1,633,696	225,626	229,269	228,025	-	-	-	-	-
Five years later	1,622,897	223,962	225,016	-	-	-	-	-	-
Six years later	1,624,150	234,383	-	-	-	-	-	-	-
Seven years later	1,659,281	-	-	-	-	-	-	-	-
<b>Current estimate of cumulative claims</b>	<b>1,659,281</b>	<b>234,383</b>	<b>225,016</b>	<b>228,025</b>	<b>231,411</b>	<b>236,355</b>	<b>274,386</b>	<b>288,606</b>	<b>3,377,463</b>
Cumulative payments	1,611,592	226,543	202,911	211,872	209,107	209,826	229,614	190,147	3,091,612
Amount recognised in the current year statement of financial position	47,689	7,840	22,105	16,153	22,304	26,529	44,772	98,459	285,851
Claims handling costs and recourses	4,678	653	1,010	773	902	1,138	1,664	3,131	13,949
Unsettled claims at 31 December 2016 on policies transferred in at 30 December 2005 on merger with Aurum	4,593	-	-	-	-	-	-	-	4,593
<b>Total value recognised in the current year statement of financial position</b>	<b>56,960</b>	<b>8,493</b>	<b>23,115</b>	<b>16,926</b>	<b>23,206</b>	<b>27,667</b>	<b>46,436</b>	<b>101,590</b>	<b>304,393</b>

The historical data in respect of unsettled claims transferred in upon merger with Aurum is insufficient to enable the presentation of their development over an eight year period in the form as set above.

## 25 Technical provisions (continued)

### i) Remaining maturities of technical provisions

#### 2016

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	145,875	-	-	-	-	-	145,875
Reported but not settled claims reserve and incurred but not reported claims reserve	79,128	225,265	-	-	-	-	304,393
Unexpired risk provision	2,530	-	-	-	-	-	2,530
Other technical provision	13	-	-	-	-	-	13
Life assurance provision and provision for unit-linked and index-linked	97,188	677,847	347,408	215,630	84,142	475,407	1,897,622
<b>Technical provisions</b>	<b>324,734</b>	<b>903,112</b>	<b>347,408</b>	<b>215,630</b>	<b>84,142</b>	<b>475,407</b>	<b>2,350,433</b>

#### 2015

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	142,974	-	-	-	-	-	142,974
Reported but not settled claims reserve and incurred but not reported claims reserve	71,318	235,916	-	-	-	-	307,234
Unexpired risk provision	2,450	-	-	-	-	-	2,450
Other technical provision	236	-	-	-	-	-	236
Life assurance provision and provision for unit-linked and index-linked	119,075	606,870	304,455	222,927	70,774	455,710	1,779,811
<b>Technical provisions</b>	<b>336,053</b>	<b>842,786</b>	<b>304,455</b>	<b>222,927</b>	<b>70,774</b>	<b>455,710</b>	<b>2,232,705</b>

## 25 Technical provisions (continued)

### j) Structure of assets used for backing life assurance provision

The following table analyses the financial assets used for backing life assurance provision into relevant maturity categories based on the remaining period from the reporting date to the contractual maturity date and the estimated remaining contractual maturities of life assurance provision and claims provision for which coverage is requested.

	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
<b>2016</b>					
Asset backing life assurance provision	120,797	689,385	688,138	33,992	<b>1,532,312</b>
Life assurance provision, net of reinsurance	(65,656)	(365,813)	(226,528)	(640,472)	<b>(1,298,469)</b>
Claims provision, net of reinsurance	(3,490)	(5,234)	-	-	<b>(8,724)</b>
<b>Maturity gap</b>	<b>51,651</b>	<b>318,338</b>	<b>461,610</b>	<b>(606,480)</b>	<b>225,119</b>
<b>2015</b>					
Asset backing life assurance provision	46,553	784,425	616,884	60,413	<b>1,508,275</b>
Life assurance provision, net of reinsurance	(93,052)	(334,875)	(216,684)	(674,572)	<b>(1,319,183)</b>
Claims provision, net of reinsurance	(3,398)	(5,097)	-	-	<b>(8,495)</b>
<b>Maturity gap</b>	<b>(49,897)</b>	<b>444,453</b>	<b>400,200</b>	<b>(614,159)</b>	<b>180,597</b>

As of 31 December 2016, 43.7% of total assets used for backing life assurance provision were classified as financial assets available for sale, which enables the Company to dispose of these assets easily to meet insurance contracts liabilities when needed. 48.4% of assets used for backing life assurance provision are classified as held-to-maturity investments. 1.4% of assets used for backing life assurance provision are classified as financial assets at fair value through profit and loss and 6.5% as loans and receivables.

The following table analyses the life assurance provision and financial asset used for backing life assurance provision into relevant categories based on the currency in which is denominated.

	EURO	EURO linked	EURO and EURO linked total	HRK	USD	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>2016</b>						
Asset backing life assurance provision	97,309	810,159	<b>907,468</b>	614,210	10,634	<b>1,532,312</b>
Life assurance provision, net of reinsurance	-	(889,778)	<b>(889,778)</b>	(398,007)	(10,684)	<b>(1,298,469)</b>
Claims provision, net of reinsurance	-	(8,099)	<b>(8,099)</b>	(625)	-	<b>(8,724)</b>
	<b>97,309</b>	<b>(87,718)</b>	<b>9,591</b>	<b>215,578</b>	<b>(50)</b>	<b>225,119</b>
<b>2015</b>						
Asset backing life assurance provision	86,492	873,002	<b>959,494</b>	538,732	10,049	<b>1,508,275</b>
Life assurance provision, net of reinsurance	-	(924,097)	<b>(924,097)</b>	(384,597)	(10,489)	<b>(1,319,183)</b>
Claims provision, net of reinsurance	-	(7,767)	<b>(7,767)</b>	(728)	-	<b>(8,495)</b>
	<b>86,492</b>	<b>(58,862)</b>	<b>27,630</b>	<b>153,407</b>	<b>(440)</b>	<b>180,597</b>

In 2016, the Company achieved an annual return on investments from life assurance provision in amount of 5.85% (2015: 6.46%). Weighted average yield for the three-year period from 2014 to 2016 was 6.17% (2015: three year period from 2013 to 2015: 6.53%).

Valuation of financial assets is described in accounting policy Note 3 (f).

## 25 Technical provisions (continued)

### k) Structure of assets used for backing technical provisions (other than life assurance provision)

The following table analyses the financial assets used for backing technical provisions into relevant maturity categories based on the remaining period from the reporting date to the contractual maturity date and the estimated remaining contractual maturities of technical provisions for which coverage is requested:

	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
<b>2016</b>					
Asset backing technical provisions	100,577	234,194	126,246	-	461,017
Provision for unearned premium, net of reinsurance	(86,122)	-	-	-	(86,122)
Claims provision, net of reinsurance	(45,955)	(100,599)	-	-	(146,554)
Other provisions	(2,543)	-	-	-	(2,543)
<b>Maturity gap</b>	<b>(34,043)</b>	<b>133,595</b>	<b>126,246</b>	<b>-</b>	<b>225,798</b>
<b>2015</b>					
Asset backing technical provisions	118,870	276,460	35,947	-	431,277
Provision for unearned premium, net of reinsurance	(81,439)	-	-	-	(81,439)
Claims provision, net of reinsurance	(34,626)	(116,894)	-	-	(151,520)
Other provisions	(2,686)	-	-	-	(2,686)
<b>Maturity gap</b>	<b>119</b>	<b>159,566</b>	<b>35,947</b>	<b>-</b>	<b>195,632</b>

As of 31 December 2016, 73.5% of total assets used for backing technical provisions are classified as financial assets available for sale and 7.7% as financial assets at fair value through profit or loss, which enables the Company to dispose of those assets easily to meet insurance contracts liabilities when needed. 13.6% of assets used for backing technical provision are classified as held-to-maturity investments and 5.2% as loans and receivables.

The following table analyses the financial assets used for backing technical provisions and technical provisions into relevant categories based on the currency in which are denominated.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	USD HRK'000	Total HRK'000
<b>2016</b>						
Asset backing technical provision	-	34,850	<b>34,850</b>	426,148	19	<b>461,017</b>
Provision for unearned premium, net of reinsurance	-	(1,882)	<b>(1,882)</b>	(84,239)	(1)	<b>(86,122)</b>
Claims provision, net of reinsurance	-	(6,563)	<b>(6,563)</b>	(139,989)	(2)	<b>(146,554)</b>
Other provisions	-	-	-	(2,543)	-	<b>(2,543)</b>
	-	26,405	<b>26,405</b>	199,377	16	<b>225,798</b>
<b>2015</b>						
Asset backing technical provision	-	28,131	<b>28,131</b>	403,079	67	<b>431,277</b>
Provision for unearned premium, net of reinsurance	-	(1,452)	<b>(1,452)</b>	(79,986)	(1)	<b>(81,439)</b>
Claims provision, net of reinsurance	-	(8,196)	<b>(8,196)</b>	(143,323)	(1)	<b>(151,520)</b>
Other provisions	-	-	-	(2,686)	-	<b>(2,686)</b>
	-	18,483	<b>18,483</b>	177,084	65	<b>195,632</b>

## 26 Discretionary profit participation provision

	2016 HRK'000	2015 HRK'000
<b>Balance at 1 January</b>	<b>46,343</b>	49,649
Funds released during the year due to surrenders and benefits	<b>(3,669)</b>	(3,306)
<b>Balance at 31 December</b>	<b>42,674</b>	46,343

## 27 Subordinated loan

	2016 HRK'000	2015 HRK'000
<b>Subordinated loan</b>	<b>15,116</b>	15,270

Subordinated loan is obtained from LVP Holding GmbH. Subordinated loan bears a fixed interest rate of 8% per annum (2015: 8% p.a.) and has unlimited maturity. Payment of this loan is subordinated to all other liabilities of the Company.

## 28 Borrowings

					2016 HRK'000	2015 HRK'000
Borrowings					-	764
Borrower	Currency	Contracted principal in currency	Interest rate	Maturity	Outstanding amount 2016 HRK'000	Outstanding amount 2015 HRK'000
			%			
OTP banka d.d.	EUR	1,000,000	3 month EURIBOR + 1.8%	31 December 2016	-	764

In 2015 loan granted by OTP banka d.d. was secured with the property of the Company as disclosed in Note 12.

## 29 Provisions for liabilities and charges

	Provision for court cases HRK'000	Termination benefits and jubilee awards HRK'000	Total HRK'000
<b>At 1 January 2015</b>	<b>10,017</b>	<b>557</b>	<b>10,574</b>
Used during the year	(3,097)	(126)	(3,223)
Release of provision as unused	(20)	-	(20)
Increase of provision	884	144	1,028
	<u>7,784</u>	<u>575</u>	<u>8,359</u>
<b>At 31 December 2015</b>	<b>7,784</b>	<b>575</b>	<b>8,359</b>
<b>At 1 January 2016</b>	<b>7,784</b>	<b>575</b>	<b>8,359</b>
Used during the year	(34)	(106)	(140)
Release of provision as unused	(813)	-	(813)
Increase of provision	832	309	1,141
	<u>7,769</u>	<u>778</u>	<u>8,547</u>
<b>At 31 December 2016</b>	<b>7,769</b>	<b>778</b>	<b>8,547</b>

Net increase of provision for court cases is recognized in "Other operating expenses" (Note 38). Net increase of obligatory severance payments and jubilee awards provision are recognised in „Administrative expenses“ (Note 37).

## 30 Insurance and other payables

	2016 HRK'000	2015 HRK'000
Direct insurance contract payables		
- to policyholders	1,438	478
- to agents, brokers and intermediaries	2,825	2,590
- advance payments	21,367	7,697
Reinsurance contract payables	90,985	131,427
Deposits retained from reinsurance business	383,116	376,874
Trade payables	7,631	10,927
Liabilities for salaries	8,522	8,183
Commission expense accrual	8,712	7,738
Other payables	3,364	2,660
Deferred income from recourses	23,420	25,469
Accrued expenses	28,448	19,446
	<u>579,828</u>	<u>593,489</u>
<b>Total insurance and other payables</b>	<b>579,828</b>	<b>593,489</b>

The Company retains deposits from reinsurance business arising from the Quota Share reinsurance treaties for life assurance with the related company and Motor Third Party Liability and Personal Accident insurance with a parent company. In accordance with the reinsurance treaties, applicable from 1 January 2002 for life assurance, from 1 January 2010 for Motor Third Party Liability insurance and from 1 January 2011 for Personal Accident insurance, the reinsurance deposit is retained and the Company invests the funds. Deposit retained from reinsurance business of life assurance bears a 3% or 2,5% fixed interest rate per annum on policies with guaranteed interest rate, while for Motor Third Party Liability and Personal Accident insurance for 2010 interest rate is fixed at 1.5% and from 1 January 2011 interest rate is determined quarterly as the average of BID and ASK prices of 3 month ZIBOR at beginning of the accounting period increased by + 0.5 pp.



### 31 Premiums

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
<i>Non-life insurance</i>		
Gross premium written	<b>299,812</b>	279,390
Written premiums ceded to reinsurers	<b>(131,564)</b>	(130,064)
Change in unearned premiums, gross	<b>(3,174)</b>	(7,515)
Change in unearned premiums, reinsurance share	<b>(1,047)</b>	1,177
<b>Total premium income net, (earned) from non-life insurance</b>	<b>164,027</b>	142,988
<i>Life assurance</i>		
Gross premium written	<b>291,940</b>	265,594
Written premiums ceded to reinsurers	<b>(32,224)</b>	(41,591)
Change in unearned premiums, gross	<b>273</b>	245
Change in unearned premiums, reinsurance share	<b>(735)</b>	(66)
<b>Total premium income net, (earned) from life assurance</b>	<b>259,254</b>	224,182
<b>Total</b>		
Gross premium written	<b>591,752</b>	544,984
Written premiums ceded to reinsurers	<b>(163,788)</b>	(171,655)
Change in unearned premiums, gross	<b>(2,901)</b>	(7,270)
Change in unearned premiums, reinsurance share	<b>(1,782)</b>	1,111
<b>Total premiums</b>	<b>423,281</b>	367,170

Gross premiums written for the Company and the Company for life assurance business include premiums of HRK 6,0 million (2015: HRK 6,6 million) in respect of unit-linked products and premiums of HRK 112,6 million in respect of Unit-linked with internal fund products (2015: HRK 74,2 million).

## 31 Premiums (continued)

### Analysis by class of business

An analysis of written premiums and claims incurred by class of business is set out below. Gross premiums written are stated after adjusting for the net decrease in provisions for premium debtors of HRK 0,6 million (2015: net increase for HRK 1,2 million):

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance* HRK'000
<b>2016</b>					
<i>Non-life insurance business</i>					
Motor third party	123,865	128,521	(75,183)	(40,590)	1,941
Motor other classes	36,146	32,850	(27,800)	(7,139)	(748)
Property	64,554	63,080	(30,212)	(24,326)	(2,905)
Personal lines	14,128	13,302	(7,534)	(5,107)	669
Other	61,119	58,885	(41,512)	(19,665)	(3,164)
<b>Total non-life</b>	<b>299,812</b>	<b>296,638</b>	<b>(182,241)</b>	<b>(96,827)</b>	<b>(4,207)</b>
<i>Life assurance business</i>					
Life assurance	158,498	158,500	(136,022)	(66,391)	5,009
Annuity assurance	697	697	(111)	(196)	-
Additional riders	14,495	14,766	(4,168)	(7,713)	63
Index/Unit Linked	118,250	118,250	(137,494)	(32,341)	-
<b>Total life</b>	<b>291,940</b>	<b>292,213</b>	<b>(277,795)</b>	<b>(106,641)</b>	<b>5,072</b>
<b>Grand total</b>	<b>591,752</b>	<b>588,851</b>	<b>(460,036)</b>	<b>(203,468)</b>	<b>865</b>
<b>2015</b>					
<i>Non-life insurance business</i>					
Motor third party	125,933	125,962	(69,051)	(37,270)	(4,806)
Motor other classes	29,550	26,498	(22,453)	(5,537)	(906)
Property	59,902	59,769	(33,449)	(21,147)	2,832
Personal lines	12,366	13,254	(5,952)	(5,816)	(563)
Other	51,639	46,392	(32,341)	(16,841)	(2,670)
<b>Total non-life</b>	<b>279,390</b>	<b>271,875</b>	<b>(163,246)</b>	<b>(86,611)</b>	<b>(6,113)</b>
<i>Life assurance business</i>					
Life assurance	169,298	169,334	(151,042)	(80,944)	3,800
Annuity assurance	821	821	(777)	(280)	-
Additional riders	15,087	15,296	(3,823)	(9,130)	1,322
Index/Unit Linked	80,388	80,388	(87,733)	(24,840)	-
<b>Total life</b>	<b>265,594</b>	<b>265,839</b>	<b>(243,375)</b>	<b>(115,194)</b>	<b>5,122</b>
<b>Grand total</b>	<b>544,984</b>	<b>537,714</b>	<b>(406,621)</b>	<b>(201,805)</b>	<b>(991)</b>

\* Reinsurance balance does not include technical interest rate on reinsurance deposit in the amount of HRK 997 thousand for non-life and HRK 8,375 thousand for life business (2015: HRK 1,154 thousand for non-life and HRK 8,314 thousand for life business) (Note 39).

### 32 Fees and commission income

	2016 HRK'000	2015 HRK'000
Reinsurance commission	41,083	45,321
Profit reinsurance commission	8,671	6,934
	<u>49,754</u>	<u>52,255</u>

### 33 Financial income

	2016 HRK'000	2015 HRK'000
Interest income:		
- Available-for-sale financial assets	43,711	48,738
- Held-to-maturity investments	55,136	55,929
- Loans and receivables	9,801	10,271
Dividend income	1,022	680
Rental income from investment property (Note 13)	2,898	2,959
Unrealised gain on assets at fair value through profit or loss	17,582	6,386
Net realised gain on assets at fair value through profit or loss	468	757
Net realised gain on assets available for sale (Note 23f)	21,717	23,497
Other financial income	1,069	916
	<u>153,404</u>	<u>150,133</u>

	Non-life 2016 HRK'000	Life 2016 HRK'000	Total 2016 HRK'000	Non-life 2015 HRK'000	Life 2015 HRK'000	Total 2015 HRK'000
<b>Financial income</b>						
Income from assets backing equity	2,223	3,351	5,574	3,383	1,931	5,314
Income from assets backing life assurance provision	-	108,773	108,773	-	117,395	117,395
Income from assets backing other technical provisions	21,799	-	21,799	21,010	-	21,010
Income from assets backing index-linked and unit-linked products	-	17,258	17,258	-	6,414	6,414
	<u>24,022</u>	<u>129,382</u>	<u>153,404</u>	<u>24,393</u>	<u>125,740</u>	<u>150,133</u>

### 34 Other operating income

	2016 HRK'000	2015 HRK'000
Refund of legal enforcement collection expense and penalty interest	2,817	2,917
Income from service claims	1,636	629
Profit on disposal of equipment	528	700
Liabilities written off	290	171
Income from recharged expenses	235	273
Decrease in provision for recourse receivables due to collection (Note 20)	173	17
Other operating income	2,118	3,445
	<u>7,797</u>	<u>8,152</u>

**35 Net policyholders claims and benefits accrued**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
<i>Non-life insurance</i>		
Claims paid		
Gross amount	<b>(184,393)</b>	(198,906)
Reinsurers' share	<b>79,106</b>	101,958
Change in reported but not settled claims reserve		
Gross amount	<b>4,563</b>	33,687
Reinsurers' share	<b>802</b>	(24,167)
Change in incurred but not reported claims reserve		
Gross amount	<b>(2,554)</b>	1,545
Reinsurers' share	<b>2,425</b>	3,412
Change in unexpired risk provision, gross and net	<b>(80)</b>	366
Change in other technical provision, gross and net	<b>223</b>	62
	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	<b>(182,241)</b>	(163,246)
Total reinsurance share in claims incurred from non-life insurance	<b>82,333</b>	81,203
	<hr/>	<hr/>
<b>Total net claims incurred from non-life insurance</b>	<b>(99,908)</b>	(82,043)
	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>		
Claims paid (benefits and surrenders)		
Gross amount	<b>(164,486)</b>	(178,810)
Reinsurers' share	<b>26,960</b>	30,880
Change in life assurance provision		
Gross amount	<b>8,326</b>	7,184
Reinsurers' share	<b>8,719</b>	4,862
Change in life assurance provision for unit and index-linked products, gross and net	<b>(126,137)</b>	(74,649)
Change in reported but not settled claims reserve		
Gross amount	<b>662</b>	(461)
Reinsurers' share	<b>(829)</b>	394
Change in incurred but not reported claims reserve		
Gross amount	<b>171</b>	55
Reinsurers' share	<b>(503)</b>	(41)
Change in discretionary profit participation provision, gross and net	<b>3,669</b>	3,306
	<hr/>	<hr/>
Total gross claims incurred from life assurance	<b>(277,795)</b>	(243,375)
Total reinsurance share in claims incurred from life assurance	<b>34,347</b>	36,095
	<hr/>	<hr/>
<b>Total net claims incurred from life assurance</b>	<b>(243,448)</b>	(207,280)
	<hr/> <hr/>	<hr/> <hr/>
<b>Total gross claims incurred</b>	<b>(460,036)</b>	(406,621)
<b>Total reinsurance share in claims incurred</b>	<b>116,680</b>	117,298
	<hr/>	<hr/>
<b>Total</b>	<b>(343,356)</b>	(289,323)
	<hr/> <hr/>	<hr/> <hr/>

## 35 Net policyholders claims and benefits accrued (continued)

The table below presents claims ratio, costs ratio and combined ratio by line of business calculated in accordance with HANFA's Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance Companies.

### Analysis of claims ratio, costs ratio and combined ratio

	Claims ratio	Costs ratio	Combined ratio
<b>2016</b>			
Personal accident insurance	56.64%	39.55%	96.19%
Health insurance	25.18%	1492.25%	1517.42%
Insurance of motor vehicles	84.63%	22.59%	107.22%
Insurance of track vehicles	20.56%	11.09%	31.65%
Insurance of aircrafts	492.08%	10.37%	502.44%
Insurance of vessels	93.52%	38.22%	131.74%
Insurance of goods in transit	82.65%	33.60%	116.25%
Insurance against fire and natural disasters	47.17%	41.95%	89.12%
Other property insurance lines	49.05%	43.48%	92.53%
Motor third party liability insurance	58.50%	36.10%	94.60%
Aircraft liability insurance	8.73%	30.64%	39.37%
Vessel liability insurance	22.59%	31.60%	54.19%
Other third liability insurance lines	22.54%	35.25%	57.79%
Credit insurance	(25,846.74%)	(5,416.91%)	(31,263.65%)
Suretyship insurance	149.13%	23.46%	172.59%
Insurance of miscellaneous financial losses	183.98%	12.74%	196.71%
Insurance of legal protection	220.58%	41.24%	261.81%
Travel insurance	62.67%	34.90%	97.57%
<b>Total non-life</b>	<b>61.44%</b>	<b>35.84%</b>	<b>97.28%</b>
<b>2015</b>			
Personal accident insurance	44.91%	46.48%	91.39%
Health insurance	551.55%	59.27%	610.82%
Insurance of motor vehicles	84.74%	23.04%	107.78%
Insurance of track vehicles	-	-	-
Insurance of aircrafts	816.62%	26.47%	843.08%
Insurance of vessels	60.59%	33.80%	94.39%
Insurance of goods in transit	42.78%	39.51%	82.29%
Insurance against fire and natural disasters	34.49%	41.28%	75.78%
Other property insurance lines	95.46%	39.09%	134.55%
Motor third party liability insurance	54.82%	37.04%	91.86%
Aircraft liability insurance	9.21%	73.03%	82.24%
Vessel liability insurance	28.18%	36.61%	64.79%
Other third liability insurance lines	60.92%	37.65%	98.58%
Credit insurance	(1,951.99%)	(91.23%)	(2,043.22%)
Suretyship insurance	(17.44%)	41.59%	24.15%
Insurance of miscellaneous financial losses	106.13%	17.50%	123.63%
Insurance of legal protection	7.96%	44.21%	52.17%
Travel insurance	151.38%	64.47%	215.85%
<b>Total non-life</b>	<b>60.04%</b>	<b>36.76%</b>	<b>96.80%</b>

Ratios are calculated in accordance with Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (Official Gazette 37/16) as follows:

**Claims ratio** = (claims paid, gross + change in claims reserves, gross + change in unexpired risk provision, gross + change in other technical provision, gross / (gross written premiums including net provision for premium receivables impairment + change in gross unearned premium)

**Costs ratio** = (acquisition costs + change in deferred acquisition costs + administrative expenses + other operating-technical expenses + other operating-technical income) / (gross written premium including net provision for premium receivables impairment)

**Combined ratio** = claims ratio + costs ratio

### 36 Acquisition costs

	2016 HRK'000	2015 HRK'000
<i>Non-life insurance business</i>		
Commission expenses	39,289	38,013
Other acquisition costs	24,241	21,554
Changes in deferred acquisition costs (Note 14)	(3,058)	(5,810)
<b>Total acquisition costs, non-life</b>	<b>60,472</b>	<b>53,757</b>
<i>Life assurance business</i>		
Commission expenses	9,898	8,954
Other acquisition costs	35,721	35,739
Changes in deferred acquisition costs (Note 14)	(36)	15
<b>Total acquisition costs, life</b>	<b>45,583</b>	<b>44,708</b>
	<b>106,055</b>	<b>98,465</b>

Included within acquisition costs are internal sales staff costs amounting to HRK 68.6 million (2015: HRK 66.4 million).

### 37 Administrative expenses

	2016 HRK'000	2015 HRK'000
Personnel expenses	34,949	34,514
Software	14,326	20,352
Rentals (Note 41)	10,693	10,917
Telecommunication and post services	5,844	6,571
Energy and utilities	5,259	5,946
Depreciation of property and equipment (Note 12)	4,340	4,873
Maintenance	3,101	4,078
Travel expenses and daily allowances	2,178	2,031
Amortisation of other intangible assets (Note 15)	2,014	1,536
Lawyers fees	1,411	1,385
Management fees – related parties (Note 42)	1,195	1,161
Audit fees	516	472
Provision for termination benefits and jubilee awards (Note 29)	309	144
Other expenses	11,278	9,360
	<b>97,413</b>	<b>103,340</b>

In 2016, the average number of employees of the Company was 708 (2015: 703). In 2016, the Company paid pension contributions of HRK 17.4 million (2015: HRK 16.7 million) into obligatory pension funds.

**38 Other operating expenses**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Impairment of property and equipment (Note 12)	<b>4,239</b>	4,618
Credit cards payment fee	<b>3,467</b>	3,374
Compulsory motor third party liability insurance contribution to the Croatian health fund	<b>2,982</b>	3,047
Legal enforcement collection of receivables from contract holders	<b>2,147</b>	3,503
Guarantee – fund levies	<b>1,817</b>	2,230
Prevention costs	<b>1,216</b>	977
Fire brigade contributions	<b>1,101</b>	1,518
Other receivables written off during the year as uncollectible	<b>1,013</b>	136
Impairment other intangible assets	<b>834</b>	-
Write off of equipment (Note 12)	<b>415</b>	633
Provision for legal claims (Note 29)	<b>19</b>	864
Provision for other receivables impairment	<b>3</b>	824
Other expenses	<b>3,251</b>	2,900
	<b>22,504</b>	24,624

**39 Financial expenses**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Interest expense	<b>1,200</b>	3,618
Interest expense on reinsurance deposit	<b>9,372</b>	9,468
Depreciation of investment property (Note 13)	<b>1,065</b>	1,072
Impairment of investment property (Note 13)	<b>2,058</b>	3,581
Impairment of available-for-sale financial assets (Note 23f)	<b>878</b>	22
Impairment of loans to customers (Note 17), net	<b>491</b>	1,788
Impairment of deposits with banks (Note 17)	-	3,371
Impairment of interest receivables (Note 20), net	<b>(5)</b>	134
Impairment of investments in subsidiary and associate (Note 16b)	-	6
Foreign exchange translation loss		
- Financial assets at fair value through profit or loss	<b>205</b>	214
- Available-for-sale financial assets	<b>4,718</b>	738
- Held-to-maturity investments	<b>6,588</b>	2,506
- Loans and receivables	<b>690</b>	263
- Deposit retained from reinsurance business	<b>(2,871)</b>	(962)
- Other	<b>(26)</b>	(408)
Net realised loss on sale of real estate	<b>493</b>	-
Other expenses	<b>3,532</b>	2,530
	<b>28,388</b>	27,941

**39 Financial expenses (continued)**

	<b>Non-life 2016 HRK'000</b>	<b>Life 2016 HRK'000</b>	<b>Total 2016 HRK'000</b>	<b>Non-life 2015 HRK'000</b>	<b>Life 2015 HRK'000</b>	<b>Total 2015 HRK'000</b>
Expenses from assets backing share capital	4,713	(810)	3,903	5,071	3,266	8,337
Expenses from assets backing life assurance provision	-	21,774	21,774	-	16,937	16,937
Expenses from assets backing other technical provisions	2,711	-	2,711	2,667	-	2,667
	<u>7,424</u>	<u>20,964</u>	<u>28,388</u>	<u>7,738</u>	<u>20,203</u>	<u>27,941</u>

**40 Income taxes**

	<b>2016 HRK'000</b>	<b>2015 HRK'000</b>
Current income tax	(11,313)	(10,175)
Deferred income tax (Note 19)	888	2,723
<b>Total income tax expense</b>	<u>(10,425)</u>	<u>(7,452)</u>

**a. Reconciliation of accounting profit for the year to income tax expense**

	<b>2016 HRK'000</b>	<b>2015 HRK'000</b>
Profit before tax	<u>36,520</u>	<u>34,017</u>
Income tax at 20% (2015: 20%)	(7,304)	(6,804)
Tax effects of:		
Non-deductible expenses	(4,575)	(4,457)
Income not subject to tax	566	1,086
Origination and reversal of temporary differences (Note 19)	1,255	2,723
Impact of change in tax rate on deferred tax assets (Note 19)	(367)	-
<b>Total income tax expense</b>	<u>(10,425)</u>	<u>(7,452)</u>
<b>Effective income tax rate</b>	<u>28,5%</u>	<u>21,9%</u>



**40 Income taxes (continued)****b. Income tax recognised in other comprehensive income**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
<b>On available-for-sale financial assets</b>		
Deffered tax on net gains from change in fair value of available-for-sale financial assets, net- of amounts realised and impairment losses including change in tax rate (Note 19 and Note 23 f)	<u>(2,827)</u>	<u>4,730</u>

The corporate tax rate will reduce from 20% to 18% applicable to the tax year starting from 1 January 2017 as stipulated in Amendmens to Corporate Income Tax Act enacted in December 2016. Deferred tax liability and asset are measured using the enacted 18% tax rate applicable to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. In 2016, deferred tax assets utilized against taxable profit is measured at the 20% tax rate. Current tax liability is measured at the amount to be paid to the Croatian taxation authority using 20% tax rate applicable for the reporting period.

**c. Current income tax liability**

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
Current income tax liability	<u>2,908</u>	<u>9,351</u>

**41 Operating leases**

The Company lease office space and motor vehicles under operating leases. All leases are cancellable and typically run for an initial period of one to ten years. None of the leases include contingent rentals.

During 2016, HRK 10.7 million was recognised as an expense in the Company's profit or loss (2015: HRK 10.9 million).

## 42 Related parties

The major shareholder of the Company is Vienna Insurance Group AG Wiener Versicherung Gruppe with a holding of 99.47% (2015: 99.47%) of the Company's shares at year end. The remaining 0.53% (2015: 0.53%) of the shares are held by minority shareholders. Ultimate parent of the Company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group. The Company considers that it has an immediate related party relationship with its shareholders, the ultimate parent of its key shareholder, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

### *Parent company and other related companies within VIG Group*

The Company cedes reinsurance to the parent company and other related companies, VIG Re, DONAU and Wiener Städtische Versicherung AG. The results of transactions with parent company and related companies are reinsurance premiums and recoveries during the year as well as receivable and payable balances at the end of the year, as follows:

	2016 HRK'000	2015 HRK'000
<b>Premium ceded:</b>		
Reinsurance premiums payable at beginning of the year	(111,202)	(98,388)
Reinsurance premiums ceded during the year	(150,051)	(160,555)
Reinsurance premiums paid during the year	<u>178,660</u>	<u>147,741</u>
Reinsurance premiums payable at the end of the year	<u>(82,593)</u>	<u>(111,202)</u>
<b>Reinsurance recoveries:</b>		
At the beginning of the year	37,532	54,155
Invoiced during the year	86,513	111,364
Received during the year	<u>(84,599)</u>	<u>(127,987)</u>
Outstanding at the end of the year	<u>39,446</u>	<u>37,532</u>
<b>Reinsurance commission:</b>		
At the beginning of the year	26,255	24,518
Invoiced during the year	47,409	50,254
Received during the year	<u>(52,048)</u>	<u>(48,517)</u>
Outstanding at the end of the year	<u>21,616</u>	<u>26,255</u>
<b>Receivables from deposit retained from reinsurance business (Note 20)</b>	<u>8,726</u>	<u>16,857</u>
<b>Deposit retained from reinsurance business (Note 30)</b>	<u>(383,116)</u>	<u>(376,874)</u>
<b>Accrued interest on deposit retained from reinsurance business</b>	<u>9,372</u>	<u>9,469</u>

## 42 Related parties (continued)

### *Parent company and other related companies within VIG Group (continued)*

In 2016 and 2015, the Company has subordinated loan obtained from the related company, LVP Holding GmbH Austria in the amount of HRK 15.1 million (2015: HRK 15.3 million) (Note 27). Subordinated loan bears 8% interest per annum and has indefinite maturity.

In 2015, the Company repaid borrowing from from related company, LVP Holding GmbH, in the amount of HRK 43,9 million. Borrowing was bearing fixed interest of 5% per annum.

As a result of subordinated loan and borrowing, the Company recognised HRK 1.2 million (2015: HRK 3.4 million including interest on borrowings) of interest expense.

In 2016, management fee charged to the Company amounted to HRK 1.2 million (2015: 1.2 million) (Note 37) and software maintenance services amounted to HRK 10.2 million (2015: HRK 16.9 million) (Note 37).

The Company holds 5% of shareholding in Erste osiguranje Vienna Insurance Group d.d., related company, which is carrying at value of HRK 10,106 thousand. In 2016, Erste osiguranje Vienna Insurance Group d.d. paid dividend in amount of HRK 524 thousand to the Company (2015: HRK 510 thousand).

The Company rents office premises to Erste osiguranje Vienna Insurance Group d.d. whereby rental income was recognised in amount of HRK 1,200 thousand (2015: HRK 1,502 thousand). In addition, the Company rents office premises from Erste osiguranje Vienna Insurance Group d.d. whereby rental expenses were recognised in the amount of HRK 1,147 thousand (2015: HRK 1,375 thousand) (Note 33 and 37).

### *Key management personnel*

Included in key management personnel are Management and Supervisory Board members. The remuneration of the key management personnel amounted to HRK 6.8 million (2015: HRK 6.1 million), and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic salary, bonuses and benefits in kind.

## 42 Related parties (continued)

2016

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<b>Key management personnel</b>	-	1,646	-	6,788
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	13,681	107,122	69,738	83,059
<i>Related companies</i>				
LVP Holding GmbH	-	15,116	-	1,187
Wiener Staedtische Versicherung AG	19	63	3,203	3,892
VIG Re	56,025	360,416	60,974	82,356
DONAU	60	178	7	99
Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna Vienna Insurance Group, Warsaw	2	13	1	-
Erste Osiguranje Vienna Insurance Group d.d.	78	-	1,327	1,147
	<u>69,865</u>	<u>484,554</u>	<u>135,250</u>	<u>178,528</u>

2015

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<b>Key management personnel</b>	-	1,438	-	6,123
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	18,808	120,415	66,117	105,589
<i>Associate</i>				
Vile Baredine	615	-	-	-
<i>Related companies</i>				
LVP Holding GmbH	-	15,270	-	3,397
Wiener Staedtische Versicherung AG	483	3,901	31,213	5,175
VIG Re	61,246	370,222	64,216	76,993
DONAU	105	665	72	367
Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna Vienna Insurance Group, Warsaw	2	19	1	14
Erste Osiguranje Vienna Insurance Group d.d.	-	-	1,593	1,375
	<u>81,259</u>	<u>511,930</u>	<u>163,212</u>	<u>199,033</u>

## 43 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.

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:

- interest rate risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- price risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.
- currency risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Market risk embodies the potential loss as well as the potential gain.

### Asset and liability matching

The Company manages its assets using an approach which balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Management reviews and approves target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process. Due attention is also given to the compliance with the rules established by the Insurance Act.

The Company establishes target asset portfolios for each business segment, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. These strategies include objectives for effective duration, liquidity, asset sector concentration and credit risk quality. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly reviewed.

Many of these estimates are inherently subjective and could affect the Company's ability to achieve its asset and liability management goals and objectives.

### Interest rate risk

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio and debt obligations. 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 different amounts.

The Company is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. This risk is, however, limited, considering that majority of the Company's interest earning investments and majority of interest bearing liabilities bear fixed interest rates at the reporting date.

## 43 Financial risk management (continued)

### Interest rate risk (continued)

Deposits retained from reinsurance bear both variable and fixed interest rates.

Interest rate changes do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the date of financial position. The life assurance provision is discounted using the lower of the technical interest rate or maximum rate prescribed by HANFA, which cannot be higher than the weighted average annual return for the last three years on assets backing life assurance provision.

The Company monitors this exposure through regular reviews of its asset and liability positions. Estimates of cash flows, as well as the impact of interest rate fluctuations on the investment portfolio and technical reserves, are regularly reviewed. The overall objective of these strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements.

The Company attempts to match the future receipts from these assets with its insurance liabilities by purchasing Government bonds. However, due to the relatively short duration of such bonds, and the longer duration of life assurance liabilities, and the inability of the Company to purchase interest rate swaps in Croatia, the Company is exposed to interest rate risk.

Note 45 discloses the effective interest rates and repricing analysis at the reporting date for the Company's and the Company's financial assets and financial liabilities within the scope of IAS 39 at 31 December 2016 and 31 December 2015.

Since the majority of interest earning assets and majority of interest bearing liabilities on those dates, had fixed interest rate, there would be no direct effect on the Company's profit or loss. Indirect effect would be reflected in the change of fair value of debt securities at fair value through profit or loss, therefore there are no disclosures on interest rate sensitivity analysis.

### Price risk

The Company is exposed to price risk on its portfolio of marketable equity securities and investment funds carried in the statement of financial position at fair value. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded on the market.

The Company's objective is to earn competitive returns by investing in a diverse portfolio of securities. Portfolio characteristics are analysed regularly. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit and other comprehensive income resulting from financial instruments.

	<b>Impact on profit or loss after tax 2016 HRK'000</b>	<b>Impact on other comprehensive income after tax 2016 HRK'000</b>	<b>Impact on profit or loss after tax 2015 HRK'000</b>	<b>Impact on other comprehensive income after tax 2015 HRK'000</b>
Change in price by $\pm$ 1%	1,452/(1,452)	488/(488)	995/(995)	414/(414)
Change in price by $\pm$ 3%	4,355/(4,355)	1,463/(1,463)	2,986/(2,986)	1,242/(1,242)
Change in price by $\pm$ 5%	7,258/(7,258)	2,439/(2,439)	4,977/(4,977)	2,070/(2,070)

## 43 Financial risk management (continued)

### Foreign exchange risk

The Company is exposed to currency risk through transactions in foreign currencies. This is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency exposure arises from credit, deposit and investment activities as well as from premium income, calculation of related technical provisions and settlement of claims on insurance policies linked to foreign currency, borrowings and subordinated loan. The currency giving rise to this risk is Euro.

The Company manages foreign currency risk by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency.

Note 46 discloses the currency analysis at the reporting date for the Company's and the Company's financial assets and financial liabilities as at 31 December 2016 and 31 December 2015.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit or loss and other comprehensive income resulting from financial investments.

All the Company's assets and liabilities are denominated either in HRK, EUR or USD. The EUR/HRK rate is targeted in an interval of between 7.40 HRK for 1 EUR and 7.60 HRK for 1 EUR (2015: between 7.35 HRK for 1 EUR and 7.70 HRK for 1 EUR). The EUR/HRK rate was most of the time in the past within that range.

	<b>Impact on profit or loss after tax 2016 HRK'000</b>	<b>Impact on other comprehensive income after tax 2016 HRK'000</b>	<b>Impact on profit or loss after tax 2015 HRK'000</b>	<b>Impact on other comprehensive income after tax 2015 HRK'000</b>
EUR / HRK rate				
Change in fx rate by $\pm$ 1%	<b>9,013/(9,013)</b>	<b>130/(130)</b>	8,840/(8,840)	114/(114)
Change in fx rate by $\pm$ 2%	<b>18,026/(18,026)</b>	<b>261/(261)</b>	17,680/(17,680)	228/(228)

## 43 Financial risk management (continued)

### Credit risk

In the course of its normal operations the Company is exposed to credit risk. Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. It usually results from the adverse changes in a borrower's ability to repay the debt. The Company's maximum exposure to credit risk is represented by the carrying value of its financial assets.

The Company's portfolios of fixed income securities, mortgage loans and to a lesser extent deposits with banks and other investments are subject to credit risk. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans.

Maximum exposure to credit risk at the reporting date is as follows:

	<i>Note</i>	<b>2016</b> <b>HRK'000</b>	2015 HRK'000
Cash and cash equivalents	22	<b>12,730</b>	5,693
Debt securities	17	<b>2,261,530</b>	2,171,256
Deposits with banks	17	<b>156,585</b>	151,751
Loans to customers	17	<b>62,203</b>	68,142
Reinsurers' share of technical provisions	18	<b>501,277</b>	492,445
Insurance and other receivables	20	<b>164,814</b>	190,220
		<b>3,159,139</b>	3,079,507

Accordingly, at the reporting date, the Company had a significant concentration of amounts due from the Republic of Croatia as follows:

	<i>Note</i>	<b>2016</b> <b>HRK'000</b>	2015 HRK'000
Government bonds	17	<b>1,857,389</b>	1,893,857
Current income tax liability	40c)	<b>(2,908)</b>	(9,351)
		<b>1,854,481</b>	1,884,506

The total exposure to Croatian state risk represents 52% of the total assets of the Company (2015: 54%).



## 43 Financial risk management (continued)

### Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties.

#### 2016

	AAA - A HRK'000	BBB - B HRK'000	Not rated HRK'000	Total HRK'000
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	4,035	32,562	-	36,597
Debt securities – assets backing index-linked products	9,305	296,341	-	305,646
<i>Available-for-sale financial assets</i>				
Debt securities	-	919,767	58,142	977,909
<i>Held-to-maturity investments</i>				
Debt securities	-	941,378	-	941,378
<i>Loans and receivables</i>				
Deposits with banks	-	46,453	110,132	156,585
Loans to customers	-	-	62,203	62,203
Reinsurers' share of technical provisions	501,277	-	-	501,277
Insurance and other receivables	81,806	-	83,008	164,814
Cash and cash equivalents	-	-	12,730	12,730
<b>Total exposure to credit risk</b>	<b>596,423</b>	<b>2,236,501</b>	<b>326,215</b>	<b>3,159,139</b>

#### 2015

	AAA - A HRK'000	BBB - B HRK'000	Not rated HRK'000	Total HRK'000
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	4,023	28,829	-	32,852
Debt securities – assets backing index-linked products	9,275	177,075	-	186,350
<i>Available-for-sale financial assets</i>				
Debt securities	-	944,698	57,576	1,002,274
<i>Held-to-maturity investments</i>				
Debt securities	-	949,159	621	949,780
<i>Loans and receivables</i>				
Deposits with banks	-	45,125	106,626	151,751
Loans to customers	-	-	68,142	68,142
Reinsurers' share of technical provisions	492,445	-	-	492,445
Insurance and other receivables	96,937	-	93,283	190,220
Cash and cash equivalents	-	-	5,693	5,693
<b>Total exposure to credit risk</b>	<b>602,680</b>	<b>2,144,886</b>	<b>331,941</b>	<b>3,079,507</b>

## 43 Financial risk management (continued)

### Credit risk (continued)

To mitigate the risk of reinsurance counterparties not paying amounts due, the Company established business and financial standards for reinsurers and broker approvals, incorporating ratings by major rating agencies and considering current market information (Standard&Poor's, A.M. Best).

Reinsurers as of 31 December 2016	Credit rating (Standard&Poor's)
American Agricultural Insurance Company	A
ACE European Group Ltd	AA
CCR / Caisse Centrale de Reassurance	AA
Randall and Quilter Group Investment Holdings Ltd. (ex - Chevanstell Limited)	Not rated
DONAU Versicherung AG Vienna Insurance Group (rating VIG group)	A+
General Reinsurance AG	AA+
Glacier Reinsurance AG	Not rated
Hannover Rückversicherung AG	AA-
Helvetia Schweizerische Versicherungsgesellschaft AG	A
Korean Reinsurance Co.	A
Liberty Mutual Insurance Europe Ltd	A
Mapfre Re, Compania de Reasegueros, S.A.	A
Mutuelle Centrale de Reassurance	Not Rated
Münchener Rückversicherungsgesellschaft	AA-
New Reinsurance Company	AA-
Odyssey Reinsurance Company	A-
Partner Reinsurance Europe SE	A+
Polish Re / Polskie Towarzystwo Reasekuracyjne S.A.	A-
R + V Versicherung AG	AA-
Sava / Pozavarovalnica Sava, d.d.	A-
SCOR Global P&C SE	AA-
Swiss Re Europe S.A.	AA-
Toa Reinsurance Company Limited	A+
Transatlantic Reinsurance Company Ltd.	A+
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	A+
VIG Re zajistovna a.s.	A+
Wiener Städtische Versicherung AG Vienna Insurance Group (rating VIG group)	A+
XL Re Europe Limited	A+
Compensa (rating VIG group)	A+
Zurich Re	AA-

## 43 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 holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and to meet legal requirements.

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

Note 44 discloses the maturity analysis at the reporting date for the Company's financial assets and financial liabilities.

Note 25 discloses the maturity analysis of the Company's technical provisions.

### Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

	Note	2016		2015	
		Book value HRK'000	Fair value HRK'000	Book value HRK'000	Fair value HRK'000
Held-to-maturity investments	17	941,378	1,081,117	949,780	1,073,292
Available-for-sale financial assets	17	1,047,506	1,047,506	1,064,126	1,064,126
Financial assets at fair value through profit or loss	17	519,271	519,271	343,637	343,637
Loans and receivables	17	218,788	218,788	219,893	219,893
Reinsurers' share of technical provisions	18	501,277	501,277	492,445	492,445
Insurance and other receivables	20	164,814	164,814	190,220	190,220
Cash and cash equivalents	22	12,730	12,730	5,693	5,693
<b>Total financial assets</b>		<b>3,405,764</b>	<b>3,545,503</b>	3,265,794	3,389,306
Subordinated loan	27	15,116	15,116	15,270	15,270
Borrowings	28	-	-	764	764
Insurance and other payables	30	579,828	579,828	593,489	593,489
<b>Total financial liabilities</b>		<b>594,944</b>	<b>594,944</b>	609,523	609,523

## 43 Financial risk management (continued)

### Fair values (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).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2016	31 December 2015				
<i>Fair value through profit and loss</i>						
Debt securities	342,243	219,202	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
Equity securities	845	718	Level 1	Price quoted on a stock exchange – average price on the last day in the month	Not applicable	Not applicable
Open-end investment fund shares	176,183	123,717	Level 1	Quoted price issued by the fund	Not applicable	Not applicable
<i>Available for sale assets</i>						
Debt securities	974,904	998,957	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	3,005	3,317	Level 2	Last average price amortised until maturity and corporate bond in the process of listing into stock exchange (purchase price is used)	Not applicable	Not applicable
Equity securities	7,969	4,877	Level 1	Price quoted on a stock exchange – average price on the last day in the month	Not applicable	Not applicable
Equity securities	26,010	24,365	Level 2	Measured at cost and price based on NAV of the real estate fund	Not applicable	Not applicable
Open-end investment fund shares	35,618	32,610	Level 1	Quoted price issued by the fund	Not applicable	Not applicable

## 43 Financial risk management (continued)

### *Hierarchy of fair values*

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

- Level 1: quoted price (unadjusted) in an active market;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the financial assets, either directly (for example prices) or indirectly (for example derived from prices);
- Level 3: inputs for assets are not based on observable market data (for example valuation techniques using significant unobservable inputs).

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
<b>31 December 2016</b>				
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	-	36,597	-	36,597
Debt securities – assets backing index-linked products	-	305,646	-	305,646
Equity securities	845	-	-	845
Investment funds	132,412	-	-	132,412
Investment funds – assets backing unit-linked products	43,771	-	-	43,771
<i>Available-for-sale financial assets</i>				
Debt securities	974,904	3,005	-	977,909
Equity securities	7,969	26,010	-	33,979
Investment funds	35,618	-	-	35,618
<b>Total financial assets</b>	<b>1,195,519</b>	<b>371,258</b>	-	<b>1,566,777</b>
<b>31 December 2015</b>				
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	-	32,852	-	32,852
Debt securities – assets backing index-linked products	-	186,350	-	186,350
Equity securities	718	-	-	718
Investment funds	86,787	-	-	86,787
Investment funds – assets backing unit-linked products	36,930	-	-	36,930
<i>Available-for-sale financial assets</i>				
Debt securities	998,957	3,317	-	1,002,274
Equity securities	4,877	24,365	-	29,242
Investment funds	32,610	-	-	32,610
<b>Total financial assets</b>	<b>1,160,879</b>	<b>246,884</b>	-	<b>1,407,763</b>

In both 2016 and 2015 there were no transfers between Level 1 and Level 2 of the fair value hierarchy and available for sale hierarchy.

## 44 Maturity analysis

The tables below analyses the financial assets and liabilities within the scope of IAS 39 of the Company at 31 December 2016 and 31 December 2015 into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date, except for non-monetary financial assets at fair value through profit or loss which are classified as short term and non-monetary financial assets available for sale carried at cost which are classified as long term. The estimated remaining contractual maturities of insurance provisions are analysed in Note 25 i).

### 2016

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
<b>Financial assets</b>						
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	4,035	13,523	19,039	-	36,597
Debt securities – assets backing index-linked products	-	9,305	52,912	198,377	45,052	305,646
Equity securities	845	-	-	-	-	845
Investment funds	132,412	-	-	-	-	132,412
Investment funds – assets backing unit-linked products	-	-	-	-	43,771	43,771
<i>Available-for-sale financial assets</i>						
Debt securities	49,287	54,020	94,570	238,261	541,771	977,909
Equity securities	7,969	-	-	-	26,010	33,979
Investment funds	35,618	-	-	-	-	35,618
<i>Held-to-maturity investments</i>						
Debt securities	19,267	6,744	21,876	634,039	259,452	941,378
<i>Loans and receivables</i>						
Deposits with banks	10,389	20,885	-	125,311	-	156,585
Loans to customers	10,263	2,497	4,677	8,201	36,565	62,203
Reinsurers' share of technical provisions	52,226	57,594	31,164	149,256	211,037	501,277
Insurance and other receivables	164,814	-	-	-	-	164,814
Cash and cash equivalents	12,730	-	-	-	-	12,730
<b>Total financial assets</b>	<b>495,820</b>	<b>155,080</b>	<b>218,722</b>	<b>1,372,484</b>	<b>1,163,658</b>	<b>3,405,764</b>
<b>Financial liabilities</b>						
Subordinated loan*	-	-	-	-	15,116	15,116
Insurance and other payables	126,906	113,738	33,194	94,136	211,854	579,828
<b>Total financial liabilities</b>	<b>126,906</b>	<b>113,738</b>	<b>33,194</b>	<b>94,136</b>	<b>226,970</b>	<b>594,944</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,193 thousand in 2016. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

**44 Maturity analysis (continued)****2015**

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
<b>Financial assets</b>						
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	-	4,023	28,339	490	32,852
Debt securities – assets backing index-linked products	-	-	9,275	158,155	18,920	186,350
Equity securities	718	-	-	-	-	718
Investment funds	86,787	-	-	-	-	86,787
Investment funds – assets backing unit-linked products	-	-	-	-	36,930	36,930
<i>Available-for-sale financial assets</i>						
Debt securities	20,167	70,279	184,562	324,391	402,875	1,002,274
Equity securities	4,877	-	-	-	24,365	29,242
Investment funds	32,610	-	-	-	-	32,610
<i>Held-to-maturity investments</i>						
Debt securities	19,959	-	6,740	660,090	262,991	949,780
<i>Loans and receivables</i>						
Deposits with banks	-	20,538	10,139	93,588	27,486	151,751
Loans to customers	12,344	2,983	5,047	9,892	37,876	68,142
Reinsurers' share of technical provisions	53,086	68,831	41,580	175,135	153,813	492,445
Insurance and other receivables	190,220	-	-	-	-	190,220
Cash and cash equivalents	5,693	-	-	-	-	5,693
<b>Total financial assets</b>	<b>426,461</b>	<b>162,631</b>	<b>261,366</b>	<b>1,449,590</b>	<b>965,746</b>	<b>3,265,794</b>
<b>Financial liabilities</b>						
Subordinated loan*	-	-	-	-	15,270	15,270
Borrowings**	-	781	-	-	-	781
Insurance and other payables	124,005	148,809	41,617	125,247	153,811	593,489
<b>Total financial liabilities</b>	<b>124,005</b>	<b>149,590</b>	<b>41,617</b>	<b>125,247</b>	<b>169,081</b>	<b>609,540</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,203 thousand in 2015. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 45 Interest rate repricing analysis

The following tables present the Company's financial assets and 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 2016 and 31 December 2015 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 6), provide some indication of the sensitivities of the Company's earnings to movements in interest rates. Earnings 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 foreign currency.

### 2016

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non – interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
<b>Financial assets</b>									
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	n/a	-	-	-	-	-	36,597	<b>36,597</b>	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	305,646	<b>305,646</b>	-
Equity securities	n/a	-	-	-	-	-	845	<b>845</b>	-
Investment funds	n/a	-	-	-	-	-	132,412	<b>132,412</b>	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	43,771	<b>43,771</b>	-
<i>Available-for-sale financial assets</i>									
Debt securities	4.96	31,798	52,412	94,570	238,261	541,771	19,097	<b>977,909</b>	<b>958,812</b>
Equity securities	n/a	-	-	-	-	-	33,979	<b>33,979</b>	-
Investment funds	n/a	-	-	-	-	-	35,618	<b>35,618</b>	-
<i>Held-to-maturity investments</i>									
Debt securities	6.29	-	6,744	21,876	634,039	259,452	19,267	<b>941,378</b>	<b>922,111</b>
<i>Loans and receivables</i>									
Deposits with banks	3.37	10,000	20,844	-	115,100	-	10,641	<b>156,585</b>	<b>145,944</b>
Loans to customers	7.50	10,263	2,497	4,677	8,201	26,551	10,014	<b>62,203</b>	<b>43,658</b>
Reinsurers' share of technical provisions	n/a	-	-	-	-	-	501,277	<b>501,277</b>	-
Insurance and other receivables	n/a	-	-	-	-	-	164,814	<b>164,814</b>	-
Cash and cash equivalents	0.12	12,730	-	-	-	-	-	<b>12,730</b>	-
<b>Total financial assets</b>		<b>64,791</b>	<b>82,497</b>	<b>121,123</b>	<b>995,601</b>	<b>827,774</b>	<b>1,313,978</b>	<b>3,405,764</b>	<b>2,070,525</b>
<b>Financial liabilities</b>									
Subordinated loan*	8.00	-	-	-	-	15,116	-	<b>15,116</b>	<b>15,116</b>
Insurance and other payables	3.00	98,067	10,665	16,638	46,420	211,325	196,713	<b>579,828</b>	<b>295,267</b>
<b>Total financial liabilities</b>		<b>98,067</b>	<b>10,665</b>	<b>16,638</b>	<b>46,420</b>	<b>226,441</b>	<b>196,713</b>	<b>594,944</b>	<b>310,383</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,193 thousands in 2016. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.



**45 Interest rate repricing analysis (continued)**

2015

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non – interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
<b>Financial assets</b>									
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	n/a	-	-	-	-	-	32,852	<b>32,852</b>	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	186,350	<b>186,350</b>	-
Equity securities	n/a	-	-	-	-	-	718	<b>718</b>	-
Investment funds	n/a	-	-	-	-	-	86,787	<b>86,787</b>	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	36,930	<b>36,930</b>	-
<i>Available-for-sale financial assets</i>									
Debt securities	5.69	311	68,660	184,562	324,391	402,874	21,476	<b>1,002,274</b>	<b>980,798</b>
Equity securities	n/a	-	-	-	-	-	29,242	<b>29,242</b>	-
Investment funds	n/a	-	-	-	-	-	32,610	<b>32,610</b>	-
<i>Held-to-maturity investments</i>									
Debt securities	6.29	610	-	6,740	660,090	262,991	19,349	<b>949,780</b>	<b>930,431</b>
<i>Loans and receivables</i>									
Deposits with banks	3.50	-	20,443	10,000	88,648	26,723	5,937	<b>151,751</b>	<b>145,814</b>
Loans to customers	7.50	12,344	2,983	5,047	9,892	28,068	9,808	<b>68,142</b>	<b>45,726</b>
Reinsurers' share of technical provisions	n/a	-	-	-	-	-	492,445	<b>492,445</b>	-
Insurance and other receivables	n/a	-	-	-	-	-	190,220	<b>190,220</b>	-
Cash and cash equivalents	0.36	5,693	-	-	-	-	-	<b>5,693</b>	-
<b>Total financial assets</b>		<b>18,958</b>	<b>92,086</b>	<b>206,349</b>	<b>1,083,021</b>	<b>720,656</b>	<b>1,144,724</b>	<b>3,265,794</b>	<b>2,102,769</b>
<b>Financial liabilities</b>									
Subordinated loan*	8.00	-	-	-	-	15,270	-	<b>15,270</b>	<b>15,270</b>
Borrowings**	2.22	-	781	-	-	-	-	<b>781</b>	-
Insurance and other payables	3.00	103,044	13,293	24,632	82,092	153,811	216,617	<b>593,489</b>	<b>288,745</b>
<b>Total financial liabilities</b>		<b>103,044</b>	<b>14,074</b>	<b>24,632</b>	<b>82,092</b>	<b>169,081</b>	<b>216,617</b>	<b>609,540</b>	<b>304,015</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,203 thousands in 2015. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 46 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 2016 and 31 December 2015.

### 2016

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	CZK HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>							
<i>Financial assets at fair value through profit or loss</i>							
Debt securities	36,597	-	36,597	-	-	-	36,597
Debt securities – assets backing index-linked products	133,128	129,266	262,394	-	-	43,252	305,646
Equity securities	-	-	-	-	-	845	845
Investment funds	-	28,204	28,204	-	-	104,208	132,412
Investment funds – assets backing unit-linked products	-	43,771	43,771	-	-	-	43,771
<i>Available-for-sale financial assets</i>							
Debt securities	85,449	280,630	366,079	10,049	-	601,781	977,909
Equity securities	15,890	-	15,890	-	14	18,075	33,979
Investment funds	11,859	23,759	35,618	-	-	-	35,618
<i>Held-to-maturity investments</i>							
Debt securities	-	657,321	657,321	-	-	284,057	941,378
<i>Loans and receivables</i>							
Deposits with banks	-	28,134	28,134	-	-	128,451	156,585
Loans to customers	-	31,782	31,782	642	-	29,779	62,203
Reinsurers' share of technical provisions	-	299,146	299,146	195	-	201,936	501,277
Insurance and other receivables	1,757	41,629	43,386	-	-	121,428	164,814
Cash and cash equivalents	1,063	-	1,063	19	-	11,648	12,730
<b>Total financial assets</b>	<b>285,743</b>	<b>1,563,642</b>	<b>1,849,385</b>	<b>10,905</b>	<b>14</b>	<b>1,545,460</b>	<b>3,405,764</b>
<b>Financial liabilities</b>							
Subordinated loan*	15,116	-	15,116	-	-	-	15,116
Insurance and other payables	8,252	339,882	348,134	-	-	231,694	579,828
<b>Total financial liabilities</b>	<b>23,368</b>	<b>339,882</b>	<b>363,250</b>	<b>-</b>	<b>-</b>	<b>231,694</b>	<b>594,944</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,193 thousands in 2016. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included

**46 Currency risk analysis (continued)****2015**

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	CZK HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>							
<i>Financial assets at fair value through profit or loss</i>							
Debt securities	32,852	-	32,852	-	-	-	32,852
Debt securities – assets backing index-linked products	85,889	100,461	186,350	-	-	-	186,350
Equity securities	-	-	-	-	-	718	718
Investment funds	-	8,016	8,016	-	-	78,771	86,787
Investment funds – assets backing unit-linked products	-	36,930	36,930	-	-	-	36,930
<i>Available-for-sale financial assets</i>							
Debt securities	74,040	345,614	419,654	9,705	-	572,915	1,002,274
Equity securities	14,246	-	14,246	-	12	14,984	29,242
Investment funds	12,451	7,871	20,322	-	-	12,288	32,610
<i>Held-to-maturity investments</i>							
Debt securities	-	665,238	665,238	-	-	284,542	949,780
<i>Loans and receivables</i>							
Deposits with banks	-	27,486	27,486	-	-	124,265	151,751
Loans to customers	-	36,883	36,883	395	-	30,864	68,142
Reinsurers' share of technical provisions	-	296,740	296,740	198	-	195,507	492,445
Insurance and other receivables	-	44,587	44,587	-	-	145,633	190,220
Cash and cash equivalents	658	-	658	77	-	4,958	5,693
<b>Total financial assets</b>	<b>220,136</b>	<b>1,569,826</b>	<b>1,789,962</b>	<b>10,375</b>	<b>12</b>	<b>1,465,445</b>	<b>3,265,794</b>
<b>Financial liabilities</b>							
Subordinated loan*	15,270	-	15,270	-	-	-	15,270
Borrowings**	781	-	781	-	-	-	781
Insurance and other payables	7,399	331,996	339,395	-	-	254,094	593,489
<b>Total financial liabilities</b>	<b>23,450</b>	<b>331,996</b>	<b>355,446</b>	<b>-</b>	<b>-</b>	<b>254,094</b>	<b>609,540</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,203 thousands in 2015. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 47 Contingent assets and liabilities

### *Off-balance sheet accounts*

The Company had no off-balance sheet accounts as at 31 December 2016 (2015: -).

### *Capital liabilities*

The Company had no capital liabilities as at 31 December 2016 (2015: -).

### *Litigations and claims*

The Company is sued in several litigations (excluding court claims) for which provision was made in the financial statements when the Management believes that is probable that the Company will lose the court case.

## Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency

### Statement of financial position (balance sheet) 31 December 2016

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>001</b>	002+003	<b>I</b>	<b>INTANGIBLE ASSETS</b>	<b>2,011,847</b>	<b>7,495,998</b>	<b>9,507,845</b>	<b>3,590,447</b>	<b>7,891,558</b>	<b>11,482,005</b>
002		1	Goodwill	-	3,551,774	3,551,774		3,551,774	3,551,774
003		2	Other intangible assets	2,011,847	3,944,224	5,956,071	3,590,447	4,339,784	7,930,231
<b>004</b>	005+006+007	<b>II</b>	<b>TANGIBLE ASSETS</b>	<b>55,357,874</b>	<b>34,713,961</b>	<b>90,071,835</b>	<b>48,637,695</b>	<b>27,214,132</b>	<b>75,851,826</b>
005		1	Land and buildings intended for company business operations	55,306,639	27,635,396	82,942,036	48,547,016	20,039,863	68,586,879
006		2	Equipment	49,679	6,148,345	6,198,024	90,679	6,411,809	6,502,487
007		3	Other tangible assets and stock	1,555	930,220	931,776		762,460	762,460
<b>008</b>	009+010+014+033	<b>III</b>	<b>INVESTMENTS</b>	<b>1,897,310,063</b>	<b>518,925,833</b>	<b>2,416,235,896</b>	<b>1,915,050,591</b>	<b>517,284,932</b>	<b>2,432,335,523</b>
<b>009</b>		<b>A</b>	<b>Investments in land and buildings not intended for company business operations</b>	<b>24,680,784</b>	<b>37,398,595</b>	<b>62,079,379</b>	<b>22,110,366</b>	<b>32,699,058</b>	<b>54,809,424</b>
<b>010</b>	011+012+013	<b>B</b>	<b>Investments in subsidiaries, associates and joint ventures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
011		1	Shares and stakes in subsidiaries	-	-	-	-	-	-
012		2	Shares and stakes in associates	-	-	-	-	-	-
013		3	Joint venture participation	-	-	-	-	-	-
<b>014</b>	015+018+023+029	<b>C</b>	<b>Financial investments</b>	<b>1,872,629,279</b>	<b>481,527,237</b>	<b>2,354,156,517</b>	<b>1,892,940,225</b>	<b>484,585,874</b>	<b>2,377,526,099</b>
<b>015</b>	016+017	<b>1</b>	<b>Financial investments held-to-maturity</b>	<b>886,864,984</b>	<b>62,915,194</b>	<b>949,780,178</b>	<b>878,440,603</b>	<b>62,937,660</b>	<b>941,378,263</b>
016		1.1	Debt financial securities	886,864,984	62,915,194	949,780,178	878,440,603	62,937,660	941,378,263
017		1.2	Other			-			-
<b>018</b>	019+020+021+022	<b>2</b>	<b>Financial investments available-for-sale</b>	<b>723,251,396</b>	<b>340,874,231</b>	<b>1,064,125,627</b>	<b>697,106,480</b>	<b>350,399,209</b>	<b>1,047,505,690</b>
019		2.1	Equity financial securities	25,255,387	3,986,170	29,241,557	26,854,921	7,123,897	33,978,819
020		2.2	Debt financial securities	671,530,504	330,743,922	1,002,274,426	641,088,083	336,820,517	977,908,600
021		2.3	Investment fund units	26,465,505	6,144,140	32,609,645	29,163,476	6,454,795	35,618,271
022		2.4	Other	-	-	-	-	-	-
<b>023</b>	024+025+026+027+028	<b>3</b>	<b>Financial investments at fair value through profit and loss account</b>	<b>79,514,436</b>	<b>40,842,868</b>	<b>120,357,304</b>	<b>134,445,018</b>	<b>35,408,911</b>	<b>169,853,929</b>
024		3.1	Equity financial securities	-	718,422	718,422		845,135	845,135
025		3.2	Debt financial securities	32,851,602	-	32,851,602	36,596,764		36,596,764
026		3.3	Derivative financial instruments	-	-	-			-
027		3.4	Investment fund units	46,662,834	40,124,446	86,787,280	97,848,254	34,563,776	132,412,030
028		3.5	Other			-			-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of financial position (balance sheet) 31 December 2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>029</b>	030+031+032	<b>4</b>	<b>Loans and receivables</b>	<b>182,998,463</b>	<b>36,894,945</b>	<b>219,893,407</b>	<b>182,948,124</b>	<b>35,840,094</b>	<b>218,788,218</b>
030		4.1	Deposits with credit institutions (banks)	121,074,585	30,677,015	151,751,600	125,310,806	31,274,093	156,584,899
031		4.2	Loans	61,923,878	6,217,930	68,141,807	57,637,318	4,566,001	62,203,319
032		4.3	Other	-	-	-	-	-	-
<b>033</b>		<b>D</b>	<b>Deposits with the cedent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>034</b>		<b>IV</b>	<b>INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>223,280,049</b>	<b>-</b>	<b>223,280,049</b>	<b>349,416,910</b>	<b>-</b>	<b>349,416,910</b>
<b>035</b>	036+037+038+039+040+041+042	<b>V</b>	<b>REINSURANCE SHARE IN TECHNICAL PROVISIONS</b>	<b>288,135,939</b>	<b>204,309,017</b>	<b>492,444,956</b>	<b>294,788,116</b>	<b>206,489,338</b>	<b>501,277,454</b>
036		1	Provisions for unearned premiums, reinsurance share	740,920	60,793,447	61,534,367	6,478	59,746,331	59,752,809
037		2	Mathematical provision, reinsurance share	283,690,690	-	283,690,690	292,410,365	-	292,410,365
038		3	Provision for claims outstanding, reinsurance share	3,704,329	143,515,570	147,219,899	2,371,273	146,743,007	149,114,280
039		4	Provisions bonuses and rebates, reinsurance share	-	-	-	-	-	-
040		5	Equalisation provisions, reinsurance share	-	-	-	-	-	-
041		6	Other insurance technical provisions, reinsurance share	-	-	-	-	-	-
042		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-	-	-	-	-	-
<b>043</b>	044+045	<b>VI</b>	<b>DEFERRED AND CURRENT TAX ASSET</b>	<b>2,536,544</b>	<b>2,541,272</b>	<b>5,077,815</b>	<b>2,911,128</b>	<b>3,054,404</b>	<b>5,965,532</b>
044		1	Deferred tax asset	2,536,544	2,541,272	5,077,815	2,911,128	3,054,404	5,965,532
045		2	Current tax asset	-	-	-	-	-	-
<b>046</b>	047+050+051	<b>VII</b>	<b>RECEIVABLES</b>	<b>49,243,153</b>	<b>140,265,666</b>	<b>189,508,819</b>	<b>43,168,688</b>	<b>120,396,760</b>	<b>163,565,448</b>
<b>047</b>	048+049	<b>1</b>	<b>Receivables from insurance business</b>	<b>-</b>	<b>46,007,315</b>	<b>46,007,315</b>	<b>-</b>	<b>41,142,767</b>	<b>41,142,767</b>
048		1.1	From policyholders	-	46,007,315	46,007,315	-	40,457,762	40,457,762
049		1.2	From insurance agents, or insurance brokers	-	-	-	-	685,005	685,005
<b>050</b>		<b>2</b>	<b>Receivables from reinsurance business</b>	<b>43,583,152</b>	<b>53,353,674</b>	<b>96,936,827</b>	<b>41,047,762</b>	<b>40,757,373</b>	<b>81,805,134</b>
<b>051</b>	052+053+054	<b>3</b>	<b>Other receivables</b>	<b>5,660,000</b>	<b>40,904,677</b>	<b>46,564,677</b>	<b>2,120,926</b>	<b>38,496,621</b>	<b>40,617,547</b>
<b>052</b>		<b>3.1</b>	<b>Receivables from other insurance business</b>	<b>-</b>	<b>36,050,729</b>	<b>36,050,729</b>	<b>-</b>	<b>28,493,850</b>	<b>28,493,850</b>
<b>053</b>		<b>3.2</b>	<b>Receivables for return on investments</b>	<b>148,267</b>	<b>485</b>	<b>148,753</b>	<b>132,265</b>	<b>682</b>	<b>132,947</b>
<b>054</b>		<b>3.3</b>	<b>Other receivables</b>	<b>5,511,733</b>	<b>4,853,462</b>	<b>10,365,195</b>	<b>1,988,662</b>	<b>10,002,089</b>	<b>11,990,750</b>

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of financial position (balance sheet) 31 December 2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>055</b>	056-060+061	<b>VIII</b>	<b>OTHER ASSETS</b>	<b>9,936,941</b>	<b>1,851,669</b>	<b>11,788,610</b>	<b>10,611,833</b>	<b>3,126,696</b>	<b>13,738,529</b>
<b>056</b>	057+058+059	<b>1</b>	<b>Cash at bank and in hand</b>	<b>3,841,121</b>	<b>1,851,669</b>	<b>5,692,790</b>	<b>9,602,839</b>	<b>3,126,696</b>	<b>12,729,535</b>
057		1.1	<i>Funds in the business account</i>	3,805,884	1,851,669	<b>5,657,554</b>	9,399,023	3,120,696	<b>12,519,719</b>
058		1.2	<i>Funds in the account of assets covering mathematical provision</i>	35,237	-	<b>35,237</b>	203,816		<b>203,816</b>
059		1.3	<i>Cash in hand</i>	-	-	-		6,000	<b>6,000</b>
<b>060</b>		<b>2</b>	<b>Long-term assets intended for sale and business cessation</b>	6,095,820	-	<b>6,095,820</b>	1,008,994		<b>1,008,994</b>
<b>061</b>		<b>3</b>	<b>Other</b>			-			-
<b>062</b>	063+064+065	<b>IX</b>	<b>PREPAYMENTS AND ACCRUED INCOME</b>	<b>312,681</b>	<b>21,707,040</b>	<b>22,019,721</b>	<b>378,753</b>	<b>25,273,008</b>	<b>25,651,761</b>
063		1	Deferred interest and rent	-	-	-	-	-	-
064		2	Deferred acquisition costs	248,282	21,060,757	<b>21,309,040</b>	283,878	24,119,257	<b>24,403,135</b>
065		3	Other prepayments and accrued income	64,398	646,283	<b>710,681</b>	94,875	1,153,751	<b>1,248,626</b>
<b>066</b>	001+004+008+034+035+043+046+055+062	<b>X</b>	<b>TOTAL ASSETS</b>	<b>2,528,125,090</b>	<b>931,810,457</b>	<b>3,459,935,546</b>	<b>2,668,554,161</b>	<b>910,730,828</b>	<b>3,579,284,989</b>
<b>067</b>		<b>XI</b>	<b>OFF BALANCE SHEET ITEMS</b>			-			-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of financial position (balance sheet) 31 December 2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>068</b>	069+072+073+077+081+084	<b>XII</b>	<b>CAPITAL AND RESERVES</b>	<b>317,408,612</b>	<b>225,223,457</b>	<b>542,632,069</b>	<b>329,771,257</b>	<b>236,157,778</b>	<b>565,929,035</b>
<b>069</b>	070+071	<b>1</b>	<b>Subscribed capital</b>	<b>134,303,825</b>	<b>101,491,315</b>	<b>235,795,140</b>	<b>134,303,825</b>	<b>101,491,315</b>	<b>235,795,140</b>
070		1.1	<i>Paid-up capital - ordinary shares</i>	134,303,825	101,491,315	<b>235,795,140</b>	134,303,825	101,491,315	<b>235,795,140</b>
071		1.2	<i>Paid-up capital - preference shares</i>			-			-
<b>072</b>		<b>2</b>	<b>Issued shares premiums (capital reserves)</b>	<b>6,752,671</b>	<b>43,699,922</b>	<b>50,452,593</b>	<b>6,752,671</b>	<b>43,699,922</b>	<b>50,452,593</b>
<b>073</b>	074+075+076	<b>3</b>	<b>Revaluation reserve</b>	<b>29,602,578</b>	<b>14,489,491</b>	<b>44,092,069</b>	<b>40,103,279</b>	<b>22,989,297</b>	<b>63,092,576</b>
074		3.1	<i>Land and buildings</i>			-			-
075		3.2	<i>Financial investments available-for-sale</i>	29,602,578	14,489,491	<b>44,092,069</b>	40,103,279	22,989,297	<b>63,092,576</b>
076		3.3	<i>Other revaluation reserves</i>			-			-
<b>077</b>	078+079+080	<b>4</b>	<b>Reserves</b>	<b>92,528,105</b>	<b>34,497,964</b>	<b>127,026,069</b>	<b>92,528,105</b>	<b>34,497,964</b>	<b>127,026,069</b>
078		4.1	<i>Legally stipulated reserves</i>	2,755,583	560,571	<b>3,316,154</b>	2,755,583	560,571	<b>3,316,154</b>
079		4.2	<i>Statutory reserve</i>	871,562	-	<b>871,562</b>	871,562		<b>871,562</b>
080		4.3.	<i>Other reserve</i>	88,900,960	33,937,392	<b>122,838,353</b>	88,900,960	33,937,392	<b>122,838,353</b>
<b>081</b>	082+083	<b>5</b>	<b>Transferred profit or retained loss</b>	<b>41,167,676</b>	<b>18,453,645</b>	<b>59,621,322</b>	<b>43,125,740</b>	<b>20,342,313</b>	<b>63,468,053</b>
082		5.1	<i>Retained profit</i>	41,167,676	18,453,645	<b>59,621,322</b>	43,125,740	20,342,313	<b>63,468,053</b>
083		5.2	<i>Transferred loss (-)</i>			-			-
<b>084</b>	085+086	<b>6</b>	<b>Profit or loss of the current accounting period</b>	<b>13,053,757</b>	<b>12,591,121</b>	<b>25,644,878</b>	<b>12,957,637</b>	<b>13,136,968</b>	<b>26,094,605</b>
085		6.1	<i>Profit of the current accounting period</i>	13,053,757	12,591,121	<b>25,644,878</b>	12,957,637	13,136,968	<b>26,094,605</b>
086		6.2	<i>Loss of the current accounting period (-)</i>			-			-
<b>087</b>		<b>XIII</b>	<b>SUBORDINATED LIABILITIES</b>	-	<b>15,270,100</b>	<b>15,270,100</b>		<b>15,115,580</b>	<b>15,115,580</b>
<b>088</b>		<b>XIV</b>	<b>MANORITY INTERESTS</b>			-			-



**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of financial position (balance sheet) 31 December 2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>089</b>	090+091+092+093+094+095	<b>XV</b>	<b>TECHNICAL PROVISIONS</b>	<b>1,619,931,551</b>	<b>435,834,225</b>	<b>2,055,765,776</b>	<b>1,606,831,677</b>	<b>436,858,399</b>	<b>2,043,690,076</b>
090		1	Provisions for unearned premiums, gross amount	2,223,563	140,750,326	142,973,890	1,950,433	143,924,693	145,875,126
091		2	Mathematical provision, gross amount	1,602,871,687	-	1,602,871,687	1,590,877,906		1,590,877,906
092		3	Provision for claims outstanding, gross amount	14,836,300	292,398,271	307,234,571	14,003,337	290,390,849	304,394,187
093		4	Provisions bonuses and rebates, gross amount	-	-	-			-
094		5	Equalisation provision, gross amount	-	235,628	235,628		12,857	12,857
095		6	Other insurance technical provisions, gross amount	-	2,450,000	2,450,000		2,530,000	2,530,000
<b>096</b>		<b>XVI</b>	<b>LIFE ASSURANCE TECHN.PROV.WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount</b>	<b>223,280,049</b>	<b>-</b>	<b>223,280,049</b>	<b>349,416,910</b>		<b>349,416,910</b>
<b>097</b>	098+099	<b>XVII</b>	<b>OTHER RESERVES</b>	<b>3,775,600</b>	<b>4,583,158</b>	<b>8,358,758</b>	<b>3,555,193</b>	<b>4,992,161</b>	<b>8,547,354</b>
098		1	Provisions for pensions and similar liabilities	-	574,730	574,730		777,875	777,875
099		2	Other provisions	3,775,600	4,008,428	7,784,028	3,555,193	4,214,286	7,769,479
<b>100</b>	101+102	<b>XVIII</b>	<b>DEFERRED AND CURRENT TAX LIABILITY</b>	<b>12,880,798</b>	<b>7,492,753</b>	<b>20,373,551</b>	<b>10,136,067</b>	<b>6,621,488</b>	<b>16,757,555</b>
101		1	Deferred tax liability	7,400,645	3,622,373	11,023,017	8,803,159	5,046,431	13,849,590
102		2	Current tax liability	5,480,154	3,870,380	9,350,533	1,332,908	1,575,057	2,907,965
<b>103</b>		<b>XIX</b>	<b>DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE</b>	<b>285,005,031</b>	<b>91,869,270</b>	<b>376,874,302</b>	<b>293,129,387</b>	<b>89,986,355</b>	<b>383,115,742</b>
<b>104</b>	105+106+107	<b>XX</b>	<b>FINANCIAL LIABILITIES</b>	<b>1,395,214</b>	<b>-</b>	<b>1,395,214</b>	<b>-</b>	<b>-</b>	<b>-</b>
105		1	Liabilities on the basis of loans	763,505	-	763,505			-
106		2	Liabilities on the basis of issued financial instrument	-	-	-			-
107		3	Other financial liabilities	631,709	-	631,709			-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of financial position (balance sheet) 31 December 2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>108</b>	109+110+111+112	<b>XXI</b>	<b>OTHER LIABILITIES</b>	<b>59,698,656</b>	<b>103,634,173</b>	<b>163,332,830</b>	<b>62,918,100</b>	<b>73,214,395</b>	<b>136,132,496</b>
109		1	Liabilities from direct insurance business	6,229,392	5,161,530	<b>11,390,923</b>	18,101,206	7,748,337	<b>25,849,542</b>
110		2	Liabilities from co-insurance and reinsurance business	46,760,693	84,666,561	<b>131,427,255</b>	41,677,586	49,307,377	<b>90,984,963</b>
111		3	Liabilities for sale and ceased business	-	-	-			-
112		4	Other liabilities	6,708,570	13,806,082	<b>20,514,652</b>	3,139,309	16,158,682	<b>19,297,991</b>
<b>113</b>	114+115	<b>XXII</b>	<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>4,749,577</b>	<b>47,903,321</b>	<b>52,652,898</b>	<b>12,795,571</b>	<b>47,784,670</b>	<b>60,580,241</b>
114		1	Deferred reinsurance commission			-			-
115		2	Other accrued expenses and deferred income	4,749,577	47,903,321	<b>52,652,898</b>	12,795,571	47,784,670	<b>60,580,241</b>
<b>116</b>	068+087+088+089+096+097+100+103+104+108+113	<b>XXIII</b>	<b>TOTAL LIABILITIES</b>	<b>2,528,125,090</b>	<b>931,810,457</b>	<b>3,459,935,546</b>	<b>2,668,554,161</b>	<b>910,730,828</b>	<b>3,579,284,989</b>
<b>117</b>		<b>XXIV</b>	<b>OFF BALANCE SHEET ITEMS</b>			-			-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of comprehensive income (income statement) for period 01.01.2016 - 31.12.2016**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>001</b>	002+003+004+005+006	<b>I</b>	<b>Earned premiums (recognized in revenue)</b>	<b>224,182,882</b>	<b>142,987,257</b>	<b>367,170,139</b>	<b>259,255,268</b>	<b>164,026,232</b>	<b>423,281,500</b>
002		1	Written gross premiums	265,594,110	280,573,657	546,167,768	291,940,069	299,229,999	591,170,069
003		2	Value adjustment and charged adjustment of insurance premium value	-	(1,183,334)	(1,183,334)		582,102	582,102
004		3	Premiums ceded to reinsurance (-)	(41,590,720)	(130,064,340)	(171,655,060)	(32,223,489)	(131,564,387)	(163,787,875)
005		4	Change in gross provisions for unearned premiums (+/-)	245,251	(7,515,408)	(7,270,157)	273,130	(3,174,367)	(2,901,237)
006		5	Change in provisions for unearned premiums, reinsurance share (+/-)	(65,760)	1,176,681	1,110,922	(734,442)	(1,047,116)	(1,781,558)
<b>007</b>	008+009+010+011+012+013+014	<b>II</b>	<b>Income from investments</b>	<b>130,553,789</b>	<b>24,177,024</b>	<b>154,730,812</b>	<b>135,939,052</b>	<b>24,689,778</b>	<b>160,628,830</b>
008		1	Income from subsidiaries, associates and joint ventures			-			-
009		2	Income from investment in land and buildings	882,743	891,810	1,774,554	1,902,976	1,033,672	2,936,648
010		3	Interest income	94,909,888	20,297,162	115,207,050	89,188,829	19,458,907	108,647,736
011		4	Unrealized profits from investment	7,089,882	44,630	7,134,511	19,727,922	151,311	19,879,233
012		5	Realized profits from investment	23,034,758	2,132,884	25,167,641	19,832,008	3,143,840	22,975,848
013		6	Net positive exchange rate differentials	3,267,535	582,874	3,850,409	3,700,774	397,712	4,098,486
014		7	Other investment profits	1,368,983	227,664	1,596,647	1,586,543	504,336	2,090,880
<b>015</b>		<b>III</b>	<b>Income from commissions and fees</b>	<b>10,683,929</b>	<b>41,571,475</b>	<b>52,255,403</b>	<b>3,683,636</b>	<b>46,070,600</b>	<b>49,754,236</b>
<b>016</b>		<b>IV</b>	<b>Other insurance-technical income, net of reinsurance</b>	<b>479,733</b>	<b>4,300,232</b>	<b>4,779,964</b>	<b>343,032</b>	<b>5,128,348</b>	<b>5,471,380</b>
<b>017</b>		<b>V</b>	<b>Other income</b>	<b>2,040,972</b>	<b>1,329,508</b>	<b>3,370,481</b>	<b>1,090,081</b>	<b>1,236,024</b>	<b>2,326,105</b>
<b>018</b>	019+022	<b>VI</b>	<b>Expenditures for insured events, net</b>	<b>(147,983,586)</b>	<b>(82,471,903)</b>	<b>(230,455,489)</b>	<b>(138,025,090)</b>	<b>(100,050,727)</b>	<b>(238,075,817)</b>
019	020+021	1	Settled claims	(147,930,093)	(96,949,789)	(244,879,882)	(137,524,997)	(105,285,585)	(242,810,582)
020		1.1	Gross amount (-)	(178,809,795)	(198,906,527)	(377,716,322)	(164,485,624)	(184,391,859)	(348,877,483)
021		1.2	Reinsurer share(+)	30,879,702	101,956,738	132,836,440	26,960,627	79,106,274	106,066,901
022	023+024	2	Change in provisions for claims outstanding (+/-)	(53,493)	14,477,886	14,424,394	(500,093)	5,234,858	4,734,765
023		2.1	Gross amount (-)	(406,975)	35,231,596	34,824,621	832,963	2,007,421	2,840,384
024		2.2	Reinsurer share(+)	353,483	(20,753,710)	(20,400,227)	(1,333,056)	3,227,437	1,894,381

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of comprehensive income (income statement) for period 01.01.2016 - 31.12.2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>025</b>	026+029	<b>VII</b>	<b>Change in other technical provisions, net of reinsurance</b>	<b>15,353,998</b>	<b>428,945</b>	<b>15,782,943</b>	<b>20,713,456</b>	<b>142,772</b>	<b>20,856,228</b>
026	027+028	1	Change in mathematical provision (+/-)	15,353,998	-	15,353,998	20,713,456	-	20,713,456
027		1.1	Gross amount (-)	10,492,384	-	10,492,384	11,993,781		11,993,781
028		1.2	Reinsurer share(+)	4,861,615	-	4,861,615	8,719,675		8,719,675
029	030+031	2	Change in other technical provisions, net of reinsurance (+/-)	-	428,945	428,945	-	142,772	142,772
030		2.1	Gross amount (-)	-	428,945	428,945		142,772	142,772
031		2.2	Reinsurer share(+)			-			-
<b>032</b>	033+034	<b>VIII</b>	<b>Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)</b>	<b>(74,650,426)</b>	<b>-</b>	<b>(74,650,426)</b>	<b>(126,136,861)</b>	<b>-</b>	<b>(126,136,861)</b>
033		1	Gross amount (-)	(74,650,426)	-	(74,650,426)	(126,136,861)		(126,136,861)
034		2	Reinsurer share(+)			-			-
<b>035</b>	036+037	<b>IX</b>	<b>Expenditures for return of premium (bonuses and rebates), net of reinsurance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
036		1	Depending on the result (bonuses)			-			-
037		2	Not depending on the result (rebates)			-			-
<b>038</b>	039+043	<b>X</b>	<b>Business expenditures (for business operations), net</b>	<b>(115,193,785)</b>	<b>(88,822,634)</b>	<b>(204,016,419)</b>	<b>(106,641,044)</b>	<b>(96,826,993)</b>	<b>(203,468,037)</b>
039	040+041+042	1	Acquisition costs	(44,708,223)	(53,757,146)	(98,465,368)	(45,582,574)	(60,472,297)	(106,054,871)
040		1.1	Commission	(8,954,848)	(38,012,522)	(46,967,370)	(9,897,808)	(39,289,154)	(49,186,961)
041		1.2	Other acquisition costs	(35,738,951)	(21,553,980)	(57,292,930)	(35,720,362)	(24,241,644)	(59,962,005)
042		1.3	Change in deferred acquisition costs (+/-)	(14,424)	5,809,356	5,794,932	35,596	3,058,500	3,094,096
043	044+045+046	2	Management costs (administration costs)	(70,485,562)	(35,065,489)	(105,551,051)	(61,058,470)	(36,354,696)	(97,413,166)
044		2.1	Depreciation	(3,193,799)	(2,690,015)	(5,883,813)	(4,243,628)	(2,236,118)	(6,479,745)
045		2.2	Salaries, taxes and contributions to and from salaries	(19,696,782)	(14,428,876)	(34,125,658)	(19,158,600)	(16,099,215)	(35,257,815)
046		2.3	Other administration costs	(47,594,982)	(17,946,598)	(65,541,579)	(37,656,242)	(18,019,363)	(55,675,605)

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of comprehensive income (income statement) for period 01.01.2016 - 31.12.2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>047</b>	048+049+050+051+052+053+054	<b>XI</b>	<b>Investment expenses</b>	<b>(25,016,942)</b>	<b>(6,634,319)</b>	<b>(31,651,262)</b>	<b>(27,521,087)</b>	<b>(8,091,768)</b>	<b>(35,612,855)</b>
048		1	Depreciation (buildings not intended for business operations of the company)	(322,003)	(599,206)	(921,209)	(420,820)	(644,214)	(1,065,033)
049		2	Interest	(8,908,188)	(2,356,412)	(11,264,600)	(8,388,936)	(2,183,542)	(10,572,478)
050		3	Investment value adjustment (reduction)	(7,145,593)	(1,749,775)	(8,895,368)	(1,160,117)	(2,261,696)	(3,421,812)
051		4	Realized losses from sale of financial assets	(831,551)	(81,629)	(913,180)	(844,383)	(477,244)	(1,321,628)
052		5	Unrealized losses from sale of financial assets	(713,957)	(34,167)	(748,124)	(2,296,907)		(2,296,907)
053		6	Net negative exchange rate differences	(5,701,003)	(676,651)	(6,377,654)	(12,653,756)	(748,913)	(13,402,669)
054		7	Other investment expenses	(1,394,647)	(1,136,479)	(2,531,125)	(1,756,168)	(1,776,159)	(3,532,327)
055	056+057	<b>XII</b>	<b>Other technical expenses, net of reinsurance</b>	<b>(1,129,751)</b>	<b>(15,408,957)</b>	<b>(16,538,708)</b>	<b>(1,192,031)</b>	<b>(14,616,104)</b>	<b>(15,808,134)</b>
056		1	Expenses for preventive operations	-	(2,494,561)	(2,494,561)		(2,317,043)	(2,317,043)
057		2	Other technical expenses of insurance	(1,129,751)	(12,914,396)	(14,044,146)	(1,192,031)	(12,299,061)	(13,491,091)
058		<b>XIII</b>	<b>Other expenses including value adjustments</b>	<b>(2,734,391)</b>	<b>(5,215,266)</b>		<b>(4,070,953)</b>	<b>(2,625,545)</b>	
<b>059</b>	001+007+015+016+017+018+025+032+035+038+047+055+058	<b>XIV</b>	<b>Profit or loss of the accounting period before taxation (+/-)</b>	<b>16,586,422</b>	<b>16,241,360</b>	<b>32,827,782</b>	<b>17,437,460</b>	<b>19,082,617</b>	<b>36,520,077</b>
<b>060</b>	061+062	<b>XV</b>	<b>Profit or loss tax</b>	<b>(3,532,665)</b>	<b>(3,650,239)</b>	<b>(7,182,904)</b>	<b>(4,479,823)</b>	<b>(5,945,648)</b>	<b>(10,425,472)</b>
061		1	Current tax expense	(5,343,531)	(4,562,531)	(9,906,062)	(4,854,408)	(6,458,781)	(11,313,188)
062		2	Deferred tax expense (income)	1,810,866	912,291	2,723,157	374,585	513,132	887,717
<b>063</b>	059+060	<b>XVI</b>	<b>Profit or loss of the accounting period after taxation (+/-)</b>	<b>13,053,757</b>	<b>12,591,121</b>	<b>25,644,878</b>	<b>12,957,637</b>	<b>13,136,968</b>	<b>26,094,605</b>
064		1	Attributable to owners of the parent			-			-
065		2	Attributable to non-controlling interests			-			-
<b>066</b>	001+007+015+016+017+062	<b>XVII</b>	<b>TOTAL INCOME</b>	<b>369,752,170</b>	<b>215,277,786</b>	<b>585,029,956</b>	<b>400,685,653</b>	<b>241,664,114</b>	<b>642,349,767</b>
<b>067</b>	018+025+032+035+038+047+055+058+061	<b>XVIII</b>	<b>TOTAL EXPENDITURE</b>	<b>(356,698,413)</b>	<b>(202,686,665)</b>	<b>(559,385,079)</b>	<b>(387,728,016)</b>	<b>(228,527,146)</b>	<b>(616,255,162)</b>

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of comprehensive income (income statement) for period 01.01.2016 - 31.12.2016 (continued)**

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>068</b>	069+070+071+072+073+074+075+076	<b>XIX</b>	<b>Other comprehensive income</b>	<b>(18,290,420)</b>	<b>(628,602)</b>	<b>(18,919,022)</b>	<b>10,500,701</b>	<b>8,499,806</b>	<b>19,000,507</b>
069		1	Profits/losses on translation of financial statements on foreign operating activities			-			-
070		2	Profits/losses on revaluation of financial assets available for sale	(22,863,025)	(785,752)	<b>(23,648,778)</b>	11,903,215	9,923,865	<b>21,827,080</b>
071		3	Profits/losses on revaluation of land and buildings intended for business activities of the company			-			-
072		4	Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets			-			-
073		5	Effects from cash flow hedging instruments			-			-
074		6	Actuarial profits/losses on defined benefit pension plans			-			-
075		7	Share in other comprehensive income of associated companies			-			-
076		8	Profit tax on other comprehensive income	4,572,605	157,150	<b>4,729,756</b>	(1,402,514)	(1,424,058)	<b>(2,826,573)</b>
<b>077</b>	078+079	<b>XX</b>	<b>Total comprehensive income</b>	<b>(5,236,664)</b>	<b>11,962,519</b>	<b>6,725,856</b>	<b>23,458,338</b>	<b>21,636,774</b>	<b>45,095,112</b>
078		1	Attributable to owners of the parent			-			-
079		2	Attributable to non-controlling interests			-			-
<b>080</b>		<b>XXI</b>	<b>Reclassification adjustments</b>			-			-

## Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

### Statement of cash flow (indirect method) for period 01.01.2016 - 31.12.2016

In HRK

Position number	Sum elements	Position code	Position description	Current business period	The same period of the previous year
<b>001</b>	002+013+031	<b>I</b>	<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>20,808,196</b>	<b>52,282,468</b>
<b>002</b>	003+004	<b>1</b>	<b>Cash flow before the change in assets and liabilities</b>	<b>(80,293,712)</b>	<b>(82,558,290)</b>
003		1.1	Profit/loss before taxation	36,520,077	32,827,782
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	(116,813,789)	(115,386,072)
005		1.2.1	<i>Depreciation of real estate and equipment</i>	5,595,845	5,269,407
006		1.2.2	<i>Depreciation of intangible assets</i>	2,013,535	1,535,615
007		1.2.3	<i>Value impairment and profits/losses on reduction to fair value</i>	7,520,946	9,056,880
008		1.2.4	<i>Interest expense</i>	10,572,478	11,264,600
009		1.2.5	<i>Interest income</i>	(108,647,736)	(115,207,050)
010		1.2.6	<i>Shares in profit of associated companies</i>	-	-
011		1.2.7	<i>Profits/losses on sale of tangible assets (including land and buildings)</i>	(35,886)	(699,665)
012		1.2.8	<i>Other adjustments</i>	(33,832,971)	(26,605,859)
<b>013</b>	014+015+...+030	<b>2</b>	<b>Increase/decrease in assets and liabilities</b>	<b>118,857,665</b>	<b>136,265,408</b>
014		2.1	Increase/decrease in investments available-for-sale	47,447,256	(3,761,267)
015		2.2	Increase/decrease in investment valued at fair value through profit and loss account	(48,557,219)	65,847,996
016		2.3	Increase/decrease in deposits, loans and receivables	3,638,179	(41,118,910)
017		2.4	Increase/decrease of deposits in insurance business ceded to reinsurance	-	-
018		2.5	Increase/decrease in investments for the account and risk of life assurance policyholders	(109,231,451)	(68,554,252)
019		2.6	Increase/decrease in reinsurance share in technical provisions	(8,832,498)	14,427,691
020		2.7	Increase/decrease in tax assets	-	-
021		2.8	Increase/decrease in receivables	133,612,687	114,276,901
022		2.9	Increase/decrease in other assets	4,726,652	2,189,028
023		2.10	Increase/decrease in prepayments and accrued income	(2,986,235)	(5,809,561)
024		2.11	Increase/decrease in technical provisions	(12,075,700)	(38,475,793)
025		2.12	Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	126,136,861	74,650,426
026		2.13	Increase/decrease in tax liabilities	-	-
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance	9,112,142	14,565,295
028		2.15	Increase/decrease in financial liabilities	-	-
029		2.16	Increase/decrease in other liabilities	(25,011,544)	4,320,781
030		2.17	Increase/decrease in accruals and deferred income	878,535	3,707,073
<b>031</b>		<b>3</b>	<b>Paid profit tax</b>	<b>(17,755,757)</b>	<b>(1,424,650)</b>

## Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

### Statement of cash flow (indirect method) for period 01.01.2016 - 31.12.2016 (continued)

Position number	Sum elements	Position code	Position description	Current business period	The same period of the previous year
<b>032</b>	033+034+...+046	<b>II</b>	<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>8,794,075</b>	<b>16,041,118</b>
033		1	Inflows from sale of tangible assets	550,813	922,751
034		2	Outflows for purchase of tangible assets	(2,322,076)	(3,141,987)
035		3	Inflows from sale of intangible assets	-	-
036		4	Outflows for purchase of intangible assets	(4,819,201)	(2,614,102)
037		5	Inflows from sale of land and buildings not intended for business operations of the company	13,967,518	-
038		6	Outflows for purchase of land and buildings not intended for business operations of the company	(211,223)	(470,907)
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures	-	-
040		8	Inflows from investments held to maturity	606,148	20,665,150
041		9	Outflows for investments held to maturity	-	-
042		10	Inflows from sale of securities and stakes	-	-
043		11	Outflows for investments in securities and stakes	-	-
044		12	Inflows from dividends and shares in profit	1,022,097	680,213
045		13	Inflows on the basis of payment of given short-term and long-term loans	-	-
046		14	Outflows for given short-term and long-term loans	-	-
<b>047</b>	048+049+050+051+052	<b>III</b>	<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(22,565,526)</b>	<b>(69,448,336)</b>
048		1	Cash inflows on the basis of initial capital increase	-	-
049		2	Cash inflows from received short-term and long-term loans	-	-
050		3	Cash outflows for payment of received short-term and long-term loans	(767,380)	(48,545,474)
051		4	Cash outflows for repurchase of own shares	-	-
052		5	Cash outflows for payment of dividends	(21,798,146)	(20,902,862)
<b>053</b>	001+032+047		<b>NET CASH FLOW</b>	<b>7,036,745</b>	<b>(1,124,749)</b>
<b>054</b>		<b>IV</b>	<b>EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS</b>		<b>218,667</b>
<b>055</b>	053+054	<b>V</b>	<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,036,745</b>	<b>(906,082)</b>
056		1	Cash and cash equivalents at the beginning of the period	5,692,790	6,598,872
<b>057</b>	<b>055+056</b>	<b>2</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>12,729,535</b>	<b>5,692,790</b>



**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of changes in equity for period 01.01.2015 - 31.12.2015**

In HRK

Position code	Position description	Attributable to owners of the parent						Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year		
<b>I.</b>	<b>Balance as at 1 January of previous year</b>	<b>235,795,140</b>	<b>50,452,593</b>	<b>63,011,091</b>	<b>127,026,069</b>	<b>51,280,967</b>	<b>24,591,602</b>	<b>552,157,461</b>	
1.	Changes in accounting policies							-	
2.	Correction of errors from previous periods							-	
<b>II.</b>	<b>Balance as at 1 January of previous year (corrected)</b>	<b>235,795,140</b>	<b>50,452,593</b>	<b>63,011,091</b>	<b>127,026,069</b>	<b>51,280,967</b>	<b>24,591,602</b>	<b>552,157,461</b>	-
<b>III.</b>	<b>Comprehensive income/loss of the previous year</b>	-	-	<b>(18,919,022)</b>	-	-	<b>25,644,878</b>	<b>6,725,856</b>	-
1.	Profit or loss of the period	-	-	-	-	-	25,644,878	25,644,878	
2.	<b>Other comprehensive income or loss of the previous year</b>	-	-	<b>(18,919,022)</b>	-	-	-	<b>(18,919,022)</b>	-
2.1.	Unrealized gains or losses from tangible assets (land and buildings)	-	-	-	-	-	-	-	
2.2.	Unrealized gains or losses from financial assets available for sale	-	-	(121,326)	-	-	-	(121,326)	
2.3.	Realized gains or losses from financial assets available for sale	-	-	(18,797,696)	-	-	-	(18,797,696)	
2.4.	Other non-owner changes in equity	-	-	-	-	-	-	-	
<b>IV.</b>	<b>Transactions with owners (previous period)</b>	-	-	-	-	<b>8,340,354</b>	<b>(24,591,602)</b>	<b>(16,251,248)</b>	-
1.	Increase/decrease in subscribed capital	-	-	-	-	-	-	-	
2.	Other payments by owners	-	-	-	-	-	-	-	
3.	Payment of shares in profit /dividends	-	-	-	-	-	(20,902,862)	(20,902,862)	
4.	Other distributions to owners	-	-	-	-	8,340,354	(3,688,740)	4,651,614	
<b>V.</b>	<b>Balance as at the last day of the reporting period in previous year</b>	<b>235,795,140</b>	<b>50,452,593</b>	<b>44,092,069</b>	<b>127,026,069</b>	<b>59,621,322</b>	<b>25,644,878</b>	<b>542,632,069</b>	-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency  
(continued)**

**Statement of changes in equity for period 01.01.2015 - 31.12.2015 (continued)**

In HRK

Position code	Position description	Attributable to owners of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year	Total capital and reserves		
<b>VI.</b>	<b>Balance as at 1 January of the current year</b>	<b>235,795,140</b>	<b>50,452,593</b>	<b>44,092,069</b>	<b>127,026,069</b>	<b>59,621,322</b>	<b>25,644,878</b>	<b>542,632,069</b>	-	
1.	Changes in accounting policies							-		
2.	Correction of errors from previous periods							-		
<b>VII.</b>	<b>Balance as at 1 January of the current year (corrected)</b>	<b>235,795,140</b>	<b>50,452,593</b>	<b>44,092,069</b>	<b>127,026,069</b>	<b>59,621,322</b>	<b>25,644,878</b>	<b>542,632,069</b>	-	
<b>VIII.</b>	<b>Comprehensive income/loss of the current year</b>	-	-	<b>19,000,507</b>	-	-	<b>26,094,605</b>	<b>45,095,112</b>	-	
1.	Profit or loss of the previous period						26,094,605	26,094,605		
2.	<b>Other comprehensive income or loss of the current year</b>	-	-	<b>19,000,507</b>	-	-	-	<b>19,000,507</b>	-	
2.1.	Unrealised gains or losses from tangible assets (land and buildings)							-		
2.2.	Unrealised gains or losses from financial assets available for sale			36,374,137				36,374,137		
2.3.	Realised gains or losses from financial assets available for sale			(17,373,630)				(17,373,630)		
2.4.	Other non-owner changes in equity							-		
<b>IX.</b>	<b>Transactions with owners (current period)</b>	-	-	-	-	<b>3,846,732</b>	<b>(25,644,878)</b>	<b>(21,798,146)</b>	-	
1.	Increase/decrease in subscribed capital							-		
2.	Other payments by owners							-		
3.	Payment of shares in profit /dividends						(21,798,146)	(21,798,146)		
4.	Other transactions with owners					3,846,732	(3,846,732)	-		
<b>X.</b>	<b>Balance as at the last day of the reporting period in the current year</b>	<b>235,795,140</b>	<b>50,452,593</b>	<b>63,092,576</b>	<b>127,026,069</b>	<b>63,468,053</b>	<b>26,094,605</b>	<b>565,929,035</b>	-	

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules

### Statement of financial position – Assets as at 31 December 2016

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of deferred acquisition costs	Transfer of other tangible assets to inventories	Transfer of investments for and on behalf of life assurance policyholders to financial assets at fair value through profit or loss	Transfer of other prepaid expenses and other assets to insurance and other receivables	Statutory financial statements	Comment
<b>INTANGIBLE ASSETS</b>	<b>11,482,005</b>					<b>11,482,005</b>	<b>Other intangible assets</b>
Goodwill	3,551,774						
Other intangible assets	7,930,231						
	-	24,403,135				<b>24,403,135</b>	<b>Deferred acquisition costs</b>
<b>TANGIBLE ASSETS</b>	<b>75,851,826</b>		(69,792)			<b>75,782,034</b>	<b>Property and equipment</b>
Land and buildings intended for company business operations	68,586,879						
Equipment	6,502,487						
Other tangible assets and stock	762,460						
<b>INVESTMENTS</b>	<b>2,432,335,523</b>						
<b>Investments in land and buildings not intended for company business operations</b>	<b>54,809,424</b>					<b>54,809,424</b>	<b>Investment property</b>
<b>Investments in subsidiaries, associates and joint ventures</b>	-						
Shares and stakes in subsidiaries	-						
Shares and stakes in associates	-						
Joint venture participation	-						
<b>Financial investments</b>	<b>2,377,526,099</b>						
<b>Financial investments held-to-maturity</b>	<b>941,378,263</b>					<b>941,378,263</b>	<b>Held-to-maturity investments</b>
Debt financial securities	941,378,263						
Other	-						
<b>Financial investments available-for-sale</b>	<b>1,047,505,690</b>					<b>1,047,505,690</b>	<b>Available-for-sale financial assets</b>
Equity financial securities	33,978,819						
Debt financial securities	977,908,600						
Investment fund units	35,618,271						
Other	-						
<b>Financial investments at fair value through profit and loss account</b>	<b>169,853,929</b>			349,416,910		<b>519,270,839</b>	<b>Financial assets at fair value through profit or loss</b>
Equity financial securities	845,135						
Debt financial securities	36,596,764						
Derivative financial instruments	-						
Investment fund units	132,412,030						
Other	-						
<b>Loans and receivables</b>	<b>218,788,218</b>					<b>218,788,218</b>	<b>Loans and receivables</b>
Deposits with credit institutions (banks)	156,584,899						
Loans	62,203,319						
Other	-						
<b>Deposits with the cedent</b>	-						

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of financial position – Assets as at 31 December 2016 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of deferred acquisition costs	Transfer of other tangible assets to inventories	Transfer of investments for and on behalf of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of other prepaid expenses and other assets to insurance and other receivables	Statutory financial statements	Comment
<b>INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>349,416,910</b>			(349,416,910)			
<b>REINSURANCE SHARE IN TECHNICAL PROVISIONS</b>	<b>501,277,454</b>					<b>501,277,454</b>	<b>Reinsurers' share of technical provisions</b>
Provisions for unearned premiums, reinsurance share	59,752,809						
Mathematical provision, reinsurance share	292,410,365						
Provision for claims outstanding, reinsurance share	149,114,280						
Provisions bonuses and rebates, reinsurance share	-						
Equalisation provisions, reinsurance share	-						
Other insurance technical provisions, reinsurance share	-						
Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-						
<b>DEFERRED AND CURRENT TAX ASSET</b>	<b>5,965,532</b>						
Deferred tax asset	5,965,532					5,965,532	Deferred tax assets
Current tax asset	-		69,792			69,792	Inventories
<b>RECEIVABLES</b>	<b>163,565,448</b>						
<b>Receivables from insurance business</b>	<b>41,142,767</b>						
<i>From policyholders</i>	40,457,762						
<i>From insurance agents, or insurance brokers</i>	685,005						
<b>Receivables from reinsurance business</b>	<b>81,805,134</b>						
<b>Other receivables</b>	<b>40,617,547</b>						
<i>Receivables from other insurance business</i>	28,493,850						
<i>Receivables for return on investments</i>	132,947						
<i>Other receivables</i>	11,990,750						
<b>OTHER ASSETS</b>	<b>13,738,529</b>						
<b>Cash at bank and in hand</b>	<b>12,729,535</b>						
<i>Funds in the business account</i>	12,519,719						
<i>Funds in the account of assets covering mathematical provision</i>	203,816						
<i>Cash in hand</i>	6,000						
<b>Long-term assets intended for sale and business cessation</b>	<b>1,008,994</b>						
<b>Other</b>	<b>-</b>						
<b>PREPAYMENTS AND ACCRUED INCOME</b>	<b>25,651,761</b>						
Deferred interest and rent	-						
Deferred acquisition costs	24,403,135	(24,403,135)					
Other prepayments and accrued income	1,248,626				(1,248,626)		
<b>TOTAL ASSETS</b>	<b>3,579,284,989</b>					<b>3,579,284,989</b>	<b>Total assets</b>
<b>OFF BALANCE SHEET ITEMS</b>	<b>-</b>						

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of financial position – Equity and liabilities as at 31 December 2016

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of current year profit to retained earnings	Transfer of statutory reserve to legal reserves	Transfer of discretionary profit participation from life assurance provision to separate line	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of deposit from reinsurance, accrued expenses and other liabilities to insurance and other payables	Statutory financial statements	Comment
<b>CAPITAL AND RESERVES</b>	<b>565,929,035</b>						<b>565,929,035</b>	<b>Total equity</b>
<b>Subscribed capital</b>	<b>235,795,140</b>						<b>235,795,140</b>	<b>Share capital</b>
<i>Paid-up capital - ordinary shares</i>	<i>235,795,140</i>							
<i>Paid-up capital - preference shares</i>								
<b>Issued shares premiums (capital reserves)</b>	<b>50,452,593</b>						<b>50,452,593</b>	<b>Issued shares</b>
<b>Revaluation reserve</b>	<b>63,092,576</b>						<b>63,092,576</b>	<b>Fair value reserve</b>
<i>Land and buildings</i>								
<i>Financial investments available-for-sale</i>	<i>63,092,576</i>							
<i>Other revaluation reserves</i>								
<b>Reserves</b>	<b>127,026,069</b>						<b>127,026,069</b>	<b>Legal reserve</b>
<i>Legally stipulated reserves</i>	<i>3,316,154</i>		871,562				<i>4,187,716</i>	<b>Legal and statutory reserves</b>
<i>Statutory reserve</i>	<i>871,562</i>		(871,562)					
<i>Other reserve</i>	<i>122,838,353</i>						<i>122,838,353</i>	<b>Other reserves</b>
<b>Transferred profit or retained loss</b>	<b>63,468,053</b>	26,094,605					<b>89,562,658</b>	<b>Retained earnings</b>
<i>Retained profit</i>	<i>63,468,053</i>							
<i>Transferred loss (-)</i>								
<b>Profit or loss of the current accounting period</b>	<b>26,094,605</b>	(26,094,605)						
<i>Profit of the current accounting period</i>	<i>26,094,605</i>							
<i>Loss of the current accounting period (-)</i>								
<b>SUBORDINATED LIABILITIES</b>	<b>15,115,580</b>						<b>15,115,580</b>	<b>Subordinated loan</b>
<b>MANORITY INTERESTS</b>								
<b>TECHNICAL PROVISIONS</b>	<b>2,043,690,076</b>			(42,674,022)	349,416,910		<b>2,350,432,964</b>	<b>Technical provisions</b>
Provisions for unearned premiums, gross amount	145,875,126							
Mathematical provision, gross amount	1,590,877,906							
Provision for claims outstanding, gross amount	304,394,187							
Provisions bonuses and rebates, gross amount				42,674,022			<b>42,674,022</b>	<b>Discretionary profit participation provision</b>
Equalisation provision, gross amount	12,857							
Other insurance technical provisions, gross amount	2,530,000							

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of financial position – Equity and liabilities as at 31 December 2016 (continued)

		Transfer of current year profit to retained earnings	Transfer of statutory reserve to legal reserves	Transfer of discretionary profit participation from life assurance provision to separate line	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of deposit from reinsurance, accrued expenses and other liabilities to insurance and other payables	Statutory financial statements	Comment
<b>Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services</b>								
<b>LIFE ASSURANCE TECHN.PROV.WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount</b>	<b>349,416,910</b>				<b>(349,416,910)</b>			
<b>OTHER RESERVES</b>	<b>8,547,354</b>						<b>8,547,354</b>	<b>Provisions for liabilities and charges</b>
Provisions for pensions and similar liabilities	777,875							
Other provisions	7,769,479							
<b>DEFERRED AND CURRENT TAX LIABILITY</b>	<b>16,757,555</b>							
Deferred tax liability	13,849,590						<b>13,849,590</b>	<b>Differed tax liability</b>
Current tax liability	2,907,965						<b>2,907,965</b>	<b>Current income tax liability</b>
<b>DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE</b>	<b>383,115,742</b>					<b>(383,115,742)</b>		
<b>FINANCIAL LIABILITIES</b>								
Liabilities on the basis of loans								
Liabilities on the basis of issued financial instrument								
Other financial liabilities						-	-	
<b>OTHER LIABILITIES</b>	<b>136,132,496</b>					<b>443,695,983</b>	<b>579,828,479</b>	<b>Insurance and other payables</b>
Liabilities from direct insurance business	25,849,542							
Liabilities from co-insurance and reinsurance business	90,984,963							
Liabilities for sale and ceased business								
Other liabilities	19,297,991							
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>60,580,241</b>					<b>(60,580,241)</b>		
Deferred reinsurance commission								
Other accrued expenses and deferred income	60,580,241							
<b>TOTAL LIABILITIES</b>	<b>3,579,284,989</b>						<b>3,579,284,989</b>	<b>Total liabilities and equity</b>
<b>OFF BALANCE SHEET ITEMS</b>								

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of comprehensive income for year ended 31 December 2016

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Comprising other technical income with other operating income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
<b>Earned premiums (recognized in revenue)</b>	<b>423,281,500</b>								
Written gross premiums	591,170,069	582,102						591,752,170	Gross premiums written
Value adjustment and charged adjustment of insurance premium value	582,102	(582,102)							
Premiums ceded to reinsurance (-)	(163,787,875)							(163,787,875)	Written premiums ceded to reinsurers
Change in gross provisions for unearned premiums (+/-)	(2,901,237)							(2,901,237)	Change in the gross provision for unearned premiums
Change in provisions for unearned premiums, reinsurance share (+/-)	(1,781,558)							(1,781,558)	Reinsurers' share of change in the provision for unearned premiums
<b>Income from investments</b>	<b>160,628,830</b>						(7,224,726)	153,404,105	Financial income
Income from subsidiaries, associates and joint ventures	-								
Income from investment in land and buildings	2,936,648						(38,362)		
Interest income	108,647,736								
Unrealized profits from investment	19,879,233						(2,296,907)		
Realized profits from investment	22,975,848						(790,971)		
Net positive exchange rate differentials	4,098,486						(4,098,486)		
Other investment profits	2,090,880								
<b>Income from commissions and fees</b>	<b>49,754,236</b>							49,754,236	Fee and commission income
<b>Other insurance-technical income, net of reinsurance</b>	<b>5,471,380</b>		(5,471,380)						
<b>Other income</b>	<b>2,326,105</b>		5,471,380					7,797,485	Other operating income
<b>Expenditures for insured events, net</b>	<b>(238,075,817)</b>								
Settled claims	(242,810,582)								
Gross amount (-)	(348,877,483)			(111,159,924)				(460,037,407)	Claims and benefits incurred
Reinsurer share(+)	106,066,901				10,614,056			116,680,957	Reinsurers' share of claims and benefits incurred
Change in provisions for claims outstanding (+/-)	4,734,765								
Gross amount (-)	2,840,384			(2,840,384)					
Reinsurer share(+)	1,894,381				(1,894,381)				

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of comprehensive income for year ended 31 December 2016 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Comprising other technical income with other operating income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
<b>Change in other technical provisions, net of reinsurance</b>	<b>20,856,228</b>								
Change in mathematical provision (+/-)	20,713,456								
Gross amount (-)	11,993,781			(11,993,781)					
Reinsurer share(+)	8,719,675				(8,719,675)				
Change in other technical provisions, net of reinsurance (+/-)	142,772								
Gross amount (-)	142,772			(142,772)					
Reinsurer share(+)	-								
<b>Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)</b>	<b>(126,136,861)</b>								
Gross amount (-)	(126,136,861)			126,136,861					
Reinsurer share(+)	-								
<b>Expenditures for return of premium (bonuses and rebates), net of reinsurance</b>	<b>-</b>								
Depending on the result (bonuses)	-								
Not depending on the result (rebates)	-								
<b>Business expenditures (for business operations), net</b>	<b>(203,468,037)</b>								
Acquisition costs	(106,054,871)							(106,054,871)	Acquisition costs
Commission	(49,186,961)								
Other acquisition costs	(59,962,005)								
Change in deferred acquisition costs (+/-)	3,094,096								
Management costs (administration costs)	(97,413,166)							(97,413,166)	Administration costs
Depreciation	(6,479,745)								
Salaries, taxes and contributions to and from salaries	(35,257,815)								
Other administration costs	(55,675,605)								



## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of comprehensive income for year ended 31 December 2016 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Comprising other technical income with other operating income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
<b>Investment expenses</b>	<b>(35,612,855)</b>						<b>7,224,726</b>	<b>(28,388,129)</b>	<b>Financial expenses</b>
Depreciation (buildings not intended for business operations of the company)	(1,065,033)								
Interest	(10,572,478)								
Investment value adjustment (reduction)	(3,421,812)								
Realized losses from sale of financial assets	(1,321,628)						829,333		
Unrealized losses from sale of financial assets	(2,296,907)						2,296,907		
Net negative exchange rate differences	(13,402,669)						4,098,486		
Other investment expenses	(3,532,327)								
<b>Other technical expenses, net of reinsurance</b>	<b>(15,808,134)</b>							<b>(15,808,134)</b>	<b>Other operating expenses</b>
Expenses for preventive operations	(2,317,043)								
Other technical expenses of insurance	(13,491,091)								
<b>Other expenses including value adjustments</b>									
<b>Profit or loss of the accounting period before taxation (+/-)</b>	<b>36,520,077</b>							<b>36,520,077</b>	<b>Profit before income tax</b>
<b>Profit or loss tax</b>	<b>(10,425,472)</b>							<b>(10,425,472)</b>	<b>Income tax expense</b>
Current tax expense	(11,313,188)								
Deferred tax expense (income)	887,717								
<b>Profit or loss of the accounting period after taxation (+/-)</b>	<b>26,094,605</b>							<b>26,094,605</b>	<b>Profit for the year</b>
Attributable to owners of the parent									
Attributable to non-controlling interests									
<b>TOTAL INCOME</b>	<b>642,349,767</b>						<b>(7,224,726)</b>		
<b>TOTAL EXPENDITURE</b>	<b>(616,255,162)</b>						<b>7,224,726</b>		

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of comprehensive income for year ended 31 December 2016 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Comprising other technical income with other operating income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
<b>Other comprehensive income</b>	19,000,507							19,000,507	<b>Other comprehensive income for the year, net of income tax</b>
Profits/losses on translation of financial statements on foreign operating activities									
Profits/losses on revaluation of financial assets available for sale	21,827,080							21,827,080	<b>Net change in fair value of available-for-sale financial assets, net of deferred</b>
Profits/losses on revaluation of land and buildings intended for business activities of the company									
Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets									
Effects from cash flow hedging instruments									
Actuarial profits/losses on defined benefit pension plans									
Share in other comprehensive income of associated companies									
Profit tax on other comprehensive income	(2,826,573)							(2,826,573)	<b>Profit tax on other comprehensive income</b>
<b>Total comprehensive income</b>	45,095,112							45,095,112	<b>Total comprehensive income for the year</b>
Attributable to owners of the parent									
Attributable to non-controlling interests									
<b>Reclassification adjustments</b>									

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of cash flows for year ended 31 December 2016

Statement of cash flow prepared in accordance with the Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (Official Gazette 37/16), the preparation of which is described in detail in the Instructions for completing financial statements and additional reports of insurance and reinsurance companies ("HANFA CF") differ in the presentation from the Statement of cash flows ("CF") forming a part of statutory financial statements.

Differences are as follows:

1. Impairment losses on tangible and intangible assets are shown in CF together with amortization or depreciation correspondingly, while in CF HANFA they are presented within Impairment losses and fair value gains/losses.
2. Change in deferred acquisition costs in CF is presented separately while in HANFA CF is presented within Other adjustments.
3. Depreciation of small inventory is shown separately in CF, while in CF HANFA is shown within Depreciation of property and equipment.
4. Impairment losses on financial assets, investment in associate and insurance and other receivables are presented separately in CF while in HANFA CF are presented within Impairment losses and fair value gains/losses.
5. Net fair value gains on financial assets are presented separately in CF and include realised and unrealised gains/losses while in CF HANFA unrealised gains/losses are presented within Impairment losses and fair value gains/losses and realised gains/losses are presented within Other adjustments.
6. Net foreign exchange losses/gains are presented separately in CF while in HANFA CF are shown within Other adjustments.
7. Dividend income and cash receipts from dividends are in CF presented separately and within operating cash flow while in CF HANFA dividend income is presented within Other adjustments and dividend cash receipts within investing activities.
8. Profit on disposal of equipment as well Net loss on disposal of investment property are shown separately in CF, while in CF HANFA they are shown together within Profit/losses on sale of tangible assets (including land and buildings).
9. Provision for liabilities and charges in CF is shown separately while in CF HANFA is shown within Other adjustments.
10. Equipment write off in CF is presented separately while in HANFA CF is presented within Other adjustments.
11. Net decrease / (increase) in held-to-maturity investments in CF is shown within cash flow from operating activities, while in HANFA CF within cash flow from investing activities.
12. Net increase in financial assets at fair value through profit and loss in CF is shown comprising investments for the account and risk of life assurance policyholders as opposed to being shown separately in HANFA CF.

## **Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**

### **Statement of cash flows for year ended 31 December 2016 (continued)**

1. Net decrease / (increase) in investment property in CF is shown within cash flow from operating activities while in CF HANFA is presented within cash flow from investing activities.
2. Net increase in technical provision in CF comprise Increase/decrease in technical provisions and Increase/decrease in life assurance technical provisions where the policyholder bears the investment risk which are shown separately in HANFA CF.
3. Net decrease / (increase) in receivables and other assets in CF are shown collectively while in CF HANFA are shown separately within Increase/decrease in receivables and Increase/decrease in prepayments and accrued income after deducting Interest received shown separately in CF.
4. Net (decrease) / increase in insurance and other liabilities in CF are shown collectively while in CF HANFA are shown separately within Increase/decrease in deposits retained from business ceded to reinsurance, Increase/decrease in other liabilities, Increase/decrease in accruals and deferred income after deducting Interest paid which is shown separately in CF.