# ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2020


Agram GROUP

EUROHERC
OSIGURANJE

Agram GROUP

**C O N T E N T S**

# ANNUAL BUSINESS REPORT FOR THE YEAR 2020

ZAGREB, April 2021

## (1) MAIN COMPANY DATA

EUROHERC osiguranje d.d. (hereinafter: EUROHERC or the Company) was established in 1992 in Makarska, as the first insurance company based on the private capital of Croatian citizens. Since its establishment, the company has recorded high growth rates of premium income, so that in terms of portfolio size, in 1998 it took the second position in the non-life insurance market, which it still holds successfully today. For such a fast and sustainable development of a newly established company, it was necessary to meet a number of assumptions, from the selection of professionals and their motivation, going public and entering the market with a recognizable personality, to opening a network of branches throughout the market. In 2000, EUROHERC changed the headquarters of the Company from Makarska to Zagreb, and the following year, 2001, it moved to a newly built facility at Ulica grada Vukovara 282, where it still operates today.

According to the size of premium income, EUROHERC is currently one of the leading Croatian insurance companies. In 2020, with a premium income of HRK 1,342 million, it took second place in the ranking of companies. In the non-life insurance market, the Company holds a solid second position, while in motor third party liability insurance the Company holds the first place in the Croatian insurance market.

The Company is registered for performing business activities with regard to the following types of non-life insurance:

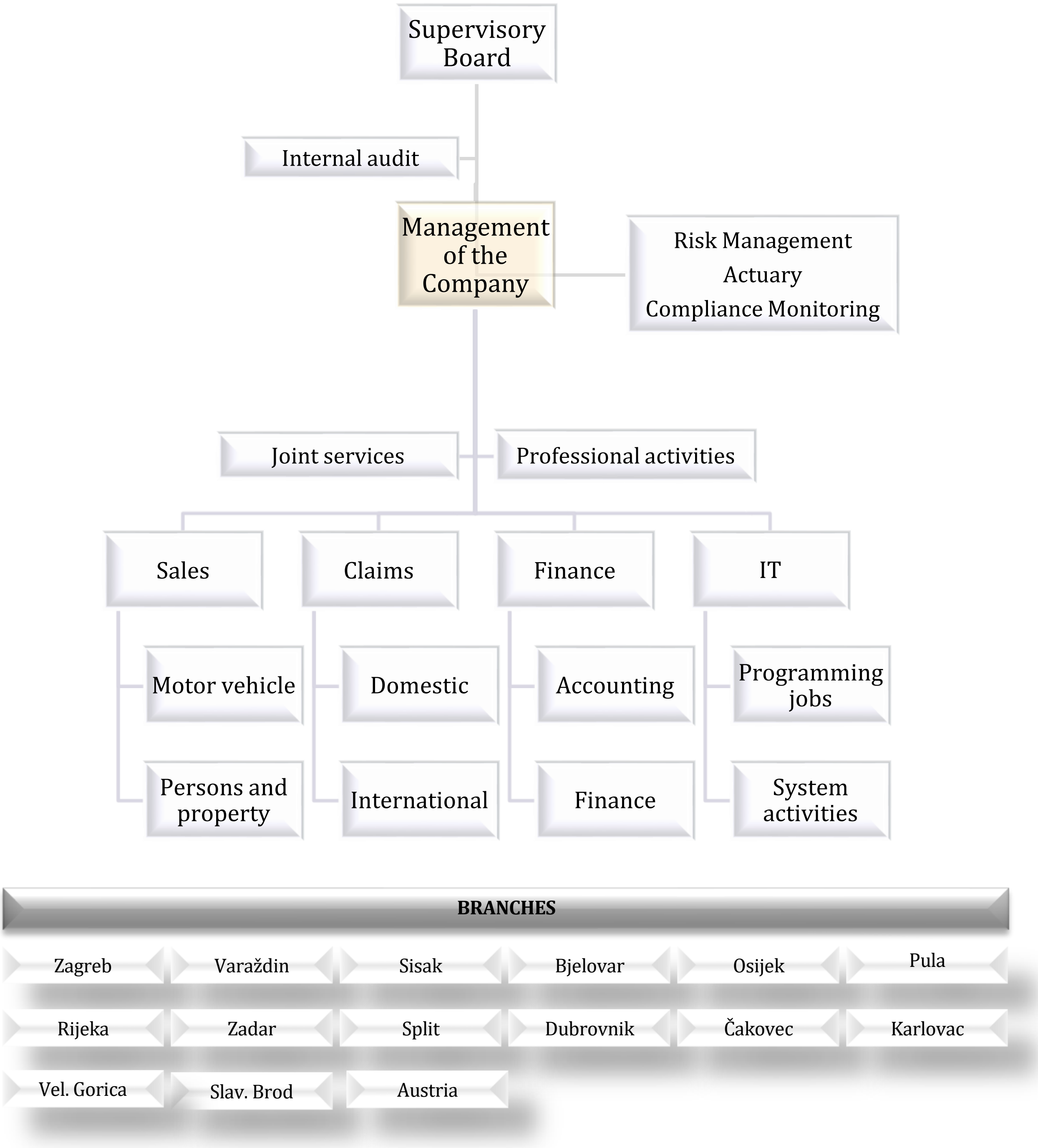
- 01 Accident Insurance
- 02 Health Insurance
- 03 Road Vehicle Insurance
- 04 Railroad Vehicle Insurance
- 05 Aircraft Insurance
- 06 Vessel Insurance
- 07 Goods in Transit Insurance
- 08 Fire and Special Perils Insurance
- 09 Other Property Insurance
- 10 Motor Vehicle Liability Insurance
- 11 Aircraft Liability Insurance
- 12 Vessel Liability Insurance
- 13 Other Liability Insurance
- 14 Loan Insurance
- 15 Guarantee Insurance
- 16 Financial Losses Insurance
- 17 Legal Protection Insurance
- 18 Travel Insurance

The equity of the Company amounts to HRK 61,002,000 and is divided into 305,010 shares of nominal value of HRK 200. All shares are regular and carry a name, and each share ensures the right to 1 vote in the General Assembly of the Company. They are in dematerialised format and paid in total. The share structure of EUROHERC is dispersed into several smaller shares, which, along with other shareholders, are held by the middle and senior management of the Company, thus achieving a high level of work motivation of management and professional staff.

## (2) ORGANISATION STRUCTURE

EUROHERC osiguranje d.d. has a mixed organisation structure which is a combination of production, functional, territorial and project organisation units. The Company's organisation structure is a combination of the aforementioned components, and all of them, due to the complexity of the Company's business activity, work together to achieve the desired results.

The Company operates through branches, which are established in a certain area, i.e. within a local market. At the same time, they operate as profit centres.



In addition to the geographical division, the Company is vertically subdivided into four sectors, based on basic functions or groups of business activities: Sales, Claims, Finance and IT.

Each of the sectors is headed by the director of the sector, and for certain professional groups of affairs in the sector, the directors are subordinated to the executive directors of the sector. The structure of each sector along the organizational vertical extends through all levels of the Company from the level of the Directorate to each of the branches of the Company. In territorial terms, EUROHERC is organized into 15 branches run by branch directors. Because the branches are organized according to the same, sectoral division, each branch has an appropriate sector director or head of department. The branches are economic and profit centers, and the headquarters of the branches are located in: Zagreb, Split, Rijeka, Osijek, Varaždin, Čakovec, Sisak, Karlovac, Zadar, Bjelovar, Dubrovnik, Pula, Slavonski Brod, Velika Gorica and Vienna - Republic of Austria. The branch network is complemented by dealerships and sales outlets that spread throughout Croatia and the Republic of Austria. In this way, fast and efficient communication with the users of our services and the presence of EUROHERC on the entire Croatian and Austrian market is ensured. At the end of the summer of 2020, the Company expanded its operations to the territory of the Italian Republic.

As at 31 December 2020, the Company had 1,203 employees, of which 1,065 were employed in the Republic of Croatia and 138 in the Republic of Austria.

## MANAGEMENT AND SUPERVISORY BOARD OF THE COMPANY

THE MANAGEMENT BOARD has a president and three members who jointly represent the Company .

The Management Board:

| | |
|---|---|
| President: | ŽELJKO KORDIĆ |
| Members: | DARINKO IVKOVIĆ, TOMISLAV ČIZMIĆ, VJERAN ZADRO |

THE SUPERVISORY BOARD of the Company:

| | |
|---|---|
| President: | DR. SC. MLADENKA GRGIĆ |
| Members: | ZLATKO LEROTA, HRVOJE PLANINIĆ, RADOSLAV PAVLOVIĆ, NIKO KRIVIĆ, MIROSLAV GRBAVAC, RADOSLAV LAVRIĆ |

## (3) FINANCIAL RESULTS

**Characteristics od reporting periods:**

- significant growth of premium income and expansion into the market of the Italian Republic
- increase in capital by making a profit in the business year
- operations in the conditions of the COVID-19 pandemic
- connection of companies according to the HANFA Decision.

In 2020, the Company generated HRK 1,421,221 thousand of revenue, of which HRK 1,341,591 thousand relates to gross written premium (94%).

The Company's expenses amounted to HRK 1,297,279 thousand, of which 45% relates to expenses for insured cases. The Company's profit amounts to HRK 123,942 thousand.

**Table 1: Income Statement (thousands)**

| Position description | 2019 | 2020 | Difference | Indeks |
|---|---|---|---|---|
| | Non life | Non life | 2020 - 2019 | % |
| Earned premium (income) | 1.174.703 | 1.266.877 | 92.173 | 107,85 |
| Investment income | 128.596 | 102.210 | -26.386 | 79,48 |
| All other income | 49.798 | 50.524 | 726 | 101,46 |
| Claims incurred, net | -530.241 | -588.242 | -58.001 | 110,94 |
| Change in other TAs, net of REO | 2.254 | 0 | -2.254 | 0 |
| Premium refunds - bonuses and discounts | 3.574 | 2.496 | -1.077 | 69,86 |
| Operating expenses | -529.797 | -539.369 | -9.572 | 101,81 |
| Investments costs | -62.496 | -59.720 | 2.776 | 95,56 |
| All other costs | -75.299 | -83.941 | -8.642 | 111,48 |
| Profit before tax | 161.091 | 150.835 | -10.256 | 93,63 |
| Profit after tax | 131.945 | 123.942 | -8.003 | 93,93 |
| TOTAL REVENUE | *1.355.098* | *1.421.221* | 66.123 | 104,88 |
| TOTAL EXPENDITURE | *-1.223.153* | *-1.297.279* | -74.126 | 106,06 |

**Source: EUROHERC**

As of 31 December 2020, a total premium (direct insurance premium and co-insurance premium) in the amount of HRK 1,341 million was contracted, which is HRK 62.6 million or 4.9% more than in the previous business year.

In mid-2017, the company expanded its operations to the territory of the Republic of Austria, where in 2020 it achieved a gross written premium in the amount of EUR 34.34 million. During 2020, the Company started operating in the market of the Italian Republic and contracted gross premiums in the amount of EUR 1.5 million.

The table shows the gross premium written by markets in which the Company operates. Data are expressed in thousands of kunas:

**Table 2: Gross written premium by markets (thousands)**

| EUROHERC | Gross written premium | | Changes 2020/2019 | |
|---|---|---|---|---|
| | 2019 | 2020 | Amount | % |
| Total | 1.278.989 kn | 1.341.591 kn | 62.603 kn | 105% |
| *In the HR market* | *1.032.946 kn* | *1.071.208 kn* | *38.262 kn* | *104%* |
| *In the AT market* | *246.043 kn* | *258.753 kn* | *12.711 kn* | *105%* |
| *In the IT market* | *0 kn* | *11.630 kn* | *11.630 kn* | |

**Source: EUROHERC**

According to the total gross written premium written, the Company ranks second in the Republic of Croatia. The Company's share in the non-life insurance premium amounts to 17.14%, which represents an increase of 4.89% compared to 2019, while the share in the total gross written premium increased from 12.13% realized in 2019 to 12.81% achieved in 2020.

In the structure of the Company's premium income, the largest part of 53% refers to AO - motor third party liability insurance, followed by AK - road vehicle insurance - hull with 22% share and fire and other property insurance with 9% share.

In the structure of the Company's premium income realized in the Republic of Austria, liability insurance for the use of motor vehicles is also dominant with a participation of 65.45% or HRK 169 million. Road vehicle insurance - comprehensive insurance participates with 25%.

**Table 3: Overview of gross written premium – by types of insurance (thousands kuna)**

| Šifra | TYPES OF INSURANCE / YEAR | EUROHERC | HR | AT | EUROHERC | HR | AT | IT |
|---|---|---|---|---|---|---|---|---|
| | | 2019 | 2019 | 2019 | 2020 | 2020 | 2020 | 2020 |
| 10 | Liability insurance for the use of MV | 666.390 | 505.273 | 161.117 | 715.781 | 534.944 | 169.353 | 11.485 |
| 3 | Road Vehicle Insurance | 278.917 | 217.663 | 61.254 | 288.690 | 223.366 | 65.264 | 60 |
| 1 | Accident Insurance | 109.275 | 107.075 | 2.200 | 108.727 | 104.524 | 4.204 | 0 |
| 08+09 | Fire and Special Perils Insurance + Other Property Insurance | 118.020 | 101.251 | 16.769 | 119.413 | 103.971 | 15.442 | 0 |
| 13 | Other Liability Insurance | 44.558 | 43.199 | 1.359 | 47.233 | 45.785 | 1.448 | 0 |
| OTHER | | 61.829 | 58.485 | 3.345 | 61.747 | 58.619 | 3.043 | 85 |
| **TOTAL (non-life types 01 - 18)** | | **1.278.989** | **1.032.946** | **246.043** | **1.341.591** | **1.071.208** | **258.753** | **11.630** |

**Source: EUROHERC**

In 2020, expenditures for incurred claims net amounted to HRK 588 million, whereby 217,968 claims were settled and HRK 580 million was set aside for payments for settled claims.

**Table 4: Overview of settled claims, gross - by type of insurance (thousands kuna)**

| Šifra | TYPES OF INSURANCE / YEAR | EUROHERC | EUROHERC | HR | AT | IT |
|---|---|---|---|---|---|---|
| | | 2019 | 2020 | 2020 | 2020 | 2020 |
| 10 | Liability insurance for the use of MV | 357.469 | 343.681 | 203.903 | 139.779 | 0 |
| 3 | Road Vehicle Insurance | 170.348 | 159.677 | 115.147 | 44.530 | 0 |
| 1 | Accident Insurance | 8.605 | 6.646 | 6.645 | 1 | 0 |
| 08+09 | Fire and Special Perils Insurance + Other Property Insurance | 27.588 | 47.101 | 36.819 | 10.282 | 0 |
| 13 | Other Liability Insurance | 5.619 | 4.255 | 4.024 | 231 | 0 |
| OTHER | | 17.408 | 18.837 | 17.375 | 1.410 | 52 |
| **UKUPNO (neživot vrste 01 - 18)** | | **587.038** | **580.198** | **383.913** | **196.233** | **52** |

**Source: EUROHERC**

**Table 5: Number of claims in the period 2018-2020**

| Šifra | TYPES OF INSURANCE | Number of claims | | | | | |
|---|---|---|---|---|---|---|---|
| | | unresolved | registered | resolved in the year | | unresolved | in litigation |
| | | on 1. 1. | in a year | liquidation | removed | on 31. 12. | (part of the unresolved) |
| 10 | Liability Ins. for the use of MV | 9.082 | 28.515 | 26.940 | 3.360 | 7.297 | 2.588 |
| 3 | Road Vehicle Insurance | 10.739 | 27.410 | 23.573 | 5.562 | 9.014 | 70 |
| 1 | Accident Insurance | 446 | 1.851 | 1.608 | 360 | 329 | 51 |
| 08+09 | Fire and Special Perils Ins. + Other Property Insurance | 1.777 | 8.532 | 6.821 | 1706 | 1782 | 23 |
| | OTHER | 654 | 159.665 | 159.026 | 622 | 671 | 114 |
| | **TOTAL 2020** | **22.698** | **225.973** | **217.968** | **11.610** | **19.093** | **2.846** |
| | **TOTAL 2019** | **21.476** | **230.554** | **220.317** | **9.015** | **22.698** | **2.925** |
| | **TOTAL 2018** | **18.738** | **202.908** | **192.578** | **7.592** | **21.476** | **3.155** |

**Source: EUROHERC**

The increase in the number of reported damages until 2019 is the result of taking on a larger number of risks. Despite the larger number of reported claims, the Company records a significantly smaller number of court cases, which contributes to the overall better efficiency in the processing of claims because the processing of court claims takes longer and is burdened with additional costs and high interest rates.

In 2020, the number of reported damages is lower than in previous years, which is a direct consequence of the COVID-19 pandemic, slowing down the movement of people and goods and reducing the scope of services.

## Capital management

In 2020, as in previous years, the Company operated with high capital adequacy ratios. The Company's available capital as at 31 December 2020 amounts to HRK 1,925 million, which is 189.76% more than the required solvency capital amounting to HRK 1,015 million or 759.03% more than the minimum required capital amounting to HRK 253.6 million.

**Table 6: Capital requirement based on a standard formula - in thousands of HRK**

| POSITION | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Assets | 3.005.862 | 3.387.069 | 3.529.727 | 3.891.590 |
| Technical provisions and other liabilities | 1.663.936 | 1.864.462 | 1.931.799 | 1.966.377 |
| Available capital (own funds) | 1.341.927 | 1.476.608 | 1.597.928 | 1.925.213 |
| Solvency Capital Requirement (SCR) | 663.609 | 714.510 | 760.834 | 1.014.567 |
| Excess own funds (Free surplus) | 678.318 | 762.097 | 837.094 | 910.646 |
| Solvency Capital Requirement Coverage (SCR) | 202% | 207% | 210% | 189,76% |
| Minimum Capital Requirement (MCR) | 171.262 | 194.160 | 210.030 | 253.642 |
| Minimum Capital Requirement Coverage (MCR) | 784% | 761% | 761% | 759,03% |

**Source: EUROHERC**

In the risk profile of the Company, the most significant are market risk and non-life insurance risk.

**Table 7: Basic required solvency capital in thousands of HRK**

| DESCRIPTION | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Market Risk | 583.068 | 624.893 | 672.002 | 1.000.598 |
| Counterparty Default Risk | 47.763 | 57.758 | 59.824 | 94.211 |
| Health underwriting risk | 27.825 | 29.458 | 30.598 | 30.519 |
| Non life underwriting risk | 348.724 | 375.342 | 390.930 | 372.560 |
| Diversification | -229.142 | -249.221 | -261.746 | -299.917 |
| **Basic Solvency Capital Requirement** | **778.238** | **838.231** | **891.609** | **1.197.971** |

**Source: EUROHERC**

Within market risk, the most significant are the risk of changes in real estate prices and the risk of market concentration. The table shows the amounts in thousands of HRK:

**Table 8: Market risk (thousands of HRK)**

| DESCRIPTION | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Concentration Risk | 247.976 | 253.748 | 260.536 | 827.733 |
| Property Risk | 277.898 | 320.681 | 328.936 | 342.104 |
| Equity Risk | 207.121 | 196.106 | 234.331 | 179.734 |
| Spread Risk | 101.724 | 111.309 | 107.093 | 88.813 |
| Currency Risk | 2.370 | 28.200 | 49.492 | 34.044 |
| Interest rate Risk | 1.850 | 0 | 29.513 | 19.537 |

| | | | | |
|---|---|---|---|---|
| SCRmkt Diversification | -255.870 | -285.151 | -337.899 | -491.367 |
| **Market Risk** | **583.068** | **624.893** | **672.002** | **1.000.598** |

**Source: EUROHERC**

Based on the Decision of the Croatian Financial Services Supervisory Agency number CLASS: UP / I 974-08 / 17-01 / 07 REGISTRATION NUMBER: 326-01-660-662-17-47 dated 15 December 2017, the Company is connected to the group societies. Solvency and financial condition calculations for the Company were performed on the basis of the Decision in accordance with the provisions of the Insurance Act and other regulations applicable to related companies.

## (4) ADDITIONAL INFORMATION

Due to the new emergency situation of spreading the COVID-19 virus, EUROHERC osiguranje d.d. initiated several activities, adjusted the appropriate processes and adopted the relevant rules to ensure business continuity and protection of employees and clients in accordance with the instructions and decisions of the Civil Protection Directorate of the Republic of Croatia, respecting the rights and obligations prescribed by the Labor Act, from the Law on Protection of the Population from Infectious Diseases. In this extraordinary situation, the emphasis is on maintaining business operations, ensuring the availability of services and fulfilling the obligation to provide reliable insurance protection, as well as the payment of damages to the Company's customers. Online sales, claim and payment services, as well as continuous support of the Company's employees via telephone and electronic means of communication are available to clients at all times. Registration, as well as processing of damages and payment of appropriate fees is carried out regularly.

The crisis caused by the COVID-19 coronavirus pandemic and the associated uncertainty will have negative consequences for the economy as a whole. Due to its unpredictable duration at this time, the scale of the economic consequences cannot be predicted with certainty.
A slowdown in sales in all types of insurance is expected during the period of active measures to combat coronavirus infection with COVID-19, and after the completion of measures, the sale of insurance will depend on the overall economic situation in the country.

In relation to the types of insurance that the Company emphasizes in its operations and which make up the majority of the Company's portfolio (compulsory motor third party liability insurance and motor hull insurance), despite the possible reduced premium income, no negative impact on the technical result is expected. The Company does not expect a decrease in cash inflows, so it is not expected to jeopardize liquidity. Given the structure of the Company's portfolio, which is dominated by compulsory motor third party liability insurance, if we draw a parallel with the crisis of 2008, experience has shown that the compulsory motor third party liability insurance portfolio is the most resilient to crises, which is logical because it is compulsory type of insurance.
The Company regularly monitors all risks to which it is exposed and, if the need arises, adopts and implements appropriate measures to reduce them. The Company measures and manages risks based on a standard formula that calculates the required solvency capital. According to current knowledge related to the impact of the coronavirus COVID-19, the impact on certain risk categories is expected, however, no significant changes in the Company's risk profile are expected.

The Company assessed the impact of the decline in the value of assets due to unfavorable interest rate

movements in the financial markets, but at the same time a positive impact on the value of the Company's technical provisions. Given the high solvency ratio as at 31 December 2020, which amounts to 189.76% and the stress scenarios implemented, the Company will continue to be adequately capitalized in the context of the COVID-19 coronavirus pandemic and all capital requirements will be met.
It should be emphasized that in the first quarter of 2021, the Company continued to operate successfully and make a profit. The company continues to monitor the risks associated with the further course of the pandemic and their impact on the capital position. No significant decline in the solvency ratio is expected.

## (5) STRATEGIC GOALS OF THE COMPANY

The Company's strategic goals remain to increase market share, continuously strengthen the sales infrastructure, maintain a dispersed investment portfolio structure, actively and efficiently process claims, develop its own IT infrastructure and IT solutions, achieve positive financial results, quality collection of insurance claims, conservative investment policy and actively risk management.

The Company plans to grow total own funds, maintain profitability while continuously retaining part of the operating profit in the Company's retained earnings and investing in types of assets that do not affect the disproportionate growth of capital requirements in relation to the existing portfolio. The Company anticipates that market risks will continue to dominate, especially within market risk the risk of concentration and the risk of changes in real estate prices. The share of the risk of changes in equity prices will increase. The projected growth in premium income leads to a slight increase in non-life insurance risk.

When making business decisions, the Company's Management Board takes into account the Company's anticipatory risk assessment. If the results of an anticipatory risk assessment lead to the conclusion that the Company's appetite for risk is not sustainable, the Company's Management Board makes an adjustment aimed at achieving the required level of capital requirement for solvency within a reasonable time. In order for the risk management system to be effective, the Company develops a culture of risk management at all levels of management and among all employees.

## (6) LIABILITIES TO THE SUPERVISORY BOARD

In the course of 2020, the Management Board of the Company submitted regular quarterly written reports to the Supervisory Board on all issues relevant for the operations and management of the Company, in accordance with the Company’s Statute, the Insurance Act and the Companies Act.
The reports submitted to the Supervisory Board were drawn up diligently, and are truthful and complete. The Management Board of the Company accepted all of the recommendations, observations and suggestions of the Supervisory Board and used them so as to manage the Company’s business in the best possible manner and in the interest of the Company’s shareholders, while completely complying with the laws and other regulations that refer to the Company’s business activity.

## (7) CONCLUSION

Despite its strong market competition, the Croatian private equity company EUROHERC osiguranje d.d. became the second largest company in the non-life insurance market and continues to holds its position as such. The Company regularly settles its liabilities to the owners, employees and state. Throughout the 26 years of its operation, it has always complied with the highest professional standards. The Company, depending on its capacity, participates in socially responsible and humanitarian activities. The Company established its own business infrastructure, system of branches and sales network through which it today offers a series of new, innovative products.

The Company made a significant business step forward in the Austrian insurance market, and in the fourth quarter of 2020 it expanded its operations to the territory of the Italian Republic, which speaks of the perspective and potential for further development of the Company outside the Republic of Croatia.

The Company's long-term task is to improve all services and employee's work, in particular the sales market in compliance with professional standards, good economic practices and specifics that are inherent to the insurance market.

EUROHERC advocates an active approach, efficiency and lawfulness when it comes to liquidating claims. The Company still forms part of a small group of insurance companies with the highest efficiency in claims settlement procedures.

The Management Board will continue implementing a conservative investment policy, in order to ensure high liquidity and investment safety.

The Management Board has set a concrete goal, and it plans to maintain the current market position of the Company in the following years, with the share in the overall and the non-life insurance market constantly increasing. Furthermore, the Company plans to strengthen its position as a leader in the mandatory Motor Vehicle Insurance market, and to maintain its leading position in the sales of innovative products, i.e. products voluntarily added to the mandatory Motor Third Party Liability Insurance.

Furthermore, the Company will make its top priority to maintain its high efficiency when it comes to handling and liquidating claims at a level of 75-80%. It is, therefore, implied that the Company will operate rationally and generate income in the following years, while further increasing the Company's equity, which will guarantee its safe and stable operation.

Zagreb, 30 April 2021

MANAGEMENT OF THE COMPANY

Željko Kordić, President of the Management Board

Darinko Ivković, Member of the Management Board

Tomislav Čizmić, Member of the Management Board

Vjeran Zadro, Member of the Management Board

# NON-FINANCIAL REPORT

CONTENTS

## (1) INTRODUCTION

The Directive 2014/95/EU of the European Parliament and of the Council as regards disclosure of non-financial and diversity information by certain large undertakings and groups entered into force on 6 December 2014 and will in 2018 become applicable to information corresponding to 2017. Pursuant to the Directive, non-financial disclosure requirements refer to so-called public-interest entities , i.e. certain large companies with more than 500 employees. Companies must publish relevant and useful information necessary for understanding of the company's development, performance, position and impact of its activity, and not an exhaustive, detailed statement.

One of the aims of the disclosure requirement that derive from the Directive in question is to ensure sustainable forms of production and consumption, achieve gender equality, and to lower greenhouse gas emissions and engage in a climate-proof development.

The entities which are required to prepare a non-financial statement are obliged to prepare a non-financial statement with information that refer to at least environmental, social and human resources issues, and issues concerning the respect of human rights, fight against corruption and bribery, providing descriptions of policies, results and risks connected with these issues.

In terms of *environmental issues*, the Report should contain details on current and foreseeable effects of the companies' business activities on the environment and, where appropriate, on health and safety, use of renewable and/or non-renewable sources of energy, greenhouse gas emissions, water use and air pollution.

In terms of *social and human resources issues*, the Report information may refer to measures undertaken to guarantee gender equality, implement ILO's fundamental conventions and labour conditions, engage in social dialogue, respect the workers' rights to information and counselling, respect the workers' unions rights, ensure health and safety at work, and to ensure dialogue with local communities and/or to measures undertaken in order to ensure the protection and development of those communities.

In terms of *human rights* and the fight against *corruption and bribery*, non-financial information may entail data on preventing human rights violations and/or instruments for the fight against corruption and bribery that are currently in force.

If an enterprise does not implement measures connected to one or more of the aforementioned issues, the non-financial statement must give a clear and reasonable explanation why those measures have not been implemented.

## (2) OVERVIEW OF THE FIELD OF NON-FINANCIAL STATEMENTS

| Field | Field Topics |
|---|---|
| Brief Overview of the Business Model | Business Environment<br>Organisation and Structure<br>Our Market<br>Strategy and Targets<br>Long-term Market Drivers<br>Risk Management<br>Sustainable Growth |
| Human Resources | Company's Human Resources<br>Staff Policy Results<br>How We Manage Risks<br>Human Rights<br>Key Non-financial Indicators |
| Relevant Environmental Issues and Social Community | Company's Environment Protection Policies<br>Company's Social Community Policies |
| Anti-Corruption Policy | Anti-Corruption Measures Description |
| Management Board of the Company and Company Management Supervision | Diversity Policy Description |

## (3) BRIEF OVERVIEW OF THE BUSINESS MODEL

### 3.1. *Business Environment*

In the period from 2015 to 2019, unfavorable macroeconomic trends from the period from 2011 to 2014 were stopped. Positive economic trends were interrupted by the outbreak of the SARS-CoV-2 virus pandemic in March 2020.

**Table 9: Basic macroeconomic indicators in the Republic of Croatia in the period 2015-2020, source: CBS, MoF, CNB.**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| GDP (in HRK million, current prices) | 339,663 | 351,197 | 367,501 | 385,337 | 402,337 | 370,167 |
| GDP (in EUR million, current prices) | 44,487 | 46,468 | 48,911 | 51,949 | 54,059 | 49,114 |
| Population in mil. | 4,204 | 4,174 | 4,125 | 4,088 | 4,065 | 4,047 |
| GDP per capita (in EUR) | 10,583 | 11,132 | 11,859 | 12,708 | 13,298 | 12,135 |
| GDP - real annual rate of change (in%) | 2.4 | 3.5 | 3.1 | 2.7 | 2.9 | -8.4 |
| Consumer price inflation (average annual rate in%) | -0.5 | -1.1 | 1.1 | 1.5 | 0.8 | 0.1 |
| Exports of goods and services (in% of GDP) | 46.4 | 47.7 | 40.1 | 50.5 | 52.1 | |
| Imports of goods and services (in% of GDP) | 46.1 | 46.5 | 49.4 | 51.3 | 52.2 | |
| External debt (in million EUR, at the end of the period) | 48,230 | 44,714 | 43,683 | 42,710 | 40,877 | 40,624 |
| External debt (% of GDP) | 108.1 | 95.9 | 88.7 | 82.2 | 75.3 | 82.7 |
| General government debt (in% of GDP) | 84.3 | 80.8 | 77.5 | 74.2 | 72.7 | 88.5 |
| Unemployment rate (in%) | 16.2 | 13.1 | 11.2 | 8.4 | 6.6 | |
| Employment rate (in%) | 44.2 | 44.6 | 45.8 | 46.9 | 47.7 | |

In 2020, global economic activity was strongly affected by the coronavirus pandemic and strict measures to restrict the movement and performance of many economic activities, and the world economy experienced an unprecedented economic crisis. The economic policy response of most economies to the crisis has been satisfactory and, thanks to significant fiscal packages and highly expansionary monetary policy, a large increase in unemployment has been avoided.

After easing the epidemiological situation in mid-2020, there was a sudden economic recovery that was somewhat interrupted by the second wave of the epidemic and the reintroduction of restrictions, and then in many countries by a strict lockdown. Projections for 2021 were predominantly influenced by the news of the discovery of the vaccine and the announcement of the start of coronavirus vaccination, but delays in vaccination and the emergence of new strains of the virus somewhat jeopardize the realization of optimistic projections.

Data from the International Monetary Fund from April 2021[1] show that in 2020 the decline in world GDP was 3.3 percent compared to 2019. For 2021, the IMF predicts growth of the global economy of 6 percent, and, with such forecasts, already in In 2021, global economic activity could exceed that of 2019. For eurozone countries, and especially for eurozone members that are Croatia's main trading partners (Germany and Italy), it is estimated that in 2020 the decline was stronger than the average for the global economy. (-6.6 percent in the eurozone, and -4.9 and -8.9 percent in Germany and Italy, respectively), and more moderate growth is also expected in 2021 (4.4 percent in the eurozone, and 3.6, respectively

[1] International Monetary Fund, 2021: World Economic Outlook, Managing Divergent Recoveries, April 2021 (available at https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021).

4.2 percent in Germany and Italy). This points to the conclusion that in 2021, in our immediate environment, economic activity will not yet return to the levels of 2019, which will also affect domestic economic trends.

The decline in GDP in Croatia in 2020 was 8.4 percent, and in 2021 it is projected to grow by almost 6 percent, and to continue growing at a rate of almost 5 percent in 2022, which would return GDP to pre-pandemic levels that year. level. The decline in GDP in 2020 was predominantly influenced by a sharp decline in revenues from tourism consumption of foreign guests by 57.7 percent, which led to a decrease in the current and capital surplus on the balance of payments by 2.9 percentage points compared to 2019, that is, to 1.9 percent of GDP.

At the beginning of 2020, favorable trends in the labor market continued, which were interrupted due to the coronavirus pandemic. Measures aimed at slowing down the growth of unemployment, which the Government introduced almost simultaneously with measures to prevent the spread of the disease, helped to avoid extremely unfavorable trends in the labor market. At the end of December 2020, the unemployment rate was 9.5 percent or 1.7 percentage points more than in December of the previous year.

At the level of the entire 2020, the average annual rate of consumer price inflation was 0.1 percent, or significantly lower than the previous year when it was 0.8 percent.

During 2020, the growth of placements slowed down slightly. While in 2019 it was 4.2 percent, in the pandemic year it was 3.9 percent. At the same time, corporate placements grew faster than retail loans, and the growth of corporate placements was also more pronounced than in the previous year due to the increased need for working capital loans, especially during the spring lockdown. The growth of retail placements has slowed down significantly, so after an increase of 7.4 percent in 2019, in 2020, retail placements increased by only 2.1 percent.

At the end of 2020, bank interest rates on new corporate loans, which include first-time and re-contracted loans, were generally similar or only slightly higher than at the beginning of the year, while interest rates on new retail loans were generally lower over the same period. to which subsidized housing loans contributed.

The rise in uncertainty in early 2020 has created pressures in the foreign exchange and government bond markets. Increased demand for foreign currency triggered the depreciation of the kuna, which weakened by 2.5% against the euro from late February to mid-April. The CNB intervened strongly in the foreign exchange market, selling a total of 2.7 billion euros, mainly in the second half of March and early April. After that, the exchange rate stabilized, and in June, with the first signs of a more successful tourist season than previously expected, it gradually depreciated slightly. On 10 July 2020, the Republic of Croatia entered the European Exchange Rate Mechanism ERM II with a market exchange rate of 7.53450 EUR / HRK, which became the central parity. During its stay in the European Exchange Rate Mechanism, the CNB will keep the exchange rate stable, with a maximum deviation of +/- 15 percent around the central parity.

After three consecutive years with a budget surplus and a marked decline in the share of public debt in GDP, due to the pandemic crisis in 2020, a budget deficit of about 8 percent of GDP was achieved, and the share of public debt in GDP grew by about 15 percentage points. , to a level of over 89 percent of GDP. Nevertheless, thanks to good coordination of fiscal and monetary policy and continued implementation of structural reforms, the Republic of Croatia has maintained its investment credit rating.

In the financial sector of the Republic of Croatia in 2020, 15 insurance companies and one foreign company operated actively through a branch (FOE / FOS - freedom of establishment / freedom of services), 325 insurance agencies, 58 insurance brokerage companies and / or reinsurance, and reinsurance, 465 insurance representation trades and 26 companies as well as 7 insurance representation trades at vehicle technical inspection stations.

9 insurance and reinsurance companies are majority owned by foreign capital, and 6 companies are majority owned by domestic capital. In 2020, the company Izvor osiguranje d.d. transferred the entire portfolio to Generali osiguranje d.d., and also the company Generali zavarovalnica d.d., Zagreb Branch transferred the entire portfolio to Generali osiguranje d.d.

The share of assets of insurance and reinsurance companies in the total assets of financial intermediaries (all financial institutions on the Croatian financial market) amounts to around HRK 47.5 billion or 6.98% at the end of 2020, which puts insurance and reinsurance companies in third place as financial intermediaries , behind monetary credit institutions and mandatory pension funds. Banks participate with HRK 464 billion or 68.23%, and mandatory pension funds with HRK 119 billion or 17.5%. The rest of the financial intermediaries in the financial sector of the Republic of Croatia consist of investment funds with about HRK 22.6 billion (3.33%), leasing companies with about HRK 19.8 billion (2.91%) and voluntary pension funds with about 6.7 billion HRK (0.99%).

### **3.2.** *Organisation and Structure*

EUROHERC osiguranje d.d. has a mixed organisation structure which is a combination of production, functional, territorial and project organisation units. The business operations of the Company are divided into four sectors, i.e. organisation units: Sales, Claims, Finance and IT.

A Sector Director is at the head of each sector, and for certain business sector expert groups, Sector Directors have Executive Directors as their subordinates. In line with the vertical division of the organisation, each sector's structure spans across all levels of the Company: from the head office to every branch of the Company. EUROHERC operates on the Croatian and, since April 2017, Austrian market. In terms of territorial organisation, EUROHERC is divided into 15 branches managed by Branch Directors. Since all branches are organised pursuant to the identical sector scheme, each branch is managed by the relevant Director or Head of Department within each sector. The branches are economic-profit centres, and their head offices are located in: Zagreb, Split, Rijeka, Osijek, Varaždin, Čakovec, Sisak, Karlovac, Zadar, Bjelovar, Dubrovnik, Pula, Slavonski Brod i Velika Gorica. The subsidiary network features dealerships and sales points throughout Croatia. This ensures fast and efficient communication with our clients and presence of EUROHERC in the whole Croatian market.

In the Austrian market, EUROHERC osiguranje d.d. operates through a branch with an office in Vienna. In organisational terms, the branch functions in line with Croatian branches' operations principle. The branch office is in charge of regional centres in larger cities in which EUROHERC operates in, namely, Graz, Linz, Klagenfurt and Salzburg, as well as Vienna. At the end of the summer of 2020, the Company expanded its business to the territory of the Italian Republic.

In 2020, EUROHERC osiguranje d.d. With the realized premium income of HRK 1,341 million, it took the second position on the ranking list of insurance companies in the Republic of Croatia in terms of total premium income, while it has firmly held the second place on the non-life insurance market for years.
The share capital of EUROHERC osiguranje d.d. amounted to HRK 61,002,000 and is divided into 305,010 shares of nominal value of 200 HRK. The shareholders' structure is dispersed and it entails both mid-level and top-level management, which resulted in a high level of work motivation of management and professional staff.

### 3.3. *Our market*

In 2018 a part of insurance companies from the Republic of Croatia made a significant amount of written premium in the EU market. The table below shows the gross written premium per contracting type.

**Table 10: Croatia – Written gross premium in HRK (WGP) in 2020.**

| **2020** | | RH - RH | | RH u EU (FOE/FOS) | | EU u RH (FOE/FOS) | |
|---|---|---|---|---|---|---|---|
| | | ZBP | Udio | ZBP | Udio | ZBP | Udio |
| Total | 10.677.065.114 | 9.826.192.884 | 92,03% | 648.876.221 | 6,08% | 201.996.009 | 1,89% |
| Non-life | 7.985.840.048 | 7.179.090.385 | 89,90% | 648.525.584 | 8,12% | 158.224.079 | 1,98% |
| Life | 2.691.225.066 | 2.647.102.499 | 98,36% | 350.637 | 0,01% | 43.771.930 | 1,63% |

**Source: HUO**

EUROHERC osiguranje d.d. has been operating in the Republic of Croatia for almost three decades, since 1992. The Company's headquarters have been in Zagreb since 2000. The company has recorded high premium growth rates since its inception. According to the size of premium income EUROHERC osiguranje d.d. is among the leading Croatian insurance companies.

The share of the total written premium of all insurance companies in the gross domestic product of the Republic of Croatia in 2020 amounted to 2.88%, which is about 0.2% more than in the previous year. The share of non-life insurance premiums in GDP in 2020 was 2.16%, and the share of life insurance premiums was 0.73%. These percentages are higher than in the countries surrounding the Republic of Croatia from the east, but compared to the developed countries of the European Union, Croatia lags far behind. The total premium per capita in the Republic of Croatia in 2020 amounted to HRK 2,632[2] (HRK 1,969 for non-life and HRK 763 for life insurance). Although the indicator of the average premium per capita is growing from year to year, the Republic of Croatia is far from the average of developed countries, which may indicate the potential for further growth of the insurance market and reflects the bank-centric structure of the financial sector in Croatia.

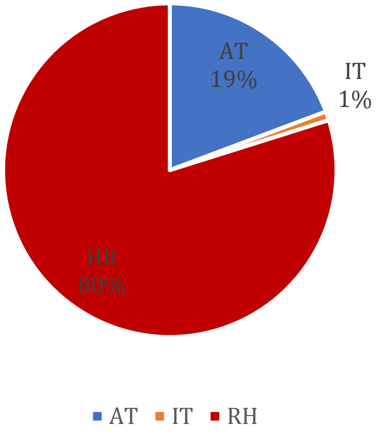
### 3.4. *Strategy and Targets*

In 2020, EUROHERC osiguranje d.d. generated premium income in the amount of HRK 1,341,591,231, which represents a premium growth of 4.89% compared to 2019. The growth of premium income in 2020 is divergent with the movement of the total insurance market, which in 2020 fell by 0.66%. The total non-life insurance market in the Republic of Croatia grew by 4.67%, which means that the Company, due to the above-average growth in the non-life insurance market, increased its market share from 12.13% to 12.81% in 2020 [3].

[2] Population according to EUROSTAT EUROSTAT, Population on 1 January, https://ec.europa.eu/eurostat/databrowser/view/tps00001/default/table?lang=en

[3] Total written premium of the market with FOE / FOS premium included (Sava osiguranje Zagreb Branch and Generali Zavarovalnica Zagreb Branch)

Share od HR - AT - IT




WGP share in the market of the Republic of Croatia, Austria and Italy in 2020, source: Company

In 2020, EUROHERC recorded premium growth, both in the country and abroad. Compared to 2018, this growth is significantly lower due to negative economic trends caused by the coronavirus pandemic, but in spite of that, the gross premium written in the Republic of Croatia increased by HRK 38.26 million compared to 2019, ie on the Austrian market. and the Republic of Italy a total increase of HRK 24.34 million compared to 2019 (of which HRK 11.63 million refers only to the written premium on the market of the Republic of Italy in 2020). In the total insurance market in the Republic of Croatia, in 2020, after a long series of years, the Company took second place, while in the non-life insurance market it still holds the second position. This achieved the Company's goal of taking second place in terms of the total gross premium written in the Republic of Croatia.

**EUROHERC - WGP and share in the non-life insurance market from 2011 to 2020, source: HUO**

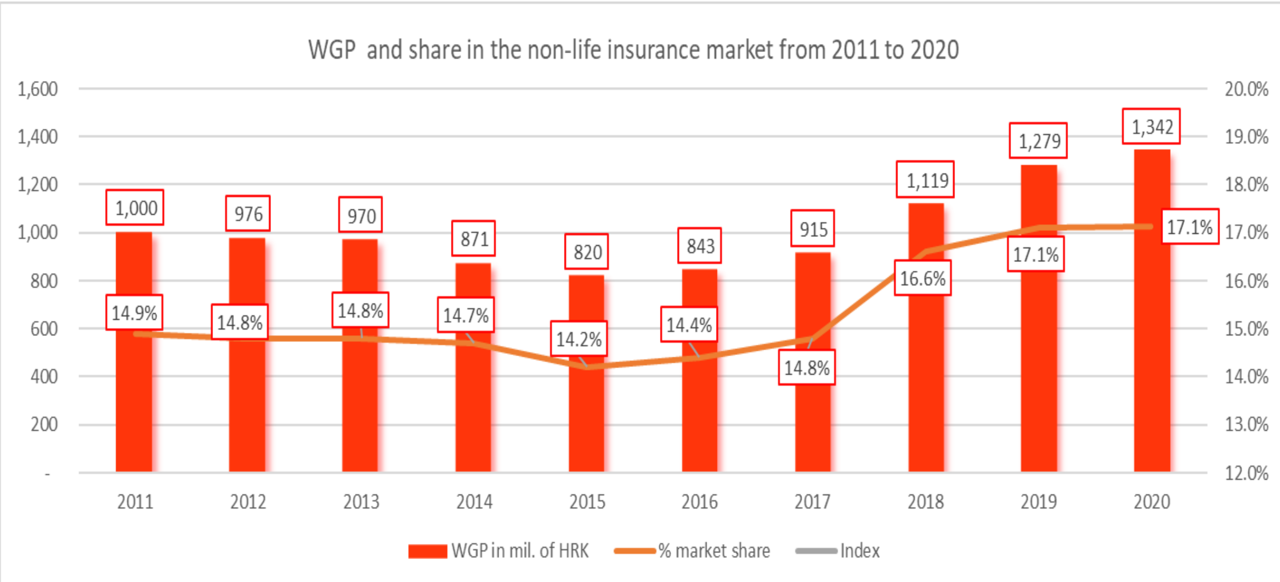
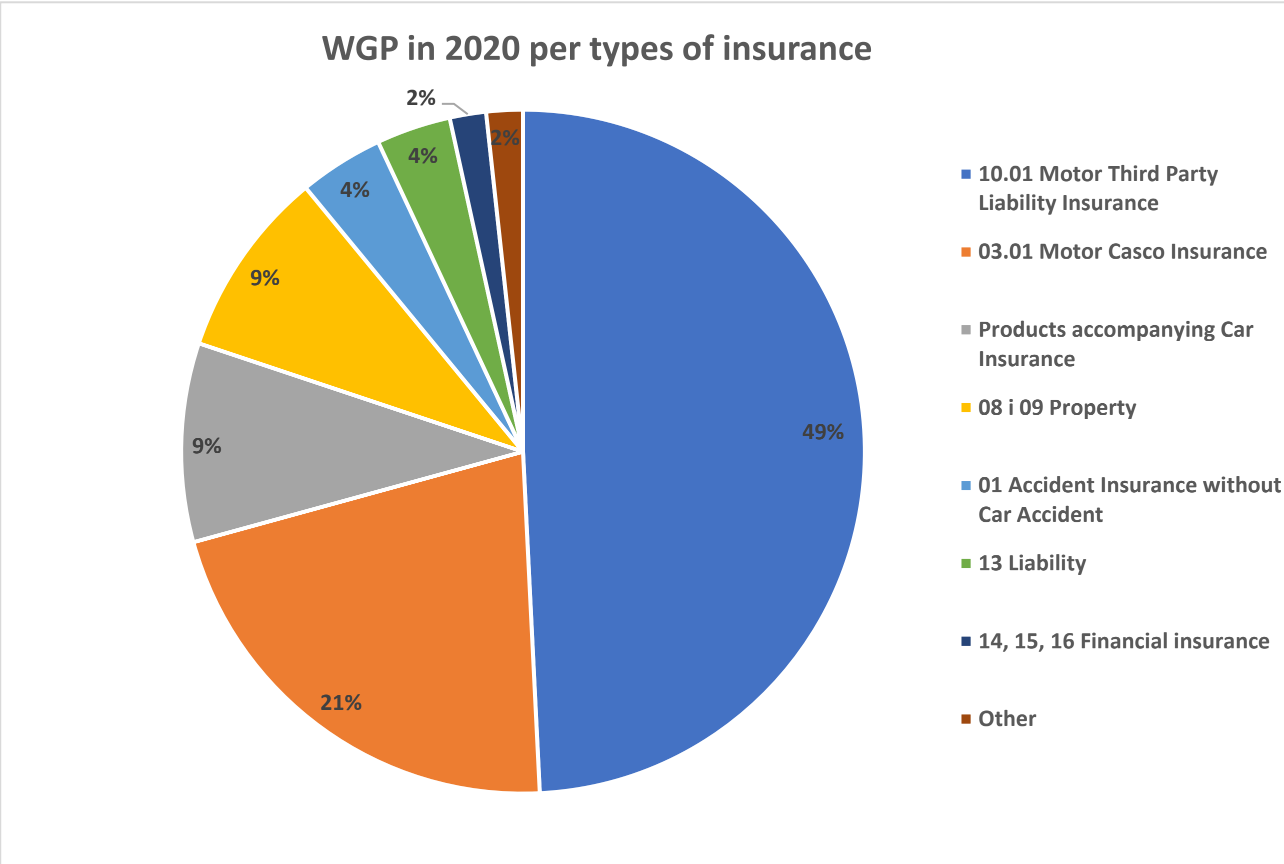


**Table 11: WGP and share in the non-life insurance market from 2011 to 2020**

| Prtoduct | ZBP | |
|---|---|---|
| | **2020.** | **Udio %** |
| 10.01 Motor vehicle owner/user compulsory insurance against third party liability | 660.288.732 kn | 49,22% |
| 03.01 Casco insurance of self-operated land motor vehicles | 288.687.048 kn | 21,52% |
| Products accompanying Car Insurance | 126.111.573 kn | 9,40% |
| 08 i 09 Fire, natural disasters and other property insurance | 119.412.995 kn | 8,90% |
| 01 Accident Insurance without Car Accident | 53.658.410 kn | 4,00% |
| 13 other liability insurance lines | 47.232.775 kn | 3,52% |
| 14, 15, 16 Financial insurance | 23.035.042 kn | 1,72% |
| Other | 23.164.657 kn | 1,73% |
| **Total** | **1.341.591.231 kn** | |

**EUROHERC osiguranje - WGP IN 2020 per types of insurance**




In the structure of the Company's premium income, the largest share of 49.2% still has liability insurance for the use of motor vehicles. In the last three years, the share of compulsory motor third party liability insurance in the total portfolio has been close to 50%, while in previous years it was over 60%. The motor hull insurance premium holds the second position with a share of about 21.5%. Compared to 2019, this is a decrease of 0.3%, while the share of compulsory motor third party liability insurance compared to 2019 is growing by 1.2%

A significant share in the total premium has products that are contracted on the car liability policy, namely 01.02 Car Accident, 18.05 Car Assistance and 10.02 Voluntary Visions with the Car Liability Policy. They hold a share of 9.4% in the total written premium.

From all the above, it can be seen that in the structure of premium income, motor vehicle insurance (10.01 and 03.01 as well as car insurance products) together participate with 80.14% in 2020, car liability insurance and motor hull insurance account for 70.74 % of total calculated gross premiums). All other types of non-life insurance participate in the Company's premium with a share of 19.86%

In recent years, the company has invested significant resources in operating in the insurance markets of the European Union. Thus, since 2018, the Company has been operating significantly in the insurance market of the Republic of Austria on the basis of freedom of establishment (FOE), and at the end of 2020 it started operating on the insurance market of the Italian Republic on the basis of freedom to provide services (FOS). To illustrate, the gross domestic product of the Republic of Austria is about 7.6 times higher than Croatia's, while GDP per capita is about 3.5 times higher than Croatia's. Also, it can be noticed that the population ratio between Austria and Croatia due to extremely unfavorable demographic trends in the Republic of Croatia is growing in favor of the Republic of Austria and in the period from 2017 to 2020 increased from 2.11 to 2.19 times.

According to data for 2019, the total assets of insurance companies in the Republic of Austria amount to about 110.6 billion euros, while in the Republic of Croatia the total assets of insurance companies in 2020 amount to 6.3 billion euros. The total gross written premium in Austria amounts to 17.77 billion euros in 2019[4] (17.33 billion euros in 2018), and in Croatia about 1.39 billion euros in 2020 and 1.42 billion euros in 2019 . The written premium for non-life insurance in Austria amounts to around EUR 9.98 billion in 2019 (share of 55% in the total written premium) while in Croatia in 2020 it amounts to around EUR 1.04 billion (share of 75% in the total written premium) premiums). Also, the calculated premium per capita (so-called insurance density) in Austria in 2019 amounts to 2,006 euros, while in Croatia in 2020 it amounts to 343 euros. Insurance penetration (the share of calculated insurance premium in gross domestic product) in Croatia is around 2.83% in 2020, while in Austria it is around 4.46% in 2019. The number of motor vehicles per thousand inhabitants in Austria in 2019 is 790 vehicles, and in Croatia in the same year 470 vehicles.

Motor vehicle insurance is the third largest premium segment within insurance in the Republic of Austria with a share of 20.2%[5] with an annual written premium of EUR 3.59 billion (approximately HRK 27 billion) in 2019. This is a 7.5 times higher motor insurance premium compared to the premium calculated in the Republic of Croatia in the same year (around EUR 479.4 million or HRK 3.55 billion).
The motor vehicle insurance market (motor third party liability, motor hull and accident insurance) in the Republic of Austria in 2019 consists of 24 insurance companies with the first four companies holding 57.53% of the market - Generali Versicherung AG (17.18%), UNIQA Österreich Versicherungen AG (17.04%), Allianz Elementar Versicherungs-AG (12.57%) and WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group (10.74%).

There are about 7 million registered vehicles in the Republic of Austria, of which 5.04 million are personal motor vehicles (72%), the number of registered vehicles is growing annually by 1-2%, and there are 569 personal motor vehicles per 1,000 inhabitants, which is a high degree of motorization.

[4] https://www.vvo.at/vvo/vvo.nsf/sysPages/VVO_Jahresbericht_2019.html/$file/VVO_Jahresbericht_2019_GESAMT.pdf
[5] calculation according to https://www.vvo.at/vvo/vvo.nsf/sysPages/VVO_Jahresbericht_2019.html/$file/VVO_Jahresbericht_2019_GESAMT.pdf

EUROHERC's strategy for the Austrian market is to focus on motor insurance. EUROHERC osiguranje d.d. In terms of the amount of premium income generated on the Austrian insurance market in 2019, it reached 17th place with a market share of 0.81% in the motor vehicle insurance market[6]. Looking at the total insurance market in the Republic of Austria, the Company holds about 0.19% of the market share in 2019.

The company is creating its own sales network in the Austrian insurance market with intensive cooperation with independent brokers and non-exclusive agencies. It is expected that the Austrian Subsidiary of the Company through several years of operation, with expansion through an appropriate number of branches and outlets in the Republic of Austria, will increase the share of written premium in the market of the Republic of Austria, and thus the share in total premium of the Company.

***3.5.*** *Long-term Market Drivers*

The main insurance market increase drivers are the financial education of the population and raising awareness of the need for insurance, growth of disposable income and increase in number of motor vehicles. Marketing campaigns increase the population's awareness and stress the importance of prevention for creating financial safety due to potential occurrence of harmful events.

The Company will try to remain a leader in the Republic of Croatia in terms of the number of insurance policies contracted and the Motor Third Party Liability Insurance premium. The Company expects its business to increase significantly on the market in the Republic of Austria, which is, according to all macroeconomic indicators, a significantly stronger market than the insurance market in the Republic of Croatia, both due to its residents' disposable income and a long insurance tradition and a high level of the insurance culture.

Modernly equipped subsidiaries and more than 520 sales points of the Company in the Republic of Croatia and 50 sales points in the Republic of Austria indicate the presence of a continuous, conscientious and wise investment into the Company's own capacities, infrastructure and employees. This led the Company to become one of the non-life insurance market leaders, with services easily accessible by a great number of citizens. The continuous capital investment into the Company's business facilities and infrastructure represents, at the same time, an investment into the resources of the Republic of Croatia. Furthermore, it sends a message of planned long-term engagement in the insurance protection.

Unfavourable demographic trends in the Republic of Croatia may result in long-term consequences for business operations on the insurance market. In the long run, this can adversely affect the GDP and residents' disposable income, and the economic activity volume.

**3.6.** *Risk Management*

On 1 January 2016, a new regulatory and supervisory framework for the business of the insurance company – Solvency II – entered into force, which had been implemented into the new Insurance Act, the application of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, and a series of guidelines, technical standards and instructions of the European Insurance and Occupational Pensions Authority (EIOPA) and the Croatian Agency for Supervision of Financial Services (HANFA). The new regulatory framework introduced key amendments to the sections concerning risk management,

[6] https://www.vvo.at/vvo/vvo.nsf/sysPages/VVO_Jahresbericht_2019.html/$file/VVO_Jahresbericht_2019_GESAMT.pdf; 6.3. Marktanteile in der Kfz-Versicherung 2018 und 2019

capital adequacy and significantly greater business complexity. The new framework is expected to maintain and enhance the safety and resilience of the insurance sector and consumer protection, as well as to strengthen the efficient management of insurance companies.
In 2016, the European Insurance and Occupational Pensions Authority (EIOPA) conducted insurance stress tests in the whole European Union. Stress tests are one of the regular supervisory tools used to assess the resilience of the insurance sector to possible adverse developments and their impact on the financial stability of the system.

The Company EUROHERC osiguranje d.d. prepared the Report on Solvency and Financial Condition for the first time in 2016, pursuant to the Insurance Act and the requirements of the Delegated Regulation (EU) 2015/35. The Company's capital adequacy amounted to 190% in 2020.

The Company established an appropriate management system; in particular, an internal management system and risk management system. Market risk, property risk and market risk concentration are the most prominent components of the Company's risk profile. Property and liabilities valuation for solvency needs is regulated in the legislation.

The Company adopts a business plan in the beginning of the year, and it entails all potential and probable events in the insurance sector and beyond. Every three months, the Company re-examines its business strategy, comparing its business results to the results of the entire market. The Company consistently monitors its income and expenses, and compares them to its planned values and the competitors' results. The Company's reputation represents its credibility in relation to the insured persons and business partners. The trust of insured persons in the Company is difficult to gain and easy to lose. That is why one of the Company's strategic business determinants for the following period is service and products quality. Indemnity claims represent a sensitive business area in terms of insured persons. The Company has a very clear attitude and goals in that respect, and that is to quickly and lawfully settle indemnity claims, while maintaining a high efficiency level, in compliance with legal standards and defined indemnity claims settlement deadlines.

### **3.7.** *Sustainable Growth*

As a relevant economic entity in the Republic of Croatia, we acknowledge our responsibility for contributing to the total economic growth of the Republic of Croatia and improving the life quality of our clients and employees. We are constantly working on innovating and further developing our business model, and creating products and services that satisfy our clients' needs. We engage in dialogue with all stakeholders, taking into account the way in which our business operations affect our social surroundings and environment. This, furthermore, represents our model of creating value in a broader sense. It reflects our business philosophy and our view of our business surrounding. Our model for creating value reflects the way in which we use our knowledge and resources at our disposal in order to create value for all stakeholders involved in the business operations of the Company Euroherc osiguranje d.d.: our clients, employees, environment, and the broad social community.

We believe that we also contribute to achieving the United Nations Sustainable Development Goals in the following manner:

- Good Health and Well-being (Goal 3) – we contribute to better life quality and safety, by enabling our clients to be safe when operating motor vehicles and enjoy coverage in case of occurrence of harmful events based on the principles of lawfulness and efficiency
- Decent Work and Economic Growth (Goal 8) – we contribute to the elimination of poverty, and personal and professional growth of our employees, by creating work conditions and

employment opportunities of high quality, enabling high-quality training in our business operations area, and providing our employees with adequate workers' compensation

- Responsible Production and Consumption(Goal 12) – by decreasing our carbon footprint through the reduction of use of energy products and raw materials, and the reduction of CO2 emissions, we contribute to preserving the environment for our future generations.

<table>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>Recognisable name in the area of Motor Third Party Liability Insurance</td><td rowspan="3">Further digitisation of business processes with the aim of improving the service for clients and decreasing the document administration for employees</td></tr>
<tr><td>Highly motivated and qualified workforce</td></tr>
<tr><td>Strong business ethics and client dedication</td></tr>
<tr><td>High-quality working conditions</td><td rowspan="5">Further employee training tailored to the needs and demands of particular business processes</td></tr>
<tr><td>Leading position on the domestic market in the area of Motor Third Party Liability Insurance</td></tr>
<tr><td>Strong sales network and services availability on the whole territory of the Republic of Croatia</td></tr>
<tr><td>Continuous innovation of products and services</td></tr>
<tr><td>Simple and efficient organisation structure</td></tr>
<tr><th>Opportunities</th><th>Threats</th></tr>
<tr><td>Expanding our business operation to the territory of the Republic of Austria, who has a significantly greater economic potential</td><td>Maintaining the leading position in the Motor Third Party Liability Insurance market in the Republic of Croatia</td></tr>
<tr><td>Long-term development of our own sales network in Austria</td><td>Adhering to the regulatory requirements concerning capital adequacy and complying with the relevant regulations in the area of business operations</td></tr>
<tr><td>Monitoring technological and demographic trends relevant for our business activity, and alignment with our clients' preferences.</td><td>Further developing the sales network and increasing innovation in the area of product development and ways of providing services to clients</td></tr>
</table>

## (4) COMPANY'S HUMAN RESOURCES

**4.1.** *Company's Human Resorces and Staff Policy*

There are certain rules of conduct in the business world. Business culture represents a very relevant, and sometimes determining, factor for achieving success and gaining profit. The Company EUROHERC osiguranje d.d. defines business culture as a system of conduct, knowledge and skills, values and symbols that are widely accepted in the business world, and that are transferred when communicating. This entails the business etiquette and ethics in the sense of integrity, honesty, sincerity, and professionalism. The Company is aware of the fact that its employees and clients represent the most valuable resource of the Company and that all employees wish to be appreciated and esteemed. Furthermore, the success of the Company contributes to the desired identification of the individual with the collective and, at the same time, to the respect of the entire collective. These goals can only be achieved if all employees perform their work tasks impeccably.

The Company's Business Code and Communication Handbook clearly communicate to all employees the intent of developing a higher level of business culture. Furthermore, it tackles the most valuable and sensitive aspect of the insurance profession – business ethics, clients and customers, and employee relations. The Company believes these elements are key for the work quality of the Company. Knowing the rules of the Company's Business Code and Communication Handbook and adhering to them results in harmonious relationships and maximum satisfaction of both clients and business partners.

**4.2.** *Staff Policy Results*

As at 31 December 2020, the Company has a total of 1,203 full-time employees, of which 1,065 are employed in the Republic of Croatia and 138 in the Republic of Austria. Of the total number of employees in the Republic of Croatia in 2020, about 70% of employees work on insurance sales while 11% work on claims processing and liquidation. In the Republic of Austria, about 80% of employees work in sales and about 8% in claims processing and liquidation.

The percentage of women in 2020 in the total number of employed persons in the Republic of Croatia is 60%, while in the Republic of Austria the percentage of employed women is 37%. From the very beginning, the established practice in the Company is to create and educate management staff at home, educating and promoting young staff. The basic criterion for advancement in the Company is the achievement of business results and personal contribution to the development of the Company. Great importance is attached to education, so within the Sales Department there is an active team of internal educators, who transfer knowledge about products and sales skills and techniques to all other employees of the Sales Department. On the other hand, the Company has professional and educated employees, lawyers and professional appraisers at its disposal in other sectors as well, especially in the Claims Sector, which enables the Company to professionally manage the claims of end users of insurance services.

Through daily communication with policyholders, the Company's employees strive to raise awareness of the need for protection and insurance against various risks. Therefore, the Company considers investing in employees to be particularly important.

**Staff education level on 31/12/2020**

| Sector | University degree - Dr. | University degree - Mr. | Universit y degree - | Vocational qualification | Medium -skilled | Skilled | Total |
|---|---|---|---|---|---|---|---|
| Joint services | 1 | 4 | 31 | 15 | 45 | 19 | **115** |
| Insurance sales | 0 | 12 | 160 | 121 | 486 | 84 | **863** |
| Assessment and liquidation of claims | 0 | 4 | 55 | 30 | 38 | 4 | **131** |
| Finance and accounting | 0 | 3 | 25 | 11 | 17 | 2 | **58** |
| IT | 0 | 0 | 20 | 10 | 6 | 0 | **36** |
| **T O T A L** | **1** | **23** | **291** | **187** | **592** | **109** | **1.203** |

The share of higher-educated employees and employees with a university degree in the total number of employees is constant at 41.7%. This fact definitely encourages further and professional development of the Company. The number of employees significantly differs from branch to branch, depending on the size of the contracted premium and size of the territory the branch is in charge of.

### **4.3.** *Occupational Age Structure*

In the Republic of Croatia, 43% of the Company's employees are under the age of 40, while this share is 71% in the Republic of Austria. Bearing in mind the age of employees, we will intensify educational processes and maintain continuity in such a selection of new staff. This will contribute to easier monitoring of novelties in the market and effective response to all requests from our customers and the market itself.

The Company is aware of the fact that its reputation relies on its employees' behaviour. All employees have an important role in maintaining the reputation of the Company in which they work and, therefore, must adhere to the highest ethical standards. The Company views its business as an integral part of the economic and social surrounding and, as a part of that surrounding, must protect the rights and interests of its insured persons, debtors, shareholders, as well as employees.

The Company expects its employees to use their capacity of impartial judgement to the maximum when performing their duties, in all aspects that concern the business operations of the Company. In order to preserve the judgement and action autonomy, employees must avoid conflicts of interest or possible conflicts on account of economic or personal interest.

Satisfied clients are the key to the Company's success. Their trust is gained through an honest relationship, providing them with the services they need, but which also surpass their expectations. The positive image of the Company is made at the entrance to the Company's premises. All inappropriate behaviour harms the Company's reputation. The Company's employees are expected to express their positive work attitude and respect of people who chose the Company as a business partner through their looks and impeccable behvaiour. The Company's employees are characterised by precision, accuracy, politeness and tidiness.

The Company promotes the spirit of togetherness and long-term loyalty to the Company. The spirit of togetherness is promoted during the worker' games, the so-called Agramijada, which gathers employees of all subsidiaries and gives them the chance to get to know each other in a casual setting, and strengthen the professional relationships they built through their work in the Company, while enjoying themselves and playing games. Due to the coronavirus pandemic in 2020, restrictive measures of movement and the introduction of epidemiological measures, no sports games of the Agram Group were held in 2020, in which up to 1,200 people participate, as a rule.

**4.4.** *Human Rights*

All employees of the Company are equal, regardless of their age, sex, religion, nationality or social status. The Company's Business Code and Communication Handbook insist on the fact that differences among employees should be accepted, and that the colleagues' privacy should not be invaded. Any type of harassment or violence shall not be tolerated. This implies sexual and psychological harassment, as well as all other types of harassment and hostile behaviour, disrespect, humiliation, threats et al.

The employees may settle all issues with their immediate supervisors, and if they are unable to do so, they may contact other superiors or relevant services.

**4.5.** *How We Manage Risks*

The Company and competent managers promote the desired behaviour and engagement of employees, opting for maximum productivity and new ideas that offer a break from the work routine and encourage the sales of new products. In this aspect, a timely feedback is relevant for the better engagement of employees. Supervisors and product supervisors attend training seminars with the aim to gain new management skills and achieve better sales results for all Company's products. The seminars provide for a series of examples of business practices and ensure the exchange of experience among colleagues from other subsidiaries and encourage concrete suggestions.

When excellent business results are achieved, Management of the Company decides on rewarding employees with the best results. All employees are entitled to high-level working conditions in terms of the aspect and quality of the business premises, and to the use of modern equipment for performing their tasks. Furthermore, exceptional attention is paid to the employees' well-being and their working conditions satisfaction, by making available and accessible preventive medical examinations, a cafeteria, transport allowance, reduced prices of medical services in various medical institutions et al.

The Company is cultivating its employees' awareness of the fact that the Company's reputation is important for all employees, as it forms the basis of the professional, social and personal reputation of every individual employee. Therfore, the reputation of the Company may depend on each individual. The Company's activity actually largely relies on client interaction and is subject to the harshest scrutiny.

The Company has in place an elaborate internal procedure which defines the Company's client relations and employees' rights and obligations, which then ensures a fair and equal position of all employees of the Company, as well as previously set rules concerning work compensation, conduct and behaviour in the working environment, and business communication with the Company's clients.

The aforementioned procedures refer to:

- **(a)** the appointment of a person authorised for responding to complaints pursuant to the Ordinance on handling complaints of insured persons, policy holders and users from the Insurance contract
- **(b)** providing information on the ways to submit complaints to insured persons, policy holders and users from the Insurance contract before concluding the Insurance contract
- **(c)** appointment of a Data Protection Officer pursuant to the Article 18.1 of the Personal Data Protection Act

**(d)** Rules of Operation, Articles 26 and 27 of the Labour Act and the Ordinance on Payment, Compensation and Other Material Workers' Rights pursuant to the Articles 26 and 27 of the Labour Act
**(e)** Decision on Workers' Working Hours pursuant to the Article 46 of the Labour Act and Article 28 of the Company's Rules of Operation and the Note on the Duration and Timetable of Annual Leave pursuant to Article 50 of the Company's Rules of Operation and the Survey for Compiling the Timetable of Annual Leave
**(f)** Note on the Application of Rules of Conduct in the Company's Business Premises
**(g)** the Company's Ordinance on the Adequate Use of the Information System, and the Company's Ordinance on the Safety of the Information System
**(h)** Ordinance on the Procurement and Use of Mobile Phones and Mobile Services
**(i)** the Note on the Use of the Company Vehicles
**(j)** the Risk Assessment of the Occupational Health and Safety in relation to the Risk Assessment Matrix, pursuant to the general risk level criteria
**(k)** the Communication Handbook and Business Code.

### **4.6.** *Key Non-financial Indicators*

In 2020, 76 people were employed while 93 workers terminated their employment. Termination of employment was mainly due to the expiration of a fixed-term employment contract (10), an agreement between an employee and an employer (35), dismissal of an employee (12) or transfer to another company within the Group (15).

The company within its organization, taking care of the rights of its consumers, has an established Department for processing consumer complaints. In 2020, 21 complaints were registered in the Republic of Croatia, of which 15 were rejected as unfounded, and 5 were accepted and 1 was partially accepted. In the Republic of Austria, the Company, considering the time dynamics of the development of its own business model and the process of adjustment to business customs and existing business models in the Republic of Austria, expecting a number of complaints also established a Department for processing consumer complaints.
Since its establishment, the Company has not once been charged with mobbing or violating the workers' dignity.

The Company has also never been a participant in any dispute in which the subject was the protection of market competition and on that basis it has never been imposed any penalty or any other measure by the Agency for the Protection of Market Competition.

The Company has developed a Plan and program of professional training and advanced training in the non-life insurance segment, which has been approved by the Croatian Financial Services Supervisory Agency and is conducting training in the internal and external sales network through VIII. prescribed modules. Euroherc's continuous education meets the criteria for renewal / maintenance of both types of license (PO-brokerage, ZO-representative). Continuing education is available via the link http://edukacija.euroherc.hr. Criteria of expertise and suitability are proven at the level of the calendar year. In order to prove the conditions of suitability of the internal sales network, all employees of the Sales Department are obliged to sign a Statement of Suitability once a year, which is stored in the employee file through the Personnel Record, while the suitability of the external sales network is regulated by signing the IDD.

The project of expertise and adequacy of the internal sales network for 2020 was successfully completed on December 28, 2020.

## (5) RELEVANT ENVIRONMENTAL ISSUES AND SOCIAL COMMUNITY

**5.1.** *Company's Environment Protection Policies*

EUROHERC d.d. is constantly working on developing and improving business processes with the aim of reducing its negative environmental impact. It raises the employees' awareness of improvements in the area of waste reduction, primarily in the area of savings of stationary, as well as energy products.

The business premises are equipped with sensors that enable a significant reduction in electricity consumption, and with a central air conditioning system. Furthermore, their high-quality construction ensures low levels of energy consumption for business premises heating and cooling.

The users of the Company vehicles are constantly trained on eco-driving (moderate use of the accelerator pedal, driving in higher gears and at low engine speeds, staying in one gear and avoiding sudden acceleration and deceleration). Considering the great number of Company vehicles (over 400), the Company actively participates in environment protection by reducing fossil fuels consumption and CO2 emissions.

In 2020, 58 passenger car engines with diesel engines and the Euro 6 standard were procured. Replacing older vehicles with new ones that meet the Euro 6 standard leads to a reduction in nitrogen oxides and CO2 emissions.

As a part of the project Business Process Optimisation and Document Digitisation, it is possible to scan documents annexed to the insurance policy and electronically discharge documents in all sales points of EUROHERC osiguranje d.d. Scanning and electronically discharging documents accelerates the service provider discharge process and enables performing policy controls with scanned documents. The following phase of the project Business Process Optimisation and Document Digitisation relates to the improvement of the discharge and policy control processes, during which all paper documents will be replaced by digital documents. This will result in additional energy consumption and resources cuts in the Company's business operations.

The Company offers all carriers that have replaced their old vehicle with a new one that adheres to the new EURO 5 standard a 15% discount for the contracted Road Carrier's Liability for Transported Goods Insurance premium. With the so-called "green" discount, EUROHERC osiguranje d.d. helps entrepreneurs improve their vehicles' eco-standards by decreasing their business insurance cost, which complements the Programme for the Reduction of the Environmental Impact of Transport of the Ministry of the Sea, Transport and Infrastructure and the Environmental Protection and the Energy Efficiency Fund. In this way, the Company actively participates in environment protection by reducing fossil fuels consumption and CO2 emissions.

**5.2.** *Company's Ocial Community Policies*

EUROHERC osiguranje d.d. donates funds to the FOHS Foundation (Croatian Students Fund)[7] which is in the academic year 2019/2020. eleven scholarship holders who met the conditions of the competition. The foundation works with the aim of investing in young, promising students of lower financial status in order to enable them further education and the realization of their potential. During its three decades of operation, the Foundation has supported several hundred full-time undergraduate or graduate students, many of whom are now prominent academic citizens, Foundation supporters, and members of the governing body of the FOHS Foundation. Donors of the Foundation actively participate in the work and

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[7] https://www.fohs.hr/rezultati-natjecaja-za-akademsku-godinu-2019-2020/

development of the Foundation so that it would be able to provide assistance to as many students as possible.

## (6) ANTI-CORRUPTION POLICY

### **6.1.** *Anti-Corruption Measures Description*

The Company expects its employees to use their capacity of impartial judgement to the maximum when performing their duties, in all aspects that concern the business operations of the Company. In order to preserve the judgement and action autonomy, employees must avoid conflicts of interest or possible conflicts on account of economic or personal interest, Conflict of interest represents every situation in which Company employees are not neutral and objective in relation to the subject of their operation, i.e. when acting in their specific position they have professional or personal interests contrary to the Company's or insured person's interests, which may affect their impartiality when performing their tasks or damage the insured person's interest. The Company designed a Policy for the Prevention of Conflict of Interest, which further clarifies and regulates the conflict of interest issues.

Employees are required to treat fairly all persons they come into contact with, be they clients, competitors or colleagues. All relationships must be based on mutual respect and trust, respect of professional principles, good business practices and business morals. The principles of free and loyal competition must be respected.

All data concerning insured persons, suppliers, other clients and company partners, acquired while cooperating with them, are considered privileged information, even after the end of the contractual relationship (except for the data that the Company is legally obliged to disclose – bonus-malus et al.). Business decisions and actions of all Company employees must comply with positive law. It is forbidden to take advantage of clients by means of manipulation, withholding information, abuse of confidential information, misrepresentation of relevant facts or other dishonest acts. The Company employees are expected to give accurate and authentic information on the services and products of the Company. Furthermore, it is forbidden to use dishonest methods in order to "disqualify" the competition.

The procedures for detecting potential conflicts of interest are defined through the following steps:

- identification and reporting on potential conflicts of interest – obligations of all relevant Company personnel and compliance officer
- assessment of the risk of a conflict of interests – the compliance officer is required to report such risks to Management of the Company
- resolution (prevention) of conflict of interest – taking all relevant measures for preventing conflicts of interest, i.e. resolving existing conflicts of interest
- recording conflicts of interest – the compliance officer is required to monitor the compliance of records of all conflicts of interest within the Company with relevant regulations.

In line with the Company's organisational structure, Management of the Company is in charge of implementing the Policy. Internal audit performs the audit of the implementation of the provisions of this Policy, i.e. regulations which refer to performing tasks concerning the prevention of conflict of interest in line with regulations and codes, and report to the Management Board and Supervisory Board.

Within the Annual Report, the compliance function submits to the Management Board of the Company reports on controls on conflicts of interests performed, i.e. measures undertaken for their prevention.

According to the organisational structure of the Company, in case of potential conflicts of interest, directors or relevant staff are in charge of active supervision of provision of insurance services and are required to immediately notify the Compliance function on all circumstances representing or might lead to a conflict of interest. All Company employees are required to adhere to the provisions of this Policy.
All of the aforementioned has been clearly communicated to all Company employees in the document entitled “Business Code” and the “Communication Handbook”, which are published on the Company intranet web page.

## (7) MANAGEMENT BOARD OF THE COMPANY AND COMPANY MANAGEMENT SUPERVISION

### **7.1.** *Diversity Policy Description*

Ever since its establishment, it has been common practice of the Company to educate the managing staff in-house, by training and promoting young staff members. The key criterion for advancing in the Company is achieving business targets and personally contributing to the Company’s development.

All employees of the Company are equal, regardless of their age, sex, religion, nationality or social status. The Company’s Business Code and Communication Handbook insist on the fact that differences among employees should be accepted, and that the colleagues’ privacy should not be invaded. Any type of harassment or violence shall not be tolerated. This implies sexual and psychological harassment, as well as all other types of harassment and hostile behaviour, disrespect, humiliation, threats et al.

**The Company’s Management** is responsible for achieving business targets of the Company, including those that concern the Company’s strategy, policies, quality and sustainability, as well as everyday operations. While performing its duties, the Management Board is guided by the interest of the Company and its shareholders.

The Management Board of the Company on the day of submitting this report consists of Željko Kordić, President of the Management Board and members of the Management Board Vjeran Zadro, Tomislav Čizmić and Darinko Ivković.

The points of view and level of expertise in the Company’s Management Board are very diversified and ensure a good understanding of the current situation and long-term risks and opportunities connected with the Company’s activity. The members of the Supervisory Board vary in age, sex, education and work experience, i.e. level of expertise for different relevant issues. The composition of the Management Board indicates that all previously stated parameters have been satisfied.

**The Supervisory Board** of the Company supervises the total business operations of the Company, including the policies the Company adopted, as well as compliance with all applicable regulations, including regulations concerning anti-corruption measures. The Supervisory Board also supervises the results achieved by the Management Board of the Company by supervising the financial position of the Company, analysing financial statements and business strategy of the Company. Furthermore, the Supervisory Board approves important capital investments and relevant purchases and sales, and and analyses the yearly budget of the Company and long-term plans of the Company.

The Supervisory Board of the Company is appointed by the Audit Committee of the Company which supervises and monitors the work of the Management Board of the Company and gives recommendations to the Management Board of the Company concerning the implementation and improvement of internal system controls.

**The Audit Committee** of the Company advises the Supervisory Board on the performance of its supervisory-analytical functions and prepares the relevant background information for the Supervisory Board. The Audit Committee supervises the submission of the Company's financial statements to regulatory bodies and the compliance of business policies and processes of the Company with the recommendations made by the internal and external auditors. The Audit Committee helps the Supervisory Board monitor the ICT system of the Company. Furthermore, the Audit Committee maintains regular contact with the external auditor and decides on the proposal for appointment of an external auditor, which is submitted for decision of the General Assembly of the Company. The Audit Committee of the Company issues a recommendation to the Supervisory Board concerning the acceptance of the yearly financial statements of the Company, the annual budget of the Company, and big capital investments.
The Supervisory Board of the Company as at 31 December 2020 consists of dr. Sc. Mladenka Grgić, President of the Supervisory Board, and members Zlatko Lerota, Radoslav Pavlović, Hrvoje Planinić, Radoslav Lavrić, Niko Krivić and Miroslav Grbavac.

The points of view and level of expertise in the Company's Supervisory Board are also very diversified and ensure a good understanding of the current situation and long-term risks and opportunities connected with the Company's activity. The members of the Supervisory Board vary in age, sex, education and work experience, i.e. level of expertise for different relevant issues. The composition of the Supervisory Board indicates that all previously stated parameters have been satisfied.

Zagreb, 30 April 2021

MANAGEMENT OF THE COMPANY

Željko Kordić
President of the Management

Vjeran Zadro, Member of the Management Board

Darinko Ivković, Member of the Management Board

Tomislav Čizmić, Member of the Management Board

**EUROHERC OSIGURANJE d.d.**

**Financial statements for the Year Ended**

**31 December 2020**

**and Independent Auditor's Report**

*This document is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.*

## Responsibility of the Management Board

Pursuant to the Accounting Act of the Republic of Croatia, Management of the Company is responsible for ensuring that the annual consolidated and non-consolidated financial statements of the Company are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, to give a truthful and objective review of the financial position of the Group and Company, as well as their results of business operations for the given period.

After conducting the appropriate research, the Management Board expects that the Company and the Group will have adequate resources in the foreseeable future, and therefore continues to adopt the principle of indefinite operation in preparing the financial statements.

In preparing these financial statements, the Management Board of the Company is responsible for:

- selecting and consistently applying suitable accounting policies;
- giving reasonable and prudent judgements and evaluations;
- applying valid accountancy standards and releasing and explaining in the financial statements any material departures and
- drawing up the financial statements on the going concern basis unless such an assumption is not appropriate.

The Management Board is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Company and the Group and their compliance with the Accounting Act. The Management Board is also responsible for safeguarding the assets of the Company and the Group, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Company and the Group and their compliance with the Accounting Act. It is also responsible for safeguarding the assets of the Company and the Group, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, the Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of and for the Management Board:

**Željko Kordić** *President of the Management Board*

**Tomislav Čizmić,** *M*ember of the Management Board

**Darinko Ivković,** *Member of the Management Board*

**Vjeran Zadro,** *Member of the Management Board*

**EUROHERC osiguranje d.d.**

Ulica grada Vukovara 282, 10000 Zagreb, Hrvatska

31 March 2021

Tel: +385 1 2395 741
Fax: +385 1 2303 691
E-mail: bdo-croatia.hr

**BDO Croatia d.o.o.**
10000 Zagreb
Trg J. F. Kennedy 6b

**INDEPENDENT AUDITOR'S REPORT**

**To the shareholders of Euroherc osiguranje d.d., Zagreb**

**Audit report on separate and consolidated annual financial statements**

**Opinion**

We have audited the separate annual financial statements of Euroherc osiguranje d.d. ("the Company") and the consolidated annual financial statements of the Company and its subsidiary (together the "Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group as at 31 December 2020, separate and consolidated statements of comprehensive income, separate and consolidated statements of changes in equity and separate and consolidated statements of cash flows of the Company and the Group for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards (the "IFRS"), determined by the European Commission and published in the Official Journal of the EU.

**Basis for Opinion**

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's report. We are independent of Company and the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other 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.

**Key Audit Matters**

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the separate and consolidated annual financial statements of the current period and include most significant recognized risks of significant misstatement as a result of error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team. We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

We have determined that the following matters were key audit matters which should be published in our Independent Auditor's report.



Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

**Key Audit Matters (continued)**

<table>
<tr><th colspan="2">Investment property valuation</th></tr>
<tr><td colspan="2">As at 31 December 2020, investments in property in the consolidated financial statements amount to HRK 932,076 thousand and represent 24% of the Group's total assets, and at the Company level HRK 898,777 thousand and represent 23% of total assets.</td></tr>
<tr><th>Key audit matters</th><th>How we addressed the key audit issue</th></tr>
<tr><td>The Group and the Company use the fair value model when subsequently measuring investment property. During subsequent measurements, gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Assessments are conducted annually, in line with the IAS 40: Investment Property.<br><br>In order to assess the investment property value, an independent assessor made a study of the complete portfolio owned by the Group and the Company. Investment property value assessments depend on certain key assumptions, level of rentals on the market, capitalisation rate and the property market value.<br><br>We focused on this area due to the existence of significant estimation uncertainty, with the fact of a significant impact on the financial statements of the Company and the Group. The assessment of the value of the Group's property portfolio is subjective due to, inter alia, the individual nature of each property, its location and the expected future rental income of each property.<br><br>Related disclosures accompanying the annual financial statements<br><br>For additional information, see Note 3 (Significant Accounting Policies), Note 4 (Critical Accounting Judgments and Key Sources of Estimation Uncertainty) and Note 17 (Investment Property).</td><td>Audit procedures<br><br>Our audit procedures related to this area included:<br><br>• verification of the approach and valuation methodologies used for each property in accordance with professional valuation standards and appropriate regulations for property valuation;<br>• an assessment of the qualifications and expertise of independent appraisers to determine whether there were any circumstances that could have affected their objectivity or that may have limited the scope of their work;<br>• checking on a sample basis whether the information specific to certain properties provided by the Group to appraisers is contained in the Group's records of those properties;<br>• checking, on the basis of a sample consisting of the largest properties in the portfolio and those properties where the assumptions used have changed significantly compared to the previous year, the appropriateness of the procedures performed and the acceptability of the assumptions used taking into account available and comparable market evidence;<br>• considering the adequacy of management's estimates in terms of significant developments in valuations;<br>• review of the accuracy and completeness of information published in the financial statements in connection with the publication of additional information on property valuation.</td></tr>
</table>

**Key Audit Matters (continued)**

<table>
<tr><th colspan="2">Impairment of loans granted</th></tr>
<tr><td colspan="2">As at 31 December 2020, gross loans to other companies in the consolidated and separate financial statements amounted to 752,573 thousand, and related provisions for impairment to HRK 35,217 thousand (31 December 2019: gross loans to other companies: HRK 898,257 thousand, provisions for impairment: HRK 40,114 thousand).</td></tr>
<tr><th>Key audit matters</th><th>How we addressed the key audit matters</th></tr>
<tr><td>The loan portfolio consists mostly of companies from the insurance industry and companies that own vehicle technical inspection stations. Loans are measured at amortized cost using the effective interest method, less any impairment losses. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.<br><br>In accordance with International Accounting Standard 39 - Financial Instruments: Recognition and Measurement, the Group and the Company have general provisions for the entire portfolio of loans granted and individual provisions for loans granted to other companies.<br><br>The loan portfolio holds of large individual loans, which then requires the Group and the Company to supervise the debtor's ability to pay the loan and the need to assess future cash flows based on the business operations of individual debtors and collaterals, for example, property.<br><br>We focused on this area, as the Management Board makes complex and subjective judgments about the timing of recognition of impairment, as well as the assessment of the amount of such impairment primarily related to the assessment of future free cash flows of borrowers, borrowers' business prospects and valuation of collateral on loans.<br><br>Related disclosures accompanying the annual financial statements<br><br>For additional information, see Note 3 (Accountancy Policies), Note 4 (Critical Accounting Judgments and Key Sources of Uncertainty of Estimates) and Note 19 (Loans and Receivables).</td><td>Audit procedures<br><br>Our audit procedures related to this area included:<br><br>• understanding policy, processes and key controls related to the approval, recording and monitoring of loans;<br>• checking the accuracy of the data in the accounting records for individual loans granted, based on a sample;<br>• an assessment of the process related to the identification of impairment events and indications of impairment;<br>• assess the reasonableness of the key assumptions used in judging the amount of impairment required, as well as the consistency of the assumptions used;<br>• an assessment of the Company's Management Board's expectations about future cash flows, valuation of collateral, expected collection capacity and other sources of repayment, based on a sample of loans for which there were no repayments;<br>• we have reviewed the amount of the provision required calculated based on expected future cash flows for loans secured by the collateral of the property, taking into account the fair value of the property;<br>• for unsecured loans, based on a sample, we checked the debtor's free cash flow for loan repayment purposes;<br>• we considered the possibility that impairment could be affected by events that were not covered by management's assessment;<br>• reviewing the accuracy and completeness of the information disclosed in the financial statements in terms of comprehensibility.</td></tr>
</table>

**Key Audit Matters (continued)**

| **Valuation of illiquid financial instruments** | |
|---|---|
| As at 31 December 2020,14 % (HRK 538,943 thousand or HRK 563,239 thousand) of total assets of the Group and the Company stated at fair value were classified as Level 3, they were valued by methods in which determining prices for assets and liabilities for the calculation of which non-public inputs were used. Level 3 financial instruments predominantly comprise unquoted and quoted shares, but without significant trading. | |
| **Key audit matters** | **How we addressed the key audit issue** |
| Valuation of equity securities that are not actively traded in the markets used valuation models and techniques primarily based on market inputs based on market method concepts.<br><br>Illiquid financial instruments are valued on the basis of discounted cash flow analysis or a comparative approach where peer groups are used to calculate multipliers. The assessment of the fair value of non-listed shares uses certain assumptions that are not supported by actual market prices or rates.<br><br>We focused on this area due to the size and importance of valuation of financial instruments of the Group and the Company, especially shares of joint stock companies and companies not listed on the active market, as well as the complexity of assessment, adequacy of input data used by the Company when valuing financial instruments.<br><br>**Related disclosures accompanying the annual financial statements**<br><br>For additional information, see Note 3 (Accountancy Policies), Note 4 (Critical Accounting Judgments and Key Sources of Uncertainty of Estimates), Note 18 (Financial Assets Available-for-Sale) and Note 34 (Financial Instruments and Risk Management). | *Audit procedures*<br><br>Our audit procedures related to this area included:<br><br>• we checked the appropriateness of the valuation methodologies used in accordance with the requirements of International Financial Reporting Standard 13 - fair value measurement;<br>• reviewing accounting estimates from previous periods and considering consistency in accounting estimates in the current period, as well as in the method for its creation in relation to the previous period;<br>• testing the accuracy, completeness and relevance of the data on which the fair value estimate is based, and whether the estimate was correctly determined using those data and assumptions;<br>• considering the sources, relevance and reliability of external data and information used in estimating fair value;<br>• recalculating the valuation and reviewing information on the fair value estimate of the share;<br>• assessing the reasonableness and critically reviewing the assumptions used by management in estimating fair value, and whether the assumptions adequately reflect observable market assumptions;<br>• assessing the adequacy of disclosures related to fair value and exposure to financial risks in the financial statements and whether the Company and the Group are properly disclosed, in accordance with relevant financial reporting standards;<br>• we assessed the fair value hierarchy policy with the requirements of International Financial Reporting Standard 13 - fair value measurement. |

## Key Audit Matters (continued)

<table>
<tr><th colspan="2">Valuation of technical provisions</th></tr>
<tr><td colspan="2">As at 31 December 2020, technical provisions amounted to HRK 1,629,135 thousand which represents 74% of the total liabilities of the Company and the Group (31 December 2019: HRK 1,584,386 thousand, 74% of total liabilities).</td></tr>
<tr><th>Key audit matters</th><th>How we addressed the key audit matters</th></tr>
<tr><td>Provisions from insurance contracts represent individually the most significant liability of the Company and the Group in the statement of financial position. The Group's and the Company's technical provisions, which include provisions for reported but unpaid claims and provisions for unexpired risks, reflect the uncertainty that is an integral part of the insurance industry.<br><br>The valuation of technical provisions involves significant judgment regarding uncertain future outcomes and complex mathematical and statistical calculations.<br><br>In the case of provisions for reported but unpaid claims, the Claims Department determines the amount of the provision after processing all available information. Claims data are aggregated and observed at the collective level to determine the total amount of losses that will be incurred for all policies by type of insurance. Claims reserve models take into account experience, claims development, market conditions, as well as assumptions that are sensitive to legal, economic and various other uncertainties in order to estimate losses. The provision for unexpired risks is calculated taking into account the recorded premiums, the nature of the risk and generally accepted valuation methods.<br><br>Management reviews claims and premiums, input assumptions for models, and is responsible for appointing a certified independent actuary tasked with reviewing estimated reserves to ensure they are adequate.<br><br>We focused on this area based on the significance of insurance provisions and the degree of assessment related to key estimates and assumptions.<br><br>Related disclosures accompanying the annual financial statements<br><br>For additional information, see Note 3 (Accountancy Policies), Note 4 (Critical Accounting Judgments and Key Sources of Uncertainty of Estimates), Note 28 Technical Provisions) and Note 35 (Insurance Risk a Management).</td><td>Audit procedures<br><br>We used the work of actuarial experts in performing our audit procedures which included:<br>• assessment of actuarial judgments used in the models, as well as compliance of methodologies applied by the Company and the Group in calculating reserves in accordance with relevant regulatory and reporting requirements<br>• an assessment of the consistency of the application of the methodology during the reporting period compared to previous years;<br>• checking the input data for the calculation of technical provisions, as well as the model in terms of correctness and completeness of the calculation of reserves;<br>• analysis and critical review of reserve calculations that are most susceptible to uncertainty and that are largest in terms of amounts;<br>• confirmation of the validity of the testing of the adequacy of liabilities by the Management Board, which is a key test conducted to verify whether the liabilities are adequate compared to future contractual obligations;<br><br>Furthermore, we reviewed the information disclosed in the financial statements of the Group and the Company to assess their adequacy in terms of the comprehensibility of the transaction itself to the users of the financial statements.</td></tr>
</table>

**Other information in the Annual Report**

Management is responsible for the other information. The other information comprises Annual Report, whose integral part is the Management report but does not include separate and consolidated annual financial statements and our Independent auditor's report on them.

Our opinion on the separate and consolidated annual financial statements does not include other information.

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

As regards the Rules of Procedure, we also implemented the procedures required by the Croatian Law on Accounting („the Accounting law"). These procedures shall include consideration of:

- the management report in all significant benchmarks has been prepared in accordance with the attached financial statements;
- the management report in all significant benchmarks has been prepared in accordance with the Accounting Act.

Based on the procedures required to be performed as part of our audit of the annual separate and consolidated accounts and the procedures referred to above, in our opinion;

- The information contained in the Management report for the financial year for which the seperate and consolidated financial statements have been prepared is consistent, in all material respects, with the annual seperate and consolidated financial statements of the Company set out on pages 48 to 139 on which we have expressed an opinion. In the Opinion section above;
- The management report has been prepared in all material respects, in accordance with the Accounting Act.

Based on the knowledge and understanding of the Company and the Group and their environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information. In this sense, we do not have anything to report.

**Responsibilities of Management and those charged with Governance for the Annual Financial Statements**

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

In preparing the annual financial statements, the Management is responsible for assessing the Company 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 Company or to cease operations, or has no realistic alternative but to do so.

Those appointed for supervision are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibility for the Audit of the Annual Financial Statements**

Our objectives are to obtain reasonable assurance about whether the annual 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 higher 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 made based on these annual financial statements.

**Auditor’s Responsibility for the Audit of the Annual Financial Statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Make conclusion 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 annual 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence in connection with the financial information of the entities or activities performed within the Group to express our opinion on these consolidated financial statements. We are responsible for directing, overseeing and performing the group audit. We remain solely responsible for our audit opinion.

We communicate with those responsible for 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.

We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

Among the matters we are communicating with those responsible for governance, we determine those matters that are of utmost importance in revising the current financial statements for the current period and are therefore the key audit matters. We describe these matters in our independent auditor’s report unless the law or regulations prevents public disclosure or when, in exceptionally rare circumstances, we decide that the matter should not be reported in our independent auditor’s report as it can reasonably be expected that the negative effects of the announcement will surpass the welfare of public interest in such disclosure.

**Report on other legal requirements**

On 3 July 2020, we were appointed as auditors to conduct an audit of the separate and consolidated annual financial statements for 2020, by the General Assembly of the Company.

On the date of this Report, we are continuously engaged only to perform the Company's statutory audit, from the audit of the Company's annual separate and consolidated financial statements for 2019 to the audit of the Company's annual separate and consolidated financial statements for 2020, which totals two years.

In the audit of the separate and consolidated annual financial statements of the Company for 2020, we have determined materiality levels for the annual financial statements as a whole, as follows:

- for separate annual financial statements: HRK 20 million
- for consolidated annual financial statements: HRK 20 million

which represents approximately 1.5% of the gross premium of the Company or the Group for 2020.

We chose the gross premium as the benchmark because, in our view, it is the benchmark against which the performance of Company is commonly measured by users and is a generally acceptable benchmark.

Our audit opinion is consistent with the additional report for the Auditing Board of Company, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited separate and consolidated annual financial statements of the Company for the year 2020 and in the business year prior to the aforementioned period, we did not provide Company with prohibited non-assurance services, and did not provide services to designing and implementing internal control or risk managements and/or control of financial information or design and implementation of technological systems for financial information, and we have maintained independence in relation to Company during the performance of the audit.

Pursuant to the Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (NN 37/16, "Regulation") the Company's Management prepared forms presented on pages od 140 do 146, and include a statement of comprehensive income, statement of financial position, statement in changes in equity and reserves, statement of cash flows and notes on compliance. These forms and the corresponding adjustments are the responsibility of the Management Board and do not form an integral part of the financial statements presented on pages 48 to 139 but are prescribed by the Ordinance.

The partner engaged in the audit of the Company's and Group annual financial statements for the year 2020 resulting in this Independent auditor's report is Angelina Nižić, certified auditor.

In Zagreb, 29 April 2021

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

Ivan Čajko, član Uprave

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b

Angelina Nižić, ovlašteni revizor

*(all amounts in thousands of HRK)*

| | Notes | Group 2020 | Company 2020 | Group 2019 | Company 2019 |
|---|---|---|---|---|---|
| ***Earned premium*** | | | | | |
| Written gross premium and premium written for co-insurance | 5 | 1,341,591 | 1,341,591 | 1,278,989 | 1,278,989 |
| Value adjustment and paid premium value adjustment | 5 | (8,983) | (8,983) | (3,588) | (3,588) |
| Outward reinsurance and co-insurance gross premiums | 5 | (34,520) | (34,520) | (29,308) | (29,308) |
| **Net written premium** | | **1,298,088** | **1,298,088** | **1,246,093** | **1,246,093** |
| Changes in gross unearned premium provisions | 5 | (31,415) | (31,415) | (71,873) | (71,873) |
| Changes in gross unearned premium provisions, reinsurance and co-insurance share | 5 | 204 | 204 | 483 | 483 |
| ***Net earned premiums*** | *5* | ***1,266,877*** | ***1,266,877*** | ***1,174,703*** | ***1,174,703*** |
| Fee and commission income | 6 | 3,218 | 3,218 | 2,348 | 2,348 |
| Investment income | 7 | 87,492 | 88,504 | 94,270 | 95,250 |
| Other operating income | 8 | 51,700 | 47,306 | 51,902 | 47,449 |
| **Net income** | | **1,409,287** | **1,405,905** | **1,323,223** | **1,319,750** |
| Liquidated claims | | (580,198) | (580,198) | (587,038) | (587,038) |
| Liquidated claims, reinsurance share | | 1,856 | 1,856 | 1,935 | 1,935 |
| Changes in provisions for claims outstanding | | (15,830) | (15,830) | 53,950 | 53,950 |
| Changes in other technical provisions for claims outstanding, net of reinsurance | | - | - | 2,253 | 2,253 |
| Return of premium (bonuses and rebates), net of reinsurance | | 2,496 | 2,496 | 3,574 | 3,574 |
| Changes in provisions for claims outstanding, reinsurance share | | 5,930 | 5,930 | 912 | 912 |
| **Claims incurred** | 9 | **(585,746)** | **(585,746)** | **(524,414)** | **(524,414)** |
| Acquisition costs | 10 | (344,047) | (343,634) | (334,049) | (333,393) |
| Administrative costs | 11 | (195,735) | (195,735) | (196,404) | (196,404) |
| Investment costs | 7 | (46,591) | (46,015) | (29,756) | (29,149) |
| Other operating expenses | 12 | (83,940) | (83,940) | (75,300) | (75,300) |
| **Profit before tax** | | **153,228** | **150,835** | **163,300** | **161,090** |
| Income tax | 13 | (27,303) | (26,893) | (29,734) | (29,146) |
| **Profit after tax** | | **125,925** | **123,942** | **133,566** | **131,944** |

The notes below form an integral part of these financial statements

*(all amounts in thousands of HRK)*

| | Notes | Group in 2020 | Company 2020 | Group in 2019 | Company 2019 |
|---|---|---|---|---|---|
| ***Items that will not be reclassified in the Statement of Profit or Loss*** | | | | | |
| Net income from revaluation reserves by property and equipment | | 21,260 | 21,260 | 21,104 | 21,104 |
| ***Items that can subsequently reclassified in the Statement of Profit of Loss*** | | | | | |
| Net change in the fair value of available-for-sale securities | | 20,861 | 20,861 | 18,150 | 17,633 |
| Net amount transferred to profit or loss | | (543) | (543) | (6,737) | (6,737) |
| ***Total other comprehensive income / (loss)*** | | ***41,578*** | ***41,578*** | ***32,517*** | ***32,000*** |
| **Total comprehensive income** | | **167,503** | **165,520** | **166,083** | **163,944** |
| **Profit after tax attributable to:** | | | | | |
| - Company's owners | | 124,967 | 123,942 | 132,719 | 131,944 |
| - owners of non-controlling interests | | 958 | - | 847 | - |
| | | **125,925** | **123,942** | **133,566** | **131,944** |
| **Total comprehensive income attributable to:** | | | | | |
| - Company's owners | | 166,545 | 165,520 | 165,071 | 163,944 |
| - owners of non-controlling interests | | 958 | - | 1,012 | - |
| | | **167,503** | **165,520** | **166,083** | **163,944** |
| **Earnings per share (in HRK)** | | **412,86** | **406,35** | **437,91** | **432,59** |

The notes below form an integral part of these financial statements.

*(all amounts in thousands of HRK)*

| | Notes | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 14 | 4,307 | - | 4,307 | - |
| Intangible assets | 15 | 6,915 | 6,915 | 8,934 | 8,934 |
| Property and equipment | 16 | 506,171 | 505,680 | 488,967 | 488,708 |
| Investment property | 17 | 932,076 | 898,777 | 902,813 | 868,938 |
| Financial assets available for sale | 18 | 812,362 | 836,657 | 821,923 | 846,218 |
| Loans and receivables | 19 | 663,610 | 663,610 | 800,230 | 800,230 |
| Bank deposits | 20 | 35,972 | 35,972 | 19,298 | 19,298 |
| Guarantee deposits for lease contracts | | 6,112 | 6,112 | - | - |
| Other receivables | 22 | 103,079 | 103,079 | 16,250 | 16,250 |
| | | **3,070,604** | **3,056,802** | **3,062,722** | **3,048,576** |
| **Current assets** | | | | | |
| Loans and receivables | 19 | 57,098 | 57,098 | 57,913 | 57,913 |
| Bank deposits | 20 | 111,302 | 111,302 | 12,390 | 12,390 |
| Guarantee deposits under lease agreements | | 4,411 | 4,411 | 7,855 | 7,855 |
| Premium receivables | 21 | 405,067 | 405,067 | 382,350 | 382,350 |
| Reinsurance share in tehnical provisions | 28 | 28,267 | 28,267 | 22,134 | 22,134 |
| Credit, cards and check receivables | | 40,019 | 40,019 | 40,944 | 40,944 |
| Other receivables | 22 | 102,743 | 102,053 | 61,724 | 62,053 |
| Prepaid expenses | | 69,698 | 69,696 | 19,162 | 19,162 |
| Cash at bank and in hand | 23 | 59,789 | 59,156 | 45,536 | 45,460 |
| | | **878,394** | **877,069** | **650,008** | **650,261** |
| **Total assets** | | **3,948,998** | **3,933,871** | **3,712,740** | **3,698,847** |

The notes below form an integral part of these financial statements.

*(all amounts in thousands of HRK)*

| | Notes | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|---|
| **Capital and liabilities** | | | | | |
| **Equity and reserves** | | | | | |
| Share capital | 24 | 61,002 | 61,002 | 61,002 | 61,002 |
| Revaluation reserves for securities available-for-sale | 25 | 56,963 | 56,611 | 36,645 | 36,293 |
| Revaluation reserves for property | 26 | 341,335 | 341,335 | 329,516 | 329,516 |
| Legal reserves | 27 | 172,585 | 172,585 | 172,585 | 172,585 |
| Retained earnings | | 1,093,830 | 1,096,314 | 959,422 | 962,931 |
| | | **1,725,715** | **1,727,847** | **1,559,170** | **1,562,327** |
| To owners of non-controlling interests | | 12,089 | **-** | 11,609 | **-** |
| **Total Equity** | | **1,737,804** | **1,727,847** | **1,570,779** | **1,562,327** |
| **Tehnical provisions** | | | | | |
| Unearned premiums, gross | 28 | 720,058 | 720,058 | 688,643 | 688,643 |
| Outstanding claims, gross | 28 | 909,077 | 909,077 | 895,743 | 895,743 |
| | | **1,629,135** | **1,629,135** | **1,584,386** | **1,584,386** |
| **Non-current liabilities** | | | | | |
| Deferred tax-liabilities | 13 | 85,393 | 80,346 | 77,877 | 72,830 |
| Long-term loans | 29 | 113,638 | 113,638 | 194,963 | 194,963 |
| | | **199,031** | **193,984** | **272,840** | **267,793** |
| **Current liabilities** | | | | | |
| Short-term loans | 29 | 122,388 | 122,388 | 23,170 | 23,170 |
| Liabilities from direct insurance | 30 | 37,909 | 37,909 | 33,634 | 33,634 |
| Liabilities from reinsurance | | 6,994 | 6,994 | 9,097 | 9,097 |
| Current tax liability | 31 | 2,583 | 2,575 | 12,303 | 12,197 |
| Other liabilities | 31 | 213,154 | 213,039 | 206,531 | 206,243 |
| | | **383,028** | **382,905** | **284,735** | **284,341** |
| **Total equity and liabiliaties** | | **3,948,998** | **3,933,871** | **3,712,740** | **3,698,847** |

The notes below form an integral part of these financial statements.

*(all amounts in thousands of HRK)*

**GROUP**

| | Share capital | Revaluation reserves at fair value available for sale | Revaluation reserves by property and equipment | Legal reserves | Retained earnings | Equity owner shares | To owners of non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019.** | **61,002** | **25,397** | **316,956** | **172,585** | **867,108** | **1,443,048** | **11,421** | **1,454,469** |
| Revaluation, net | - | 17,985 | 21,104 | - | - | 39,089 | 165 | 39,254 |
| Net amount transferred to profit or loss | - | (6,737) | - | - | - | (6,737) | - | (6,737) |
| Profit after tax | - | - | - | - | 132,719 | 132,719 | 847 | 133,566 |
| ***Total comprehensive income*** | **-** | **11,248** | **21,104** | **-** | **132,719** | **165,071** | **1,012** | **166,083** |
| Depreciation | - | - | (8,544) | - | 8,544 | - | - | - |
| Subsequent icome tax | - | - | - | - | (403) | (403) | (189) | (592) |
| Other movements | - | - | - | - | (5,845) | (5,845) | (157) | (6,002) |
| Dividend payment | - | - | - | - | (42,701) | (42,701) | (478) | (43,179) |
| **Balance at 31 December 2019** | **61,002** | **36,645** | **329,516** | **172,585** | **959,422** | **1,559,170** | **11,609** | **1,570,779** |
| Revaluation, net | **-** | 20,861 | 21,260 | - | - | 42,121 | - | 42,121 |
| Net amount transferred to profit or loss | - | (543) | - | - | - | (543) | - | (543) |
| Profit after tax | - | - | - | - | 124,967 | 124,967 | 958 | 125,925 |
| **Total comprehensive income** | **-** | **20,318** | **21,260** | **-** | 124,967 | 166,545 | 958 | 167,503 |
| Depreciation | - | - | (9,441) | - | 9,441 | - | - | - |
| Dividend payment | - | - | - | - | - | - | (478) | (478) |
| **Balance at 31 December 2020** | **61,002** | **56,963** | **341,335** | **172,585** | **1,093,830** | **1,725,715** | **12,089** | **1,737,804** |

*(all amounts in thousands of HRK)*

**COMPANY**

| | Share capital | Revaluation reserves at fair value available for sale | Revaluation reserves by property and equipment | Legal reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Stanje na 1. siječnja 2019.** | **61,002** | **25,397** | **316,956** | **172,585** | **865,145** | **1,441,085** |
| Revaluation, net | - | 17,633 | 21,104 | - | - | 38,737 |
| Net amount transferred to profit or loss | - | (6,737) | - | - | - | (6,737) |
| Profit after tax | - | - | - | - | 131,944 | 131,944 |
| ***Total comprehensive income*** | **-** | ***10,896*** | ***21,104*** | **-** | ***131,944*** | ***163,944*** |
| Depreciation | - | - | (8,544) | - | 8,544 | - |
| Dividend payment | - | - | - | - | (42,702) | (42,702) |
| **Balance at 31 December 2019** | **61,002** | **36,293** | **329,516** | **172,585** | **962,931** | **1,562,327** |
| Revaluation, net | - | 20,861 | 21,260 | - | - | 42,121 |
| Net amount transferred to profit or loss | - | (543) | - | - | - | (543) |
| Profit after tax | - | - | - | - | 123,942 | 123,942 |
| **Total comprehensive income** | **-** | **20,318** | **21,260** | **-** | **123,942** | **165,520** |
| Depreciation | - | - | (9,441) | - | 9,441 | - |
| Dividend payment | **-** | - | - | - | - | - |
| **Balance at 31 December 2020** | **61,002** | **56,611** | **341,335** | **172,585** | **1,096,314** | **1,727,847** |

The notes below form an integral part of these financial statement.

Statement of Cash Flows

for the year ended 31 December 2020

*(all amounts in thousands of HRK)*

| **CASH FLOW FROM OPERATING ACTIVITIES** | **Grupa 2020** | **Društvo 2020** | **Grupa 2019** | **Društvo 2019** |
|---|---|---|---|---|
| **Cash flow before the change in assets and liabilities** | | | | |
| Profit before tax | **153,228** | **150,835** | **163,300** | **161,090** |
| *Adjustments:* | | | | |
| Depreciation of property and eqipment | 45,342 | 45,245 | 41,779 | 41,646 |
| Amortization of intangible assets | 2,971 | 2,971 | 5,230 | 5,230 |
| Investment income | (58,161) | (59,173) | (65,138) | (66,118) |
| Interest expense | 5,293 | 5,293 | 8,500 | 8,468 |
| Loss on sale of financial assets | 210 | 210 | 222 | 222 |
| Loss od sale of investment property | 2,882 | 2,882 | 934 | 934 |
| Gains from fair valuation of investment property | (11,562) | (12,138) | (31,590) | (32,165) |
| Other investment costs | 3,544 | 3,544 | 1,110 | 1,110 |
| Change in tehnical provisions | 44,749 | 44,749 | 12,095 | 12,095 |
| Change in the share of reinsurance in technical provisions | (6,133) | (6,133) | (1,395) | (1,395) |
| ***Changes in assets and liabilities*** | | | | |
| Income tax | (34,824) | (34,402) | (23,927) | (22,672) |
| Dividend receipt | 5,491 | 6,503 | 10,531 | 11,122 |
| Interest paid | (5,285) | (5,285) | (8,500) | (8,468) |
| Interest receipts | 52,013 | 52,013 | 43,707 | 43,707 |
| (Increase) / decrease in investments available-for-sale | 33,899 | 33,899 | (9,347) | (9,347) |
| (Increase) / decrease in deposits, loans and receivables | (113,476) | (113,476) | 36,580 | 36,580 |
| Increase in receivables and other assets | (70,112) | (69,091) | (85,910) | (86,308) |
| Increase in other liabilities | 4,976 | 5,235 | 46,654 | 47,059 |
| Other | - | - | - | - |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **55,045** | **53,681** | **144,835** | **142,790** |

*(all amounts in thousands of HRK)*

| CASH FLOW FROM OPERATING ACTIVITIES (continued) | Group 2020 | Company 2020 | Group 2019 | Company 2019 |
|---|---|---|---|---|
| Receipts from sale of investment property | 10,176 | 10,176 | 19,460 | 19,460 |
| Expenditures for the purchase of real estate and equpment | (20,321) | (19,992) | (20,582) | (20,521) |
| Expenditures for acquisition of intangible assets | (952) | (952) | (576) | (576) |
| Expenditures for the acquisition of investment property | (21,700) | (21,700) | (4,397) | (4,397) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **(32,797)** | **(32,468)** | **(6,095)** | **(6,034)** |
| Receipts from loans received | 25,000 | 25,000 | 141,399 | 141,399 |
| Repayment of received loans | (20,586) | (20,586) | (197,660) | (196,453) |
| Cash outflows for rent | (11,931) | (11,931) | (9,298) | (9,299) |
| Cash outflows for dividend payment | (478) | 0 | (45,667) | (44,930) |
| **CASH FLOW FROM FINANCIAL ACTIVITIES** | **(7,995)** | **(7,517)** | **(111,226)** | **(109,283)** |
| **Net increase / (decrease) in cash and cash equivalents** | **14,253** | **13,696** | **27,514** | **27,473** |
| **Cash and cash equivalents at the beginning of the year** | **45,536** | **45,460** | **18,022** | **17,987** |
| **Cash and cash equivalents at the end of the year** | **59,789** | **59,156** | **45,536** | **45,460** |

The notes below form an integral part of these financial statements.

## 1. GENERAL DATA

Euroherc osiguranje d.d., (hereinafter: “the Company”) and its subsidiary (together “the Group”) were established in October 1992 in Makarska. Since 2000, the address of the registered office of the Company is Ulica grada Vukovara 282, Zagreb.

On 30 June 2017, the Company bought a 68,12% share in the Company MTT d.o.o. for 25,9 million HRK.

The Group provides non-life insurance services and specialises in Motor Vehicle Insurance. The Group provides services through 15 subsidiaries. The Croatian Financial Services Supervisory Agency (HANFA) regulates the business operations of the Company.

As at 31 December 2020, the Company had 1,203 employees, which is 36 less than a year earlier.

**Management and Supervisory Board**

**Management Board**

Željko Kordić, President of the Management Board since 1 February 2021, until then a member of the Management Board
Darinko Ivković, Member of the Management Board
Tomislav Čizmić, Member of the Management Board
Vjeran Zadro, Member of the Management Board
Ivana Bratanić, President of the Management Board until January 31, 2021

**Supervisory Board**

Mladenka Grgić, President of the Supervisory Board
Zlatko Lerota, Deputy Chairman of the Supervisory Board
Hrvoje Planinić, member of the Supervisory Board
Niko Krivić, member of the Supervisory Board
Miroslav Grbavac, member of the Supervisory Board
Radoslav Lavrić, member of the Supervisory Board
Radoslav Pavlović, Member of the Supervisory Board

## 2. BASIC OF PREPARATION OF FINANCIAL STATEMENTS

### Statement of compliance

Financial statements comprise consolidated and non-consolidated financial statements of the Company and are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

### Basis of preparation

Financial statements are prepared in accordance with the historical cost principle, except for certain financial instruments which are classified as financial assets available for sale, as well as investment property and property classified as tangible assets at fair value. Financial statements are prepared on the going concern basis.

The financial statements are given in HRK rounded to the thousand.

The accompanying financial statements are prepared based on the accounting records of the Group and entail adjustments and reclassifications necessary for a truthful and objective overview in compliance with International financial reporting standards, as adopted in the European Union.

Preparing financial statements pursuant to IFRS requires the use of certain accountancy presumptions. Furthermore, it requires the Management Board to use its presumptions and assessments when applying the Group's accountancy policies. The areas that require a higher assessment level are more complex. The areas in which assessments and presumptions relevant for financial statements are given in Note 4.

Accountancy policies have been applied consistently, if not stated otherwise.

The Group's accountancy policies have been applied consistently in the Company, if not stated otherwise.

### Impact of the COVID-19 pandemic on the Company's and the Group's operations

Due to the new emergency situation of spreading the COVID-19 virus, EUROHERC osiguranje d.d. initiated several activities, adjusted the appropriate processes and adopted the relevant rules to ensure business continuity and protection of employees and clients in accordance with the instructions and decisions of the Civil Protection Directorate of the Republic of Croatia, respecting the rights and obligations prescribed by the Labor Act, from the Law on Protection of the Population from Infectious Diseases. In this extraordinary situation, the emphasis is on maintaining business, ensuring the availability of services and fulfilling the obligation to provide reliable insurance protection as well as the payment of damages to the Company's customers.

Online sales, claim and payment services, as well as continuous support of the Company's employees by telephone and electronic means of communication are available to clients at all times. Registration as well as processing of damages and payment of appropriate fees is done regularly.

The crisis caused by the COVID-19 coronavirus pandemic and the associated uncertainty will have negative consequences for the whole economy. Due to its unpredictable duration at this time, the scale of the economic consequences cannot be predicted with certainty. A slowdown in sales in all types of insurance is expected during the time when measures to combat coronavirus COVID-19 are in force, after the completion of the measures, the sale of insurance will depend on the overall economic situation in the country.

**2. BASIC OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)**

**Impact of the COVID-19 pandemic on the Company's and the Group's operations (continued)**

In relation to the types of insurance that the Company emphasizes in its operations, and which make up the majority of the Company's portfolio (compulsory motor third party liability insurance and motor hull insurance), despite a possible reduction in prime income, no negative impact on technical results is expected.
The Company does not expect a decrease in cash inflows, so it is not expected to jeopardize liquidity. Given the structure of the Company's portfolio, which is dominated by compulsory motor third party liability insurance, if we draw a parallel with the crisis of 2008, experience has shown that the compulsory motor third party liability insurance portfolio is the most resilient to crises, which is logical because it is compulsory. type of insurance. The COVID crisis has accelerated the decision to be more active in early payment, so that policyholders can be contacted even during the policy period. They are urged to pay so as not to lose their rights under the insurance contract, but they are also communicated the options to agree on new real payment maturities, taking into account the new situation.

The low interest rate environment continues, and the COVID crisis further complicates investment decisions. During this crisis in the investment part, the Company opted for the accumulation of liquidity (deposits in banks, money in the giro account), putting the requirements for returns in the background. That is how we determined the medium-term strategy, because it is not to be expected that this crisis will end so quickly. The planned investment increases will primarily relate to the increase in investments in debt securities of the Republic of Croatia, bank deposits and loans, which aims to further increase the security and liquidity of investments (deposits, bonds) but also to ensure a certain return for the Company (loans).

In an environment of record low interest rates, an inactive stock market and the overall economic outlook conditioned by the COVID crisis, the Company is increasingly in a situation where it literally keeps its investment position in cash. The Company will also insist on shorter maturities and kuna exposure when investing in government securities. Through a prudent or even conservative policy of investing at shorter maturities and not exposing itself to currency risk, the Company significantly reduces market risks, but consciously waives high returns.
The Company regularly monitors all risks to which it is exposed, and if the need arises, adopts and implements appropriate measures to reduce them. The Company measures and manages risks based on a standard formula that calculates the required solvency capital. According to current knowledge related to the impact of coronavirus COVID-19, the impact on certain risk categories is expected, but no significant changes in the Company's risk profile are expected.

The Company assessed the impact of the decline in the value of assets due to unfavorable movements in interest rates on financial markets, but at the same time a positive impact on the value of the Company's technical reserves and given the high solvency ratio as at 31 December 2020 of 189.76%. stress, the Company will continue to be adequately capitalized in the context of the coronavirus pandemic COVID-19 and all capital requirements will be met.
In the first quarter of 2021, the Company continued to operate successfully and make a profit. The Company continues to monitor the risks associated with the further course of the pandemic and their impact on the capital position. No significant decline in the solvency ratio is expected.

## 2. BASIC OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

**Basis for Consolidation**

The consolidated financial statements comprise the Company and its subsidiaries (together “the Group”).

*Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Negative goodwill that arises in case of a bargain purchase is recognised immediately in the profit and loss account. Transaction costs are recognised in the statement of profit or loss in the moment when they arise, unless they refer to the issuance of debt securities or equity securities. The transferred fee does not include amounts connected to settlement of relationships that existed prior to the acquisition date. Those amounts are, as a rule, recognised in the statement of profit or loss.

All potential fees are measured at fair value at the acquisition date. If the obligation to pay the potential fee, which complies with the definition of a financial instrument, is classified as an equity instrument, then it is not remeasured and the settlement is recognised in the equity. Conversely, the subsequent changes in fair value of the potential fee is recognised in the profit or loss.

*Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls another company, when exposed to, or when entitled to, variable return on its investment and can influence the return through the control of the other company. The financial statements of subsidiaries are included in the consolidated financial statements through the total consolidation method since the date when the control was transferred to the Group and excluded from the date of the end of control.

In the separate financial statement of the Company, investments in subsidiaries were reported at cost less the relevant impairment, if necessary.

*Loss of control*

When the Group loses control, the Group stops recognising assets and liabilities of the subsidiary, minority shareholders’ shares and other elements of equity and reserves which refer to the subsidiary. Potential surplus or deficit that derives from the end of control is recognised in the profit or loss. Any interest retained in the former subsidiary is measured at fair value as at the day control ceases. After that, the share is stated as an investment valued pursuant to the equity method or pursuant to the Group’s Financial Instrument Accountancy Policy, depending on the level of retained influence.

*Investment in entities stated in accordance with the equity method*

The Group’s shares in entities stated in accordance with the equity method refer to the shares in subsidiaries. Subsidiaries represent entities in which the Group exercises significant influence, but not control or join control over the financial and business policies of that entity.

The shares in subsidiaries are calculated in accordance with the equity method. Initially, they are measured in accordance with the cost method, which entails transaction costs. After the first recognition, the Group's share in profit and loss and other comprehensive income of subject calculated in accordance with the equity method is stated in consolidated financial statements until the date of end of significant influence, i.e. joint control.

## 2. BASIC OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

### Basis for Consolidation (continued)

In separate financial statements of the Company, where relevant, the investment in the subsidiary is stated as cost less relevant impairment losses.

*Transactions eliminated during consolidation*

Balances and transactions among Group’s members and all unrealised gains and losses that relate to the transactions of the Group’s members are eliminated during the preparation of consolidated financial statements. Unrealised gains that relate to the transactions of the Group and its subsidiaries are eliminated in accordance with the proportion of the Group’s share in the subsidiary. Unrealised losses are also eliminated, same as unrealised gains, but only if there are no impairment indicators.

### Application of new and revised International Financial Reporting Standards

The Company's management adopted the following amended standards that became effective on January 1, 2020, but did not have a significant impact on the Company's and the Group's financial statements:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Materiality (published on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 3 Business Combinations, Definition of Operations (issued on 22 October 2018 and effective for acquisitions in the reporting period beginning on or after 1 January 2020)
- Amendments to the Conceptual Framework for Financial Reporting (published on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, Reference Interest Rate Reform (IBOR) (issued on 26 September 2019 and effective for annual periods beginning on or after after January 1, 2020)
- Amendments to IFRS 16 Leases (mandatory for annual periods beginning on or after 1 June 2020, but may be adopted immediately from the date of issue on 28 May 2020)

Standards and interpretations not yet effective

Several new standards and guidelines have been published that are mandatory for reporting periods beginning on or after January 1, 2021.

- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (published on 11 September 2014 and effective for annual periods beginning on or after after a date to be determined by the IASB)

## 2. BASIC OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

**Application of new and revised International Financial Reporting Standards (continued)**

*Standards and interpretations not yet effective (continued)*

- IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023)
- Classification of liabilities as current or long-term - Amendments to IAS 1 Presentation of Financial Statements (published on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023)
- Revenues before intended use, harmful contracts - costs of fulfilling the contract. Conceptual framework reference - amendments to the narrow scope of IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRS 3 Business Combinations, and Annual Improvements to IFRS 2018 2020 - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)
- Reference interest rate reform (IBOR) - second phase of the amendment to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, IFRS 16 Leases (published on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021)

The Group and the Company are currently assessing the impact of the new standards and guidelines on their financial statements. The new standards and interpretations are not expected to affect the Company's financial statements.

Upon the entry into force of IFRS 17: Insurance Contracts and IFRS 9: Financial Instruments (the application of IFRS 9 for insurance companies has been deferred until the application of IFRS 17), certain changes will occur in the financial statements of the Company and the Group. The Company's management is in the process of assessing the impact of IFRS 17 and believes that the implementation of IFRS 9 will have a significant impact on the financial statements of the Company and the Group.

In addition to the aforementioned standard, IFRS 17 and IFRS 9, according to estimates, the application of these new standards and amendments to existing standards would not have a significant material impact on the Company's financial statements.

The Company and the Group have chosen not to apply the new standards, amendments to existing standards and interpretations before the effective date.

## 3. ACCOUNTANCY POLICIES (continued)

### Premiums

The written gross premium entails all premium amounts contracted by the end of the accounting period for policies issued by the end of the accounting period, regardless whether these amounts refer entirely or partially to later accounting periods. The earned premiums include the written gross premium (including the outward reinsurance premium), outward reinsurance and co-insurance premium, value adjustment and paid premium value adjustment, and changes in unearned premium provisions. Reinsurance premiums ceded for non-insurance operations are calculated for the same accounting period as the premiums that refer to related direct insurance operations.

### Unearned premium provisions

Unearned premium provisions are formed for contracts in accordance with which insurance coverage lasts even after the accounting period expires, since the insurance and accounting period do not match. The written gross premium is calculated by using the Method II 1 (the method of separate calculation for non-life insurance with an unequal distribution of risk in time) and Method II 2 (the method of separate calculation for non-life insurance with an unequal distribution of risk in time) given in the section II Methods for calculating gross unearned premium provisions of the Minimum standards, method of calculation and criteria for the calculation of unearned premium provisions. The method of separate calculation for non-life insurance with an unequal distribution of risk in time is applied to the types of insurance for which risks decrease or increase with time. In case of other types of insurance, the method of separate calculation for non-life insurance with an equal distribution of risk in time was applied.

Unearned premium provisions, net of reinsurance represents the gross unearned premium less the contracted re-insurance part, pursuant to the reinsurance contracts in force. The changes in unearned premium provisions in relation to the previous period is stated in the earned premium.

### Acquisition costs

The acquisition costs entail costs incurred by concluding the insurance contract, which entails all direct insurance costs. Direct acquisition costs are commission costs for insurance contract conclusion calculated pursuant to the agency contract. The commission costs for non-insurance operations are acknowledged based on the way these costs were incurred. Other underwriting costs refer to costs of insurance documents submission or including the insurance contract into the portfolio, as well as indirect costs such as advertising costs or administrative costs related to offer processing and policy issuance, and operating lease costs. These underwriting costs are period costs and are not delimited.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

**Claims**

Claims incurred entail all liquidated claims amounts in the accounting period, no matter the accounting period the claims incurred in, less the reinsurer's share in claims, and reduced or augmented by the changes in provisions for claims outstanding (net of reinsurance) in relation to the previous period. Non-life insurance claims are augmented by claims handling costs. Provisions for open (non-liquidated) claims, based on the assessment of the claim and application of statistics method, are determined for estimated liquidation costs of all claims incurred and unpaid until the date of reporting, no matter whether they have been declared or not, together with the related internal and external claims liquidation costs. Where applicable, the provisions are stated less the amount of the real estimated return based on salvage and subrogation.

The Management Board believes that the claims provisions have been realistically and objectively reported considering the currently available information, and the final amount of the liability depends on future information and events, which may lead to the adjustments of the provision amounts, which will be reported in the financial statements for the period they were performed in. The methods and assessments are regularly examined.

Provisions for claims outstanding, net of reinsurance, are gross provisions for claims outstanding less the reinsurance part, pursuant to the provisions of the reinsurance contract and depending on the provisions for claims outstanding calculation method applied.

**Gross operating expenses**

Gross operating expenses comprise administrative costs such as staff costs, intangible assets depreciation, energy costs, advertising costs, operating lease costs, services costs and other costs.

Payments of the operating lease are recognised in the statement of profit or loss linearly during the lease period.

**Reinsurance**

The Group has ceded reinsurance premiums as a part of the regular business operations with the aim to limit their potential net losses through risk diversification. Reinsurance contracts do not relieve the Group of the direct liabilities towards policy holders.

Ceded premiums and recoverable amounts are presented as profit or loss based on the gross principle. Only contracts a significant transfer of insurance risk derives from are recorded as insurance. The amounts recoverable from such contracts are recognised in the same year as related claims. Contracts that do not transfer a significant insurance risk (i.e. financial reinsurance), are recognises as deposits. The Group has no such contracts.

The assets based on reinsurance entail the amounts receivable from the reinsurance company for ceded insurance liabilities. The amounts recoverable from the reinsurance company are determined in a way analogous to the way of determining provisions for claims outstanding or claims paid based on reinsured policies. The assets based on reinsurance comprise real or estimated amounts which are, pursuant to the reinsurance contract, recoverable from the reinsurer in relation to the technical provisions.

**3. ACCOUNTANCY POLICIES (continued)**

**Reinsurance (continued)**

The impairment of amounts recoverable based on the reinsurance contract is determined for every reporting date by applying the same methodology as for loans and receivables. The value of the relevant assets is considered to be impaired if there is objective proof, as a result of events that arose after the initial recognition, that the Group shall not recover all amounts after they are due and that the event in question has a measurable effect on the amounts the Group will recover from the reinsurer.

*Reinsurers' commissions*

Reinsurers' commissions for non-life insurance are recognised in the statement of profit or loss, based on the incurrence principle.

**Investment income allocation**

Interest income is recognised in the statement of profit or loss on the accrual basis, considering the effective yield on the financial asset concerned. Income from land lease, building leases and other operational leases are recognised in the statement of profit or loss is calculated by using the straight-line method throughout the lease period.

**Foreign currencies**

Business events not reported in HRK are initially recorded by converting the amount into HRK pursuant to the exchange rate on the date of transaction. Monetary assets and liabilities that are denominated in foreign currency are recalculated on the reporting date by applying the exchange rate on the date. Non-monetary assets and liabilities that are denominated in foreign currency at fair value are converted pursuant to the exchange rate on the date of fair value assessment. Gains and losses arising from the conversion are included in the net profit or loss of the period.

**Taxation**

Corporate income tax expense is the sum of the current tax liability and deferred taxes.

*Current tax liability*

Current tax liability is based on the taxable profit for the year. Taxable income differs from the net income of the period reported in the statement of profit or loss as it does not entail income and expenses items which can be taxable or non-taxable in other years, nor items that are never taxable or deductible. The Group's current tax liability is calculated by applying the tax rates in force, i.e. being adopted on the reporting date.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

**Taxation (continued)**

*Deferred tax*

Deferred taxes are recognised based on the difference between the carrying amount of assets and liabilities reported in financial statements and related tax bases used for the calculation of taxable income and are calculated using the liability method. Deferred tax assets is generally recognised in accordance with all taxable temporary differences, and deferred tax liabilities are generally recognised for all taxable temporary differences up to the taxable profit amount which will probably be available and enable the use of deductible temporary differences. Deferred tax liabilities and deferred tax assets are not recognised if the temporary difference derives from the goodwill or the initial recognition (except in case of business mergers) of other assets and liabilities in a transaction which has no bearing on the taxable or accounting profit.

Deferred tax liabilities are also recognised based on taxable temporary differences connected with investments into subsidiaries and associates, as well as shares in joint ventures, except when the Group is able to influence the cancellation of the temporary difference even when the cancellation of the temporary difference is not probable in the near future. Deferred tax assets which derive from deductible temporary differences connected to the aforementioned type of investments and shares is recognised up to the taxable profit amount which will probably become available and enable the use of relief based on temporary differences, and if their cancellation is expected in the nearby future.

The carrying amount of deferred tax assets is reviewed on every reporting date and reduced if it is no longer probable that a sufficient taxable profit amount for the return of all tax assets or a part of tax assets will be available.

Deferred tax assets and deferred tax liabilities are calculated at tax rates which are expected to be applicable in the period for the settlement of liabilities or realisation of assets based on tax rates and acts which are in force or being adopted on the reporting date. The calculation of deferred tax liabilities and deferred tax assets reflects tax consequences which would result from the way in which the Group expects to realise the return of the carrying amount of its assets, i.e. settle the carrying amount of its liabilities, on the reporting day.

Deferred tax assets and deferred tax liabilities are to be offset if there exists a legal right to offset current tax assets and current tax liabilities, and if they refer to taxes imposed by the same tax authority and if the Group intends to settle its current net tax assets and current tax liabilities.

## 3. ACCOUNTANCY POLICIES (continued)

### Taxation (continued)

*Current and deferred tax periods*

Current and deferred taxes are recognised as income and expenses in the statement of profit or loss, except for taxes which refer to items directly stated in the principal or other comprehensive income, in which case taxes are also stated in the principal or other comprehensive income, or if taxes result from the first statement of the business merger, in which case the tax effect is taken into consideration when calculating goodwill or determining the surplus of the acquiring company's share in the net fair value of determinable assets, liabilities and potential liabilities of the acquired company which supersede the business merger cost.

### Property and equipment

Land and buildings used for goods or services production or delivery or administrative purposes are reported in the statement of financial position in revalued amounts, which represent their revaluation date fair value less the value adjustment and accumulated impairment losses. Revaluation is done regularly; therefore, the carrying amounts do not significantly differ from the amounts that would be determined by using the fair value on the reporting date.

Every increase resulting from land and building revaluation is credited to property revaluation provisions, except if it cancels the decrease resulting from the revaluation of the same asset which has been previously recognised in the statement of profit or loss, and in that case the increase is recorded in the statement of profit or loss up to the amount of the previously stated decrease. The decrease in the carrying amount resulting from the land and buildings revaluation is recorded in the statement of profit or loss as the difference in the revaluation reserve, which refers to the previous revaluation of the same asset.

The depreciation of revalued buildings is recorded in the statement of profit or loss. In case of a later sale or disposal of revalued property, the surplus resulting from the revaluation and stated in the revaluation reserve is transferred directly to the retained profit. Transfer of the revaluation reserve to the retained profit is done only if an asset shall no longer be recognised. Buildings are depreciated during a period of 20 years.

Property built for the purposes of production and lease or administrative or not yet established purposes are stated at purchase cost less recognised impairment losses. The purchase cost entails the professional services fee cost, and in case of qualifying assets, borrowing costs capitalised pursuant to the Group's accountancy policy. Depreciation of this asset, which is calculated on the same grounds as other property, begins when the asset is ready to be used for the intended purpose.

The furniture and equipment are stated as cost less depreciation and accumulated impairment.

The depreciation is calculated in the following manner: the purchase or estimated property value, other than owned land and property under construction, is written-off during the estimated useful lives, by using the linear depreciation method. The estimated useful life, the residual value and depreciation method are examined at the end of each year, whereas the effects of potential assessment changes undergo a prospective calculation.

**3. ACCOUNTANCY POLICIES (continued)**

**Property and equipment (continued)**

The estimated useful lives are shown below:

| | 2020 | 2019 |
|---|---|---|
| Buildings | 20 years | 20 years |
| Furniture, tools and equipment | 2 years | 2 years |
| Vehicles | 4 years | 4 years |
| Other | 10 years | 10 years |

Land is not depreciated. The property held based on a financial lease is depreciated during the expected useful life on the same basis as property owned or during the period of the lease, if it is shorter. The property, plants and equipment sale or disposal profit and loss are determined as the difference between the inflows made through sale and the carrying amount of the asset concerned, which is recognised in the statement of profit or loss.

**Intangible assets**

Individually acquired intangible assets are stated based on their purchase value less the value adjustment and accumulated impairment losses. Depreciation is calculated by using the linear depreciation method during the estimated useful life. The estimated useful life, the residual value and depreciation method are examined at the end of each year, whereas the effects of potential assessment changes undergo a prospective calculation.

**Investment property**

Investment property, which is property held in order to earn rentals and/or for capital appreciation (including property under construction for such purposes), is initially valued at purchase cost, including transaction costs, and is subsequently measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

**Goodwill**

Goodwill represents the surplus of the acquisition cost of the Group's share in the net fair value of determinable assets, as well as determinable liabilities incurred and unforeseeable liabilities of the subsidiary. Goodwill is initially recognised as a cost and is subsequently measured at cost less the accumulated impairment losses. In the moment of the merger of the subsidiary and the acquiring company, the goodwill value established in the moment of the merger is recorded in the financial statement of the acquiring company. During goodwill impairment testing, goodwill is allocated to all cash-generating units of the Group which are expected to benefit from the merger synergy. These cash-generating units goodwill was allocated to are subject to impairment testing once a year or more often if there are signs of potential impairment of the cash-generating unit. If the recoverable amount of the cash-generating unit is smaller than its carrying amount, the impairment loss is initially allocated through the impairment of the carrying amount of goodwill allocated to the unit and, successively, proportionately allocated to other assets of the cash-generating unit based on the carrying amount of all assets of the cash-generating unit. Once recognised goodwill impairment loss will no longer be cancelled in the following periods.

**3. ACCOUNTANCY POLICIES (continued)**

**Impairment of tangible and intangible assets, excluding goodwill**

For each reporting day, the Group will examine the carrying amount of its fixed tangible and intangible assets so as to ascertain whether signs of impairment losses exist. If there are signs of impairment losses, the recoverable asset amount is assessed in order to determine potential impairment losses. If it is impossible to assess the recoverable amount of the asset, the Group will assets the recoverable amount of the cash-generating unit the asset belongs to.

If it is possible to establish a real and consistent basis for allocation, the Company's assets are also allocated to individual cash-generating units or, if this is not the case, to the smallest group of cash-generating units for which a real and consistent basis for distribution can be established.

Intangible assets of undetermined useful life and intangible assets not yet available for use are subject to impairment testing once a year and every time there are signs of potential impairment of assets.

When comparing the fair value less sale costs and value of property in use, the recoverable amount is the higher amount of those two. For the purpose of estimating the value in use, the estimated future cash flows are discounted to the present value by applying the discount rate before taxation, which reflects the current market estimate of the time value of money and the risks specific for the asset, for which the assessments of future cash flows were not harmonised.

If the estimated value of a recoverable amount of an asset (or cash-generating unit) is lower than the carrying amount, the carrying amount of that asset is reduced to the recoverable amount. Impairment losses are immediately recognised as expenses, unless the asset is stated as a revalued amount, in which case the impairment loss is stated as an impairment loss resulting from asset revaluation.

In case of subsequent cancellation of the impairment loss, the carrying amount of the asset (of the cash-generating unit) increases up to the reviewed estimated recoverable amount of that asset in a way that the increased carrying amount does not exceed the carrying amount which would have been established had there previously been no recognised impairment losses of that asset (of the cash-generating unit). Cancellation of the impairment loss is immediately recognised as income, unless the relevant asset is not stated as a revalued amount, in which case the cancelled impairment loss is stated as an increase due to revaluation.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

### Leases

All leases are calculated by recognizing assets with the right of use and lease obligations, except for:

- Low value leases; and
- Leases whose lease term ends within a period of 12 months from the date of first application or less.

The lease liability is recognized at the present value of the contractual future payments to the lessor over the term of the lease, discounted at the discount rate determined in relation to the rate inherent in the lease, unless it is easy to determine, in which case the Company's incremental borrowing rate is used. . Variable lease payments are included in the calculation of lease obligations only if they depend on an index or rate. In this case, the initial calculation of the lease obligations assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which it relates.

At the date of initial recognition, the carrying amount of the lease obligation includes:

- amounts expected to be paid by the lessee under residual value guarantees;
- the cost of executing the purchase option if it is certain that the lessee will use that option; and
- payment of fines for termination of the lease if the lease period reflects that the lessee will take the opportunity to terminate the lease.

Assets with the right of use are initially measured at the amount of the lease liability, less any lease incentives received and increased by:

- all lease payments made on or before the lease start date;
- all initial direct costs; and
- the amount of the provision recognized in the event that the

After the initial measurement, the lease liability increases to reflect interest on lease obligations and decreases to reflect the lease payments made. Right-of-use assets is reduced by the accumulated depreciation calculated on a straight-line basis over the term of the lease, or the remaining economic life of the asset, if it is considered to be shorter than the lease term. The lease liability is subsequently measured when there is a change in future lease payments resulting from a change in the index or rate, or when there is a change in the estimate of the term of any lease.

*The Group as a lessor*

The Group leases certain property classified as property investment. The property is subject to operational leases and the property is included in the statement of financial position of the Group based on the nature of property. Interest income is calculated by using the straight-line method throughout the lease period.

**3. ACCOUNTANCY POLICIES (CONTINUED)**

**Fair Value Measurement Principles**

The fair value of financial assets available for sale is their quoted market price on the reporting date, sales cost not included. If the financial assets market is not active (even for unquoted securities) or if, due to other reasons, the fair value cannot be determined with certainty based on the market price, the Group shall establish the fair value based on the perceived price (the price of similar or same positions), and when neither that is possible, the Group will apply different assessment techniques combining all relevant information and input which may help assess the fair value. This entails the use of prices achieved in recent transactions between informed and willing parties, reference to other similar instruments, analysis of discounted cash flows and option pricing models, using market data to the maximum and relying on subject specifics to the minimum.

When applying the discounted cash flow method, the estimated future cash flows are based on the best management assessment, and the discount rate is the market rate for financial instruments with similar conditions on the reporting date. When using the price model, connected market values on the reporting date are used.

**Financial assets**

Investments are recognised or stop being recognised on their trading date, i.e. a date when an investment is bought or sold pursuant to a contract whose conditions stipulate the delivery of investment in a deadline set on the relevant market, and are initially measured at fair value increased by transaction costs, other than financial assets classified in the category of assets whose changes in fair value are stated in the statement of profit or loss, which is initially measured at fair value.

Financial assets are classified into the following categories: „financial assets measured at fair value in the statement of profit or loss", „financial assets available for sale" and „given loans and receivables". Classification depends on the type and purpose of the financial asset and is determined during the first recognition.

*Effective interest rate method*

The effective interest rate method represents a method used for calculating the depreciated cost of the financial asset and distributing the interest income throughout the relevant period. The effective interest rate is the rate pursuant to which the estimated future cash flows, including all fees for paid or received points which form a constituent part of the effective interest rate, then transaction costs and other premiums and discounts, are discounted during the expected lifetime of the financial asset or, where applicable, during a shorter period.

Income from debt instruments, other than financial assets set at fair value in the statement of profit and loss, are recognised based on the effective interest rate.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

**Financial assets (continued)**

*Financial assets available for sale*

Securities available for sale are recorded at fair value. Gains and losses resulting from the changes in fair value are recognised directly in other comprehensive income as a part of the revaluation reserve for investment, other than losses due to impairment value, interest rates calculated by using the effective interest rate method and exchange differences for monetary assets, which are all directly recognised in the statement of profit or loss. When it comes to the sale or established investment impairment losses, the accumulated profit or accumulated loss previously recognised in the revaluation reserve for investment is included in the statement of profit and loss of the period.

Dividends of equity instruments classified in the portfolio of assets available for sale are recognised in the statement of profit or loss, after the Group's right to receive dividends has been determined.

The fair value of monetary assets available for sale denominated in a foreign currency is given in a currency the asset was denominated in and then recalculated pursuant to the spot exchange rate on the reporting date. The changes in fair value connected to the exchange rate differences resulting from the changes in the depreciated asset cost is stated in the statement of profit or loss, and other changes are stated in the other comprehensive income.

*Given loans and receivables*

Trade receivables, receivables on given loans and other receivables with fixed or determinable payments, which are not quoted at active market, are stated in the given loans and receivables. Loans and receivables are measured at depreciated cost using the effective interest method, less any impairment losses. Interest income is stated by applying the effective interest rate method.

*Impairment of financial assets*

Financial assets, other than fair value assets with changes in fair value stated in the statement of profit or loss, are reviewed at the end of each reporting period in order to establish the existence of indicators of any impairment. Financial assets are impaired if there is objective proof that estimated future cash flows of the investment have been affected by one or more events after the initial recognition.

In case of shares classified as assets available for sale, a significant or long-term fall in securities value below the purchase price is considered an objective proof of impairment.

As regards of all other financial assets, including items classified as assets available for sale and receivables based on a financial lease, the objective proof may entail:

- significant financial difficulties of the issuer or other contracting party or
- delayed payments or non-payment of interest rates or the principal or
- the prospects that the bankruptcy procedure will be filed against the debtor or that the debtor would file for bankruptcy, or that the debtor would undergo financial restructuring.

**3. ACCOUNTANCY POLICIES (CONTINUED)**

**Financial assets (continued)**

*Impairment of financial assets (continued)*

In case of certain categories of financial assets, such as trade receivables, the assets for which it was established that they have not been individually impaired is later on reviewed to establish the collective impairment.

For financial assets carried at depreciated cost, the amount of impairment is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted using the original effective interest rate for the financial asset concerned.

The carrying amount of the financial asset is directly reduced by the impairment losses of all financial assets, except for trade receivables, in case of which the carrying amount is reduced through the value provision classification of accounts. Trade receivables believed to be unrecoverable are written off the value provision classification of accounts, and a later payment of the previously written off amounts is credited in the value provision classification of accounts. The changes in the carrying amount in value provision classification of accounts are stated in the statement of profit or loss.

Except for equity instruments held at fair value through the presentation of fair value changes in the statement of profit or loss, if the impairment loss is reduced in the following periods and this can be objectively linked to the event after the impairment recognition, the previously recognised impairment losses are cancelled in the statement of profit or loss to the carrying amount of the investment on the date of cancellation, which would not exceed the depreciated cost had the impairment not been recognised.

As far as equity shares (shares) held at fair value through the presentation of fair value changes in the statement of profit or loss are concerned, the impairment losses previously recognised in the statement of profit or loss are not cancelled in the statement of profit or loss. Every increase in fair value after the impairment loss is recognised directly in the other comprehensive income.

*End of financial asset recognition*

The Group will stop recognising the financial asset only if the contract right to cash flows expired based on the asset, if the financial asset is transferred and if all risks and rewards associated with the ownership of the financial asset are to mainly pass on to another entity. If the Group does not transfer or retain almost all risks and rewards associated with ownership and, if it still has control over the transferred asset, it recognizes its retained interest in the asset and the related liability in the amounts it may have to pay. If the Group maintains most of the risks and rewards associated with ownership of the transferred financial asset, the asset continues to be recognized, together with the recognition of collateralised borrowing, and which was given for the received income.

*Offsetting financial instruments*

Financial assets and liabilities are netted and reported in the net amount in the statement of financial position, in case there is a legal right to offset recognised amounts and a plan to settle on a net principle; otherwise, the asset acquisition and liability settlement is done simultaneously.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

### Financial Guarantees

Financial guarantee contracts are contracts which require specific payments from the issuer in order to compensate the holder's loss incurred when the debtor does not settle payments due pursuant to the debt instrument conditions.

The financial guarantees are initially recognised in financial statements at fair value on the date the guarantee was issued. After the initial recognition, the Group's liabilities pursuant to such guarantees are measured at initial value, less the depreciated value calculated in order to recognise the income from fees made by applying the linear depreciation method during the period of guarantee in the statement of profit and loss, as well as the best estimate of cost necessary to settle all financial liabilities on the Balance Sheet date, depending which value is higher. These estimates are determined based on experience with different transactions and historical losses, taking into consideration the Management's judgements.

### Provisions for liabilities and costs

A provision is recognised when the Group, due to a prior event, has a legal or derivative liability which can be estimated with certainty and will probably require the outflow of economic resources in order to settle that liability. Provisions are established by discounting expected future cash flows using the pre-tax rate which reflects the current market estimate of the time value of money and the risks specific for the asset

### Dividends

Dividends of regular shares are recognised as liabilities in the period they were voted in.

### Premium and other receivables

Premium and other receivables are stated at cost, less the potential impairment losses. The assessment procedure entails judgements based on the last available reliable information. If it is estimated that the receivable cannot be recoverable, a definite write-off will take place. Write-offs are done only if so decided by the Management Board. Value adjustment by means of value provision is conducted when there are objective reasons for the Group being unable to recover receivables pursuant to agreed conditions. The Management Board adopts a decision on adjustments of suspicious receivables based on the review of the total structure of receivables per groups of insured persons based on the review of significant individual amounts and insights into the financial state of individual insured persons. Amounts of value provisions of receivables are stated in the statement of profit or loss as other costs.

### Cash and cash equivalents

Cash and cash equivalents refer to funds in accounts in HRK and foreign currencies of commercial banks, in cashiers and checks. Amounts in foreign currencies are recalculated on the reporting date pursuant to the middle exchange rate of the Croatian National Bank.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

### Staff costs

*Staff contributions*

The Group is obliged to pay contributions to state pension funds and health insurance funds pursuant to applicable regulations. The Group’s liability ends when the contributions are settled. The contributions are recognised as costs in the statement of profit or loss as they incur.

*Short-term employee rewards*

The liabilities based on the system of short-term employee rewards are stated on a non-discounted basis and are recognised as a cost in the moment of provision of the relevant service. The liability is recognised in the amount which is expected to be paid pursuant to the short-term bonus payment system or profit participation when the Group has a current legal obligation to pay the relevant amount as a fee for the service the employee provided, and the relevant liability can be estimated with certainty.

*Other employee compensations*

Liabilities based on long-term employee benefits, such as service awards and severance payments are shown in net amounts of current liability value for defined benefits on the reporting date. The projected unit credit method is used for calculating the current liability value.

### Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as financial liabilities or as principal pursuant to the essence of the agreement.

*Equity instruments*

An equity instrument is a contract which proves the rest of the share in the entity’s assets after all its liabilities have deducted. The equity instruments issued by the Group are recorded in the amount of income, less direct issuance costs.

*Financial liabilities*

Financial liabilities are classified as either financial liabilities measured at fair value through the presentation of fair value changes in the statement of profit or loss or as other financial liabilities.

## 3. ACCOUNTANCY POLICIES (CONTINUED)

**Financial liabilities and equity instruments issued by the Group (continued)**

*Other financial liabilities*

Other financial liabilities, including borrowings and loans, are initially measured at fair value less transaction costs. Other financial liabilities are later measured at depreciated cost by applying the effective interest rate method, and the interest expenses are recognised based on the effective interest rate. The effective interest rate method represents a method used for calculating the depreciated cost of the financial liability and distributing the interest expenses throughout the relevant period. The effective interest rate is the rate pursuant to which the estimated future cash flows are discounted during the expected lifetime of the financial liability or, where applicable, during a shorter period.

*Derecognition of financial liabilities*

The Group will stop recognising the financial asset when and only if the Group’s liabilities have been settled, cancelled, expired or significantly amended.

**Liabilities and related assets based on the liability adequacy test**

The insurance contracts are tested in order to ascertain the liability value adequacy by discounting current estimates of all future cash flows and comparing the amount to the net carrying liability value and other related assets and liabilities. If a deficit is determined, an additional provision are formed and the Group recognises the deficit through the year income or loss.

IFRS 4 requires insurance contract liabilities adequacy test. The Group assess on a yearly basis whether their stated insurance liabilities are adequate, by using current estimates of future cash flows pursuant to all their insurance contracts. If the relevant assessment indicates that the carrying amount of its insurance liabilities insufficient in relation to the estimated future cash flows, the total deficit is recognised in the statement of profit or loss. The estimates of future cash flows are based on real actuarial assumptions, with regard to the experience on the damages, return on investment, costs and inflation.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF UNCERTAINTY OF ESTIMATES

**The critical judgements in the application of accountancy policies**

The Group estimates and makes presumptions which affect the value of assets and liabilities for the next financial year. The estimates and presumptions are continuously re-assessed and are based on the principle of experience and other factors, including the real expectations of future events.

*Provisions*

The Group has a reasonably careful approach to forming provisions pursuant to the regulations of the Croatian Agency for Supervision of Financial Services. The Group employs authorised actuaries. Its policy is to form a provision for risks which have not expired, and refer to non-life insurance operations when there is a chance that the amount of claims and administrative costs incurred after the end of the financial year, and which refer to contracts concluded by the end of the year, exceeds the amount of unearned premiums and premiums based on those contracts. The reserve for non-expired risks are calculated by conducting a liability adequacy test, based on individual insurance groups. The liability adequacy test indicated the sufficiency of unearned premiums on 31 December 2020. Therefore, the recognition of such provisions is not necessary on the reporting date.

*Calculation of unearned premiums*

The calculation of unearned premiums and other technical provisions are based on static methods considering the relative presumptions. The inputs used for calculating the unearned premiums are exact (beginning and expiry date of the policy, risk type, amount of the written premium). The Group did not change its presumptions when calculating the unearned premium. We believe that, for this part, an analysis of sensitivity, is not necessary as the calculation is automated and exact.

*Fair value of financial instruments*

The Group will use an adequate valuation of financial instruments, which are not quoted at active market, based on its own judgement, using standard valuation methods. Other financial instruments are valued based on the analysis of discounted cash flows or by using a comparative procedure based on the market prices or rates presumptions, if they exist. When assessing the fair value of shares which are not listed on the market, certain presumptions not based on real prices or market rates are used. The presumptions used and the results of the sensitivity to presumptions analysis are provided in notes 18 and 34.

*Property fair value*

The Group revalued its land and buildings classified as property and equipment, as well as investment in property based on the independent assessment. The assessments are done through on-spot checks of property, as well as controls and reviews/measurements of the property location and dimensions, and subsequently of submitted and available documentation.

*Goodwill impairment*

Future establishment of goodwill impairment requires the assessment of value in use of the cash-generating units the goodwill is allocated to. When calculating the value in use, the Management Board assesses future cash flows expected from the cash-generating units, as well as the relevant discount rate for calculating the current value.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF UNCERTAINTY OF ESTIMATES (CONTINUED)

**The critical judgements in the application of accountancy policies (continued)**

*Property value assessment*

Property value assessments were done by using one or more recognised methods, and every property is analysed individually, and the method or methods are chosen according to available data and the real state of the property. The presumptions used in the fair value assessment are provided in notes 16 and 17.

*Useful life of property and equipment*

The Group checks the estimated useful life of property and equipment in the end of each annual reporting period. The useful life of property and equipment remained unchanged in this year.

*(all amounts in thousands of HRK)*

## 5. NET EARNED PREMIUM

The premium analysis according to the business structure is described below. All contracts have been concluded in the Republic of Croatia.

*for the year ended 31 December 2020*

**GROUP AND COMPANY**

| | Earned gross premium | Outward reinsurance gross premiums | Changes in gross unearned premium provisions | Change in gross unearned premium provisions, reinsurance share | Value adjustment and paid premium value adjustment | Net earned premiums |
|---|---|---|---|---|---|---|
| Motor Third Party Liability Insurance | 715,781 | (4,274) | (27,195) | 8 | (940) | 683,380 |
| Road vehicle Insurance – Casco | 288,690 | (45) | (5,636) | 5 | (5,325) | 277,689 |
| Property | 119,413 | (14,033) | 1,978 | (175) | (1,498) | 105,685 |
| Accident Insurance and Health Insurance | 112,842 | (7,332) | 261 | 98 | (145) | 105,724 |
| Other | 104,865 | (8,836) | (823) | 268 | (1,075) | 94,399 |
| | **1,341,591** | **(34,520)** | **(31,415)** | **204** | **(8,983)** | **1,266,877** |

*for the year ended 31 December 2019*

**GROUP AND COMPANY**

| | Earned gross premium | Outward reinsurance gross premiums | Changes in gross unearned premium provisions | Change in gross unearned premium provisions, reinsurance share | Value adjustment and paid premium value adjustment | Net earned premiums |
|---|---|---|---|---|---|---|
| Motor Third Party Liability Insurance | 666,390 | (4,325) | (27,815) | 1 | (2,851) | 631,400 |
| Road vehicle Insurance – Casco | 278,917 | - | (20,704) | (2) | (1,713) | 256,498 |
| Property | 118,020 | (12,640) | (15,687) | (131) | (5) | 89,557 |
| Accident Insurance and Health Insurance | 113,551 | (7,012) | (3,497) | 1,420 | 160 | 104,622 |
| Other | 102,111 | (5,331) | (4,170) | (805) | 821 | 92,626 |
| | **1,278,989** | **(29,308)** | **(71,873)** | **483** | **(3,588)** | **1,174,703** |

*(all amounts in thousands of HRK)*

## 6. INCOME FROM COMMISSIONS AND FEES

### GROUP AND COMPANY

| | 2020 | 2019 |
|---|---|---|
| Income from fees for re-insurance | 3,218 | 2,348 |
| | **3,218** | **2,348** |

## 7. INVESTMENT INCOME AND INVESTMENT COSTS

| **Investment income** | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Lease income | 29,331 | 29,331 | 29,132 | 29,132 |
| Interest income | 45,196 | 45,196 | 44,830 | 44,830 |
| Financial investment sale income | 964 | 964 | 8,438 | 8,438 |
| Dividend income | 6,753 | 7,765 | 10,397 | 11,377 |
| Foreign exchange gains | 2,051 | 2,051 | 1,473 | 1,473 |
| Other income (reversal of provisions) | 3,197 | 3,197 | - | - |
| | **87,492** | **88,504** | **94,270** | **95,250** |

| *Interest income* | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Interest income – assets available for sale | 9,273 | 9,273 | 9,884 | 9,884 |
| Interest income on bank deposits | 1,502 | 1,502 | 344 | 757344 |
| Interest income on loans | 34,402 | 34,402 | 34,598 | 34,598 |
| Other (assets on accounts, default interest, vehicles) | 19 | 19 | 4 | 4 |
| | **45,196** | **45,196** | **44,830** | **44,830** |

Loan interest rates with impaired value amounted to HRK 3,580 thousand in 2020, and HRK 4,184 thousand in 2019.

*Financial investment sale income*

### GROUP AND COMPANY

| **2020** | **Costs** | **Sales** | **Realised income** |
|---|---|---|---|
| Bonds | 19,026 | 19,924 | 898 |
| Commercial papers | - | - | - |
| Shares | 505 | 571 | 66 |
| | | | **964** |

| **2019** | **Costs** | **Sales** | **Realised income** |
|---|---|---|---|
| Bonds | 90,879 | 96,941 | 6,062 |
| Commercial papers | 18,927 | 21,278 | 2,351 |
| Shares | 9,553 | 9,578 | 25 |
| | | | **8,438** |

*(all amounts in thousands of HRK)*

## 7. INVESTMENT INCOME AND INVESTMENT COSTS (CONTINUED)

| *Dividend income* | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Dividend income | 6,753 | 7,765 | 10,397 | 11,377 |
| | **6,753** | **7,765** | **10,397** | **11,377** |

| **Investment costs** | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Interest cost (i) | 5,293 | 5,293 | 8,500 | 8,468 |
| Loss on sale of financial assets | 210 | 210 | 222 | 222 |
| Loss on sale of investment property | 2,882 | 2,882 | 934 | 934 |
| Losses/(gains) due to fair valuation of investment properties | (11,562) | (12,138) | (31,590) | (32,165) |
| Other investment costs (iii) | 46,224 | 46,224 | 50,580 | 50,580 |
| Foreign exchange losses | 3,544 | 3,544 | 1,110 | 1,110 |
| | **46,591** | **46,015** | **29,756** | **29,149** |

| *(i) Interest cost* | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Interest cost for bank loans | 1,525 | 1,525 | 4,136 | 4,104 |
| Interest cost for loans of other companies | 1,496 | 1,496 | 2,548 | 2,548 |
| Lease interest IFRS 16 | 2,262 | 2,262 | 1,748 | 1,748 |
| Default interest | 10 | 10 | 68 | 68 |
| | **5,293** | **5,293** | **8,500** | **8,468** |

(ii) Other investment costs refer to overhead costs of investment properties and the compensation finance sector employees involved in investments.

| **Other investment costs** | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Loan reserves 1.25% | - | - | - | - |
| Staff costs - investment finance | 3,873 | 3,873 | 4,190 | 4,190 |
| Investment property costs | 14,637 | 14,637 | 14,176 | 14,176 |
| Investment property insurance | 27,714 | 27,714 | 32,214 | 32,214 |
| | **46,224** | **46,224** | **50,580** | **50,580** |

*(all amounts in thousands of HRK)*

## 8. OTHER OPERATING INCOME

| | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Income from reversal of provisions | - | - | 495 | 495 |
| Gain from sale of tangible assets | 648 | 648 | 2,562 | 2,562 |
| Other income-border insurance and handling fee | 1,582 | 1,582 | 1,102 | 1,102 |
| Surender value of life insurance | 21,536 | 21,536 | 17,071 | 17,071 |
| Operating income (Vehicle registration office – *Zulassungstelle*) | 17,654 | 17,654 | 19,651 | 19,651 |
| Other income | 10,280 | 5,886 | 11,021 | 6,568 |
| | **51,700** | **47,306** | **51,902** | **47,449** |

*(all amounts in thousands of HRK)*

## 9. INCURRED CLAIMS

*For the year ended 31 December 2020*

**GROUP AND COMPANY**

| | Gross liquidated claims | Reinsurer's share in gross liquidated clams | Change in gross provisions for claims outstanding | Change in other technical provisions for claims outstanding, net of reinsurance | Return of premium (bonuses and rebates), net of reinsurance | Changes in gross provisions for claims, outstanding reinsurer's share | Claims incurred, net of insurer |
|---|---|---|---|---|---|---|---|
| Motor Third Party Liability Insurance | (343,681) | - | 7,582 | - | - | 2,423 | (333,676) |
| Road vehicle Insurance – Casco | (159,677) | 12 | 3,489 | - | (9) | (8) | (156,193) |
| Property | (47,101) | 1,641 | (20,531) | - | 1,725 | 1,401 | (62,865) |
| Accident Insurance and Health Insurance | (9,920) | - | (2,181) | - | - | - | (12,101) |
| Other | (19,819) | 203 | (4,189) | - | 780 | 2,114 | (20,911) |
| | **(580,198)** | **1,856** | **(15,80)** | **-** | **2,496** | **5,930** | **(585,746)** |

*(all amounts in thousands of HRK)*

## 9. INCURRED CLAIMS (CONTINUED)

*For the year ended 31 December 2019*

**GROUP AND COMPANY**

| | Gross liquidated claims | Reinsurer's share in gross liquidated clams | Change in gross provisions for claims outstanding | Change in other technical provisions for claims outstanding, net of reinsurance | Return of premium (bonuses and rebates), net of reinsurance | Changes in gross provisions for claims, outstanding reinsurer's share | Claims incurred, net of insurer |
|---|---|---|---|---|---|---|---|
| Motor Third Party Liability Insurance | (357,469) | - | 76,085 | - | - | (426) | (281,810) |
| Road vehicle Insurance – Casco | (170,348) | 102 | (15,702) | - | (3) | - | (185,951) |
| Property | (27,588) | 981 | (2,777) | 241 | 3,317 | 1,257 | (24,569) |
| Accident Insurance and Health Insurance | (9,297) | - | 793 | - | - | - | (8,504) |
| Other | (22,336) | 852 | (4,449) | 2,012 | 260 | 81 | (23,580) |
| | **(587,038)** | **1,935** | **53,950** | **2,253** | **3,574** | **912** | **(524,414)** |

The Group and the Company liquidated a total of 217,968 payment claims in 2020 (2019: 220,317), while 19,093 payment claims are in the reserve on 31 December 2020 (2019: 22,698).

*(all amounts in thousands of HRK)*

## 9. INCURRED CLAIMS (CONTINUED)

### Analysis of claims quota, cost quota and combined claims quota

The following are the claims quotas, cost quotas and combined claims quota by types of insurance calculated pursuant to the Instruction for filling in Financial Statements of the Insurance and Reinsurance Companies.

**GROUP AND COMPANY**

| 2020 | Claims quota | Cost quota | Combined quota |
|---|---|---|---|
| Accident Insurance | 8.30% | 73.70% | 82.00% |
| Health Insurance | 77.62% | -0.06% | 77.56% |
| Road Vehicle Insurance | 56.24% | 24.80% | 81.04% |
| Aircraft Insurance | 110.66% | 10.66% | 121.32% |
| Vessel Insurance | 60.53% | 3.35% | 63.87% |
| Goods in Transit Insurance | -4.00% | 2.28% | -1.73% |
| Fire and Special Perils Insurance | 66.13% | 58.64% | 124.77% |
| Other Property Insurance | 44.75% | 47.67% | 92.42% |
| Motor Vehicle Liability Insurance | 48.88% | 50.33% | 99.21% |
| Aircraft Liability Insurance | 5.83% | 10.03% | 15.86% |
| Vessel Liability Insurance | -0.86% | 2.57% | 1.71% |
| Other Liability Insurance | 13.33% | 24.23% | 37.56% |
| Loan Insurance | -163.87% | 0.00% | -163.87% |
| Guarantee Insurance | 48.04% | 1.43% | 49.46% |
| Financial Losses Insurance | 5.27% | 20.79% | 26.06% |
| Legal Protection Insurance | 43.59% | 10.00% | 53.59% |
| Travel Insurance | 58.27% | 17.13% | 75.40% |

**GROUP AND COMPANY**

| 2019 | Damage quota | Cost quota | Combined quota |
|---|---|---|---|
| Accident Insurance | 6.89% | 74.66% | 81.56% |
| Health Insurance | 39.84% | 0.00% | 39.84% |
| Road Vehicle Insurance | 72.53% | 27.21% | 99.74% |
| Aircraft Insurance | 671.73% | 0.00% | 671.73% |
| Vessel Insurance | 71.39% | 1.13% | 72.52% |
| Goods in Transit Insurance | 3.06% | 2.40% | 5.45% |
| Fire and Special Perils Insurance | 24.03% | 66.32% | 90.35% |
| Other Property Insurance | 37.79% | 54.55% | 92.34% |
| Motor Vehicle Liability Insurance | 44.26% | 52.53% | 96.79% |
| Aircraft Liability Insurance | 419.17% | 0.99% | 420.16% |
| Vessel Liability Insurance | 5.95% | 1.55% | 7.51% |
| Other Liability Insurance | 19.45% | 21.66% | 41.11% |
| Loan Insurance | -280.30% | 0.00% | -280.30% |
| Guarantee Insurance | 30.98% | 0.94% | 31.92% |
| Financial Losses Insurance | 7.71% | 19.03% | 26.73% |
| Legal Protection Insurance | 44.13% | 4.71% | 48.84% |
| Travel Insurance | 55.59% | 27.27% | 82.86% |

*(all amounts in thousands of HRK)*

### 10. ACQUISITION COSTS

**GROUP AND COMPANY**

| | Group in 2020 | Company in 2020 | Group in 2019 | Company in 2019 |
|---|---|---|---|---|
| Salaries, taxes and contributions from and to salaries | 140,818 | 140,818 | 133,095 | 133,095 |
| Promotions | 40,399 | 40,399 | 39,216 | 39,216 |
| Commissions | 45,827 | 45,827 | 37,243 | 37,243 |
| Media | 6,621 | 6,621 | 3,711 | 3,711 |
| Policy issuance costs | 1,941 | 1,941 | 2,278 | 2,278 |
| Donations | 2,281 | 2,281 | 1,939 | 1,939 |
| Sponsorships | 729 | 729 | 920 | 920 |
| Other underwriting costs | 2,911 | 2,911 | 412 | 412 |
| Other administrative cost | 102,520 | 102,107 | 115,235 | 114,579 |
| | **344,047** | **343,634** | **334,049** | **333,393** |

The largest part of the acquisition costs relates to Motor Third Party Liability Insurance and Road Vehicle Insurance, and the rest of the insurance has no material relevance.

| **Other administrative costs** | **Group in 2020** | **Company in 2020** | **Group in 2019** | **Company in 2019** |
|---|---|---|---|---|
| Material | 8,793 | 8,793 | 15,973 | 15,973 |
| Energy consumption | 7,146 | 7,146 | 7,886 | 7,886 |
| Service costs | 29,279 | 29,279 | 29,568 | 29,568 |
| Other tangible and intangible costs | 57,218 | 56,805 | 61,546 | 60,890 |
| Other | 84 | 84 | 262 | 262 |
| | **102,520** | **102,107** | **115,235** | **114,579** |

*(all amounts in thousands of HRK)*

**10. ACQUISITION COSTS (CONTINUED)**

Acquisition costs based on type of insurance for 2020 are shown below:

**COMPANY**

| Type of insurance | Commission | Other costs acquisition | Total acquisition costs |
|---|---|---|---|
| Accident Insurance | 3,225 | 25,351 | 28,576 |
| Road Vehicle Insurance | 10,901 | 30,108 | 41,009 |
| Aircraft Insurance | 187 | - | 187 |
| Vessel Insurance | 150 | - | 150 |
| Goods in Transit Insurance | 31 | - | 31 |
| Fire and Special Perils Insurance | 3,392 | 13,757 | 17,149 |
| Other Property Insurance | 2,750 | 13,563 | 16,313 |
| Motor Vehicle Liability Insurance | 22,408 | 207,158 | 229,566 |
| Aircraft Liability Insurance | 22 | - | 22 |
| Vessel Liability Insurance | 54 | - | 54 |
| Other Liability Insurance | 1,979 | 4,526 | 6,505 |
| Guarantee Insurance | 21 | - | 21 |
| Financial Losses Insurance | 62 | 1,499 | 1,561 |
| Assistance Insurance | 645 | 1,845 | 2,490 |
| | **45,827** | **297,807** | **343,634** |

Acquisition costs based on type of insurance for 2019 are shown below:

**COMPANY**

| Type of insurance | Commission | Other costs acquisition | Total acquisition costs |
|---|---|---|---|
| Accident Insurance | 3,631 | 27,088 | 30,719 |
| Road Vehicle Insurance | 8,196 | 29,933 | 38,129 |
| Aircraft Insurance | 0 | 0 | 0 |
| Vessel Insurance | 38 | 0 | 38 |
| Goods in Transit Insurance | 27 | 0 | 27 |
| Fire and Special Perils Insurance | 2,948 | 13,186 | 16,134 |
| Other Property Insurance | 1,437 | 13,803 | 15,240 |
| Motor Vehicle Liability Insurance | 18,908 | 202,003 | 220,911 |
| Aircraft Liability Insurance | 1 | 0 | 1 |
| Vessel Liability Insurance | 31 | 0 | 31 |
| Other Liability Insurance | 1,355 | 4,593 | 5,948 |
| Guarantee Insurance | 6 | - | 6 |
| Financial Losses Insurance | 110 | 1,933 | 2,043 |
| Assistance Insurance | 551 | 3,615 | 4,166 |
| | **37,239** | **296,154** | **333,393** |

*(all amounts in thousands of HRK)*

## 11. ADMINISTRATIVE COSTS

### GROUP AND COMPANY

| | 2020 | 2019 |
|---|---|---|
| Salaries, taxes and contributions from and to salaries | 73,640 | 73,321 |
| Depreciation | 48,216 | 46,872 |
| Other management costs | 73,879 | 76,211 |
| | **195,735** | **196,404** |

| *Salaries, taxes and contributions from and to salaries:* | 2020 | 2019 |
|---|---|---|
| Net salaries | 129,540 | 124,309 |
| Pension insurance contributions | 27,688 | 25,540 |
| Taxes | 20,343 | 21,098 |
| Contribution on salaries (healthcare, employment, occupational injuries) | 40,760 | 39,656 |
| | **218,331** | **210,606** |

| *Salaries, taxes and contributions from and to salaries:* | 2020 | 2019 |
|---|---|---|
| In administrative costs | 73,640 | 73,321 |
| In acquisition costs | 140,818 | 133,095 |
| In investment costs | 3,873 | 4,190 |
| | **218,331** | **210,606** |

*Other administrative costs:*

| | 2020 | 2019 |
|---|---|---|
| Service costs | 37,146 | 35,908 |
| Insurance premiums | 3,902 | 6,433 |
| Material costs | 6,367 | 10,649 |
| Operating fees pursuant to contracts | 4,933 | 5,034 |
| Bank fees and transaction fees | 5,891 | 5,381 |
| Representation | 2,580 | 2,637 |
| Energy costs | 3,597 | 3,842 |
| Business travel costs and reimbursement of costs | 8,433 | 5,078 |
| Other costs | 1,030 | 1,249 |
| | **73,879** | **76,211** |

With regard of salaries, other administrative costs are divided into administrative and acquisition costs.

*(all amounts in thousands of HRK)*

## 11. ADMINISTRATIVE EXPENSES (CONTINUED)

The Management Board costs for 2020 are as follows:

**GROUP AND COMPANY**

| Types of insurance | Depreciation (without buildings) | Salaries, taxes and contributions (from and on salaries) | Other Management Board costs | Total Management Board costs |
|---|---|---|---|---|
| Accident Insurance | 4,147 | 6,197 | 41,954 | 52,298 |
| Road Vehicle Insurance | 3,122 | 10,429 | 4,270 | 17,821 |
| Fire and Special Perils Insurance | 2,169 | 3,500 | 1,998 | 7,667 |
| Other Property Insurance | 2,275 | 3,219 | 1,642 | 7,136 |
| Motor Vehicle Liability Insurance | 35,837 | 47,314 | 23,518 | 106,669 |
| Other Liability Insurance | 426 | 1,642 | 269 | 2,337 |
| Financial Losses Insurance | 83 | 643 | 52 | 778 |
| Travel Insurance | 158 | 695 | 176 | 1,029 |
| | **48,217** | **73,639** | **73,879** | **195,735** |

The Management Board costs for 2019 are as follows:

**GROUP AND COMPANY**

| Types of insurance | Depreciation (without buildings) | Salaries, taxes and contributions (from and on salaries) | Other Management Board costs | Total Management Board costs |
|---|---|---|---|---|
| Accident Insurance | 4,353 | 6,581 | 40,703 | 51,637 |
| Road Vehicle Insurance | 3,106 | 10,537 | 3,896 | 17,539 |
| Fire and Special Perils Insurance | 1,993 | 3,445 | 2,558 | 7,996 |
| Other Property Insurance | 2,246 | 3,300 | 2,011 | 7,557 |
| Motor Vehicle Liability Insurance | 34,059 | 46,010 | 26,153 | 106,222 |
| Other Liability Insurance | 458 | 1,653 | 335 | 2,446 |
| Financial Losses Insurance | 163 | 752 | 118 | 1,033 |
| Travel Insurance | 495 | 1,043 | 436 | 1,974 |
| | **46,873** | **73,321** | **76,210** | **196,404** |

*(all amounts in thousands of HRK)*

## 12. OTHER OPERATING COSTS

### GROUP AND COMPANY

| | 2020 | 2019 |
|---|---|---|
| Premium returns | 14,342 | 13,445 |
| Value adjustment of other receivables | 99 | 107 |
| Preventive activities costs (firefighting contribution) | 570 | 263 |
| Guarantee Fund of the Croatian Insurance Bureau | 8,095 | 4,233 |
| Provisions (Note 32) | (1,684) | 700 |
| Regulatory bodies fees | 2,032 | 1,924 |
| Croatian Health Insurance Fund contributions | 9,560 | 9,831 |
| Other insurance technical expenses | 50,926 | 44,797 |
| | **83,940** | **75,300** |

Insurance companies in the Republic of Croatia pay a monthly contribution for compensating damages caused by non-insured and unknown vehicles into the Guaranties Fund of the Croatian Insurance Bureau. The monthly contribution is set pursuant to the premium share in the market of every insurance company, expressed as a percentage. The funds of the Guarantee Fund of the Croatian Insurance Bureau are used to pay for damages caused by non-insured and unknown vehicles.

*(all amounts in thousands of HRK)*

## 13. INCOME TAX

Income tax is calculated in accordance with Croatian regulations. The corporate tax income rate amounts to 18%. The total income tax cost is compliant with the accounting income as follows:

| | Group in 2020 | Group in 2019 | Company in 2020 | Company in 2019 |
|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **Total tax expense** | | | | |
| Current income tax | (28,913) | (31,734) | (28,503) | (31,146) |
| Deferred tax expense | 1,610 | 2,000 | 1,610 | 2,000 |
| **Tax expense recognised in P&L** | **(27,303)** | **(29,734)** | **(26,893)** | **(29,146)** |
| **Profit before tax** | **153,228** | **163,300** | **150,835** | **161,090** |
| Tax calculated at 18% (2019: 18%) | (27,581) | (29,394) | (27,150) | (28,996) |
| Non-deductible tax expenses at a rate of 18% (2019,18%) | | | | |
| *50% of representation costs* | *(672)* | *(1,793)* | *(672)* | *(1,793)* |
| *Depreciation over prescribed rates* | *(2,186)* | *(2,000)* | *(2,186)* | *(2,000)* |
| *Receivables write-off* | *(239)* | *(264)* | *(239)* | *(264)* |
| *Other increases* | *(258)* | *(226)* | *(258)* | *(226)* |
| *Income decrease at a rate of 18% (2019: 18%)* | | | | |
| *Dividend income* | *1,398* | *1,863* | *1,398* | *2,047* |
| *Other* | *625* | *80* | *604* | *69* |
| **Current income tax** | **(28,913)** | **(31,734)** | **(28,503)** | **(31,146)** |

Tax expense of the subsidiary amounted to HRK 410 thousand, which das not represent a significant amount for the Group.

*(all amounts in thousands of HRK)*

**13. INCOME TAX (CONTINUED)**

**GROUP**

| **2020**<br>**Deferred tax liabilities** | **Opening balance** | **Realised through other comprehensive income** | **Realised through the profit and loss statement** | **Final balance** |
|---|---|---|---|---|
| Revaluation reserves for securities available for sale | (9,594) | (4,318) | - | (13,912) |
| Revaluation reserves for property | (77,310) | (4,666) | 2,072 | (79,904) |
| | **(86,904)** | **(8,984)** | **2,072** | **(93,816)** |
| **Deferred tax assets** | | | | |
| Value adjustment for loans and receivables | 5,803 | - | (576) | 5,227 |
| Leases (IFRS 16) | 125 | - | 114 | 239 |
| Value adjustment for securities available for sale | 3,099 | (142) | - | 2,957 |
| **Net deferred tax liabilities** | **(77,877)** | **(9,126)** | **1,610** | **(85,393)** |

**COMPANY**

| **2020**<br>**Deferred tax liabilities** | **Opening balance** | **Realised through other comprehensive income** | **Realized through the profit and loss statement** | **Final balance** |
|---|---|---|---|---|
| Revaluation reserves for securities available for sale | (9,481) | (4,318) | - | (13,799) |
| Revaluation reserves for property | (72,376) | (4,666) | 2,072 | (74,970) |
| | **(81,857)** | **(8,984)** | **2,072** | **(88,769)** |
| **Deferred tax assets** | | | | |
| Value adjustment for loans and receivables | 5,803 | - | (576) | 5,227 |
| Leases (IFRS 16) | 125 | - | 114 | 239 |
| Value adjustment for securities available for sale | 3,099 | (142) | - | 2,957 |
| **Net deferred tax liabilities** | **(72,830)** | **(9,126)** | **1,610** | **(80,346)** |

*(all amounts in thousands of HRK)*

**13. INCOME TAX (CONTINUED)**

**GROUP**

| **2019**<br>**Deferred tax liabilities** | **Opening balance** | **Realised through other comprehensive income** | **Realized through the profit and loss statement** | **Final balance** |
|---|---|---|---|---|
| Revaluation reserves for securities available for sale | (8,355) | (1,239) | - | (9,594) |
| Revaluation reserves for property | (69,619) | (9,566) | 1,875 | (77,310) |
| | **(77,974)** | **(10,805)** | **1,875** | **(86,904)** |
| **Deferred tax assets** | | | | |
| Value adjustment for loans and receivables | 5,803 | - | - | 5,803 |
| Leases (IFRS 16) | - | - | 125 | 125 |
| Value adjustment for securities available for sale | 4,374 | (1,275) | - | 3,099 |
| **Net deferred tax liabilities** | **(67,797)** | **(10,205)** | **2,000** | **(77,877)** |

**COMPANY**

| **2019**<br>**Deferred tax liabilities** | **Opening balance** | **Realised through other comprehensive income** | **Realized through the profit and loss statement** | **Final balance** |
|---|---|---|---|---|
| Revaluation reserves for securities available for sale | (8,355) | (1,239) | - | (9,481) |
| Revaluation reserves for property | (69,619) | (4,632) | 1,875 | (72,376) |
| | **(77,974)** | **(5,758)** | **1,874** | **(81,857)** |
| **Deferred tax assets** | | | | |
| Value adjustment for loans and receivables | 5,803 | - | - | 5,803 |
| Leases (IFRS 16) | - | - | 125 | 125 |
| Value adjustment for securities available for sale | 4,374 | (1,275) | - | 3,099 |
| **Net deferred tax liabilities** | **(67,797)** | **(7,033)** | **2,000** | **(72,830)** |

The Tax Authority may at any time conduct a review of business books and records within the period of 3 years after the expiration of the year that the tax liability for the reporting year was set and may calculate additional taxes and penalties. The Management Board of the Group has no knowledge of any circumstances which may lead to a material potential liability in the relevant sense.

*(all amounts in thousands of HRK)*

## 14. GOODWILL

| *Costs* | Group on 31/12/2020 HRK'000 | Group on 31/12/2019 HRK'000 | Company on 31/12/2020 HRK'000 | Company on 31/12/2019 HRK'000 |
|---|---|---|---|---|
| **Opening balance** | **4,307** | **4,307** | **-** | **-** |
| Increase | **-** | **-** | **-** | **-** |
| **Closing balance** | **4,307** | **4,307** | **-** | **-** |
| *Accumulated impairment* | | | | |
| **Opening balance** | **-** | **-** | **-** | **-** |
| Decrease | **-** | **-** | **-** | **-** |
| **Closing balance** | **-** | **-** | **-** | **-** |
| *Book value* | | | | |
| **Opening balance** | **4,307** | **4,307** | **-** | **-** |
| **Closing balance** | **4,307** | **4,307** | **-** | **-** |

In 2017, the Group recognised the goodwill after the acquisition of the company MTT d.o.o. Rijeka, in the amount of HRK 4,307 thousand. On 29 June 2017, the Company bought a 68.12% share in the company MTT d.o.o. for the amount HRK 25,935 thousand. The difference between net assets of the acquired Company and the consideration is stated as goodwill.

*(all amounts in thousands of HRK)*

## 15. INTANGIBLE ASSETS

### GROUP AND COMPANY

| | Investments in third-party property | Software | Total |
|---|---|---|---|
| *Purchase value* | | | |
| **Balance at 1 January 2019** | **18,985** | **5,135** | **24,120** |
| Increases | 514 | 62 | 576 |
| **Balance at 1 January 2019** | **19,499** | **5,197** | **24,696** |
| Increases | - | 239 | 239 |
| Transfer to use | 713 | - | 713 |
| Sales and expenditure | (356) | - | (356) |
| **Balance at 31 December 2020** | **19,856** | **5,436** | **25,292** |
| *Accumulated amortisation* | | | |
| **Balance at 1 January 2019** | **6,200** | **4,332** | **10,532** |
| Amortisation for the year | 4,447 | 783 | 5,230 |
| **Balance at 1 January 2019** | **10,647** | **5,114** | **15,761** |
| Cost for the year | 2,893 | 78 | 2,971 |
| Sales and expenditure | (355) | - | (355) |
| **Balance at 31 December 2020** | **13,185** | **5,192** | **18,377** |
| *Net book value* | | | |
| **31 December 2019** | **8,852** | **82** | **8,934** |
| **31 December 2020** | **6,671** | **244** | **6,915** |

*(all amounts in thousands of HRK)*

## 16. PROPERTY AND EQUIPMENT

### GROUP

| | Land | Buildings | Equipment | Other tangible assets | Investments in progress | Total |
|---|---|---|---|---|---|---|
| Purchase value or revaluation | | | | | | |
| **Balance at 1 January 2020** | **53,312** | **524,676** | **164,100** | **17,979** | **99,553** | **856,920** |
| Increase | - | 19,505 | 117,284 | - | 9,657 | 46,446 |
| Revaluation | 6,358 | 19,568 | - | - | - | 25,926 |
| Transfer to use | - | 3,311 | - | - | (4,024) | (713) |
| Transfer to investment property | (767) | (8,521) | - | - | (5,126) | (14,414) |
| Sales and expenditure | - | (100) | (952) | - | - | (1,052) |
| **Balance at 31 December 2020** | **58,903** | **558,439** | **180,432** | **17,979** | **100,060** | **915,813** |
| Accumulated depreciation | | | | | | |
| **Balance at 1 January 2020** | **-** | **223,119** | **129,474** | **17,979** | **-** | **370,653** |
| Depreciation cost for the year | - | 29,156 | 16,186 | - | - | 45,342 |
| Transfer to investment property | | (5,356) | - | - | - | (5,356) |
| Sales and expenditure | - | (60) | (936) | - | - | (996) |
| **Balance at 31 December 2020** | **-** | **246,939** | **144,724** | **17,979** | **-** | **409,642** |
| Net book value | | | | | | |
| **31 December 2019** | **53,312** | **301,476** | **34,626** | **-** | **99,553** | **488,967** |
| **31 December 2020** | **58,903** | **311,500** | **35,708** | **-** | **100,060** | **506,171** |

*(all amounts in thousands of HRK)*

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

### COMPANY

| Purchase value or revaluation | Land | Buildings | Equipment | Other tangible assets | Investments in progress | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | **53,312** | **524,676** | **161,400** | **17,979** | **99,553** | **856,919** |
| Increase | - | 19,505 | 16,955 | - | 9,657 | 46,117 |
| Revaluation | 6,358 | 19,568 | - | - | - | 25,926 |
| Transfer to use | - | 3,311 | - | - | (4,024) | (713) |
| Transfer to investment property | (767) | (8,521) | - | - | (5,126) | (14,414) |
| Sales and expenditure | - | (100) | (952) | - | - | (1,052) |
| **Balance at 31 December 2020** | **58,903** | **558,439** | **177,403** | **17,979** | **100,060** | **912,784** |
| Accumulated depreciation | | | | | | |
| **Balance at 1 January 2020** | **-** | **223,119** | **127,033** | **17,979** | **-** | **368,211** |
| Depreciation cost for the year | - | 29,156 | 16,089 | - | - | 45,245 |
| Transfer to investment property | | (5,356) | - | - | - | (5,356) |
| Sales and expenditure | - | (60) | (936) | - | - | (996) |
| **Balance at 31 December 2020** | **-** | **246,938** | **142,186** | **17,979** | **-** | **407,104** |
| Net book value | | | | | | |
| **31 December 2019** | **53,312** | **301,476** | **34,367** | **-** | **99,553** | **488,708** |
| **31 December 2020** | **58,903** | **311,500** | **35,217** | **-** | **100,060** | **505,680** |

*(all amounts in thousands of HRK)*

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

### GROUP

| | Land | Buildings | Equipment | Other tangible assets | Investments in progress | Total |
|---|---|---|---|---|---|---|
| Purchase value or evaluation | | | | | | |
| **Balance at January 2019** | **45,833** | **460,194** | **133,084** | **17,979** | **121,055** | **778,146** |
| Recognition of right-of-use asset (IFRS 16) | - | 8,264 | 16,113 | - | - | 24,377 |
| **Balance at 1 January 2019** | **45,833** | **468,458** | **149,197** | **17,979** | **121,055** | **802,522** |
| Increase | 6,669 | 31,292 | 19,187 | - | 12,451 | 69,599 |
| Revaluation | 815 | 24,921 | - | - | - | 25,736 |
| Decrease | - | - | (4,284) | - | (33,953) | (38,237) |
| **Balance at 31 December 2019** | **53,317** | **524,671** | **164,100** | **17,979** | **99,553** | **859,619** |
| Accumulated depreciation | | | | | | |
| **Balance at 1 January 2019** | **-** | **197,128** | **117,904** | **17,979** | **-** | **333,011** |
| Depreciation cost for the year | - | 26,071 | 15,708 | - | - | 41,779 |
| Decrease | - | - | (4,138) | - | - | (4,138) |
| **Balance at 31 December 2019** | **-** | **223,199** | **129,474** | **17,979** | **-** | **370,652** |
| Net book value | | | | | | |
| **31 December 2018** | **45,833** | **263,066** | **15,180** | **-** | **121,055** | **445,135** |
| **31 December 2019** | **53,317** | **301,472** | **34,626** | **-** | **99,553** | **488,967** |

*(all amounts in thousands of HRK)*

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

### COMPANY

| | Land | Buildings | Equipment | Other tangible assets | Investments in progress | Total |
|---|---|---|---|---|---|---|
| Purchase value or evaluation | | | | | | |
| **Balance at January 2019** | **45,833** | **460,194** | **130,445** | **17,979** | **121,055** | **775,506** |
| Recognition of right-of-use asset (IFRS 16) | - | 8,264 | 16,113 | - | - | 24,377 |
| **Balance at 1 January 2019 (customized)** | **45,833** | **468,458** | **146,558** | **17,979** | **121,055** | **799,883** |
| Increase | 6,669 | 31,292 | 19,126 | - | 12,451 | 69,538 |
| Revaluation | 815 | 24,921 | - | - | - | 25,736 |
| Decrease | - | - | (4,284) | - | (33,953) | (38,237) |
| **Balance at 31 December 2019** | **53,317** | **524,671** | **161,400** | **17,979** | **99,553** | **856,919** |
| Accumulated depreciation | | | | | | |
| **Balance at 1 January 2019** | **-** | **197,128** | **115,595** | **17,979** | **-** | **330,702** |
| Depreciation cost for the year | - | 26,071 | 15,575 | - | - | 41,646 |
| Decrease | - | - | (4,137) | - | - | (4,137) |
| **Balance at 31 December 2019** | **-** | **223,199** | **127,033** | **17,979** | **-** | **368,211** |
| Net book value | | | | | | |
| **31 December 2018** | **45,833** | **263,066** | **14,850** | **-** | **121,055** | **444,805** |
| **31 December 2019** | **53,317** | **301,472** | **34,367** | **-** | **99,553** | **488,708** |

*(all amounts in thousands of HRK)*

## 16. PROPERTY AND EQUIPMENT (CONTINUED)

As at 31 December 2020, property and equipment also includes assets with the right of use based on concluded lease agreements in the total amount of HRK 22,997 thousand. Assets with the right of use are shown as follows:

| | Building | Equipment | Total |
|---|---|---|---|
| **Balance at 1 January 2020** | 7,535 | 21,751 | 29,286 |
| Increase | 19,372 | 6,054 | 25,412 |
| Depreciations cost for the year | (3,909) | (8,092) | (11,987) |
| **Balance as on 31 December 2020** | **22,998** | **19,713** | **42,711** |

Had the land and property been valued pursuant to the method of cost less accumulated depreciation, the values would be as follows:

**GROUP AND COMPANY**

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Purchase value | 348,332 | 331,522 |
| Accumulated depreciation | (131,010) | (117,192) |
| **Net book value** | **217,322** | **214,330** |

As at 31 December 2020, the revaluation reserves for property and equipment amounted to HRK 341,335 thousand. The amount of HRK 215,808 thousand refers to revaluation reserves for investment property which have previously been reclassified from property and equipment.

In order to calculate the market value of property, the assessor used the income, cost and comparative method. Data published by the relevant institutions, data on current value movements of property in the relevant location and equivalent buildings, and personal experiences were used during the calculation. The property value assessment method did not change during the year. However, the estimated fair values do not necessarily have to refer to amounts that the Group might realise in a real transaction.

The following information about the fair value hierarchy as at 31 December 2020 and 2019:

| | 1. level | 2. level | 3. level | Fair Value 2020 |
|---|---|---|---|---|
| Business facilities | - | - | 347,406 | 347,406 |

| | 1. level | 2. level | 3. level | Fair Value 2019 |
|---|---|---|---|---|
| Business facilities | - | - | 347,253 | 347,253 |

During the year, there were no items which had to be reclassified pursuant to the fair value hierarchy.

**17. PROPERTY AND EQUIPMENT (CONTINUED)**

The following is fair value information that uses significant parameters that are not available in the market:

| Description | Fair value Assessment method | Relevant parameters not available on the market | Relevant parameter scope | Relationship of relevant parameter to fair value |
|---|---|---|---|---|
| Business facilities | Income method | Risk of loss of lease payments | 0%-9% | The higher the parameter, the lower the fair value |
| | | Investment maintenance costs | 1-2.25 EUR/m2 | The higher the parameter, the lower the fair value |
| | | Supposed lease payments | 7-19.21 EUR/m2 | The higher the parameter, the lower the fair value |
| | | Supposed yield | 5.5%-7% | The higher the parameter, the lower the fair value |
| Business facilities | Comparative method | Supposed price | 823 – 3,511 EUR/m2 | The higher the parameter, the lower the fair value |

*(all amounts in thousands of HRK)*

## 17. INVESTMENT PROPERTY

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| Fair value of investment property – land | 122,940 | 108,575 | 116,137 | 101,772 |
| Fair value of investment property – buildings | 809,136 | 790,202 | 786,676 | 767,166 |
| | **932,076** | **898,777** | **902,813** | **868,938** |

| | Group 2020 | Company 2020 | Group 2019 | Company 2019 |
|---|---|---|---|---|
| **Opening balance** | **902,813** | **868,938** | **887,220** | **852,770** |
| Acquisition | 21,700 | 21,700 | 4,397 | 4,397 |
| Transfer | 9,059 | 9,059 | - | - |
| Disposal | (13,058) | (13,058) | (20.394) | (20,394) |
| Changes in fair value | 11,562 | 12,138 | 31,590 | 32,165 |
| **Closing balance** | **932,076** | **898,777** | **902,813** | **868,938** |

Fair value of land and buildings on 31 December 2020 and 2019 is established pursuant to the assessment carried out on that day by an independent assessor Proventus Nekretnine and Borić vještačenja. Fair value was established by using an income method which, based on the current value of cash flows, indicates the property market value expected to be reached in the future through property lease. A part of property was assessed using the comparative method which uses prices reached by comparable property. Please below find information on the Group's property investment, and on the fair value hierarchy on 31 December 2020 and 31 December 2019 below:

**COMPANY:**

| | Level 1 | Level 2 | Level 3 | Fair Value 2020 |
|---|---|---|---|---|
| Business facilities | - | - | 898,777 | 898,777 |

| | Level 1 | Level 2 | Level 3 | Fair Value 2019 |
|---|---|---|---|---|
| Business facilities | - | - | 868,938 | 868,938 |

During the year there were no items which had to be reclassified pursuant to the fair value hierarchy.

**GROUP:**

| | Level 1 | Level 2 | Level 3 | Fair Value 2020 |
|---|---|---|---|---|
| Business facilities | - | - | 932,076 | 932,076 |

| | Level 1 | Level 2 | Level 3 | Fair Value 2019 |
|---|---|---|---|---|
| Business facilities | - | - | 904,461 | 904,461 |

*(all amounts in thousands of HRK)*

## 17. INVESTMENT PROPERTY (CONTINUED)

Please find below information on the fair value based on relevant parameters which are not available on the market:

| Description | Assessment method | Relevant parameters not available on the market | Relevant parameter scope | Relationship of relevant parameter to fair value |
|---|---|---|---|---|
| Business facilities | Income method | Risk of loss of lease payments | 5%-9% | The higher the parameter, the lower the fair value |
| | | Investment maintenance costs | 0%-33% | The higher the parameter, the lower the fair value |
| | | Supposed lease payments | 12-21 EUR/m2 | The higher the parameter, the lower the fair value |
| | | Supposed yield | 6.5%-7% | The higher the parameter, the lower the fair value |
| Business facilities | Comparative method | Supposed price | 2,061-2,467 EUR/m2 | The higher the parameter, the lower the fair value |
| Vehicle control stations | Income method | Risk of loss of lease payments | 0%-5% | The higher the parameter, the lower the fair value |
| | | Investment maintenance costs | 5%-37% | The higher the parameter, the lower the fair value |
| | | According to number of technical control | 7-15 EUR/m2 | The higher the parameter, the lower the fair value |
| | | Supposed yield | 4.5%-9.1% | The higher the parameter, the lower the fair value |

The Group's lease income for 2020 amounts to HRK 29,331 thousand (2019: HRK 29,132 thousand) and recognised in Investment income (Note 7). Operating expenses (including repairs and maintenance) resulting from property investments to HRK 14,637 thousand in 2020 and HRK 14,176 thousand in 2019.

As at 31 December 2020, the Company recognised a gain on fair valuation of investment properties in the amount of HRK 12,138 thousand (2019: HRK 32,165 thousand), while the Group recognised a gain on fair valuation of investment properties in the amount of HRK 11,562 thousand (2019: HRK 31,590 thousand) which is recognized in profit or loss within Investment costs (Note 7).

*(all amounts in thousands of HRK)*

## 18. FINANCIAL ASSETS AVAILABLE FOR SALE

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| Equity securities | 538,996 | 563,291 | 488,845 | 513,140 |
| Bonds | 265,400 | 265,400 | 325,241 | 325,241 |
| Investment funds | 7,966 | 7,966 | 7,837 | 7,837 |
| | **812,362** | **836,657** | **821,923** | **846,218** |

**Equity securities**

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| Per cost | 186,041 | 211,976 | 184,897 | 210,832 |
| Per fair value | 352,955 | 351,315 | 303,948 | 302,308 |
| | **538,996** | **563,291** | **488,845** | **513,140** |

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| Listed | 315,042 | 313,402 | 279,279 | 277,639 |
| Non-listed | 223,954 | 249,889 | 209,566 | 235,501 |
| | **538,996** | **563,291** | **488,845** | **513,140** |

The Group's total portfolio for the acquisition includes companies whose price is not quoted on the active market. There are two groups of the aforementioned instruments. The first group is equity instruments of the BiH company. The group believes that these equity instruments, due to the specifics of the BiH market, are best kept at acquisition costs and trace indicators for potential impairment. The second group entails equity instruments which are, in essence, holding companies which do not have a dominant activity, but a high share of property and financial assets. Therefore, the Group believes that these equity instruments are best kept at acquisition cost and monitor indicators for potential impairment. The Group monitors market circumstances and operations of relevant companies and will adopt decisions on reversal of relevant property with the aim to maximise positive effects on the Group's activities.

*(all amounts in thousands of HRK)*

## 18. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

### GROUP AND COMPANY

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Government bonds | 221,986 | 256,244 |
| Corporate bonds | 43,414 | 68,997 |
| Commercial papers | - | - |
| | **265,400** | **325,241** |

On 31 December 2020, the Group's investments in bonds amounted to HRK 79,392 thousand, which were given as a received repo loan (Note 29).

| | Number of shares on 31/12/2020 | Number of shares on 31/12/2019 | 31/12/2020 | 31/12/2019 |
|---|---|---|---|---|
| Investment funds | From 5.02% to 8.48% | From 4.1% to 8.51% | 7,966 | 7,837 |
| | | | **7,966** | **7,837** |

*(all amounts in thousands of HRK)*

## 19. LOANS AND RECEIVABLES

### GROUP AND COMPANY

| *Credit and receivables* | **31/12/2020** | **31/12/2019** |
|---|---|---|
| Given long-term credits | 752,573 | 891,661 |
| Interest receivables | 3,352 | 6,596 |
| | **755,925** | **898,257** |
| Provisions for suspicious receivables | (35,217) | (40,114) |
| | **720,708** | **858,143** |
| Long-term part of long-term credits | 663,610 | 800,230 |
| Short-term part of long-term credits | 57,098 | 57,913 |
| **Given long-term credits** | **720,708** | **858,143** |

Credits are mainly secured with pledges on business premises. The unsecured part of the portfolio amounts to 25%.

Overview of loans and receivables on 31 December 2020.

### GROUP AND COMPANY

| *Long-term loans* | **Currency** | **Date of contract** | **Interest rate** | **Maturity date** | **2020** |
|---|---|---|---|---|---|
| Long-term loans with pledge, total | HRK | 25/09/2006 - 25/09/2020 | 4.05% to 4.75% | 15/03/2023 - 01/07/2037 | 529,708 |
| Long-term loans with no pledge, total | HRK | 05/01/2017 - 28/04/2020 | 1.5% to 5.58% | 04/01/2021 - 01/07/2037 | 155,823 |
| Long-term loans with no pledge, total | € | 14/07/2017 - 20/11/2017 | 4.00% | 30/06/2023 - 30/11/2023 | 35,177 |

*(all amounts in thousands of HRK)*

## 19. LOANS AND RECEIVABLES (CONTINUED)

Overview of loans and receivables on 31 December 2019

### GROUP AND COMPANY

| *Long-term loans* | **Currency** | **Date of contract** | **Interest rate** | **Maturity date** | **2019** |
|---|---|---|---|---|---|
| Long-term loans with pledge, total | HRK | 25/09/06 - 25/01/18 | 4.05% to 4.75% | 15/06/23 – 30/06/37 | 562,287 |
| Long-term loans with no pledge, total | HRK | 15/11/10 - 20/11/19 | 1% to 7% | 29/02/20 – 01/07/37 | 256,217 |
| Long-term loans with no pledge, total | € | 14/07/17 - 20/11/19 | 4% | 30/06/23 – 28/02/25 | 39,640 |

| Impairments were the following: | **2020** | **2019** |
|---|---|---|
| Opening balance | 40,114 | 40,609 |
| Abolition of provisions | (3,198) | - |
| Provisions on a group basis | (1,699) | (495) |
| **Closing balance** | **35,217** | **40,114** |

## 20. BANK DEPOSITS

| | **GROUP AND COMPANY** | **GROUP AND COMPANY** |
|---|---|---|
| | **31/12/2020** | **31/12/2019** |
| Bank deposits in HRK | 115,278 | 18,699 |
| Bank deposits in EUR | 31,996 | 12,989 |
| | **147,274** | **31,688** |

Overview of deposits on 31 December 2020 and 31 December 2019:

| | **GROUP AND COMPANY** | **GROUP AND COMPANY** |
|---|---|---|
| | **31/12/2020** | **31/12/2019** |
| Long-term bank deposits | 35,972 | 19,298 |
| Short-term bank deposits | 111,302 | 12,390 |
| | **147,274** | **31,688** |

*(all amounts in thousands of HRK)*

## 21. PREMIUM RECEIVABLES

| | GROUP AND COMPANY | GROUP AND COMPANY |
|---|---|---|
| | **31/12/2020** | **31/12/2019** |
| *Gross amount* | | |
| Premium receivables | 428,097 | 399,956 |
| Enforceable premium receivables | 31,027 | 30,580 |
| | **459,124** | **430,536** |
| *Value adjustments* | | |
| Adjustments for more than 1-year-old unpaid premiums | (23,029) | (17,606) |
| Adjustments for enforceable premiums | (31,027) | (30,580) |
| | (54,057) | (48,186) |
| | **405,067** | **382,350** |

Overview of non-enforceable premium receivables, 31 December maturity date category

GROUP AND COMPANY

| | **Not yet due** | **30 days** | **30- 60 days** | **60- 90 days** | **90-180 days** | **180-365 days** | **Over 365 days** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| Premium receivables | 327,896 | 53,683 | 7,119 | 4,728 | 11,640 | 11,888 | 11,141 | **428,097** |

| | **Not yet due** | **30 days** | **30- 60 days** | **60- 90 days** | **90-180 days** | **180-365 days** | **Over 365 days** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | |
| Premium receivables | 330,611 | 25,420 | 10,229 | 7,041 | 9,049 | 11,259 | 6,347 | **399,956** |

Pursuant to the Group's policy, value of all receivables more than 180 days old are adjusted.

Value adjustment movement during the year:

| | GROUP AND COMPANY | GROUP AND COMPANY |
|---|---|---|
| | **2020** | **2019** |
| **Opening balance** | **48,186** | **47,550** |
| Write-off | (2,014) | (1,435) |
| Value adjustment during the year | 7,135 | 2,067 |
| Write-offs | 2,115 | 1,201 |
| Amounts paid | (1,365) | (1,197) |
| **Closing balance** | **54,057** | **48,186** |

*(all amounts in thousands of HRK)*

## 22. OTHER RECEIVABLES

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| Purchased lease receivables | 86,829 | 86,829 | - | - |
| Other receivables | 16,250 | 16,250 | 16,250 | 16,250 |
| **Non - current receivables** | **103,079** | **103,079** | **16,250** | **16,250** |
| | | | | |
| Lease receivables | 5,533 | 5,533 | 11,416 | 11,416 |
| Administrative receivables | 6,588 | 6,588 | 7,109 | 7,109 |
| Advances paid to supplier | 6,757 | 6,757 | 5,679 | 5,679 |
| Receivables with recourse | 4,306 | 4,306 | 7,716 | 7,716 |
| Receivables from the State and other institutions | 4,161 | 4,161 | 2,284 | 2,284 |
| Purchased receivables leasing contarts (current maturity) | 45,854 | 45,854 | - | - |
| Other receivables | 29,544 | 28,854 | 27,520 | 27,849 |
| **Current receivables** | **102,743** | **102,053** | **61,724** | **62,053** |

At the end of 2020, the Company purchased at a discount future cash flows under 1791 leasing contracts maturing in the period from 2021 to 2027. Receivables in the separate and consolidated statement of financial position as at 31 December 2020 are stated at cost in the amount of HRK 132,683 thousand, of which HRK 45,854 thousand relates to short-term receivables maturing in 2021, while the amount of HRK 86,829 HRK refers to long-term receivables maturing in the period from 2022 to 2027.

## 23. CASH AND CASH EQUIVALENTS

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| Bank accounts | 59,422 | 58,789 | 45,433 | 45,357 |
| Cash in hand | 367 | 367 | 103 | 103 |
| | **59,789** | **59,156** | **45,536** | **45,460** |

## 24. EQUITY

The equity of the Company amounted to HRK 61,002,000 in 2019 and 2020 and is divided into 305,010 shares of nominal value of HRK 200. All shares are regular and carry a name, and each share ensures the right to 1 vote in the General Assembly of the Company. They are in dematerialised format and paid in total.

Shareholders' structure according to the number of shares and equity participation on 31 December:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Number of shares** | **Equity share %** | **Number of shares** | **Equity share %** |
| Grgić Dubravko | 45,750 | 15.00 | 45,750 | 15.00 |
| Adriatic osiguranje d.d. | 30,192 | 9.90 | 30,192 | 9.90 |
| Kordić Ante | 18,300 | 6.00 | 18,300 | 6.00 |
| Agram life osiguranje d.d. | 17,238 | 5.65 | 14,819 | 4.70 |
| Grgić Mladenka | 13,070 | 4.29 | 13,070 | 4.29 |
| Rubić Josip | 10,130 | 3.32 | 10,130 | 3.32 |
| Erkapić Mate | 10,130 | 3.32 | 10,130 | 3.32 |
| Kordić Zlatko | 10,130 | 3.32 | 10,130 | 3.32 |
| Galić Drago | 7,576 | 2.48 | 7,576 | 2.48 |
| Kurtović Husnija | 7,576 | 2.48 | 7,576 | 2.48 |
| Zlatko Lerota | 7,576 | 2.48 | 7,576 | 2.48 |
| | **177,668** | **58.24** | **175,249** | **57,45** |
| Other | 127,342 | 41.76 | 129,761 | 42.55 |
| **Total** | **305,010** | **100** | **305,010** | **100** |

| | **Group 31/12/2020** | **Company 31/12/2020** | **Group 31/12/2019** | **Company 31/12/2019** |
|---|---|---|---|---|
| Profit after tax (in thousands of HRK) | 125,925 | 123,942 | 133,566 | 131,944 |
| Profit attributable to the shareholders (in thousands of HRK) | 125,925 | 123,942 | 133,566 | 131,944 |
| Number of ordinary shares used in the calculation of basic earnings per share | 305,010 | 305,010 | 305,010 | 305,010 |
| **Earnings per share (in HRK and lipa)** | **412.86** | **406.35** | **437.91** | **432.59** |

*(all amounts in thousands of HRK)*

## 25. REVALUATION RESERVES ON FINANCIAL ASSETS AVAILABLE FOR SALE

### GROUP

| | 2020 | 2019 |
|---|---|---|
| **Opening balance** | **36,645** | **25,397** |
| ***Revaluation of securities available for sale, net*** | ***20,861*** | ***18,150*** |
| Revaluation of securities available for sale | 25,440 | 22,134 |
| Recognised deferred tax in comprehensive income | (4,579) | (3,984) |
| **Other comprehensive income attributed to minority interest** | **-** | **(165)** |
| ***Net amount transferred to profit or loss*** | **(543)** | **(6,737)** |
| Amount transferred to profit or loss | (662) | (8,216) |
| Abolition of deferred tax liability | 119 | 1,479 |
| **Closing balance** | **56,963** | **36,645** |

### COMPANY

| | 2020 | 2019 |
|---|---|---|
| **Opening balance** | **36,293** | **25,397** |
| ***Revaluation of securities available for sale, net*** | ***20,861*** | ***17,633*** |
| Revaluation of securities available for sale | 25,440 | 21,504 |
| Recognised deferred tax in comprehensive income | (4,579) | (3,871) |
| ***Net amount transferred to profit or loss*** | **(543)** | **(6,737)** |
| Amount transferred to profit or loss | (662) | (8,216) |
| Abolition of deferred tax liability | 119 | 1,479 |
| **Closing balance** | **56,611** | **36,293** |

## 26. REVALUATION RESERVES FOR PROPERTY

| | GROUP AND COMPANY | GROUP AND COMPANY |
|---|---|---|
| | **2020** | **2019** |
| **Opening balance** | **329,516** | **316,956** |
| ***Revaluation of property, net*** | ***21,260*** | ***21,104*** |
| Revaluation of property | 25,927 | 25,736 |
| Recognised deferred tax in comprehensive income | (4,667) | (4,632) |
| **Reversal of the revaluation reserve** | **(9,441)** | **(8,544)** |
| **Closing balance** | **341,335** | **329,516** |

*(all amounts in thousands of HRK)*

## 27. LEGAL RESERVES

| | GROUP AND COMPANY 31/12/2020 | GROUP AND COMPANY 31/12/2019 |
|---|---|---|
| Legal reserves | 172,585 | 172,585 |
| | **172,585** | **172,585** |

Statutory reserves refer to reserves established by the Insurance Act, formed before 1 January 2006. These reserves entailed the allocation of 1/3 of net income of every business year, until 31 December 2005. The Company established the statutory reserves pursuant to the Companies Act and can use them to pay out dividends or cover losses pursuant to the Companies Act.

## 28. TECHNICAL PROVISIONS

| | GROUP AND COMPANY 31/12/2020 | GROUP AND COMPANY 31/12/2019 |
|---|---|---|
| *Unearned premium provisions* | | |
| Gross amount | 720,058 | 688,643 |
| Reinsurance/co-insurance | (13,252) | (13,050) |
| *Unearned premium provisions, less reinsurance* | ***706,806*** | ***675,593*** |
| *Claims incurred* | | |
| Gross amount | 906,926 | 891,096 |
| Reinsurance | (15,015) | (9,085) |
| Other technical provisions | - | - |
| Return of premium expenses | 2,151 | 4,647 |
| *Claims incurred, less reinsurance* | ***894,062*** | ***886,658*** |
| **Total technical provisions, net of reinsurance** | **1,600,868** | **1,562,251** |
| **Total technical provisions, gross** | **1,629,135** | **1,584,386** |

| | GROUP AND COMPANY 2020 | GROUP AND COMPANY 2019 |
|---|---|---|
| **Opening balance** | **688,643** | **616,771** |
| Annual written premium | 1,341,591 | 1,278,988 |
| Annual earned premium | (1,310,176) | (1,207,116) |
| **Closing balance** | **720,058** | **688,643** |

Reinsurer's assets movement during the year:

| | GROUP AND COMPANY 2020 | GROUP AND COMPANY 2019 |
|---|---|---|
| **Opening balance** | **22,134** | **20,739** |
| Additions | 6,133 | 1,395 |
| **Closing balance** | **28,267** | **22,134** |

*(all amounts in thousands of HRK)*

## 28. TECHNICAL PROVISIONS (CONTINUED)

**GROUP AND COMPANY**

| 2020 | Gross claims outstanding on 31/12/2019 | Liquidated claims, gross amount | Reinsurance share in damages | Changes in provisions for claims, reinsurance | Claims incurred | Gross claims outstanding on 31/12/2020 |
|---|---|---|---|---|---|---|
| Accident Insurance | 14,596 | (6,646) | - | - | 9,048 | 16,998 |
| Health Insurance | 947 | (3,274) | - | - | 3,052 | 725 |
| Casco Insurance | 77,672 | (162,471) | 90 | 1,708 | 159,691 | 76,690 |
| Property Insurance | 27,883 | (47,101) | 1,641 | 1,401 | 64,591 | 48,415 |
| Motor Vehicle Liability Insurance | 743,913 | (343,681) | - | 2,422 | 333,677 | 736,331 |
| Liability Insurance | 18,900 | (4,257) | 125 | 364 | 5,631 | 20,763 |
| Transport and Credit Insurance | 6,945 | (468) | - | 35 | 269 | 6,781 |
| Travel Insurance | 240 | (12,300) | - | - | 12,283 | 223 |
| | **891,096** | **(580,198)** | **1,856** | **5,930** | **588,242** | **906,926** |

**GROUP AND COMPANY**

| 2019 | Gross claims outstanding on 31/12/2018 | Liquidated claims, gross amount | Reinsurance share in damages | Changes in provisions for claims, reinsurance | Claims incurred | Gross claims outstanding on 31/12/2019 |
|---|---|---|---|---|---|---|
| Accident Insurance | 15,793 | (8,605) | - | - | 7,408 | 14,596 |
| Health Insurance | 542 | (692) | - | - | 1,097 | 947 |
| Casco Insurance | 61,606 | (173,715) | 771 | 11 | 188,999 | 77,672 |
| Property Insurance | 25,107 | (27,588) | 981 | 1,257 | 28,126 | 27,883 |
| Motor Vehicle Liability Insurance | 819,998 | (357,469) | - | (426) | 218,810 | 743,913 |
| Liability Insurance | 15,540 | (5,896) | 183 | 79 | 8,994 | 18,900 |
| Transport and Credit Insurance | 6,263 | (802) | - | (10) | 1,494 | 6,945 |
| Travel Insurance | 197 | (12,270) | - | - | 12,313 | 240 |
| | **945,046** | **(587,037)** | **1,935** | **911** | **530,241** | **891,096** |

*(all amounts in thousands of HRK)*

## 28. TECHNICAL PROVISIONS (CONTINUED)

**GROUP AND COMPANY**

| Provisions for declared, unpaid damages on 31 December 2020 | Gross | Net of reinsurance |
|---|---|---|
| Provisions for declared, unpaid damages, augmented by claims handling costs | 461,473 | 446,459 |
| Provisions for incurred, non-declared damages, augmented by claims handling costs | 445,453 | 445,453 |

**GROUP AND COMPANY**

| Provisions for declared, unpaid damages on 31 December 2019 | Gross | Net of reinsurance |
|---|---|---|
| Provisions for declared, unpaid damages, augmented by claims handling costs | 466,012 | 458,928 |
| Provisions for incurred, non-declared damages, augmented by claims handling costs | 425,084 | 425,084 |

*(all amounts in thousands of HRK)*

## 29. LONG-TERM AND SHORT-TERM LOANS

| | GROUP 31/12/2020 | COMPANY 31/12/2020 | GROUP 31/12/2019 | COMPANY 31/12/2019 |
|---|---|---|---|---|
| Long-term loans | 113,638 | 113,638 | 194,963 | 194,963 |
| | **113,638** | **113,638** | **194,963** | **194,963** |

On 13 December 2018, the Company concluded a loan contract with AGRAM banka Zagreb d.d. The contracted interest rate amounts to 1.6%. The loan purpose; probability of affordable borrowing with the aim to realise higher yield investments. The loan contract is denominated in HRK, with the maturity date on 13/12/2023, with collateral in state bonds of the Republic of Croatia, ISIN code HRRHMFO26CA5; 9,500,000 pcs; HRRHMFO257A4 7,200,000 pcs and HRRHMFO23BA4 30,000,000 pcs.

The Austrian bank Anadi Bank AG, FN 245157 a, Domgasse 5, A - 9020 Klagenfurt am Wörthersee approved a loan on 19 June 2018 in the amount of EUR 11,334,000 € with a 2% interest rate, for the purchase of the business building in Klagenfurt, Austria. Installments maturity: quarterly, start of loan payment on 1 January 2019.
Contract duration: until 30 September 2026.

Vorarlberger Landes und Hypothekenbank AG Austria approved dedicated long-term loans for the purchase of property in the Republic of Austria in May 2017 (loan repayment in May 2032 with a 2.125% interest rate) and in January 2018 (contract valid by December 2024, with an interest rate of 1.25%).

The company with Agram life insurance d.d. has concluded a loan agreement in the amount of EUR 3,204 thousand using the middle exchange rate of the CNB. The contract is in kind from the redemption value of the life insurance policy, with all the rights that belong to it from the policy. The interest rate is contracted at 5.90%, calculated monthly and attributed to the loan principal. The amendment to the agreement approved the extension of the loan term until December 31, 2022.

| | GROUP AND COMPANY 31/12/2020 | GROUP AND COMPANY 31/12/2019 |
|---|---|---|
| Short-term loans (maturity of long-term loans in 2021) | 97,388 | 23,170 |
| Short-term loans | 25,000 | - |
| | **122,388** | **23,170** |

*(all amounts in thousands of HRK)*

**29. LONG-TERM AND SHORT-TERM LOANS (CONTINUED)**

| | Currency | Maturity | Interest rate % | GROUP 31/12/ 2020 | COMPANY 31/12/2020 |
|---|---|---|---|---|---|
| Long-term loans | € | 2026 | 2 | 55,866 | 55,866 |
| Long-term loans | HRK | 2023 | 1.6 | 40,000 | 40,000 |
| Long-term loans | € | 2021 | 5.9 | 23,148 | 23,148 |
| Financial leasing | € | 2022 | 6.99 | 179 | 179 |
| Financial leasing | HRK | 2022 | 6.69 – 6.99 | 651 | 651 |
| Long-term loans | € | 2024 | 1.25 | 14,053 | 14,053 |
| Long-term loans | € | 2032 | 1.25 | 32,136 | 32,136 |
| Short-term loans | HRK | 2021 | 0,25 | 25,000 | 25,000 |
| | | | | **192,032** | **192,032** |
| Liabilities IFRS 16 | €/ HRK | 2020 2025 | 2.64 | 43,994 | 43,994 |
| | | | | **236,026** | **236,026** |

*(all amounts in thousands of HRK)*

**29. LONG-TERM AND SHORT-TERM LOANS (CONTINUED)**

| | Currency | Maturity | Interest rate % | GROUP 31/12/2019 | COMPANY 31/12/2019 |
|---|---|---|---|---|---|
| Long-term loans | € | 2021 | 2 | 72,194 | 72,194 |
| Long-term loans | HRK | 2023 | 1.6 | 40,000 | 40,000 |
| Long-term loans | € | 2022 | 5.9 | 23,848 | 23,848 |
| Financial leasing | € | 2022 | 6.99 | 317 | 317 |
| Financial leasing | HRK | 2022 | 6.69 - 6.99 | 1,036 | 1,036 |
| Long-term loans | € | 2032 | 2.125 | 33,366 | 33,366 |
| Long-term loans | € | 2024 | 1.25 | 17,380 | 17,380 |
| | | | | **188,141** | **188,141** |
| Liabilities IFRS 16 | €/ HRK | 2020 2025 | 2.64 | 29,992 | 29,992 |
| | | | | **218,133** | **218,133** |

*(all amounts in thousands of HRK)*

## 30. LIABILITIES FROM DIRECT INSURANCE OPERATIONS

| | GROUP AND COMPANY 31/12/2020 | GROUP AND COMPANY 31/12/2019 |
|---|---|---|
| Liabilities to the Croatian Insurance Bureau | 35,705 | 31,226 |
| Liabilities for received advances | 1,403 | 1,118 |
| Liabilities for payment of damages | 801 | 1,290 |
| | **37,909** | **33,634** |

## 31. OTHER LIABILITIES

| | Group 31/12/2020 | Company 31/12/2020 | Group 31/12/2019 | Company 31/12/2019 |
|---|---|---|---|---|
| **Current tax liability** | **2,583** | **2,575** | **12,303** | **12,197** |
| **Other liabilities** | | | | |
| Liabilities based on the share in the result | 1,940 | 1,940 | 2,790 | 2,551 |
| Premium tax | 158,269 | 158,269 | 142,882 | 142,882 |
| Commitments towards suppliers | 18,992 | 18,968 | 25,705 | 25,663 |
| Liabilities to employees | 16,339 | 16,339 | 14,387 | 14,387 |
| Deferred income | 1,300 | 1,300 | 8,279 | 8,279 |
| Commission liabilities | 4,059 | 4,059 | 3,368 | 3,368 |
| Other liabilities | 3,127 | 3,036 | 7 | - |
| Provisions for liabilities | 9,128 | 9,128 | 9,113 | 9,113 |
| | **213,154** | **213,039** | **206,531** | **206,243** |

The movement of provisions for expenses is as follows:

| | Group 2020 | Company 2020 | Group 2019 | Company 2019 |
|---|---|---|---|---|
| **Starting balance** | **9,114** | **9,114** | **8,414** | **8,414** |
| Credited | - | - | - | - |
| New reservations | 14 | 14 | 700 | 700 |
| **Closing balance** | **9,128** | **9,128** | **9,114** | **9,114** |

## 32. CAPITAL ADEQUACY

Solvency II, legislative and regulatory framework of the total business operations of the insurance and reinsurance companies in the European Union entered into force on 1 January 2017. The new system, Solvency II, has thoroughly changed the way solvency capital is calculated, and assets and liabilities valued, as well as introduced a series of new risk management requirements. In order to manage risks in a systematic manner, the Company devised and adopted risk management policies, own risk and solvency assessment (ORSA) and risk management for all risk categories.

### Capital management aims, policies and approach

The main aims of Solvency II are the protection of policy holders, setting solvency margins which would represent total risk exposure, anticipating market changes, solvency based on principles, not strict rules, and maintaining financial stability. Achieving the Solvency II aims is possible through the risk management process. The risk management process entails precise identification, assessment, measurement and control of risks the Group is exposed to or could be exposed to in the future in order to efficiently manage them, all in order to protect the policy holders, achieve the planned financial results and increase the economic and market value of the Group's assets and equity.

The main traits of the organisation's risk management system also constitute its advantages:

- better understanding of key risks and implications,
- better resource management,
- higher probability of achieving targets,
- faster reaction to internal and external changes,
- increase in the Company's profitability,
- comprehensive and more concise reporting on risk management.

The Company's operations are subject to regulatory requirements stipulated by the Croatian Financial Services Supervisory Agency, which also supervises the implementation of those requirements. Such regulations not only stipulate the approval of activities and their monitoring, but also impose restrictive provisions in order to minimise the insurance companies' insolvency risk in terms of meeting contingent liabilities once they incur. Based on preliminary calculations, on 31 December 2020, the Company complied with requirements concerning the calculation of capital adequacy, pursuant to the Solvency II regulations. The Company complied with requirements concerning the calculation of capital adequacy, pursuant to the Solvency II regulation.

Solvency is calculated pursuant to rules stipulated by the European Insurance and Occupational Pensions Authority (EIOPA). Solvency II introduced economic/market assets and liabilities valuation based on the total balance sheet approach, meaning that it is necessary to establish the market value all risks balance sheet positions are exposed to.

## 33. CAPITAL ADEQUACY (CONTINUED)

**Capital management aims, policies and approach (continued)**

ORSA is one of the Solvency II requirements. ORSA is defined as a series of processes which form a decision making and strategic analyses tool. Its aim and task is to identify, assess, monitor, manage and report on short-term and long-term risks the insurance company is exposed to or might be exposed to in the future, as well as to assess own funds necessary for the company's constant solvency, i.e. for it to be able to cover all needs and liabilities.

Pursuant to applicable laws, ORSA entails the following three elements:

- own assessment of the total solvency need;
- uninterrupted assessment of compliance with capital requirements and technical provisions requirements;
- assessment of the significance of deviation of the insurance company’s risk profile from the assumptions for the calculation of the necessary solvency capital pursuant to the standard formula.

*(all amounts in thousands of HRK)*

## 34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Significant Accounting Policies

Significant accounting policies and adopted methods, including the recognition criteria, valuation basis, and the basis for recognising profit and losses for all classes of financial assets, financial liabilities and equity instruments are stated in detail in Note 3 of the financial statements.

Financial instruments and risk management are analysed on the level of the Company, which represents the Group's exposure to financial instruments and relevant risks, since the subsidiary is not exposed to them.

### Categories of financial instruments

| | **Group 31/12/2020** | **Company 31/12/2020** | **Group 31/12/2019** | **Company 31/12/2019** |
|---|---|---|---|---|
| Available for sale financial assets | 812,362 | 836,657 | 821,923 | 846,218 |
| Receivables loans | | | | |
| Loans | 720,708 | 720,708 | 858,143 | 858,143 |
| Guarantee deposit for lease contracts | 10,523 | 10,523 | 7,865 | 7,865 |
| Bank deposits | 147,274 | 147,274 | 31,688 | 31,688 |
| Reinsurance share in technical provisions | 28,267 | 28,267 | 22,134 | 22,134 |
| Premium and other receivables | 650,908 | 650,218 | 501,268 | 501,597 |
| Cash at bank and in hand | 59,156 | 59,156 | 45,536 | 45,460 |
| **Financial liabilities** | | | | |
| Short-term loans | 113,638 | 113,638 | 23,170 | 23,170 |
| Long-term loans | 122,388 | 122,388 | 194,963 | 194,963 |
| Liabilities from direct insurance business | 37,909 | 37,909 | 33,634 | 33,634 |
| Other liabilities | 222,731 | 222,608 | 218,834 | 218,440 |

*(all amounts in thousands of HRK)*

### 34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

**Market risk**

The Company's exposure to market risks, including the currency and interest rate risk, is limited due to the assets and liabilities structure.

In order to actively manage assets, the Company uses approaches the aim of which is to balance quality, diversify and harmonise assets and liabilities, liquidity and return on assets. The aim of the investment process is to optimise income and total return on investment, risk-adjusted and after taxation, ensuring that the assets and liabilities are managed based on cash flows and duration. The management periodically reviews and approves target portfolios, sets guidelines for investment and investment limits, and monitors the asset management process. Due consideration is given to compliance with rules stipulated in the Insurance Act.

*Currency risk management*

The Company holds no significant amount of assets and liabilities in foreign currency. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **31/12/2020** | **31/12/2019** | **31/12/2020** | **31/12/2019** |
| EUR | 395,859 | 400,091 | 385,227 | 223,311 |
| HRK | 3,538,012 | 3,298,756 | 3,548,644 | 3,475,536 |

The value of assets denominated in a foreign currency accounts for 10.06% of total assets, while the value of liabilities denominated in a foreign currency accounts for 9.79 % of total assets. The Company believes that changes in the foreign exchange rate cannot significantly affect the Company's operations. For the year ending on 31 December 2020, the Company recognised negative exchange rate differences in the amount of HRK 1,493 thousand (2019: HRK 1,110 thousand), which accounts for 1.2% of total net income for the year ending on 31 December 2020, and shows that changes in exchange rates have a limited influence on the Company's operations. The Management Board concluded that a 10% change would have no material effect on the Company's operations.

*Interest rate risk management*

The Company is not significantly exposed to interest rate risk, and Company has no assets with variable interest rates. Changes in interest rates cannot significantly affect the Company's operations, since the total interest rate cost per loan (Note 7) in the amount of HRK 5,293 thousand (2019: HRK 8,468 thousand) account for 4.27 % of the total net income for the year ending on 31 December 2020 (2019: 6.5%). The Management Board concluded that a 50 base point change would have no material effect on the Company's operations.

*(all amounts in thousands of HRK)*

**34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

*Other price risks*

The Company is exposed to risks of principal price change, since equity instruments account for a significant part of the Company's assets. A certain number of equity instruments classified in the "available for sale" category is not quoted on the market. The Company assessed the influence of the price change of securities which are actively traded on the stock market, and it is not relevant considering that the total share of these securities is not relevant.

**Credit risk management**

Credit risk refers to the default risk of the other contracting party, which would lead to substantial financial losses of the Company. The Company adopted the policy of doing business with only creditworthy parties and obtaining sufficient insurance instruments in order to mitigate the financial loss risk due to default. The Company's exposure and the credit rating of the parties it cooperates with is continuously monitored, and the total value of concluded transactions is allocated to approved clients. An assessment of creditworthiness for claims is carried out continuously and, where appropriate, insurance coverage for credit guarantees is obtained.

The Company assesses the debtor's creditworthiness based on the debtor's capital, debtor's assets, including his ability to achieve future cash flows for the payment of debt, the debtor's liquidity and profitability, the debtor's cash flows from the past period and expected future cash flows, general operating conditions and the debtor's prospective and position on the market of the debtor's activities.

*Maximum credit risk exposure*

| | **31/12/2020** | **31/12/2019** |
|---|---|---|
| Bonds | 265,400 | 325,241 |
| Credits and receivables | 720,708 | 858,143 |
| Guarantee deposit for lease contracts | 10,523 | 7,866 |
| Bank deposits | 147,274 | 31,688 |
| Premium receivables | 405,067 | 382,350 |
| Reinsurance share in technical provisions | 28,267 | 22,134 |
| Credit cards and checks receivables | 40,019 | 40,944 |
| Other receivables | 205,132 | 86,195 |
| Cash at bank and in hand | 59,156 | 45,460 |
| | **2,003,597** | **1,800,021** |

*(all amounts in thousands of HRK)*

## 34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

***Credit risk management (continued)***

*Credit quality of financial assets*

The credit quality of undue or not impaired financial assets may be assessed by referring to external credit rating (if available) or historical information on the credit quality of the other contracting party. The historical data may be divided into the following groups:

Group 1 – new partners / subsidiaries (less than 6 months)

Group 2 – existing partners (over 6 months) with no past payment delays

Group 3 – existing partners (over 6 months) with slight past payment delays. All delays have been fully paid.

| | **31/12/2020** | **31/12/2019** |
|---|---|---|
| BB - government bonds and treasury bills | 221,986 | 256,244 |
| Group 1 - corporate bonds | 43,414 | 68,997 |
| Group 1 - corporate records | - | - |
| Group 2 - investment funds | 7,966 | 7,837 |
| **Total securities available for sale** | **273,366** | **333,078** |
| Group 2 | 719,569 | 643,713 |
| Group 3 | 1,139 | 214,430 |
| **Total loans and receivables** | **720,708** | **858,143** |
| Group 2 | 10,523 | 7,866 |
| **Total guarantee deposits under lease agreements** | **10,523** | **7,866** |
| Group 2 | 147,274 | 31,688 |
| **Total deposits in banks** | **147,274** | **31,688** |
| Group 1 | 22,714 | 198,754 |
| Group 2 | 375,323 | 176,332 |
| Group 3 | 7,030 | 7,264 |
| **Total claims on premiums** | **405,067** | **382,350** |
| Group 2 | 59,156 | 45,460 |
| **Total cash and cash equivalents** | **59,156** | **45,460** |

**34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Liquidity risk**

The Management Board is responsible for risk management and has set a high-quality framework for management of liquidity risk for short, medium and long positions of the Company and defined the requisites which refer to liquidity management. The Company manages its liquidity by maintaining adequate provisions, which it calculates pursuant to the Insurance Act (Note 3) in order to cover its potential claims liabilities. Furthermore, the Company has significant amounts of short-term loans which ensure the Company has sufficient funds in the short and long term. The actuarial calculation of technical provisions is done on a quarterly basis, in order to ensure the existence of sufficient amounts of provisions. The Company also needs to ensure additional investment funds in order to cover its provisions pursuant to the Insurance Act. On 31 December 2020 and 31 December 2019, the Company was operating pursuant to those requirements.

*(all amounts in thousands of HRK)*

## 34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*Remaining contractual maturity of assets and liabilities*

| 2020 | Less than 1 year | From 1 to 5 years | From 5 to 10 years | From 10 to 15 years | From 15 to 20 years | More than 20 years | Total |
|---|---|---|---|---|---|---|---|
| Securities available for sale | 146,213 | 626,687 | 58,541 | 5,216 | - | - | 836,657 |
| Loans and receivables | 57,098 | 194,649 | 162,901 | 218,116 | 87,944 | - | 720,708 |
| Guarantee deposit under lease agreements | 4,411 | 6,112 | - | - | - | - | 10,523 |
| Deposits in banks | 111,302 | 29,186 | 6,786 | - | - | - | 147,274 |
| Premium receivables | 405,067 | - | - | - | - | - | 405,067 |
| Share of reinsurance in technical provisions | 15,571 | 4,349 | 1,418 | 771 | 493 | 5,665 | 28,267 |
| Credit card and check receivables | 40,019 | - | - | - | - | - | 40,019 |
| Other receivables | 102,053 | 100,660 | 2,419 | - | - | - | 205,132 |
| Money in the account and in the cash register | 59,156 | - | - | - | - | - | 59,156 |
| | **940,890** | **961,643** | **232,065** | **224,105** | **88,436** | **5,665** | **2,452,803** |
| | | | | | | | |
| Technical provisions | 974,191 | 291,878 | 159,449 | 92,640 | 60,784 | 50,193 | 1,629,135 |
| Deferred tax liability | 80,346 | - | - | - | - | - | 80,346 |
| Loans and receivables | 110,134 | 57,243 | 9,475 | 14,350 | - | - | 191,202 |
| Lease obligation | 12,254 | 21,376 | 11,194 | - | - | - | 44,824 |
| Liabilities from direct insurance business | 37,909 | - | - | - | - | - | 37,909 |
| Liabilities from reinsurance business | 6,994 | - | - | - | - | - | 6,994 |
| Other liabilities | 215,614 | - | - | - | - | - | 215,614 |
| | **1,437,442** | **370,497** | **180,118** | **106,990** | **60,784** | **50,193** | **2,206,024** |

*(all amounts in thousands of HRK)*

## 34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*Remaining contractual maturity of assets and liabilities*

| 2019 | Less than 1 year | From 1 to 5 years | From 5 to 10 years | From 10 to 15 years | From 15 to 20 years | More than 20 years | Total |
|---|---|---|---|---|---|---|---|
| Securities available for sale | 557,065 | 211,148 | 77,753 | 252 | - | - | 846,218 |
| Loans and receivables | 57,913 | 330,708 | 138,195 | 237,397 | 93,930 | - | 858,143 |
| Guarantee deposit under lease agreements | 7,865 | - | - | - | - | - | 7,865 |
| Deposits in banks | 19,197 | 12,491 | - | - | - | - | 31,688 |
| Premium receivables | 382,350 | | | | | - | 382,350 |
| Share of reinsurance in technical provisions | 16,603 | 2,972 | 1,235 | 631 | 406 | 288 | 22,134 |
| Credit card and check receivables | 40,944 | | | | | - | 40,944 |
| Other receivables | 78,303 | | | | | - | 78,303 |
| Money in the account and in the cash register | 45,460 | | | | | - | 45,460 |
| | **1,205,700** | **557,318** | **217,183** | **238,281** | **94,335** | **288** | **2,313,105** |
| Technical provisions | 938,036 | 282,654 | 162,166 | 89,749 | 57,731 | 54,051 | 1,584,386 |
| Deferred tax liability | 72,830 | - | - | - | - | - | 72,830 |
| Loans and receivables | 12,228 | 141,193 | - | 33,366 | - | - | 186,787 |
| | 10,942 | 20,404 | - | - | - | - | 31,346 |
| Liabilities from direct insurance business | 33,634 | - | - | - | - | - | 33,634 |
| Liabilities from reinsurance business | 9,097 | - | - | - | - | - | 9,097 |
| Other liabilities | 218,440 | - | - | - | - | - | 218,440 |
| | **1,295,207** | **444,251** | **162,166** | **123,115** | **57,731** | **54,051** | **2,136,520** |

**34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Fair value of financial instruments**

The fair value of financial instruments is determined based on prices of securities quoted in the market (Note 18) or comparative valuation methods (Note 18) if relevant and reliable market prices are not available. The assumption used when determining the fair value is explained in Note 4. The Management Board believes that the Company's assets and liabilities carried at amortised cost reflect the fair value of these securities.

The following table provides an analysis of financial instruments which have been stated at fair value after their first recognition and classified into three groups depending on the availability of fair value indicators:

- Indicator level 1 – fair value indicators have been derived from (unaligned) prices quoted in active markets for identical assets and liabilities;
- Indicator level 2 – fair value indicators have been derived from other assets and liabilities data which are not quoted Level 1 prices and are obtained directly (i.e. from their prices) or indirectly (i.e. derived from their prices); and
- Indicator level 3 – indicators established through the application of valuation methods whose input is asset or liabilities data which is not based on available market data (unavailable input).

*(all amounts in thousands of HRK)*

**34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Fair value of financial instruments (continued)**

| **31/12/2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Equity securities | 53 | - | 563,238 | 563,291 |
| Bonds | 221,986 | - | 43,414 | 265,400 |
| Investment funds | 7,966 | - | - | 7,966 |
| **Total securities available for sale** | **230,005** | **-** | **606,652** | **836,657** |

| **31/12/2019** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Equity securities | 824 | - | 401,529 | 402,353 |
| Bonds | 256,248 | - | 68,993 | 325,241 |
| Investment funds | 7,837 | - | - | 7,837 |
| **Total securities available for sale** | **264,909** | **-** | **470,522** | **735,431** |

There was no reclassification between levels during the period.

Valuation of equity securities that are not actively traded in markets used valuation models and techniques primarily based on market inputs based on market method concepts where peer groups were used to calculate multipliers.

The estimated values of the companies, ie their shares, thus represent the fair value under the assumption of continuous (going concern) business, ie by comparison with companies of similar business activities through the observation of beta coefficients.

In 2020, the PEER method of comparable companies and DDM was used for part of the valuations. The method of valuation according to the value of a group of comparable companies is carried out by selecting comparable companies grouped according to multiple criteria - activity, geographical area in which they operate, size and the like. These methods have been used because we believe that they best reflect the fair value of these companies. Equity securities valued by this method have a total value of HRK 351,174 thousand.

The Company's management believes that the estimated values of the companies represent their fair and objective values.

*(all amounts in thousands of HRK)*

**34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Fair value of financial instruments (continued)**

The following is fair value information that uses significant parameters that are not available in the market:

| Description | Fair value 2020 | Assessment method | Relevant parameters not available on the market | Relevant parameter scope | Relationship of relevant parameters to fair value |
|---|---|---|---|---|---|
| Equity securities | 351,174 | Method of comparable companies | *Non-liquidity discount* | 10.9% | *The higher the parameter, the lower the fair value* |
| | | | *Discount rate* | 7.67%-9.66% | *The higher the parameter, the lower the fair value* |
| | | | *Residual growth rate* | 1.04% | *The higher the parameter, the lower the fair value* |
| | | | *Beta* | 1.00-1.30 | *The higher the parameter, the lower the fair value* |

| Description | Fair value 2019 | Assessment method | Relevant parameters not available on the market | Relevant parameter scope | Relationship of relevant parameters to fair value |
|---|---|---|---|---|---|
| Equity securities | 301,396 | Method of comparable companies | *Non-liquidity discount* | 10.9% | *The higher the parameter, the lower the fair value* |
| | | | *Discount rate* | 6.95%-9.29% | *The higher the parameter, the lower the fair value* |
| | | | *Residual growth rate* | 1.20% | *The higher the parameter, the lower the fair value* |
| | | | *Beta* | 0.86-1.21 | *The higher the parameter, the lower the fair value* |

## 35. INSURANCE RISK MANAGEMENT

The Company is exposed to actuarial risk and underwriting risk which derive from a vast offer of products of all types of non-life insurance (Motor Vehicle Insurance, Accident Insurance, Property insurance, Liability Insurance, Vessel Insurance, Aircraft Insurance, and Transport Insurance).

Insurance risk refers to insurance uncertainty. The most relevant insurance risk components are premium risk and provision risk. They refer to the adequacy of premium tariffs and adequacy of provisions in relation to insurance liabilities and the capital basis.

The premium risk is present in the moment of the policy issuance before the claim is incurred. There is a risk that the costs and claims incurred exceed the received premiums. The provision risk is the risk of mis-estimation of the absolute level of technical provisions or risk of the value of real claims varying around the statistical medium value.

The underwriting risk also entails the disaster risk, which derives from outstanding events which have not been sufficiently covered by the premium risk or the provision risk.

### Risk Management

The Company manages the insurance risk through underwriting limits, transaction approval procedures which entail new products or exceed the set limits, tariffing, product design and reinsurance management.

The aim of the underwriting strategy is to achieve a variety which will ensure a balanced portfolio, based on a large portfolio of similar risks during several years, which will lead to a decrease in result variability. Considering the nature of non-life insurance, the underwriters have the right to refuse a contract extension or change the contract conditions upon its renewal.

The Company reinsures a part of the risk it underwrites in order to control the exposure to losses and protect the capital basis. The Company purchases a proportional property insurance contract (property surplus treaty) and disproportionate XL Green Card and earthquake reinsurance contracts (Green Card reinsurance and CAT XL reinsurance).

The ceded reinsurance contains a credit risk and such insurance receivables are stated after the impairment of non-recoverable amounts. The Company monitors the reinsurer’s financial situation and cautiously enters into reinsurance contracts. The Company controls and limits the relevant risk by selecting and maintaining the best possible business relations with European reinsurers of high credit rating. The Company decreases this risk by dispersing the reinsurance coverage on several partners. This brings the reinsurer’s credit risk to the minimum.

*(all amounts in thousands of HRK)*

## 35. INSURANCE RISK MANAGEMENT (CONTINUED)

### Insurance Concentration Risk

The key aspect of the reinsurance risk the Company is exposed to is the level of the insurance concentration risk which sets the level by which a certain event or a series of events may affect the Company's liabilities. Such concentration may derive from an individual insurance contract or multiple contracts. An important aspect of insurance concentration risk is that it may derive from the accumulation of risk through different types of insurance.

Concentration risk may derive from rare events with great consequences such as natural disasters, in situations when the Company is exposed to unexpected trend changes; for example, when significant court or regulatory risks provoke great individual losses or substantially impact a great number of contracts.

Risks the Company underwrites are primarily located in the Republic of Croatia.

The Company has no significant concentration exposures to any group of policy holders according to social, professional, generational and similar criteria.

Significant losses are most likely to arise from disastrous events, such as storms or earthquake damages. Techniques and presumptions the Company uses to calculate these risks entail:

- geographical accumulation measurements,
- assessment of the largest potential losses,
- reinsurance of excess earthquake claims.

Insurance concentration risk before and after reinsurance in relation to the type of accepted insurance risk is shown below with reference to the carrying amount of fees and claims (gross and net of reinsurance) incurred based on the insurance contract:

For the year ended 31 December 2020

**GROUP AND COMPANY**

| | **Gross incurred claims** | **Reinsurance share** | **Net incurred claims** |
|---|---|---|---|
| Motor Third Party Liability Insurance | (343,681) | - | (343,681) |
| Road Vehicle Insurance (Casco) | (159,677) | 12 | (159,665) |
| Assets | (47,101) | 1,641 | (45,460) |
| Personal Insurance | (9,920) | - | (9,920) |
| Other | (19,819) | 203 | (19,616) |
| **Total** | **(580,198)** | **1,856** | **(578,324)** |

*(all amounts in thousands of HRK)*

## 35. INSURANCE RISK MANAGEMENT (CONTINUED)

### Insurance risk concentration (continued)

For the year ended 31 December 2019

**GROUP AND COMPANY**

| | **Gross incurred claims** | **Reinsurance share** | **Net incurred claims** |
|---|---|---|---|
| Motor Third Party Liability Insurance | (357,469) | - | (357,469) |
| Road Vehicle Insurance (Casco) | (170,348) | 102 | (170,246) |
| Assets | (27,588) | 981 | (26,607) |
| Personal Insurance | (9,297) | - | (9,297) |
| Other | (22,336) | 852 | (21,484) |
| **Total** | **(587,038)** | **1,935** | **(585,103)** |

### Claims development

When estimating provisions for claims outstanding, to the extent in which calculation methods use the historical claims development, it is presumed that the historical claims development will recur. In case of “long-tail” claims, the claims provisions level greatly depends claims development estimate since the last year of development for which historical data exist until the final settlement. The remaining claims development factors are estimated prudently by using mathematical methods which project the observed growth factors or are based on the actuarial judgements.

For materially relevant types in the Company’s portfolio, as well as types of insurance with long-tail claims, a run-off analysis which was carried out on 31 December 2020 with regard to liquidations during 2020 and claims provisions on 31 December 2020 for claims incurred before 31 December 2020 showed that the amount of gross claims provision was sufficient.

*(all amounts in thousands of HRK)*

**35. INSURANCE RISK MANAGEMENT (CONTINUED)**

**Claims development**

Analysis of provisions of claims outstanding trends:

| | **Before 2014** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| **Estimates of accumulated claims at the end of year they incurred in** | - | 232,426 | 233,017 | 233,580 | 234,116 | 355,090 | 410,624 | 415,646 | - |
| 1 year later | - | 226,953 | 227,498 | 228,017 | 229,279 | 232,691 | 254,656 | - | - |
| 2 years later | - | 191,370 | 191,815 | 192,239 | 212,778 | 226,092 | - | - | - |
| 3 years later | - | 188,347 | 188,785 | 183,929 | 206,913 | - | - | - | - |
| 4 years later | - | 176,442 | 180,698 | 180,740 | - | - | - | - | - |
| 5 years later | - | 168,935 | 179,035 | - | - | - | - | - | - |
| 6 years later | - | 166,361 | - | - | - | - | - | - | - |
| **Assessment of accumulated claims** | **-** | **166,361** | **179,035** | **180,740** | **206,913** | **226,092** | **254,656** | **415,646** | **1,629,443** |
| Accumulated payments | - | 142,736 | 148,579 | 146,704 | 161,912 | 166,426 | 169,859 | 102,937 | **1,039,153** |
| Provisions for previous years | 289,415 | - | - | - | - | - | - | - | **289,415** |
| Claims handling costs | 8,956 | 731 | 942 | 1,053 | 1,393 | 1,846 | 2,624 | 9,677 | **27,222** |
| **Value recognised in the statement of financial position of the current year** | **298,370** | **29,305** | **37,255** | **42,526** | **58,557** | **81,415** | **309,632** | **322,386** | **906,926** |

**35. INSURANCE RISK MANAGEMENT (CONTINUED)**

***Main presumptions which have the greatest effect on the insurance estimates uncertainty***

The main source of insurance uncertainty derives from the uncertainty of occurrence of harmful events and uncertainty connected to their amounts.

*Insurance amount*

Considering the fact that there is no product which guarantees an unlimited guarantee when it comes to non-life insurance, the maximum amount the insured person may be liable for per individual policy if a harmful event occurs is always limited to the contracted insurance amount. The exception is the Motor Vehicle Liability Insurance in countries with an established Green Card system with an unlimited cover. The Company transfers this risk through reinsuring the claims surplus over 1 million EUR.

*Provisions of claims outstanding*

The provisions for the estimated final settlement cost of all claims incurred by the reporting date, resulting from a reported or unreported event, together with the relevant claims handling costs, less the amounts already paid.

Reported but not settled (RBNS) claims liability is estimated for every claim individually, considering the claims circumstances, available evaluators' information and historical proof of similar claims amounts. Individual claims are reviewed regulatory and the provision is regularly updated when new information appear.

Incurred But Not Reported (IBNR) claims estimates are, in general, subject to a greater level of uncertainty than the provisions for claims reported. IBNR provisions are estimated by an authorised actuary using statistical and actuarial methods such as the Chain-Ladder Method (CLM), which extrapolates historical data in order to estimate the final claims costs.

The Chain-Ladder Method (CLM) is an essential method, which uses historical data in order to estimate the share of so-far incurred and unreported claims in the final cost of claims.

The real flat rate or actuarial method or a combination of methods used depends on the year the relevant claim incurred, type of insurance and the noted historical development of claims.

Considering the extent in which calculation methods use the historical claims development, it is presumed that the historical sample of claims development will recur. There are reasons why this may not be the case, which can be established and considered by method adjustment. These reasons entail:

- economic, legal, political and social trends (which cause different levels of inflation in relation to the expected inflation level);
- changes in the combination of insurance contracts type which are being underwritten;
- random variations, including the influence of great claims.

Provisions for claims outstanding are initially estimated in gross amounts and a special calculation is performed in order to estimate the reinsurance share.

## 35. INSURANCE RISK MANAGEMENT (CONTINUED)

***Main presumptions which have the greatest effect on the insurance estimates uncertainty (continued)***

The presumptions which have the greatest effect on the evaluation of non-life insurance provisions amounts are the following:

*Remaining claims development factors*

In case of “long-tail” claims, the claims provisions level greatly depends on claims development estimate since the last year of development for which historical data exist until the final settlement. The remaining claims development factors are estimated prudently by using mathematical curve methods which project the observed growth factors or are based on the actuarial judgements.

*Discounting*

Except for annuity claims, non-life insurance provisions are not discounted.

Provision for annuity liabilities from Motor Third Party Liability Insurance was set with actuarial methods pursuant to the Mortality tables of the Republic of Croatia for the period 2010-2012, for males and females separately, discounted by a 2.6% annual rate, with an assumed 1.5% increase in annuity amount. With the above assumptions, the discount rate finally applied is 1.08%.

*Liability adequacy test*

The liability adequacy test is limited to the non-expired part of the existing insurance contracts. The expected value of claims and costs which can be attributed to non-expired contracts valid on the reporting date is compared to the unearned premiums for those policies (unearned premiums). The expected amounts connected to claims and costs are estimated based on the experience form the previous period and, where applicable, adjusted for significant individual losses which are not expected to recur. The liability adequacy test indicated the sufficiency of unearned premiums on 31 December 2020.

*(all amounts in thousands of HRK)*

## 36. RELATED PARTY TRANSACTIONS

Related parties are parties able to control the other party or parties which significantly affect the other party when making financial or business decisions. Transactions and outstanding balances among related parties within a group are published in the subject's financial statement.

The fees paid to key managers:

**GROUP AND COMPANY**

| | 2020 | 2019 |
|---|---|---|
| Payments and compensations | 3,436 | 2,977 |

In accordance with the definition in IAS-24 Related Party Disclosures and IFRS-10 Consolidated Financial Statements, the Group consists of the parent and its subsidiaries. Since there is no parent company, the Company cannot disclose the name of the parent company or the ultimate entity that has control over the Company, ie there are no transactions that could be considered intragroup transactions in accordance with the requirements of IFRS.

Independent of IFRS, the Croatian Financial Services Supervisory Agency, by Decision CLASS: UP / I 974-08 / 17-01 / 07 REGISTRATION NUMBER: 326-01-660-662-17-47 of 15 December 2017, qualified the Company as a participating company in a "group of companies within the meaning of the provisions of the Insurance Act". By the decision of the Administrative Court Usl-162 / 18-25 of 4 January 2021, the Company was obliged to report separately to the Agency in terms of meeting the solvency requirements in accordance with the Insurance Act and Directive 2009/138 / EC of the European Parliament and of the Council (Solvency II) , which the Company duly fulfills. An administrative dispute is being conducted against the Decision at the High Administrative Court of the Republic of Croatia.

Although stated without prejudice to the presentation of financial statements prepared in accordance with IFRS, for reasons of transparency, the following is an overview of assets, receivables, liabilities, income and expenses in relations with entities in accordance with the Decision of the Agency:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Income** | **Expenses** | **Income** | **Expenses** |
| Other related companies | 138.758 | 146.702 | 137.062 | 142.585 |
| **Other related companies** | **138.758** | **146.702** | **137.062** | **142.585** |

| | 31/12/2020 | | 31/12/2019 | |
|---|---|---|---|---|
| | **Receivables** | **Liabilities** | **Receivables** | **Liabilities** |
| Other related companies | 784.850 | 74.171 | 719.225 | 78.717 |
| **Other related companies** | **784.850** | **74.171** | **719.225** | **78.717** |

As at 31 December 2020, shares in associates amounted to HRK 547,944 thousand (2019: HRK 497,720 thousand).

*(all amounts in thousands of HRK)*

## 36. RELATED PARTY TRANSACTIONS (CONTINUED)

| Company | 31/12/2020 | | | |
|---|---|---|---|---|
| | Receivables | Liabilities | Income | Expenses |
| Euroagram TIS d.o.o. | 354.131 | 561 | 37.118 | 59.036 |
| Euro daus d.d. | 228.094 | 13 | 19.942 | 11.508 |
| Agram banka Zagreb d.d. | 94.937 | 40.125 | 5.806 | 5.251 |
| Euroleasing d.o.o. | 72.197 | 1.072 | 7.486 | 14.040 |
| Automehanika servisi d.d. | 10.696 | 0 | 797 | 2.041 |
| Auto-Dubrovnik d.d. | 9.906 | 9 | 611 | 828 |
| Autoservisni centar d.d. | 6.646 | 0 | 419 | 526 |
| Agram nekretnine d.d. Mostar | 2.205 | 0 | 1.807 | 0 |
| Autoslavonija d.d. | 1.853 | 54 | 792 | 791 |
| Strukturiranja d.o.o. Zagreb | 1.500 | 18 | 34 | 202 |
| Agram Yachting d.o.o. | 1.366 | 0 | 995 | 1.102 |
| Specijalna bolnica Zagreb | 758 | 0 | 7.366 | 81 |
| Agram life d.d. | 233 | 24.150 | 24.830 | 19.069 |
| Autocentar Vrbovec d.o.o. | 197 | 1 | 893 | 679 |
| Agram Invest d.o.o. Mostar | 130 | 0 | 0 | 0 |
| Adriatic osiguranje d.d. Zagreb | 3 | 4.274 | 25.868 | 23.098 |
| Agram brokeri d.d. | 2 | 12 | 13 | 350 |
| MTT d.o.o. Rijeka | 0 | 0 | 1.033 | 127 |
| AGRAM d.d. Ljubuški | 0 | 0 | 150 | 0 |
| Adriatic osiguranje d.d. Sarajevo | 0 | 774 | 2.664 | 0 |
| EUROHERC osiguranje d.d. Sarajevo | 0 | 2.896 | 0 | 7.973 |
| Agram invest d.d. | -4 | 212 | 134 | 0 |
| **TOTAL** | **784.850** | **74.171** | **138.758** | **146.702** |

*(all amounts in thousands of HRK)*

### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

| Company | 31/12/2019 | | | |
|---|---|---|---|---|
| | Receivables | Liabilities | Income | Expenses |
| Euroagram TIS d.o.o. | 366.403 | 22 | 35.852 | 44.259 |
| Euro daus d.d. | 234.474 | 1 | 19.250 | 10.277 |
| Agram banka Zagreb d.d. | 60.378 | 40.174 | 8.108 | 9.132 |
| Euroleasing d.o.o. | 16.250 | 10 | 7.279 | 11.498 |
| Auto -Dubrovnik d.d. | 13.906 | 87 | 794 | 805 |
| Automehanika servisi d.d. | 13.317 | 1 | 822 | 1.109 |
| Autoservisni centar d.d. | 7.756 | - | 810 | 497 |
| Autoslavonija d.d. | 2.205 | 53 | 814 | 793 |
| Strukturiranja d.o.o. Zagreb | 1.500 | 38 | 146 | 225 |
| Agram life d.d. | 1.302 | 23.848 | 27.711 | 17.536 |
| Agram nekretnine d.d. Mostar | 642 | - | 78 | - |
| MTT d.o.o. Rijeka | 511 | - | 1.042 | 125 |
| Agram invest d.d. | 251 | 350 | 551 | - |
| Agram Yachting d.o.o. | 177 | - | 1.012 | 1.940 |
| Agram Invest d.o.o. Mostar | 130 | - | 140 | - |
| Specijalna bolnica Zagreb | 13 | - | 6.349 | 10 |
| Adriatic osiguranje d.d. Zagreb | 8 | 8.585 | 24.819 | 33.626 |
| Agram brokeri d.d. | 2 | 8 | 15 | 316 |
| AGRAM d.d. Ljubuški | 0 | - | 1.470 | - |
| Adriatic osiguranje d.d. Sarajevo | 0 | 1.363 | 0 | 2.622 |
| EUROHERC osiguranje d.d. Sarajevo | 0 | 4.177 | 0 | 7.815 |
| **TOTAL** | **719.225** | **78.717** | **137.062** | **142.585** |

### 37. CONTINGENT LIABILITIES

There are several pending legal disputes against the Group and the Company, with legal claims for which the Group, on 31 December 2020, has reserved assets in the total amount of 2,300 thousand HRK.

### 38. OFF-BALANCE SHEET RECORDS

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Guarantees received | 4,675 | - |
| Guarantees given | 114,333 | 131,663 |
| | **119,008** | **131,663** |

### 39. EVENTS AFTER THE REPORTING PERIOD

After 31 December 2020, no additional business events or transactions occurred that would have a material impact on the financial statements on or for the period then ended.

### 39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 31 March 2021. Signed on behalf of and for the Management Board:

**Željko Kordić,** *President of the Management Board Board*

**Tomislav Čizmić,** *Member of the Management*

**Darinko Ivković,** *Member of the Management Board Board*

**Vjeran Zadro,** *Member of the Management*

## Statement of Comprehensive Income

**STATEMENT OF THE OTHER COMPREHENSIVE INCOME (PROFIT AND LOSS ACCOUNT) FOR THE PERIOD 01/01/2020-31/12/2020**

*in HRK*

| No. | Sum elements | Position | Position description | Previous year | | | Current year | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Life | Non-life | Total | Life | Non-life | Total |
| **001** | 002+003+004+005+006 | **I** | **Earned premium** | | **1,174,703,264** | **1,174,703,264** | | **1,266,876,590** | **1,266,876,590** |
| 002 | | 1 | Written gross premium | | 1,278,988,609 | 1,278,988,609 | | 1,341,591,231 | 1,341,591,231 |
| 003 | | 2 | Value adjustment and paid premium value adjustment | | -3,589,572 | -3,589,572 | | -8,982,781 | -8,982,781 |
| 004 | | 3 | Outward reinsurance (-) | | -29,306,784 | -29,306,784 | | -34,519,454 | -34,519,454 |
| 005 | | 4 | Changes in gross unearned premium provisions (+/-) | | -71,872,176 | -71,872,176 | | -31,415,445 | -31,415,445 |
| 006 | | 5 | Changes in unearned premium provisions, reinsurer's share (+/-) | | 483,188 | 483,188 | | 203,039 | 203,039 |
| **007** | 008+009+010+011+012+013+014 | **II** | **Investment income** | | **128,596,439** | **128,596,439** | | **102,210,182** | **102,210,182** |
| 008 | | 1 | Income from subsidiaries, associates and joint ventures | | | | | | |
| 009 | | 2 | Income from investment in land and buildings | | 60,636,042 | 60,636,042 | | 43,036,387 | 43,036,387 |
| 010 | | 3 | Interest income | | 44,830,132 | 44,830,132 | | 45,195,631 | 45,195,631 |
| 011 | | 4 | Unrealised investmnet gains | | | | | | |
| 012 | | 5 | Realised investment gains | | 10,280,016 | 10,280,016 | | 964,254 | 964,254 |
| 013 | | 6 | Net positive exchange rate diferences | | 1,473,400 | 1,473,400 | | 2,051,358 | 2,051,358 |
| 014 | | 7 | Other investment income | | 11,376,849 | 11,376,849 | | 10,962,550 | 10,962,550 |
| **015** | | **III** | **Income from fees and commissions** | | **2,348,233** | **2,348,233** | | **3,217,653** | **3,217,653** |
| **016** | | **IV** | **Other insurance-tehnical income, net of reinsurance** | | **27,798,181** | **27,798,181** | | **29,652,309** | **29,652,309** |
| **017** | | **V** | **Other income** | | **19,651,138** | **19,651,138** | | **17,653,848** | **17,653,848** |
| **018** | 019+022 | **VI** | **Claims incurred, net** | | **-530,241,182** | **-530,241,182** | | **-588,241,898** | **-588,241,898** |
| **019** | 020+021 | 1 | Liquidated claims | | -585,102,800 | -585,102,800 | | -578,342,051 | -578,342,051 |
| 020 | | 1.1 | Gross amount (-) | | -587,037,661 | -587,037,661 | | -580,197,596 | -580,197,596 |
| 021 | | 1.2 | Reinsurance share(+) | | 1,934,861 | 1,934,861 | | 1,855,545 | 1,855,545 |
| **022** | 023+024 | 2 | Changes in claims outstanding (+/-) | | 54,861,618 | 54,861,618 | | -9,899,847 | -9,899,847 |
| 023 | | 2.1 | Gross amount (-) | | 53,949,871 | 53,949,871 | | -15,829,864 | -15,829,864 |
| 024 | | 2.2 | Reinsurance share (+) | | 911,747 | 911,747 | | 5,930,017 | 5,930,017 |
| **025** | 026+029 | **VII** | **Changes in mathematical and other tehnical provisions, net of reinsurance** | | **2,253,510** | **2,253,510** | | | |
| **026** | 027+028 | 1 | Changes in mathematical provision (+/-) | | | | | | |
| 027 | | 1.1 | Gross amount (-) | | | | | | |
| 028 | | 1.2 | Reinsurance share (+) | | | | | | |
| **029** | 030+031 | 2 | Changes in other tehnical provisions for claims outstanding, net of reinsurance (+/-) | | 2,253,510 | 2,253,510 | | | |
| 030 | | 1.1 | Gross amount (-) | | 2,253,510 | 2,253,510 | | | |
| 031 | | 1.3 | reinsurance share (+) | | | | | | |
| **032** | 033+034 | **VIII** | **Changes in provisions for special life insurance for which the insured person bears the investment risk** | | | | | | |
| 033 | | 1 | Gross amount (-) | | | | | | |
| 034 | | 2 | Reinsurance share (+) | | | | | | |
| **035** | 036+037 | **IX** | **Return of premium (bonuses and rebates) expenses, net of reinsurance** | | **3,573,503** | **3,573,503** | | **2,496,306** | **2,496,306** |
| 036 | | 1 | Result-related (bonuses) | | 3,573,503 | 3,573,503 | | 2,496,306 | 2,496,306 |
| 037 | | 2 | Result-.unrelated (bonuses) | | | | | | |
| **038** | 039+043 | **X** | **Operating expenses (activity performance expenses), net** | | **-529,796,793** | **-529,796,793** | | **-539,368,946** | **-539,368,946** |
| **039** | 040+041+042 | 1 | Acquisition cost | | -333,392,576 | -333,392,576 | | -343,633,749 | -343,633,749 |
| 040 | | 1.1 | Commission | | -37,239,902 | -37,239,902 | | -45,826,540 | -45,826,540 |
| 041 | | 1.2 | Other underwriting costs | | -296,152,674 | -296,152,674 | | -297,807,209 | -297,807,209 |
| 042 | | 1.3 | Changes in deffered aquisition costs (+/-) | | | | | | |
| **043** | 044+045+046 | 2 | Management costs ( administrative costs) | | -196,404,217 | -196,404,217 | | -195,735,197 | -195,735,197 |
| 044 | | 2.1 | Depreciation and amortisation | | -46,872,532 | -46,872,532 | | -48,216,304 | -48,216,304 |
| 045 | | 2.3. | Salaries, taxes and contributions from and on salaries | | -73,321,122 | -73,321,122 | | -73,640,141 | -73,640,141 |
| 046 | | 2.4. | Other management costs | | -76,210,563 | -76,210,563 | | -73,878,752 | -73,878,752 |

## Statement of comprehensive income (continued)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **047** | 048+049+050+051+052+053+054 | **XI** | **Investment costs** | | **-62,495,810** | **-62,495,810** | | **-59,720,052** | **-59,720,052** |
| 048 | | 1 | Depreciation of land and bulidings not used by the Company for its activities | | | | | | |
| 049 | | 2 | Interests | | -8,467,846 | -8,467,846 | | -5,293,110 | -5,293,110 |
| 050 | | 3 | Investment impairment | | -1,181,844 | -1,181,844 | | -1,566,547 | -1,566,547 |
| 051 | | 4 | Realised investment losses | | -1,155,751 | -1,155,751 | | -3,091,943 | -3,091,943 |
| 052 | | 5 | Unrealised investment losses | | | | | | |
| 053 | | 6 | Net negative exchange rate differences | | -1,109,964 | -1,109,964 | | -3,543,986 | -3,543,986 |
| 054 | | 7 | Other investment costs | | -50,580,405 | -50,580,405 | | -46,224,466 | -46,224,466 |
| **055** | 056+057 | **XII** | **Other tehnical costs, net of reinsurance** | | **-64,882,422** | **-64,882,422** | | **-69,659,526** | **-69,659,526** |
| 056 | | 1 | Prevention activities costs | | | | | | |
| 057 | | 2 | Other tehnical insurance costs | | -64,882,422 | -64,882,422 | | -69,659,526 | -69,659,526 |
| **058** | | **XIII** | **Other costs, including value adjustments** | | **-10,417,077** | **-10,417,077** | | **-14,281,764** | **-14,281,764** |
| **059** | 001+007+015+016+017+018+025+032+035+038+047+055+058 | **XIV** | **Profit or loss for the accounting period, before taxes (+/-)** | | **161,090,984** | **161,090,984** | | **150,834,703** | **150,834,703** |
| **060** | 061+062 | **XV** | **Income or tax loss** | | **-29,146,029** | **-29,146,029** | | **-26,892,443** | **-26,892,443** |
| 061 | | 1 | Current tax expense | | -31,146,500 | -31,146,500 | | -28,502,928 | -28,502,928 |
| 062 | | 2 | Defered tax expense (income) | | 2,000,471 | 2,000,471 | | 1,610,485 | 1,610,485 |
| **063** | 059+060 | **XVI** | **Profit or loss for the accounting period, after taxes (+/-)** | | **131,944,955** | **131,944,955** | | **123,942,260** | **123,942,260** |
| 064 | | 1 | Atributed to equity holders of the parent | | | | | | |
| 065 | | 2 | Atributed to the non-controlling interest | | | | | | |
| **066** | 001+007+015+016+017+062 | **XVII** | **TOTAL REVENUE** | | **1,355,097,726** | **1,355,097,726** | | **1,421,221,068** | **1,421,221,068** |
| **067** | 018+025+032+035+038+047+055+058+061 | **XVIII** | **TOTAL EXPENSES** | | **-1,223,152,771** | **-1,223,152,771** | | **-1,297,278,807** | **-1,297,278,807** |
| **068** | 069+070+071+072+073+074+075+076 | **XIX** | **Other comprehensive income** | | **31,999,377** | **31,999,377** | | **32,137,344** | **32,137,344** |
| 069 | | 1 | Gains/losses derived from the recalculation of foreign operation's financial statements | | | | | | |
| 070 | | 2 | Gains/losses derived from the revaluation of financial assets available for sale | | 10,896,101 | 10,896,101 | | 20,318,493 | 20,318,493 |
| 071 | | 3 | Gains/losses derived from the revaluation of land and buildings used by the Company for its activities | | 21,103,276 | 21,103,276 | | 11,818,851 | 11,818,851 |
| 072 | | 4 | Gains/losses derived from the revaluation of other tangible ( other than land and buildings) and intangible assets | | | | | | |
| 073 | | 5 | Effects of cash flows hedging instruments | | | | | | |
| 074 | | 6 | Actuarial gains/losses per pension plans with defined pensions | | | | | | |
| 075 | | 7 | Share in other comprehensive income and associated pensions | | | | | | |
| 076 | | 8 | Corporate income tax and other comprehensive income | | | | | | |
| **077** | 063+068 | **XX** | **Total comprehensive income** | | **163,944,332** | **163,944,332** | | **156,079,604** | **156,079,604** |
| 078 | | 1 | Attributed to equity holders to parent | | | | | | |
| 079 | | 2 | Attributed to non-controlling interest | | | | | | |
| **080** | | **XXI** | **Reclassification adjustments** | | | | | | |

## Statement of Financial Position

| STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) on the day 31 December 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | in HRK |
| No | Sum elements | Position | Position description | Previous year | | | Current year | | |
| | | | | Life | Non-Life | Total | Life | Non-Life | Total |
| 001 | 002+003 | I | INTANGIBLE ASSETS | | 82,196 | 82,196 | | 244,229 | 244,229 |
| 002 | | 1 | Goodwill | | | | | | |
| 003 | | 2 | Other intengible assets | | 82,196 | 82,196 | | 244,229 | 244,229 |
| 004 | 005+006+007 | II | TANGIBLE ASSETS | | 497,559,579 | 497,559,579 | | 512,351,284 | 512,351,284 |
| 005 | | 1 | Land and buildings used by the Company for tis activities | | 454,341,149 | 454,341,149 | | 470,464,216 | 470,464,216 |
| 006 | | 2 | Equipment | | 30,141,899 | 30,141,899 | | 30,918,092 | 30,918,092 |
| 007 | | 3 | Other tangible assets and inventories | | 13,076,531 | 13,076,531 | | 10,968,975 | 10,968,975 |
| 008 | 009+010+014+03 | III | ULAGANJA | | 2,615,765,669 | 2,615,765,669 | | 2,612,496,850 | 2,612,496,850 |
| 009 | | A | Investment in land and buildings not used by the Company for its | | 868,937,921 | 868,937,921 | | 898,776,994 | 898,776,994 |
| 010 | 011+012+013 | B | Investment in subsidiaries, associates and joint ventures | | | | | | |
| 011 | | 1 | Stocks and shares in subsidiaries | | | | | | |
| 012 | | 2 | Stocks and shares in associates | | | | | | |
| 013 | | 3 | Stocks and shares in joint ventures | | | | | | |
| 014 | 015+018+023+02 | C | Financial assets | | 1,746,827,747 | 1,746,827,747 | | 1,713,719,856 | 1,713,719,856 |
| 015 | 016+017 | 1 | Financial assets held to maturity | | | | | | |
| 016 | | 1.1 | Debt financial instruments | | | | | | |
| 017 | | 1.2 | Other | | | | | | |
| 018 | 019+020+021+02 | 2 | Financial assets available for sale | | 846,218,312 | 846,218,312 | | 836,657,952 | 836,657,952 |
| 019 | | 2.1 | Equity financial instruments | | 513,139,621 | 513,139,621 | | 563,291,386 | 563,291,386 |
| 020 | | 2.2 | Debt financial instruments | | 325,241,421 | 325,241,421 | | 265,400,271 | 265,400,271 |
| 021 | | 2.3 | Units in investment funds | | 7,837,269 | 7,837,269 | | 7,966,295 | 7,966,295 |
| 022 | | 2.4 | Other | | | | | | |
| 023 | 024+025+026+02 | 3 | Financial assets at fair value in the P/L | | | | | | |
| 024 | | 3.1 | Equity financial instruments | | | | | | |
| 025 | | 3.2 | Debt financial instruments | | | | | | |
| 026 | | 3.3 | Derivate financial instruments | | | | | | |
| 027 | | 3.4 | Units in investment funds | | | | | | |
| 028 | | 3.5 | Other | | | | | | |
| 029 | 030+031+032 | 4 | Loans and receivables | | 900,609,436 | 900,609,436 | | 877,061,903 | 877,061,903 |
| 030 | | 4.1 | Deposits with credit institutions | | 31,687,710 | 31,687,710 | | 147,273,790 | 147,273,790 |
| 031 | | 4.2 | Loans and receivables | | 868,921,726 | 868,921,726 | | 729,788,113 | 729,788,113 |
| 032 | | 4.3 | Other | | | | | | |
| 033 | | D | Deposit with the ceding company | | | | | | |
| 034 | | IV | INVESTMENT FOR THE ACCOUNT AND RISK OF THE | | | | | | |
| 035 | 036+037+038+03 | V | SHARE IN REINSURANCE IN TECHNICAL PROVISIONS | | 22,134,084 | 22,134,084 | | 28,267,140 | 28,267,140 |
| 036 | | 1 | Unearned premium provisions, reinsurance share | | 13,049,539 | 13,049,539 | | 13,252,578 | 13,252,578 |
| 037 | | 2 | Mathematical provisions, reinsurance share | | | | | | |
| 038 | | 3 | Provisions for claims outstanding, reinsurance share | | 9,084,545 | 9,084,545 | | 15,014,562 | 15,014,562 |
| 039 | | 4 | Provisions for bonuses and rebates, reinsurance share | | | | | | |
| 040 | | 5 | Equalisation provisions, reinsurance share | | | | | | |
| 041 | | 6 | Other technical provisions, reinsurance share | | | | | | |
| 042 | | 7 | Special provisions for life insurance for which the insured person | | | | | | |
| 043 | 044+045 | VI | DEFERRED AND CURRENT TAX ASSETS | | 9,027,165 | 9,027,165 | | 8,423,202 | 8,423,202 |
| 044 | | 1 | Deferred tax assets | | 9,027,165 | 9,027,165 | | 8,423,202 | 8,423,202 |
| 045 | | 2 | Current tax assets | | | | | | |
| 046 | 047+050+051 | VII | RECEIVABLES | | 468,545,199 | 468,545,199 | | 630,094,307 | 630,094,307 |
| 047 | 048+049 | 1 | Claims from insurance operations | | 382,349,702 | 382,349,702 | | 405,067,202 | 405,067,202 |
| 048 | | 1.1 | From insured person | | 382,349,702 | 382,349,702 | | 405,067,202 | 405,067,202 |
| 049 | | 1.2 | From agents, i.e. insurance intermediaries | | | | | | |
| 050 | | 2 | Claims for reinsurance operations | | | | | | |
| 051 | 052+053+054 | 3 | Other receivables | | 86,195,497 | 86,195,497 | | 225,027,104 | 225,027,104 |
| 052 | | 3.1 | Claims from other insurance operations | | 7,716,002 | 7,716,002 | | 4,305,803 | 4,305,803 |
| 053 | | 3.1 | Receivables for investment income | | | | | | |
| 054 | | 3.2 | Other receivables | | 78,479,495 | 78,479,495 | | 220,721,301 | 220,721,301 |
| 055 | 056+060+061 | VIII | OTHER ASSETS | | 86,377,260 | 86,377,260 | | 99,203,654 | 99,203,654 |
| 056 | 060+061+062 | 1 | Cash at bank and in hand | | 45,437,771 | 45,437,771 | | 59,185,603 | 59,185,603 |
| 057 | | 1.1 | Funds on business account | | 45,334,919 | 45,334,919 | | 58,818,736 | 58,818,736 |
| 058 | | 1.2 | Funds on account for assets covering mathematical provisions | | | | | | |
| 059 | | 1.3 | Cash in hand | | 102,852 | 102,852 | | 366,867 | 366,867 |
| 060 | | 2 | Non-current assets held for sale and discontinued operations | | | | | | |
| 061 | | 3 | Other | | 40,939,488 | 40,939,488 | | 40,018,051 | 40,018,051 |
| 062 | 063+064+065 | IX | PAID EXPENSES OF THE FUTURE PERIOD AND UNDUE | | 19,163,325 | 19,163,325 | | 69,695,523 | 69,695,523 |
| 063 | | 1 | Deferred interest and lease payments | | 15,110,742 | 15,110,742 | | 67,673,977 | 67,673,977 |
| 064 | | 2 | Deferred underwriting cost | | | | | | |
| 065 | | 3 | Other paid expenses of the future periods and undue income | | 4,052,583 | 4,052,583 | | 2,021,546 | 2,021,546 |
| 066 | 001+004+008 | X | TOTAL ASSETS | | 3,718,654,476 | 3,718,654,476 | | 3,960,776,188 | 3,960,776,188 |
| 067 | | XI | OFF-BALANCE SHEET ITEMS | | 131,663,190 | 131,663,190 | | 119,007,782 | 119,007,782 |

## Statement of Financial Position (continued)

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) on the day 31 December 2020

EQUITY AND LIABILITIES *in HRK*

| No | Sum elements | Position | Position description | Previous year | | | Current year | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Life | Non-life | Total | Life | Non-life | Total |
| 068 | 069+072+073+077+081+084 | XII | EQUITY AND RESERVES | | 1,562,327,689 | 1,562,327,689 | | 1,727,848,409 | 1,727,848,409 |
| 069 | 070+071 | 1 | Share capital | | 61,002,000 | 61,002,000 | | 61,002,000 | 61,002,000 |
| 070 | | 1.1 | *Paid-in capital - ordinary shares* | | 61,002,000 | 61,002,000 | | 61,002,000 | 61,002,000 |
| 071 | | 1.2 | *Paid-in capital - preferred shares* | | | | | | |
| 072 | | 2 | Premiums on issued shares (capital reserves) | | | | | | |
| 073 | 074+075+076 | 3 | Reveluation reserves | | 365,809,309 | 365,809,309 | | 397,946,652 | 397,946,652 |
| 074 | | 3.1 | *Land and buildings* | | 329,516,415 | 329,516,415 | | 341,335,266 | 341,335,266 |
| 075 | | 3.2 | *Financial assets available for sale* | | 36,292,894 | 36,292,894 | | 56,611,386 | 56,611,386 |
| 076 | | 3.3 | *Other revalutaion reserves* | | | | | | |
| 077 | 078+079+080 | 4 | Reserves | | 172,585,302 | 172,585,302 | | 172,585,302 | 172,585,302 |
| 078 | | 4.1 | *Legal reserves* | | 133,541,827 | 133,541,827 | | 133,541,827 | 133,541,827 |
| 079 | | 4.2 | *Statutary reserves* | | 39,043,475 | 39,043,475 | | 39,043,475 | 39,043,475 |
| 080 | | 4.3. | *Other reserves* | | | | | | |
| 081 | 082+083 | 5 | Retained earnings or loss carried forward | | 830,986,123 | 830,986,123 | | 972,372,195 | 972,372,195 |
| 082 | | 5.1 | *Retained earnings* | | 830,986,123 | 830,986,123 | | 972,372,195 | 972,372,195 |
| 083 | | 5.2 | *Transferred loss (-)* | | | | | | |
| 084 | 085+086 | 6 | Profit or loss for the current accounting period | | 131,944,955 | 131,944,955 | | 123,942,260 | 123,942,260 |
| 085 | | 6.1 | *Profit for the current accounting period* | | 131,944,955 | 131,944,955 | | 123,942,260 | 123,942,260 |
| 086 | | 6.2 | *Loss of the current accounting period (-)* | | | | | | |
| 087 | | XIII | SECOND LINE LIABILITIES (SUBORDINATE LIABILITIES) | | | | | | |
| 088 | | XIV | MINORITY INTEREST | | | | | | |
| 089 | 090+091+092+093+094+095 | XV | TECHNICAL RESERVES | | 1,584,386,072 | 1,584,386,072 | | 1,629,135,074 | 1,629,135,074 |
| 090 | | 1 | Unearned premium reserves, gross amount | | 688,642,856 | 688,642,856 | | 720,058,301 | 720,058,301 |
| 091 | | 2 | Mathematical reserves, gross amount | | | | | | |
| 092 | | 3 | Claims reserves, gross amount | | 891,096,351 | 891,096,351 | | 906,926,215 | 906,926,215 |
| 093 | | 4 | Reserves for bonuses and discounts, gross amount | | 4,646,865 | 4,646,865 | | 2,150,559 | 2,150,559 |
| 094 | | 5 | Provisions for claims fluctuations, gross amount | | | | | | |
| 095 | | 6 | Other technical provisions, gross amount | | | | | | |
| 096 | | XVI | SPECIAL LIFE INSURANCE RESERVES WITH WHICH THE INSURANCE CONTRACTOR BEARS INVESTMENT RISK, gross and | | | | | | |
| 097 | 098+099 | XVII | OTHER RESERVES | | 19,893,293 | 19,893,293 | | 18,208,782 | 18,208,782 |
| 098 | | 1 | Provisions for pensions and similar liabilities | | 19,893,293 | 19,893,293 | | 18,208,782 | 18,208,782 |
| 099 | | 2 | Other reserves | | | | | | |
| 100 | 101+102 | XVIII | DEFERRED AND CURRENT TAX LIABILITY | | 90,206,382 | 90,206,382 | | 91,344,398 | 91,344,398 |
| 101 | | 1 | Deferred tax liability | | 81,857,153 | 81,857,153 | | 88,769,442 | 88,769,442 |
| 102 | | 2 | Current tax liability | | 8,349,229 | 8,349,229 | | 2,574,956 | 2,574,956 |
| 103 | | XIX | DEPOSITS RETAINED FROM BUSINESS SUBMITTED TO REINSURANCE | | | | | | |
| 104 | 105+106+107 | XX | FINANCIAL LIABILITIES | | 218,132,918 | 218,132,918 | | 236,025,961 | 236,025,961 |
| 105 | | 1 | Loan liabilities | | 188,141,012 | 188,141,012 | | 192,032,009 | 192,032,009 |
| 106 | | 2 | Liabilities under issued financial instruments | | | | | | |
| 107 | | 3 | Other financial liabilities | | 29,991,906 | 29,991,906 | | 43,993,952 | 43,993,952 |
| 108 | 109+110+111+112 | XXI | OTHER LIABILITIES | | 235,428,838 | 235,428,838 | | 247,512,268 | 247,512,268 |
| 109 | | 1 | Liabilities arising from direct insurance business | | 33,633,578 | 33,633,578 | | 36,675,917 | 36,675,917 |
| 110 | | 2 | Liabilities arising from co-insurance and reinsurance business | | 9,097,493 | 9,097,493 | | 6,994,288 | 6,994,288 |
| 111 | | 3 | Liabilities for disposal and discontinued operations | | | | | | |
| 112 | | 4 | Other liabilities | | 192,697,767 | 192,697,767 | | 203,842,063 | 203,842,063 |
| 113 | 114+115 | XXII | DEFERRED PAYMENT OF EXPENSES AND INCOME | | 8,279,285 | 8,279,285 | | 10,701,295 | 10,701,295 |
| 114 | | 1 | Accrued reinsurance commission | | | | | | |
| 115 | | 2 | Other deferred payment of expenses and income | | 8,279,285 | 8,279,285 | | 10,701,295 | 10,701,295 |
| 116 | 068+087+088+089+096+097+100+103+104+108+113 | XXIII | TOTAL EQUITY AND LIABILITIES | | 3,718,654,476 | 3,718,654,476 | | 3,960,776,188 | 3,960,776,188 |
| 117 | | XXIV | OFF-BALANCE SHEET ITEMS | | 131,663,190 | 131,663,190 | | 119,007,782 | 119,007,782 |

## Statement of Cash Flows

| STATEMENT OF CASH FLOW FOR THE PERIOD 01/01/2020-31/12/2020 | | | | | |
|---|---|---|---|---|---|
| | | | | | *in HRK* |
| **No.** | **Sum elements** | **Position** | **Position description** | **Current accounting period** | **Same period of the previous yeare** |
| **001** | 002+013+031 | **I** | **CASH FLOW FROM OPERATING ACTIVITIES** | **-6,176,267** | **23,569,696** |
| **002** | 003+004 | **1** | **Cash flow before changes in operating assets and liabilities** | **110,595,455** | **139,530,766** |
| 003 | | 1.1 | Profit/loss before taxes | 150,834,703 | 161,090,984 |
| **004** | 005+006+007 +008+009+010 | **1.2** | **Adjustments:** | **-40,239,248** | **-21,560,218** |
| 005 | | 1.2.1 | Depreciation of property and equipment | 48,138,417 | 46,089,953 |
| 006 | | 1.2.2 | Amortization of intangible assets | 77,887 | 782,580 |
| 007 | | 1.2.3 | Impairment and gains / losses from reduction to fair value | -73,280,208 | -30,322,797 |
| 008 | | 1.2.4 | Interest expense | 5,293,110 | 6,720,179 |
| 009 | | 1.2.5 | Interest income | -45,195,631 | -44,830,132 |
| 010 | | 1.2.6 | Profit shares of associates | | |
| 011 | | 1.2.7 | Gains/losses on sale of tangible assets (including land and buildings) | 106,975 | |
| 012 | | 1.2.8 | Other adjustments | 24,620,201 | |
| **013** | 014+015+…+030 | **2** | **Increase/decrease in assets and liabilities** | **-82,369,392** | **-93,289,325** |
| 014 | | 2.1 | Increase/decrease in financial assets available-for-sale | 11,818,851 | -31,591,315 |
| 015 | | 2.2 | Increase/decrease in financial assets at fair value through P/L | | |
| 016 | | 2.3 | Increase/decrease in loans and receivables | -26,872,946 | -2,407,142 |
| 017 | | 2.4 | Increase/decrease in deposits with cedants | | |
| 018 | | 2.5 | Increase/decrease in investments at the expense and risk of the life insurance policyholder | | |
| 019 | | 2.6 | Increase/decrease in the share of reinsurance in tehnical provisions | -6,133,056 | |
| 020 | | 2.7 | Increase/decrease in tax assets | | |
| 021 | | 2.8 | Increase/decrease in receivables | -100,167,719 | -91,180,243 |
| 022 | | 2.9 | Increase/decrease in other assets | -747,284 | -27,237,634 |
| 023 | | 2.10 | Increase/decrease in paid expenses for the future period and overdue revenue collection | -50,532,198 | 4,296,554 |
| 024 | | 2.11 | Increase/decrease in tehnical provisions | 44,749,003 | 10,700,358 |
| 025 | | 2.12 | Increase/decrease in in special life insurance reserves where the policyholder bears the investmen | | |
| 026 | | 2.13 | Increase/decrease in in tax liabilities | 26,719,974 | |
| 027 | | 2.14 | Increase/decrease in in deposits retained from business submitted to reinsurance | | |
| 028 | | 2.15 | Increase/decrease in financial liabilities | 25,410,666 | |
| 029 | | 2.16 | Increase/decrease in other liabilities | -9,036,692 | 43,043,220 |
| 030 | | 2.17 | Increase/decrease in deffered expenses of future expenses and income | 2,422,010 | 1,086,876 |
| **031** | | **3** | **Income tax paid** | **-34,402,330** | **-22,671,746** |
| **032** | 033+034+…+046 | **II** | **CASH FLOW FROM INVESTMENT ACTIVITIES** | **19,062,453** | **-39,006,015** |
| 033 | | 1 | Receipts from sale of tangible assets | | 1,841,858 |
| 034 | | 2 | Expendituresfor acquisition of tangible assets | -42,523,616 | -37,884,848 |
| 035 | | 3 | Receipts from sale of intangible assets | | |
| 036 | | 4 | Expendituresfor acquisition of intangible assets | -239,920 | -61,733 |
| 037 | | 5 | Gains from sale of land and buildings not used by the Company for its activities | 10,175,805 | |
| 038 | | 6 | Expenses for the purchase of land and buildings not used by the Company for its activities | -21,700,000 | -4,396,600 |
| 039 | | 7 | Increase/decrease in investment in subsidiares, associates and joint vetures | | |
| 040 | | 8 | Receipts from investments held to maturity | | |
| 041 | | 9 | Expenditures from investments held to maturity | | |
| 042 | | 10 | Receipts from the sale of securitas | -46,116,432 | |
| 043 | | 11 | Expenditures for the investment in securitas | 84,828,579 | |
| 044 | | 12 | Receipts from dividends and shares in profit | 7,765,090 | 11,121,877 |
| 045 | | 13 | Receipts from repayment of short-term and long-term loans | -451,168,625 | |
| 046 | | 14 | Expenditures for short-term and long-term loans | 478,041,572 | -9,626,569 |
| **047** | 048+049+050 +051+052 | **III** | **CASH FLOW FROM FINANCIAL ACTIVITIES** | **861,646** | **25,059,396** |
| 048 | | 1 | Cash receipts due to increase in share capital | | |
| 049 | | 2 | Cash receipts from received short-term and long-term loans | 85,807,207 | 25,059,396 |
| 050 | | 3 | Cash outflows for repayment of received short-term and long-term loans | -84,945,561 | |
| 051 | | 4 | Cash outflows for the repurchase of treasury shares | | |
| 052 | | 5 | Cash outflows for the payment of profit shares (dividends) | | |
| **053** | 001+032+047 | | **NET CASH FLOWS** | **13,747,832** | **9,623,076** |
| **054** | | **IV** | **NET CASH FLOW EFFECTS OF CHANGE IN FOREIGN CURRENCY ECHANGE RATES ON C** | | |
| **055** | 053+054 | **V** | **NET DECREASE/INCREASE OF CASH AND CASH EQUIVALENTS** | **13,747,832** | **9,623,076** |
| 056 | | 1 | Cash and cash equivalents at the beginning of the year | 45,437,771 | 35,814,695 |
| **057** | 055+056 | **2** | **Cash and cash equivalents at the end of the year** | **59,185,603** | **45,437,771** |

## Statement of Changes in Equity

**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 01/01/2020-31/12/2020**

*in HRK*

| No. | Position description | Attributable to the parent's owners | | | | | | | Attrinutable to the non-controlling interest | Total capital and reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Paid capital (regular and preferential shares) | Share premium account | Revaluation reserves | Reserves ( legal, statutory, other) | Retained profit or transferes loss | Profit/loss for the year | Total capital and reserves | | |
| **I.** | **Balance at 1 January of the previous year** | **61,002,000** | | **342,353,158** | **172,585,302** | **722,998,451** | **142,145,846** | **1,441,084,757** | | **1,441,084,757** |
| 1. | Change in accounting policies | | | | | | | | | |
| 2. | Prior period adjustment | | | | | | | | | |
| **II.** | **Balance at 1 January of the previous year (adjusted)** | **61,002,000** | | **342,353,158** | **172,585,302** | **722,998,451** | **142,145,846** | **1,441,084,757** | | **1,441,084,757** |
| **III.** | **Comprehensive income or loss for the previous year** | | | **23,456,150** | | **150,689,072** | **-10,200,891** | **163,944,332** | | **163,944,332** |
| 1. | Profit or loss for the period | | | | | | 131,944,955 | 131,944,955 | | 131,944,955 |
| **2.** | **Other comprehensive income or loss for the previous year** | | | **23,456,150** | | **150,689,072** | **-142,145,846** | **31,999,377** | | **31,999,377** |
| 2.1. | Unrealised gains or losses from tangible assets (land and buildings) | | | 12,560,049 | | | | 12,560,049 | | 12,560,049 |
| 2.2. | Unrealised gains or losses from financial assets available-for-sale | | | 10,896,101 | | | | 10,896,101 | | 10,896,101 |
| 2.3. | Realised gains or losses from financial assets available-for-sale | | | | | 150,689,072 | -142,145,846 | 8,543,227 | | 8,543,227 |
| 2.4. | Other non-owner changes in equity | | | | | | | | | |
| **IV.** | **Transactions with owners (previous period)** | | | | | **-42,701,400** | | **-42,701,400** | | **-42,701,400** |
| 1. | Increase/decrease in shared capital | | | | | | | | | |
| 2. | Other owner's payments | | | | | | | | | |
| 3. | Payment of shares profit/dividends | | | | | -42,701,400 | | -42,701,400 | | -42,701,400 |
| 4. | Other allocations to owners | | | | | | | | | |
| **V.** | **Balance on the last day of the reporting period in the previous year** | **61,002,000** | | **365,809,309** | **172,585,302** | **830,986,123** | **131,944,955** | **1,562,327,689** | | **1,562,327,689** |
| **VI.** | **Balance at 1 January of the current year** | **61,002,000** | | **365,809,309** | **172,585,302** | **830,986,123** | **131,944,955** | **1,562,327,689** | | **1,562,327,689** |
| 1. | Change in accounting policies | | | | | | | | | |
| 2. | Prior period adjustment | | | | | | | | | |
| **VII.** | **balance at 1 January of the current year (adjusted)** | **61,002,000** | | **365,809,309** | **172,585,302** | **830,986,123** | **131,944,955** | **1,562,327,689** | | **1,562,327,689** |
| **VIII.** | **Comprehensive income or loss for the current year** | | | **32,137,344** | | **141,386,071** | **-8,002,695** | **165,520,721** | | **165,520,721** |
| 1. | Profit or loss for the period | | | | | | 123,942,260 | 123,942,260 | | 123,942,260 |
| **2.** | **Other comprehensive income or loss for the current year** | | | **32,137,344** | | **141,386,071** | **-131,944,955** | **41,578,460** | | **41,578,460** |
| 2.1. | Unrealised gains or losses from tangible assets (land and buildings) | | | 11,818,851 | | | | 11,818,851 | | 11,818,851 |
| 2.2. | Unrealised gains or losses from financial assets available-for-sale | | | 20,318,493 | | | | 20,318,493 | | 20,318,493 |
| 2.3. | Realised gains or losses from financial assets available-for-sale | | | | | 141,386,071 | -131,944,955 | 9,441,116 | | 9,441,116 |
| 2.4. | Other non-owner changes in equity | | | | | | | | | |
| **IX.** | **Transactions with owners (current period)** | | | | | | | | | |
| 1. | Increase/decrease in shared capital | | | | | | | | | |
| 2. | Other owner's payments | | | | | | | | | |
| 3. | Payment of shares profit/dividends | | | | | | | | | |
| 4. | Other allocations to owners | | | | | | | | | |
| **X.** | **Balance at the last day of the reporting period in the current year** | **61,002,000** | | **397,946,652** | **172,585,302** | **972,372,195** | **123,942,260** | **1,727,848,409** | | **1,727,848,409** |

**Differences between the financial statements prepared in accordance with the International Financial Reporting Standards refer to the following business events:**

***Statement of Financial Position***

The guarantee deposits for leasing contracts, premium receivables, credit cards and checks receivables, other receivables, and cash and cash equivalents given in the financial statement prepared in accordance with the IFRS are recorded in the financial statement in the 049 (Receivables) and 064 (Other assets) positions.
Investments in other assets are recorded in the financial statement in the non-tangible assets position, and in the tangible asset positions in special financial statements.
Liabilities from direct insurance and liabilities from reinsurance recorded in the financial statement prepared in accordance with the IFRS are given in the following positions of the financial statement:

- 103 – Deferred tax liabilities
- 110 – Other financial liabilities
- 111 – Other liabilities.

Interests for loans in a financial statement prepared in accordance with the IFRS are classified as credits and receivables, whereas in the report for HANFA's use, they are classified as other receivables. Provisions on a group basis for loans in a financial statement prepared in accordance with the IFRS are classified as impairment of loss, whereas in the report for HANFA's use, they are classified as other receivables.
Deferred tax liabilities in financial statements prepared in accordance with the IFRS are given in the net amount.

***Statement of Comprehensive Income***

The Underwriting costs and Administrative costs positions stated in the financial statements prepared in accordance with the IFRS are given in the 051 position of the financial statement (Business expenses (Activity performance expenses), net).
Other business expenses in financial statements prepared in accordance with the IFRS are given in the 068 position (Other technical expenses, net of reinsurance) and 023 (Other investment income).

Koncern Agram
HR | BIH | AT | IT