ANNUAL FINANCIAL REPORT

2017

EUROHERC

Content

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for the 2017

Zagreb, April 2018

Content

Main Company data

EUROHERC osiguranje PLC has been operating in Croatia for 26 years, since 1992. The founders of the Company are local natural persons. The seat of the Company is located in Zagreb.

The business activities of the Company focus on non-life insurance. Considering the size of the non-life insurance portfolio, the Company ranks second on the non-life insurance market, whereas on the life and non-life insurance market it ranks third in 2017.

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

1. Accident Insurance
2. Health Insurance
3. Road Vehicle Insurance
4. Railroad Vehicle Insurance
5. Aircraft Insurance
6. Vessel Insurance
7. Goods in Transit Insurance
8. Fire and Special Perils Insurance
9. 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 61,002,000 HRK and is divided into 305,010 shares of nominal value of 200 HRK. 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.

Organisation structure

EUROHERC osiguranje PLC 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 branch offices, which are established in a certain area, i.e. within a local market. At the same time, operate as profit centres.

Name	Headquarter	Director
05 ZAGREB	Ulica grada Vukovara 282	Matea GRGIĆ
06 VARAŽDIN	Zagrebačka 63	Mladen RIHTARIĆ
07 SISAK	Franje Lovrića 17A	Božica ZLOVOLIĆ
08 BJELOVAR	Zagrebačka 51	Drago RAIĆ
09 OSIJEK	Ulica Hrvatske Republike 45	Robert DANKOŠ
10 PULA	Matka Laginje 3	Goran ČUJIĆ
11 RIJEKA	Riva 8	Davor MILAS
12 ZADAR	Obala kneza Branimira 5	Milenko RAJIĆ
18 SPLIT	Varaždinska 54	Katija KRIŽAN
22 DUBROVNIK	Ante Starčevića 72	Ante JAŽO
23 ČAKOVEC	Kralja Tomislava 30	Tomislav ABRAMOVIĆ
24 KARLOVAC	Prilaz Većeslava Holjevca 2A	Sanja SMOJVER
25 VELIKA GORICA	Slavka Kolara 17A	Krešimir BELOŠA FIJAN
26 SLAVONSKI BROD	Petra Svačića 1A	Denis KRASNOPJURKA
43 AUSTRIA	Parkring 20	Draženka KOPJAR

Pursuant to basic functions or business activities groups, the Company is vertically subdivided into four following sectors: Sales, Claims, Finance and IT.

By the end of 2017, the Company had 1,089 employees: 1,030 in the Republic of Croatia and 59 employees in the Republic of Austria. 762 employees work in the Sales sector (35 more than in 2016), 106 employees work in the Claims sector.

Sectors

Sector	Director
01 SALES	Anđelka BRAICA
02 CLAIMS	Darinko IVKOVIĆ
03 FINANCE	Tomislav ČIZMIĆ
04 IT	Željko KORDIĆ

Vjeran Zadro, Željko Kordić, mr. sc. Ivana Bratanić, Tomislav Čizmić, Darinko Ivković

Management and Supervisory Board of the Company

The Management Board has five members and a procurator, who then jointly represent the Company. On 31 December 2017 members of the Management Board are the following:

- **Mr. sc. Ivana Bratanić**, President of the Management Board
- **Željko Kordić**, 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

The Supervisory Board of the Company in 2017 comprised the following persons:

President

Dr. sc. Mladenka GRGIĆ

Members

Zlatko LEROTA | Hrvoje PLANINIĆ | Radoslav PAVLOVIĆ | Niko KRIVIĆ | Miroslav GRBAVAC | Radoslav LAVRIĆ

Financial results

The Company's income for 2017 amounts to 1,002,681 (000) HRK, 851,576 (000) HRK or 85% of which represents insurance premium. The expenses of the Company amounted to 909,317 (000) HRK. Profit before tax amounts to 117,670 (000) HRK. Income tax amounts to 24,306 (000) HRK. Profit in the accounting period after tax amounts to 93,364 (000) HRK. Earnings per share amounts to 360,47 HRK.

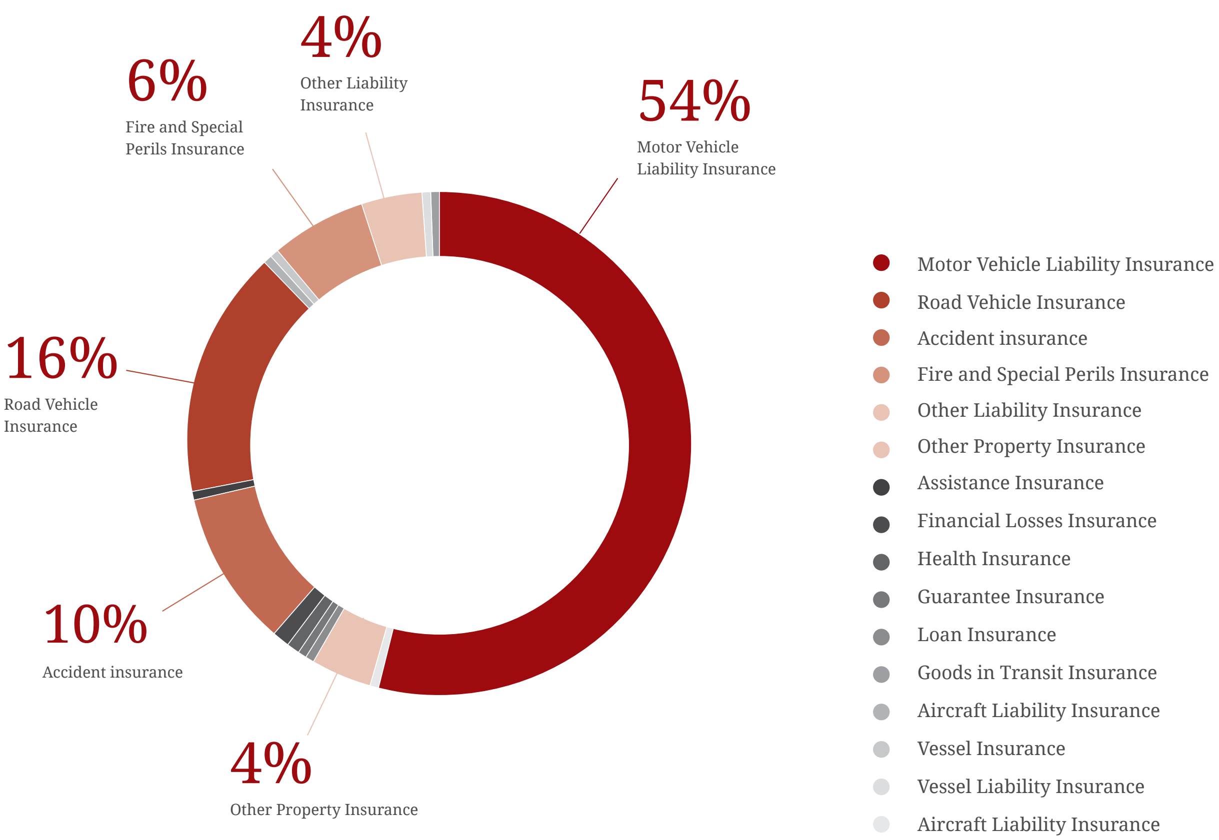
Claims incurred, net

The total premium (premium written for insurance and premium written for co-insurance) agreed for the year ending on 31 December 2017 amounts to 915 million HRK, which is 72 million HRK or 8,5% more than in the previous business year.

The Company's share in the non-life insurance market of the Republic of Croatia amounts to 14,96 %, which represents a 0,54% increase in relation to 2016. The total market share of the Company increased from 9,62% in 2016 to 10,11% in 2017.

The largest share in the premium income structure, i.e. 54%, holds the Car Insurance – Motor Vehicle Liability Insurance, followed by Motor Casco Insurance – Road Vehicle Insurance with a 16% share, and Accident Insurance with a 10% share.

Written premium structure in 2017



Claims incurred, net

In 2017, net claims incurred amounted to 293 million HRK, 171,350 claims were liquidated, and 332,6 million HRK were allocated for the payment of the liquidated claims. The share of reinsurance in liquidated claims amounted to 2,3 million HRK.

Insurance market in the Republic of Croatia in 2017

In 2017, the insurance market increased by 4.29% in relation to the previous year. This positive trend entails the growth of the non-life insurance market and the life insurance market.

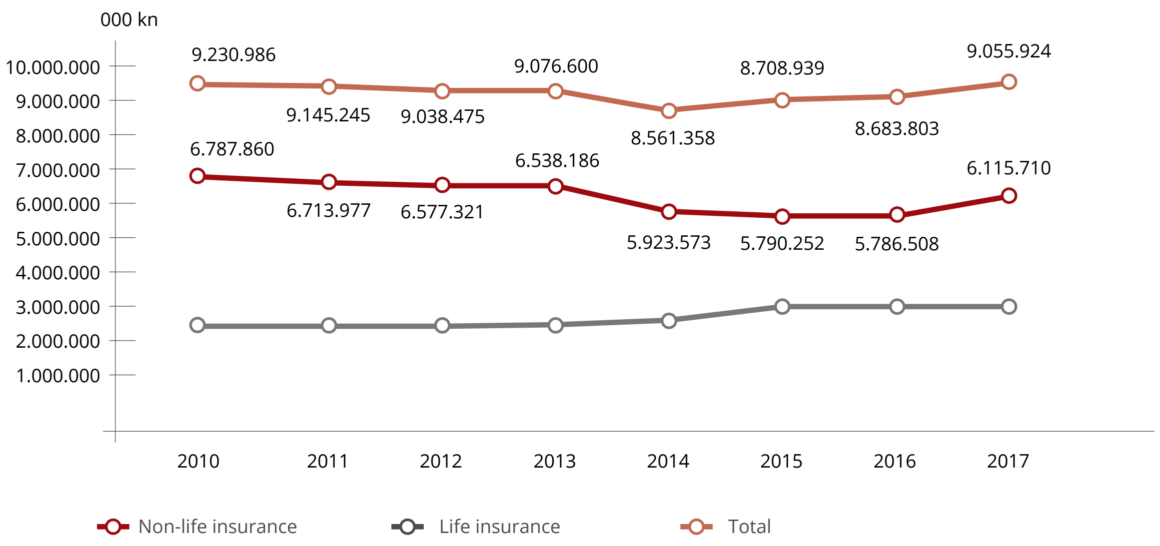
Although the growth of the non-life insurance market significantly exceeded the growth of the life insurance market (non-life insurance market growth index amounts to 105.69, whereas the life insurance market growth index amounts to 101.48), it is necessary to stress the fact that the accrued gross life insurance premium was constantly increasing over a longer time period, unlike the non-life insurance premium. For example, the accrued gross life insurance premium index in relation to 2013 amounts to 115.83, whereas the accrued gross non-life insurance premium index in relation to 2013 amounts to 93.54. This means that the constant growth of accrued gross life insurance premium is the primary reason for the recovery of the total market insurance in relation to 2013. The market saw the greatest increase in the share of the following insurance types: 04 Railroad Vehicle Insurance, 14 Loan Insurance, 17 Legal Protection Insurance, and 15 Guarantee Insurance. Furthermore, the share of 02 Health Insurance, in particular, 02.02 Complementary Health Insurance, 03 Motor Casco Insurance – Road Vehicle Insurance, as well as 10 Motor Vehicle Liability Insurance (Motor Third Party Liability) also increased. The market share of Aircraft Insurance, Aircraft Liability Insurance, and Vessel Insurance decreased the most.

In the financial sector of the Republic of Croatia there are 20 insurance companies, 47 insurance and reinsurance mediation companies, 383 insurance representation crafts, and 25 insurance representation companies in vehicle control stations. The share of assets of insurance and reinsurance companies in the total assets of financial intermediaries (all financial institutions in the Croatian financial market) amounted to 36.64 billion HRK, i.e. 7.05% in the end of 2016, making the insurance and reinsurance companies the 3rd largest financial intermediary.

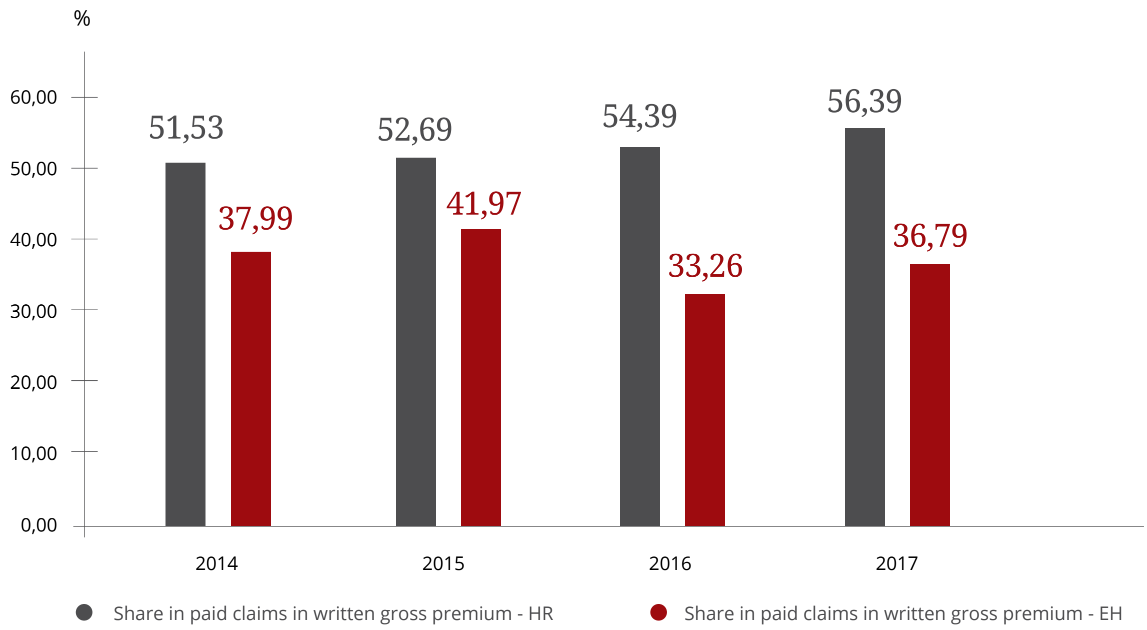
Banks' assets amount to 391.3 billion HRK or 69%, and the mandatory pension funds' assets amount to 81.1 billion HRK or 14.43%.

The total premium in the Croatian market of insurance and reinsurance companies and insurance companies' branch offices with registered offices in the EU amounted to 8,901,208,130 HRK in 2017, with an index of 101,19 in relation to the written gross premium in 2016. The life insurance premium in 2017 amounted to 2,940,214,140 HRK, with an index of 99,93, in relation to 2016. The absolute amount of the non-life insurance written premium amounted to 5,960,993,990 HRK, with an index of 101.83.

Croatian insurance market 2010-2017



RH/EH - share of claims paid in the written gross premium



The increase in number of insurance policies contracted, excluding the insurance policies with a low basis, was the greatest in the area of Liability Insurance (index 101,93) and Accident Insurance (index 101,44), whereas Motor Casco Insurance suffered a significant decrease (index 91,53).

The average share of liquidated claims in the agreed premium for the total insurance market over the last 4 years amounts to 53,75%. This average value amounts to 49,88% for non-life insurance, and 48,7% for Motor Third Party Liability Insurance. The share of claims paid in the agreed premium in EUROHERC osiguranje PLC ranges from 34,5% to 37,6%, which is a result that is significantly better than the total market result, and amounts to 36,35% in 2017. This data demonstrates that the quality of the Company's risk evaluation and underwriting risks surpasses the market average. Furthermore, the Company manages claims better than other market participants.

After two years of increase in shares in claims paid in the premium, the 2017 market results are somewhat better than the 2016 results, and this ratio remains stable at 50%. Due to a greater share of Motor Third Party Liability Insurance in the total premium, the Company's share of claims paid in relation to the agreed premium slightly increased. However, this result is still significantly better than the market results.

In the end of 2016, the trend of falling prices of Motor Third Party Liability Insurance premium slowed down, and the market started to stabilise in 2017. The positive trend of the number of Motor Third Party Liability Insurance increase continued throughout 2017, and the total number of policies increased by 340,126 (index 103,55). The Motor Third Party Liability Insurance premium increased with the index 101,93 in relation to 2016.

Even though the premium written for Motor Casco Insurance in relation to 2016 increased by 86,3 million HRK (index 110,82), the number of contracted policies fell by 54,8 thousand policies (index 91,53). Therefore, me may conclude that 2017 saw the increase of total life insurance premium, which additionally stabilised the insurance market.

Liabilities to the Supervisory Board

In the course of 2017, 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.

Conclusion

Despite its strong market competition, the Croatian private equity company EUROHERC osiguranje PLC 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 strictest professional standards. The Company, depending on its capacity, participates in socially responsible and humanitarian activities. The Company established its own business infrastructure, system of Branch offices and sales network through which it today offers a series of new, innovative products.

In 2017, the Company decided to expand to the Austrian insurance market, which then points to the possibility and potential of further developing the Company outside the borders of 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 the small group of insurance companies with the largest percentage of resolved claims.

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 market share in the non-life insurance market constantly increasing.

Furthermore, the Company plans to become a leader in the mandatory car 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.

MANAGEMENT BOARD OF THE COMPANY

Mr. sc. Ivana Bratanić, *President*

Željko Kordić, *Member*

Darinko Ivković, *Member*

Tomislav Čižmić, *Member*

Vjeran Zadro, *Member*

N0N-FINANCIAL REPORT
for 2017

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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 the financial year 2017.

Pursuant to the aforementioned 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 re.

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 empower all women and girls, as well as to lower greenhouse gas emissions and engage in a climate-proof development.

The entities which are required to prepare a non-financial report are obliged to prepare a non-financial report 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 report must give a clear and reasonable explanation why those measures have not been implemented.

[1] Article 3 (1) of the Accountancy Act and Article 2 (1) Directive 2013/34/EU of the European Parliament and of the Council on the annual financial reports, consolidated financial reports and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC define the public-interest entity as an enterprise established pursuant to the regulations of the Republic of Croatia and whose securities are admitted to trading on a regulated market of any member state, in accordance with the laws regulating the capital market. However, enterprises whose securities are not admitted to trading on a regulated market, but are financial institutions, are considered public-interest entities. This implies that insurance and reinsurance companies are considered public-interest companies, pursuant to the same article.

Overview of the field of non-financial reports

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

Brief Overview of the Business Model

Business Environment

U In the Republic of Croatia, in the period 2005-2016, GDP per capita ranged from 8,5(000) EUR to 11(000) EUR. In 2017, the GDP reached the GDP level of 2008. GDP per capita in 2017 amounted to approximately 11,7(000) EUR. This is a result of both the nominal GDP increase and population decrease. In 2017, the real GDP increased by 2,8% in relation to 2016. The average unemployment rate amounted to 12.1% in 2017, and it is expected to drop to 10% in 2018. The inflation rate amounted to 1.2% in 2017. This is a clear increase in relation to 2016, when the inflation rate amounted to -0.2%. This predominantly the result of the increase in food and energy prices. In 2018, the inflation rate is expected to continue increasing, but it might stay low, i.e. lower than the long-term average. In addition, the import prices are expected to increase and the domestic inflationary pressures to resurge slightly, considering the future change of the local economic cycle position. According to the projections of the Ministry of Finance, general government deficit and debt might continue their decrease of 2017. The monetary policy will continue supporting the economic growth, while preserving its expansive character through providing support to the monetary system liquidity and maintaining the stability of the HRK/EUR exchange rate.

When it comes to developed markets, a positive trend in the previous year period was particularly evident in the Eurozone, where the economic activity growth increased to 2,5% in the last quarter of 2017, a result that has not been recorded since the global financial crisis outbreak.

The increase in growth is evident in most member countries, especially Baltic countries, while the old and largest member states – Italy, France, and Germany – made the biggest relative contribution to the strengthening and recovery of the Eurozone. A more dynamic growth of the Eurozone is a result of the decrease of political uncertainty during the past months, but also of stimulative measures of the economic policy, which have been primarily directed towards investment recovery and potential growth strengthening. Furthermore, favourable financing conditions and improvement of the condition of the labour market continued to encourage private spending. Most of the relevant Croatian trade partners recorded favourable economic trends in the previous period of 2017. This especially refers to Eurozone trade partners, in particular Slovenia, Austria and Italy, which recorded the highest growth rates in the last few years. The growth was mainly the result of private spending, due to the growth of the disposable income. Furthermore, investment and export also increased. The real growth of the German economy accelerated as well, due to strong export and the increase in private spending in times of a very strong labour market and recovery of the construction sector. Conversely, the foreign trade partners in the South-east region suffered a decrease in growth, in particular Serbia and Bosnia and Herzegovina, on account of the weather issues that gravely struck the agriculture sector.

The Company EUROHERC osiguranje PLC has been operating in Croatia for 25 years, since 1992. The seat of the Company is located in Zagreb. The business activities of the Company focus on non-life insurance. The dominant component in the Company's portfolio is the Motor Third Party Liability Insurance premium, which accounts for 53.75% of the portfolio.

The given figure is the result of the Company's decision, but also of the fact that Motor Third Party Liability Insurance is the dominant type of insurance in the Croatian market. Other types of insurance represented in the Company's portfolio are Road Vehicle Insurance (Motor Casco Insurance) which accounts for 16.39%, Accident Insurance which accounts for 10%, Fire and Special Perils Insurance and other types of Property Insurance which account for 9.59%, Other Liability Insurance which accounts for 4.11%, and other types of insurance which account for 6.16%. The Company's share in the Croatian non-life insurance market amounts to 14.96%. The Company today ranks 3rd when it comes to the total insurance market share and 2nd when it comes to the non-life insurance market share.

The Company is constantly working on increasing the premium income and other types of income through various market activities and employee training. The strategic goal of the Company is to lower the Motor Third Party Liability Insurance share to a level in the range between 45% and 50%. The main sales channel is our own sales network through which we contract 84% of the total written premium. This ensures our portfolio stability and reduces the possibility of competitor attacks.

In the financial sector of the Republic of Croatia there are 20 insurance companies, 47 insurance and reinsurance mediation companies, 383 insurance representation crafts, and 25 insurance representation companies in vehicle control stations. The share of assets of insurance and reinsurance companies in the total assets of financial intermediaries (all financial institutions in the Croatian financial market) amounted to 36.64 billion HRK, i.e. 7.05% in the end of 2016, making the insurance and reinsurance companies the 3rd largest financial intermediary. Banks' assets amount to 391.3 billion HRK or 69%, and the mandatory pension funds' assets amount to 81,1 billion HRK or 14.43%.

The largest decrease in premium since the beginning of the financial and economic crisis in the Republic of Croatia was recorded in 2014. This was a result of the decrease in Motor Third Party Liability Insurance premium, due to the application of new, liberalised prices and competitors' price war. Generally, since 2009, with the exception of 2013 in which the total written premium remained stagnant, the Croatian insurance market has been recording an annual decrease in the written gross premium. In the period from 2008, when the written premium amounted to 9.69 billion HRK, to the end of 2015, almost 1 billion HRK, i.e. 96 million HRK, of premium was lost. In 2017 the non-life insurance written premium amounted to 5,96 billion HRK. It increased by 2% in relation 2016, when the non-life insurance written premium amounted to 5.84 billion HRK.

In 2016, Life Insurance accounted for a total of 33.31% of the total insurance premium structure. Motor Third Party Liability Insurance had the 2nd largest share, which amounted to 23.32%. This share is currently decreasing, due to liberalised market prices.

Motor Third Party Liability Insurance premium amounted to 2.04 billion HRK in 2016 and decreased by 2.8% in relation to 2015. In 2014, as previously stated, insurance companies liberalised their Motor Third Party Liability Insurance prices and increased the level of competitiveness by engaging in a price war.

This resulted in an insurance premium decrease in 2014 in the absolute amount of 543.9 million HRK, and further plummeted in 2015 in the absolute amount of 332.6 million HRK and in 2016 by 58.8 million HRK. During that period, the fall in the share of the Motor Third Party Liability Insurance premium in the total insurance premium, which started in 2008, was stopped. In 2016, the total number of Motor Third Party Liability Insurance policies amounted to 2,66 million and decreased by 1.1% in relation to 2015.

In 2016, the share of the Motor Casco Insurance premium in the total premium amounted to 9.17%, and to 8.19% in 2015. Motor Casco Insurance premium increased by 12.5% in relation to 2015, which represents a continuation of a significant market shift that began in 2014, since these types of insurance premiums had been decreasing since 2009. In 2016, the absolute amount of that type of insurance premium amounted to 803.8 million HRK, and the number of contracted policies was 651 000.

15,4%

of the total written premium of all insurance companies in the Republic of Croatia in the area of non-life insurance

According to unaudited data for 2017, non-life insurance accounts for 66.97% of the total written gross premium. According to unaudited data for 2017, the Company EUROHERC PLC accounts for 10.3% of the total written gross premium of all insurance companies, i.e. around 15.4% of the total written premium of all insurance companies in the Republic of Croatia in the area of non-life insurance.

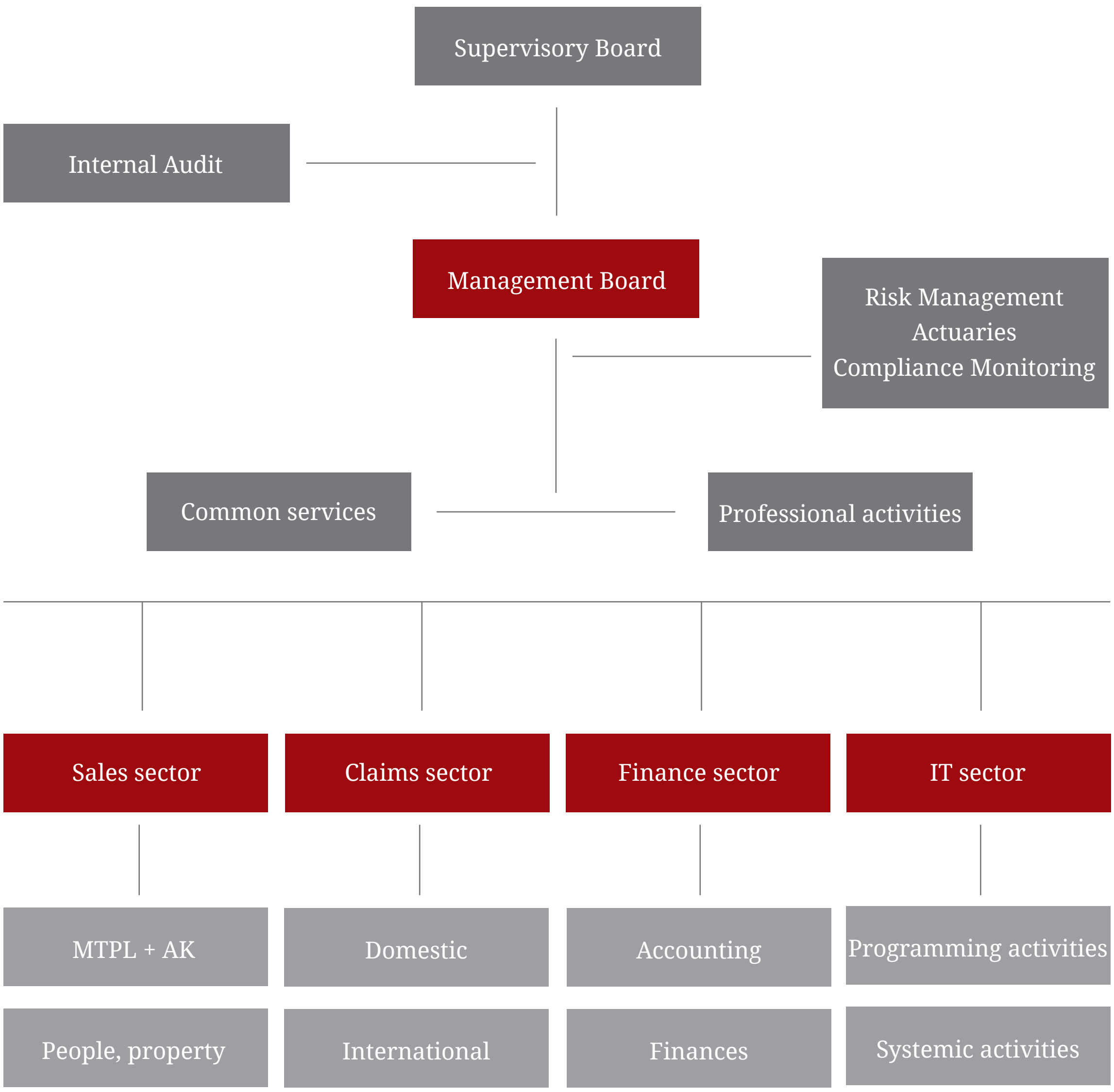
Organisation and Structure

EUROHERC osiguranje PLC has a mixed organisation structure which is a combination of production, functional, territorial and project organisation units. The Company operates through Branch offices, which are established in a certain area, i.e. within a local market. At the same time, operate as profit centres.

The business operation of the Company EUROHERC osiguranje PLC is managed by the Shareholders' Assembly, the Supervisory Board and the Management Board. 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 terms of territorial organisation, the Company is divided into 15 Branch office managed by Branch office Directors. Since all Branch offices are organised pursuant to the

Organisation Structure of the Company EUROHERC osiguranje PLC



Overview of Locations of Branch offices of the Company EUROHERC osiguranje PLC

sector scheme, each Branch offices is managed by a relevant Sector Director or Head of Department. The Branch office 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 Branch office network features dealerships and sales points throughout Croatia. This ensures fast and efficient communication with our clients and presence of the Company in the whole Croatian market.

Our Market

In 2015, the Company EUROHERC PLC made a total of 819.5 million HRK in written gross premium; in 2016, 842.5 million HRK, and in 2017, 915.2 million HRK. The percentage share of the Motor Third Party Liability Insurance premium accounted for 56.97% in 2015; 54.44% in 2016; and 53.75% in 2017. The percentage share of the Motor Casco Insurance accounted for 12.02%, 14.33% and 16.39% in the period from 2015 to 2017, while the share of Accident Insurance accounted for 10.23%, 10.65% and 10% during the same period.

In 2016, the share of the total written premium of all insurance companies in the GDP of the Republic of Croatia accounted for 2.6%, the same as in 2015. In 2016, the share of the non-life insurance premium in the GDP accounted for 1.7%, and life insurance premium accounted for 0,9%. These percentages are higher than in Eastern neighbouring countries of the Republic of Croatia, but in comparison to the developed countries of the European Union, Croatia significantly falls behind. In 2016, the total premium per capita amounted to 2,100 HRK (1,401 HRK for non-life insurance and 700 HRK for life insurance). In relation to 2015, the insurance premium per capita slightly increased even in the case of non-life insurance and life insurance. This indicator also shows that Croatia is far from the developed countries' average, which may point to the possibility of further growth of the insurance market.

The Company recognised the potential of doing business in the Austrian market, in terms of premium relevance, and a high level of insurance culture and tradition

Strategy and Targets

The strategy of the Company EUROHERC osiguranje PLC is to create new added value and become present on markets outside the Republic of Croatia, through the upgrade of its business model and operational efficiency. In that sense, in 2017, the Company EUROHERC PLC was the top Motor Insurance Company in the market of the Republic of Croatia, with 490,298 contracted Motor Third Party Liability Insurance policies and the accrued Motor Third Party Liability Insurance premium in the amount of 483,784,948 HRK, making it the leading insurance company in terms of the number of policies and the accrued Motor Third Party Liability Insurance premium.

The Company recognised the potential of doing business in the Austrian market, in terms of premium relevance, and a high level of insurance culture and tradition. The Republic of Austria is one of the richest countries in the world, considering the GDP per capita, which is quadruple the Croatian GDP per capita, while its population is double the population of Croatia. According to 2015 data, the total assets of the insurance companies in the Republic of Austria amount to 108 billion EUR, while in the Republic of Croatia they amount to 5,1 billion EUR. The total written gross premium in Austria amounts to 17.4 billion EUR, and in Croatia it amounts to 1,16 billion EUR. The written non-life insurance premium in Austria amounts to about 10,6 billion EUR (61%), while in Croatia it amounts to about 772 million EUR (around 66.6%). The number of motor vehicles per 1,000 people in Austria amounts to 585 vehicles, while in Croatia it amounts to 381. Furthermore, the accrued premium per capita in Austria amounts to around 2,035 EUR, while in Croatia it amounts to 280 EUR.

The second largest premium segment in the area of indemnity insurance in the Republic of Austria (Kfz Versicherung), with the share of 17.9%, is the Motor Vehicle Insurance (mandatory Motor Third Party Liability Insurance, Motor Casco Insurance, and Driver and Passenger Accident Insurance), with the annual written premium of 3.1 billion EUR (around 23 billion HRK, which is 11 times higher than the premium accrued in the Republic of Croatia in 2015, which amounts to about 2.2 billion HRK). In 2015, in the Republic of Austria, the premium income on the basis of Motor Third Party Liability Insurance (Kfz-Haftpflicht) amounted to about 1.7 billion EUR (in the Republic of Croatia it amounted to about 280 million EUR), which represents a 10% share in the total written premium on the Austrian insurance market, a 19.9% share in the total indemnity insurance premium, and a 55.5% in the total Motor Vehicle Insurance (Motor Third Party Liability Insurance, Motor Casco Insurance, and Accident Insurance). There are 6.5 million registered vehicles in the Republic of Austria, 4.7 million of which are personal vehicles (72%). The number of registered vehicles increases by 1-2% per annum, and the number of vehicles per 1,000 people amounts to 550, which represents a high motorisation rate. In 2015, the number of newly registered motor vehicles (new and used motor vehicles registered for the first time) amounted to 1.4 million, which represents a 0.8% increase in relation to 2014. The trend of a greater share of used motor vehicles in the structure of newly registered motor vehicles (70%) continues, whereas new motor vehicles account for a smaller share (30%).

In 2015, the Motor Vehicle Insurance market (Motor Third Party Liability Insurance, Motor Casco Insurance, and Accident Insurance) in the Republilc of Austria comprises 24 insurance companies. The six largest companies account for 70% of the market (Generali Versicherung AG acounts for 17.8%, Uniqa Österreich Versicherung acounts for 13.8%, Allianz Versicherung AG acounts for 13%, Wiener Städtische Versicherung AG acounts for 11.4%, Donau Versicherung AG acounts for 7% and Zürich Versicherung acounts for 6.5% of the market).

In Austria, the Company EUROHERC PLC intends to provide insurance services from the non-life insurance group: (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, (18) Assistance Insurance.

The strategy of the Company EUROHERC PLC for the Austrian market is to focus on Motor Vehicle Insurance in the initial period, and in the other half of 2017, to account for around 0.015% of the total Austrian insurance market, i.e. 0.03% of the indemnity insurance market. The Company plans to gradually create and develop its own sales network, while intensely cooperating with independent brokers and non-exclusive agencies. It is expected that the Austria Branch office, in the course of several business years, with a relevant number of established Branch offices and sales points in Austria, will reach the premium income level of the whole Company EUROHERC osiguranje PLC reached in the Republic of Croatia in 2016. This would mean a 1.35% share in the non-life insurance market in the Republic of Austria, i.e. around 0.68% of the total market.

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 the 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.

According to the cumulative data of the Croatian Insurance Bureau for February 2018, the insurance companies' total written gross premium amounted to 1,719,367,500 HRK, which represents a 4.07% increase in relation to February 2017. In the non-life insurance group, which accounts for 73.38% of the total premium, the written gross premium amounts to 1.261.605.034 HRK and it increased by 6.63% in relation to February 2017. The most represented type of insurance remains the Motor Vehicle Liability Insurance with a written gross premium of 315,996,783 HRK. The written gross premium for this type of insurance has increased by 7.79% in relation to the same period of last year. The share of this type of insurance in the total premium amounts to 18.38%, and 25.05% in the written non-life insurance premium. The mandatory insurance of the owner, i.e. the Motor Third Party Liability Insurance, has the largest share in the Motor Vehicle Liability Insurance, with a premium of 295,492,358.38 HRK, which increased by 7.63% in relation to the same period of last year. In January 2018, more than 293,904 policies were contracted, i.e. 20,063 policies (7.33%) more than in the same period of last year. The average premium of the mandatory insurance of the owner, i.e. the Motor Third Party Liability Insurance, amounts to 1,005.40 HRK, and has increased by 0.29% in relation to the same period of 2016, when it amounted to 1,002.54 HRK.

Pursuant to the aforementioned strategy of the Company EUROHERC osiguranje PLC, the Company will try to remain a leader in the Republic of Croatia in terms of the number of insurance policies contracted and the amount of the total accrued Motor Third Party Liability Insurance premium. The Company expects its business to increase significantly 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 Branch offices and more than 400 sales points of the Company 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.

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, 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 PLC 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 amounts to 200%.

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.

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 shareholders, 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 shareholders involved in the business operations of the Company EUROHERC osiguranje PLC: 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 CO_2 emissions, we contribute to preserving the environment for our future generations.

Our Strengths

Recognisable name in the area of Motor Third Party Liability Insurance

Highly motivated and qualified workforce

Strong business ethics and client dedication

High-quality working conditions

Leading position on the domestic market in the area of Motor Third Party Liability Insurance

Strong sales network and services availability on the whole territory of the Republic of Croatia

Continuous innovation of products and services

Simple and efficient organisation structure

Area for Improvement

Further digitalization of business processes with the aim of improving the service for clients and decreasing the document administration for employees

Further employee training tailored to the needs and demands of particular business processes

Our Opportunities

Expanding our business operation to the territory of the Republic of Austria, who has a significantly greater economic potential

Long-term development of our own sales network in Austria

Monitoring technological and demographic trends relevant for our business activity, and alignment with our clients' preferences

Challenges

Maintaining the leading position in the Motor Third Party Liability Insurance market in the Republic of Croatia

Adhering to the regulatory requirements concerning capital adequacy and complying with the relevant regulations in the area of business operations

Further developing the sales network and increasing innovation in the area of product development and ways of providing services to clients

Company's Human Resources

Company's Human Resources and Staff Policy

There are certain rules of conduct in the business world. This business culture represents a very relevant, and sometimes determining, factor for achieving success and gaining profit. The Company EUROHERC osiguranje PLC 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 Code of Ethics clearly communicates 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 Code of Ethics and adhering to them results in harmonious relationships and maximum satisfaction of both clients and business partners.

Staff Policy Results

On 31 December 2016, the Company had 1,030 permanent employees in the Republic of Croatia and 59 employees in the Republic of Austria. Of the total number of employees, around 59% are women, and around 30% of employees hold a university diploma. Ever since its establishment, it has been common practice of the Company to educate the managing staff in-house, 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. Training is of the highest importance in the Company; therefore, the Sales sector has an entire active team of internal trainers, who disseminate knowledge concerning products and sales skills, and techniques to all other Sales sector employees. Furthermore, the Company's other sectors, in particular the Claims sector, have at their disposal expert and trained employees, legal staff and professional evaluators, which enables the Company to professionally manage indemnity claims of end-users.

Motivated and expert employees implement a clearly defined tailored insurance strategy. The Company's employees try to raise insured persons' awareness on the necessity of risk protection and insurance through their everyday communication. Therefore, the Company believes it is of utmost importance to invest in employees. The Company EUROHERC osiguranje PLC is a great employer, which provides opportunities for professional training and advancement and, in that way, achieving private and business pleasure.

Staff education level on 31 December 2017

Number of administrative workers (end of year)								Average number of employees (working hours basis)	Number of contract workers (end of year)	
PHD	Master's degree	University degree	Vocational qualification	Medium-skilled	Qualified workers	Low-qualified workers	TOTAL		Written insurance	Claims
2	31	334	130	557	16	19	1.089	933	762	106

More than 50% of employees is under 40. Considering the employees' age, i.e. their young age, we plan to intensify the education processes and continue hiring people from that age group. This will enable an easier tracking of novelties in the domestic and global market, research and analysis of all phenomena in our surroundings, and prompt and efficient reaction to our clients' and market's needs.

Occupational Age Structure

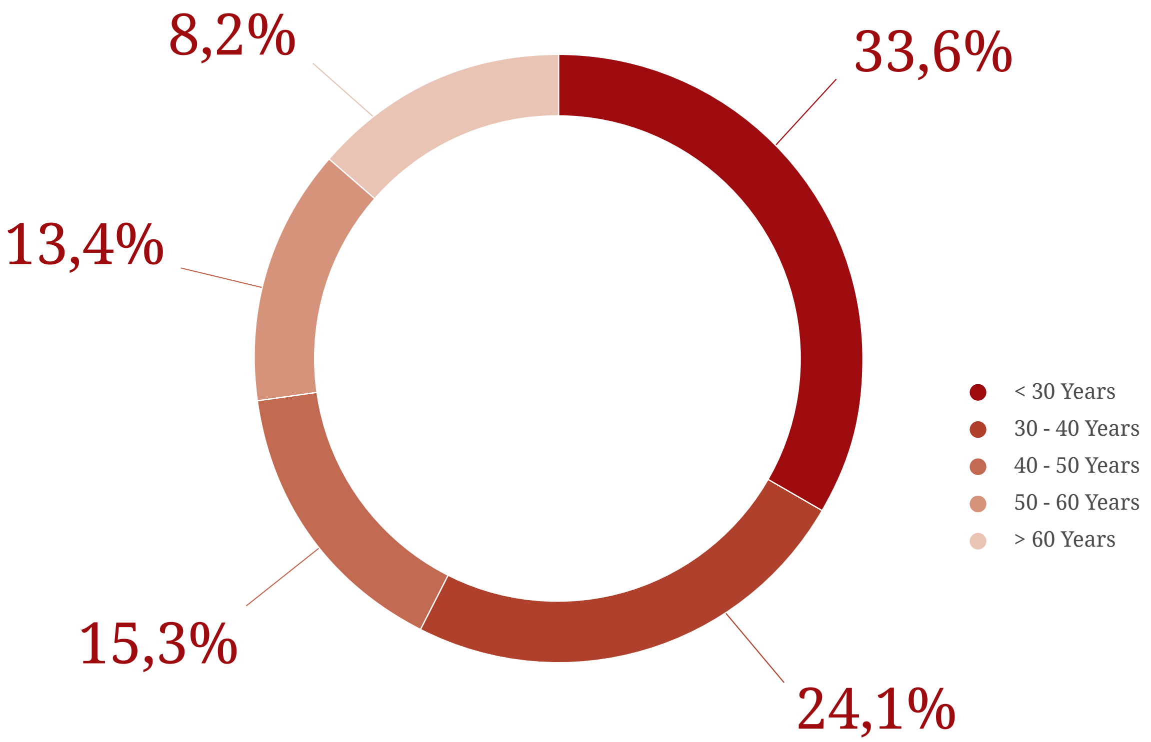
The Company is aware of the fact that its reputation relies on its employees' behaviour. All employees have an important role in maintaining the reputation of the Company in which they work and, therefore, must adhere to the highest ethical standards. The Company views its business as an integral part 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. An occasional exchange of gifts and offering lunch or dinner is a common practice, whose is to create a pleasant atmosphere and establish trust among business partners. The employees may receive and give business gifts, but they must be sufficiently modest so as not to influence the recipient's business decisions. Common sense and good judgement must be used when determining what is acceptable and what is not.

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 behaviour. 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'

Occupational Age Structure



games, the so-called Agramijada, which gathers employees of all Branch offices 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.

Human Rights

All employees of the Company are equal, regardless of their age, sex, religion, nationality or social status. The Company's Code of Ethics insists 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.

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 Branch offices and encourage concrete suggestions.

In order to encourage the achievement of planned values, the Company's Management Board decides on rewarding the employee with the best results within a service provider contest. 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. Therefore, 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 Rules of Operation and the Note on the Duration and Timetable of Annual Leave pursuant to Article 50 of the 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 Ordinance on the Adequate Use of the Information System, and the 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.

Key Non-financial Indicators

In 2017, 101 employees left the Company on different grounds – resignation, termination of work contract by mutual agreement, retirement – and there were 56 new hires, predominantly in the Sales sector

The average number of employees' annual leave days is 25.

In 2017, 18 complaints were submitted: 6 of them concerned the level of the premium, 5 concerned the settlement of insurance contract claims, and 7 concerned the work of sales agents.

Since its establishment, the Company has not once been charged with mobbing or violating the workers' dignity. The Company has never been a party to a dispute concerning competition protection. Moreover, the Croatian Competition Agency has never imposed a fine or any other measure on the Company.

The following table shows the number of trainings of the Company's employees during 2017, and the area they were trained in:

The Company's employees' trainings in 2017

No.	Time	Seminar	No. of attendees
1.	31.01. - 02.02.	New Sales Agents Professional Training	25
2.	03.02. - 25.02.	Asset Workshop 3 – Business Premises Insurance	306
3.	03.02. - 04.02.	Asset Workshop DOMOS	85
4.	02.03. - 04.03.	Internal Trainers Education	11
5.	05.05. - 13.05.	Training Seminar for Supervisors	52
6.	08.06. - 10.06.	New Sales Agents Professional Training	18
7.	09.11. - 11.11.	New Sales Agents Professional Training	18
		TOTAL	**515**

As the table shows, the trainings take place all year long, in periods in which they do not hinder regular business process operations nor overlap with employees' annual leave.

Furthermore, it is evident that, in line with the Company's business policy and the fact that the predominant number of employees work in the Sales sector (around 70% of all employees), the trainings held are usually trainings for sales agents.

The business premises are equipped with sensors that enable a significant reduction in electricity consumption, and with a central air conditioning system.

Relevant Environmental issues and Social Community

Company's Environment Protection Policies

The Company EUROHERC PLC 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.

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 PLC 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 this so-called "green" discount, the Company EUROHERC osiguranje PLC helps entrepreneurs to improve their vehicle 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 Energy Efficiency Fund. In this way, the Company actively participates in environment protection by reducing fossil fuels consumption and CO2 emissions.

Company's Social Community Policies

The Company EUROHERC osiguranje PLC donates funds to the FOHS Foundation (Croatian Students Fund), which gave scholarships to 12 students who fulfilled the conditions of the competition in 2017. The aim of the Foundation is to invest in young, promising students who are in an unfavourable financial situation, in order to enable them to continue their education and realise their full potential. Since it was established three decades ago, the Foundation helped a few hundred full-time undergraduate and postgraduate students, and many of them today are respectable members of the academic community, supporters of the Foundation and members of the FOHS Foundation Management Board. The Foundation's donors actively participate in the work and development of the Foundation so as to make the Foundation help the largest number of students possible.

Anti-Corruption Policy

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. An occasional exchange of gifts and offering lunch or dinner is a common practice whose aim is to create a pleasant atmosphere and establish trust among business partners. The employees may receive and give business gifts, but they must be sufficiently modest so as not to influence the recipient's business decisions. Common sense and good judgement must be used when determining what is acceptable and what is not.

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. Employees are expected to treat fairly clients, suppliers and competitors. 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.

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.

Furthermore, the Company has never been a party to a dispute concerning competition protection.

Management Board of the Company and Company Management Supervision

Diversity Policy Description

Ever since its establishment, it has been common practice of the Company to educate the managing staff in-house, 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 Code of Ethics insists 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 Board 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.

On 31 December 2017, the Management Board of the Company comprised the following persons:

- **Mr. sc. Ivana Bratanić**
  President of the Management Board
- **Željko Kordić**
  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

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 Management 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 reports 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 Board 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 Board 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 Board supervises the submission of the Company's financial reports to regulatory bodies and the compliance of business policies and processes of the Company with the recommendations made by the internal and external auditors of the Company. The Audit Board helps the Supervisory Board monitor the ICT system of the Company. Furthermore, the Audit Board 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 Board of the Company issues a recommendation to the Supervisory

Board concerning the acceptance of the yearly financial reports of the Company, the annual budget of the Company, and big capital investments. The Audit Board meets at least four times a year.

On 31 December 2017, members of the Supervisory Board of the Company are the following:

- **Dr. sc. Mladenka Grgić**
  President of the Supervisory Board
- **Zlatko Lerota**
  Vice President of the Supervisory Board
- **Radoslav Pavlović**
  Member of the Supervisory Board
- **Hrvoje Planinić**
  Member of the Supervisory Board
- **Radoslav Lavrić**
  Member of the Supervisory Board
- **Niko Krivić**
  Member of the Supervisory Board
- **Miroslav Grbavac**
  Member of the Supervisory Board

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.

MANAGEMENT BOARD OF THE COMPANY

Mr. sc. Ivana Bratanić, *President*

Željko Kordić, *Member*

Darinko Ivković, *Member*

Tomislav Čižmić, *Member*

Vjeran Zadro, *Member*

Management's Responsibility for the Financial Statements

Based on the Accounting Act, the Management Board is required to prepare financial statements for Euroherc osiguranje d.d. (hereinafter: the 'Company') and consolidated financial statements for the Group (hereinafter: the 'Group') for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union in order to give a true and fair view of the financial position and operating results of the Company and the Group for that period.

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

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

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

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

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements and the Management Report. The Management Report was prepared in line with the requirements of Article 21 of the Accounting Act.

On behalf of the Management Board:

Mr. sc. Ivana Bratanić, *President*

Željko Kordić, *Member*

Darinko Ivković, *Member*

Tomislav Čižmić, *Member*

Vjeran Zadro, *Member*

EUROHERC osiguranje d.d.

Zagreb, Ulica grada Vukovara 282 | 30 April 2018

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of the Company Euroherc osiguranje d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Company Euroherc osiguranje d.d. ("the Company") and its subsidiary (together "the Group"), which comprise the statements of financial position of the Company and the Group as at 31 December 2017, and statements of comprehensive income of the Company and the Group, statement of changes in equity of the Company and the Group, and statement 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 financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

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

Other Matters

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who gave an unqualified opinion on those financial statements.

Key Audit Matters

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

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Company entered into the registry of the Commercial Court in Zagreb under the company registration number 030022053; with share capital of 44.900,00 HRK; members of the Management Board: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek i Dražen Nimčević; commercial bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	*The audit addressed the matter in the following manner*
Investment property valuation *Pay attention to Notes 3, 4, and 17 in the financial statements* The assessment of fair value of property represents a demanding process, considering the complexity of the value assessment method. 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 accounting standard. The Management Board of the Company assessed that the fair value of the investment property as at 31 December 2017 amounted to HRK 847 million for the Group and 813 million for the Company. 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.	Our audit procedures which refer to investment property valuation by the Management Board of the Company entail: - Assessment of the ability, competence and objectivity of the independent assessor; - Assessment of methodologies used and the appropriateness of main assumptions used, in line with our knowledge of the industry; - Based on the sample, verification of accuracy and relevance of used data. We reviewed the information disclosed in the financial statements concerning the additional information on property valuation.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of given loans *Pay attention to Notes 3, 4, and 19 in the financial statements* In line with the International Accounting Standard 39 - Financial instruments: Recognition and Measurement (hereinafter: IAS 39), the Group and the Company has general reserves for the entire given loans portfolio and individual reserves for loans given to other companies. As at 31 December 2017, loans given to other companies amounted to 25.0% and 25.2% of the Group and the Company's total assets. The given loans portfolio predominantly comprises insurance companies and companies which own vehicle control stations. The given loans portfolio holds big 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. Impairment of given loans represents an extremely important process for the Group and the Company, as it requires the use of estimates and subjective judgements of the Management Board of the Company primarily concerning the assessment of future free cash flows of the borrower, business outlook of the borrower and valuation of collateral per given loans.	Our audit procedures as a response to the defined specific risk of the Company, which refer to the assessment of the Management of the Group and the Company on the reserve necessary for individual given loans, entail the following: - Understanding the policy of giving loans and assessing the procedure for identifying signs of impairment of loans; - We selected a sample of given loans for our review; - For given loans without any payments, we assessed the expectations of the Management of the Company concerning future cash flows, collateral valuation, expected ability to pay the loan and other sources of payment. We estimated the consistency of main assumptions used; - In case of individual given loans, we examined the accuracy of data found in the accounting records; - In case of loans given and secured by property collateral, we examined the amount of the necessary reserve calculated based on expected future cash flows with regard to the fair value of the relevant property less sales costs, used impairment factor, and the expected collection period; - In case of unsecured given loans, we examined the debtor's free cash flow for loan repayment needs; - In case of given loans with instalments paid, we examined whether the debtor suffered losses or whether other circumstances which may put into question the ability to repay loans occurred. Furthermore, we examined the information disclosed in the Group and the Company's financial statements so as to assess whether they were sufficiently comprehensive.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Valuation of illiquid financial instruments *Pay attention to Notes 3, 4, and 18 in the financial statements* Valuation of the Group and the Company's financial instruments (shares of limited liability companies and companies quoted on the stock exchange without significant trading) was the key focus of the audit, due to the complexity of valuation of individual instruments, carried out by the Management Board of the Company, and the relevance of judgements and estimates of the Management Board of the Company concerning the selection of a company with similar features used in the benchmark analysis and the selection of average weighted interest rates. In particular, determining prices for financial instruments for the calculation of which non-public inputs were used. As at 31 December 2017, 13% and 14% (HRK 407 million and HRK 433 million) of total assets of the Group and the Company stated at fair value are classified at level 3, i.e. calculated by using non-public input. Level 3 financial instruments predominantly comprise unquoted and quoted shares, but without significant trading.	Our audit procedures which refer to illiquid financial instruments valuation by the Management of the Company entail: - In case of illiquid shares trading, we examined the appropriateness of used valuation methodologies; - In case of the sample of financial instruments with significant values, for which the assessment parameters are not available, we used internal experts in order to critically assess the assumptions used during valuation and data used by the Management of the Company or to conduct independent value assessments, including the alternative methods used by other market participants and key factor sensitivity analysis. Furthermore, we examined the information published in the Group and the Company's financial statements so as to assess whether they were sufficiently comprehensive and concluded that the information disclosed in the financial statements adequately indicates the exposure of the Group and the Company to the financial instrument valuation risk. We assessed the compliance of the fair value hierarchy policy with the requirements of the International Financial Reporting Standard 13 – Fair Value Measurement.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Valuation of technical provisions *Pay attention to Notes 3, 4, and 28 in the financial statements* Technical provisions of the Group and the Company, which entail the provisions for declared, but unpaid claims and provisions for non-expired risks, reflect the uncertainty which forms a constituent part of the insurance industry. The calculation of technical provisions is demanding because it includes a high level of assessment and complex mathematical and statistical calculations. In case of provisions for declared, but unpaid claims, the Claims department sets the amount of the provision after processing all available information. The claims data is aggregated and observed on a group level in order to set the total amount of losses to be incurred for all policies per type of insurance. The provisions for claims outstanding models take into account experience, claims development, market conditions, as well as assumptions sensitive to legal, economic and other different insecurity factors in order to assess losses. The provision for non-expired risks is calculated by taking into account the recognised premiums, nature of risk and generally accepted valuation methods. The Management examines the claims and premiums, as well as model inputs, and is responsible for appointing an authorised independent actuary, whose task is to examine the estimated provisions in order to ensure their adequacy.	When auditing the technical provisions, we examined the controls design and implementation, details testing and analytical procedures for the Group and the Company's technical provisions. In addition, we compared the actuary methods and assumptions used by the Management with the insurance market data and recognised actuary procedures. Our procedures include a review of assumptions used by the independent qualified authorised actuary, review of input data for the calculation of technical provisions and understanding the conclusions made, an assessment of the methodology consistency in comparison to the previous years, and determining whether the changes in actuarial models are in line with our expectations derived from the business and market development. We engaged an independent authorised actuary in order to analyse and critically examine the calculation of provisions which are subject to uncertainty the most and which have the highest amounts. We compared the independent analysis to the Management's analysis and obtained explanations for material departures, if any. Furthermore, we examined the information disclosed in the Group and the Company's financial statements so as to assess whether the relevant transaction was sufficiently comprehensive to the users of financial statements.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in Articles 21 and 24 of the Accounting Act.

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

1. Information included in the other information is, in all material respects, consistent with the attached financial statements;
2. The Management Report of the Company for 2017 has been prepared, in all material respects, in accordance with Articles 21 and 24 of 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 that sense, we have nothing to report.

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

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

In line with the Ordinance on the structure and content of the financial statements and additional reports of insurance companies or reinsurance companies (OG No. 37/16, "the Ordinance"), the Management Board of the Company designed forms shown in the Appendix to these financial statements on pages 132 to 138, and contain the statement of comprehensive income, statement of financial position, statement of changes in capital and reserves, statement of cash flows, and notes on adjustments. These forms and relevant adjustments are the responsibility of the Management Board of the Company, and they do not form an inseparable part of these financial statements, which are shown on pages 44 to 131, but are required by the Ordinance.

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Company by General Assembly on 6 May 2017 to perform the audit of accompanying financial statements. Our total uninterrupted engagement has lasted 1 year and covers the period from 31 December 2017 to 31 December 2017.

We hereby confirm the following:

- Our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 30 April 2018, in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Branislav Vrtačnik

Member of the Board and Certified Auditor

Deloitte d.o.o.

Zagreb, 30 April 2018

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

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(all amounts in thousands of HRK)

	Notes	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Earned premium					
Written gross premium and premium written for co-insurance	5	915,180	915,180	842,516	842,516
Value provisions and paid premium value provisions	5	1,420	1,420	(4,229)	(4,229)
Outward reinsurance and co-insurance gross premiums	5	(19,869)	(19,869)	(14,718)	(14,718)
Net written premium		**896,731**	**896,731**	**823,569**	**823,569**
Changes in gross unearned premium provisions	5	(47,842)	(47,842)	(14,460)	(14,460)
Changes in gross unearned premium provisions, reinsurance and co-insurance share	5	2,687	2,687	(819)	(819)
Net earned premium	*5*	***851,576***	***851,576***	***808,290***	***808,290***
Income from fees and commissions	6	1,259	1,259	801	801
Investment income	7	90,521	90,521	113,868	113,868
Other business income	8	40,322	38,938	15,764	15,764
Net income		**983,678**	**982,294**	**938,723**	**938,723**
Liquidated claims		(332,658)	(332,658)	(316,571)	(316,571)
Liquidated claims, reinsurance share		2,349	2,349	5,271	5,271
Changes in provisions for claims outstanding		37,997	37,997	32,631	32,631
Changes in other technical provisions for claims outstanding, net of reinsurance		(257)	(257)	(246)	(246)
Return of premium (bonuses and rebates), net of reinsurance		3,126	3,126	(4,087)	(4,087)
Changes in provisions for claims outstanding, reinsurance share		(990)	(990)	(1,523)	(1,523)
Claims incurred	9	**(290,433)**	**(290,433)**	**(284,525)**	**(284,525)**
Underwriting costs	10	(290,307)	(290,307)	(267,731)	(267,731)
Administrative costs	11	(146,968)	(146,968)	(151,148)	(151,148)
Investment costs	7	(90,105)	(90,105)	(56,868)	(56,868)
Other business costs	12	(46,811)	(46,811)	(44,229)	(44,229)
Profit before tax		**119,054**	**117,670**	**134,222**	**134,222**
Corporate income tax	13	(24,306)	(24,306)	(27,624)	(27,624)
Profit after tax		**94,748**	**93,364**	**106,598**	**106,598**

The following notes form and inseparable part of these financial reports.

(all amounts in thousands of HRK)

	Notes	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Items that will not be reclassified in the Report of Profit or Loss					
Net income/(loss) of revaluation reserves for property and equipment		15,927	15,927	(6,802)	(6,802)
Items that can be subsequently reclassified in the Report of Profit or Loss					
Net income/(loss) of revaluation reserves for securities available for sale		7,686	7,686	(3,762)	(3,762)
Total other comprehensive income/(loss)		***23,613***	***23,613***	***(10,564)***	***(10,564)***
Total comprehensive income		**118,361**	**116,977**	**96,034**	**96,034**
Profit after tax attributable to:					
- Company's owners		94,307	93,364	106,598	106,598
- owners of non-controlling interests		441	-	-	-
		94,748	**93,364**	**106,598**	**106,598**
Total comprehensive income attributable to:					
- Company's owners		117,920	116,977	96,034	96,034
- owners of non-controlling interests		441	-	-	-
		118,361	**116,977**	**96,034**	**96,034**
Earnings per share (in HRK)		**388.06**	**383.52**	**314.86**	**314.86**

(all amounts in thousands of HRK)

	Notes	Group on 31/12/2017	Company on 31/12/2017	Group on 31/12/2016	Company on 31/12/2016
Property					
Fixed assets					
Goodwill	14	4,307	-	-	-
Intangible assets	15	10,275	10,275	2,180	2,180
Property and equipment	16	316,150	316,150	241,682	241,682
Investment property	17	847,139	812,556	761,147	761,147
Financial assets available for sale	18	797,778	823,713	911,630	911,630
Loans and receivables	19	656,697	656,697	498,973	498,973
Bank deposits	20	19,387	19,387	-	-
Guarantee deposits for lease contracts		7,186	7,186	2,923	2,923
		2,658,919	**2,645,964**	**2,418,535**	**2,418,535**
Current assets					
Loans and receivables	19	127,559	127,559	132,257	132,257
Bank deposits	20	16,902	16,902	96,946	96,946
Premium receivables	21	159,697	159,697	106,778	106,778
Reinsurance share in technical provisions	28	17,384	17,384	15,686	15,686
Credit, cards and checks receivables		42,300	42,300	42,102	42,102
Other receivables	22	85,928	83,231	63,096	63,096
Costs paid in advance		4,373	4,373	5,875	5,875
Cash at bank and in hand	23	17,796	17,796	64,469	64,469
		471,939	**469,242**	**527,209**	**527,209**
Total assets		**3,130,858**	**3,115,206**	**2,945,744**	**2,945,744**

The following notes form and inseparable part of these financial reports.

(all amounts in thousands of HRK)

	Notes	Group on 31/12/2017	Company on 31/12/2017	Group on 31/12/2016	Company on 31/12/2016
Assets and Liabilities					
Equity and reserves					
Equity	24	61,002	61,002	61,002	61,002
Revaluation reserves for financial assets available for sale	25	20,461	20,461	12,775	12,775
Revaluation reserves for property	26	309,351	309,351	300,456	300,456
Legal reserves	27	172,585	172,585	172,585	172,585
Retained profit		714,635	713,693	662,080	662,080
		1,278,034	**1,277,093**	**1,208,898**	**1,208,898**
Owners of non-controlling interests		10,563	-	-	-
Total equity		**1,288,597**	**1,277,093**	**1,208,898**	**1,208,898**
Technical provisions					
Unearned premiums, gross	28	503,154	503,154	455,312	455,312
Claims oustanding, gross	28	948,223	948,223	989,090	989,090
		1,451,377	**1,451,377**	**1,444,402**	**1,444,402**
Long-term liabilities					
Deferred tax assets/liabilities	13	53,514	53,514	61,169	61,169
Long-term loan	29	82,193	79,065	40,000	40,000
		135,707	**132,579**	**101,169**	**101,169**
Short-term liabilities					
Short-term loans	29	42,558	42,558	42,825	42,825
Liabilities from direct insurance	30	35,170	35,170	49,266	49,266
Liabilities from reinsurance		5,826	5,826	1,533	1,533
Current tax liability	31	18,688	18,688	8,617	8,617
Other liabilities	31	152,935	151,915	89,034	89,034
		255,177	**254,157**	**191,275**	**191,275**
Total equity and liabilities		**3,130,858**	**3,115,206**	**2,945,744**	**2,945,744**

The following notes form and inseparable part of these financial reports.

(all amounts in thousands of HRK)

GROUP

	Equity	Revaluation reserves for securities available for sale	Revaluation reserves for property and equipment	Legal reserves	Retained profit	Shares of the parent's owners	Owners of non-controlling interests	Total
Balance at 1 January 2016	**61,002**	**30,160**	**309,131**	**172,585**	**514,724**	**-**	**-**	**1,087,602**
Revaluation, net	-	(3,762)	(6,802)	-	-	-	-	(10,564)
Profit after tax	-	-	-	-	106,598	-	-	106,598
Total comprehensive income	*-*	*(3,762)*	*(6,802)*	*-*	*106,598*	*-*	*-*	*96,034*
Depreciation	-	-	(7,572)	-	9,465	-	-	**1,893**
Payment of dividends for 2016	-	-	-	-	(46,056)	-	-	(46,056)
Balance at 31 December 2016	**61,002**	**12,775**	**300,456**	**172,585**	**662,081**	**-**	**-**	**1,208,899**
Revaluation, net	-	7,686	15,927	-	-	23,613	-	23,613
Profit after tax	-	-	-	-	94,307	94,307	441	94,748
Total comprehensive income	*-*	*7,686*	*15,927*	*-*	*94,307*	*117,920*	*441*	*118,361*
Additional non-controlling interests after the acquisition of MTT d.o.o.	-	-	-	-	-	-	10,122	**10,122**
Depreciation	-	-	(7,031)	-	8,575	1,544	-	**1,543**
Payment of dividends for 2017	-	-	-	-	(50,327)	(50,327)	-	(50,327)
Balance at 31 December 2017	**61,002**	**20,461**	**309,351**	**172,585**	**714,635**	**69,137**	**10,563**	**1,288,598**

The following notes form and inseparable part of these financial reports.

(all amounts in thousands of HRK)

COMPANY

	Equity	Revaluation reserves for securities available for sale	Revaluation reserves for property and equipment	Legal reserves	Retained profit	Total
Balance at 1 January 2016	**61,002**	**30,160**	**309,131**	**172,585**	**514,724**	**1,087,602**
Revaluation	-	(3,762)	(6,802)	-	-	(10,564)
Profit after tax	-	-	-	-	106,598	106,598
Total comprehensive income	*-*	*(3,762)*	*(6,802)*	*-*	*106,598*	*96,034*
Depreciation	-	-	(7,572)	-	9,465	**1,893**
Payment of dividends for 2016	-	-	-	-	(46,056)	(46,056)
Balance at 31 December 2016	**61,002**	**12,775**	**300,456**	**172,585**	**662,081**	**1,208,899**
Revaluation	-	7,686	15,927	-	-	23,613
Profit after tax	-	-	-	-	93,364	93,364
Total comprehensive income	*-*	*7,686*	*15,927*	*-*	*93,364*	*116,977*
Depreciation	-	-	(7,031)	-	8,575	**1,543**
Payment of dividends for 2017	-	-	-	-	(50,327)	(50,327)
Balance at 31 December 2017	**61,002**	**20,461**	**309,351**	**172,585**	**713,693**	**1,277,093**

The following notes form and inseparable part of these financial reports.

(all amounts in thousands of HRK)

CASH FLOW FROM OPERATING ACTIVITIES	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Cash flow before the change in assets and liabilities				
Profit / (Loss) before tax	**119,054**	**117,670**	**134,222**	**134,222**
Adjustments:				
Property and equipment depreciation	25,203	25,203	24,286	24,286
Intangible assets depreciation	2,345	2,345	152	152
Investment income	(90,521)	(90,521)	(113,869)	(113,869)
Investment cost	90,105	90,105	56,868	56,868
Net book value of disposed assets	-	-	2,671	2,671
Changes in technical provisions	6,975	6,975	(13,836)	(13,836)
Changes in the reinsurance share in technical provisions	(1,698)	(1,698)	2,342	2,342
Corporate income taxes	(25,591)	(25,150)	(16,408)	(16,408)
Dividend income	6,314	6,314	10,511	10,511
Paid interest	(4,124)	(4,124)	(2,570)	(2,570)
Interest income	43,793	43,793	48,961	48,961
(Increase in) investments available for sale	97,875	71,940	(112,349)	(112,349)
Decrease in deposits, loans and receivables	28,305	28,305	44,237	44,237
Decrease in receivables and other assets	(95,036)	(92,339)	36,712	36,712
(Decrease in) other liabilities	54,487	53,467	(39,999)	(39,999)
Other	6,256	-	-	-
CASH FLOW FROM OPERATING ACTIVITIES	**263,742**	**232,285**	**61,930**	**61,930**

(all amounts in thousands of HRK)

CASH FLOW FROM OPERATING ACTIVITIES (continued)	**Group in 2017**	**Company in 2017**	**Group in 2016**	**Company in 2016**
Property and equipment supply expenses	(91,077)	(91,077)	(6,002)	(6,002)
Intangible assets purchase expenses	-	-	(68)	(68)
Investment property purchase expenses	(59,189)	(24,606)	(1,759)	(1,759)
CASH FLOW FROM INVESTMENT ACTIVITIES	**(150,266)**	**(115,683)**	**(7,829)**	**(7,829)**
Income from received loans	41,926	38,798	40,000	40,000
Payment of received loans	(151,747)	(151,747)	(9,413)	(9,413)
Cash expenses for the payment of dividend	(50,327)	(50,327)	(45,310)	(45,310)
CASH FLOW FROM FINANCIAL ACTIVITIES	**(160,148)**	**(163,276)**	**(14,723)**	**(14,723)**
Net (decrease in) cash and cash equivalents	**(46,672)**	**(46,675)**	**39,379**	**39,379**
Cash and cash equivalents in the beginning of the year	**64,469**	**64,469**	**25,090**	**25,090**
Cash and cash equivalents in the end of the year	**17,796**	**17,796**	**64,469**	**64,469**

The following notes form and inseparable part of these financial reports.

1. GENERAL DATA

Euroherc osiguranje PLC, (hereinafter: "the Company") was 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 14 Branch offices. The Croatian Agency for Supervision of Financial Services (HANFA) regulates the business operations of the Company.

On 31 December 2017, the Company had 1,089 employees, which is 42 employees more than in 2016.

Management and Supervisory Board

Management Board

Ivana Bratanić, President of the Management Board since 31 January 2017
Damir Zorić, Member of the Management Board since 31 January 2017, and the Procurator of the Company since 12 September 2017
Željko Kordić, Member of the Management Board since 27 April 2015
Tomislav Čizmić, Member of the Management Board since 11 May 2017
Vjeran Zadro, Member of the Management Board since 30 January 2017
Darinko Ivković, Member of the Management Board since 19 June 2017

Supervisory Board

Mladenka Grgić, President of the Supervisory Board since 18 July 2017
Zlatko Lerota, Vice President of the Supervisory Board since 18 July 2017
Hrvoje Planinić, Member of the Supervisory Board since 18 July 2017
Niko Krivić, Member of the Supervisory Board since 8 July 2017
Miroslav Grbavac, Member of the Supervisory Board since 8 July 2017
Radoslav Lavrić, Member of the Supervisory Board since 18 July 2017
Radoslav Pavlović, Member of the Supervisory Board since 30 July 2014

2. ADOPTION OF NEW AND AMENDED STANDARDS

Amendments to the accountancy policies and disclosures

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

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

- **Amendments to IAS 7 "Report of Cash Flows"** - "Disclosure Initiative", adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - "Recognition of Deferred Tax Assets for Unrealised Losses", adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"**, resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and clarify wording, adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

2. Summary of relevant accountancy policies (continued)

Amendments to the accountancy policies and disclosures (continued)

Amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

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

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 November 2016 effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"**, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - "Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'", adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and clarify wording, adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Group decided not to adopt these new standards and their amendments before they become effective.

2. Summary of relevant accountancy policies (continued)

Amendments to the accountancy policies and disclosures (continued)

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

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which have still not been adopted by the EU by 30 April 2018 (the effective dates stated below is for IFRSs in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** – "Classification and measurement of share-based payment transactions" (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Reports" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 19 "Employee Benefits"** - "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019).

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

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which have still not been adopted by the EU by 18 April 2017 (the effective dates stated below is for IFRS in full) (continued):

- **Amendments to IFRS 28 "Investments in Associates and Joint Ventures"** – "Long-term Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 40 "Investment Property" – "Transfer of Investment Property"** (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)"**, resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to remove inconsistencies and clarify wording (effective for annual periods beginning on or after 1 January 2019),

2. Summary of relevant accountancy policies (continued)

Amendments to the accountancy policies and disclosures (continued)

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

- **Interpretation of IFRIC 22: "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),

- **Interpretation of IFRIC 23: "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Group believes that the adoption of these standards, amendments to the existing standards, and new interpretations shall not lead to any material changes in the Group's financial reports during their initial application.

The IFRS 9 "Financial Instruments", published on 24 July 2014, as IASB's replacement for IAS 39 "Financial instruments: Recognition and Measurement". The IAS contains requirements that refer to the recognition and measurement, impairment, de-recognition and general rules on hedge accounting. The IFRS 9 introduced a new approach to financial asset classification, based on cash flow features, and the business model pursuant to which a certain financial asset item is held. This unique principle-based approach will replace the existing requirement that derive from the IAS 39 rules. This new model will introduce a unique impairment model, applicable to all financial instruments. The IFRS 9 introduced a new impairment model based on expected losses and stipulates an early recognition of expected loan losses. In particular, the new standard stipulates the subject's obligation to calculate the expected loan losses since the moment of the first financial instrument recognition and a more timely recognition of expected losses all through the financial instrument's duration. The IFRS 9 introduced a significantly amended hedge accounting model, pursuant to which more information on risk management activities should be disclosed. The new model is the result of a significantly amended hedge accounting model, and it harmonised the accountancy procedure with risk management activities. The IFRS 9 eliminated the profit and loss uncertainty that derived from credit risk liability changes, which are to be measured at fair value. This change of method of calculation means that the gains that derive from the aggravation of the subject's own credit risk based on its liabilities will no longer be shown in the profit and loss section. However, it is not practical to present an adequate assessment of the IFRS 9 before conducting further checks. The Group is currently assessing the impacts of the introduction of IFRS 9 on financial assets and financial liabilities.
The Group may be exempted from the application of IFRS 9 until IFRS 17 enters into force, but must continue to comply with minimum disclosure requirements, starting with the financial year that will end on 31 December 2018.

3. ACCOUNTANCY POLICIES

Report of compliance

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

Basis of preparation

Financial reports 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 reports are prepared on the going concern basis.

The financial reports are given in HRK.

The accompanying financial reports 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 reports 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 reports 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.

Basis for Consolidation

Consolidated financial reports comprise the Company and its Branch offices (together "Group").

Business mergers

The Group recognizes business mergers by using the merger method when the control is indeed transferred to the Group. As a rule, the consideration is measured at fair value, as well as acquired net assets which can be seen as separate. The goodwill that arises during mergers is checked annually on account of impairment. Negative goodwill that arises in case of an affordable purchase is immediately recognised in the report of profit or loss. Transaction costs are recognised in the report 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 report 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 re-measured 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.

3. ACCOUNTANCY POLICIES (continued)

Branch offices

Branch offices are all companies the Group controls. 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 reports of the subsidiary are included in the financial reports 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 separate financial reports of the Company, where relevant, the investment in the subsidiary is stated as cost less relevant impairment losses.

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. If the Group maintains a share in the ex-subsidiary, this share is stated at its fair value on the day of the end of control. Afterwards, 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 associated companies.

Associated companies represent entities in which the Group exercises significant influence, but not control or join control over the financial and business opportunities of that entity.

The shares in associated companies 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 reports until the date of end of significant influence, i.e. joint control.

In separate financial reports of the Company, where relevant, the investment in the associate company 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 reports. Unrealised gains that relate to the transactions of the Group and its associated companies are eliminated in accordance with the proportion of the Company's share in the associated company. Unrealised losses are also eliminated, same as unrealised gains, but only if there are no impairment indicators.

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 provisions and paid premium value provisions, 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.

Underwriting costs

The underwriting costs entail costs incurred by concluding the insurance contract, which entails all direct insurance costs. Direct underwriting 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 reports 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 business operations costs

Gross business operations costs 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 report 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 report of profit or loss, based on the incurrence principle.

Investment income allocation

Interest income is recognised in the report 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 report of profit or loss is calculated by using the straight-line method throughout the lease period.

Foreign means of payment

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 report 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 reports 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 Branch offices 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 report 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 report 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 report of financial position in revalued amounts, which represent their revaluation date fair value less the value provisions 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 report of profit or loss, and in that case the increase is recorded in the report 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 report 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 report 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:

	2017	2016
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 report of profit or loss.

Intangible assets

Individually acquired intangible assets are stated based on their purchase value less the value provisions 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 report 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 assess 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

Leases are considered financial leases whenever almost all risks and rewards associated with the ownership of the financial asset are transferred to the lessee throughout the duration of the lease. All other leases are considered business leases.

The Group as a lessee

The property that is the subject of financial lease is recognised as the Group's property measured at fair value in the beginning of the lease or at current value of minimum lease payments if it is lower. The related liability towards the lessor is stated in the report of financial position as a financial lease liability.

The lease payments are allocated to financial costs and impairment of lease liability in order to achieve a constant interest rate on the outstanding amount of the liability. Financial costs are directly recorded in the report of profit or loss, unless they can be directly attributed to a qualifying asset, in which case they are capitalised pursuant to the general policy of the Group which regulates the capitalisation of borrowing costs. Unforeseen lease payments are recognised as expenses for the period they incurred in.

Lease fees paid as a part of operating leases are recognised as linear expenses during the lease period, unless some other system basis would not better reflect the time dynamic of enjoying economic benefits from the leased asset. Unforeseen lease payments due to an operating lease are recognised as expenses for the period they incurred in.

In case of incentives obtained for concluding a business lease, the incentive is recognised as a liability. The total use of the incentive is recognised as a linear impairment cost, unless some other system basis would not better reflect the time dynamic of enjoying economic benefits from the leased asset.

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 report 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 report 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 report 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 report 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 report 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 report of profit and loss of the period.

Dividends of equity instruments classified in the portfolio of assets available for sale are recognised in the report 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 report 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 by using the effective interest rate method, less the potential impairment losses. Interest income is stated by applying the effective interest rate method.

Financial assets impairment

Financial assets, other than fair value assets with changes in fair value stated in the report 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)

Financial assets impairment (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 report of profit or loss.

Except for equity instruments held at fair value through the presentation of fair value changes in the report 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 report 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 report of profit or loss are concerned, the impairment losses previously recognised in the report of profit or loss are not cancelled in the report 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 transferred 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.

Financial assets netting

Financial assets and liabilities are netted and reported in the net amount in the report 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 reports 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 report 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 report 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 report 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 the Group issued

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 report of profit or loss or as other financial liabilities.

3. ACCOUNTANCY POLICIES (continued)

Financial liabilities and equity instruments the Group issued (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.

End of financial liability recognition

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 is 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 report 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.

Reserves

The Group has a reasonably careful approach to forming reserves pursuant to the regulations of the Croatian Agency for Supervision of Financial Services (HANFA). The Group employs authorised actuaries. The Group's policy is to form a reserve for risks which have not expired, and which 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 risks which have not expired 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 2017. Therefore, the recognition of such reserves 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 instrument

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

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF UNCERTAINTY OF ESTIMATES (continued)

cash flows expected from the cash-generating units, as well as the relevant discount rate for calculating the current value.

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 2017

THE GROUP AND THE COMPANY

	Earned gross premium	Outward reinsurance gross premiums	Changes in gross unearned premium provisions	Changes in gross unearned premium provisions, reinsurance share	Value provisions and paid premium value provisions	Net earned premium
Motor Third Party Liability Insurance	491,938	(1,142)	(24,391)	(1)	498	466,902
Road Vehicle Insurance – Casco	150,017	-	(18,762)	-	(38)	131,217
Assets	87,738	(10,935)	(2,456)	882	1,936	77,165
Accident Insurance and Health Insurance	95,072	(3,023)	(177)	2,177	(99)	93,950
Other	90,415	(4,769)	(2,056)	(371)	(877)	82,342
	915,180	**(19,869)**	**(47,842)**	**2,687**	**1,420**	**851,576**

for the year ended 31 December 2016

THE GROUP AND THE COMPANY

	Earned gross premium	Outward reinsurance gross premiums	Changes in gross unearned premium provisions	Changes in gross unearned premium provisions, reinsurance share	Value provisions and paid premium value provisions	Net earned premium
Motor Third Party Liability Insurance	458,652	(757)	(323)	(1)	808	458,379
Road Vehicle Insurance – Casco	120,713		(11,175)		(352)	109,186
Assets	82,849	(9,083)	(201)	(219)	(1,603)	71,743
Accident Insurance and Health Insurance	94,050	(248)	(4,642)	(22)	(1,130)	88,008
Other	86,252	(4,630)	1,881	(577)	(1,952)	80,974
	842,516	**(14,718)**	**(14,460)**	**(819)**	**(4,229)**	**808,290**

(all amounts in thousands of HRK)

6. INCOME FROM FEES AND COMMISSIONS

THE GROUP AND THE COMPANY

	2017	2016
Income from fees for re-insurance	1,259	801
	1,259	**801**

7. INVESTMENT INCOME AND INVESTMENT COSTS

Investment income	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Lease income	26,071	26,071	27,241	27,241
Interest income	43,793	43,793	48,961	48,961
Financial investment sale income	12,748	12,748	16,327	16,327
Dividend income	6,314	6,314	10,511	10,511
Positive exchange differences	1,595	1,595	933	933
Other income (reversal of provisions)	-	-	9,895	9,895
	90,521	**90,521**	**113,868**	**113,868**

Interest income	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Interest income – assets available for sale	13,211	13,211	15,221	15,221
Bank deposit interest income	944	944	4,232	4,232
Loan interest income	29,620	29,620	29,477	29,477
Other (assets on accounts, default interest, vehicles)	18	18	31	31
	43,793	**43,793**	**48,961**	**48,961**

Loan interest rates with impaired value amounted to 935,000 HRK in 2017, and 5,726,000 in 2016.

Financial investment sale income

THE GROUP AND THE COMPANY

2017	Costs	Selling price	Realised income
Bonds	67,675	68,439	764
Commercial papers	35,466	35,471	5
Shares	181,389	193,368	11,979
			12,748

2016	Costs	Selling price	Realised income
Bonds	168,806	176,492	7,686
Investment funds	2,694	3,255	561
Shares	103,019	111,099	8,080
			16,327

(all amounts in thousands of HRK)

7. INVESTMENT INCOME AND INVESTMENT COSTS (continued)

Dividend income	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Dividend income	6,314	6,314	10,511	10,511
	6,314	**6,314**	**10,511**	**10,511**

Investment costs	Group in 2017	Compan y in 2017	Group in 2016	Company in 2016
Interest cost (i)	4,124	4,124	3,405	3,405
Losses on sale of financial assets	1,640	1,640	8,580	8,580
Impairment – loans and receivables (ii)	31,073	31,073	4,447	4,447
Impairment – assets available for sale	35,801	35,801	4,186	4,186
Losses due to fair valuation of investment properties	(732)	(732)	24,467	24,467
Other investment costs (iii)	16,326	16,326	9,174	9,174
Negative exchange differences	1,873	1,873	2,609	2,609
	90,105	**90,105**	**56,868**	**56,868**

(I) Interest cost	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Interest cost for bank loans	1,408	1,408	835	835
Interest cost for loans of other companies	2,593	2,593	2,515	2,515
Default interest	123	123	55	55
	4,124	**4,124**	**3,405**	**3,405**

(ii) Impairment of loans refers to undue loans. However, considering the financial position of the debtor, the Group and the Company have recognised the impairment.

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

8. OTHER BUSINESS INCOME

	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Income from reversal of provisions	12,740	12,740	7,504	7,504
Income from sale of financial assets	2,001	2,001	1,502	1,502
Other income – border insurance and handling fee	1,042	1,042	760	760
Surrender value of life insurance	17,064	17,064	1,121	1,121
Other income	7,475	6,091	4,877	4,877
	40,322	**38,938**	**15,764**	**15,764**

(all amounts in thousands of HRK)

9. CLAIMS INCURRED

for the year ended 31 December 2017

THE GROUP AND THE COMPANY

	Gross liquidated claims	Reinsurer's share in gross liquidated claims	Changes in gross provisions for claims outstanding	Changes 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	(209,565)	-	38,547	-	-	414	(170,604)
Road Vehicle Insurance – Casco	(79,797)	19	11,942	-	-	(12)	(67,848)
Assets	(21,214)	1,426	992	-	-	(1,302)	(20,098)
Accident Insurance and Health Insurance	(9,972)	-	(6,068)	-	-	-	(16,040)
Other	(12,110)	904	(7,416)	(257)	3,126	(90)	(15,843)
	(332,658)	**2,349**	**37,997**	**(257)**	**3,126**	**(990)**	**(290,433)**

(all amounts in thousands of HRK)

9. CLAIMS INCURRED (continued)

for the year ended 31 December 2016

THE GROUP AND THE COMPANY

	Gross liquidated claims	Reinsurer's share in gross liquidated claims	Changes in gross provisions for claims outstanding	Changes 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	(189,366)	295	33,963	-	-	(874)	(155,982)
Road Vehicle Insurance – Casco	(70,706)	8	(3,275)	-	-	(41)	(74,014)
Assets	(26,850)	3,880	1,614	-	(3,073)	(617)	(25,046)
Accident Insurance and Health Insurance	(10,900)	-	1,778	-	9	-	(9,113)
Other	(18,749)	1,088	(1,449)	(246)	(1,023)	9	(20,370)
	(316,571)	**5,271**	**32,631**	**(246)**	**(4,087)**	**(1,523)**	**(284,525)**

The Group and the Company liquidated a total of 171,350 payment claims in 2017 (in 2016, 156,262), while 18,738 payment claims are in the reserve on 31 December 2017 (in 2016, 14,501).

(all amounts in thousands of HRK)

9. CLAIMS INCURRED (continued)

Analysis of the damage quota, costs quota and combined costs quota

The damage quota, costs quota and combined costs quota for types of insurance calculated pursuant to the Instruction for filling in financial reports of the Insurance company or reinsurance companies.

THE GROUP AND THE COMPANY

2017	Damages quota	Costs quota	Combined quota
Accident Insurance	1.44%	83.21%	84.64%
Health Insurance	68.74%	1.79%	70.53%
Road Vehicle Insurance	69.91%	26.31%	96.22%
Aircraft Insurance	215.91%	8.07%	223.98%
Vessel Insurance	29.47%	1.01%	30.48%
Goods in Transit Insurance	(13.92%)	8.09%	(5.83%)
Fire and Special Perils Insurance	17.48%	62.46%	79.94%
Other Property Insurance	37.58%	52.18%	89.77%
Motor Vehicle Liability Insurance	36.54%	62.20%	98.74%
Aircraft Liability Insurance	(32.91%)	6.16%	(26.75%)
Vessel Liability Insurance	1.89%	1.34%	3.23%
Other Liability Insurance	4.52%	23.07%	27.59%
Loan Insurance	(142.48%)	0.00%	(142.48%)
Guarantee Insurance	40.32%	0.49%	40.81%
Financial Losses Insurance	1.10%	26.43%	27.53%
Legal Protection Insurance	-	-	-
Travel Insurance	23.81%	22.65%	46.46%

THE GROUP AND THE COMPANY

2016	Damages quota	Costs quota	Combined quota
Accident Insurance	8.09%	88.02%	96.11%
Health Insurance	55.69%	2.71%	58.41%
Road Vehicle Insurance	67.76%	27.38%	95.14%
Aircraft Insurance	2,074,133%	0.00%	2,074,133%
Vessel Insurance	85.71%	1.13%	86.84%
Goods in Transit Insurance	42.13%	6.43%	48.56%
Fire and Special Perils Insurance	13.08%	74.85%	87.93%
Other Property Insurance	57.08%	42.62%	99.70%
Motor Vehicle Liability Insurance	33.85%	65.53%	99.38%
Aircraft Liability Insurance	(8.03%)	1.67%	(6.36%)
Vessel Liability Insurance	4.13%	1.13%	5.26%
Other Liability Insurance	21.69%	23.75%	45.44%
Loan Insurance	(57.95%)	0.00%	(57.95%)
Guarantee Insurance	22.52%	1.32%	23.83%
Financial Losses Insurance	2.29%	18.68%	20.97%
Travel Insurance	45.08%	25.19%	70.27%

(all amounts in thousands of HRK)

10. UNDERWRITING COSTS
THE GROUP AND THE COMPANY

	2017	**2016**
Taxes and contributions from and on salaries	92,421	83,830
Promotions	37,231	37,050
Commissions	18,918	13,977
Media	3,938	4,080
Policy issuance costs	1,820	1,719
Donations	1,735	1,596
Sponsorships	631	793
Other underwriting costs	427	469
Other administrative costs	133,186	124,217
	290,307	**267,731**

The greatest part of underwriting costs refers to Motor Third Party Liability Insurance and Road Vehicle Insurance, and the rest of insurance has no material relevance.

(all amounts in thousands of HRK)

10. UNDERWRITING COSTS (continued)

Underwriting costs based on type of insurance for 2017 are shown below:

THE GROUP AND THE COMPANY

Types of insurance	Commission	Other underwriting costs	Total underwriting costs
Accident Insurance	2,271	26,408	28,679
Road Vehicle Insurance	3,850	19,368	23,218
Aircraft Insurance	3	-	3
Vessel Insurance	30	-	30
Goods in Transit Insurance	43	-	43
Fire and Special Perils Insurance	1,311	12,407	13,718
Other Property Insurance	1,018	12,189	13,207
Motor Vehicle Liability Insurance	7,688	192,464	200,152
Aircraft Liability Insurance	4	-	4
Vessel Liability Insurance	22	-	22
Other Liability Insurance	1,502	3,823	5,325
Guarantee Insurance	7	-	7
Financial Losses Insurance	573	1,346	1,919
Travel Insurance	596	3,384	3,980
	18,918	**271,389**	**290,307**

Underwriting costs based on type of insurance for 2016 are shown below:

THE GROUP AND THE COMPANY

Types of insurance	Commission	Other underwriting costs	Total underwriting costs
Accident Insurance	1,566	25,387	26,953
Road Vehicle Insurance	3,004	16,465	19,469
Aircraft Insurance	4	-	4
Vessel Insurance	35	-	35
Goods in Transit Insurance	45	-	45
Fire and Special Perils Insurance	1,208	11,322	12,530
Other Property Insurance	340	9,427	9,767
Motor Vehicle Liability Insurance	5,742	183,844	189,586
Aircraft Liability Insurance	4	-	4
Vessel Liability Insurance	17	-	17
Other Liability Insurance	1,607	3,442	5,049
Guarantee Insurance	3	-	3
Financial Losses Insurance	114	846	960
Travel Insurance	288	3,021	3,309
	13,977	**253,754**	**267,731**

(all amounts in thousands of HRK)

11. ADMINISTRATIVE COSTS

	2017	2016
Taxes and contributions from and on salaries	47,729	47,204
Tangible assets depreciation	27,523	24,463
Other Management Board costs	71,716	79,481
	146,968	**151,148**

Taxes and contributions from and on salaries:	2017	2016
Net salaries	86,936	80,914
Pension contributions	23,016	22,853
Taxes	11,299	10,499
Contributions on salaries (healthcare, employment, occupational injuries)	21,867	19,412
	143,118	**133,678**

Taxes and contributions from and on salaries:	2017	2016
In administrative costs	47,729	47,205
In underwriting costs	92,421	83,830
In investment costs	2,968	2,643
	143,118	**133,678**

Other administrative costs:

	2017	2016
Services costs	31,222	34,594
Insurance premiums	13,375	17,805
Material expenses	6,268	6,103
Operations fee pursuant to contracts	5,102	5,124
Bank fees and transaction fees	4,414	4,886
Representation	3,572	3,294
Energy costs	3,340	4,369
Business trips costs and reimbursement of costs	3,325	3,306
Other expenses	1,097	-
	71,715	**79,481**

With regard to salaries, other administrative costs are divided into administrative and underwriting costs.

(all amounts in thousands of HRK)

11. ADMINISTRATIVE COSTS (continued)

The Management Board costs for 2017 are as follows:

Types of insurance	THE GROUP AND THE COMPANY Depreciation (without buildings)	THE GROUP AND THE COMPANY Salaries, taxes and contributions from and on salaries	THE GROUP AND THE COMPANY Other Management Board costs	THE GROUP AND THE COMPANY Total Management Board costs
Accident Insurance	2,654	4,725	39,509	46,888
Road Vehicle Insurance	1,427	5,210	3,378	10,015
Fire and Special Perils Insurance	1,185	2,427	1,412	5,024
Other Property Insurance	1,271	2,027	1,514	4,812
Motor Vehicle Liability Insurance	20,441	30,752	25,127	76,321
Other Liability Insurance	232	1,196	280	1,709
Financial Losses Insurance	59	498	70	627
Travel Insurance	254	893	425	1,572
	27,523	**47,730**	**71,715**	**146,968**

The Management Board costs for 2016 are as follows:

Types of insurance	THE GROUP AND THE COMPANY Depreciation (without buildings)	THE GROUP AND THE COMPANY Salaries, taxes and contributions from and on salaries	THE GROUP AND THE COMPANY Other Management Board costs	THE GROUP AND THE COMPANY Total Management Board costs
Accident Insurance	2,407	4,882	39,421	46,710
Road Vehicle Insurance	1,195	4,596	3,475	9,266
Fire and Special Perils Insurance	820	2,196	6,367	9,383
Other Property Insurance	892	1,820	1,263	3,975
Motor Vehicle Liability Insurance	18,746	31,169	26,540	76,455
Other Liability Insurance	185	1,216	1,198	2,599
Financial Losses Insurance	-	476	-	476
Travel Insurance	218	849	1,217	2,284
	24,463	**47,204**	**79,481**	**151,148**

(all amounts in thousands of HRK)

12. OTHER BUSINESS COSTS

THE GROUP AND THE COMPANY

	2017	**2016**
Return of premium	16,102	15,702
Value adjustments of other receivables	15	1,660
Prevention activities costs (firefighting contributions)	205	276
Guarantee Fund of the Croatian Insurance Bureau	3,594	2,288
Provisions (note 30)	2,977	4,652
Regulatory bodies contributions	1,769	1,661
Croatian Health Insurance Fund contributions	11,145	10,925
Other insurance technical expenses	11,004	7,065
	46,811	**44,229**

Insurance companies in the Republic of Croatia pay a monthly contribution for compensating damages caused by non-insured and unknown vehicles into the Guarantee 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. CORPORATE INCOME TAX

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

	Group in 2017	Group in 2016	Company in 2017	Company in 2016
	HRK'000	HRK'000	HRK'000	HRK'000
Total tax expense				
Current corporate income tax	(35,610)	(27,200)	(35,610)	(27,200)
Deferred tax expense	11,304	(424)	11,304	(424)
Tax expense recognised in P&L report	**(24,306)**	**(27,624)**	**(24,306)**	**(27,624)**
Profit before tax	**117,670**	**134,222**	**117,670**	**134,222**
Corporate income tax at a rate of 18% (in 2016, 20%).	(21,181)	(26,845)	(21,181)	(26,845)
Non-deductible tax expenses at a rate of 18% (in 2016, 20%).				
70% of representation costs	*(1,833)*	*(2,088)*	*(1,833)*	*(2,088)*
Depreciation over prescribed rates	*(1,543)*	*(1,893)*	*(1,543)*	*(1,893)*
Receivables write-off	*(56)*	*(980)*	*(56)*	*(980)*
Other increases	*(12,193)*	*(1,839)*	*(12,193)*	*(1,839)*
Income decrease at a rate of 18% (in 2016, 20%).				
Dividend income	*1,136*	*2,102*	*1,136*	*2,102*
Other	*60*	*2,365*	*60*	*2,365*
Unrealised income	*-*	*1,978*	*-*	*1,978*
Current corporate income tax	**(35,610)**	**(27,200)**	**(35,610)**	**(27,200)**

Tax expenses of the subsidiary amounted to 527.000 HRK, which does not represent a significant amount for the Group.

(all amounts in thousands of HRK)

13. CORPORATE INCOME TAX (continued)

THE GROUP AND THE COMPANY

2017	Opening balance	Realised through other comprehensive income	Realised through the profit and loss report	Final balance
Deferred tax liabilities				
Revaluation reserves for securities available for sale	(6,412)	(1,308)	-	(7,720)
Revaluation reserves for property	(65,997)	(1,952)	-	(67,949)
	(72,409)	**(3,260)**	**-**	**(75,669)**
Deferred tax assets				
Value adjustments for loans and receivables	4,050	-	4,860	8,910
Value adjustment for securities available for sale	7,190	(389)	6,444	13,245
Net deferred tax liabilities	**(61,169)**	**(3,649)**	**11,304**	**(53,514)**

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2016	Opening balance	Realised through other comprehensive income	Realised through the profit and loss report	Final balance
Deferred tax liabilities				
Revaluation reserves for securities available for sale	(8,741)	2,329		(6,412)
Revaluation reserves for property and equipment	(78,708)	12,711		(65,997)
	(87,449)	**15,040**		**(72,409)**
Deferred tax assets				
Revaluation reserves for loans and receivables	5,227		(1,177)	4,050
Revaluation reserves for securities available for sale	7,535	(1,098)	753	7,190
Net deferred tax liabilities	**(74,687)**	**13,942**	**(424)**	**(61,169)**

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 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 31/12/2017 HRK'000	Group 31/12/2016 HRK'000	Company 31/12/2017 HRK'000	Company 31/12/2016 HRK'000
Opening balance	-	-	-	-
Increase	**4,307**	-	-	-
Closing balance	**4,307**	-	-	-
Opening balance	-	-	-	-
Impairment	-	-	-	-
Closing balance	-	-	-	-
Carrying amount				
Opening balance	-	-	-	-
Closing balance	**4,307**	-	-	-

In 2017, the Group recognised the goodwill after the acquisition of the company MTT d.o.o. Rijeka, in the amount of 4.307.000 HRK. On 29 May 2017, the Company bought a 68,12% share in the Company MTT d.o.o. for 25.935.000 HRK. 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

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	Investment in third-party assets	Software	Total
Cost			
Balance at 1 January 2016	**977**	**4,934**	**5,911**
Increases	(24)	93	69
Balance at 1 January 2017	**953**	**5,027**	**5,980**
Increases	10,405	34	10,439
Balance on 31 December 2017	**11,358**	**5,061**	**16,419**
Accumulated depreciation			
Balance at 1 January 2016	**219**	**3,428**	**3,647**
Annual cost	76	76	152
Balance at 1 January 2017	**295**	**3,505**	**3,799**
Annual cost	2,302	42	2,345
Balance at 31 December 2017	**2,597**	**3,547**	**6,144**
Net current value			
Balance at 31 December 2016	**658**	**1,522**	**2,180**
Balance at 31 December 2017	**8,761**	**1,513**	**10,275**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT

GROUP

	Land	Buildings	Equipment	Other tangible assets	Current investments	Total
Cost						
Balance at 1 January 2017	**25,775**	**364,837**	**114,220**	**17,979**	**1,003**	**523,814**
Increases	18,959	74	13,892	-	58,459	91,384
Revaluation	922	18,111	-	-	-	19,033
Decreases	(52)	(187)	(2,403)	-	(10,455)	(13,097)
Balance at 31 December 2017	**45,604**	**382,835**	**125,709**	**17,979**	**49,007**	**621,134**
Accumulated depreciation						
Balance at 1 January 2017	**-**	**160,816**	**103,337**	**17,979**	**-**	**282,132**
Annual cost	-	17,918	7,285	-	-	25,203
Decreases	-	(525)	(1,826)	-	-	(2,351)
Balance at 31 December 2017	**-**	**178,209**	**108,796**	**17,979**	**-**	**304,984**
Net carrying amount						
Balance at 31 December 2017	**45,604**	**204,626**	**16,913**	**-**	**49,007**	**316,150**
Balance at 31 December 2016	**25,775**	**204,021**	**10,883**	**-**	**1,003**	**241,682**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (continued)

COMPANY

	Land	Buildings	Equipment	Other tangible assets	Current investments	Total
Cost or valuation						
Balance at 1 January 2017	**25,775**	**364,837**	**114,220**	**17,979**	**1,003**	**523,814**
Increases	18,959	74	13,892	-	58,459	91,384
Revaluation	922	18,111	-	-	-	19,033
Decreases	(52)	(187)	(2,403)	-	(10,455)	(13,097)
Balance at 31 December 2017	**45,604**	**382,835**	**125,709**	**17,979**	**49,007**	**621,134**
Accumulated depreciation						
Balance at 01 January 2017	**-**	**160,816**	**103,337**	**17,979**	**-**	**282,132**
Annual cost	-	17,918	7,285	-	-	25,203
Decreases	-	(525)	(1,826)	-	-	(2,351)
Balance at 31 December 2017	**-**	**178,209**	**108,796**	**17,979**	**-**	**304,984**
Net carrying amount						
Balance at 31 December 2017	**45,604**	**204,626**	**16,913**	**-**	**49,007**	**316,150**
Balance at 31 December 2016	**25,775**	**204,021**	**10,883**	**-**	**1,003**	**241,682**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (continued)

GROUP

	Land	Buildings	Equipment	Other tangible assets	Current investments	Total
Cost or valuation						
Balance at 1 January 2016	**25,893**	**382,129**	**112,980**	**17,979**	**-**	**538,981**
Increases	-	210	2,982	-	2,809	6,002
Revaluation	(118)	(17,502)	-	-	-	(17,620)
Decreases		-	(1,742)	-	(1,806)	(3,548)
Balance at 31 December 2016	**25,775**	**364,837**	**114,220**	**17,979**	**1,003**	**523,815**
Accumulated depreciation						
Balance at 1 January 2016	**-**	**141,782**	**98,963**	**17,979**	**-**	**258,724**
Annual cost	-	19,034	5,252	-	-	24,286
Decreases	-	-	(878)	-	-	(878)
Balance at 31 December 2016	**-**	**160,816**	**103,337**	**17,979**	**-**	**282,132**
Net carrying amount						
Balance at 31 December 2016	**25,775**	**204,021**	**10,883**	**-**	**1,003**	**241,682**
Balance at 31 December 2015	**25,893**	**240,347**	**14,017**	**-**	**-**	**280,258**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (continued)

COMPANY

	Land	Buildings	Equipment	Other tangible assets	Current investments	Total
Cost or valuation						
Balance at 1 January 2016	**25,893**	**382,129**	**112,980**	**17,979**	**-**	**538,981**
Increases	-	210	2,982	-	2,809	6,002
Revaluation	(118)	(17,502)	-	-	-	(17,620)
Decreases		-	(1,742)	-	(1,806)	(3,548)
Balance at 31 December 2016	**25,775**	**364,837**	**114,220**	**17,979**	**1,003**	**523,815**
Accumulated depreciation						
Balance at 1 January 2016	**-**	**141,782**	**98,963**	**17,979**	**-**	**258,724**
Annual cost	-	19,034	5,252	-	-	24,286
Decreases	-	-	(878)	-	-	(878)
Balance at 31 December 2016	**-**	**160,816**	**103,337**	**17,979**	**-**	**282,132**
Net carrying amount						
Balance at 31 December 2016	**25,775**	**204,021**	**10,883**	**-**	**1,003**	**241,682**
Balance at 31 December 2015	**25,893**	**240,347**	**14,017**	**-**	**-**	**280,258**

16. PROPERTY AND EQUIPMENT (continued)

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

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	2017	**2016**
Cost	226,289	207,496
Accumulated depreciation	(91,924)	(82,741)
Net carrying amount	**134,365**	**124,755**

On 31 December 2017, the revaluation reserves for property and equipment amounted to 309,351(000) HRK. The amount of 235,107(000) HRK 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 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.

Please below find information on the fair value hierarchy on 31 December 2017 and 2016 below:

	Level 1	**Level 2**	**Level 3**	**Fair value 2017**
Business premises			250,230	250,230

	Level 1	**Level 2**	**Level 3**	**Fair value 2016**
Business premises	-	-	229,796	229,796

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

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

Description	**Fair value**	**Assessment method**	**Relevant parameters not available on the market**	**Relevant parameter scope**	**Relationship of relevant paremeter to fair value**
Business premises	192,129	Income method	Risk of loss of lease payments	0%-5%	The higher the parameter, the lower the fair value
			Investment maintenance costs	16.09%-21%	The higher the parameter, the lower the fair value
			Supposed lease payments	5,08-24,81 EUR/m2	The higher the parameter, the lower the fair value
			Supposed yield	2.5%-13%	The higher the parameter, the lower the fair value

(all amounts in thousands of HRK)

Business premises	47,693	Comparative method	Supposed price	761 – 2.734 EUR/m2	The higher the parameter, the lower the fair value
Bussiness premises	10,409	Cost			

17. INVESTMENT PROPERTY

	Group 2017	Company 2017	Group 2016	Company 2016
Fair value of investment property – land	118,749	104,299	102,400	102,400
Fair value of investment property – buildings	728,390	708,257	658,747	658,747
	847,139	**812,556**	**761,147**	**761,147**

	Group 2017	Company 2017	Group 2016	Company 2016
Opening balance	**761,147**	**761,147**	**783,854**	**783,854**
Acquisition	85,260	50,677	1,759	1,759
Changes in fair value	732	732	(24,466)	(24,466)
Closing balance	**847,139**	**812,556**	**761,147**	**761,147**

Fair value of land and buildings on 31 December 2017 and 2016 is established pursuant to the assessment carried out on that day by an independent assessor Proventus Nekretnine. 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 2017 and 31 December 2016 below:

COMPANY:

	Level 1	Level 2	Level 3	Fair value 2017
Business premises	-	-	812,556	812,556

	Level 1	Level 2	Level 3	Fair value 2016
Business premises	-	-	761,147	761,147

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 2017
Business premises	-	-	847,139	847,139

	Level 1	Level 2	Level 3	Fair value 2016

Business premises	-	-	761,147	761,147

(all amounts in thousands of HRK)

17. INVESTMENT PROPERTY (continued)

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

Description	Fair value GROUP	Fair value COMPANY	Assessment method	Relevant parameters not available on the market	Relevant parameter scope	Relationship of relevant paremeter to fair value
Business premises	523,291	523,291	Income method	Risk of loss of lease payments	0%-5%	The higher the parameter, the lower the fair value
				Investment maintenance costs	0%-10%	The higher the parameter, the lower the fair value
				Supposed lease payments	11,98-21 EUR/m2	The higher the parameter, the lower the fair value
				Supposed yield	6%-7%	The higher the parameter, the lower the fair value
Business premises	90,768	90,768	Comparative method	Supposed price	1,488-3,352 EUR/m2	The higher the parameter, the lower the fair value
Vehicle control stations	198,497	233,080	Income method	Risk of loss of lease payments	0%-5%	The higher the parameter, the lower the fair value
				Investment maintenance costs	2.07%-15.10%	The higher the parameter, the lower the fair value
				According to number of control	6,19-9,55 EUR/m2	The higher the parameter, the lower the fair value
				Supposed yield	5.2%-7%	The higher the parameter, the lower the fair value

Group's lease income for 2017 amounts to 26,071,000 HRK (in 2016, 27,241,000 HRK and is recognised in the Investment income (Note 7). Operating expenses (including repairs and maintenance) resulting from property investment amounted to 7,979,000 HRK in 2017, and 6,530,000 HRK in 2016.

On 31 December 2017, the Company recognised the losses due to fair valuation of investment properties in the amount of 732,000 HRK (in 2016, 24,467,000 HRK) recognised in the Report of Profit or Loss in the Investment costs (Note 7).

(all amounts in thousands of HRK)

18. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group 2017	Company 2017	Group 2016	Company 2016
Equity securities	413,717	439,652	546,280	546,280
Bonds	307,125	307,125	289,089	289,089
Commercial papers	35,559	35,559	35,548	35,548
Investment funds	41,376	41,376	40,713	40,713
	797,778	**823,713**	**911,630**	**911,630**

Equity securities

	Group 2017	Company 2017	Group 2016	Company 2016
Per cost	122,020	147,955	127,888	127,888
Per fair value	291,697	291,697	418,392	418,392
	413,717	**439,652**	**546,280**	**546,280**

	Group 2017	Company 2017	Group 2016	Company 2016
Listed	236,514	236,514	274,029	274,029
Non-listed	177,203	203,138	272,251	272,251
	413,717	**439,652**	**546,280**	**546,280**

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.

On 31 December 2016, the Group's significant investments in shares of the Agrokor Group amounted to 182,777,000 HRK. During 2017 and the first quarter of 2018, the Group decreased its exposure to the Agrokor Group to a total exposure of 30,7 million HRK, through direct exposure (Agrokor Group shares) in the amount of 3,9 million HRK and indirect exposure (loan predominantly secured with Agrokor Group shares) in the amount of 26,8 million HRK. Before the date of approval of financial reports, the special commissioner presented the Settlement draft, and the Agreement in principle concerning all key structure settlement elements was signed on 10 April 2018. Pursuant to the Agreement, the Group made value adjustments of a total of 66,9 million HRK (35,8 million HRK for shares; 31,1 for loans).

(all amounts in thousands of HRK)

18. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

THE GROUP AND THE COMPANY

	2016	2015
Government bonds	256,658	267,447
Corporate bonds	50,467	21,642
Commercial papers	35,559	35,548
	342,684	**324,637**

On 31 December 2017, the Group's investment in bonds amounted to 55,411,000 HRK which were given as a loan for the received repurchase loan (Note 38).

	No of shares on 31/12/2017	No of shares on 31/12/2016	2017	2016
Investment funds	6.05%-13.25%	0.7%-10.43%	41,376	40,713
			41,376	**40,713**

(all amounts in thousands of HRK)

19. LOANS AND RECEIVABLES

THE GROUP AND THE COMPANY

Credits and receivables	**2017**	**2016**
Given long-term credits	846,566	636,748
Interest receivables	8,821	16,320
Other long-term receivables	-	16,250
	855,387	**669,318**
Provisions for suspicious receivables	(71,132)	(38,087)
	784,255	**631,231**
Long-term part of long-term credits	656,697	498,974
Short-term part of long-term credits	127,558	132,257
Given long-term credits	**784,255**	**631,231**

Credits are mainly secured with pledges on business premises. The unsecured part of the portfolio amounts to 25,6%. Overview of loans and receivables on 31 December 2017

THE GROUP AND THE COMPANY

Long-term loans	**Currency**	**Date of contract**	**Interest rate**	**Maturity date**	**2017**
Long-term loans with pledge, total	HRK	25/09/2006-01/07/2017	4.05%-7.5%	24/08/2018-01/07/2037	520,443
Long-term loans with no pledge, total	HRK	25/09/2006-29/12/2017	1.5%-9%	30/04/2018-31/12/2030	256,694
Long-term loans with no pledge, total	EUR	14/11/2017-30/11/2017	4%	Until 30/11/2023	7,118

Overview of loans and receivables on 31 December 2016

THE GROUP AND THE COMPANY

Long-term loans	**Currency**	**Date of contract**	**Interest rate**	**Maturity date**	**2016**
Long-term loans with pledge, total	HRK	25/09/2006-29/09/2015	4.25%-7.5%	31/12/2017-31/12/2034	581,466
Long-term loans with no pledge, total	HRK	09/07/2010-03/11/2016	2.70%-9%	31/12/2015-30/11/2026	49,765

Impairments were the following:	**2017**	**2016**
Opening balance	38,087	48,816
Reversal of provisions	-	(14,492)
New individual provisions	31,073	4,447
Provisions on a group basis	1,971	(684)

(all amounts in thousands of HRK)

Closing balance	**71,131**	**38,087**

20. BANK DEPOSITS

	THE GROUP AND THE COMPANY	**THE GROUP AND THE COMPANY**
	2017	**2016**
Bank deposits in HRK	22,317	96,946
Bank deposits in EUR	13,972	-
	36,289	**96,946**

Overview of deposits on 31 December 2017 and 31 December 2016:

	THE GROUP AND THE COMPANY	**THE GROUP AND THE COMPANY**
	2017	**2016**
Short-term bank deposits	16,902	96,946
Long-term bank deposits	19,387	-
	36,289	**96,946**

(all amounts in thousands of HRK)

21. PREMIUM RECEIVABLES

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Gross amount		
Premium receivables in the Republic of Croatia	181,201	130,490
Enforceable premium receivables	30,176	32,294
	211,377	**162,784**
Value adjustments		
Adjustments for more than 1-year-old unpaid premiums	(21,504)	(23,712)
Adjustments for enforceable premiums	(30,176)	(32,294)
	(51,680)	(56,006)
	159,697	**106,778**

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

THE GROUP AND THE COMPANY

	Not yet due	30 days	30-60 days	60-90 days	90-180 days	180-365 days	Over 365 days	Total
2017								
Premium receivables	127,585	16,434	5,083	3,093	7,502	6,309	15,195	**181,201**

	Not yet due	30 days	30-60 days	60-90 days	90-180 days	180-365 days	Over 365 days	Total
2016								
Premium receivables	68,962	21,452	4,443	4,570	7,351	8,064	15,648	**130,490**

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

Value adjustment movement during the year:

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Opening balance	56,006	98,219
Removed	-	(43,097)
Value adjustment during the year	(2,208)	292
Write-offs	1,679	2,644
Amounts paid	(3,797)	(2,052)
Closing balance	**51,680**	**56,006**

(all amounts in thousands of HRK)

22. OTHER RECEIVABLES

	Group in 2017	Company in 2017	Group in 2017	Company in 2016
Lease receivables	29,074	29,074	13,259	13,259
Administrative receivables	9,549	9,549	10,505	10,505
Advances paid to supplier	8,431	8,431	16,291	16,291
Receivables with recourse	7,986	7,986	8,035	8,035
Receivables from the State and other institutions	200	200	196	196
Other receivables	30,688	27,991	14,810	14,810
	85,928	**83,231**	**63,096**	**63,096**

23. CASH AND CASH EQUIVALENTS

	Group in 2017	Company in 2017	Group in 2017	Company in 2016
Bank accounts	17,386	17,386	64,430	64,430
Cashier	410	410	39	39
	17,796	**17,796**	**64,469**	**64,469**

(all amounts in thousands of HRK)

24. EQUITY

The equity of the Company amounts to 61,002,000 HRK and is divided into 305,010 shares of nominal value of 200 HRK. 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:

	2017		2016	
	Number of shares	**Equity share %**	**Number of shares**	**Equity share %**
Grgić Dubravko	45,750	15.00	45,750	15.00
Jadransko osiguranje PLC	30,192	9.90	29,375	9.63
Kordić Ante	18,300	6.00	18,300	6.00
Grgić Mladenka	13,070	4.29	13,070	4.29
Agram life osiguranje PLC	11,254	3.69	10,212	3.34
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
Grbavac Martina	9,067	2.97	20,258	6.64
Galić Drago	8,232	2.70	8,232	2.70
	166,255	**54.51**	**175,587**	**57.56**
Others	138,755	45.49	129,423	42.44
Total	**305,010**	**100.00**	**305,010**	**100.00**

(all amounts in thousands of HRK)

25. REVALUATION RESERVES FOR SECURITIES AVAILABLE FOR SALE

	THE GROUP AND THE COMPANY	THE GROUP AND THE COMPANY
	2017	**2016**
Opening balance	12,775	16,537
Revaluation of securities available for sale	9,353	(4,964)
Recognised deferred tax in comprehensive income	(1,667)	1,202
Revaluation of securities available for sale, net	7,686	(3,762)
Closing balance	**20,461**	**12,775**

26. REVALUATION RESERVES FOR PROPERTY

	2017	**2016**
Opening balance	300,456	314,830
Revaluation of property	17,878	(17,620)
Recognised deferred tax in comprehensive income	(1,952)	10,811
Revaluation of property, net	15,926	(6,802)
Reversal of the revaluation reserve	(7,031)	(7,572)
Closing balance	**309,351**	**300,456**

(all amounts in thousands of HRK)

27. LEGAL RESERVES

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
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

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Unearned premium provisions		
Gross amount	503,154	455,312
Reinsurance/co-insurance	(9,475)	(6,789)
Unearned premium provisions, less reinsurance	***493,679***	***448,523***
Claims incurred		
Gross amount	945,176	983,174
Reinsurance	(7,907)	(8,898)
Other technical provisions	1,895	1,637
Return of premium expenses	1,152	4,279
Claims incurred, less reinsurance	***940,316***	***980,192***
Total technical provisions, net of reinsurance	**1,433,995**	**1,428,715**
Total technical provisions, gross	**1,451,377**	**1,444,402**

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Opening balance	455,312	440,851
Annual written premium	915,180	842,516
Annual earned premium	(867,339)	(828,055)
Closing balance	**503,153**	**455,312**

Reinsurer's assets movement during the year:

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Opening balance	15,687	18,029
Increase	1,696	-

Decrease	-	(2,342)
Closing balance	**17,383**	**15,687**

(all amounts in thousands of HRK)

28. TECHNICAL PROVISIONS (continued)

THE GROUP AND THE COMPANY

2017	Gross claims outstanding on 31 December 2016	Liquidated claims, gross amount	Reinsurance share in damages	Changes in provisions for claims outstanding, reinsurance share	Claims incurred	Gross claims outstanding on 31 December 2017
Accident Insurance	24,719	(7,757)	-	(12)	1,307	18,257
Health Insurance	447	(2,215)	-	-	2,597	829
Casco Insurance	37,245	(80,722)	705	-	92,369	49,597
Property Insurance	17,059	(21,214)	1,426	(1,302)	22,081	18,050
Motor Vehicle Liability Insurance	873,668	(209,565)	-	414	170,604	835,121
Liability Insurance	19,496	(3,988)	218	(90)	1,463	17,099
Transport and Credit Insurance	7,417	1,582	-	-	(2,973)	6,026
Travel Insurance	3,123	(8,779)	-	-	5,853	197
	983,174	**(332,658)**	**2,349**	**(990)**	**293,301**	**945,176**

THE GROUP AND THE COMPANY

2016	Gross claims outstanding on 31 December 2015	Liquidated claims, gross amount	Reinsurance share in damages	Changes in provisions for claims outstanding, reinsurance share	Claims incurred	Gross claims outstanding on 31 December 2016
Accident Insurance	26,041	(8,123)	-	-	6,801	24,719
Health Insurance	903	(2,777)	-	-	2,321	447
Casco Insurance	35,552	(75,514)	1,008	(41)	76,239	37,245
Property Insurance	18,674	(26,850)	3,880	(617)	21,972	17,059
Motor Vehicle Liability Insurance	907,630	(189,366)	295	(873)	155,982	873,668
Liability Insurance	18,026	(6,603)	88	8	7,976	19,496

(all amounts in thousands of HRK)

Transport and Credit Insurance	6,894	1,547	0	-	(1,205)	7,417
Travel Insurance	2,084	(8,885)	-	-	9,924	3,123
	1,015,804	**(316,571)**	**5,271**	**(1,523)**	**280,191**	**983,174**

(all amounts in thousands of HRK)

28. TECHNICAL PROVISIONS (continued)

THE GROUP AND THE COMPANY

Provisions for declared, unpaid damages on 31 December 2017	Gross	Net of reinsurance
Provisions for declared, unpaid damages, augmented by claims handling costs	417,067	409,159
Provisions for incurred, non-declared damages, augmented by claims handling costs	528,109	528,109

THE GROUP AND THE COMPANY

Provisions for declared, unpaid damages on 31 December 2016	Gross	Net of reinsurance
Provisions for declared, unpaid damages, augmented by claims handling costs	427,761	418,863
Provisions for incurred, non-declared damages, augmented by claims handling costs	555,412	555,412

(all amounts in thousands of HRK)

29. SHORT-TERM AND LONG-TERM CREDITS

	GROUP 2017	COMPANY 2017	GROUP 2016	COMPANY 2016
Long-term loans	82,193	79,065	40,000	40,000
	82,193	**79,065**	**40,000**	**40,000**

On 19 February 2017, the Company concluded a loan contract with Kreditna banka Zagreb PLC The contracted interest rate amounts to 2,2%. 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 17 February 2020, with collateral in state bonds of the Republic of Croatia, ISIN code HRRHMFO26CA5; 9,500,000 bonds; HRRHMFO227E9, 3.000.000 bonds and HRRHMFO247E7, 850.000 bonds.

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Short-term loans	42,558	42,825
	42,558	**42,825**

On 18 November 2003, the Company and Agram životno osiguranje PLC signed a lease contract, together with a report of securing claims of surrender value of life insurance, for the amount of 5,662,000 EUR, pursuant to the middle exchange rate of the Croatian National Bank on the day of the use of the credit. The contract entails the surrender value of life insurance, with all pertaining policy rights. The contracted interest rate amounts to 5,90% and is calculated on a monthly basis and attributed to the loan principle. The Annex to the Contract approved the extension of the deadline for the use of the loan to 31 December 2018.

	Currency	Maturity date	Interest rate %	GROUP 2017	COMPANY 2017	GROUP 2016	COMPANY 2016
Long-term loans	EUR	2032	2.13	39,826	36,698	-	-
Long-term loans	EUR	2022	6.99	917	917	-	-
Long-term loans	HRK	2020	2.20	40,000	40,000	40,000	40,000
Long-term loans	HRK	2022	6.99	1,450	1,450	-	-
				82,193	**79,065**	**40,000**	**40,000**
Short-term loans	EUR	2018	5.90	42,539	42,539	42,825	42,825
Short-term loans	HRK	2018	6.99	19	19	-	-
				42,558	**42,558**	**42,825**	**42,825**

(all amounts in thousands of HRK)

30. LIABILITIES FROM DIRECT INSURANCE

	THE GROUP AND THE COMPANY 2017	THE GROUP AND THE COMPANY 2016
Liabilities to the Croatian Insurance Bureau	33,255	33,403
Liabilities for accepted prepayments	1,015	294
Liabilities for payment of damages	900	15,569
	35,170	**49,266**

31. OTHER LIABILITIES

	Group in 2017	Company in 2017	Group in 2016	Company in 2016
Liabilities based on shares in result	52,119	52,119	3,311	3,311
Premium tax	35,088	35,088	5,840	5,840
Trade payables	33,252	33,252	37,381	37,381
Current tax liability	18,688	18,688	8,617	8,617
Liabilities to employees	11,648	11,648	11,443	11,443
Deferred income	7,236	7,236	7,248	7,248
Liabilities for commissions	2,227	2,227	1,731	1,731
Other liabilities	1,020	-	-	-
Provisions for liabilities	10,345	10,345	22,080	22,080
	171,623	**170,603**	**97,651**	**97,651**

Provisions for costs movement:

	Group in 2017	Company in 2017	Group in 2017	Company in 2016
Opening balance	22,080	22,080	24,248	24,248
Income	(12,740)	(12,740)	(6,820)	(6,820)
New provisions	1,005	1,005	4,652	4,652
Closing balance	**10,345**	**10,345**	**22,080**	**22,080**

32. BUSINESS LEASES

The Group as a lessee:

	2017	2016
Minimum lease payments based on operational lease recognised in the report of profit and loss of the current year	3,247	1,470

On the date of the report of financial position, the Group had outstanding liabilities pursuant to the operating lease contracts with maturity dates as follows:

	2017
1 year	3,300
2-5 years (inclusive)	13,200

The payments based on operating leases refer to contributions the Group pays for business vehicle leases. The average duration of leases amounts to 5 years.

33. 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 Agency for Supervision of Financial Services, 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 2017, the Company complied with requirements concerning the calculation of capital adequacy, pursuant to the Solvency II regulations. The final calculation will be completed by 5 May 2018, pursuant to stipulated deadlines.

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)

Own risk and solvency assessment (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 reports.

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 in 2017	Company in 2017	Group in 2016	Company in 2016
Financial assets				
Securities available for sale	823,713	823,713	911,630	911,630
Loans and receivables				
Loans	784,256	784,256	631,230	631,230
Guarantee deposit for lease contracts	7,186	7,186	2,923	2,923
Bank deposits	36,289	36,289	96,946	96,946
Reinsurance share in technical provisions	17,384	17,384	15,686	15,686
Premium and other receivables	285,228	285,228	211,975	211,975
Cash at bank and in hand	17,796	17,796	64,469	64,469
Financial liabilities				
Short-term loans	42,558	42,558	42,825	42,825
Long-term loans	79,065	79,065	40,000	40,000
Liabilities from direct insurance	35,170	35,170	49,266	49,266
Other liabilities	170,592	170,592	97,651	97,651

(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 table below analyses the carrying amounts of the Company's foreign-currency denominated monetary assets and monetary liabilities at the reporting date.

		Assets		**Liabilities**
	2017	**2016**	**2017**	**2016**
EUR	89,651	63,824	80,172	42,789
HRK	3,039,207	2,881,920	3,048,686	2,902,955

The value of assets denominated in a foreign currency accounts for 2.86% of total assets, while the value of liabilities denominated in a foreign currency accounts for 2.56% 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 2017, the Company recognised negative exchange rate differences in the amount of 1,873 thousand HRK (in 2016, 2,609 thousands), which accounts for 1.56% of total net income for the year ending on 31 December 2017, 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. It owns no assets with variable rates, and the variable rate is used only for one loan of the Company (Note 28). The 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 4,124 thousand HRK (in 2016, 3,405 thousands HRK) account for 3,45% of the total net income for the year ending on 31 December 2017 (in 2016, 3.13%). 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

	2017	**2016**
Bonds	307,125	289,089
Commercial papers	35,559	35,548
Credits and receivables	784,255	631,230
Guarantee deposit for lease contracts	7,186	2,923
Bank deposits	36,289	96,946
Premium receivables	159,697	106,778
Reinsurance share in technical provisions	17,384	15,686
Credit cards and checks receivables	42,300	42,102
Other receivables	83,231	63,096
Cash at bank and in hand	17,796	64,469
	1,490,822	**1,347,870**

(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 / Branch offices (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.

	2017	**2016**
BB – government bonds and treasury bills	256,658	267,447
Group 1 – corporate bonds	50,467	21,642
Group 1 – corporate bills	35,559	35,548
Group 2 – investment funds	41,376	40,713
Securities available for sale, total	**384,060**	**365,350**
Group 2	425,797	397,113
Group 3	358,458	234,117
Credits and receivables, total	**784,255**	**631,230**
Group 2	7,186	2,923
Guarantee deposits for lease contracts, total	**7,186**	**2,923**
Baa2	-	-
Group 2	36,289	96,946
Bank deposits, total	**36,289**	**96,946**
Group 1	61,865	13,225
Group 2	88,427	85,208
Group 3	9,405	8,345
Premium receivables, total	**159,697**	**106,778**
Group 2	17,796	64,469
Cash and cash equivalents, total	**17,796**	**64,469**

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 2017 and 31 December 2016, the Company was operating pursuant to those requirements.

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Remaining contractual maturities of assets and liabilities

	Less than 1 year	1 year to 5 years	5 years to 10 years	10 years to 15 years	15 years to 20 years	More than 20 years	Total
Securities available for sale	600,005	50,110	83,061	56,061	34,476	-	823,713
Credits and receivables	127,559	129,584	187,925	235,542	103,646	-	784,256
Guarantee deposit for lease contracts	1,387	5,799	-	-	-	-	7,186
Bank deposits	16,902	7,786	11,601	-	-	-	36,289
Premium receivables	159,697	-	-	-	-	-	159,697
Reinsurance share in technical provisions	11,609	2,597	1,172	724	426	856	17,384
Credit cards and checks receivables	42,300	-	-	-	-	-	42,300
Other receivables	87,604	-	-	-	-	-	87,604
Cash at bank and in hand	17,796	-	-	-	-	-	17,796
	1,064,859	**195,876**	**283,759**	**292,327**	**138,548**	**856**	**1,976,225**
Technical provisions	708,656	276,187	166,094	103,941	61,662	134,837	1,451,377
Deferred current and tax liability	53,514	-	-	-	-	-	53,514
Credits	44,518	48,334	8,828	19,943	-	-	121,623
Liabilities from direct insurance	35,170	-	-	-	-	-	35,170
Liabilities from reinsurance	5,826	-	-	-	-	-	5,826
Other liabilities	164,913	-	-	-	-	-	164,913
	1,012,597	**324,521**	**174,922**	**123,884**	**61,662**	**134,837**	**1,832,423**

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Remaining contractual maturities of assets and liabilities

2016	**Less than 1 year**	**1 years to 5 years**	**5 years to 10 years**	**10 years to 15 years**	**15 years to 20 years**	**More than 20 years**	**Total**
Securities available for sale	725,838	103,120	39,771	42,901	-	-	911,630
Credits and receivables	132,257	204,720	225,994	39,875	12,134	16,250	631,230
Guarantee deposit for lease contracts	738	2,185	-	-	-	-	2,923
Bank deposits	96,946	-	-	-	-	-	96,946
Premium receivables	106,778	-	-	-	-	-	106,778
Reinsurance share in technical provisions	10,417	4,256	947	64	2	-	15,686
Credit cards and checks receivables	42,102	-	-	-	-	-	42,102
Other receivables	68,971	-	-	-	-	-	68,971
Cash at bank and in hand	64,469	-	-	-	-	-	64,469
	1,248,516	**314,281**	**266,712**	**82,840**	**12,136**	**16,250**	**1,940,735**
Technical provisions	720,174	385,036	215,049	80,953	21,794	21,396	1,444,402
Deferred current and tax liability	61,169	-	-	-	-	-	61,169
Credits	42,825	40,000	-	-	-	-	82,825
Liabilities from direct insurance	49,266	-	-	-	-	-	49,266
Liabilities from reinsurance	1,533	-	-	-	-	-	1,533
Other liabilities	97,651	-	-	-	-	-	97,651
	972,618	**425,036**	**215,049**	**80,953**	**21,794**	**21,396**	**1,736,846**

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 17) or comparative valuation methods (Note 17) 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 reflect the fair value of the relevant 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)

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	6,255	-	433,397	439,652
Bonds	268,336	-	38,789	307,125
Commercial papers	35,559	-	-	35,559
Investment funds	41,376	-	-	41,376
Securities available for sale, total	**351,526**	**-**	**472,186**	**823,712**

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	93,919	-	452,361	546,280
Bonds	289,089	-	-	289,089
Commercial papers	35,548	-	-	35,548
Investment funds	40,713	-	-	40,713
Securities available for sale, total	**459,269**	**-**	**452,361**	**911,630**

No level reclassification occurred during the period.

Assessments of the value of equity securities not actively traded on the markets used models and value assessment techniques primarily based on market inputs founded on market method concepts where comparable companies (peer groups) were used for calculating multipliers.

The Company's estimated value, i.e. the Company's shares, represent the fair value with the going concern presumption, i.e. comparison with companies of similar business activities through beta coefficients monitoring.

In 2017, the PEER comparable companies method and DDM were used for a part of the value assessments. The value assessment method according to the value of the group of comparable companies is conducted by choosing comparable companies grouped pursuant to multiple criteria – activity, business territory, size et sim. The aforementioned methods are used as we believe that they best depict the companies' fair value. Equity securities valued by this method amount to a total of 49,266 thousand HRK.

The Management Board of the Company believes that the estimated value of the Company represents their fair and objective values.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

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

Description	Fair value 2017	Assessment method	Relevant parameters not available on the market	Relevant parameter scope	Relationship of relevant parameters to fair value
Equity securities	268,609	Comparable companies method	*Non-liquidity discount*	10.9%	The higher the parameter, the lower the fair value
			Discount rate	7.89%-9.53%	*The higher the parameter, the lower the fair value*
			Residual growth rate	1.62%	*The higher the parameter, the lower the fair value*
			Beta	0.88-1.11	*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 the risk that 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 2017

THE GROUP AND THE COMPANY

	Gross incurred claims	Reinsurance share	Net incurred claims
Motor Third Party Liability Insurance	209,565	-	209,565
Road Vehicle Insurance (Casco)	79,797	(20)	79,777
Assets	21,214	(1,426)	19,788
Personal Insurance	9,972	-	9,972
Other	12,110	(903)	11,207
Total	**332,658**	**(2,349)**	**330,309**

(all amounts in thousands of HRK)

35. INSURANCE RISK MANAGEMENT (continued)

Insurance Concentration Risk (continued)

for the year ended 31 December 2016

THE GROUP AND THE COMPANY

	Gross incurred claims	Reinsurance share	Net incurred claims
Motor Third Party Liability Insurance	189,366	(295)	189,071
Road Vehicle Insurance (Casco)	70,706	(8)	70,698
Assets	26,850	(3,880)	22,970
Personal Insurance	10,900	-	10,900
Other	18,749	(1,088)	17,661
Total	**316,571**	**(5,271)**	**311,300**

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 sample of the claims development will recur. In case of "long-tail" claims, the claims provisions level greatly depends on the 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 2017 with regard to liquidations in 2016 and provisions of claims outstanding on 31 December 2017 for claims incurred before 31 December 2017 showed that the amount of gross claims outstanding was sufficient.

(all amounts in thousands of HRK)

35. INSURANCE RISK MANAGEMENT (continued)

Claims development

Analysis of provisions of claims outstanding trends:

	Before 2008	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Estimates of accumulate claims at the end of year they incurred in	226,414	226,957	227,473	227,965	228,433	228,881	229,308	229,718	230,111	230,488	311,050	
1 year later	203,770	204,245	204,696	205,127	205,538	205,931	206,307	206,668	207,014	207,347		
2 years later	193,706	194,132	194,539	194,926	195,297	195,652	195,992	196,318	196,661			
3 years later	177,753	178,120	178,470	178,805	179,126	179,433	179,729	181,400				
4 years later	190,883	191,261	191,622	191,968	192,300	192,618	194,956					
5 years later	187,580	187,937	188,278	188,606	188,920	190,843						
6 years later	228,334	228,747	229,142	229,522	231,285							
7 years later	243,627	244,045	244,446	245,915								
8 years later	316,784	317,309	319,073									
9 years later	375,305	377,665										
10 years later	1,751,594											
Accumulated claims estimates	**1,751,594**	**377,665**	**319,073**	**245,915**	**231,285**	**190,843**	**194,956**	**181,400**	**196,661**	**207,347**	**311,050**	**4,207,790**
Accumulated payments	1,510,313	330,268	269,250	208,652	190,515	152,884	150,459	134,690	134,939	128,303	90,389	**3,300,661**
Previous year provision	241,282	47,397	49,823	37,263	40,770	37,959	44,497	46,710	61,723	79,044	220,661	**907,129**
Claims handling costs	10,395	2,037	2,142	1,602	1,751	1,627	1,908	1,997	2,635	3,372	8,582	**38,048**
Value recognised in the report of financial position of the current year	**251,677**	**49,434**	**51,966**	**38,865**	**42,521**	**39,586**	**46,405**	**48,706**	**64,358**	**82,416**	**229,243**	**945,176**

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 regularly examined 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 claims costs.

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 the 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 the 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 2000-2002, for males and females separately, aligned by linear approximation for the 26-34 male age group and 21-29 female age group, discounted by a 3% annual rate, with an assumed 1.5% increase in annuity amount.

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 2017.

(all amounts in thousands of HRK)

36. TRANSACTIONS WITH RELATED PARTIES

The fees paid to key managers:

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	2017	2016
Payments and compensations	2,973	2,281

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 report. Pursuant to the definition of IAS 24 and IFRS 10, a group consists of a parent company and subsidiary.

Since a parent company does not exist, the Company may not publish the name of the parent company or the ultimate entity with control over the Company, i.e. there are no transactions which could be considered intra-group transactions.

Transactions with related parties are reported based on the Agency's Resolution of 22 July 2010, which stipulates the presentation limit for investments in financial instruments as assets for covering technical provisions pursuant to the Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments for covering technical provisions, their valuation and compliance with the law, as well as the manner and time limits for reporting.

The Agency's resolution is based on the Insurance Act (Official Gazette 151/2008, 87/2008, 82/2009), and amendments to the Act (Official Gazette 54/2013 and Official Gazette 94/2014), which remained in force until 31 December 2016.

An overview of assets, receivables, liabilities, income and expenses, pursuant to the Agency's Resolution is as follows:

	2017		2016	
	Income	**Expenses**	**Income**	**Expenses**
Other Branch offices	113,182	166,508	111,388	156,662
Other Branch offices	**113,182**	**166,508**	**111,388**	**156,662**

	2017		2016	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Other Branch offices	855,595	101,575	717,021	69,495
	855,595	**101,575**	**717,021**	**69,495**

On 31 December 2017, the shares in branch offices amounted to 309,310 thousand HRK (in 2016, 281,983 thousands HRK).

(all amounts in thousands of HRK)

36. TRANSACTIONS WITH RELATED PARTIES

Company	2017			
	Receivables	Liabilities	Income	Expenses
Jadransko osiguranje PLC	7,028	9,091	24,712	33,533
Agram life PLC	16,478	42,745	13,146	26,909
Kreditna banka Zagreb PLC	41,445	40,442	5,224	8,954
Euroagram TIS d.o.o.	344,839	200	35,017	58,666
Auto-Dubrovnik PLC	19,054	34	1,350	1,245
Autoslavonija PLC	3,112	150	280	792
Euro daus PLC	241,160	111	20,256	6,764
Agram invest PLC	58,757	350	917	-
Euroleasing d.o.o.	79,765	2,374	2,111	5,310
Agram brokeri PLC	629	1	10	4
Poliklinika Sunce Zagreb	-	-	5,790	22
Automehanika servisi PLC	9,695	6	852	616
Agram Yachting d.o.o.	21,856	-	2,083	1,512
Autoservisni centar PLC	11,752	10	649	519
Strukturiranja d.o.o. Zagreb	-	17	3	128
OD Grgić & partneri	24	6,026	759	21,408
MTT d.o.o. Rijeka	1	18	23	126
TOTAL	**855,595**	**101,575**	**113,182**	**166,508**

(all amounts in thousands of HRK)

36. TRANSACTIONS WITH RELATED PARTIES (continued)

Company	2016			
	Receivables	Liabilities	Income	Expenses
Jadransko osiguranje PLC	9,637	17,603	26,932	32,395
Agram life PLC	3,034	42,824	13,622	15,367
Kreditna banka Zagreb PLC	42,632	446	4,678	5,751
Euroagram TIS d.o.o.	315,196	11	35,030	56,983
Auto-Dubrovnik PLC	21,356	316	953	1,335
Autoslavonija PLC	5,806	172	465	697
Euro daus PLC	248,649	2,069	15,913	13,085
Agram invest PLC	118	-	2,100	-
Euroleasing d.o.o.	27,749	18	1,739	2,315
Agram brokeri PLC	1	1	21	2
Poliklinika Sunce Zagreb	923	/	5,266	22
Automehanika servisi PLC	11,154	37	605	866
Agram Yachting d.o.o.	19,167	-	1,832	3,699
Autoservisni centar PLC	11,581	12	1,390	295
Strukturiranja d.o.o. Zagreb	-	-	-	-
OD Grgić & partneri	18	5,986	842	23,850
MTT d.o.o. Rijeka	-	-	-	-
TOTAL	**717,021**	**69,495**	**111,388**	**156,662**

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 2017, has reserved assets in the total amount of 4,164 thousand HRK.

On 31 December 2017, the potential liabilities of the Group and Company for approved unused loans amounted to 0 HRK.

(all amounts in thousands of HRK)

38. OFF-BALANCE SHEET RECORDS

	2017	2016
Guarantees received	26,998	-
Guarantees given	126,489	59,528
	153,487	**59,528**

39. EVENTS AFTER THE REPORTING DATE

There were no significant events after the reporting date.

40. AUTHORISATION OF FINANCIAL REPORTS

The financial reports were approved by the Management Board and authorized for issue on 28 April 2017.

Report of Comprehensive Income

Position number	Sum elements	Position mark	Position description	Previous accounting period			Current accounting period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003+004+005+006	**I**	**Earned premiums**	**,00**	**808.289.842,27**	**808.289.842,27**	**,00**	**851.575.870,93**	**851.575.870,93**
002		1	Gross written premiums	,00	842.516.303,79	842.516.303,79	,00	915.180.435,47	915.180.435,47
003		2	Value provisions and paid premium value provisions	,00	-4.229.252,41	-4.229.252,41	,00	1.419.615,75	1.419.615,75
004		3	Reinsurance premiums (-)	,00	-14.717.672,17	-14.717.672,17	,00	-19.869.009,56	-19.869.009,56
005		4	Changes in gross unearned premium provisions (+/-)	,00	-14.460.935,42	-14.460.935,42	,00	-47.841.872,11	-47.841.872,11
006		5	Changes in gross unearned premium provisions, reinsurance share (+/-)	,00	-818.601,52	-818.601,52	,00	2.686.701,38	2.686.701,38
007	008+009+010+011+012+013+014	**II**	**Investement income**	**,00**	**121.550.850,73**	**121.550.850,73**	**,00**	**99.604.912,98**	**99.604.912,98**
008		1	Subsidiaries, associates and joint ventures' income	,00	,00	,00	,00	,00	,00
009		2	Income from property and building investements	,00	34.923.937,98	34.923.937,98	,00	35.154.998,40	35.154.998,40
010		3	Interest income	,00	48.961.025,79	48.961.025,79	,00	43.793.159,74	43.793.159,74
011		4	Unrealised gains from investment	,00	,00	,00	,00	,00	,00
012		5	Realised gains from investment	,00	16.326.976,34	16.326.976,34	,00	12.748.408,68	12.748.408,68
013		6	Net positive exchange differences	,00	933.581,23	933.581,23	,00	1.594.786,26	1.594.786,26
014		7	Other investment income	,00	20.405.329,39	20.405.329,39	,00	6.313.559,90	6.313.559,90
015		**III**	**Income from fees and commissions**	**,00**	**801.302,50**	**801.302,50**	**,00**	**1.259.206,38**	**1.259.206,38**
016		**IV**	**Other insurance-technical income, net of reinsurance**	**,00**	**1.013.548,42**	**1.013.548,42**	**,00**	**2.951.644,88**	**2.951.644,88**
017		**V**	**Other income**	**,00**	**14.750.408,00**	**14.750.408,00**	**,00**	**35.986.034,52**	**35.986.034,52**
018	019+022	**VI**	**Claims incurred, net**	**,00**	**-280.191.177,23**	**-280.191.177,23**	**,00**	**-293.302.186,45**	**-293.302.186,45**
019	020+021	1	Liquidated claims	,00	-311.299.176,30	-311.299.176,30	,00	-330.309.087,55	-330.309.087,55
020		1.1	Gross amount (-)	,00	-316.570.592,30	-316.570.592,30	,00	-332.657.995,50	-332.657.995,50
021		1.2	Reinsurer's share (+)	,00	5.271.416,00	5.271.416,00	,00	2.348.907,95	2.348.907,95
022	023+024	2	Changes in provisions for claims outstanding (+/-)	,00	31.107.999,07	31.107.999,07	,00	37.006.901,10	37.006.901,10
023		2.1	Gross amount (-)	,00	32.630.762,42	32.630.762,42	,00	37.997.164,87	37.997.164,87
024		2.2	Reinsurer's share (+)	,00	-1.522.763,35	-1.522.763,35	,00	-990.263,77	-990.263,77
025	026+029	**VII**	**Changes in mathematical provisions and other technical provisions, net of reinsurance**	**,00**	**-245.786,72**	**-245.786,72**	**,00**	**-256.973,50**	**-256.973,50**
026	027+028	1	Changes in mathematical provisions (+/-)	,00	,00	,00	,00	,00	,00
027		1.1	Gross amount (-)	,00	,00	,00	,00	,00	,00
028		1.2	Reinsurer's share (+)	,00	,00	,00	,00	,00	,00
029	030+031	2	Changes in other technical provisions, net of reinsurance (+/-)	,00	-245.786,72	-245.786,72	,00	-256.973,50	-256.973,50
030		1.1	Gross amount (-)	,00	-245.786,72	-245.786,72	,00	-256.973,50	-256.973,50
031		1.3	Reinsurer's share (+)	,00	,00	,00	,00	,00	,00
032	033+034	**VIII**	**Changes in special life insurance provisions, in case of which the insurer bears the investment risk**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**
033		1	Gross amount (-)	,00	,00	,00	,00	,00	,00
034		2	Reinsurer's share (+)	,00	,00	,00	,00	,00	,00
035	036+037	**IX**	**Return of premium (bonuses and rebates), net of reinsurance**	**,00**	**-4.087.607,96**	**-4.087.607,96**	**,00**	**3.126.259,82**	**3.126.259,82**
036		1	Result-based (bonuses)	,00	-4.087.607,96	-4.087.607,96	,00	3.126.259,82	3.126.259,82
037		2	Not result-based (rebates)	,00	,00	,00	,00	,00	,00
038	039+043	**X**	**Business expenses (Activity performance expenses), net**	**,00**	**-418.879.491,48**	**-418.879.491,48**	**,00**	**-437.274.681,70**	**-437.274.681,70**
039	040+041+042	1	Underwriting costs	,00	-267.731.197,81	-267.731.197,81	,00	-290.306.617,14	-290.306.617,14
040		1.1	Commision	,00	-13.976.720,99	-13.976.720,99	,00	-18.917.776,12	-18.917.776,12
041		1.2	Other underwriting costs	,00	-253.754.476,82	-253.754.476,82	,00	-271.388.841,02	-271.388.841,02
042		1.3	Changes in delimited underwriting costs (+/-)	,00	,00	,00	,00	,00	,00
043	044+045+046	2	Management costs (Administrative costs)	,00	-151.148.293,67	-151.148.293,67	,00	-146.968.064,56	-146.968.064,56
044		2.1	Depreciation	,00	-24.463.429,22	-24.463.429,22	,00	-27.523.146,65	-27.523.146,65
045		2.3.	Salaries, taxes and contributions	,00	-47.204.336,16	-47.204.336,16	,00	-47.729.439,67	-47.729.439,67
046		2.4.	Other management costs	,00	-79.480.528,29	-79.480.528,29	,00	-71.715.478,24	-71.715.478,24
047	048+049+050+051+052+053+054	**XI**	**Investement costs**	**,00**	**-64.550.908,74**	**-64.550.908,74**	**,00**	**-99.189.710,37**	**-99.189.710,37**
048		1	Depreciation of property and buildings which the Company does not use for its operations	,00	,00	,00	,00	,00	,00
049		2	Interests	,00	-3.404.607,72	-3.404.607,72	,00	-4.123.739,41	-4.123.739,41
050		3	Investement impairment	,00	-40.783.324,28	-40.783.324,28	,00	-75.226.744,54	-75.226.744,54
051		4	Realised losses from investment	,00	-8.579.583,01	-8.579.583,01	,00	-1.640.470,53	-1.640.470,53
052		5	Unrealised losses from investment	,00	,00	,00	,00	,00	,00
053		6	Negative exchange differences	,00	-2.608.827,60	-2.608.827,60	,00	-1.872.548,84	-1.872.548,84
054		7	Other investment costs	,00	-9.174.566,13	-9.174.566,13	,00	-16.326.207,05	-16.326.207,05
055	056+057	**XII**	**Other technical costs, net of reinsurance**	**,00**	**-35.622.197,84**	**-35.622.197,84**	**,00**	**-36.471.020,78**	**-36.471.020,78**
056		1	Prevention activity costs	,00	,00	,00	,00	,00	,00
057		2	Other technical insurance costs	,00	-35.622.197,84	-35.622.197,84	,00	-36.471.020,78	-36.471.020,78
058		**XIII**	**Other costs, including value adjustments**	**,00**	**-8.606.040,41**	**-8.606.040,41**	**,00**	**-10.338.913,42**	**-10.338.913,42**
059	001+007+015+016+017+018+025+032+035+038+047+055+058	**XIV**	**Income or loss for the accounting periofd, before taxes (+/-)**	**,00**	**134.222.741,54**	**134.222.741,54**	**,00**	**117.670.443,29**	**117.670.443,29**

Report of Comprehensive Income (continued)

060	061+062	**XV**	**Income or loss taxes**	**,00**	**-27.624.648,18**	**-27.624.648,18**	**,00**	**-24.305.952,62**	**-24.305.952,62**
061		1	Current tax cost	,00	-27.200.260,54	-27.200.260,54	,00	-35.609.750,76	-35.609.750,76
062		2	Deferred tax cost (income)	,00	-424.387,64	-424.387,64	,00	11.303.798,14	11.303.798,14
063	059+060	**XVI**	**Income or loss for the accounting periofd, after taxes (+/-)**	**,00**	**106.598.093,36**	**106.598.093,36**	**,00**	**93.364.490,67**	**93.364.490,67**
064		1	Attributed to the parent's equity owners	,00	,00	,00	,00	,00	,00
065		2	Attributed to non-controlling interest	,00	,00	,00	,00	,00	,00
066	001+007+015+016+017+062	**XVII**	**TOTAL INCOME**	**,00**	**945.981.564,28**	**945.981.564,28**	**,00**	**1.002.681.467,83**	**1.002.681.467,83**
067	018+025+032+035+038+047+055+058+061	**XVIII**	**TOTAL EXPENSES**	**,00**	**-839.383.470,92**	**-839.383.470,92**	**,00**	**-909.316.977,16**	**-909.316.977,16**
068	069+070+071+072+073+074+075+076	**XIX**	**Other comprehensive income**	**,00**	**-18.136.866,22**	**-18.136.866,22**	**,00**	**16.581.357,72**	**16.581.357,72**
069		1	Gains/losses arising from conversion of financial statements of foreign business activities	,00	,00	,00	,00	,00	,00
070		2	Gains/losses arising from revaluation of financial assets available for sale	,00	-3.762.234,61	-3.762.234,61	,00	7.686.049,80	7.686.049,80
071		3	Gains/losses arising from revaluation of property and buildings which the Company uses for its activities	,00	-14.374.631,61	-14.374.631,61	,00	8.895.307,92	8.895.307,92
072		4	Gains/losses arising from revaluation of other tangible (other than property and buildings) and untangible assets	,00	,00	,00	,00	,00	,00
073		5	Effects of cash flow protection instruments	,00	,00	,00	,00	,00	,00
074		6	Actuarial gains/losses for pension plans with defined pensions	,00	,00	,00	,00	,00	,00
075		7	Share in other comprehensive income of associates	,00	,00	,00	,00	,00	,00
076		8	Total comprehensive income tax	,00	,00	,00	,00	,00	,00
077	063+068	**XX**	**Total comprehensive income**	**,00**	**88.461.227,14**	**88.461.227,14**	**,00**	**109.945.848,39**	**109.945.848,39**
078		1	Attributed to the parent's equity owners	,00	,00	,00	,00	,00	,00
079		2	Attributed to non-controlling interest	,00	,00	,00	,00	,00	,00
080		**XXI**	**Reclassification adjustments**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**

Report of Financial Position (Assets in HRK)

Position number	Sum elements	Position mark	Position description	Previous accounting period			Previous accounting period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003	**I**	**INTANGIBLE ASSETS**	**,00**	**1.522.121,69**	**1.522.121,69**	**,00**	**1.513.542,40**	**1.513.542,40**
002		1	Goodwill	,00	,00	,00	,00	,00	,00
003		2	Other intangible assets	**,00**	1.522.121,69	1.522.121,69	**,00**	1.513.542,40	1.513.542,40
004	005+006+007	**II**	**TANGIBLE ASSETS**	**,00**	**242.339.745,95**	**242.339.745,95**	**,00**	**324.912.466,72**	**324.912.466,72**
005		1	Property and buildings the Company uses for its activities	,00	229.796.006,69	229.796.006,69	,00	250.230.507,46	250.230.507,46
006		2	Equipment	,00	9.559.096,76	9.559.096,76	,00	22.275.303,55	22.275.303,55
007		3	Other tangible assets and inventories	,00	2.984.642,50	2.984.642,50	,00	52.406.655,71	52.406.655,71
008	009+010+014+033	**III**	**INVESTMENTS**	**,00**	**2.408.456.358,08**	**2.408.456.358,08**	**,00**	**2.466.286.947,74**	**2.466.286.947,74**
009		**A**	**Investment into property and buildings the Company does not use for its activities**	**,00**	**761.146.576,20**	**761.146.576,20**	**,00**	**812.555.857,18**	**812.555.857,18**
010	011+012+013	**B**	**Investements in subsidiaries, associates and joint ventures**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**
011		1	Stocks and shares in subsidiaries	,00	,00	,00	,00	,00	,00
012		2	Stocks and shares in associates	,00	,00	,00	,00	,00	,00
013		3	Stocks and shares in joint ventures	,00	,00	,00	,00	,00	,00
014	015+018+023+029	**C**	**Financial assets**	**,00**	**1.647.309.781,88**	**1.647.309.781,88**	**,00**	**1.653.731.090,56**	**1.653.731.090,56**
015	016+017	**1**	**Financial assets kept by the maturity date**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**
016		1.1	Debt financial instruments	,00	,00	,00	,00	,00	,00
017		1.2	Other	,00	,00	,00	,00	,00	,00
018	019+020+021+022	**2**	**Financial assets available for sale**	**,00**	**911.630.202,90**	**911.630.202,90**	**,00**	**823.712.998,20**	**823.712.998,20**
019		2.1	Equity financial instruments	,00	546.279.821,14	546.279.821,14	,00	439.652.376,69	439.652.376,69
020		2.2	Debt financial instruments	,00	324.637.590,50	324.637.590,50	,00	342.684.484,56	342.684.484,56
021		2.3	Investment funds' shares	,00	40.712.791,26	40.712.791,26	,00	41.376.136,95	41.376.136,95
022		2.4	Other	,00	,00	,00	,00	,00	,00
023	024+025+026+027+028	**3**	**Financial assets at fair value in the profit and loss account**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**
024		3.1	Equity financial instruments	,00	,00	,00	,00	,00	,00
025		3.2	Debt financial instruments	,00	,00	,00	,00	,00	,00
026		3.3	Financial derivatives	,00	,00	,00	,00	,00	,00
027		3.4	Investment funds' shares	,00	,00	,00	,00	,00	,00
028		3.5	Other	,00	,00	,00	,00	,00	,00
029	030+031+032	**4**	**Loans and receivables**	**,00**	**735.679.578,98**	**735.679.578,98**	**,00**	**830.018.092,36**	**830.018.092,36**
030		4.1	Deposits with financial institutions	,00	96.946.203,68	96.946.203,68	,00	36.288.760,54	36.288.760,54
031		4.2	Loans	,00	622.483.375,30	622.483.375,30	,00	793.729.331,82	793.729.331,82
032		4.3	Other	,00	16.250.000,00	16.250.000,00	,00	,00	,00
033		**D**	**Deposits with ceding companies**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**
034		**IV**	**INVESTMENTS ON ACCOUNT OF THE LIFE INSURANCE POLICY HOLDER AND HIS RISK**	**,00**	**,00**	**,00**	**,00**	**,00**	**,00**
035	036+037+038+039+043+044+045	**V**	**REINSURANCE SHARE IN TECHNICAL PROVISIONS**	**,00**	**15.686.964,49**	**15.686.964,49**	**,00**	**17.383.402,10**	**17.383.402,10**
036		1	Unearned premium provisions, reinsurance share	,00	6.788.609,02	6.788.609,02	,00	9.475.310,40	9.475.310,40
037		2	Mathematical provisions, reinsurance share	,00	,00	,00	,00	,00	,00
038		3	Provisions for claims outstanding, reinsurance share	,00	8.898.355,47	8.898.355,47	,00	7.908.091,70	7.908.091,70
039		4	Provisions for bonuses and rebates, reinsurance share	,00	,00	,00	,00	,00	,00
040		5	Provisions for claims uncertainty, reinsurance share	,00	,00	,00	,00	,00	,00
041		6	Other technical provisions, reinsurance share	,00	,00	,00	,00	,00	,00
042		7	Special life-insurance provisions for life-insurance for which the policy holder bears the investment risk,	,00	,00	,00	,00	,00	,00
043	044+045	**VI**	**DEFERRED AND CURRENT TAX ASSETS**	**,00**	**11.240.181,14**	**11.240.181,14**	**,00**	**22.154.551,26**	**22.154.551,26**
044		1	Deferred tax assets	,00	11.240.181,14	11.240.181,14	,00	22.154.551,26	22.154.551,26
045		2	Current tax assets	,00	,00	,00	,00	,00	,00
046	047+050+051	**VII**	**LIABILITIES**	**,00**	**172.885.894,88**	**172.885.894,88**	**,00**	**250.037.116,26**	**250.037.116,26**
047	048+049	**1**	**Liabilities from insurance**	**,00**	**106.778.059,64**	**106.778.059,64**	**,00**	**159.696.916,55**	**159.696.916,55**
048		1.1	From the insurer	,00	106.778.059,64	106.778.059,64	,00	159.696.916,55	159.696.916,55
049		1.2	From the insurance representative or intermediary	,00	,00	,00	,00	,00	,00
050		**2**	**Liabilities from reinsurance**	**,00**	,00	**,00**	**,00**	,00	**,00**
051	052+053+054	**3**	**Other liabilities**	**,00**	**66.107.835,24**	**66.107.835,24**	**,00**	**90.340.199,71**	**90.340.199,71**
052		3.1	Other insurance liabilities	,00	10.020.836,94	10.020.836,94	,00	8.097.657,92	8.097.657,92
053		3.1	Investment income liabilities	,00	,00	,00	,00	,00	,00
054		3.2	Other liabilities	,00	56.086.998,30	56.086.998,30	,00	82.242.541,79	82.242.541,79
055	056+060+061	**VIII**	**OTHER ASSETS**	**,00**	**106.481.464,01**	**106.481.464,01**	**,00**	**60.174.043,18**	**60.174.043,18**
056	060+061+062	**1**	**Cash at bank and in cashier**	**,00**	**64.421.881,66**	**64.421.881,66**	**,00**	**17.878.620,42**	**17.878.620,42**
057		1.1	Assets on business account	,00	64.382.420,47	64.382.420,47	,00	17.468.397,02	17.468.397,02
058		1.2	Assets on assets account for covering the mathematical provision	,00	,00	,00	,00	,00	,00
059		1.3	Cash in the cashier	,00	39.461,19	39.461,19	,00	410.223,40	410.223,40
060		**2**	**Fixed assets for sale and end of operations**	,00	,00	**,00**	,00	,00	**,00**
061		**3**	**Other**	,00	**42.059.582,35**	**42.059.582,35**	,00	**42.295.422,76**	**42.295.422,76**
062	063+064+065	**IX**	**PAID COSTS OF THE FUTURE PERIOD AND UNDUE INCOME PAYMENT**	**,00**	**5.874.921,95**	**5.874.921,95**	**,00**	**4.372.899,65**	**4.372.899,65**
063		1	Delimited interests and leases	,00	957.271,23	957.271,23	,00	143.055,78	143.055,78
064		2	Delimited underwriting costs	,00	,00	,00	,00	,00	,00
065		3	Other paid costs of the future period and undue income payment	,00	4.917.650,72	4.917.650,72	,00	4.229.843,87	4.229.843,87
066	001+004+008+034+035+043+046+055+062	**X**	**TOTAL ASSETS**	**,00**	**2.964.487.652,19**	**2.964.487.652,19**	**,00**	**3.146.834.969,31**	**3.146.834.969,31**
067		**XI**	**OFF-BALANCE SHEET RECORDS**	**,00**	**59.528.399,61**	**59.528.399,61**	**,00**	**153.486.976,43**	**153.486.976,43**

Report of Financial Position (continued) (Liabilities in HRK)

Position number	Sum elements	Position mark	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
068	069+072+073+077+081+084	**XII**	**CAPITAL AND RESERVES**	**0,00**	**1.208.898.638,06**	**1.208.898.638,06**	**0,00**	**1.277.092.583,63**	**1.277.092.583,63**
069	070+071	**1**	**Subscribed capital**	**0,00**	**61.002.000,00**	**61.002.000,00**	**0,00**	**61.002.000,00**	**61.002.000,00**
070		1.1	Subscribed capital - regular shares	0,00	61.002.000,00	61.002.000,00	0,00	61.002.000,00	61.002.000,00
071		1.2	Subscribed capital - preferred shares	0,00	0,00	0,00	0,00	0,00	0,00
072		**2**	**Share premium account (capital reserves)**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
073	074+075+076	**3**	**Revaluation reserves**	**0,00**	**313.230.581,41**	**313.230.581,41**	**0,00**	**329.811.939,13**	**329.811.939,13**
074		3.1	Property and buildings	0,00	300.455.707,52	300.455.707,52	0,00	309.351.015,44	309.351.015,44
075		3.2	Financial assets available for sale	0,00	12.774.873,89	12.774.873,89	0,00	20.460.923,69	20.460.923,69
076		3.3	Other revaluation reserves	0,00	0,00	0,00	0,00	0,00	0,00
077	078+079+080	**4**	**Reserves**	**0,00**	**172.585.301,62**	**172.585.301,62**	**0,00**	**172.585.301,62**	**172.585.301,62**
078		4.1	Legal reserves	0,00	133.541.826,74	133.541.826,74	0,00	133.541.826,74	133.541.826,74
079		4.2	Statutory reserves	0,00	39.043.474,88	39.043.474,88	0,00	39.043.474,88	39.043.474,88
080		4.3.	Other reserves	0,00	0,00	0,00	0,00	0,00	0,00
081	082+083	**5**	**Retained profit or transferred loss**	**0,00**	**555.482.661,67**	**555.482.661,67**	**0,00**	**620.328.852,21**	**620.328.852,21**
082		5.1	Retained profit	0,00	555.482.661,67	555.482.661,67	0,00	620.328.852,21	620.328.852,21
083		5.2	transferred loss (-)	0,00	0,00	0,00	0,00	0,00	0,00
084	085+086	**6**	**Profit or loss of the current accounting period**	**0,00**	**106.598.093,36**	**106.598.093,36**	**0,00**	**93.364.490,67**	**93.364.490,67**
085		6.1	Profit of the current accounting period	0,00	106.598.093,36	106.598.093,36	0,00	93.364.490,67	93.364.490,67
086		6.2	Loss of the current accounting period (-)	0,00	0,00	0,00	0,00	0,00	0,00
087		**XIII**	**SUBORDINATE LIABILITIES**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
088		**XIV**	**MINORITY INTEREST**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
089	090+091+092+093+094+095	**XV**	**TECHNICAL PROVISIONS**	**0,00**	**1.444.401.506,81**	**1.444.401.506,81**	**0,00**	**1.451.376.927,73**	**1.451.376.927,73**
090		1	Unearned premium provisions, gross	0,00	455.311.867,00	455.311.867,00	0,00	503.153.739,11	503.153.739,11
091		2	Mathematical provisions, gross	0,00	0,00	0,00	0,00	0,00	0,00
092		3	Claims provisions, gross	0,00	983.173.544,69	983.173.544,69	0,00	945.176.379,82	945.176.379,82
093		4	Provisions for bonuses and rebates, gross	0,00	4.278.726,68	4.278.726,68	0,00	1.152.466,86	1.152.466,86
094		5	Provisions for claims uncertainty, gross	0,00	1.637.368,44	1.637.368,44	0,00	1.894.341,94	1.894.341,94
095		6	Other technical provisions, gross	0,00	0,00	0,00	0,00	0,00	0,00
096		**XVI**	**SPECIAL LIFE INSURANCE PROVISIONS FOR WHICH THE POLICY HOLDER BEARS THE INVESTMENT RISK, gross**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
097	098+099	**XVII**	**OTHER PROVISIONS**	**0,00**	**29.582.535,62**	**29.582.535,62**	**0,00**	**19.819.280,01**	**19.819.280,01**
098		1	Provisions for pensions and similar liabilities	0,00	29.582.535,62	29.582.535,62	0,00	19.819.280,01	19.819.280,01
099		2	Other provisions	0,00	0,00	0,00	0,00	0,00	0,00
100	101+102	**XVIII**	**DEFERRED AND CURRENT TAX LIABILITY**	**0,00**	**72.408.725,58**	**72.408.725,58**	**0,00**	**75.668.957,43**	**75.668.957,43**
101		1	Deferred tax liability	0,00	72.408.725,58	72.408.725,58	0,00	75.668.957,43	75.668.957,43
102		2	Current tax liability	0,00	0,00	0,00	0,00	0,00	0,00
103		**XIX**	**DEPOSITS RETAINED FROM REINSURANCE**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
104	105+106+107	**XX**	**FINANCIAL LIABILITIES**	**0,00**	**82.825.325,07**	**82.825.325,07**	**0,00**	**121.622.949,24**	**121.622.949,24**
105		1	Loan liabilities	0,00	82.825.325,07	82.825.325,07	0,00	121.622.949,24	121.622.949,24
106		2	Issued financial instruments liabilites	0,00	0,00	0,00	0,00	0,00	0,00
107		3	Other financial liabilities	0,00	0,00	0,00	0,00	0,00	0,00
108	109+110+111+112	**XXI**	**OTHER LIABILITIES**	**0,00**	**119.123.147,47**	**119.123.147,47**	**0,00**	**194.017.806,83**	**194.017.806,83**
109		1	Liabilities resulting from direct insurance	0,00	49.266.145,61	49.266.145,61	0,00	35.170.517,13	35.170.517,13
110		2	Liabilities resulting from co-insurance and reinsurance	0,00	1.532.951,32	1.532.951,32	0,00	5.826.151,22	5.826.151,22
111		3	Liabilities for sale and discontinued operations	0,00	0,00	0,00	0,00	0,00	0,00
112		4	Other liabilities	0,00	68.324.050,54	68.324.050,54	0,00	153.021.138,48	153.021.138,48
113	114+115	**XXII**	**DEFERRED COST PAYMENT AND FUTURE PERIOD INCOME**	**0,00**	**7.247.773,58**	**7.247.773,58**	**0,00**	**7.236.464,44**	**7.236.464,44**
114		1	Delimited reinsurance commission	0,00	0,00	0,00	0,00	0,00	0,00
115		2	Other deferred cost payment and future period income	0,00	7.247.773,58	7.247.773,58	0,00	7.236.464,44	7.236.464,44
116	068+087+088+089+096+097+100+103+104+108+113	**XXIII**	**TOTAL LIABILITIES**	**0,00**	**2.964.487.652,19**	**2.964.487.652,19**	**0,00**	**3.146.834.969,31**	**3.146.834.969,31**
117		**XXIV**	**OFF-BALANCE SHEET ITEMS**	**0,00**	**59.528.399,61**	**59.528.399,61**	**0,00**	**153.486.976,43**	**153.486.976,43**

Report of Cash Flows

Position number	Sum elements	Position mark	Position description	Current business period	Same period of the previous year
001	002+013+031	**I**	**CASH FLOW FROM BUSINESS ACTIVITIES**	**320.225.425,560**	**17.908.426,110**
002	003+004	**1**	**Cash flow before changes in business assets and liabilites**	**140.138.261,550**	**130.514.145,220**
003		1.1	Gains/losses before taxes	117.670.443,290	134.222.741,540
004	005+006+007 +008+009+010 +011+012	**1.2**	**Adjustments:**	**22.467.818,260**	**-3.708.596,320**
005		1.2.1	Depreciation of property and equipment	27.505.303,000	24.386.840,760
006		1.2.2	Depreciation of intangible assets	42.266,000	76.588,460
007		1.2.3	Impairment and gains/losses due to reduction to fair value	34.589.670,000	17.427.262,930
008		1.2.4	Interest costs	4.123.739,000	3.920.985,590
009		1.2.5	Interest income	-43.793.159,740	-48.642.032,520
010		1.2.6	Share in profit of associates	,000	,000
011		1.2.7	Gains/losses from sale of tangible assets (including property and buildings)	,000	,000
012		1.2.8	Other adjustments	,000	-878.241,540
013	014+015+…+030	**2**	**Increase/decrease of business assets and liabilities**	**203.941.745,440**	**-88.406.215,190**
014		2.1	Increase/decrease in investments availble for sale	87.917.204,700	-137.867.324,090
015		2.2	Increase/decrease in investments valued at fair value in the profit and loss accounf	,000	,000
016		2.3	Increase/decrease in deposits, loans and receivables	60.657.443,140	26.392.870,530
017		2.4	Increase/decrease in deposits of reinsurance acceptances	,000	,000
018		2.5	Increase/decrease in investments on account of the life insurance policy holder and his risk	,000	,000
019		2.6	Increase/decrease in share of reinsurance in technical provisions	,000	,000
020		2.7	Increase/decrease in tax assets	,000	,000
021		2.8	Increase/decrease in receivables	77.151.221,380	9.979.360,750
022		2.9	Increase/decrease in other assets	46.307.420,830	18.236.743,420
023		2.10	Increase/decrease in paid costs of the future period and undue income payment	1.502.022,300	-1.326.997,350
024		2.11	Increase/decrease in technical provisions	5.278.983,310	-11.495.067,450
025		2.12	Increase/decrease in technical provisions of life insurance whrn the insured person bears the investment risk	,000	,000
026		2.13	Increase/decrease in tax liabilities	,000	,000
027		2.14	Increase/decrease in deposits retained in reinsurance acceptances	,000	,000
028		2.15	Increase/decrease in financial liabilities	,000	,000
029		2.16	Increase/decrease in other liabilities	-74.883.859,360	7.655.804,000
030		2.17	Increase/decrease in deferred payment of costs and income of the future period	11.309,140	18.395,000
031		3	Paid corporate income tax	-23.854.581,430	-24.199.503,920
032	033+034+…+046	**II**	**CASH FLOW FROM INVESTMENT ACTIVITIES**	**-226.551.564,240**	**60.917.114,730**
033		1	Income from sale of tangible assets	,000	,000
034		2	Intangible assets purchase expenses	-30.282.364,250	-2.428.659,250
035		3	Income from sale of intangible assets	,000	,000
036		4	Tangible assets purchase expenses	-33.687,500	-92.202,210
037		5	Income from sale of property and buildings which the Company does not use for its activities	,000	,000
038		6	Expenses for the purchase of property and buildings which the Company does not use for its activities	-50.677.000,000	-1.758.884,400
039		7	Decrease/increase in investment into subsidiaries, associates and joint ventures and participation in joint investments	,000	,000
040		8	Investment income kept by the maturity date	,000	,000
041		9	Investment expenses kept by the maturity date	,000	,000
042		10	Income from sale of securities and shares	,000	,000
043		11	Expenses for investment in securities and shares	,000	,000
044		12	Income from dividends and shares in profi	6.188.463,760	10.510.775,630
045		13	Income from payment title of given short-term and long-term loans	,000	,000
046		14	Expenses for given short-term and long-term loans	-151.746.976,250	54.686.084,960
047	048+049+050 +051+052	**III**	**CASH FLOW FROM FINANCIAL ACTIVITIES**	**38.797.624,170**	**-19.416.080,000**
048		1	Cash income due to increase in equity	,000	,000
049		2	Cash income from received short-term and long-term loans	38.797.624,170	26.640.430,000
050		3	Cash expenses for payment of received short-term and long-term loans	,000	,000
051		4	Cash expenses for purchase of own shares	,000	,000
052		5	Cash expenses for payment of shares in profit (dividends)	,000	-46.056.510,000
053	001+032+047		**PURE CASH FLOW**	**132.471.485,490**	**59.409.460,840**
054		**IV**	**EFFECTS OF CHANGE OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS**	**,000**	**,000**
055	053+054	**V**	**NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS**	**132.471.485,490**	**59.409.460,840**
056		1	Cash and cash equivalents in the beginning of the period	,000	64.421.882,000
057	055+056	**2**	**Cash and cash equivalents in the end of the period**	**132.471.485,490**	**123.831.342,840**

Report of Changes in Equity

No.	Position description	Attributable to the parent's owners							Attributable to of non-controlling interests	Total of capital and reserves
		Paid-in capital (regular and preferred shares)	Share premium account	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year	Total of capital and reserves		
I.	**Balance at 1 January 2017**	**61.002.000,000**	**,000**	**331.367.447,630**	**172.585.301,620**	**483.096.578,470**	**108.977.641,440**	**1.157.028.969,160**	**,000**	**1.157.028.969,160**
1.	Amendments to the accountancy policies	,000	,000	,000	,000	,000	,000	,000	,000	,000
2.	Correction of errors in the previous period	,000	,000	,000	,000	,000	,000	,000	,000	,000
II.	**Balance at 1 January 2017 (amended)**	**61.002.000,000**	**,000**	**331.367.447,630**	**172.585.301,620**	**483.096.578,470**	**108.977.641,440**	**1.157.028.969,160**	**,000**	**1.157.028.969,160**
III.	**Comprehensive income or loss of the past year**	**,000**	**,000**	**-18.136.866,220**	**,000**	**,000**	**106.598.093,360**	**88.461.227,140**	**,000**	**88.461.227,140**
1.	Income or loss of the period	,000	,000	,000	,000	,000	106.598.093,360	106.598.093,360	,000	106.598.093,360
2.	**Other comprehensive income or loss of the past year**	**,000**	**,000**	**-18.136.866,220**	**,000**	**,000**	**,000**	**-18.136.866,220**	**,000**	**-18.136.866,220**
2.1.	Unrealised gains or losses from tangible assets (property and buildings)	,000	,000	-14.374.631,610	,000	,000	,000	-14.374.631,610	,000	-14.374.631,610
2.2.	Unrealised gains or losses from financial assets available for sale	,000	,000	-3.762.234,610	,000	,000	,000	-3.762.234,610	,000	-3.762.234,610
2.3.	Realised gains or losses from financial assets available for sale	,000	,000	,000	,000	,000	,000	,000	,000	,000
2.4.	Non-owner changes in equity	,000	,000	,000	,000	,000	,000	,000	,000	,000
IV.	**Transactions with owners (previous period)**	**,000**	**,000**	**,000**	**,000**	**72.386.083,200**	**-108.977.641,440**	**-36.591.558,240**	**,000**	**-36.591.558,240**
1.	Increase/decrease of subscribed capital	,000	,000	,000	,000	,000	,000	,000	,000	,000
2.	Other owner payments	,000	,000	,000	,000	,000	,000	,000	,000	,000
3.	Payment of shares in profit/dividends	,000	,000	,000	,000	-46.056.510,000	,000	-46.056.510,000	,000	-46.056.510,000
4.	Other distributions to owners	,000	,000	,000	,000	118.442.593,200	-108.977.641,440	9.464.951,760	,000	9.464.951,760
V.	**Balance at the last day of the reporting period in the previous year**	**61.002.000,000**	**,000**	**313.230.581,410**	**172.585.301,620**	**555.482.661,670**	**106.598.093,360**	**1.208.898.638,060**	**,000**	**1.208.898.638,060**
VI.	**Balance at 1 January of the current year**	**61.002.000,000**	**,000**	**313.230.581,410**	**172.585.301,620**	**555.482.661,670**	**106.598.093,360**	**1.208.898.638,060**	**,000**	**1.208.898.638,060**
1.	Changes in accountancy policies	,000	,000	,000	,000	,000	,000	,000	,000	,000
2.	Correction of errors of previous periods	,000	,000	,000	,000	,000	,000	,000	,000	,000
VII.	**Balance at 1 January of the current year (amended)**	**61.002.000,000**	**,000**	**313.230.581,410**	**172.585.301,620**	**555.482.661,670**	**106.598.093,360**	**1.208.898.638,060**	**,000**	**1.208.898.638,060**
VIII.	**Comprehensive profit or loss of the current year**	**,000**	**,000**	**16.581.357,720**	**,000**	**,000**	**93.364.490,670**	**109.945.848,390**	**,000**	**109.945.848,390**
1.	Profit or loss of the period	,000	,000	,000	,000	,000	93.364.490,670	93.364.490,670	,000	93.364.490,670
2.	**Other comprehensive profit or loss of the current year**	**,000**	**,000**	**16.581.357,720**	**,000**	**,000**	**,000**	**16.581.357,720**	**,000**	**16.581.357,720**
2.1.	Unrealised gains or losses from tangible assets (property and buildings)	,000	,000	8.895.307,920	,000	,000	,000	8.895.307,920	,000	8.895.307,920
2.2.	Unrealised gains or losses from financial assets available for sale	,000	,000	7.686.049,800	,000	,000	,000	7.686.049,800	,000	7.686.049,800
2.3.	Realised gains or losses from financial assets available for sale	,000	,000	,000	,000	,000	,000	,000	,000	,000
2.4.	Other non-owner changes in equity	,000	,000	,000	,000	,000	,000	,000	,000	,000
IX.	**Transactions with owners (current period)**	**,000**	**,000**	**,000**	**,000**	**64.846.190,540**	**-106.598.093,360**	**-41.751.902,820**	**,000**	**-41.751.902,820**
1.	Increase/decrease of subscribed capital	,000	,000	,000	,000	,000	,000	,000	,000	,000
2.	Other owner payments	,000	,000	,000	,000	,000	,000	,000	,000	,000
3.	Payment of shares in profit/dividends	,000	,000	,000	,000	-50.326.650,000	,000	-50.326.650,000	,000	-50.326.650,000
4.	Other transactions with owners	,000	,000	,000	,000	115.172.840,540	-106.598.093,360	8.574.747,180	,000	8.574.747,180
X.	**Balance at the last day of the reporting period in the current year**	**61.002.000,000**	**,000**	**329.811.939,130**	**172.585.301,620**	**620.328.852,210**	**93.364.490,670**	**1.277.092.583,630**	**,000**	**1.277.092.583,630**

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

Report 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 report prepared in accordance with the IFRS are recorded in the financial report in the 049 (Receivables) and 064 (Other assets) positions.
Investments in other assets are recorded in the financial report in the non-tangible assets position, and in the tangible assets positions in special financial reports.
Liabilities from direct insurance and liabilities from reinsurance recorded in the financial report prepared in accordance with the IFRS are given in the following positions of the financial report:

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

Interests for loans in a financial report 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 report 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 reports prepared in accordance with the IFRS are given in the net amount.

Report of Comprehensive Income

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