EUROHERC

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2019

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

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Zagreb, April 2020

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(1) MAIN COMPANY DATA

EUROHERC osiguranje d.d. 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 total [life and non-life insurance] market it ranks third in 2018.

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

① Accidental Insurance	⑩ Motor Vehicle Liability
② Health Insurance	⑪ Aircraft Liability Insurance
③ Road Vehicle Insurance	⑫ Vessel Liability Insurance
④ Railroad Vehicle Insurance	⑬ Other Liability Insurance
⑤ Aircraft Insurance	⑭ Loan Insurance
⑥ Vessel Insurance	⑮ Guarantee Insurance
⑦ Goods in Transit Insurance	⑯ Financial Losses Insurance
⑧ Fire and Special Perils Insurance	⑰ Legal Protection Insurance
⑨ Other Property Insurance	⑱ Travel Insurance

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

(2) ORGANISATION STRUCTURE

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

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

BRANCHES			
NAME OF BRANCH		**HEAD OFFICE**	**DIRECTOR**
05	ZAGREB	*Ulica grada Vukovara 282*	MATEA ČIZMIĆ
06	VARAŽDIN	*Zagrebačka 63*	MLADEN RIHTARIĆ
07	SISAK	*Franje Lovrića 17A*	BOŽICA ZLOVOLIĆ
08	BJELOVAR	*Zagrebačka 51*	DOMINIK TRNSKI
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*	ANĐELKA BRAICA

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

SECTOR		**DIRECTOR**
01	SALES	TOMISLAV ABRAMOVIĆ
02	CLAIMS	STANKO HRKAĆ
03	FINANCE	TOMISLAV ČIZMIĆ
04	IT	ŽELJKO KORDIĆ

By the end of 2019, the Company had 1,239 employees: 1,095 in the Republic of Croatia and 144 employees in the Republic of Austria. Of the total number of employees, 874 work in the Sales sector and 131 work in the Claims sector.

(3) MANAGEMENT AND SUPERVISORY BOARD OF THE COMPANY

The Management Board has five members and a procurator, who jointly represent the Company. On 31/12/2019 members of the Management Board are the following:

President:	MR. SC. IVANA BRATANIĆ
Members:	DARINKO IVKOVIĆ, ŽELJKO KORDIĆ, TOMISLAV ČIZMIĆ, VJERAN ZADRO
Procurator:	DR. SC. DAMIR ZORIĆ

The Supervisory Board of the Company in 2019 comprised the following persons:

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

(4) FINANCIAL RESULTS

In 2019, the Company made HRK 1,353 million in revenues, HRK 1,175 million or 87% of which refer to insurance premiums. The expenses of the Company amounted to HRK 1,223 million (HRK 1,023 million in 2018).

Profit before taxation amounted to HRK 161 million (HRK 174 million in 2018). Income tax amounted to HRK 29 million (HRK 32 million in 2018). Profit for the accounting period, after taxes, amounted to HRK 132 million (HRK 142 million in 2018). Earnings per share amounted to HRK 432.59 (HRK 466.03 in 2018).

Profit and loss account				*thousands*
Position description	**2018**	**2019**	**Remainder**	**Index**
	Non-Life	**Non-Life**	**2019 - 2018**	**%**
Earned premiums (revenue)	982,559	1,174,703	192,144	119.56
Investment income	136,043	128,596	-7,447	94.53
All other income	57,657	49,798	-7,859	86.37
Expenses for insured cases, net	-397,678	-530,241	-132,564	133.33
Change in other TAs, net of REO	-359	2,254	2,613	- 627.43
Operating expenses	-475,850	-529,797	-53,946	111.34
Investment costs	-67,724	-62,496	5,229	92.28
All other costs	-60,318	-71,726	-11,408	118.91
Profit after tax	142,146	131,945	-10,201	92.82
TOTAL INCOME	*1,164,730*	*1,355,098*	190,367	116.34
TOTAL EXPENSES	*-1,022,585*	*-1,223,153*	-200,568	119.61

4.1. Earned premium [income]

The total premium (premium for insurance and premium for co-insurance) agreed for the year ending on 31 December 2019 amounted to HRK 1,279 million, which is HRK 160 million or 14.3% more than in the previous business year.

In terms of gross written non-life insurance premium, the Company ranks second in the Republic of Croatia, while it is in third place in terms of total gross written premium written. The Company's share in the non-life insurance premium amounts to 17.1%, which represents an increase of 14.31% compared to 2018, while the share in the total gross written premium increased from 11.35% realized in 2018 to 12.13% achieved in 2019. In mid-2017, the company expanded its operations to the territory of the Republic of Austria, where in 2019 it earned a gross written premium of € 33 million. The data in the table are expressed in thousands:

HRK 000

EUROHERC	Written gross premium		Changes 19/18	
	2018	2019	Amount	%
Total	1,118,862 HRK	1,278,989 HRK	160,127 HRK	114%
In the HR market	*933,041 HRK*	*1,032,946 HRK*	*99,905 HRK*	*111%*
In the AT market	*185,821 HRK*	*246,043 HRK*	*60,222 HRK*	*132%*
AT (EUR)	25,065 €	33,176 €		

In the structure of the Company's premium income, the largest share of 52% refers to AO - motor third party liability insurance, followed by AK - road vehicle insurance - hull with 22% share, and accident insurance with 9% share.

In the structure of the Company's premium income realized in the Republic of Austria, liability insurance for the use of motor vehicles is also dominant with a participation of 65.48% or HRK 161 million. Road vehicle insurance - comprehensive insurance participates with 24.9%.

4.2. Claims incurred, net

In 2019, net claims incurred amounted to HRK 530 million, 220,317 claims were liquidated and HRK 587 million were allocated for the payment of the liquidated claims.

The share of reinsurance in liquidated claims amounted to 1.9 million HRK.

4.3. Reporting period features

Changes that the Company considers significant in the reporting period:

- significant growth of premium income on the Austrian market,
- territorial expansion in the Austrian market,
- revenue generation from traffic offices in Austria,
- completion of the office building in Klagenfurt, Republic of Austria,
- planned completion of the office building in Salzburg, Republic of Austria in 2020.
- increase in capital by making a profit in the business year.

All the mentioned changes are additionally explained in the chapters that deal with the positions within which the changes occurred.

4.4. Strategic goals of the Company

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

(5) INSURANCE MARKET IN THE REPUBLIC OF CROATIA IN 2019

At the end of 2019, a total of 20 insurance companies based in the Republic of Croatia operated on the insurance market. Out of the total number of insurances, 4 of them performed exclusively life insurance operations, 7 companies performed exclusively non-life insurance operations, while the remaining 9 companies performed life and non-life insurance operations.

The insurance market of the Republic of Croatia in 2019 recorded a growth of 7%, and the total gross written premium (CBA) amounted to HRK 10.5 billion. Life insurance accounts for 29% of gross written premium or HRK 3 billion, while the remaining 71% relates to non-life insurance. Total premiums are growing at an index of 107, non-life insurance is growing at an index of 111.3 while life insurance is down 2%.

According to the Croatian Insurance Bureau, in 2019 insurance companies charged a total gross premium in the non-life insurance group in the amount of HRK 7.5 billion. The growth of premiums is accompanied by an increase in the number of insurance, and in 2019 there were 9,481,026 non-life insurance policies.

In 2019, compared to 2018, a significant increase in CBA was achieved in most types of insurance. Casco motor insurance (03) recorded the absolute highest growth of premiums of over HRK 206.6 million and an index of HRK 119.7. In addition to motor hull insurance, motor third party liability insurance (10) also recorded a significant increase in premiums in the amount of HRK 119.6 million and an index of HRK 105.5. In 2019, in the structure of gross written premiums on the non-life insurance market in the Republic of Croatia, the motor vehicle insurance premium - hull and the motor third party liability insurance premium represent the most significant share, as much as 47.53%. The reason for the growth of motor vehicle insurance is the increased sales of motor vehicles, both new and used vehicles. Additionally, we can say that the process of reducing the prices of motor third party liability insurance policies caused by market liberalization has ended. The growth was largely caused by an increase in the average purchase price of vehicles and less by an increase in the price of insurance.

At the end of 2019, there were no significant changes in the structure of premium income of insurance companies in the Republic of Croatia compared to the same period last year. Still the largest share falls on life insurance and is lower by 2 percentage points compared to the previous year. The share of car liability at the end of 2019 is 21.8% and is still declining, which is primarily the result of the market liberalization process. The third position is still held by casco insurance of road vehicles with 11.91%, followed by other property insurance with 7.30% and fire and natural damage insurance with 6.46%. Other types of insurance have a share of less than 6%: health insurance of 5.75% and accident insurance with a share of 4.76% of total premium income.

The share of insurance premiums in GDP in 2019 in Croatia was 2.68%, while the EU average was 7.19%. A Croatian citizen spends around € 347 a year on insurance, of which an average of € 245 refers to non-life insurance and € 101 to life insurance. On the other hand, an EU citizen in 2018 spent an average of € 2,170 on insurance.

In the Republic of Croatia, an average of € 20 is set aside for health insurance, € 232 in the EU, € 48 for property insurance, while EU citizens spend an average of € 174. € 116 is allocated annually for motor vehicles per station in Croatia, and the average EU citizen is € 238.

At the end of 2019, insurance companies had 8,756 employees (8,602 in 2018). A total of 37,924 employees were employed in the financial sector in that period, and employees of insurance companies participate with 23% of employees.

(6) LIABILITIES TO THE SUPERVISORY BOARD

In the course of 2019, the Management Board of the Company submitted regular quarterly written reports to the Supervisory Board on all issues relevant for the operations and management of the Company, in accordance with the Company's Statute, the Insurance Act and the Companies Act.

The reports submitted to the Supervisory Board were drawn up diligently, and are truthful and complete.

The Management Board of the Company accepted all of the recommendations, observations and suggestions of the Supervisory Board and used them so as to manage the Company's business in the best possible manner and in the interest of the Company's shareholders, while completely complying with the laws and other regulations that refer to the Company's business activity.

(7) CONCLUSION

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

In 2017 and 2018, the Company decided to expand to the Austrian insurance market, which 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 a small group of insurance companies with the highest efficiency in claims settlement procedures.

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

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

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

Zagreb, 30 April 2019

Management of the Company

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

NON-FINANCIAL REPORT

EUROHERC

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(1) INTRODUCTION

The Directive 2014/95/EU of the European Parliament and of the Council as regards disclosure of non-financial and diversity information by certain large undertakings and groups entered into force on 6 December 2014 and will in 2018 become applicable to information corresponding to 2017. Pursuant to the Directive, non-financial disclosure requirements refer to so-called public-interest entities[1], i.e. certain large companies with more than 500 employees. Companies must publish relevant and useful information necessary for understanding of the company's development, performance, position and impact of its activity, and not an exhaustive, detailed statement.

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

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

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

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

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

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

[1] Article 3 (1) of the Accounting Act and Article 2 (1) Directive 2013/34/EU of the European Parliament and of the Council on the annual financial statements, consolidated financial statements 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.

(2) Overview of the Field of Non-financial Statements

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

(3) BRIEF OVERVIEW OF THE BUSINESS MODEL

3.1. *Business Environment*

In the Republic of Croatia, in the period 2009-2019, GDP per capita ranged from EUR 10.2 thousand to EUR 13.3 thousand. GDP in Croatia has been falling since the global financial and economic crisis, which began in 2008 until 2014, ie for 6 consecutive years, and 2015 was the first year in Croatia with positive economic growth rates. From then until 2019, economic activity continued to grow. GDP growth per capita in the period from 2009 to 2019 is a consequence of nominal GDP growth in the last 5 years, but also a decrease in the number of inhabitants throughout the eleven-year period.

In 2019, the real economic growth rate was 2.9%, which is a slight acceleration of growth compared to the previous year, when growth was 2.7% compared to 2018. For 2020, official projections predict economic growth of about 2.5%, but due to the outbreak of a pandemic caused by the COVID-19 virus at the beginning of the year, there is a serious risk of a significant slowdown in global growth, including growth in Croatia.

In 2019, the inflation rate was 0.8%, which indicates a slowdown in price growth compared to 2018, when consumer price inflation was 1.5%. Price growth could accelerate slightly in 2020 to around 1.4%. Higher inflation rates compared to 2019 could be due to rising excise duties on cigarettes, alcoholic beverages and sugary soft drinks, disappearing effect of lower prices due to lower VAT rates on certain product groups in early 2019, and milder inflationary pressures caused by the increase unit labor costs.

In November 2019, general government debt amounted to 73.3% of gross domestic product, while at the end of 2018 it was 74.8%. In 2019, a budget surplus of a total of HRK 0.2 billion was realized.

The total decline in population from 2009 to 2019, according to EUROSTAT, amounted to more than 230 thousand inhabitants. While in 2019 Croatia had just over 4 million inhabitants (or 4,076 thousand), in 2009 the population was more than 4.3 million (or 4,310 thousand). This means that in this period the population of Croatia decreased by over 5.4 percent.

According to EUROSTAT data, the working population within the age group of 15 to 64 decreased from 1.886 million inhabitants to 1.783 million inhabitants in the period from 2009 to 2018, which is a decrease of 5.5% or 103 thousand persons in employment. residents.

Since joining the European Union, there have been extremely negative demographic trends and a decrease in the active population in the Republic of Croatia, on the one hand due to demographic aging, and on the other due to emigration. According to EUROSTAT data, Croatia has had a negative migration balance in all years since 2013. The lowest negative migration balance was recorded in 2013 and amounted to 1.1% of the total population. In the years that followed, the negative migration balance increased every year until 2017, when it amounted to 7.7% of the total population, while the following year, the negative migration balance decreased slightly, to 3.3%.

In 2019, the sharp decline in the unemployment rate continued, and the unemployment rate averaged 6.8% that year, while a year earlier it averaged 8.4%. Thus, 2019 was the sixth consecutive year with a drop in the unemployment rate. Although this is a desirable trend, it was achieved, among other things, thanks to the outflow of the working age population from the country. However, the employment rate in Croatia is still low and in 2018 it was 65.2% (for the population aged 20 to 64), while the employment rate of the population aged 20 to 64 in the EU-28 in 2018. amounted to 73.2%. Croatia, after Greece and Italy, is the country with the third lowest unemployment rate within the European Union.

In the EU-28, economic growth averaged 2.1% in 2018, and growth of 1.9% in the euro area. These data represent a slowdown in growth compared to 2017, when economic growth of 2.7% was achieved. in the EU-28, or 2.5% in the euro area. According to the data available so far, the trend of slowing economic activity continued in 2019. The countries that are the most important trade partners of Croatia - Germany and Italy in 2019 achieved very low growth rates of 0.6 and 0.3%.

On the other hand, relatively high economic growth rates in 2019 were recorded in Ireland (5.5%), Hungary (4.5%), Estonia (4.3%) and Poland (4.1%).

In 2019, 16 insurance companies and two foreign companies actively operated in the financial sector of the Republic of Croatia through a branch (FOE / FOS - freedom of establishment / freedom of services), 311 insurance agencies, 53 insurance brokerage companies and / or reinsurance, and reinsurance, 433 insurance representation trades and 26 companies as well as 7 insurance representation trades at vehicle technical inspection stations.

9 insurance and reinsurance companies are majority owned by foreign capital, and 7 companies are majority owned by domestic capital. As of November 30, 2019. Ergo osiguranje d.d. and Ergo Life Insurance d.d. performed the transfer of the entire portfolio to Sava osiguranje d.d., Zagreb Branch.

The share of insurance and reinsurance companies' assets in the total assets of financial intermediaries (all financial institutions on the Croatian financial market) amounts to around HRK 45.4 billion or 7.06% at the end of 2019, which puts insurance and reinsurance companies in third place behind financial intermediaries. monetary credit institutions and mandatory pension funds. Banks participate with HRK 429.2 billion or 66.7%, and mandatory pension funds with HRK 112.6 billion or 17.5%[2]. The rest of the financial intermediaries in the financial sector of the Republic of Croatia consist of leasing companies with around HRK 21.6 billion (3.36%) and factoring companies with around HRK 1.4 billion (0.2%).

In this report, we must also look to 2020, given the emerging emergency situation of the spread of COVID-19 virus infection. The global economic crisis caused by the Sars-COV-19 virus pandemic is already being called "the mother of all recessions" by some economic analysts. Below are the considerations and data published by the International Monetary Fund and some other analysts regarding the projections of gross domestic product, consumer price index, current account share and unemployment rate in selected EU countries. The presented data refer to the projections from April 2020.

[2] Source: https://www.hnb.hr/statistika/statisticki-podaci/financijski-sektor/druge-monetarne-financijske-institucije/kreditne-institucije/nekonsolidirana-bilanca/kreditne-institucije/tromjesecni-podaci; https://www.hanfa.hr/publikacije/mjesecna-izvjesca/

State	Real BDP (%)			Consumer price index (%)			Current balance**			Unemployment rate		
	Real	Projections		Real	Projections		Real	Projections		Real	Projections	
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Germany	0.6	-7.0	5.2	1.3	0.3	1.2	7.1	6.6	6.7	3.2	3.9	3.5
France	1.3	-7.2	4.5	1.3	0.3	0.7	-0.8	-0.7	-0.6	8.5	10.4	10.4
Italy	0.3	-9.1	4.8	0.6	0.2	0.7	3.0	3.1	3.0	10.0	12.7	10.5
Austria	1.6	-7.0	4.5	1.5	0.4	1.7	2.6	1.9	2.0	4.5	5.5	5.0
Croatia	2.9	-9.0	4.9	0.8	1.3	1.2	2.9	-4.0	-1.5	7.8	11.5	8.0
Slovenia	2.4	-8.0	5.4	1.6	0.4	1.4	6.6	0.8	3.2	4.6	9.0	6.0
Hungary	4.9	-3.1	4.2	3.4	3.3	3.2	-0.8	-0.1	-0.6	3.4	5.4	4.0
Eurozone	1.2	-7.5	4.7	1.2	0.2	1.0	2.7	2.6	2.7	7.6	10.4	8.9
World	2.9	-3.0	5.8	-	-	-	-	-	-	-	-	-

Source: MMF

Europa	Real BDP (%)			Consumer price index (%)			Current balance **			Total public debt (% BDP)		
		Projections			Projections			Projections			Projections	
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Germany	0.6	-10.0	10.0	1.4	0.5	1.6	7.3	3.0	5.0	58.8	77.8	72.6
France	1.3	-13.8	11.6	1.1	0.4	1.0	-0.4	-0.5	-0.6	98.1	123.4	112.7
Italy	0.3	-15.0	9.0	0.6	-0.4	0.8	3.0	1.7	2.3	134.8	167.0	155.5
Austria	1.6	-9.1	7.9	1.5	0.9	1.9	1.9	0.8	1.4	70.4	86.2	80.4
Croatia	2.9	-10.5	6.9	1.4	0.6	2.0	2.9	-6.0	0.7	73.2	87.5	82.6
Slovenia	2.4	-9.0	9.0	1.7	0.6	2.1	6.6	4.9	6.1	66.4	74.0	68.0
Hungary	4.9	-9.3	9.9	4.0	1.6	3.6	-0.9	-2.9	-1.2	64.7	73.4	65.7

Source: UniCredit Research

Globally: Measures of social distancing and bans on activities introduced to combat the Sars-COV-19 virus epidemic have paralyzed the global economy. China began lifting measures to curb economic activity in early April, but in the rest of the world, the leveling of the infected curve has not yet leveled off, so no significant relaxation of restrictive measures has begun. Measures to curb economic activity are expected to extend until June in the United States and Europe. In mid-April, a projection of economic growth for the global economy and at the level of individual economies was published, based on data available so far, information on fiscal and monetary policy measures taken and assumptions on the duration of measures to curb economic activity. According to these projections, global output will decline by 3 percent in 2020, to increase by 5.8 percent in 2021. The economic decline in the eurozone in 2020 will, according to IMF expectations, be more pronounced and amount to 7.5 percent, followed by a relatively anemic recovery at a rate of 4.7 percent in 2021.
In addition, most high-frequency indicators of economic developments after the introduction of pandemic protection measures are still not available, but some estimates show that each month of banning activities reduces annual GDP by about 3 percentage points. If the measures last for two months, the economy could fall by a total of about 10 percent this year, the biggest one-year economic decline since World War II. World War II (*Capital Economics, April 6, 2020*).
The European Central Bank has stepped up its efforts to preserve the functioning of key markets and to ensure the impact of monetary policy measures in a situation of extremely negative fiscal consequences for Member States' budgets. In addition to its extraordinary program of government bond redemption

measures, the European Central Bank acts as a lender of last resort for Member States for as long as necessary. This measure allowed Member States room for maneuver in the face of fiscal contraction. However, Member States' measures are uncoordinated and without a common denominator.

Croatia: The decline in economic activity due to the introduction of restrictive measures to combat the Sars-COV-19 virus epidemic, especially in the tourism, transport and retail sectors, will have a strong impact on personal consumption. This impact will be partially offset by increased public spending, ie the implementation of a package of measures by the Croatian government to mitigate the economic consequences of the implementation of measures to protect against the spread of the epidemic. Due to the great importance of tourism in the structure of economic activity, the decline in GDP in Croatia will be more pronounced than in EU countries, on average. According to IMF projections, the decline in Croatian GDP in 2020 could amount to 9%, and this decline will only be partially compensated in 2021, when growth of 4.9% is expected. The package of compensatory measures and the decline in state budget revenues will undoubtedly cause an increase in the state budget deficit and public debt, however, the economic recovery will continue the trend of gradual fiscal adjustment after 2021.

3.2. *Organisation and Structure*

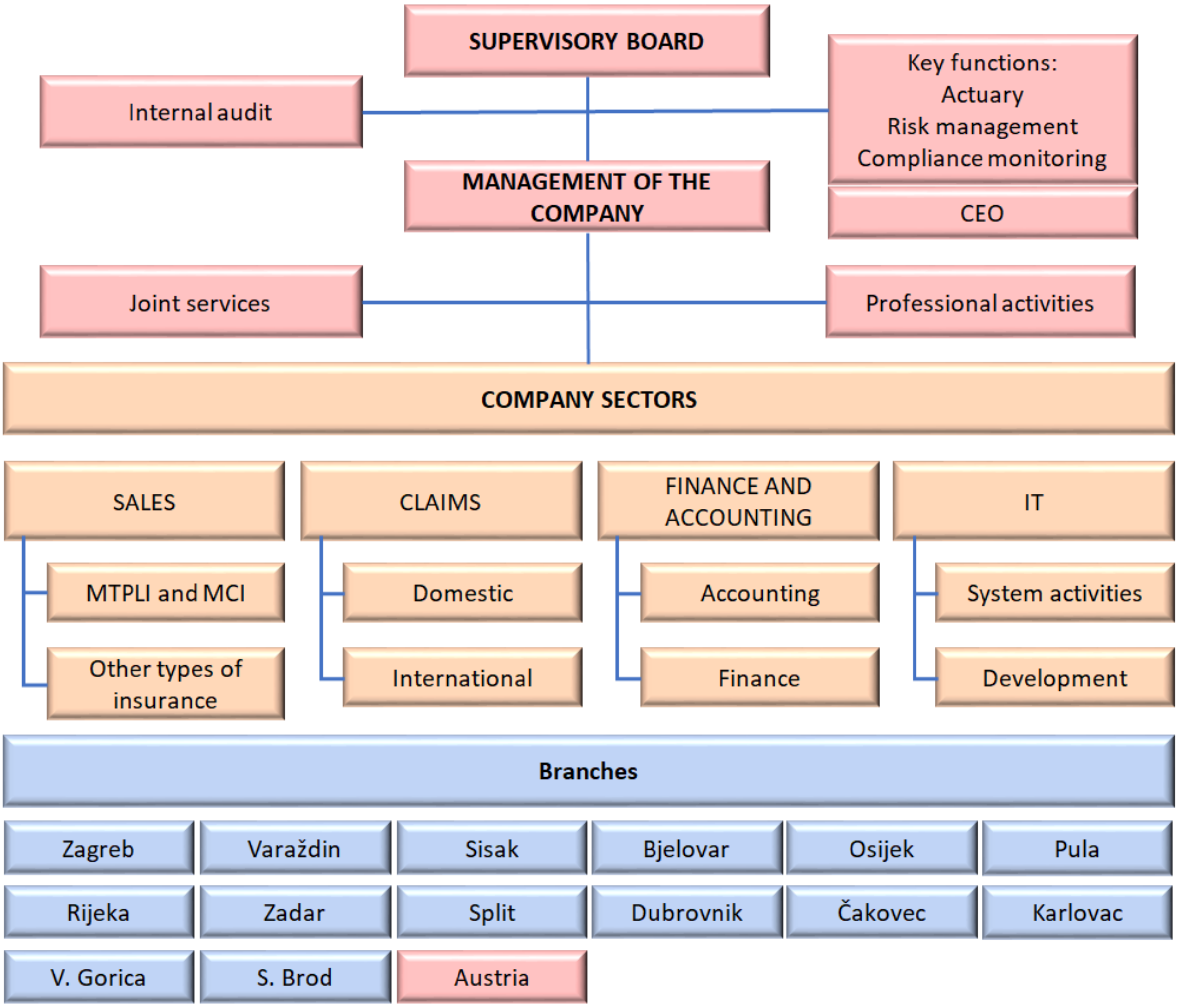
EUROHERC osiguranje d.d. has a mixed organisation structure which is a combination of production, functional, territorial and project organisation units. The business operations of the Company are divided into four sectors, i.e. organisation units: Sales, Claims, Finance and IT.

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

In the Austrian market, EUROHERC osiguranje d.d. operates through a branch with an office in Vienna. In organisational terms, the branch functions in line with Croatian branches' operations principle. The branch office is in charge of regional centres in larger cities in which EUROHERC operates in, namely, Graz, Linz, Klagenfurt and Salzburg, as well as Vienna.

In 2019, EUROHERC osiguranje d.d., having made HRK 1,278,988,609 in premium income, ranked 3rd in terms of total premium income of insurance companies in the Republic of Croatia, i.e. it ranked 2nd in the non-life insurance market.

The share capital of EUROHERC osiguranje d.d. amounted to HRK 61,002,000 and is divided into 305,010 shares of nominal value of 200 HRK. The shareholders' structure is dispersed and it entails both mid-level and top-level management, which resulted in a high level of work motivation of management and professional staff.



Organisation Structure of EUROHERC osiguranje d.d.

3.3. *Our Market*

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

(in HRK)

2019		HR - HR		HR in EU (FOE/FOS)		EU in RH (FOE/FOS)	
		Written gross premium	Reinsurance	Written gross premium	Share	Written gross premium	Share
Total	10,727,956,822	10,110,412,921	94.24%	434,682,301	4.05%	182,861,601	1.70%
Non-life	7,611,524,818	7,043,792,321	92.54%	434,267,934	5.71%	133,464,563	1.75%
Life	3,116,432,004	3,066,620,600	98.40%	414,366	0.01%	49,397,038	1.59%

HR - Written gross premium in HRK (WGP) in 2019; source: Croatian Insurance Bureau

The Company EUROHERC osiguranje d.d. has been operating in the Republic of Croatia for 26 years, since 1992. The seat of the Company is located in Zagreb since 2000. Since it was established, the Company recorded high premium growth rates. In terms of premium income size, EUROHERC osiguranje d.d. is one of the leading Croatian insurance companies.

In 2019, the share of the total written premium of all insurance companies in the GDP of the Republic of Croatia accounted for 2.68%, which is about 0.8% more than the previous year. In 2019, the share of the non-life insurance premium in the GDP accounted for 1.9%, and life insurance premium accounted for 0.78%. 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 lags behind significantly. In 2019, the total premium per capita amounted to 2,632 HRK[3] (1,867 HRK for non-life insurance and 765 HRK for life insurance). Although the indicator of average premium per capita increases by the year, the Republic of Croatia is still far from reaching the average values of developed countries, which points to further insurance market growth potential.

[3] Broj stanovnika prema EUROSTAT-u EUROSTAT, Population on 1 January, https://ec.europa.eu/eurostat/databrowser/view/tps00001/default/table?lang=en

3.4. *Strategy and Targets*

In the complex social and economic environment in which the Company operates, the biggest challenge is to maintain profitable operations as a basic prerequisite for achieving business continuity and overall progress of the Company.

The strategic goals of the Company are:

1. Market share and position of the Company
2. Continuous strengthening of sales infrastructure
3. Dispersed portfolio structure
4. Active and efficient claims processing
5. Own IT infrastructure and solutions
6. Achieving positive financial results
7. Quality premium collection
8. Conservative investment policy
9. Active risk management.

All strategic goals of the company are described in detail in the document Strategic goals of the company. For the purposes of the ORSA report, we will look at the key objectives that create a risk profile of the Company.

Market share and position of the company

Today, the Company holds the third position in terms of share in the total insurance market and a solid second place in the non-life insurance market with a high rate of business profitability as a basic prerequisite for business continuity and overall progress of the Company.

Specifically from the aspect of market power, the Company's goal is to have a 15% share in the non-life insurance market of the Republic of Croatia, and between 23 and 25% share in the Croatian car liability market. Also, the goal is to reduce the share of car liability in the total portfolio of the Company to a level between 45% and 50%.

Continuous strengthening of sales infrastructure

The Company's sales infrastructure is significant and represents a great comparative advantage over the competition. Under infrastructure we consider the sales network through which the Company is present in the entire territory of the Republic of Croatia and the Republic of Croatia, its own recognizable facilities in which the activity is performed, and all other material conditions provided by the Company to meet business objectives. As the Company has a good diversification of sales infrastructure, in the future it will not need to invest significant funds in infrastructure development, but will continue to work on the continuity of strengthening and modernization. The company continuously develops and improves its own sales network with the aim of maintaining a share of 70% of the number of sales employees in the total number of employees.

Precise procedures and methodologies for hiring, training, leading, motivating and rewarding have been set, with continuous work on educating sales staff remaining a permanent task of the Management and the Sales Department. The work and strengthening of the sales network enables the prevention of insurance risk, which is reflected in practice through continuous professional training of employees with the aim of training all employees, with emphasis on the Sales Department, for independent, successful and efficient work, in accordance with legislation, business code and internal policies. , regulations and procedures. All of the above has a specific goal in preventing operational risk which is reflected in employee errors as well as possible inadequacies of IT systems and for this reason education has an irreplaceable role in development plans and strengthening the infrastructure of the Company. Education takes place internally through the Company's resources, but also using the services of leading experts specialized in modern education in the field of insurance so that at least 70% of the sales network is active in selling insurance products outside the motor vehicle program (hereinafter OVS) to individuals.

Dispersed portfolio structure
The goal is to strengthen the team of internal educators, and further train them to better educate other employees, because it is planned to conduct additional professional specialization of sales staff to be able to create products and apply them in practice, all in order to more effectively implement sales strategy. and increasing the share of OVS policies, as follows:
- fire insurance and other property insurance
- liability insurance
- accident insurance
- vessel insurance
- insurance of goods in transport
- insurance of construction facilities under construction, ie facilities under assembly, and
- liability insurance.

The scope of work and responsibilities of internal trainers are defined by the Operational Risk Management Policy and the Insurance Risk Management Policy, where internal trainers cooperate with the Risk Manager, which conducts risk measurement procedures in individual business processes, direct field inspections, surveys and various questionnaires. In the coming years, the development of the insurance market in certain types of insurance (various types of liability, financial insurance, transport, etc.) is expected, which require specialized knowledge in certain areas. Through education and professional training, it is planned to train a sufficient number of sales staff who will be able to create products and apply them in practice, so that the Company has a continuous and significant growth in the sale of other types of insurance policies. In most Branches, the functions of Product Supervisor have been established for certain types of products, for the purpose of specialization of employees and control at lower levels.

The Company's market objectives can significantly affect the growth of the Company's risk profile. The desire for rapid growth increases the risk of taking on poorer insurance risks and, as a rule, leads to a lower level of premium prices. The Company has practically completed its market position on the Croatian market, the goals set before the Company do not produce additional significant risks for the company nor would non-fulfillment of the same affect the company's operations.
It was from this market position that the idea of expanding into new markets, specifically the market of the Republic of Austria, developed.

Active and efficient claims processing
The goal of the Company is to continuously improve the process of processing and liquidation of claims with the necessary organizational changes in the Claims Sector, more intensive application of new technologies and additional education of employees. Good organization creates quality conditions for the necessary active processing of damages. Purposeful IT refinements of the claims processing program aim to enable better damage management. This is extremely important for easier monitoring of changes in claims, changes in the status of claims and especially for monitoring the statutory deadlines for processing claims. It is extremely important to keep the efficiency in the settlement of damages above 75% in relation to the total number of cases in processing, and to continue the positive trend of reducing new lawsuits.
It is strategically important to systematically monitor and implement internal control of the entire claims processing process. Effective claims processing control significantly reduces operational risks, reduces reputational risks and affects liquidity risk management.

Own IT infrastructure and solutions

The strategic goal of the Company is that the main IT infrastructure, which serves the basic business functions of the Company, be owned by the Company. Management, supervision and maintenance of IT infrastructure should be performed by employees of the Company's IT Department. In addition to the IT infrastructure, the goal is for the Company to develop and maintain its own software solutions for the needs of its core business. This approach provides maximum system flexibility and the ability to quickly adapt to dynamic changes in the insurance market.

One of the main drivers of the overall development and progress of the Company is seen through the level of IT skills of the Company. Maintaining a database of policies and clients, accuracy, reliability and up-to-dateness of data, as well as quality analysis are the basic tools for successful management of the Company. The Company's Circulars, business processes and internal business rules are built into the IT system, and in this way the Company influences the reduction of risks arising from operations, and raises the quality of service and accuracy of information.

An integral part of the Company's IT infrastructure is quality and motivated staff in the IT Sector so that all business ideas and requirements can be quickly and accurately transferred to the information system, and thus become available to all employees of the Company to which they relate. In addition to IT education and mastering the possibilities of IT tools, it is very important that the employees of the IT Sector are thoroughly acquainted with the business processes and functioning of the Company. Only with this knowledge can IT staff give their maximum to the Society.

Achieving positive financial results

Actively thinking about the future of the Company, activities are carried out in the direction of increasing cost efficiency. The company has achieved an exclusively positive financial result in its long-term operations so far, including in all crisis years. In the current market conditions, achieving a further positive financial result is carried out primarily by further streamlining operations, reducing costs / expenses of the Company, increasing productivity and further optimizing operations and business processes.

Quality premium collection

In establishing the financial business process, taking into account the economic environment, one of the key tasks is to work on the collection of premiums, and it is especially important for maintaining the liquidity of the Company. The premium is sometimes much easier to contract than to collect, especially if we take into account all the changes in legislation that have regulated enforcement law, pre-bankruptcy and bankruptcy. The Company continuously improves its premium collection processes primarily to reduce liquidity risk.

Conservative investment policy

When implementing the asset investment policy, the Company is guided by the following principles:

1) The principle of safety
2) The principle of cost-effectiveness
3) The principle of marketability
4) Diversity and dispersion of investments

It is difficult to find investment opportunities that would unite all the required principles with quality. In an environment of record low interest rates, an inactive stock market and overall economic prospects that are currently somewhat more positive than in recent years, but which are also based primarily on the growth of tourism and consumption, which are generally not guarantees of stable and significant economic growth, it is very difficult to establish rational investment policy. All this significantly increases market risks for society.

Active risk management

The enduring goal of the business is to provide sufficient capital to ensure solvency. The Company monitors the solvency position through the calculation of SCR and MCR in accordance with the Insurance Act. The Solvency Capital Requirement is calibrated to take into account all measurable risks to which the insurance company is exposed and covers existing operations as well as new operations expected to be concluded over the next 12 months.

In order to develop a high culture of risk management, the Company also establishes internal monitoring of the Company's risk profile, which together with the calculation of SCR, using a standard formula, forms a complete framework for effective risk management.

Within the risk management system, the risk profile of the Company and the willingness to bear / tolerate risk are determined. In order to determine the risk tolerance, ie the Company's readiness to take the risk, it is necessary to:

1. Identify risks
2. Assess the risks
3. Take actions and measures to combat the risk
4. Analyze the effects of implementing actions and measures
5. Constantly monitor and report.

The impact of strategic determinants on the Company's risk profile

The business goals that the Company sets before itself are aimed at achieving better business results, but they also bring with them a change in the risk profile of the Company.
Targeted market share growth increases insurance risk, operational risks and the risk of insufficient premiums. When making projections of future operations, the Company takes this into account, which ensures a sufficient level of capital for the projected volume of operations, but also prevents unreasonable risk-taking. The diversification of the portfolio aims to better manage insurance risk, and reduce strategic risks arising from dependence on one product. The company is committed to developing its own IT solutions with the aim of better managing operational risks.
Positive financial results in the future and the retention of a large part of the planned salaries are a guarantee of sufficient capitalization of the Company, which ensures the fulfillment of future obligations and the smooth operation of the Company.

3.5. *Long-term Market Drivers*

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

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

Modernly equipped subsidiaries and more than 504 sales points of the Company in the Republic of Croatia and 227 sales points in the Republic of Austria indicate the presence of a continuous, conscientious and wise investment into the Company’s own capacities, infrastructure and employees. This led the Company to become one of the non-life insurance market leaders, with services easily accessible by a great number of citizens. The continuous capital investment into the Company’s business facilities and infrastructure represents, at the same time, an investment into the resources of the Republic of Croatia. Furthermore, it sends a message of planned long-term engagement in the insurance protection.

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

3.6. *Risk Management*

On 1 January 2016, a new regulatory and supervisory framework for the business of the insurance company – Solvency II – entered into force, which had been implemented into the new Insurance Act, the application of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, and a series of guidelines, technical standards and instructions of the European Insurance and Occupational Pensions Authority (EIOPA) and the Croatian Agency for Supervision of Financial Services (HANFA). The new regulatory framework introduced key amendments to the sections concerning risk management, capital adequacy and significantly greater business complexity. The new framework is expected to maintain and enhance the safety and resilience of the insurance sector and consumer protection, as well as to strengthen the efficient management of insurance companies.

In 2016, the European Insurance and Occupational Pensions Authority (EIOPA) conducted insurance stress tests in the whole European Union. Stress tests are one of the regular supervisory tools used to assess the resilience of the insurance sector to possible adverse developments and their impact on the financial stability of the system.

The Company EUROHERC osiguranje d.d. prepared the Report on Solvency and Financial Condition for the first time in 2016, pursuant to the Insurance Act and the requirements of the Delegated Regulation (EU) 2015/35. The Company's capital adequacy amounted to 210% in 2019.

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

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

3.7. *Sustainable Growth*

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

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

- Good Health and Well-being (Goal 3) – we contribute to better life quality and safety, by enabling our clients to be safe when operating motor vehicles and enjoy coverage in case of occurrence of harmful events based on the principles of lawfulness and efficiency.
- Decent Work and Economic Growth (Goal 8) – we contribute to the elimination of poverty, and personal and professional growth of our employees, by creating work conditions and employment opportunities of high quality, enabling high-quality training in our business operations area, and providing our employees with adequate workers' compensation.
- Responsible Production and Consumption(Goal 12) – by decreasing our carbon footprint through the reduction of use of energy products and raw materials, and the reduction of $CO2$ emissions, we contribute to preserving the environment for our future generations.

Strengts • Recognisable name in the area of Motor Thirtd Party Liability Insurance • Highly motivated and qualified workforce • Higly motivated and qualified workforce • High-quality working conditions • Leading positions on the domestic market in the area of the 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 organization structure	**Weaknesses** • Further computerization and digitization of business processes with the aim of improving the services for clients and decreasing the document administration for employees • Further employee training tailored to the needs and demands of particular business processes
Opportunities • Expanding our bussines to the territory of The Republic of Austria, who has a significaly gretaer economic potencial • Long-term development of our own sales network in Austria • Monitoring technological and demografic trends relevant for our business activity, and with our clients´preferences	**Threats** • Maintaining the leading position in the Motor Third Party Liability Insurance market in the Croatia • Adhering to the regulatory requirements concering capital adequancy and complying with the revelant regulations in the area of business operations • Further developing the sales network and increasing innovations in the area of product development and ways of providing services to clients

(4) COMPANY'S HUMAN RESOURCES

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

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

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

4.2. *Staff Policy Results*

On 31/12/2019, the Company had 1,179 permanent employees: 1,095 employees in the Republic of Croatia and 144 employees in the Republic of Austria. Of the total number of employees, around 71% work in Sales and 11% work in Claims.

The Company has 57% female employees. 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 d.d. is a great employer, which provides opportunities for professional training and advancement and, in that way, achieving private and business satisfaction.

Staff education level on 31/12/2018; source: the Company

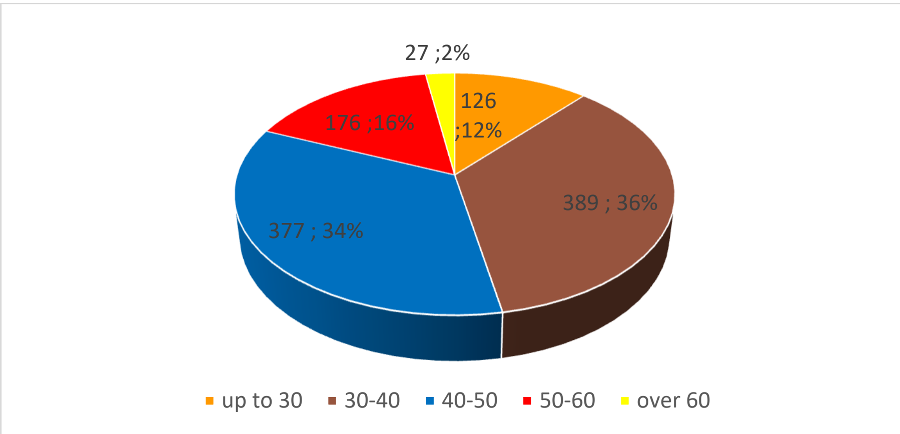
Sector	University degree - Dr.	University degree - Mr.	Universit y degree	Vocational qualification	Medium -skilled	Skilled	ALL
Joint services	2	4	30	14	73	21	144
Insurance sales	0	12	170	112	490	90	874
Assessment and liquidation of claims	0	4	55	29	39	4	131
Finance and accounting	0	3	24	11	16	0	54
IT	0	0	20	10	6	0	36
T O T A L	**2**	**23**	**299**	**176**	**624**	**115**	**1.239**

Structure of employees by education as of December 31, 2019; source: Society

The share of higher-educated employees and employees with a university degree in the total number of employees is constant at 40%. This fact definitely encourages further and professional development of the Company. The number of employees significantly differs from branch to branch, depending on the size of the contracted premium and size of the territory the branch is in charge of.

4.3. *Occupational Age Structure*

More than 47% of the Company's employees is under 40. Considering the employees' age, we plan to intensify the education processes and continue hiring people from that age group. This will contribute to an easier tracking of market novelties and efficiently reacting to all of our clients' and market's demands.



The Company employees' age structure as at 31/12/2019: Company

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

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

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

The Company promotes the spirit of togetherness and long-term loyalty to the Company. The spirit of togetherness is promoted during the worker' games, the so-called Agramijada, which gathers employees of all subsidiaries and gives them the chance to get to know each other in a casual setting, and strengthen the professional relationships they built through their work in the Company, while enjoying themselves and playing games. In 2019, a 3-day event called Agramijada took place in Banja Vrućica, with around 1,200 participants.

4.4. *Human Rights*

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

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

4.5. *How We Manage Risks*

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

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

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

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

The aforementioned procedures refer to:

- 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;
- providing information on the ways to submit complaints to insured persons, policy holders and users from the Insurance contract before concluding the Insurance contract;
- appointment of a Data Protection Officer pursuant to the Article 18.1 of the Personal Data Protection Act;
- 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;
- Decision on Workers' Working Hours pursuant to the Article 46 of the Labour Act and Article 28 of the Company's Rules of Operation and the Note on the Duration and Timetable of Annual Leave pursuant to Article 50 of the Company's Rules of Operation and the Survey for Compiling the Timetable of Annual Leave;
- Note on the Application of Rules of Conduct in the Company's Business Premises;
- the Company's Ordinance on the Adequate Use of the Information System, and the Company's Ordinance on the Safety of the Information System;
- Ordinance on the Procurement and Use of Mobile Phones and Mobile Services;
- the Note on the Use of the Company Vehicles;
- the Risk Assessment of the Occupational Health and Safety in relation to the Risk Assessment Matrix, pursuant to the general risk level criteria;
- the Communication Handbook and Business Code.

4.6. *Key Non-financial Indicators*

In 2019 ceased 104 employees' working relations: in 17 instances the employer terminated the work contract due to unsatisfactory performance during probationary period or due to reasons for extraordinary termination of employment or due to expiry of the fixed-term contract.

In the same period 113 new employees were hired, 85 of which are fixed-term employees. 66 new hires were employed in the Sales sector.

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

The Company takes care of its customers and has, therefore, established a customer complaints processing unit within its organisation. In 2019, 14 complaints were filed in the Republic of Croatia, 7 of which were rejected, and 5 were well-founded or partially well-founded complaints. Considering the time dynamics of developing its own business model and adapting to business customs and existing business models in the Republic of Austria, as well as expecting a certain number of complaints, the Company also established a customer complaints processing unit in the Republic of Austria.

Since its establishment, the Company has not once been charged with mobbing or violating the workers' dignity.

Furthermore, 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.

In 2019, 15 hours of compulsory online training according to HANFA modules were held for 756 internal employees (out of a total of 765 taxpayers). All internal employees who completed the online training met the requirement of expertise according to the continuous training of distributors announced and approved by HANFA. 9 employees who are on year-round sick leave / maternity / maternity leave are obliged to meet the condition of expertise within 2 months after returning to work.

Trainings are held continuously throughout the year in periods when it is appropriate for the smooth conduct of business processes and the use of annual leave of employees. Since the predominant number of employees of the Company works in sales (71%), a significant number of trainings were related to trainings for sales staff. Also, in 2019, educational seminars were held for supervisors and product supervisors of other types of insurance (OVO).

In 2019, an educational seminar "Casco Insurance 2019" was held for 971 employees, in which new conditions and price lists for casco insurance were presented, as well as a sales workshop in this regard.

The company also offers its employees the opportunity to learn German, English and Italian.

(4) RELEVANT ENVIRONMENTAL ISSUES AND SOCIAL COMMUNITY

5.1. *Company's Environment Protection Policies*

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

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

The users of the Company vehicles are constantly trained on eco-driving (moderate use of the accelerator pedal, driving in higher gears and at low engine speeds, staying in one gear and avoiding sudden acceleration and deceleration). Considering the great number of Company vehicles (over 400), the Company actively participates in environment protection by reducing fossil fuels consumption and CO_2 emissions.

In 2019, 71 vehicles were procured, of which 64 were passenger cars with diesel engines and the Euro 6 norm, and 7 passenger cars with a petrol engine and the Euro 6 norm. Replacing older vehicles with new ones that meet the Euro 6 norm leads to a reduction in nitrogen oxides and CO_2 emissions.

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

The Company offers all carriers that have replaced their old vehicle with a new one that adheres to the new EURO 5 standard a 15% discount for the contracted Road Carrier's Liability for Transported Goods Insurance premium. With the so-called "green" discount, EUROHERC osiguranje d.d. helps entrepreneurs improve their vehicles' eco-standards by decreasing their business insurance cost, which complements the Programme for the Reduction of the Environmental Impact of Transport of the Ministry of the Sea, Transport and Infrastructure and the Environmental Protection and the Energy Efficiency Fund. In this way, the Company actively participates in environment protection by reducing fossil fuels consumption and CO_2 emissions.

5.2. *Company's Social Community Policies*

EUROHERC osiguranje d.d. donates funds to the FOHS Foundation (Croatian Students Fund) [4], which gave scholarships to 14 students who fulfilled the conditions of the competition in 2018. 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.

The company also supported the work of scientific, health, cultural and sports institutions, and in 2019 more than 3 million kuna was allocated for sponsorships and donations.

(5) ANTI-CORRUPTION POLICY

6.1. *Anti-Corruption Measures Description*

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

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

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

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

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

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

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

Within the Annual Report, the compliance function submits to the Management Board of the Company reports on controls on conflicts of interests performed, i.e. measures undertaken for their prevention. According to the organisational structure of the Company, in case of potential conflicts of interest, directors or relevant staff are in charge of active supervision of provision of insurance services and are required to immediately notify the Compliance function on all circumstances representing or might lead to a conflict of interest. All Company employees are required to adhere to the provisions of this Policy.

All of the aforementioned has been clearly communicated to all Company employees in the document entitled "Business Code" and the "Communication Handbook", which are published on the Company intranet web page.

(6) MANAGEMENT BOARD OF THE COMPANY AND COMPANY MANAGEMENT SUPERVISION

7.1. *Diversity Policy Description*

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

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

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

On 31/12/2019, the Management Board of the Company comprised the following persons: mr. sc. Ivana Bratanić, President of the Management Board and Members of the Management Board Vjeran Zadro, Željko Kordić, Tomislav Čizmić and Darinko Ivković, while dr.sc. Damir Zorić acts as the Procurator.

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

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

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

The Audit Committee of the Company advises the Supervisory Board on the performance of its supervisory-analytical functions and prepares the relevant background information for the Supervisory Board. The Audit Committee supervises the submission of the Company's financial statements to regulatory bodies and the compliance of business policies and processes of the Company with the recommendations made by the internal and external auditors. The Audit Committee helps the Supervisory Board monitor the ICT system of the Company. Furthermore, the Audit Committee maintains regular contact with the external auditor and decides on the proposal for appointment of an external auditor, which is submitted for decision of the General Assembly of the Company. The Audit Committee of the Company issues a recommendation to the Supervisory Board concerning the acceptance of the yearly financial statements of the Company, the annual budget of the Company, and big capital investments. The Audit Committee meets at least four times a year.

On 31/12/2019, members of the Supervisory Board of the Company are the following: dr. sc. Mladenka Grgić, President, Zlatko Lerota, vice-President, and members Radoslav Pavlović, Hrvoje Planinić, Radoslav Lavrić, Niko Krivić and Miroslav Grbavac.

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

Zagreb, April 2020

Management of the company

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

EUROHERC OSIGURANJE d.d.

Financial statements for the Year Ended
31 December 2019
and Independent Auditor's Report

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

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Responsibility of the Management Board

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

On the basis of the review, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has drawn up financial statements under the assumption that the Company is a going concern.

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

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

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

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

In addition, the Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
Signed on behalf of and for the Management Board **Euroherc osiguranje d.d.**:

Ivana Bratanić, *President of the Management Board*

Tomislav Čizmić, *Member of the Management Board*

Željko Kordić, *Member of the Management Board*

Darinko Ivković, *Member of the Management Board*

Vjeran Zadro, *Member of the Management Board*

30 April 2020

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INDEPENDENT AUDITOR'S REPORT

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

Audit report on separate and consolidated annual financial statements

Opinion

We have audited the separate annual financial statements of Euroherc osiguranje d.d. ("the Company") and the consolidated annual financial statements of the Company and its subsidiary (together the "Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group as at 31 December 2019, separate and consolidated statements of comprehensive income, separate and consolidated statements of changes in equity and separate and consolidated statements of cash flows of the Company and the Group for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards (the "IFRS"), determined by the European Commission and published in the Official Journal of the EU.

Basis for Opinion

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's report. We are independent of Company and the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

Key audit matters (continued)

<table>
<tr><th colspan="2">Investment property valuation</th></tr>
<tr><td colspan="2">As at 31 December 2019, investments in property in the consolidated financial statements amount to HRK 902,813 thousand and represent 24% of the Group's total assets, and at the Company level HRK 868,938 thousand and represent 23% of total assets.</td></tr>
<tr><th>Key audit matters</th><th>How we addressed the key audit issue</th></tr>
<tr><td>The Group and the Company use the fair value model when subsequently measuring investment property. During subsequent measurements, gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Assessments are conducted annually, in line with the IAS 40: Investment Property.

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.

We focused on this area due to the existence of significant estimation uncertainty, with the fact of a significant impact on the financial statements of the Company and the Group. The assessment of the value of the Group's property portfolio is subjective due to, inter alia, the individual nature of each property, its location and the expected future rental income of each property.

Related disclosures accompanying the annual financial statements

For additional information, see Note 3 (Significant Accounting Policies), Note 4 (Critical Accounting Judgments and Key Sources of Estimation Uncertainty) and Note 17 (Investment Property).</td><td>Audit procedures

Our audit procedures related to this area included:

• verification of the approach and valuation methodologies used for each property in accordance with professional valuation standards and appropriate regulations for property valuation;
• an assessment of the qualifications and expertise of independent appraisers to determine whether there were any circumstances that could have affected their objectivity or that may have limited the scope of their work;
• checking on a sample basis whether the information specific to certain properties provided by the Group to appraisers is contained in the Group's records of those properties;
• checking, on the basis of a sample consisting of the largest properties in the portfolio and those properties where the assumptions used have changed significantly compared to the previous year, the appropriateness of the procedures performed and the acceptability of the assumptions used taking into account available and comparable market evidence;
• considering the adequacy of management's estimates in terms of significant developments in valuations;
• review of the accuracy and completeness of information published in the financial statements in connection with the publication of additional information on property valuation.</td></tr>
</table>

Key audit matters (continued)

<table>
<tr><th colspan="2">Impairment of loans granted</th></tr>
<tr><td colspan="2">As at 31 December 2019, gross loans to other companies in the consolidated and separate financial statements amounted to HRK 898,257 thousand, and related provisions for impairment to HRK 40,114 thousand (31 December 2018: gross loans to other companies: HRK 937,067 thousand, provisions for impairment: HRK 40,609 thousand).</td></tr>
<tr><th>Key audit matters</th><th>How we addressed the key audit matters</th></tr>
<tr><td>
The loan portfolio consists mostly of companies from the insurance industry and companies that own vehicle technical inspection stations. Loans are measured at amortized cost using the effective interest method, less any impairment losses. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
In accordance with International Accounting Standard 39 - Financial Instruments: Recognition and Measurement, the Group and the Company have general provisions for the entire portfolio of loans granted and individual provisions for loans granted to other companies.
The loan portfolio holds of large individual loans, which then requires the Group and the Company to supervise the debtor’s ability to pay the loan and the need to assess future cash flows based on the business operations of individual debtors and collaterals, for example, property.
We focused on this area, as the Management Board makes complex and subjective judgments about the timing of recognition of impairment, as well as the assessment of the amount of such impairment primarily related to the assessment of future free cash flows of borrowers, borrowers' business prospects and valuation of collateral on loans.
Related disclosures accompanying the annual financial statements
For additional information, see Note 3 (Accountancy Policies), Note 4 (Critical Accounting Judgments and Key Sources of Uncertainty of Estimates) and Note 19 (Loans and Receivables).
</td><td>
Audit procedures
Our audit procedures related to this area included:

understanding policy, processes and key controls related to the approval, recording and monitoring of loans;
checking the accuracy of the data in the accounting records for individual loans granted, based on a sample;
an assessment of the process related to the identification of impairment events and indications of impairment;
assess the reasonableness of the key assumptions used in judging the amount of impairment required, as well as the consistency of the assumptions used;
an assessment of the Company's Management Board's expectations about future cash flows, valuation of collateral, expected collection capacity and other sources of repayment, based on a sample of loans for which there were no repayments;
we have reviewed the amount of the provision required calculated based on expected future cash flows for loans secured by the collateral of the property, taking into account the fair value of the property;
for unsecured loans, based on a sample, we checked the debtor's free cash flow for loan repayment purposes;
we considered the possibility that impairment could be affected by events that were not covered by management's assessment;
reviewing the accuracy and completeness of the information disclosed in the financial statements in terms of comprehensibility.

</td></tr>
</table>

Key audit matters (continued)

Valuation of illiquid financial instruments	
As at 31 December 2019, 11% (HRK 402 and 401 million) of total assets of the Group and the Company stated at fair value were classified as Level 3, that is, they were valued by methods in which data on assets or liabilities that are not based on available market data were used as input data. Level 3 financial instruments predominantly comprise unquoted and quoted shares, but without significant trading.	
Key audit matters	**How we addressed the key audit issue**
Valuation of equity securities that are not actively traded in the markets used valuation models and techniques primarily based on market inputs based on market method concepts. Illiquid financial instruments are valued on the basis of discounted cash flow analysis or a comparative approach where peer groups are used to calculate multipliers. The assessment of the fair value of non-listed shares uses certain assumptions that are not supported by actual market prices or rates. We focused on this area due to the size and importance of valuation of financial instruments of the Group and the Company, especially shares of joint stock companies and companies not listed on the active market, as well as the complexity of assessment, adequacy of input data used by the Company when valuing financial instruments. **Related disclosures accompanying the annual financial statements** For additional information, see Note 3 (Accountancy Policies), Note 4 (Critical Accounting Judgments and Key Sources of Uncertainty of Estimates), Note 18 (Financial Assets Available-for-Sale) and Note 34 (Financial Instruments and Risk Management).	*Audit procedures* Our audit procedures related to this area included: • we checked the appropriateness of the valuation methodologies used in accordance with the requirements of International Financial Reporting Standard 13 - fair value measurement; • reviewing accounting estimates from previous periods and considering consistency in accounting estimates in the current period, as well as in the method for its creation in relation to the previous period; • testing the accuracy, completeness and relevance of the data on which the fair value estimate is based, and whether the estimate was correctly determined using those data and assumptions; • considering the sources, relevance and reliability of external data and information used in estimating fair value; • recalculating the valuation and reviewing information on the fair value estimate of the share; • assessing the reasonableness and critically reviewing the assumptions used by management in estimating fair value, and whether the assumptions adequately reflect observable market assumptions; • assessing the adequacy of disclosures related to fair value and exposure to financial risks in the financial statements and whether the Company and the Group are properly disclosed, in accordance with relevant financial reporting standards; • we assessed the fair value hierarchy policy with the requirements of International Financial Reporting Standard 13 - fair value measurement.

Key audit matters (continued)

<table>
<tr><th colspan="2">Valuation of technical provisions</th></tr>
<tr><td colspan="2">As at 31 December 2019, technical provisions amounted to HRK 1,584,386 thousand, which represents 74% of the total liabilities of the Company and the Group (31 December 2018: HRK 1,572,291 thousand, 75% of total liabilities).</td></tr>
<tr><th>Key audit matters</th><th>How we addressed the key audit matters</th></tr>
<tr><td>Provisions from insurance contracts represent individually the most significant liability of the Company and the Group in the statement of financial position. The Group's and the Company's technical provisions, which include provisions for reported but unpaid claims and provisions for unexpired risks, reflect the uncertainty that is an integral part of the insurance industry.

The valuation of technical provisions involves significant judgment regarding uncertain future outcomes and complex mathematical and statistical calculations.

In the case of provisions for reported but unpaid claims, the Claims Department determines the amount of the provision after processing all available information. Claims data are aggregated and observed at the collective level to determine the total amount of losses that will be incurred for all policies by type of insurance. Claims reserve models take into account experience, claims development, market conditions, as well as assumptions that are sensitive to legal, economic and various other uncertainties in order to estimate losses. The provision for unexpired risks is calculated taking into account the recorded premiums, the nature of the risk and generally accepted valuation methods.

Management reviews claims and premiums, input assumptions for models, and is responsible for appointing a certified independent actuary tasked with reviewing estimated reserves to ensure they are adequate.

We focused on this area based on the significance of insurance provisions and the degree of assessment related to key estimates and assumptions.

Related disclosures accompanying the annual financial statements

For additional information, see Note 3 (Accountancy Policies), Note 4 (Critical Accounting Judgments and Key Sources of Uncertainty of Estimates), Note 28 Technical Provisions) and Note 35 (Insurance Risk a Management).</td><td>Audit procedures

We used the work of actuarial experts in performing our audit procedures which included:

• assessment of actuarial judgments used in the models, as well as compliance of methodologies applied by the Company and the Group in calculating reserves in accordance with relevant regulatory and reporting requirements
• an assessment of the consistency of the application of the methodology during the reporting period compared to previous years;
• checking the input data for the calculation of technical provisions, as well as the model in terms of correctness and completeness of the calculation of reserves;
• analysis and critical review of reserve calculations that are most susceptible to uncertainty and that are largest in terms of amounts;
• confirmation of the validity of the testing of the adequacy of liabilities by the Management Board, which is a key test conducted to verify whether the liabilities are adequate compared to future contractual obligations;

Furthermore, we reviewed the information disclosed in the financial statements of the Group and the Company to assess their adequacy in terms of the comprehensibility of the transaction itself to the users of the financial statements.</td></tr>
</table>

Other questions

The annual financial statements of the Company for the year ended 31 December 2018 were audited by Deloitte d.o.o., Zagreb, who expressed in Independent Auditor's report an unmodified opinion on those annual financial statements on 29 April 2019.

Other information in the Annual Report

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

Our opinion on the separate and consolidated annual financial statements does not include other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the separate and consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated annual financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this sense, we do not have anything to report.

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 accompanying annual financial statements for the year;
2. The Management Report of the Company for 2019 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 this sense, we do not have anything to report.

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal requirements

On 5 July 2019, we were appointed as auditors to conduct an audit of the separate and consolidated annual financial statements for 2019, by the General Assembly of the Company.

We were engaged for the first time as auditors of the Company and the Group in carrying out its statutory audits of the separate and consolidated annual financial statements of the Company and the Group for 2019.

In the audit of the separate and consolidated annual financial statements of the Company for 2019, we have determined materiality levels for the annual financial statements as a whole, as follows:

- for separate annual financial statements: HRK 12 million
- for consolidated annual financial statements: HRK 12 million

which represents approximately 1% of the gross premium of the Company or the Group for 2019.

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

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

During the period between the initial date of the audited separate and consolidated annual financial statements of the Company for the year 2019 and in the business year prior to the aforementioned period, we did not provide Company with prohibited non-assurance services, and did not provide services to designing and implementing internal control or risk managements and/or control of financial information or design and implementation of technological systems for financial information, and we have maintained independence in relation to Company during the performance of the audit.

Pursuant to the Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (OG 37/16 "Ordinance"), the Company's Management prepared forms presented on pages 143 to 149 (hereinafter „the Forms ") and include a statement of comprehensive income, statement of financial position, statement in changes in equity and reserves, statement of cash flows and notes on compliance. These forms and the corresponding adjustments are the responsibility of the Management Board and do not form an integral part of the financial statements presented on pages 49 to 142 but are prescribed by the Ordinance.

The partner engaged in the audit of the Company's and Group annual financial statements for the year 2019 resulting in this Independent auditor's report is Angelina Nižić, certified auditor.

In Zagreb, 30. April 2020.

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

Ivan Čajko, član Uprave

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

Angelina Nižić, ovlašteni revizor

(all amounts in thousands of HRK)

	Notes	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Earned premium					
Written gross premium and premium written for co-insurance	5	1,278,989	1,278,989	1,118,862	1,118,862
Value adjustment and paid premium value adjustment	5	(3,588)	(3,588)	284	284
Outward reinsurance and co-insurance gross premiums	5	(29,308)	(29,308)	(26,061)	(26,061)
Net written premium		**1,246,093**	**1,246,093**	**1,093,085**	**1,093,085**
Changes in gross unearned premium provisions	5	(71,873)	(71,873)	(113,617)	(113,617)
Changes in gross unearned premium provisions, reinsurance and co-insurance share	5	483	483	3,091	3,091
Net earned premiums	*5*	***1,174,703***	***1,174,703***	***982,559***	***982,559***
Fee and commission income	6	2,348	2,348	2,259	2,259
Investment income	7	94,270	95,250	126,853	127,875
Other operating income	8	51,902	47,449	59,446	55,398
Net income		**1,323,223**	**1,319,750**	**1,171,117**	**1,168,091**
Liquidated claims		(587,038)	(587,038)	(399,101)	(399,101)
Liquidated claims, reinsurance share		1,935	1,935	1,029	1,029
Changes in provisions for claims outstanding		53,950	53,950	130	130
Changes in other technical provisions for claims outstanding, net of reinsurance		2,253	2,253	(359)	(359)
Return of premium (bonuses and rebates), net of reinsurance		3,574	3,574	(7,068)	(7,068)
Changes in provisions for claims outstanding, reinsurance share		912	912	265	265
Claims incurred	9	**(524,414)**	**(524,414)**	**(405,104)**	**(405,104)**
Acquisition costs	10	(334,049)	(333,393)	(319,830)	(318,684)
Administrative costs	11	(196,404)	(196,404)	(157,167)	(157,167)
Investment costs	7	(29,756)	(29,149)	(59,556)	(59,556)
Other operating expenses	12	(75,300)	(75,300)	(53,251)	(53,251)
Profit before tax		**163,300**	**161,090**	**176,209**	**174,329**
Income tax	13	(29,734)	(29,146)	(32,183)	(32,183)
Profit after tax		**133,566**	**131,944**	**144,026**	**142,146**

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

(all amounts in thousands of HRK)

	Notes	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Items that will not be reclassified in the Statement of Profit or Loss					
Net income from revaluation reserves by property and equipment		21,104	21,104	15,236	15,236
Items that can subsequently reclassified in the Statement of Profit of Loss					
Net income from revaluation reserves for securities available-for-sale		11,413	10,896	4,936	4,936
Total other comprehensive income / (loss)		***32,517***	***32,000***	***20,172***	***20,172***
Total comprehensive income		**166,083**	**163,944**	**164,197**	**162,317**
Profit after tax attributable to:					
- Company's owners		132,719	131,944	143,168	142,146
- owners of non-controlling interests		847	-	858	-
		133,566	**131,944**	**144,026**	**142,146**
Total comprehensive income attributable to:					
- Company's owners		165,071	163,944	163,339	162,317
- owners of non-controlling interests		1,012	-	858	-
		166,083	**163,944**	**164,197**	**162,317**
Earnings per share (in HRK)		**437.91**	**432.59**	**472.20**	**466.04**

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

(all amounts in thousands of HRK)

	Notes	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Non-current assets					
Goodwill	14	4,307	-	4,307	-
Intangible assets	15	8,934	8,934	13,588	13,588
Property and equipment	16	488,967	488,708	445,135	444,805
Investment property	17	902,813	868,938	887,220	852,770
Financial assets available for sale	18	821,923	846,218	789,700	814,627
Loans and receivables	19	800,230	800,230	762,008	762,008
Bank deposits	20	19,298	19,298	17,993	17,993
Guarantee deposits for lease contracts		7,865	7,865	7,782	7,782
		3,054,337	**3,040,191**	**2,927,733**	**2,913,573**
Current assets					
Loans and receivables	19	57,913	57,913	134,450	134,450
Bank deposits	20	12,390	12,390	11,288	11,288
Premium receivables	21	382,350	382,350	298,748	298,748
Reinsurance share in technical provisions	28	22,134	22,134	20,739	20,739
Credit cards and check receivables		40,944	40,944	41,206	41,206
Other receivables	22	77,974	78,303	71,814	70,782
Prepaid expenses		19,162	19,162	23,460	23,460
Cash at bank and in hand	23	45,536	45,460	18,022	17,987
		658,403	**658,656**	**619,727**	**618,660**
Total assets		**3,712,740**	**3,698,847**	**3,547,460**	**3,532,233**

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

(all amounts in thousands of HRK)

	Notes	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Capital and liabilities					
Equity and reserves					
Share capital	24	61,002	61,002	61,002	61,002
Revaluation reserves for securities available-for-sale	25	36,645	36,293	25,397	25,397
Revaluation reserves for property	26	329,516	329,516	316,956	316,956
Legal reserves	27	172,585	172,585	172,585	172,585
Retained earnings		959,422	962,931	867,108	865,145
		1,559,170	**1,562,327**	**1,443,048**	**1,441,085**
To owners of non-controlling interests		11,609	-	11,421	-
Total Equity		**1,570,779**	**1,562,327**	**1,454,469**	**1,441,085**
Technical provisions					
Unearned premiums, gross	28	688,643	688,643	616,771	616,771
Outstanding claims, gross	28	895,743	895,743	955,520	955,520
		1,584,386	**1,584,386**	**1,572,291**	**1,572,291**
Non-current liabilities					
Deferred tax liabilities	13	77,877	72,830	67,797	67,797
Long-term loans	29	194,963	194,963	180,742	179,535
		272,840	**267,793**	**248,539**	**247,332**
Current liabilities					
Short-term loans	29	23,170	23,170	63,658	63,658
Liabilities from direct insurance	30	33,634	33,634	33,025	33,025
Liabilities from reinsurance		9,097	9,097	9,692	9,692
Current tax liability	31	12,303	12,197	(6,122)	(6,122)
Other liabilities	31	206,531	206,243	171,907	171,271
		284,735	**284,341**	**272,160**	**271,524**
Total equity and liabilities		**3,712,740**	**3,698,847**	**3,547,460**	**3,532,233**

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

(all amounts in thousands of HRK)

GROUP

	Share capital	Revaluation reserves at fair value available for sale	Revaluation reserves by property and equipment	Legal reserves	Retained earnings	Equity owner shares	To owners of non-controlling interests	Total
Balance at 1 January 2018	**61,002**	**20,461**	**309,351**	**172,585**	**714,635**	**1,278,034**	**10,563**	**1,288,597**
Revaluation, net	-	4,936	15,236	-	-	20,172	-	20,172
Profit after tax	-	-	-	-	143,168	143,168	858	144,026
Total comprehensive income	-	*4,936*	*15,235*	-	*143,168*	*163,339*	*858*	*164,197*
Depreciation	-	-	*(7,630)*	-	*9,305*	*1,675*	-	**1,675**
Balance at 31 December 2018	**61,002**	**25,397**	**316,956**	**172,585**	**867,108**	**1,443,048**	**11,421**	**1,454,469**
Revaluation net	-	11,248	21,104	-	-	32,352	165	32,517
Profit after tax	-	-	-	-	132,719	132,719	847	133,566
Total comprehensive income	-	11,248	21,104	-	132,719	165,071	1,012	166,083
Depreciation	-	-	(8,544)	-	8,544	-	-	-
Subsequent income tax	-	-	-	-	(403)	(403)	(189)	(592)
Other movements	-	-	-	-	(5,845)	(5,845)	(157)	(6,002)
Dividend payment	-	-	-	-	(42,701)	(42,701)	(478)	(43,179)
Balance at 31 December 2019	**61,002**	**36,645**	**329,516**	**172,585**	**959,422**	**1,559,170**	**11,609**	**1,570,779**

(all amounts in thousands of HRK)

COMPANY

	Share capital	Revaluation reserves at fair value available for sale	Revaluation reserves by property and equipment	Legal reserves	Retained earnings	Total
Balance at 1 January 2018	**61,002**	**20,461**	**309,351**	**172,585**	**713,693**	**1,277,093**
Revaluation, net	-	4,936	15,236	-	-	20,172
Profit after tax	-	-	-	-	142,146	142,146
Total comprehensive income	-	*4,936*	*15,235*	-	*142,146*	*162,317*
Depreciation	-	-	(7,630)	-	9,305	**1,675**
Balance at 31 December 2018	**61,002**	**25,397**	**316,956**	**172,585**	**865,145**	**1,441,085**
Revaluation, net	-	10,896	21,104	-	-	32,000
Profit after tax	-	-	-	-	131,944	131,944
Total comprehensive income	-	*10,896*	*21,104*	-	*131,944*	*163,944*
Depreciation	-	-	(8,544)	-	8,544	-
Dividend payment	-	-	-	-	(42,702)	(42,702)
Balance as at 31 December 2019	**61,002**	**36,293**	**329,516**	**172,585**	**962,931**	**1,562,327**

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

(all amounts in thousands of HRK)

CASH FLOW FROM OPERATING ACTIVITIES	Group 2019	Company 2019	Group 2018	Company 2018
Cash flow before the change in assets and liabilities				
Profit before tax	**163,300**	**161,090**	**176,209**	**174,329**
Adjustments:				
Depreciation of property and equipment	41,779	41,646	28,403	28,105
Amortization of intangible assets	5,230	5,230	4,388	4,388
Investment income	(65,138)	(66,118)	(93,752)	(93,752)
Interest expense	8,500	8,468	5,034	5,034
Loss on sale of financial assets	222	222	4,578	4,578
Loss on sale of investment property	934	934	-	-
Gains from fair valuation of investment property	(31,590)	(32,165)	(2,969)	(2,969)
Other investment costs	1,110	1,110	1,094	1,094
Change in technical provisions	12,095	12,095	120,914	120,914
Change in the share of reinsurance in technical provisions	(1,395)	(1,395)	(3,355)	(3,355)
Change in assets and liabilities:				
Income tax	(23,927)	(22,672)	(45,873)	(45,015)
Dividend receipt	10,531	11,122	13,261	13,261
Interest paid	(8,500)	(8,468)	(5,034)	(5,034)
Interest receipts	43,707	43,707	45,396	45,396
(Increase) / decrease in investments available-for-sale	(9,347)	(9,347)	14,821	15,829
(Increase) / decrease in deposits, loans and receivables	36,580	36,580	(10,405)	(10,405)
Increase in receivables and other assets	(85,910)	(86,308)	(143,527)	(145,191)
Increase in other liabilities	46,654	47,059	20,693	21,077
Other	-	-	389	-
CASH FLOW FROM OPERATING ACTIVITIES	**144,835**	**142,790**	**130,265**	**128,284**

(all amounts in thousands of HRK)

CASH FLOW FROM OPERATING ACTIVITIES (continued)	Group 2019	Company 2019	Group 2018	Company 2018
Receipts from sale of investment property	19,460	19,460	-	-
Expenditures for the purchase of real estate and equipment	(20,582)	(20,521)	(138,336)	(138,179)
Expenditures for acquisition of intangible assets	(576)	(576)	(7,701)	(7,701)
Expenditures for the acquisition of investment property	(4,397)	(4,397)	(8,861)	(8,994)
CASH FLOW FROM INVESTING ACTIVITIES	**(6,095)**	**(6,034)**	**(154,898)**	**(154,874)**
Receipts from loans received	141,399	141,399	119,649	121,570
Repayment of received loans	(197,660)	(196,453)	(94,789)	(94,789)
Cash outflows for rent	(9,298)	(9,299)	-	-
Cash outflows for dividend payment	(45,667)	(44,930)	-	-
CASH FLOW FROM FINANCIAL ACTIVITIES	**(111,226)**	**(109,283)**	**24,860**	**26,781**
Net increase / (decrease) in cash and cash equivalents	**27,514**	**27,473**	**227**	**191**
Cash and cash equivalents at the beginning of the year	**18,022**	**17,987**	**17,796**	**17,796**
Cash and cash equivalents at the end of the year	**45,536**	**45,460**	**18,022**	**17,987**

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

1. GENERAL DATA

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

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

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

As at 31 December 2019, the Company had 1,239 employees, which is 60 more than a year earlier.

Management and Supervisory Board

Management Board

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

Supervisory Board

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

2. ADOPTION OF NEW AND AMENDED STANDARDS

Application of new and revised International Financial Reporting Standards

Standards and interpretations in force in the current period

The following new standards and the amended existing standards issued by the International Accounting Standards Board and Interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union are effective in the current reporting period:

Due to the entry into force of IFRS 17, which enabled the subsequent application of IFRS 9, the Company did not apply IFRS 9. The adoption of these amendments to existing standards and interpretations did not lead to significant changes in the Company's financial statements.

IFRS 16 "Leases"

The adoption of these amendments to existing standards and interpretations, with the exception of IFRS 16 Leases, did not result in material changes to the financial statements of the Company and the Group.

At 1 January 2019, the Company has applied International Financial Reporting Standard 16 Leases (IFRS 16) and has not restated comparative figures for 2018, as permitted by the standard.

The adoption of IFRS 16 has resulted in changes in the Company's accounting policies. IFRS 16 introduces a single accounting model for lessees and requires the recognition of assets and liabilities for all leases, with possible options for exempting leases of 12 months or less, or when the assets in question are of small value. The lessee recognizes the property in the form of the right to use the property which represents the right to use the property which is the subject of the lease and the adequate obligation for the lease, which represents the obligation to pay the rent. IFRS 16 in principle retains the lessor's accounting as in IAS 17, retaining the difference between an operating lease and a finance lease. The Company has no significant leases in which it acts as a lessor.

IFRS 16 has replaced IAS 17 Leases and IFRIC 4 - Determining Whether a particular arrangement contains Leases, SIC 15 Operating Leases - Incentives and SIC 27 Assessing the substance of a transaction involving the legal form of a lease.

Following the adoption of IFRS 16, the Company has recognized the right to use and the lease obligation related to the use of business premises and official cars, which were previously classified as operating leases.

The lease liability is measured at the present value of the remaining lease payments, discounted using the interest rate specified in the lease agreement, ie the incremental borrowing rate of the Company on 1 January 2019. The Company's incremental borrowing rate is the rate at which a similar lease may be contracted, by an independent lessor, under comparable terms and conditions.

Right-of-use assets are stated in an amount equal to the lease obligation and are adjusted for the amount of any prepaid or calculated lease payment.

(all amounts in thousands of HRK)

2. ADOPTION OF NEW AND AMENDED STANDARDS (CONTINUED)

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

Standards and interpretations in force in the current period (continued)

As a result of the application of the new standard as at 1 January 2019, the assets and liabilities of the Company and the Group based on the right to use the lease increased by HRK 24,377 thousand, without affecting net assets. The following table presents the impact of the adoption of IFRS 16 in the Statement of Financial Position on 1 January 2019:

	1 January 2019	**31 December 2018**	**Difference**
	IFRS 16	IAS 17/IFRIC 4	
	HRK '000	HRK '000	HRK '000
ASSETS			
Non-current assets			
Right-of-use assets	24,377	-	24,377
EQUITY AND LIABILITIES			
Non-current liabilities			
Non-current lease liabilities	17,525	-	17,525
Current liabilities			
Lease liabilities	6,852	-	6,852

The statement of comprehensive income for the year ended 31 December 2019 includes HRK 10,007 thousand of depreciation related to the right to use (Note 11) and HRK 1,748 thousand of financial expense related to interest on liabilities for rent (Note 7). The movement of assets with the right of use is shown in Note 16.

Costs related to short-term leases, for which the exemption from the application of IFRS 16 was applied, amounted to HRK 49,513 thousand in 2019, and in addition to short-term leases, costs related to leases stated in the statement of comprehensive income included non-refundable value added tax costs.

Following the adoption of IFRS 16, the nature of lease costs has changed, as the Company recognizes the depreciation expense for assets in the form of rights of use and the cost of interest on lease obligations. Previously, the Company recognized operating lease expenses on a straight-line basis over the term of the lease and recognized assets and liabilities only to the extent that there was a difference between actual lease payments and a recognized expense.

Additional details on the specific accounting policies of IFRS 16 applied in the current period, as well as previous accounting policies applied in the comparative period, are described in detail in Note 3 Significant accounting policies.

2. ADOPTION OF NEW AND AMENDED STANDARDS (CONTINUED)

Application of new and revised International Financial Reporting Standards (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 the date of issue of the financial statements (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 2023),
- **Amendments to MFSI 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to the Guidelines on the Conceptual Framework in IFRS** (effective for annual periods beginning on or after 1 January 2020).

When IFRS 17: "Insurance Contracts" and IFRS 9: "Financial Instruments" (the application of IFRS 9 for insurance companies has been deferred until the application of IFRS 17), become effective, certain changes in the financial statements of the Company and the Group will take place. The Management Board of the Company is currently assessing the impact of IFRS 17. The Company believes that the implementation of IFRS 9 will have a significant impact on the financial statements of the Company and the Group.

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

Hedge accounting in the portfolio of financial assets and liabilities whose principles were not adopted in the EU is still unregulated.

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

3. ACCOUNTANCY POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

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

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

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

Basis for Consolidation

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

Business combinations

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

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Subsidiaries

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

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

Loss of control

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

Investment in entities stated in accordance with the equity method

The Group's shares in entities stated in accordance with the equity method refer to the shares in subsidiaries.

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

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

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

Transactions eliminated during consolidation

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

Premiums

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

Unearned premium provisions

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

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

Acquisition costs

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Claims

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

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

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

Gross operating expenses

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

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

Reinsurance

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

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

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

3. ACCOUNTANCY POLICIES (continued)

Reinsurance (continued)

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

Reinsurers' commissions

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

Investment income allocation

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

Foreign currencies

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

Taxation

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

Current tax liability

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Taxation (continued)

Deferred tax

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

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

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

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

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

3. ACCOUNTANCY POLICIES (continued)

Taxation (continued)

Current and deferred tax periods

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

Property and equipment

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

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

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

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

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

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

3. ACCOUNTANCY POLICIES (continued)

Property and equipment (continued)

The estimated useful lives are shown below:

	2019	2018
Buildings	20 years	20 years
Furniture, tools and equipment	2 years	2 years
Vehicles	4 years	4 years
Other	10 years	10 years

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

Intangible assets

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

Investment property

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

Goodwill

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

3. ACCOUNTANCY POLICIES (continued)

Impairment of tangible and intangible assets, excluding goodwill

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

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

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

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

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

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Leases

Accounting policies applicable from 1 January 2019

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

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

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

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

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

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

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

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

The Group as a lessor

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Leases (continued)

Accounting policies applicable from 1 January 2019

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 statement 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 statement 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 statement of financial position of the Group based on the nature of property. Interest income is calculated by using the straight-line method throughout the lease period.

3. ACCOUNTANCY POLICIES (continued)

Fair Value Measurement Principles

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

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

Financial assets

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

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

Effective interest rate method

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

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Financial assets (continued)

Financial assets available for sale

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

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

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

Given loans and receivables

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

Impairment of financial assets

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

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

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

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

In case of certain categories of financial assets, such as trade receivables, the assets for which it was established that they have not been individually impaired is later on reviewed to establish the collective impairment.
For financial assets carried at depreciated cost, the amount of impairment is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted using the original effective interest rate for the financial asset concerned.
The carrying amount of the financial asset is directly reduced by the impairment losses of all financial assets, except for trade receivables, in case of which the carrying amount is reduced through the value provision classification of accounts. Trade receivables believed to be unrecoverable are written off the value provision classification of accounts, and a later payment of the previously written off amounts is credited in the value provision classification of accounts. The changes in the carrying amount in value provision classification of accounts are stated in the statement of profit or loss.
Except for equity instruments held at fair value through the presentation of fair value changes in the statement of profit or loss, if the impairment loss is reduced in the following periods and this can be objectively linked to the event after the impairment recognition, the previously recognised impairment losses are cancelled in the statement of profit or loss to the carrying amount of the investment on the date of cancellation, which would not exceed the depreciated cost had the impairment not been recognised.
As far as equity shares (shares) held at fair value through the presentation of fair value changes in the statement of profit or loss are concerned, the impairment losses previously recognised in the statement of profit or loss are not cancelled in the statement of profit or loss. Every increase in fair value after the impairment loss is recognised directly in the other comprehensive income.

End of financial asset recognition

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

Offsetting financial instruments

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Financial Guarantees

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

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

Provisions for liabilities and costs

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

Dividends

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

Premium and other receivables

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

Cash and cash equivalents

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

3. ACCOUNTANCY POLICIES (CONTINUED)

Staff costs

Staff contributions

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

Short-term employee rewards

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

Other employee compensations

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

Financial liabilities and equity instruments issued by the Group

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

Equity instruments

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

Financial liabilities

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

3. ACCOUNTANCY POLICIES (CONTINUED)

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Liabilities and related assets based on the liability adequacy test

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

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

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

The critical judgements in the application of accountancy policies

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

Provisions

The Group has a reasonably careful approach to forming provisions pursuant to the regulations of the Croatian Agency for Supervision of Financial Services. The Group employs authorised actuaries. Its policy is to form a provision for risks which have not expired, and refer to non-life insurance operations when there is a chance that the amount of claims and administrative costs incurred after the end of the financial year, and which refer to contracts concluded by the end of the year, exceeds the amount of unearned premiums and premiums based on those contracts. The reserve for non-expired risks are calculated by conducting a liability adequacy test, based on individual insurance groups. The liability adequacy test indicated the sufficiency of unearned premiums on 31 December 2018. Therefore, the recognition of such provisions is not necessary on the reporting date.

Calculation of unearned premiums

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

Fair value of financial instruments

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

Property fair value

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

Goodwill impairment

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

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

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

Property value assessment

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

Useful life of property and equipment

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

(all amounts in thousands of HRK)

5. NET EARNED PREMIUM

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

for the year ended 31 December 2019

GROUP AND COMPANY

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

for the year ended 31 December 2018

GROUP AND COMPANY

	Earned gross premium	Outward reinsurance gross premiums	Changes in gross unearned premium provisions	Change in gross unearned premium provisions, reinsurance share	Value adjustment and paid premium value adjustment	Net earned premiums
Motor Third Party Liability Insurance	598,932	(2,088)	(59,946)	-	(284)	537,182
Road vehicle Insurance – Casco	223,639	(6)	(41,966)	2	-	181,669
Property	99,059	(12,508)	(4,567)	1,117	-	83,101
Accident Insurance and Health Insurance	104,355	(5,800)	(5,777)	1,274	-	94,052
Other	92,876	(5,659)	(1,361)	699	-	86,555
	1,118,862	**(26,061)**	**(113,617)**	**3,091**	**(284)**	**982,559**

(all amounts in thousands of HRK)

6. INCOME FROM COMMISSIONS AND FEES

GROUP AND COMPANY

	2019	2018
Income from fees for re-insurance	2,348	2,259
	2,348	**2,259**

7. INVESTMENT INCOME AND INVESTMENT COSTS

Investment income	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Lease income	29,132	29,132	28,251	28,251
Interest income	44,830	44,830	45,396	45,396
Financial investment sale income	8,438	8,438	6,822	6,822
Dividend income	10,397	11,377	12,239	13,261
Foreign exchange gains	1,473	1,473	1,822	1,822
Other income (reversal of provisions)	-	-	32,323	32,323
	94,270	**95,250**	**126,853**	**127,875**

Interest income	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Interest income – assets available for sale	9,884	9,884	11,677	11,677
Interest income on bank deposits	344	344	757	757
Interest income on loans	34,598	34,598	32,957	32,957
Other (assets on accounts, default interest, vehicles)	4	4	5	5
	44,830	**44,830**	**45,396**	**45,396**

Loan interest rates with impaired value amounted to HRK 4,184 thousand in 2019, and HRK 4,361 thousand in 2018.

Financial investment sale income

GROUP AND COMPANY

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

2018	Costs	Sales	Realised income
Bonds	55,586	62,004	6,419
Commercial papers	13,500	13,828	328
Shares	1,710	1,785	75
			6,822

(all amounts in thousands of HRK)

7. INVESTMENT INCOME AND INVESTMENT COSTS (CONTINUED)

Dividend income	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Dividend income	10,397	11,377	12,239	13,261
	10,397	**11,377**	**12,239**	**13,261**

Investment costs	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Interest cost (i)	8,500	8,468	5,034	5,034
Loss on sale of financial assets	222	222	4,578	4,578
Loss on sale of investment property	934	934	-	-
Impairment - loans and receivables (ii)	-	-	-	-
Impairment – assets available for sale	-	-	-	-
Losses/(gains) due to fair valuation of investment properties	(31,590)	(32,165)	(2,969)	(2,969)
Other investment costs (iii)	50,580	50,580	51,819	51,819
Foreign exchange losses	1,110	1,110	1,094	1,094
	29,756	**29,149**	**59,556**	**59,556**

(i) Interest cost	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Interest cost for bank loans	4,136	4,104	2,400	2,400
Interest cost for loans of other companies	2,548	2,548	-	-
Lease interest IFRS 16	1,748	1,748	2,435	2,435
Default interest	68	68	200	200
	8,500	**8,468**	**5,034**	**5,034**

(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 investments.

Other investment costs	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Loan reserves 1.25%	-	-	1.801	1.801
Staff costs - investment finance	4,190	4,190	3,047	3,047
Investment property costs	14,176	14,176	15,504	15,504
Investment property insurance	32,214	32,214	31,467	31,467
	50,580	**50,580**	**51,819**	**51,819**

(all amounts in thousands of HRK)

8. OTHER OPERATING INCOME

	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Income from reversal of provisions	495	495	3,679	3,679
Gain from sale of tangible assets	2,562	2,562	1,752	1,752
Other income-border insurance and handling fee	1,102	1,102	927	927
Surender value of life insurance	17,071	17,071	30,742	30,742
Operating income (Vehicle registration office – *Zulassungstelle*)	19,651	19,651	11,107	11,107
Other income	11,021	6,568	11,239	7,191
	51,902	**47,449**	**59,446**	**55,398**

(all amounts in thousands of HRK)

9. INCURRED CLAIMS

For the year ended 31 December 2019

GROUP AND COMPANY

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

(all amounts in thousands of HRK)

9. INCURRED CLAIMS (CONTINUED)

For the year ended 31 December 2018

GROUP AND COMPANY

	Gross liquidated claims	Reinsurer's share in gross liquidated clams	Change in gross provisions for claims outstanding	Change in other technical provisions for claims outstanding, net of reinsurance	Return of premium (bonuses and rebates), net of reinsurance	Changes in gross provisions for claims, outstanding reinsurer's share	Claims incurred, net of insurer
Motor Third Party Liability Insurance	(233,505)	48	15,123	-	-	(217)	(218,551)
Road vehicle Insurance – Casco	(115,723)	-	(12,200)	-	-	3	(127,920)
Property	(22,528)	958	(7,057)	-	-	460	(28,167)
Accident Insurance and Health Insurance	(9,869)	-	2,752	-	-	-	(7,117)
Other	(17,476)	23	1,512	(359)	(7,068)	19	(23,348)
	(399,101)	**1,029**	**130**	**(359)**	**(7,068)**	**265**	**(405,104)**

The Group and the Company liquidated a total of 220,317 payment claims in 2019 (2018: 192,578), while 22,698 payment claims are in the reserve on 31 December 2019 (2018: 21,476).

(all amounts in thousands of HRK)

9. INCURRED CLAIMS (CONTINUED)

Analysis of claims quota, cost quota and combined claims quota

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

GROUP AND COMPANY

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

GROUP AND COMPANY

2018	**Damage quota**	**Cost quota**	**Combined quota**
Accident Insurance	6.08%	82.10%	88.17%
Health Insurance	73.51%	0.00%	73.51%
Road Vehicle Insurance	70.38%	27.40%	97.79%
Aircraft Insurance	78.53%	4.00%	82.53%
Vessel Insurance	38.54%	2.61%	41.15%
Goods in Transit Insurance	30.07%	3.48%	33.55%
Fire and Special Perils Insurance	22.93%	61.25%	84.17%
Other Property Insurance	44.73%	52.76%	97.49%
Motor Vehicle Liability Insurance	40.46%	58.61%	99.07%
Aircraft Liability Insurance	20.42%	2.09%	22.51%
Vessel Liability Insurance	6.64%	1.18%	7.82%
Other Liability Insurance	7.41%	24.45%	31.86%
Loan Insurance	-133.30%	0.00%	-133.30%
Guarantee Insurance	54.94%	1.28%	56.22%
Financial Losses Insurance	3.92%	36.43%	40.35%
Legal Protection Insurance	43.34%	0.25%	43.59%
Travel Insurance	42.56%	23.85%	66.41%

(all amounts in thousands of HRK)

10. ACQUISITION COSTS

GROUP AND COMPANY

	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Salaries, taxes and contributions from and to salaries	133,095	133,095	129,761	129,761
Promotions	39,216	39,216	38,694	38,694
Commissions	37,243	37,243	27,075	27,075
Media	3,711	3,711	3,451	3,451
Policy issuance costs	2,278	2,278	1,668	1,668
Donations	1,939	1,939	1,335	1,335
Sponsorships	920	920	627	627
Other underwriting costs	412	412	481	481
Other administrative cost	115,235	114,579	116,738	115,592
	334,049	**333,393**	**319,830**	**318,684**

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

Other administrative costs	Group in 2019	Company in 2019	Group in 2018	Company in 2018
Material	15,973	15,973	18,164	18,164
Energy consumption	7,886	7,886	7,465	7,465
Service costs	29,568	29,568	61,710	61,710
Other tangible and intangible costs	61,546	60,890	29,119	27,973
Other	262	262	280	280
	115,235	**114,579**	**116,738**	**115,592**

(all amounts in thousands of HRK)

10. ACQUISITION COSTS (CONTINUED)

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

COMPANY

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

Acquisition costs based on type of insurance for 2018 are shown below:

COMPANY

Type of insurance	Commission	Other costs acquisition	Total acquisition costs
Accident Insurance	2,576	27,280	29,856
Road Vehicle Insurance	4,994	27,030	32,024
Aircraft Insurance	3	-	3
Vessel Insurance	26	-	26
Goods in Transit Insurance	41	-	41
Fire and Special Perils Insurance	3,293	13,039	16,332
Other Property Insurance	1,258	12,827	14,085
Motor Vehicle Liability Insurance	11,980	201,205	213,185
Aircraft Liability Insurance	3	-	3
Vessel Liability Insurance	21	-	21
Other Liability Insurance	1,416	4,594	6,010
Guarantee Insurance	9	-	9
Financial Losses Insurance	869	1,834	2,703
Assistance Insurance	578	3,808	4,386
	27,067	**291,617**	**318,684**

(all amounts in thousands of HRK)

11. ADMINISTRATIVE COSTS

GROUP AND COMPANY

	2019	2018
Salaries, taxes and contributions from and to salaries	73,321	47,798
Depreciation	46,872	32,494
Other management costs	76,211	76,875
	196,404	**157,167**

Salaries, taxes and contributions from and to salaries:	2019	2018
Net salaries	124,309	106,661
Pension insurance contributions	25,540	23,648
Taxes	21,098	17,436
Contribution on salaries (healthcare, employment, occupational injuries)	39,656	32,861
	210,606	**180,606**

Salaries, taxes and contributions from and to salaries:	2019	2018
In administrative costs	73,321	47,798
In acquisition costs	133,095	129,761
In investment costs	4,190	3,047
	210,606	**180,606**

Other administrative costs:

	2019	2018
Service costs	35,908	36,471
Insurance premiums	6,433	5,267
Material costs	10,649	12,109
Operating fees pursuant to contracts	5,034	5,524
Bank fees and transaction fees	5,381	5,043
Representation	2,637	2,707
Energy costs	3,842	3,771
Business travel costs and reimbursement of costs	5,078	4,747
Other costs	1,249	1,236
	76,211	**76,875**

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

(all amounts in thousands of HRK)

11. ADMINISTRATIVE EXPENSES (CONTINUED)

The Management Board costs for 2019 are as follows:

GROUP AND COMPANY

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

The Management Board costs for 2018 are as follows:

GROUP AND COMPANY

Types of insurance	Depreciation (without buildings)	Salaries, taxes and contributions (from and on salaries)	Other Management Board costs	Total Management Board costs
Accident Insurance	3,044	4,464	41,049	48,557
Road Vehicle Insurance	1,995	6,296	4,544	12,835
Fire and Special Perils Insurance	1,360	2,307	1,489	5,156
Other Property Insurance	1,514	1,946	1,658	5,118
Motor Vehicle Liability Insurance	23,804	30,440	26,061	80,305
Other Liability Insurance	305	1,134	1,471	2,910
Financial Losses Insurance	109	475	120	704
Travel Insurance	363	736	483	1,582
	32,494	**47,798**	**76,875**	**157,167**

(all amounts in thousands of HRK)

12. OTHER OPERATING COSTS

GROUP AND COMPANY

	2019	**2018**
Premium returns	13,445	14,024
Value adjustment of other receivables	107	88
Preventive activities costs (firefighting contribution)	263	343
Guarantee Fund of the Croatian Insurance Bureau	4,233	1,139
Provisions (Note 32)	700	321
Regulatory bodies fees	1,924	2,125
Croatian Health Insurance Fund contributions	9,831	11,425
Other insurance technical expenses	44,797	23,786
	75,300	**53,251**

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

(all amounts in thousands of HRK)

13. INCOME TAX

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

	Group in 2019	Group in 2018	Company in 2019	Company in 2018
	HRK'000	HRK'000	HRK'000	HRK'000
Total tax expense				
Current income tax	(31,734)	(20,654)	(31,146)	(20,654)
Deferred tax expense	2,000	(11,529)	2,000	(11,529)
Tax expense recognised in P&L	**(29,734)**	**(32,183)**	**(29,146)**	**(32,183)**
Profit before tax	**163,300**	**174,329**	**161,090**	**174,329**
Tax calculated at 18% (2018: 18%)	(29,394)	(31,379)	(28,996)	(31,379)
Non-deductible tax expenses at a rate of 18% (2018,18%)				
50% of representation costs	*(1,793)*	*(1,613)*	*(1,793)*	*(1,613)*
Depreciation over prescribed rates	*(2,000)*	*(1,675)*	*(2,000)*	*(1,675)*
Receivables write-off	*(264)*	*(410)*	*(247)*	*(410)*
Other increases	*(226)*	*(289)*	*(226)*	*(289)*
Income decrease at a rate of 18% (2018: 18%)				
Dividend income	*1,863*	*2,387*	*2,047*	*2,387*
Other	*80*	*12,325*	*69*	*12,325*
Current income tax	**(31,734)**	**(20,654)**	**(31,146)**	**(20,654)**

Tax expense of the subsidiary amounted to HRK 587 thousand, which das not represent a significant amount for the Group.

(all amounts in thousands of HRK)

13. INCOME TAX (CONTINUED)

GROUP

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

COMPANY

2019 **Deferred tax liabilities**	Opening balance	Realised through other comprehensive income	Realized through the profit and loss statement	Final balance
Revaluation reserves for securities available for sale	(8,355)	(1,126)	-	(9,481)
Revaluation reserves for property	(69,619)	(4,632)	1,875	(72,376)
	(77,974)	**(5,758)**	**1,874**	**(81,857)**
Deferred tax assets				
Value adjustment for loans and receivables	5,803	-	-	5,803
Leases (IFRS 16)	-	-	125	125
Value adjustment for securities available for sale	4,374	(1,275)	-	3,099
Net deferred tax liabilities	**(67,797)**	**(7,033)**	**2,000**	**(72,830)**

(all amounts in thousands of HRK)

13. INCOME TAX (CONTINUED)

GROUP AND COMPANY

2018	**Opening balance**	**Realised through other comprehensive income**	**Realized through the profit and loss statement**	**Final balance**
Deferred tax liabilities				
Revaluation reserves for securities available for sale	(7,720)	(635)	-	(8,355)
Revaluation reserves for property	(67,949)	(1,670)	-	(69,619)
	(75,669)	**(2,305)**	**-**	**(77,974)**
Deferred tax assets				
Value adjustment for loans and receivables	10,888	-	(5,085)	5,803
Value adjustment for securities available for sale	11,267	(449)	(6,444)	4,374
Net deferred tax liabilities	**(53,514)**	**(2,754)**	**(11,529)**	**(67,797)**

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

(all amounts in thousands of HRK)

14. GOODWILL

Costs	**Group on 31/12/2019 HRK'000**	**Group on 31/12/2018 HRK'000**	**Company on 31/12/2019 HRK'000**	**Company on 31/12/2018 HRK'000**
Opening balance	**4,307**	**4,307**	**-**	**-**
Increase	-	-	-	-
Closing balance	**4,307**	**4,307**	**-**	**-**
Accumulated impairment				
Opening balance	**-**	**-**	**-**	**-**
Decrease	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**
Book value				
Opening balance	**4,307**	**4,307**	**-**	**-**
Closing balance	**4,307**	**4,307**	**-**	**-**

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

(all amounts in thousands of HRK)

15. INTANGIBLE ASSETS

GROUP AND COMPANY

	Investments in third-party property	Software	Total
Purchase value			
Balance at 1 January 2018	**11,358**	**5,061**	**16,419**
Increases	7,627	74	7,701
Balance at 1 January 2019	**18,985**	**5,135**	**24,120**
Increases	514	62	576
Balance at 31 December 2019	**19,499**	**5,197**	**24,696**
Accumulated amortisation			
Balance at 1 January 2018	**2,597**	**3,547**	**6,144**
Amortisation for the year	3,603	785	4,388
Balance at 1 January 2019	**6,200**	**4,332**	**10,532**
Amortisation for the year	4,447	783	5,230
Balance at 31 December 2019	**10,647**	**5,114**	**15,761**
Net book value			
31 December 2018	**12,785**	**803**	**13,588**
31 December 2019	**8,852**	**82**	**8,934**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT

GROUP

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

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (CONTINUED)

COMPANY

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

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (CONTINUED)

GROUP

	Land	Buildings	Equipment	Other tangible assets	Investments in progress	Total
Purchase value or revaluation						
Balance at 1 January 2018	**45,604**	**382,835**	**128,318**	**17,979**	**49,007**	**623,743**
Increase	792	58,321	7,234	-	145,921	212,268
Revaluation	(563)	19,143	-	-	-	18,580
Decrease	-	(105)	(2,468)	-	(73,873)	(76,446)
Balance at 31 December 2018	**45,833**	**460,194**	**133,084**	**17,979**	**121,055**	**778,146**
Accumulated depreciation						
Balance at 1 January 2018	**-**	**178.209**	**110.934**	**17.979**	**-**	**307.122**
Depreciation cost for the year	-	18.952	9.451	-	-	28.403
Decrease	-	(33)	(2.481)	-	-	(2.514)
Balance at 31 December 2018	**-**	**197.128**	**117.904**	**17.979**	**-**	**333.011**
Net book value						
31 December 2018	**45.833**	**263,066**	**15,180**	**-**	**121,055**	**445,135**
31 December 2017	**45,604**	**204,626**	**17,384**	**-**	**49,007**	**316,621**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (CONTINUED)

COMPANY

	Land	Buildings	Equipment	Other tangible assets	Investments in progress	Total
Purchase value or evaluation						
Balance at 1 January 2018	**45,604**	**382,835**	**125,709**	**17,979**	**49,007**	**621,134**
Increase	792	58,321	7,204	-	145,921	212,238
Revaluation	(563)	19,143	-	-	-	18,580
Decrease	-	(105)	(2,468)	-	(73,873)	(76,446)
Balance at 31 December 2018	**45,833**	**460,194**	**130,445**	**17,979**	**121,055**	**775,507**
Accumulated depreciation						
Balance at 1 January 2018	**-**	**178,209**	**108,796**	**17,979**	**-**	**304,984**
Depreciation cost for the year	-	18,952	9,153	-	-	28,105
Decrease	-	(33)	(2,354)	-	-	(2,387)
Balance at 31 December 2018	**-**	**197,128**	**115,595**	**17,979**	**-**	**330,702**
Net book value						
31 December 2018	**45,833**	**263,066**	**14,850**	**-**	**121,055**	**444,805**
31 December 2017	**45,604**	**204,626**	**16,913**	**-**	**49,007**	**316,150**

(all amounts in thousands of HRK)

16. PROPERTY AND EQUIPMENT (CONTINUED)

As at 31 December 2019, property and equipment also includes assets with the right of use based on concluded lease agreements in the total amount of HRK 29,286 thousand. Assets with the right of use are shown as follows:

	Building	Equipment	Total
Balance at 1 January 2019	8,264	16,113	24,377
Increase	2,264	12,652	14,916
Depreciations cost for the year	(2,993)	(7,014)	(10,007)
Balance as on 31 December 2019	**7,535**	**21,751**	**29,286**

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

GROUP AND COMPANY

	31/12/2019	31/12/2018
Purchase value	331,522	285,298
Accumulated depreciation	(117,192)	(101,539)
Net book value	**214,330**	**183,759**

As at 31 December 2019, the revaluation reserves for property and equipment amounted to HRK 329,516 thousand. The amount of HRK 235,107 thousand refers to revaluation reserves for investment property which have previously been reclassified from property and equipment.

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

The following information about the fair value hierarchy as at 31 December 2019 and 2018:

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

	1. level	2. level	3. level	Fair Value 2018
Business facilities	-	-	308,899	308,899

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

16. PROPERTY AND EQUIPMENT (CONTINUED)

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

Description	Fair value Assessment method	Relevant parameters not available on the market	Relevant parameter scope	Relationship of relevant parameter to fair value
Business facilities	Income method	Risk of loss of lease payments	0%-5%	The higher the parameter, the lower the fair value
		Investment maintenance costs	0 %	The higher the parameter, the lower the fair value
		Supposed lease payments	6.57-29.10 EUR/m2	The higher the parameter, the lower the fair value
		Supposed yield	5%-8%	The higher the parameter, the lower the fair value
Business facilities	Comparative method	Supposed price	769 – 2,942 EUR/m2	The higher the parameter, the lower the fair value
Business facilities	Purchase value			

(all amounts in thousands of HRK)

17. INVESTMENT PROPERTY

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Fair value of investment property – land	116,137	101,772	121,357	106,992
Fair value of investment property – buildings	786,676	767,166	765,863	745,778
	902,813	**868,938**	**887,220**	**852,770**

	Group 2019	Company 2019	Group 2018	Company 2018
Opening balance	**887,220**	**852,770**	**812,556**	**812,556**
Acquisition	4,397	4,397	71,695	37,245
Disposal	(20,394)	(20,394)	-	-
Changes in fair value	31,590	32,165	2,969	2,969
Closing balance	**902,813**	**868,938**	**887,220**	**852,770**

Fair value of land and buildings on 31 December 2019 and 2018 is established pursuant to the assessment carried out on that day by an independent assessor Proventus Nekretnine and Borić vještačenja. Fair value was established by using an income method which, based on the current value of cash flows, indicates the property market value expected to be reached in the future through property lease. A part of property was assessed using the comparative method which uses prices reached by comparable property. Please below find information on the Group's property investment, and on the fair value hierarchy on 31 December 2019 and 31 December 2018 below:

COMPANY:

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

	Level 1	Level 2	Level 3	Fair Value 2018
Business facilities	-	-	852,770	852,770

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 2019
Business facilities	-	-	904,461	904,461

	Level 1	Level 2	Level 3	Fair Value 2018
Business facilities	-	-	887,220	887,220

(all amounts in thousands of HRK)

17. INVESTMENT PROPERTY (CONTINUED)

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

Description	Fair value GROUP	Fair value COMPANY	Assessment method	Relevant parameters not available on the market	Relevant parameter scope	Relationship of relevant parameter to fair value
Business facilities			Income method	Risk of loss of lease payments	0%-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	5-19.22 EUR/m2	The higher the parameter, the lower the fair value
				Supposed yield	6%-7.4%	The higher the parameter, the lower the fair value
Business facilities			Comparative method	Supposed price	1,621-2,413 EUR/m2	The higher the parameter, the lower the fair value
Vehicle control stations			Income method	Risk of loss of lease payments	0%-10%	The higher the parameter, the lower the fair value
				Investment maintenance costs	2%-18%	The higher the parameter, the lower the fair value
				According to number of technical control	6.30-15 EUR/m2	The higher the parameter, the lower the fair value
				Supposed yield	5.5%-7.5%	The higher the parameter, the lower the fair value
Business facilities			Purchase value			

The Group's lease income for 2019 amounts to HRK 29,132 thousand (2018: HRK 28,251 thousand) and recognised in Investment income (Note 7). Operating expenses (including repairs and maintenance) resulting from property investments to HRK 14,176 thousand in 2019 and HRK 15,504 thousand in 2018.

As at 31 December 2019, the Company recognised a gain on fair valuation of investment properties in the amount of HRK 32,165 thousand (2018: HRK 2,969 thousand), while the Group recognised a gain on fair valuation of investment properties in the amount of HRK 31,590 thousand (2018: HRK 2,969 thousand) which is recognized in profit or loss within Investment costs (Note 7).

(all amounts in thousands of HRK)

18. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Equity securities	488,845	513,140	475,998	500,925
Bonds	325,241	325,241	286,634	286,634
Investment funds	7,837	7,837	27,068	27,068
	821,923	**846,218**	**789,700**	**814,627**

Equity securities

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Per cost	168,152	194,087	173,773	198,700
Per fair value	320,693	319,053	302,225	302,225
	488,845	**513,140**	**475,998**	**500,925**

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Listed	279,279	277,639	348,836	348,836
Non-listed	209,566	235,501	127,162	152,089
	488,845	**513,140**	**475,998**	**500,925**

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

(all amounts in thousands of HRK)

18. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

GROUP AND COMPANY

	31/12/2019	31/12/2018
Government bonds	256,244	226,481
Corporate bonds	68,997	60,153
Commercial papers	-	-
	325,241	**286,634**

On 31 December 2019, the Group's investments in bonds amounted to HRK 60,539 thousand, which were given as a received repo loan (Note 29).

	Number of shares on 31/12/2019	Number of shares on 31/12/2018	31/12/2019	31/12/2018
Investment funds	Od 4.1% do 8.51%	Od 8.51% do 21.10%	7,837	27,068
			7,837	**27,068**

(all amounts in thousands of HRK)

19. LOANS AND RECEIVABLES

GROUP AND COMPANY

Credit and receivables	**31/12/2019**	**31/12/2018**
Given long-term credits	891,661	931,339
Interest receivables	6,596	5,728
	898,257	**937,067**
Provisions for suspicious receivables	(40,114)	(40,609)
	858,143	**896,458**
Long-term part of long-term credits	800,230	762,008
Short-term part of long-term credits	57,913	134,450
Given long-term credits	**858,143**	**896,458**

Credits are mainly secured with pledges on business premises. The unsecured part of the portfolio amounts to 29.8%. Overview of loans and receivables on 31 December 2019.

GROUP AND COMPANY

Long-term loans	**Currency**	**Date of contract**	**Interest rate**	**Maturity date**	**2019**
Long-term loans with pledge, total	HRK	25/09/2006 - 25/01/2018	4.05% do 7.50%	15/03/2023 - 30/06/2037	562,287
Long-term loans with no pledge, total	HRK	15/11/2010 - 20/11/2019	1.00% do 9.00%	29/02/2020 - 01/07/2037	256,217
Long-term loans with no pledge, total	€	14/07/2017 - 20/11/2019	4.00%	30/06/2023 - 28/02/2025	39,640

(all amounts in thousands of HRK)

19. LOANS AND RECEIVABLES (CONTINUED)

Overview of loans and receivables on 31 December 2018

GROUP AND COMPANY

Long-term loans	Currency	Date of contract	Interest rate	Maturity date	2018
Long-term loans with pledge, total	HRK	25/09/06 - 25/01/18	4.05% do 7.5%	24/08/18 - 01/07/37	579,991
Long-term loans with no pledge, total	HRK	25/09/06 - 07/12/18	1.5% do 9%	30/04/18 - 31/12/37	284,631
Long-term loans with no pledge, total	€	14/11/17 - 30/11/17	4%	until 30/11/23	31,836

Impairments were the following:	2019	2018
Opening balance	40,609	71,131
Reversal of provisions	-	(32,323)
New individual provisions	-	-
Provisions on a group basis	(495)	1,801
Closing balance	**40,114**	**40,609**

20. BANK DEPOSITS

	GROUP AND COMPANY	GROUP AND COMPANY
	31/12/2019	**31/12/2018**
Bank deposits in HRK	18,699	16,327
Bank deposits in EUR	12,989	12,954
	31,688	**29,281**

Overview of deposits on 31 December 2019 and 31 December 2018:

	GROUP AND COMPANY	GROUP AND COMPANY
	31/12/2019	**31/12/2018**
Short-term bank deposits	12,390	11,288
Long-term bank deposits	19,298	17,993
	31,688	**29,281**

(all amounts in thousands of HRK)

21. PREMIUM RECEIVABLES

	GROUP AND COMPANY 31/12/2019	GROUP AND COMPANY 31/12/2018
Gross amount		
Premium receivables	399,956	315,721
Enforceable premium receivables	30,580	30,576
	430,536	**346,297**
Value adjustments		
Adjustments for more than 1-year-old unpaid premiums	(17,606)	(16,975)
Adjustments for enforceable premiums	(30,580)	(30,571)
	(48,186)	(47,549)
	382,350	**298,748**

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

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

	Not yet due	30 days	30- 60 days	60- 90 days	90- 180 days	180- 365 days	Over 365 days	Total
2018								
Premium receivables	237,421	29,798	8,674	3,888	18,966	5,456	11,518	**315,721**

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

Value adjustment movement during the year:

	GROUP AND COMPANY 2019	GROUP AND COMPANY 2018
Opening balance	47,550	51,680
Write-off	(1,435)	(3,095)
Value adjustment during the year	2,067	(1,434)
Write-offs	1,201	1,681
Amounts paid	(1,197)	(1,283)
Closing balance	**48,186**	**47,549**

(all amounts in thousands of HRK)

22. OTHER RECEIVABLES

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Lease receivables	11,416	11,416	11,916	11,916
Administrative receivables	7,109	7,109	8,027	8,027
Advances paid to supplier	5,679	5,679	1,791	1,791
Receivables with recourse	7,716	7,716	7,999	7,999
Receivables from the State and other institutions	2,284	2,284	1,155	1,155
Other receivables	43,770	44,099	40,926	39,894
	77,974	**78,303**	**71,814**	**70,782**

23. CASH AND CASH EQUIVALENTS

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Bank accounts	45,433	45,357	17,833	17,798
Cash in hand	103	103	189	189
	45,536	**45,460**	**18,022**	**17,987**

24. EQUITY

The equity of the Company amounted to HRK 61,002,000 in 2018 and 2019 and is divided into 305,010 shares of nominal value of HRK 200. All shares are regular and carry a name, and each share ensures the right to 1 vote in the General Assembly of the Company. They are in dematerialised format and paid in total.

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

	2019		**2018**	
	Number of shares	**Equity share %**	**Number of shares**	**Equity share %**
Grgić Dubravko	45,750	15.00	45,750	15.00
Jadransko osiguranje d.d.	30,192	9.90	30,192	9.90
Kordić Ante	18,300	6.00	18,300	6.00
Agram life osiguranje d.d.	14,819	4.86	14,334	4.70
Grgić Mladenka	13,070	4.29	13,070	4.29
Rubić Josip	10,130	3.32	10,130	3.32
Erkapić Mate	10,130	3.32	10,130	3.32
Kordić Zlatko	10,130	3.32	10,130	3.32
Galić Drago	7,576	2.48	8,232	2.70
Kurtović Husnija	7,576	2.48	7,576	2.48
Zlatko Lerota	7,576	2.48	7,576	2.48
Pavlović Radoslav	7,576	2.48	7,576	2.48
	182,825	**59.94**	**182,996**	**59.99**
Other	122,185	40.06	122,014	40.01
Total	**305,010**	**100**	**305,010**	**100.00**

	Group 31/12/2019	**Company 31/12/2019**	**Group 31/12/2018**	**Company 31/12/2018**
Profit after tax (in thousands of HRK)	133,566	131,944	144,026	142,146
Profit attributable to the shareholders (in thousands of HRK)	133,566	131,944	144,026	142,146
Number of ordinary shares used in the calculation of basic earnings per share	305,010	305,010	305,010	305,010
Earnings per share (in HRK and lipa)	**437.91**	**432.59**	**472.20**	**466.04**

(all amounts in thousands of HRK)

25. REVALUATION RESERVES ON FINANCIAL ASSETS AVAILABLE FOR SALE

GROUP

	2019	2018
Opening balance	**25,397**	**20,461**
Revaluation of securities available for sale, net	*11,248*	*4,936*
Revaluation of securities available for sale	13,717	6,021
Recognised deferred tax in comprehensive income	(2,469)	(1,085)
Closing balance	**36,645**	**25,397**

COMPANY

	2019	2018
Opening balance	**25,397**	**20,461**
Revaluation of securities available for sale, net	*10,896*	*4,936*
Revaluation of securities available for sale	13,288	6,021
Recognised deferred tax in comprehensive income	(2,392)	(1,085)
Closing balance	**36,293**	**25,397**

26. REVALUATION RESERVES FOR PROPERTY

	GROUP AND COMPANY 2019	GROUP AND COMPANY 2018
Opening balance	316,956	309,351
Revaluation of property, net	*21,104*	*15,235*
Revaluation of property	25,736	16,905
Recognised deferred tax in comprehensive income	(4,632)	(1,669)
Reversal of the revaluation reserve	(8,544)	(7,630)
Closing balance	**329,516**	**316,956**

(all amounts in thousands of HRK)

27. LEGAL RESERVES

	GROUP AND COMPANY 31/12/2019	GROUP AND COMPANY 31/12/2018
Legal reserves	172,585	172,585
	172,585	**172,585**

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

28. TECHNICAL PROVISIONS

	GROUP AND COMPANY 31/12/2019	GROUP AND COMPANY 31/12/2018
Unearned premium provisions		
Gross amount	688,643	616,771
Reinsurance/co-insurance	(13,050)	(12,567)
Unearned premium provisions, less reinsurance	***675,593***	***604,204***
Claims incurred		
Gross amount	891,096	945,046
Reinsurance	(9,085)	(8,173)
Other technical provisions	-	2,254
Return of premium expenses	4,647	8,220
Claims incurred, less reinsurance	***886,658***	***947,347***
Total technical provisions, net of reinsurance	**1,562,251**	**1,551,551**
Total technical provisions, gross	**1,584,386**	**1,572,291**

	GROUP AND COMPANY 2019	GROUP AND COMPANY 2018
Opening balance	**616,771**	**503,154**
Annual written premium	1,278,988	1,118,862
Annual earned premium	(1,207,116)	(1,005,245)
Closing balance	**688,643**	**616,771**

Reinsurer’s assets movement during the year:

	GROUP AND COMPANY 2019	GROUP AND COMPANY 2018
Opening balance	**20,739**	**17,383**
Additions	1,395	3,356
Closing balance	**22,134**	**20,739**

(all amounts in thousands of HRK)

28. TECHNICAL PROVISIONS (CONTINUED)

GROUP AND COMPANY

2019	Gross claims outstanding on 31/12/2018	Liquidated claims, gross amount	Reinsurance share in damages	Changes in provisions for claims, reinsurance	Claims incurred	Gross claims outstanding on 31/12/2019
Accident Insurance	15,793	(8,605)	-	-	7,408	14,596
Health Insurance	542	(692)	-	-	1,097	947
Casco Insurance	61,606	(173,715)	771	11	188,999	77,672
Property Insurance	25,107	(27,588)	981	1,257	28,126	27,883
Motor Vehicle Liability Insurance	819,998	(357,469)	-	(426)	281,810	743,913
Liability Insurance	15,540	(5,896)	183	79	8,994	18,900
Transport and Credit Insurance	6,263	(802)	-	(10)	1,494	6,945
Travel Insurance	197	(12,270)	-	-	12,313	240
	945,046	**(587,037)**	**1,935**	**911**	**530,241**	**891,096**

GROUP AND COMPANY

2018	Gross claims outstanding on 31/12/2017	Liquidated claims, gross amount	Reinsurance share in damages	Changes in provisions for claims, reinsurance	Claims incurred	Gross claims outstanding on 31/12/2018
Accident Insurance	18,257	(8,304)	-	-	5,840	15,793
Health Insurance	829	(1,565)	-	-	1,278	542
Casco Insurance	49,597	(117,476)	-	3	129,482	61,606
Property Insurance	18,050	(22,528)	958	460	28,167	25,107
Motor Vehicle Liability Insurance	835,121	(233,505)	48	(217)	218,551	819,998
Liability Insurance	17,099	(4,578)	22	9	2,988	15,540
Transport and Credit Insurance	6,026	(315)	-	10	542	6,263
Travel Insurance	197	(10,830)	-	-	10,830	197
	945,176	**(399,101)**	**1,028**	**265**	**397,678**	**945,046**

(all amounts in thousands of HRK)

28. TECHNICAL PROVISIONS (CONTINUED)

GROUP AND COMPANY

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

GROUP AND COMPANY

Provisions for declared, unpaid damages on 31 December 2018	Gross	Net of reinsurance
Provisions for declared, unpaid damages, augmented by claims handling costs	456,243	448,070
Provisions for incurred, non-declared damages, augmented by claims handling costs	488,803	488,803

(all amounts in thousands of HRK)

29. LONG-TERM AND SHORT-TERM LOANS

	GROUP 31/12/2019	COMPANY 31/12/2019	GROUP 31/12/2018	COMPANY 31/12/2018
Long-term loans	194,963	194,963	180,743	179,535
	194,963	**194,963**	**180,743**	**179,535**

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

The Austrian bank Anadi Bank AG, FN 245157 a, Domgasse 5, A - 9020 Klagenfurt am Wörthersee approved a loan on 19 June 2018 in the amount of EUR 11,334,000 € with a 2% interest rate, for the purchase of the business building in Klagenfurt, Austria. Installments maturity: quarterly, start of loan payment on 1 January 2019.
Contract duration: until 1 April 2021.

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

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

	GROUP AND COMPANY 31/12/2019	GROUP AND COMPANY 31/12/2018
Short-term loans (maturity of long-term loans in 2020)	23,170	63,658
	23,170	**63,658**

(all amounts in thousands of HRK)

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

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

(all amounts in thousands of HRK)

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

	Currency	Maturity	Interest rate %	GROUP 31/12/2018	COMPANY 31/12/2018
Long-term loans	EUR	2032	2.125	24,809	23,601
Long-term loans	EUR	2032	2.125	11,126	11,126
Long-term loans	HRK	2023	1.6	40,000	40,000
Long-term loans	HRK	2022	6.69 – 6.99	1,172	1,172
Long-term loans	EUR	2022	6.99	712	712
Long-term loans	EUR	2021	2.00	82,155	82,155
Long-term loans	EUR	2024	1.25	20,769	20,769
				180,742	**179,535**
Short-term loans	EUR	2019	5.90	-	40,158
Short-term loans	HRK	2019	0.4 – 3.5	-	23,500
					63,658

(all amounts in thousands of HRK)

30. LIABILITIES FROM DIRECT INSURANCE OPERATIONS

	GROUP AND COMPANY 31/12/2018	GROUP AND COMPANY 31/12/2018
Liabilities to the Croatian Insurance Bureau	31,226	30,671
Liabilities for received advances	1,118	1,095
Liabilities for payment of damages	1,290	1,259
	33,634	**33,025**

31. OTHER LIABILITIES

	Group 31/12/2019	Company 31/12/2019	Group 31/12/2018	Company 31/12/2018
Liabilities based on the share in the result	2,790	2,551	4,780	4,780
Premium tax	142,882	142,882	104,090	104,090
Commitments towards suppliers	25,705	25,663	31,561	31,466
Current tax liability	12,303	12,197	(6,122)	(6,122)
Liabilities to employees	14,387	14,387	12,788	12,788
Deferred income	8,279	8,279	7,192	7,192
Commission liabilities	3,368	3,368	2,541	2,541
Other liabilities	7	-	541	-
Provisions for liabilities	9,113	9,113	8,414	8,414
	218,834	**218,440**	**165,785**	**165,149**

The movement of provisions for expenses is as follows:

	Group 2019	Company 2019	Group 2018	Company 2018
Starting balance	**8,414**	**8,414**	**10,345**	**10,345**
Credited	-	-	(2,251)	(2,251)
New reservations	700	700	320	320
Closing balance	**9,114**	**9,114**	**8,414**	**8,414**

32. CAPITAL ADEQUACY

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

Capital management aims, policies and approach

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

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

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

The Company's operations are subject to regulatory requirements stipulated by the Croatian Financial Services Supervisory Agency, which also supervises the implementation of those requirements. Such regulations not only stipulate the approval of activities and their monitoring, but also impose restrictive provisions in order to minimise the insurance companies' insolvency risk in terms of meeting contingent liabilities once they incur. Based on preliminary calculations, on 31 December 2018, the Company complied with requirements concerning the calculation of capital adequacy, pursuant to the Solvency II regulations. The Company complied with requirements concerning the calculation of capital adequacy, pursuant to the Solvency II regulation.

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

33. CAPITAL ADEQUACY (CONTINUED)

Capital management aims, policies and approach (continued)

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

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

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

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Significant Accounting Policies

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

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

Categories of financial instruments

	Group 31/12/2019	**Company 31/12/2019**	**Group 31/12/2018**	**Company 31/12/2018**
Available for sale financial assets	821,923	846,218	789,700	814,627
Receivables loans				
Loans	858,143	858,143	896,458	896,458
Guarantee deposit for lease contracts	7,865	7,865	7,782	7,782
Bank deposits	31,688	31,688	29,281	29,281
Reinsurance share in technical provisions	22,134	22,134	20,739	20,739
Premium and other receivables	501,268	501,597	411,286	410,736
Cash at bank and in hand	45,536	45,460	18,022	17,987
Financial liabilities				
Short-term loans	23,170	23,170	63,558	63,658
Long-term loans	194,963	194,963	180,742	179,535
Liabilities from direct insurance business	33,634	33,634	33,025	33,025
Other liabilities	218,834	218,440	171,907	172,214

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

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

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

Currency risk management

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

	Assets		**Liabilities**	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
EUR	400,091	310,316	223,311	216,667
HRK	3,298,756	3,221,917	3,475,536	3,315,566

The value of assets denominated in a foreign currency accounts for 12.12% of total assets, while the value of liabilities denominated in a foreign currency accounts for 6.42% 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 2019, the Company recognised negative exchange rate differences in the amount of HRK 1,110 thousand (2018: HRK 1,094 thousand), which accounts for 0.85% of total net income for the year ending on 31 December 2019, and shows that changes in exchange rates have a limited influence on the Company's operations. The Management Board concluded that a 10% change would have no material effect on the Company's operations.

Interest rate risk management

The Company is not significantly exposed to interest rate risk, and Company has no assets with variable interest rates. Changes in interest rates cannot significantly affect the Company's operations, since the total interest rate cost per loan (Note 7) in the amount of HRK 8,468 thousand (2018: HRK 5,034 thousand) account for 6.5% of the total net income for the year ending on 31 December 2019 (2018: 3.54%). The Management Board concluded that a 50 base point change would have no material effect on the Company's operations.

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Other price risks

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

Credit risk management

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

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

Maximum credit risk exposure

	31/12/2019	**31/12/2018**
Bonds	325,241	286,634
Commercial papers	-	-
Credits and receivables	858,143	896,458
Guarantee deposit for lease contracts	7,866	7,783
Bank deposits	31,688	29,281
Premium receivables	382,350	298,748
Reinsurance share in technical provisions	22,134	20,739
Credit cards and checks receivables	40,944	41,204
Other receivables	86,195	70,782
Cash at bank and in hand	45,460	17,987
	1,800,021	**1,669,616**

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Credit quality of financial assets

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

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

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

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

	31/12/2019	31/12/2018
BB - government bonds and treasury bills	256,244	226,481
Group 1 - corporate bonds	68,997	60,153
Group 1 - corporate records	-	-
Group 2 - investment funds	7,837	27,068
Total securities available for sale	**333,078**	**313,702**
Group 2	643,713	661,584
Group 3	214,430	234,874
Total loans and receivables	**858,143**	**896,458**
Group 2	7,866	7,783
Total guarantee deposits under lease agreements	**7,866**	**7,783**
Group 2	31,688	29,281
Total deposits in banks	**31,688**	**29,281**
Group 1	198,754	237,421
Group 2	176,332	49,809
Group 3	7,264	11,518
Total claims on premiums	**382,350**	**298,748**
Group 2	45,460	17,987
Total cash and cash equivalents	**45,460**	**17,987**

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 2019 and 31 December 2018, the Company was operating pursuant to those requirements.

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Remaining contractual maturity of assets and liabilities

2019	Less than 1 year	From 1 to 5 years	From 5 to 10 years	From 10 to 15 years	From 15 to 20 years	More than 20 years	Total
Securities available for sale	557,065	211,148	77,753	252			846,218
Loans and receivables	57,913	330,708	138,195	237,397	93,930		858,143
Guarantee deposit under lease agreements	7,865						7,865
Deposits in banks	19,197	12,491					31,688
Premium receivables	382,350						382,350
Share of reinsurance in technical provisions	16,603	2,972	1,235	631	406	288	22,134
Credit card and check receivables	40,944						40,944
Other receivables	78,303						78,303
Money in the account and in the cash register	45,460						45,460
	1,205,700	**557,318**	**217,183**	**238,281**	**94,335**	**288**	**2,313,105**
Technical provisions	938,036	282,654	162,166	89,749	57,731	54,051	1,584,386
Deferred tax liability	72,830						72,830
Loans and receivables	23,170	161,597		33,366			218,133
Liabilities from direct insurance business	33,634						33,634
Liabilities from reinsurance business	9,097						9,097
Other liabilities	218,440						218,440
	1,295,207	**444,251**	**162,166**	**123,115**	**57,731**	**54,051**	**2,136,520**

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Remaining contractual maturity of assets and liabilities

2018	Less than 1 year	From 1 to 5 years	From 5 to 10 years	From 10 to 15 years	From 15 to 20 years	More than 20 years	Total
Securities available for sale	542,503	213,612	51,244	7,268	-	-	814,627
Loans and receivables	134,450	298,241	148,198	268,603	46,966	-	896,458
Guarantee deposit under lease agreements	7,782	-	-	-	-	-	7,782
Deposits in banks	11,288	7,056	10,937	-	-	-	29,281
Premium receivables	298,748	-	-	-	-	-	298,748
Share of reinsurance in technical provisions	14,507	3,309	1,289	758	428	448	20,739
Credit card and check receivables	41,206	-	-	-	-	-	41,206
Other receivables	94,242	-	-	-	-	-	94,242
Money in the account and in the cash register	17,987	-	-	-	-	-	17,987
	1,162,713	**522,218**	**211,668**	**276,629**	**47,394**	**448**	**2,221,070**
Technical provisions	849,270	288,629	178,865	109,485	62,885	83,157	1,572,291
Deferred tax liability	60,733	-	-	-	-	-	60,733
Loans and receivables	70,063	147,118	16,476	9,535	-	-	243,192
Liabilities from direct insurance business	33,025	-	-	-	-	-	33,025
Liabilities from reinsurance business	9,692	-	-	-	-	-	9,692
Other liabilities	172,214	-	-	-	-	-	172,214
	1,194,997	**435,747**	**195,341**	**119,020**	**62,885**	**83,157**	**2,091,147**

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments

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

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

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

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

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

31/12/2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	1,130	-	382,008	383,138
Bonds	238,049	-	48,585	286,634
Investment funds	27,068	-	-	27,068
Total securities available for sale	**266,247**	**-**	**430,593**	**696.840**

There was no reclassification between levels during the period.

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

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

In 2019, the PEER method of comparable companies and DDM was used for part of the valuations. The method of valuation according to the value of a group of comparable companies is carried out by selecting comparable companies grouped according to multiple criteria - activity, geographical area in which they operate, size and the like. These methods have been used because we believe that they best reflect the fair value of these companies. Equity securities valued by this method have a total value of HRK 301,396 thousand.

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

(all amounts in thousands of HRK)

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

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

Description	Fair value 2019	Assessment method	Relevant parameters not available on the market	Relevant parameter scope	Relationship of relevant parameters to fair value
Equity securities	301,550	Method of comparable companies	*Non-liquidity discount*	10.9%	The higher the parameter, the lower the fair value
			Discount rate	6.95%-9.29%	The higher the parameter, the lower the fair value
			Residual growth rate	1.20%	The higher the parameter, the lower the fair value
			Beta	0.86-1.21	The higher the parameter, the lower the fair value

Description	Fair value 2018	Assessment method	Relevant parameters not available on the market	Relevant parameter scope	Relationship of relevant parameters to fair value
Equity securities	287,854	Method of comparable companies	*Non-liquidity discount*	10.9%	The higher the parameter, the lower the fair value
			Discount rate	7.81%-9.03%	The higher the parameter, the lower the fair value
			Residual growth rate	1.62%	The higher the parameter, the lower the fair value
			Beta	0.86-1.03	The higher the parameter, the lower the fair value

35. INSURANCE RISK MANAGEMENT

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

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

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

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

Risk Management

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

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

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

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

(all amounts in thousands of HRK)

35. INSURANCE RISK MANAGEMENT (CONTINUED)

Insurance Concentration Risk

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

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

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

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

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

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

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

For the year ended 31 December 2019

GROUP AND COMPANY

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

(all amounts in thousands of HRK)

35. INSURANCE RISK MANAGEMENT (CONTINUED)

Insurance risk concentration (continued)

For the year ended 31 December 2018

GROUP AND COMPANY

	Gross incurred claims	Reinsurance share	Net incurred claims
Motor Third Party Liability Insurance	(233,505)	48	(233,457)
Road Vehicle Insurance (Casco)	(115,723)	-	(115,723)
Assets	(22,529)	958	(21,571)
Personal Insurance	(9,869)	-	(9,869)
Other	(17,475)	23	(17,452)
Total	**(399,101)**	**1,029**	**(398,072)**

Claims development

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

For materially relevant types in the Company’s portfolio, as well as types of insurance with long-tail claims, a run-off analysis which was carried out on 31 December 2019 with regard to liquidations in 2019 and provisions of claims outstanding on 31 December 2019 for claims incurred before 31 December 2019 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 2009	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Estimates of accumulated claims at the end of year they incurred in	-	231,802	232,426	233,017	233,580	234,116	355,090	410,624	
1 year later	-	226,379	226,953	227,498	228,017	229,279	232,691		
2 years later	-	190,903	191,370	191,815	192,239	212,778			
3 years later	-	187,913	188,347	188,785	183,929				
4 years later	-	174,623	176,442	180,698					
5 years later	-	190,888	168,935						
6 years later	-	182,000							
Assessment of accumulated claims	**-**	**182,000**	**168,935**	**180,698**	**183,929**	**212,778**	**232,691**	**410,624**	**1,571,656**
Accumulated payments	-	155,828	140,620	144,702	142,840	156,200	154,028	111,455	**1,005,673**
Provisions for previous years	295,003	-	-	-	-	-	-	-	**295,003**
Claims handling costs	10,317	915	990	1,259	1,437	1,979	2,751	10,463	**30,011**
Value recognised in the statement of financial position of the current year	**305,320**	**27,088**	**29,305**	**37,255**	**42,526**	**58,557**	**81,415**	**309,632**	**891,096**

35. INSURANCE RISK MANAGEMENT (CONTINUED)

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

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

Insurance amount

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

Provisions of claims outstanding

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

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

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

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

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

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

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

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

35. INSURANCE RISK MANAGEMENT (CONTINUED)

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

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

Remaining claims development factors

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

Discounting

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

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

Liability adequacy test

The liability adequacy test is limited to the non-expired part of the existing insurance contracts. The expected value of claims and costs which can be attributed to non-expired contracts valid on the reporting date is compared to the unearned premiums for those policies (unearned premiums). The expected amounts connected to claims and costs are estimated based on the experience form the previous period and, where applicable, adjusted for significant individual losses which are not expected to recur. The liability adequacy test indicated the sufficiency of unearned premiums on 31 December 2019.

36. RELATED PARTY TRANSACTIONS

Related parties are parties able to control the other party or parties which significantly affect the other party when making financial or business decisions.

Transactions and outstanding balances among related parties within a group are published in the subject's financial statement. 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.

The fees paid to key managers:

GROUP AND COMPANY

	2019	2018
Payments and compensations	2,977	2,985

The Croatian Financial Services Supervisory Agency, in its Decision CLASS: UP/I 974-08/17-01/07 REG. NO.: 326-01-660-662-17-47 of 15 December 2017, determined the interconnectedness of 20 companies. The Administrative Court's Decision UsI-162/18-2 of 26 January 2018 suspends the execution of the disputed Agency's Decision until the end of the dispute.

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

	2019		2018	
	Income	**Expenses**	**Income**	**Expenses**
Other related companies	139,488	168,442	153,202	162,687
Other related companies	**139,488**	**168,442**	**153,202**	**162,687**

	31/12/2019		31/12/2018	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Other related companies	729,400	83,854	926,683	114,118
Other related companies	**729,400**	**83,854**	**926,683**	**114,118**

As at 31 December 2019, shares in associates amounted to HRK 497,720 thousand (2018: HRK 483,047 thousand).

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Company	31/12/2019			
	Receivables	**Liabilities**	**Income**	**Expenses**
Adriatic osiguranje d.d. Zagreb	8	8,585	24,819	33,626
Agram life d,d,	1,302	23,848	27,711	17,536
Agram banka Zagreb d.d.	60,378	40,174	8,108	9,132
Euroagram TIS d.o.o.	366,403	22	35,852	44,259
Auto -Dubrovnik d.d.	13,906	87	794	805
Autoslavonija d.d.	2,205	53	814	793
Euro daus d.d.	234,474	1	19,250	10,277
Agram invest d.d.	251	350	551	-
Euroleasing d.o.o.	16,250	10	7,279	11,498
Agram brokeri d.d.	2	8	15	316
Specijalna bolnica Zagreb	13	-	6,349	10
Automehanika servisi d.d.	13,317	1	822	1,109
Agram Yachting d.o.o.	177	-	1,012	1,940
Autoservisni centar d.d.	7,756	-	810	497
Strukturiranja d.o.o. Zagreb	1,500	38	146	225
OD Grgić & partneri	26	5,093	649	19,177
MTT d.o.o. Rijeka	511	-	1,042	125
MEDORA hoteli i ljetov. d.d.	10,049	43	893	74
AGRAM d.d. Ljubuški	-	-	1,470	-
Agram nekretnine d.d. Mostar	642	-	78	-
Agram Invest d.o.o. Mostar	130	-	140	-
Adriatic osiguranje d.d. Sarajevo	-	1,363	-	2,622
EUROHERC osiguranje d.d. Sarajevo	-	4,177	-	7,815
TOTAL	**729,300**	**83,853**	**138,604**	**161,836**

36. RELATED PARTY TRANSACTIONS (continued)

Company	31/12/2018			
	Receivables	Liabilities	Income	Expenses
Adriatic osiguranje d.d. Zagreb	-	7,319	26,849	32,464
Agram life d.d.	30	47,175	40,670	17,557
Agram banka Zagreb d.d.	37,291	40,410	7,446	9,993
Euroagram TIS d.o.o.	358,636	3,563	35,741	44,535
Auto -Dubrovnik d.d.	15,582	47	996	1,108
Autoslavonija d.d.	2,688	53	685	794
Euro daus d.d.	234,696	79	19,554	12,045
Agram invest d.d.	50,736	209	882	-
Euroleasing d.o.o.	178,227	1,897	4,812	8,097
Agram brokeri d.d.	-	-	-	-
Specijalna bolnica Zagreb	16	-	5,710	1
Automehanika servisi d.d.	14,749	504	653	1,270
Agram Yachting d.o.o.	1	-	1,405	1,584
Autoservisni centar d.d.	9,568	149	702	529
Strukturiranja d.o.o. Zagreb	14,113	269	217	129
OD Grgić & partneri	21	6,488	718	21,357
MTT d.o.o. Rijeka	128	-	1,035	125
MEDORA hoteli i ljetov. d.d.	9,506	172	880	192
AGRAM d.d. Ljubuški	-	-	1,463	-
Agram nekretnine d.d. Mostar	565	-	167	-
Agram Invest d.o.o. Mostar	130	-	115	-
Adriatic osiguranje d.d. Sarajevo	-	1,732	-	3,164
EUROHERC osiguranje d.d. Sarajevo	-	4,052	2,502	7,743
TOTAL	**926,683**	**114,118**	**153,202**	**162,687**

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 2019, has reserved assets in the total amount of 2,300 thousand HRK.

38. OFF-BALANCE SHEET RECORDS

	31/12/2019	31/12/2018
Guarantees received	-	77,219
Guarantees given	131,663	139,844
	131,663	**217,062**

39. EVENTS AFTER THE REPORTING PERIOD

Given the emerging emergency situation of the spread of COVID-19 virus infection, EUROHERC osiguranje d.d. Zagreb ensures business continuity and protection of employees and clients in accordance with the instructions and Decisions of the Croatia Civil Protection Directorate.

Impact assessment of insurance sales

The types of insurance distributed by the Company, which could be expected to increase the scope of insurance liabilities due to the pandemic, do not have a material share in the Company's portfolio and therefore the Company does not expect a negative impact on their technical result as a direct impact of the coronavirus pandemic. For the types of insurance that the Company emphasizes in its operations and which the majority of the Company's portfolio (compulsory motor third party liability insurance and motor hull insurance), no negative impact on the technical result is expected, as a direct impact of the COVID-19 pandemic.

However, due to the new situation, the Company believes that the same will lead to an indirect impact through a reduction in economic activity in general, part of which is the contracting of insurance products. In doing so, the Company expects the greatest uncertainty in contracting insurance products directly related to seasonal business in tourism.

Assessment of the impact on assets and liabilities

Current circumstances in the global and domestic financial market suggest that there are few "safe ports". But some asset classes and risk profiles in relative terms still show greater resilience. The adopted measures of monetary and fiscal intervention packages will inevitably produce several consequences, as follows:

- growth of total government indebtedness
- increased offers of government securities and
- increasing the amount of money in circulation

The above are undoubtedly inflationary pressures in the long term, although they have been dampened in the short term due to falling aggregate demand. The purchase of government securities by central banks can curb yield growth in the short term, but this raises the question of the internacional currency exchange rate of these currencies. In this sense, the tangible assets to which the Company is exposed have a relatively more favorable risk profile than financial instruments, especially in conditions of non-selective sale of financial assets under the influence of deleveraging forces, rising risk premium and generally increasing uncertainty. As for investments in long-term financial assets, generally, these are complementary activities that support the Company's core business, so it can resonate again about exposures that reduce the overall risk profile of the Company and are less exposed to adverse effects of exogenous factors affecting financial markets from, for example, investments in shares of companies listed on public, organized markets. This does not mean that the consequences of the slowdown in economic activity are not reflected in the valuation of these asset classes because they are not an "island" after all. The Company's starting position is favorable and consists of significant capitalization and profitable business model.

39. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

The Company has room to withstand significant declines in the value of assets, but for concrete impact assessments it is necessary to wait for more precise and concrete evidence of the intensity of the contraction of economic activities and beyond.

Liquidity impact assessment

The company expects a decline in sales in the future, which will reduce cash inflows, but no liquidity threat is expected. If we draw a parallel with the crisis of 2008, experience says the following: the portfolio of compulsory motor third party liability insurance is the most resilient to crises, which is logical because it is a compulsory type of insurance. Voluntary types of insurance such as motor hull insurance and property (household) insurance have somewhat less resilience in a crisis. The biggest decline occurs in the insurance of large jobs (construction, industry,…).Given the structure of the Company's portfolio, which is dominated by compulsory motor third party liability insurance, it is expected that the overall decline in sales will still be moderate and that there will be no extraordinary impact on liquidity. If the decline in sales revenue is more significant than the Company currently expects, inventories from assets will be used to cover technical provisions and capital. In the first step, the Company will use the stocks of funds provided for the payment of dividends, and if the liquidity gap would increase, the next steps are the sale of debt securities. Also, the Company stops all investment activities in order to reduce cash outflows.

Assessment of the impact on technical provisions and assets to cover technical provisions

At this time, the Company does not expect a significant impact of the COVID - 19 pandemic on the Company's technical provisions, in accordance with the above explanation.
Due to measures prescribed by the competent authorities of the Republic of Croatia, as well as measures prescribed throughout the European Union, in order to prevent the spread of COVID-19, and especially measures to restrict the movement of people and vehicles, thereby significantly reducing the risk of insurance which form the predominant part of the Company's operations, it is to be expected, therefore, while the aforementioned measures last, the occurrence of minor deviations in the occurrence, number and reporting of claims. Following the above, the current extraordinary circumstances will not have a significant impact on the total volume of technical provisions.
On the assets side to cover technical provisions, the Company expects a decline in the value of all categories of assets but given the almost double excess of assets over liabilities, there is currently no certain scenario that the coverage of liabilities by assets will be jeopardized.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 30 April 2020.
Signed on behalf of and for the Management Board:

Ivana Bratanić, *President of the Management Board*

Tomislav Čizmić, *Member of the Management Board*

Željko Kordić, *Member of the Management Board*

Darinko Ivković, *Member of the Management Board*

Vjeran Zadro, *Member of the Management Board*

Statement of Comprehensive Income

STATEMENT OF THE OTHER COMPREHENSIVE INCOME (PROFIT AND LOSS ACCOUNT) FOR THE PERIOD 01/01/2019 - 31/12/2019

in HRK

No.	Sum elements	Position	Position description	Provisions accounting period			Current accounting period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003+004+005+006	**I**	**Earned premium**		**982,559,362**	**982,559,362**		**1,174,703,264**	**1,174,703,264**
002		1	Written gross premium		1,118,861,695	1,118,861,695		1,278,988,609	1,278,988,609
003		2	Value adjustment and paid premium value adjustment		284,439	284,439		-3,589,572	-3,589,572
004		3	Outward reinsurance (-)		-26,060,872	-26,060,872		-29,306,784	-29,306,784
005		4	Changes in gross unearned premium provisions (+/-)		-113,616,941	-113,616,941		-71,872,176	-71,872,176
006		5	Changes in unearned premium provisions, reinsurer's share (+/-)		3,091,041	3,091,041		483,188	483,188
007	008+009+010+011+012+013+014	**II**	**Investment income**		**136,042,992**	**136,042,992**		**128,596,439**	**128,596,439**
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investment in land and buildings		36,418,822	36,418,822		60,636,042	60,636,042
010		3	Interest income		45,396,236	45,396,236		44,830,132	44,830,132
011		4	Unrealised investment gains						
012		5	Realised investment gains		6,821,958	6,821,958		10,280,016	10,280,016
013		6	Net positive exchange rate differences		1,821,641	1,821,641		1,473,400	1,473,400
014		7	Other investment income		45,584,336	45,584,336		11,376,849	11,376,849
015		**III**	**Income from fees and commissions**		**2,258,720**	**2,258,720**		**2,348,233**	**2,348,233**
016		**IV**	**Other insurance-technical income, net of reinsurance**		**2,763,520**	**2,763,520**		**27,798,181**	**27,798,181**
017		**V**	**Other income**		**52,634,675**	**52,634,675**		**19,651,138**	**19,651,138**
018	019+022	**VI**	**Clams incurred, net**		**-397,677,631**	**-397,677,631**		**-530,241,182**	**-530,241,182**
019	020+021	1	Liquidated claims		-398,072,496	-398,072,496		-585,102,800	-585,102,800
020		1.1	Gross amount (-)		-399,101,363	-399,101,363		-587,037,661	-587,037,661
021		1.2	Reinsurance share (+)		1,028,867	1,028,867		1,934,861	1,934,861
022	023+024	2	Changes in claims outstanding (+/-)		394,864	394,864		54,861,618	54,861,618
023		2.1	Gross amount (-)		130,158	130,158		53,949,871	53,949,871
024		2.2	Reinsurance share (+)		264,707	264,707		911,747	911,747
025	026+029	**VII**	**Changes in mathematical and other technical previsions, net of reinsurance**		**-359,168**	**-359,168**		**2,253,510**	**2,253,510**
026	027+028	1	Changes in mathematical provision (+/-)						
027		1.1	Gross amount (-)						
028		1.2	Reinsurance share (+)						
029	030+031	2	Changes in other technical provisions for claims outstanding, net of reinsurance (+/-)		-359,168	-359,168		2,253,510	2,253,510
030		1.1	Gross amount (-)		-359,168	-359,168		2,253,510	2,253,510
031		1.3	Reinsurance share(+)						
032	033+034	**VIII**	**Changes in provisions for special life insurance for which the insured person bears the investment risk**						
033		1	Gross amount (-)						
034		2	Reinsurance share(+)						
035	036+037	**IX**	**Return of premium (bonuses and rebates) expenses, net of reinsurance**		**-7,067,901**	**-7,067,901**		**3,573,503**	**3,573,503**
036		1	Result-related (bonuses)		-7,067,901	-7,067,901		3,573,503	3,573,503
037		2	Result-unrelated (bonuses)						
038	039+043	**X**	**Operating expenses (activity performance expenses), net**		**-475,850,442**	**-475,850,442**		**-529,796,793**	**-529,796,793**
039	040+041+042	1	Acquisition cost		-318,683,541	-318,683,541		-333,392,576	-333,392,576
040		1.1	Commission		-27,066,680	-27,066,680		-37,239,902	-37,239,902
041		1.2	Other underwriting costs		-291,616,861	-291,616,861		-296,152,674	-296,152,674
042		1.3	Changes in deferred acquisition costs (+/-)						
043	044+045+046	2	Management costs (administrative costs)		-157,166,901	-157,166,901		-196,404,217	-196,404,217
044		2.1	Depreciation and amortisation		-32,494,090	-32,494,090		-46,872,532	-46,872,532
045		2.3.	Salaries, taxes and contributions from and on salaries		-47,797,810	-47,797,810		-73,321,122	-73,321,122
046		2.4.	Other management costs		-76,875,001	-76,875,001		-76,210,563	-76,210,563

Statement of comprehensive income (continued)

047	048+049+050+051+052+053+054	**XI**	**Investment costs**		**-67,724,338**	**-67,724,338**		**-62,495,810**	**-62,495,810**
048		1	Depreciation of land and buildings not used by the Company for its activities						
049		2	Interests		-5,033,925	-5,033,925		-8,467,846	-8,467,846
050		3	Investment impairment		-8,644,165	-8,644,165		-1,181,844	-1,181,844
051		4	Realised investment losses		-1,132,651	-1,132,651		-1,155,751	-1,155,751
052		5	Unrealised investment losses						
053		6	Net negative exchange rate differences		-1,094,356	-1,094,356		-1,109,964	-1,109,964
054		7	Other investment costs		-51,819,241	-51,819,241		-50,580,405	-50,580,405
055	056+057	**XII**	**Other technical costs, net of reinsurance**		**-48,667,465**	**-48,667,465**		**-64,882,422**	**-64,882,422**
056		1	Prevention activities costs						
057		2	Other technical insurance costs		-48,667,465	-48,667,465		-64,882,422	-64,882,422
058		**XIII**	**Other costs, including value adjustments**		**-4,583,121**	**-4,583,121**		**-10,417,077**	**-10,417,077**
059	001+007+015+016+017+018+025+032+035+038+047+055+058	**XIV**	**Profit or loss for the accounting period, before taxes (+/-)**		**174,329,201**	**174,329,201**		**161,090,984**	**161,090,984**
060	061+062	**XV**	**Income or tax loss**		**-32,183,356**	**-32,183,356**		**-29,146,029**	**-29,146,029**
061		1	Current tax expense		-20,654,558	-20,654,558		-31,146,500	-31,146,500
062		2	Defered tax expense/(income)		-11,528,798	-11,528,798		2,000,471	2,000,471
063	059+060	**XVI**	**Profit or loss for the accounting period, after taxes (+/-)**		**142,145,846**	**142,145,846**		**131,944,955**	**131,944,955**
064		1	Attributed to equity holders of the parent						
065		2	Attributed to the non-controlling interest						
066	001+007+015+016+017+062	**XVII**	**TOTAL REVENUE**		**1,164,730,470**	**1,164,730,470**		**1,355,097,726**	**1,355,097,726**
067	018+025+032+035+038+047+055+058+061	**XVIII**	**TOTAL EXPENSES**		**-1,022,584,625**	**-1,022,584,625**		**-1,223,152,771**	**-1,223,152,771**
068	069+070+071+072+073+074+075+076	**XIX**	**Other comprehensive income**		**20,171,408**	**20,171,408**		**31,999,377**	**31,999,377**
069		1	Gains/losses derived from the recalculation of foreign operation's financial statements						
070		2	Gains/losses derived from the revaluation of financial assets available for sale		4,935,869	4,935,869		10,896,101	10,896,101
071		3	Gains/losses derived from the revaluation of land and buildings used by the Company for its activities		15,235,539	15,235,539		21,103,276	21,103,276
072		4	Gains/losses derived from the revaluation of other tangible (other than land and buildings) and intangible assets						
073		5	Effects of cash flows hedging instruments						
074		6	Actuarial gains/losses per pension plans with defined pensions						
075		7	Share in other comprehensive income and associated pensions						
076		8	Corporate income tax and other comprehensive income						
077	063+068	**XX**	**Total comprehensive income**		**162,317,253**	**162,317,253**		**163,944,332**	**163,944,332**
078		1	Attributed to equity holders to parent						
079		2	Attributed to non-controlling interest						
080		**XXI**	**Reclassification adjustments**						

Statement of Financial Position

ASSETS									*in HRK*
No	Sum elements	Position	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003	**I**	**INTANGIBLE ASSETS**		**803,043**	**803,043**		**82,196**	**82,196**
002		1	Goodwill						
003		2	Other intengible assets		803,043	803,043		82,196	82,196
004	005+006+007	**II**	**TANGIBLE ASSETS**		**457,589,781**	**457,589,781**		**497,559,579**	**497,559,579**
005		1	Land and buildings used by the Company for tis activities		429,954,869	429,954,869		454,341,149	454,341,149
006		2	Equipment		4,768,905	4,768,905		30,141,899	30,141,899
007		3	Other tangible assets and inventories		22,866,007	22,866,007		13,076,531	13,076,531
008	009+010+014+033	**III**	**INVESTMENT**		**2,604,410,586**	**2,604,410,586**		**2,615,765,669**	**2,615,765,669**
009		**A**	**Investment in land and buildings not used by the Company for its activities**		**852,770,312**	**852,770,312**		**868,937,921**	**868,937,921**
010	011+012+013	**B**	**Investment in subsidiaries, associates and joint ventures**						
011		1	Stocks and shares in subsidiaries						
012		2	Stocks and shares in associates						
013		3	Stocks and shares in joint ventures						
014	015+018+023+029	**C**	**Financial assets**		**1,751,640,275**	**1,751,640,275**		**1,746,827,747**	**1,746,827,747**
015	016+017	**1**	**Financial assets held to maturity**						
016		1.1	Debt financial instruments						
017		1.2	Other						
018	019+020+021+022	**2**	**Financial assets available for sale**		**814,626,997**	**814,626,997**		**846,218,312**	**846,218,312**
019		2.1	Equity financial instruments		500,924,571	500,924,571		513,139,621	513,139,621
020		2.2	Debt financial instruments		286,633,952	286,633,952		325,241,421	325,241,421
021		2.3	Units in investment funds		27,068,475	27,068,475		7,837,269	7,837,269
022		2.4	Other						
023	024+025+026+027+028	**3**	**Financial assets at fair value in the P/L**						
024		3.1	Equity financial instruments						
025		3.2	Debt financial instruments						
026		3.3	Derivate financial instruments						
027		3.4	Units in investment funds						
028		3.5	Other						
029	030+031+032	**4**	**Loans and receivables**		**937,013,278**	**937,013,278**		**900,609,436**	**900,609,436**
030		4.1	Deposits with credit institutions		29,280,568	29,280,568		31,687,710	31,687,710
031		4.2	Loans and receivables		907,732,710	907,732,710		868,921,726	868,921,726
032		4.3	Other						
033		**D**	**Deposit with the ceding company**						
034		**IV**	**INVESTMENT FOR THE ACCOUNT AND RISK OF THE PERSON WITH LIFE INSURANCE**						
035	036+037+038+039+043+044+045	**V**	**SHARE IN REINSURANCE IN TECHNICAL PROVISIONS**		**20,739,150**	**20,739,150**		**22,134,084**	**22,134,084**
036		1	Unearned premium provisions, reinsurance share		12,566,352	12,566,352		13,049,539	13,049,539
037		2	Mathematical provisions, reinsurance share						
038		3	Provisions for claims outstanding, reinsurance share		8,172,798	8,172,798		9,084,545	9,084,545
039		4	Provisions for bonuses and rebates, reinsurance share						
040		5	Equalisation provisions, reinsurance share						
041		6	Other technical provisions, reinsurance share						
042		7	Special provisions for life insurance for which the insured person bears the investment risk, reinsurance share						
043	044+045	**VI**	**DEFERRED AND CURRENT TAX ASSETS**		**10,176,361**	**10,176,361**		**9,027,165**	**9,027,165**
044		1	Deferred tax assets		10,176,361	10,176,361		9,027,165	9,027,165
045		2	Current tax assets						
046	047+050+051	**VII**	**RECEIVABLES**		**377,364,956**	**377,364,956**		**468,545,199**	**468,545,199**
047	048+049	**1**	**Claims from insurance operations**		**298,748,375**	**298,748,375**		**382,349,702**	**382,349,702**
048		1.1	From insured person		298,748,375	298,748,375		382,349,702	382,349,702
049		1.2	From agents, i.e. insurance intermediaries						
050		**2**	**Claims for reinsurance operations**						
051	052+053+054	**3**	**Other receivables**		**78,616,581**	**78,616,581**		**86,195,497**	**86,195,497**
052		3.1	Claims from other insurance operations		7,998,962	7,998,962		7,716,002	7,716,002
053		3.1	Receivables for investment income						
054		3.2	Other receivables		70,617,619	70,617,619		78,479,495	78,479,495
055	056+060+061	**VIII**	**OTHER ASSETS**		**59,139,625**	**59,139,625**		**86,377,260**	**86,377,260**
056	060+061+062	**1**	**Cash at bank and in hand**		**17,940,855**	**17,940,855**		**45,437,771**	**45,437,771**
057		1.1	Funds on business account		17,752,028	17,752,028		45,334,919	45,334,919
058		1.2	Funds on account for assets covering mathematical provisions						
059		1.3	Cash in hand		188,827	188,827		102,852	102,852
060		**2**	**Non-current assets held for sale and discontinued operations**						
061		**3**	**Other**		**41,198,770**	**41,198,770**		**40,939,488**	**40,939,488**
062	063+064+065	**IX**	**PAID EXPENSES OF THE FUTURE PERIOD AND UNDUE INCOME PAYMENTS**		**23,459,880**	**23,459,880**		**19,163,325**	**19,163,325**
063		1	Deferred interest and lease payments		19,003,980	19,003,980		15,110,742	15,110,742
064		2	Deferred underwriting cost						
065		3	Other paid expenses of the future periods and undue income payments		4,455,899	4,455,899		4,052,583	4,052,583
066	001+004+008+034+035+043+046+055+062	**X**	**TOTAL ASSETS**		**3,553,683,383**	**3,553,683,383**		**3,718,654,476**	**3,718,654,476**
067		**XI**	**OFF-BALANCE SHEET ITEMS**		**217,062,460**	**217,062,460**		**131,663,190**	**131,663,190**

Statement of Financial Position (continued)

EQUITY AND LIABILITIES									*in HRK*
No	Sum elements	Position	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
068	069+072+073+077+081+084	**XII**	**EQUITY AND RESERVES**		**1,441,084,757**	**1,441,084,757**		**1,562,327,689**	**1,562,327,689**
069	070+071	**1**	**Share capital**		**61,002,000**	**61,002,000**		**61,002,000**	**61,002,000**
070		1.1	Paid-in capital - ordinary shares		61,002,000	61,002,000		61,002,000	61,002,000
071		1.2	Paid-in capital - preferred shares						
072		**2**	**Premiums on issued shares (capital reserves)**						
073	074+075+076	**3**	**Reveluation reserves**		**342,353,158**	**342,353,158**		**365,809,309**	**365,809,309**
074		3.1	Land and buildings		316,956,366	316,956,366		329,516,415	329,516,415
075		3.2	Financial assets available for sale		25,396,793	25,396,793		36,292,894	36,292,894
076		3.3	Other revalutaion reserves						
077	078+079+080	**4**	**Reserves**		**172,585,302**	**172,585,302**		**172,585,302**	**172,585,302**
078		4.1	Legal reserves		133,541,827	133,541,827		133,541,827	133,541,827
079		4.2	Statutary reserves		39,043,475	39,043,475		39,043,475	39,043,475
080		4.3.	Other reserves						
081	082+083	**5**	**Retained earnings or loss carried forward**		**722,998,451**	**722,998,451**		**830,986,123**	**830,986,123**
082		5.1	Retained earnings		722,998,451	722,998,451		830,986,123	830,986,123
083		5.2	Transferred loss (-)						
084	085+086	**6**	**Profit or loss for the current accounting period**		**142,145,846**	**142,145,846**		**131,944,955**	**131,944,955**
085		6.1	Profit for the current accounting period		142,145,846	142,145,846		131,944,955	131,944,955
086		6.2	Loss of the current accounting period (-)						
087		**XIII**	**SECOND LINE LIABILITIES (SUBORDINATE LIABILITIES)**						
088		**XIV**	**MINORITY INTEREST**						
089	090+091+092+093+094+095	**XV**	**TECHNICAL RESERVES**		**1,572,290,780**	**1,572,290,780**		**1,584,386,072**	**1,584,386,072**
090		1	Unearned premium reserves, gross amount		616,770,680	616,770,680		688,642,856	688,642,856
091		2	Mathematical reserves, gross amount						
092		3	Claims reserves, gross amount		945,046,222	945,046,222		891,096,351	891,096,351
093		4	Reserves for bonuses and discounts, gross amount		8,220,368	8,220,368		4,646,865	4,646,865
094		5	Provisions for claims fluctuations, gross amount		2,253,510	2,253,510			
095		6	Other technical provisions, gross amount						
096		**XVI**	**SPECIAL LIFE INSURANCE RESERVES WITH WHICH THE INSURANCE CONTRACTOR BEARS INVESTMENT RISK, gross and**						
097	098+099	**XVII**	**OTHER RESERVES**		**19,688,750**	**19,688,750**		**19,893,293**	**19,893,293**
098		1	Provisions for pensions and similar liabilities		19,688,750	19,688,750		19,893,293	19,893,293
099		2	Other reserves						
100	101+102	**XVIII**	**DEFERRED AND CURRENT TAX LIABILITY**		**77,973,885**	**77,973,885**		**90,206,382**	**90,206,382**
101		1	Deferred tax liability		77,973,885	77,973,885		81,857,153	81,857,153
102		2	Current tax liability					8,349,229	8,349,229
103		**XIX**	**DEPOSITS RETAINED FROM BUSINESS SUBMITTED TO REINSURANCE**						
104	105+106+107	**XX**	**FINANCIAL LIABILITIES**		**243,192,313**	**243,192,313**		**218,132,918**	**218,132,918**
105		1	Loan liabilities		243,192,313	243,192,313		188,141,012	188,141,012
106		2	Liabilities under issued financial instruments						
107		3	Other financial liabilities					29,991,906	29,991,906
108	109+110+111+112	**XXI**	**OTHER LIABILITIES**		**192,260,490**	**192,260,490**		**235,428,838**	**235,428,838**
109		1	Liabilities arising from direct insurance business		33,024,866	33,024,866		33,633,578	33,633,578
110		2	Liabilities arising from co-insurance and reinsurance business		9,692,580	9,692,580		9,097,493	9,097,493
111		3	Liabilities for disposal and discontinued operations						
112		4	Other liabilities		149,543,043	149,543,043		192,697,767	192,697,767
113	114+115	**XXII**	**DEFERRED PAYMENT OF EXPENSES AND INCOME**		**7,192,409**	**7,192,409**		**8,279,285**	**8,279,285**
114		1	Accrued reinsurance commission						
115		2	Other deferred payment of expenses and income		7,192,409	7,192,409		8,279,285	8,279,285
116	068+087+088+089+096+097+100+103+104+108+113	**XXIII**	**TOTAL EQUITY AND LIABILITIES**		**3,553,683,383**	**3,553,683,383**		**3,718,654,476**	**3,718,654,476**
117		**XXIV**	**OFF-BALANCE SHEET ITEMS**		**217,062,460**	**217,062,460**		**131,663,190**	**131,663,190**

Statement of Cash Flows

in HRK

No	Sum elements	Position	Position description	Current accounting period	Provisions accounting period
001	002+013+031	**I**	**CASH FLOW FROM OPERATING ACTIVITIES**	**23,569,696**	**71,822,838**
002	003+004	**1**	**Cash flow before changes in operating assets and liabilities**	**139,530,766**	**134,613,974**
003		1.1	Profit / loss before taxes	161,090,984	174,329,201
004	005+006+007 +008+009+010 +011+012	**1.2**	**Adjustments:**	**-21,560,218**	**-39,715,227**
005		1.2.1	Depreciation of property and equipment	46,089,953	31,709,226
006		1.2.2	Amortization of intangible asset	782,580	784,864
007		1.2.3	Impairment and gains / losses from reduction to fair value	-30,322,797	-31,847,007
008		1.2.4	Interest expense	6,720,179	5,033,925
009		1.2.5	Interest income	-44,830,132	-45,396,236
010		1.2.6	Profit shares of associates		
011		1.2.7	Gains / losses on sale of tangible assets (including land and buildings)		
012		1.2.8	Other adjustments		
013	014+015+…+030	**2**	**Increase / decrease in assets and liabilities**	**-93,289,325**	**-17,079,243**
014		2.1	Increase / decrease in financial assets available-for-sale	-31,591,315	9,086,001
015		2.2	Increase / decrease in financial assets at fair value throught P/L		
016		2.3	Increase / decrease in loans and receivables	-2,407,142	7,008,193
017		2.4	Increase / decrease in deposits with cedants		
018		2.5	Increase / decrease in investments at the expense and risk of the life insurance policyholder		
019		2.6	Increase / decrease in the share of reinsurance in technical provisions		
020		2.7	Increase / decrease in tax assets		
021		2.8	Increase / decrease in receivables	-91,180,243	-127,327,840
022		2.9	Increase / decrease in other assets	-27,237,634	1,034,418
023		2.10	Increase / decrease in paid expenses for the future period and overdue revenue collection	4,296,554	-19,086,980
024		2.11	Increase / decrease in technical provisions	10,700,358	117,558,104
025		2.12	Increase / decrease in special life insurance reserves where the policyholder bears the investment risk		
026		2.13	Increase / decrease in tax liabilities		
027		2.14	Increase / decrease in deposits retained from business submitted to reinsurance		
028		2.15	Increase / decrease in financial liabilities		
029		2.16	Increase / decrease in other liabilities	43,043,220	-5,307,083
030		2.17	Increase / decrease in deferred expenses of future expenses and income	1,086,876	-44,056
031		3	Income tax paid	-22,671,746	-45,711,894
032	033+034+…+046	**II**	**CASH FLOW FROM INVESTMENT ACTIVITIES**	**-39,006,015**	**-172,681,619**
033		1	Receipts from sale of tangible assets	1,841,858	2,467,570
034		2	Expenditures for acquisition of tangible assets	-37,884,848	-66,316,991
035		3	Receipts from sale of intangible assets		
036		4	Expenditures for acquisition of intangible asset	-61,733	-74,365
037		5	Gains from sale of land and buildings not used by the Company for its activities		
038		6	Expenses for the purchase of land and buildings not used by the Company for its activities	-4,396,600	-37,245,505
039		7	Increase/decrease in investment in subsidiaries, associates and joint vetures		
040		8	Receipts from investments held to maturity		
041		9	Expenditures from investments held to maturity		
042		10	Receipts from the sale od securities		
043		11	Expenditures for the investment in securities		
044		12	Receipts from dividends and shares in profit	11,121,877	13,260,913
045		13	Receipts from repayment of short-term and long-term loans		
046		14	Expenditures for short - term and long - term loans	-9,626,569	-84,773,241
047	048+049+050 +051+052	**III**	**CASH FLOW FROM FINANCIAL ACTIVITIES**	**25,059,396**	**121,569,364**
048		1	Cash receipts due to increase in share capital		
049		2	Cash receipts from received short-term and long-term loans	25,059,396	121,569,364
050		3	Cash outflows for repayment of received short-term and longterm loans		
051		4	Cash outflows for the repurchase of treasury shares		
052		5	Cash outflows for the payment of profit shares (dividends)		
053	001+032+047		**NET CASH FLOWS**	**9,623,076**	**20,710,583**
054		**IV**	**NET CASH FLOW EFFECTS OF CHANGE IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS**		
055	053+054	**V**	**NET DECREASE/INCREASE OF CASH AND CASH EQUIVALENTS**	**9,623,076**	**20,710,583**
056		1	Cash and cash equivalents at the beginning of the year		
057	055+056	**2**	**Cash and cash equivalents at the end of the year**	**9,623,076**	**20,710,583**

Statement of changes in equity

in HRK

No	Position description	Attributable to the parent's owners							Attrinutable to the non-controlling interest	Total capital and reserves
		Paid capital (regular and preferential shares)	Share premium account	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit of transferes loss	Profit/loss for the year	Total capital and reservs		
I.	**Balance at 1 January of the previous year**	**61,002,000**		**329,811,939**	**172,585,302**	**620,328,852**	**93,364,491**	**1,277,092,584**		
1.	Change in accounting policies									
2.	Prior period adjustment									
II.	**Balance at 1 January of the previous year (adjusted)**	**61,002,000**		**329,811,939**	**172,585,302**	**620,328,852**	**93,364,491**	**1,277,092,584**		
III.	**Comprehensive income or loss for the previous year**			**12,541,219**			**142,145,846**	**154,687,065**		
1.	Profit or loss for the period						142,145,846	142,145,846		
2.	**Other comprehensive income or loss for the previous year**			**12,541,219**				**12,541,219**		
2.1.	Unrealised gains or losses from tangible assets (land and buildings)			7,605,350				7,605,350		
2.2.	Unrealised gains or losses from financial assets available-for-sale			4,935,869				4,935,869		
2.3.	Realised gains or losses from financial assets available-for-sale									
2.4.	Other non-owner changes in equity									
IV.	**Transactions with owners (previous period)**					**102,669,599**	**-93,364,491**	**9,305,108**		
1.	Increase / decrease in shared capital									
2.	Other owner's payments									
3.	Payment of shares profit / dividends									
4.	Other allocations to owners					102,669,599	-93,364,491	9,305,108		
V.	**Balance on the last day of the reporting period in the previous year**	**61,002,000**		**342,353,158**	**172,585,302**	**722,998,451**	**142,145,846**	**1,441,084,757**		
VI.	**Balance at 1 January of the current year**	**61,002,000**		**342,353,158**	**172,585,302**	**722,998,451**	**142,145,846**	**1,441,084,757**		
1.	Change in accounting policies									
2.	Prior period adjustment									
VII.	**Balance at 1 January of the current year (adjusted)**	**61,002,000**		**342,353,158**	**172,585,302**	**722,998,451**	**142,145,846**	**1,441,084,757**		
VIII.	**Comprehensive income or loss for the current year**			**23,456,150**		**150,689,072**	**-10,200,891**	**163,944,332**		
1.	Profit or loss for the period						131,944,955	131,944,955		
2.	**Other comprehensive income or loss for the current year**			**23,456,150**		**150,689,072**	**-142,145,846**	**31,999,377**		
2.1.	Unrealised gains or losses from tangible assets (land and buildings)			12,560,049				12,560,049		
2.2.	Unrealised gains or losses from financial assets available-for-sale			10,896,101				10,896,101		
2.3.	Realised gains or losses from financial assets available-for-sale					150,689,072	-142,145,846	8,543,227		
2.4.	Other non-owner changes in equity									
IX.	**Transactions with owners (current period)**					**-42,701,400**	**0**	**-42,701,400**		
1.	Increase / decrease in shared capital									
2.	Other owner's payments									
3.	Payment of shares profit / dividends					-42,701,400		-42,701,400		
4.	Other allocations to owners									
X.	**Balance at the last day of the reporting period in the current year**	**61,002,000**		**365,809,309**	**172,585,302**	**830,986,123**	**131,944,955**	**1,562,327,689**		

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

Statement of Financial Position

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

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

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

Statement of Comprehensive Income

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