Annual report
and financial statements
for 2016

Contents

Management Board's Report on the position of UNIQA osiguranje d.d. for the year 2016

Management's Responsibility for the Financial Statements

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

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

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

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

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

The financial statements of the Company were authorised by the Management Board on 14 April 2017 and submitted to the Supervisory Board for approval.

UNIQA osiguranje d.d.

Saša Krbavac *President of the Management Board*	Tatjana Račić Žlibar *Member of the Management Board*	Luka Matošić *Member of the Management Board*

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Independent Auditor's Report

To the Shareholder and Management Board of UNIQA osiguranje d.d.:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNIQA osiguranje d.d. (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in European Union ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company, which includes the Management Report but does not include the financial statements and our independent auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Management Report.

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

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted in European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Legal and Regulatory Requirements

Based on the Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (Official Gazette 37/16), "Ordinance"), the Management Board of the Company created forms presented on pages 100 to 112, entitled the Statement of financial position of the Company as at 31 December 2016, and the Statement of comprehensive income, Statement of changes in equity and Cash flow statement of the Company for the year then ended together with information to reconcile the forms to the Company's financial statements. The Company's management is responsible for the preparation of these forms and information on reconciliation and they do not represent an integral part of these financial statements, but contain information required by the Ordinance. The financial information in the forms is based on the Company's financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 15 to 99 adjusted for the purposes of the Ordinance.

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26 April 2017

This version of our report is a translation from the original, which was prepared in 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 our report takes precedence over this translation.

Statement of financial position
As at 31 December 2016

(all amounts are expressed in thousands of HRK)

	Note	31 December 2016	31 December 2015
Assets			
Property and equipment	4	37,934	43,415
Investment property	5	58,952	61,627
Intangible assets:			
- Deferred acquisition costs	6	44,690	38,621
- Other intangible assets		6,169	8,210
Investments in subsidiaries		-	1,163
Financial assets:			
Financial assets held to maturity	7	1,260,993	1,281,233
- Available-for-sale financial assets	7	1,720,331	1,753,158
- Financial assets at fair value through profit or loss	7	35,856	39,465
- Loans and receivables	7	173,217	228,514
Reinsurers’ share in insurance contract provisions	8	294,424	288,324
Insurance contract and other receivables	9	175,384	236,356
Cash and cash equivalents		68,844	31,803
Total assets		**3,876,794**	**4,011,889**
Liabilities and equity			
Liabilities			
Insurance contract provisions	11	2,950,482	3,044,619
Insurance contract and other payables	12	315,900	402,856
Current tax liability		3,481	12,495
Deferred tax liability	10	31,965	29,042
Total liabilities		**3,301,828**	**3,489,012**
Capital and reserves			
Share capital	13	62,700	62,700
Legal reserves		2,269	2,269
Other reserves	13	230,449	235,617
Fair value reserve	13	156,790	125,374
Retained earnings		122,758	96,917
Total capital and reserves		**574,966**	**522,877**
Total liabilities and equity		**3,876,794**	**4,011,889**

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2016

(all amounts are expressed in thousands of HRK)

	Note	2016	2015
Gross written premiums	14	574,992	666,820
Premiums ceded to reinsurance	14	(145,243)	(146,726)
Net premiums written		**429,749**	**520,094**
Change in gross provision for unearned premiums	14	(21,353)	(10,195)
Reinsurers' share of change in provision for unearned premiums	14	(395)	(3,555)
Net earned premiums		**408,001**	**506,344**
Investment income	15	159,223	164,422
Investment costs	15	(38,111)	(16,716)
Net investment income		**121,112**	**147,706**
Reinsurance commission		44,464	45,553
Other operating income		6,804	12,683
Net income		**580,381**	**712,286**
Claims incurred	16	(407,042)	(519,504)
Reinsurers' share of claims incurred	16	85,540	102,953
Net claims incurred		**(321,502)**	**(416,551)**
Acquisition costs	17	(115,129)	(122,066)
Administration costs	18	(96,570)	(94,642)
Other operating expenses		(9,311)	(9,281)
Profit before tax		**37,869**	**69,746**
Income tax	19	(12,028)	(15,001)
Profit for the year		**25,841**	**54,745**
Other comprehensive income			
Item that can be subsequently recognised in profit or loss			
Changes in fair value of available-for-sale financial assets, net of deferred tax		31,416	1,672
Comprehensive income		**57,257**	**56,417**

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2016

(all amounts are expressed in thousands of HRK)

	Share capital	Legal reserves	Other reserves	Fair value reserve	Retained earnings	Total
Year ended 31 December 2015						
As at 1 January 2015	**62,700**	**2,269**	**235,617**	**123,702**	**42,172**	**466,460**
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	54,745	**54,745**
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	2,090	-	**2,090**
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	(418)	-	**(418)**
Other comprehensive income:	-	-	-	1,672	-	**1,672**
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**1,672**	**54,745**	**56,417**
As at 31 December 2015	**62,700**	**2,269**	**235,617**	**125,374**	**96,917**	**522,877**
Year ended 31 December 2016						
As at 1 January 2016	**62,700**	**2,269**	**235,617**	**125,374**	**96,917**	**522,877**
Effect of merger (Note 23)	-	-	(5,168)	-	**-**	**(5,168)**
Total comprehensive income for the year:						
Profit for the year	-	-	**-**	-	25,841	**25,841**
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	34,490	-	**34,490**
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	(3,074)	-	**(3,074)**
Other comprehensive income:	**-**	**-**	**-**	31,416	**-**	**31,416**
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**31,416**	**25,841**	**57,257**
As at 31 December 2016	**62,700**	**2,269**	**230,449**	**156,790**	**122,758**	**574,966**

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2016

(all amounts are expressed in thousands of HRK)

	Note	2016	2015
Cash flows from operating activities			
Profit before tax		**37,869**	**69,746**
Adjustments for:			
Depreciation of equipment	4	4,539	5,028
Amortisation of other intangible assets		2,939	3,252
Expenses from write-off and sale of tangible and intangible assets		3,781	165
Investment income	15	(121,112)	(147,706)
Other		-	(998)
Effect of merger	23	19	-
Changes in assets and liabilities:			
Decrease/(increase) in insurance contract and other receivables		52,405	(10,058)
Decrease in investments in securities and investment funds		66,388	28,970
Decrease/(increase) in investments in loans and receivables		57,436	(143,349)
(Decrease)/increase in insurance contract provisions		(94,137)	110,082
Decrease in reinsurers' share of insurance contract provisions		(6,100)	(30,458)
Increase in deferred acquisition costs		(6,069)	(4,926)
Decrease in insurance contract and other payables and deferred income		(93,477)	(35,284)
Cash flows from operating activities		*(95,519)*	*(155,536)*
Interest received		150,443	163,444
Dividend received		-	916
Income tax paid		(21,191)	(528)
Net cash used in operating activities		**33,733**	**8,296**
Cash flows from investing activities			
Proceeds from sale of investment property		7,045	1,470
Proceeds from sale of equipment		3	3,955
Investments in intangible assets		(2,349)	(1,908)
Investments in equipment	4	(1,391)	(1,383)
Net cash from investing activities		**3,308**	**2,134**
Net increase in cash and cash equivalents		**37,041**	**10,430**
Cash and cash equivalents at beginning of year		**31,803**	**21,373**
Cash and cash equivalents at end of year		**68,844**	**31,803**

The accompanying accounting policies and notes form an integral part of these financial statements.

1. GENERAL INFORMATION

UNIQA osiguranje d.d. (the ‘Company’) is a public limited liability company incorporated and domiciled in Croatia, Planinska 13a, Zagreb.

The Company is a composite insurer offering life and non-life insurance products in Croatia, regulated by the Croatian Financial Services Supervision Agency (‘HANFA’), and provides cross-border insurance services in Slovenia.

The sole shareholder of the Company with 100% of voting rights (2015: 100% of voting rights) is UNIQA International AG, Vienna. The ultimate parent company is UNIQA Insurance Group AG, Vienna, which is a public limited liability company, incorporated and domiciled in Austria.

Based on the Merger Agreement dated 2 October 2015, the Decision on the Approval of the General Assemblies of the Merged Companies dated 2 October 2015 and the Commercial Court Decision dated 4 January 2016, the company Deveti element d.o.o. and Sedmi element d.o.o. merged with the company UNIQA osiguranje d.d. as of 4 January 2016 (Note 23).

Management Board of the Company

Saša Krbavac – President of the Management Board
Tatjana Račić-Žlibar – Member of the Management Board
Luka Matošić – Member of the Management Board

2. BASIS OF PREPARATION

Statement of compliance

UNIQA osiguranje d.d. prepares its financial statements in accordance with the Insurance Act (OG 30/15) and Accounting Act (OG 78/15, 134/15, 120/16).

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

Functional and presentation currency

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

Basis of measurement

These financial statements are prepared on the historical or amortised cost basis, except for financial assets available for sale, at fair value through profit or loss, and investment property which are stated at their fair value. Other financial assets and liabilities, and non-monetary assets and liabilities, are stated at amortised or historical cost, less impairment, where appropriate.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. BASIS OF PREPARATION (CONTINUED)

Foreign currency translation

Transactions in foreign currencies are translated to the functional currency (Croatian kuna) at the middle exchange rate of the Croatian National Bank prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the middle exchange rate of the Croatian National Bank prevailing at that date. The foreign currency gains or losses on monetary items represent the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising from translation are recognised in profit or loss, except for equity instruments classified as financial asset available for sale.

Changes in the fair value of monetary securities denominated in or linked to foreign currency classified as available for sale are analysed between foreign exchange differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Foreign exchange differences on changes in amortised cost are recognised in profit or loss, as part of the investment income or costs. Foreign exchange differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income.

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

Standards and interpretations issued and effective:

The European Union has adopted new and amended standards for the reporting periods commencing 1 January 2016, but they do have an impact on the Company’s current period or previous periods and probably will not have an impact on future periods.

New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted Company. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

2. BASIS OF PREPARATION (CONTINUED)

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or rafter 1 January 2018)* For insurance companies, the application of this standard was postponed until 1 January 2021, i.e. the entry into force of the new insurance standard.

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

The Management Board of the Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:

- Following the changes approved by IASB in July 2014, the Company expects that the new classification, measurement and derecognition rules will have a certain impact on the Company's financial assets.
- Although the Company is yet to carry out a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it is expected that they could meet the requirements so as to be classified at fair value through other comprehensive income (FVOCI), taking into account the current business model used for these assets. Therefore, no changes are expected in reporting these assets.
- There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.
- The new hedging rules largely align hedge accounting with the Company's risk management process. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.
- The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.

The Management Board plans to adopt the standard on the effective date for insurance companies.

- *IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

2. BASIS OF PREPARATION (CONTINUED)

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.)
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and
- As with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

At this stage, the Company is not able to estimate the impact of the new rules on the Company's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

At this stage, the Company is not able to estimate the impact of the new standard on the Company's financial statements; it will make more detailed assessments of the impact over the next twelve months. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

3. ACCOUNTING POLICIES

3.1. Property and equipment

Recognition and measurement

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

Subsequent costs

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

Depreciation

Depreciation on assets is recognised in profit and loss on a straight-line basis to allocate their cost to their residual values over the estimated useful lives of each item of equipment. Assets not put into use are not depreciated. The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated selling expenses, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Estimated useful lives are as follows:

Buildings	50 years
Leasehold improvements	4-10 years
Motor vehicles	3-4 years
Computers	3-5 years
Equipment and furniture	3-10 years

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the related asset and are included in the income statement.

3. ACCOUNTING POLICIES (continued)

3.2. Investment property

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property comprises land and buildings and is carried at fair value. Fair value estimates are based on valuations performed periodically by independent valuation experts, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of property at similar locations and of a similar category. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair value are recorded in the statement of comprehensive income.

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably.

Investment property is initially carried at cost. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of property and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as revaluation of property and equipment. However, if fair value gains reverse a previous impairment loss, these gains are recognised in the statement of comprehensive income. Upon the disposal of such investment property, any surplus previously recognised in equity is transferred to retained earnings; the transfer is not made through the statement of comprehensive income.

3. ACCOUNTING POLICIES (continued)

3.3. Intangible assets

Deferred acquisition costs – insurance contracts

Acquisition costs comprise direct and indirect costs arising from the conclusion of new insurance contracts and the renewal of existing contracts. Deferred acquisition costs for non-life insurances comprise charged commissions incurred in concluding insurance policies during an accounting period but which relate to a subsequent accounting period. General selling expenses, other variable underwriting and policy issue costs and line of business costs are not deferred.

For non-life insurance business, the deferred acquisition costs at the reporting date have been calculated individually for each policy active at the reporting date by deferring the total charged commission using the pro-rata temporis method, adjusted, if appropriate, for specific risk distributions over the period covered by the contract.

For life assurance business, acquisition costs are taken into account in calculating life assurance provisions by means of Zillmerisation. As such, deferred acquisition costs for life assurances are not recognised at the reporting date as a separate item of assets.

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

Other intangible assets

Other intangible assets (software) that are acquired by the Company, which all have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss when incurred. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful life of software is 5-10 years. Useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the net carrying amount of assets, and are included in profit and loss for the period.

3. ACCOUNTING POLICIES (continued)

3. 4. Financial instruments

Classification and recognition

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

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

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities which are classified as held for trading, as well as the financial assets and liabilities which the Company initially designated as at fair value through profit or loss. Financial derivatives are classified as held for trading. The Company does not use hedge accounting. Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short-term profit or position taking.

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivable arise when the Company provides money to a debtor with no intention of trading with the receivable and include deposits with banks and loans based on life assurance policies.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. Any sale or reclassification of a significant amount of held-to-maturity investments, provided that it occurs prior to their maturity, their amounts are not insignificant or the instrument is not close to its maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

3. ACCOUNTING POLICIES (continued)

3. 4. Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss.

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit and loss, and held-to-maturity and available-for-sale investments are recognised on the trade date which is the date when the Company commits to purchase or sell the instrument. Loans and receivables and financial liabilities at amortised cost are recognised when financial assets are advanced to borrowers or received from lenders.

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

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

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

3. ACCOUNTING POLICIES (continued)

3. 4. Financial instruments (continued)

Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method realised at each initial individual investment, less impairment losses.

Financial liabilities not designated at fair value through profit or loss are measured at amortised cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Gains and losses

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

Gains and losses from a change in the fair value of available-for-sale assets are recognised in other comprehensive income and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in profit or loss. Foreign exchange differences on revaluation of non-monetary financial assets (e.g. equity instruments or investment funds) denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income.

Dividend income is recognised in profit or loss.

Upon sale or other derecognition of available-for-sale financial assets, any cumulative gains or losses are transferred from other comprehensive income to profit or loss.

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

Fair value measurement principles

The Company adopts prices from the Bloomberg Generic Network (BGN) and Bloomberg Valuation Service (BVAL) by the SimCorp Dimension accounting software, which is automatically linked to the Bloomberg Information and Financial Service.

The Bloomberg Generic Network (BGN) provides market consensus prices for state and corporate bonds that are determined based on market prices collected from different sources, taking into account the reliability of each individual source.

The Bloomberg Valuation Service (BVAL) provides estimates of fair prices for debt securities based on market data.

3. ACCOUNTING POLICIES (continued)

3. 4. Financial instruments (continued)

The criteria of determining the active and inactive market refer to equity and debt securities, which are categorised as assets at fair value through profit or loss or available-for-sale financial assets.

The market for a particular equity security is regarded as active if its prices are readily and regularly available in a regulated market and those prices represent actual and regularly occurring market transactions on an arm's length basis, within fifteen (15) days from the date of valuation of the financial instrument.

If the price of the security has been available in a regulated market for a period exceeding fifteen (15) days and if it represents an actual and regular transaction on an arm's length basis, the market is considered to be inactive.

The market for an individual debt security is considered active if a consensus price from the Bloomberg Generic Network (BGN) is available at the valuation date, otherwise it is considered inactive.

For debt securities that are actively traded on regulated markets, fair value is defined on the basis of the latest consensus price available at the financial information service for the valuation date of the security. The source of the latest consensus price is the Bloomberg Generic Network (BGN).

Debt securities that are not quoted in an active market are valued according to the following price hierarchy:
a) Bloomberg Valuation Service (BVAL)
b) Amortised price obtained using the effective interest rate so that the initial price is equal to the price of the latest security transaction on a regulated market within 365 days prior to the valuation date
c) The highest quoted purchase price by at least two financial institutions
d) The price obtained by estimation techniques.

For equity securities that are actively traded on a regulated market, fair value is defined based on the last bid price realised on the stock exchange of the issuer or the stock exchange defined as the primary source of pricing, i.e. source of the security, and the price is officially quoted at the financial information service.

For equity securities whose price is not quoted in an active market the Company establishes fair value by using valuation techniques. Valuation techniques include the use of prices achieved in comparable and recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimate and the discount rate is a market rate related to the date of the statement of financial position for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the date of the statement of financial position.

3. ACCOUNTING POLICIES (continued)

3. 4. Financial instruments (continued)

If at the valuation day the net asset value per share was not published or available, the fair value of the acquired investment fund share is the share price used in the preceding days of valuation that is officially quoted at the financial information service, that is the price published for a particular fund by the management company that manages the particular fund.

The fair value of derivative instruments that are not traded in an active market is estimated based on the value of proceeds or expenditures that the Company would have if it would terminate the contract at the date of the statement of financial position, taking into account current market assessments and the credit worthiness of the other contracting party.

3.5. Impairment of financial assets

Financial assets carried at amortised cost

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes default or delinquency by a borrower, restructuring of a loan by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group, prolonged or significant decrease in fair value of securities.

In assessing collective impairment, the Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for the management's judgements as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised through profit or loss and reflected in impairment provisions for loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

3. ACCOUNTING POLICIES (continued)

3.5. Impairment of financial assets (continued)

Available-for-sale financial assets

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between its cost and current fair value – is removed from the other comprehensive income and recognised in profit or loss.

Impairment losses on equity instruments recognised in profit or loss are not subsequently reversed in profit or loss.

The impairment loss is reversed through profit or loss, if in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

3.6. Impairment of non-financial assets

The net carrying amounts of the Company's assets, other than deferred acquisition costs, financial assets and deferred tax assets, are reviewed at the date of the statement of financial position to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each date of the statement of financial position. An impairment loss is recognised if the net carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset that generates cash flows that are largely independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each date of the statement of financial position for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

3. ACCOUNTING POLICIES (continued)

3.7. Specific instruments

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate.

All derivatives are carried as assets when their fair value is positive and as liabilities when negative. Changes in the fair value of derivatives are included in the statement of comprehensive income.

The Company does not hold or issue derivative financial instruments for trading purposes.

Debt securities

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

Bank deposits

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

Equity securities

Equity securities are classified as available-for-sale financial assets or at fair value through profit or loss and are carried at fair value.

Loans to policyholders

Loans to policyholders are classified as loans and receivables and are carried at amortised cost using the effective interest method net of impairment losses.

Investments in investment funds

Investments in open and close ended funds are classified as equity instruments in financial assets available for sale or at fair value through profit or loss and are carried at fair value. If at the valuation day the net asset value per share was not published or available, the fair value of the acquired investment fund share is the share price used in the preceding days of valuation that is officially published for a particular fund by the management company that manages the particular fund.

Investments held on account and at risk of life assurance policyholders

Investments held on account and at risk of *unit-linked* life assurance policyholders are classified as financial assets at fair value through profit or loss and are carried at fair value; they comprise policyholders' investments linked to the value of the investment fund share ('unit-linked'), i.e. structured products (index-linked).

3. ACCOUNTING POLICIES (continued)

3.7. Specific instruments (continued)

Trade and other receivables
Trade and other receivables are carried at amortised cost using the effective interest method, less impairment.

Trade and other payables
Trade and other payables are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest method.

3.8. Investments in subsidiaries and entities under common control

Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are carried at cost, less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries are initially measured at cost.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The predecessor method of accounting is used to account for the mergers of entities under common control. Under the predecessor method of accounting, the successor incorporates the carrying values of assets and liabilities of the predecessor from the consolidated financial statements of the highest entity that has common control and for which consolidated financial statements are prepared. The merged entity's results and balance sheet are incorporated prospectively from the date on which the merger or business combination between entities under common control occurred.

On the date of the merger, inter-company transactions, balances and unrealised gains and losses on mutual transactions are eliminated. The net assets of the merged company are credited to capital and reserves.

3. ACCOUNTING POLICIES (continued)

3.9. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

3.10. Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The Company does not use finance leases. Other leases are operating leases (where the Company is the lessee) where leased assets are not recognised in the Company's statement of financial position. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

3.11. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid instruments with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

3.12. Staff costs

Pension obligations and post-employment benefits
The Company pays mandatory pension funds contributions on the basis of contracts. In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Short-term employee benefits
The Company recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises liabilities for accumulated compensated absences based on unused vacation days at the reporting date.

3. ACCOUNTING POLICIES (continued)

3.13. Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse or are settled, based on laws that have been enacted or substantively enacted by the date of the statement of financial position.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or non-current liabilities.

3.14. Provisions

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

3.15. Discretionary bonus provision

Policyholders or beneficiaries of endowment policies are entitled to a discretionary share in the profits of the Company realised through the management of life assurance funds. Such entitlements are presented within discretionary bonus provision until finally allocated to policyholders and are recorded as part of mathematical provisions.

3. ACCOUNTING POLICIES (continued)

3.16. Capital and reserves

Share capital

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

Dividend

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

Legal and other reserves

Legal and other reserves represent cumulative transfers from retained earnings from previous years and are formed in accordance with the provisions of effective laws. Legal and other reserves can be used for covering prior period losses, if they are not covered by profit in the current period or if other reserves are not available.

Other reserves

Other reserves are formed and used by the decision of the General Assembly and can be used for capital contributions, payment of dividends, covering of losses or for other purposes.

Fair value reserve

Revaluation reserves represent unrealised net gains and losses arising from a change in the fair value of available-for-sale financial assets, net of related deferred tax.

Retained earnings and accumulated loss

Any profit for the year retained after appropriations is transferred to reserves based on the shareholders' decision or left in retained earnings. Retained earnings are available for distribution to shareholders. Loss for the current year is covered from the Company's reserves or by capital contribution.

3.17. Income

Investment income

Interest income is recognised in profit or loss for all interest-bearing financial instruments measured at amortised cost and for debt securities classified as available for sale, using the effective interest method, i.e. the interest rate that discounts expected future cash flows to the net present value over the period of the related contract or currently effective variable interest rate.

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

Investment income also includes net foreign exchange gains resulting from translation of monetary assets and liabilities using the exchange rate at the reporting date, dividends, net gains from change in fair value of financial assets classified as at fair value through profit or loss and realised net gains at derecognition of available-for-sale financial assets.

Dividend income is recognised in the statement of comprehensive income on the date that the dividend is declared.

3. ACCOUNTING POLICIES (continued)

3.17 Income (continued)

Fee and commission income

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

Operating leases

Income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease.

3.18. Expenses

Operating expenses

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

Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts such as sales representatives' commission, commission and other direct costs incurred at the conclusion of insurance contracts.

Non-life commission expenses are recognised on an accruals basis, while life commission expenses are recognised on a cash basis consistent with the related revenue recognition criteria.

Administration costs

Administration costs include personnel expenses, depreciation of equipment and amortisation of other intangible assets, marketing and advertising expenses and other administration costs. Other costs consist mainly of costs of premium collection, policy termination costs and portfolio management costs.

Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease benefits are recognised in the statement of comprehensive income as part of the total lease expense.

Investment expenses

Financial expenses include interest expenses recognised using the effective interest rate method and the net foreign exchange losses resulting from translating monetary assets and liabilities using the exchange rate at the reporting date. Financial expense also include net losses from changes in fair value of financial assets at fair value through profit or loss and net realised losses on derecognition of financial assets available for sale.

3. ACCOUNTING POLICIES (continued)

3.19. Classification of contracts

Contracts under which the Company accepts a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more variables: specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

As a general guideline, the Company defines as significant insurance risk the possibility of having to pay compensation on the occurrence of an insured event that is at least 5% more than the compensation payable if the insured event did not occur. Contracts where the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

Contracts with discretionary participation features

Both insurance and investment contracts may contain discretionary participation features. A contract with a discretionary participation feature is a contractual right held by a policyholder to receive as a supplement to guaranteed minimum payments, whose amount or timing is at the discretion of the insurer and that are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract; or
- realised and/or unrealised investment returns on a specified pool of assets held by the insurer; or
- the profit or loss of the insurer.

The discretionary element of those contracts is accounted for as a discretionary bonus provision until allocated to individual contracts and is recorded within the mathematical provision. The discretionary bonus provision contains amounts arising from participating policies or other unlinked policies, the allocation of which to the policyholders was not specified at the reporting date.

3.20. Premiums

Gross non-life premiums written comprise the premiums on contracts entered into during the current accounting period with a maturity of up to one year, irrespective of whether they relate in whole or in part to a later accounting period. The limitation of the period to one year does not relate to insurance premiums contracted for a period exceeding one year due to its risk characteristics, for example, insurance of buildings under construction, facilities being assembled, credit insurance, etc. regardless of whether the premium has been fully paid, and to insurance premiums contracted for a period exceeding one year where the premium has been fully paid as a lump sum at the inception of insurance. Premiums include commissions payable to intermediaries and exclude taxes and contributions based on premiums. Premiums written include adjustments to premiums written in prior accounting periods. Premiums written include adjustments to reflect write-offs of amounts due from policyholders and the movement in impairment provisions for premiums due from policyholders.

3. ACCOUNTING POLICIES (continued)

3.20. Premiums (continued)

The Company commences forced collection for receivables due from non-life insurance policyholders mainly 90 days from the maturity of the overall receivable. The Company cancels life assurance policies for which premiums from policyholders are not paid 90 days upon maturity and which do not satisfy the criteria for capitalisation. During both mentioned periods, the Company undertakes all available means to collect the respective amounts. Amounts that are not written off and not collected from non-life insurance policyholders with defaults in payment of more than 180 days are wholly impaired (100%). The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. Reinsurance premium calculation is based on reinsurance contracts.

In accordance with the exemption afforded by IFRS 4, and in line with effective regulations, premiums in respect of life assurance continue to be accounted for on a cash receipts basis.

3.21. Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which are expected to be collected in subsequent accounting periods and are calculated using the “pro-rata temporis” method, adjusted if necessary to reflect any specific distributions of risk during the period covered by the contract.

The unearned premium provision is calculated in accordance with the Ordinance on minimum standards, methods of calculating and guidelines for calculating technical provisions in accordance with accounting rules prescribed by the Croatian Financial Services Supervisory Agency (HANFA). Unearned premiums in respect of life assurance and life riders for which a mathematical provision is calculated is included within the mathematical provision. Unearned premiums of life riders for which a mathematical provision is not calculated are recorded in the provision for unearned premiums and accounted for in accordance with the Ordinance on minimum standards, methods of calculating and guidelines for calculating technical provisions in accordance with accounting rules prescribed by the supervisory body (HANFA). If, due to the nature of risks, methods from the Minimum standards, methods of calculating and guidelines for calculating the unearned premium provision are not appropriate, the appointed certified actuary defines the calculation method and describes and explains it in the annual Opinion of appointed certified actuary on the calculation of the technical provision. The reinsurers’ share in the provisions for unearned premiums is calculated according to reinsurance contracts.

3.22. Unexpired risk provision

A provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisition costs and administration costs likely to arise after the end of the accounting period) attributable to the unexpired periods of policies in force at the reporting date exceeds the provision for unearned premiums in relation to such policies after the deduction of deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, before taking into account relevant investment returns.

3. ACCOUNTING POLICIES (continued)

3.23. Mathematical provision

Mathematical provisions are established in the amount of the present value of estimated future liabilities of the insurance company based on concluded life assurance contracts less the present value of future premiums that will be received based on these insurance contracts. The mathematical provision is calculated separately for each policy active on the day of the calculation in accordance with the technical insurance basics and the Ordinance on minimum standards, methods of calculating and guidelines for calculating technical provisions in accordance with accounting rules prescribed by the supervisory body (HANFA). The mathematical provision also takes into account the profit attributable to policyholders in the form of an additional insured amount. In basic life insurances, it is allowed to decrease the mathematical provision by unamortised actual acquisition costs of insurance - zillmerisation. The maximum allowed zillmerisation rate in the Republic of Croatia is 3.5%. In tariffs where the actual acquisition costs are higher than 3.5% for zillmerisation, the maximum allowed rate is used. A liability adequacy test (LAT) is performed quarterly by the Company in order to verify whether the established mathematical provision is sufficient for covering corresponding insurance liabilities. In case of a negative test result, the mathematical provision is increased by the indicated amount and recorded in the statement of comprehensive income.

3.24. Claims

Total claims incurred in a financial period consist of claims settled net of recourses and claims handling costs paid during the accounting period together with the movement in the provision for incurred claims.

Settled claims

Settled claims are recorded in the moment of settling the claim and are recognised (determined) as the amount to be paid to settle the claim plus claims handling expenses. Recovered claims recoverable from third parties are deducted from settled claims (recourses).

The reinsurers' share in claims settled for reinsured policies is calculated on the basis of gross claims settled under these policies in accordance with terms and conditions of reinsurance contracts.

Claims provision

Claims provisions represent the estimated final cost of settling all claims, including direct and indirect settlement costs, arising from events occurred until the date of the statement of financial position. These provisions include the provision for reported but not settled claims, provision for incurred but not reported claims and the provision for claims handling costs. Claims provisions are formed in accordance with the Ordinance on minimum standards, methods of calculating and guidelines for calculating technical provisions in accordance with accounting rules prescribed by the supervisory body (HANFA).

Claims provisions are assessed by reviewing individual reported claims and making provisions for claims incurred but not reported, taking into account both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends.

Anticipated reinsurance recoveries, and estimates of recourse recoveries, are disclosed separately. The reinsurers' share in claims provisions is calculated on the basis of gross claims provisions in accordance with the terms and conditions of reinsurance contracts.

3. ACCOUNTING POLICIES (continued)

3.24. Claims (continued)

Whilst the management considers that the gross claims provisions and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them and relevant events, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts of provisions.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

The methods used, and the estimates made, are reviewed regularly.

3.25. Special provision for unit-linked life assurance products

A special provision for unit-linked life assurance products is recorded at fair value of the underlying investment.

3.26. Reinsurance

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

Premiums ceded and recoverable amounts are presented separately in the Company's statement of comprehensive income and the statement of financial position on the gross basis.

Receivables under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as deposits.

Reinsurance assets include receivables due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the claims provisions or provisions for settled claims associated with the reinsured policy.

Reinsurance assets comprise the actual or estimated amounts, which, under reinsurance contracts, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Company forms provisions for estimated uncollectible assets from reinsurance, if required.

The cost of reinsurance related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

The calculation of the reinsurers' share in the mathematical provisions calculated in accordance with terms and conditions of reinsurance contracts.

3. ACCOUNTING POLICIES (continued)

3.26. Reinsurance (continued)

Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in line with the provisions of reinsurance contracts, in a manner consistent with the deferral of acquisition costs in non-life insurance.

3.27. Liability adequacy test

Insurance contracts are tested for liability adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. In case of liability inadequacy, an additional provision is made and the Company recognises the loss in the statement of comprehensive income. Estimations of future cash flows are based on actuarial presumptions taking into account experience of claims occurrence, latest demographic tables, aspects of mortality, morbidity, return on investments, costs and inflation.

(all amounts are expressed in thousands of HRK)

4. PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and other assets	Total
As at 1 January 2015	**33,442**	**17,055**	**50,497**
Disposals	(100)	(2,857)	(2,957)
Write-off	(119)	(46)	(165)
Depreciation	(897)	(4,131)	(5,028)
Additions	201	1,182	1,383
Transfer from/to property and equipment (Note 5)	(315)	-	(315)
As at 31 December 2015	**32,212**	**11,203**	**43,415**
Cost	41,320	40,419	81,739
Accumulated depreciation	(9,108)	(29,216)	(38,324)
Net book amount	**32,212**	**11,203**	**43,415**
As at 1 January 2016	**32,212**	**11,203**	**43,415**
Disposals	-	(1)	(1)
Write-off and impairment	(2,302)	(30)	(2,332)
Depreciation	(886)	(3,653)	(4,539)
Additions	-	1,391	1,391
As at 31 December 2016	**29,024**	**8,910**	**37,934**
Cost	39,018	38,114	77,132
Accumulated depreciation	(9,994)	(29,204)	(39,198)
Net book amount	**29,024**	**8,910**	**37,934**

The item land and buildings includes land that is not depreciated, with the total value of HRK 643 thousand as at 31 December 2016 (2015: HRK 759 thousand).

As at 31 December 2016 and 2015, the Company does not have land and buildings pledged as collateral for the Company’s liabilities.

The depreciation charge for the period is recognised under “Administration costs” in the statement of comprehensive income (Note 18).

(all amounts are expressed in thousands of HRK)

5. INVESTMENT PROPERTY

	2016	2015
As at 1 January	**61,627**	**59,005**
Effect of merger (Note 23)	8,978	-
Disposals	(7,162)	(1,371)
Change in fair value (Note 15)	(4,491)	3,678
Transfer from/to property and equipment (Note 4)	-	315
As at 31 December	**58,952**	**61,627**

Land and buildings included in this category have been acquired for investment purposes. Any income arising from this investment is primarily the fair value gain expected as a result of market appreciation in value, and is included in net investment income. Fair value losses are included in investment costs. As a rule, land and buildings are annually (at least once every five years) and independently valued and their carrying value is reconciled with the fair value of land and buildings, calculated by certified court valuators using the cost approach, comparable method and/or income approach as the methods for property valuation.

Rental income is included in the investment income, and amounts to HRK 2,844 thousand (2015: 2,890). Property management expenses are included in investment costs, and amount to HRK 883 thousand (2015: 925) (Note 15). Expenses (including repairs and maintenance, security, etc.) arising from investment property that generated income during the period amount to HRK 425 thousand (2015: HRK 553 thousand), and expenses arising from investment property that did not generate income amount to HRK 372 thousand (2015: HRK 372 thousand).

As at 31 December 2016, no land and buildings are pledged by the Company as collateral.

6. DEFERRED ACQUISITION COSTS

As part of the Company’s insurance business, certain acquisition costs are deferred. For life assurance business, acquisition costs are taken into account in calculating mathematical provisions by means of Zillmersation. As such, deferred acquisition costs for life assurances are not recognised at the reporting date as a separate item of assets.

	2016	2015
As at 1 January	**38,621**	**33,695**
Net increase (Note 17)	6,069	4,926
As at 31 December	**44,690**	**38,621**

(all amounts are expressed in thousands of HRK)

7. FINANCIAL INVESTMENTS

2016	**Held to maturity**	**Available for sale**	**At fair value through profit or loss**	**Loans and receivables**	**Total**
Debt securities – fixed rate, listed					
Government bonds	1,222,934	1,374,024	-	-	2,596,958
Corporate bonds	12,692	87,649	-	-	100,341
Bonds of financial institutions	-	29,165	-	-	29,165
Accrued interest	25,367	28,101	-	-	53,468
Total debt securities	**1,260,993**	**1,518,939**	**-**	**-**	**2,779,932**
Investment funds					
Mixed funds	-	-	508	-	508
Bond funds	-	129,484	12,351	-	141,835
Equity funds	-	71,908	22,997	-	94,905
Total investment funds	**-**	**201,392**	**35,856**	**-**	**237,248**
Deposits					
Bank deposits	-	-	-	147,227	147,227
Accrued interest	-	-	-	159	159
Total deposits	**-**	**-**	**-**	**147,386**	**147,386**
Loans					
Loans based on life policy surrender values	-	-	-	22,207	22,208
Mortgage loans	-	-	-	2,149	2,149
Other loans	-	-	-	1,377	1,377
Accrued interest	-	-	-	98	98
Total loans	**-**	**-**	**-**	**25,831**	**25,831**
Total	**1,260,993**	**1,720,331**	**35,856**	**173,217**	**3,190,397**

(all amounts are expressed in thousands of HRK)

7. FINANCIAL INVESTMENTS (continued)

2015	Held to maturity	Available for sale	At fair value through profit or loss	Loans and receivables	Total
Debt securities – fixed rate, listed					
Government bonds	1,236,255	1,517,272	10,141	-	2,763,668
Corporate bonds	19,422	129,811	-	-	149,233
Bonds of financial institutions	-	29,101	-	-	29,101
Accrued interest	25,556	30,614	188	-	56,358
Total debt securities	**1,281,233**	**1,706,798**	**10,329**	**-**	**2,998,360**
Investment funds					
Mixed funds	-	-	490	-	490
Bond funds	-	24,508	11,973	-	36,481
Equity funds	-	21,852	16,673	-	38,525
Total investment funds	**-**	**46,360**	**29,136**	**-**	**75,496**
Deposits					
Bank deposits	-	-	-	202,205	202,205
Accrued interest	-	-	-	1,234	1,234
Total deposits	**-**	**-**	**-**	**203,439**	**203,439**
Loans					
Loans based on life policy surrender values	-	-	-	20,838	20,838
Mortgage loans	-	-	-	2,709	2,709
Other loans	-	-	-	1,416	1,416
Accrued interest	-	-	-	112	112
Total loans	**-**	**-**	**-**	**25,075**	**25,075**
Total	**1,281,233**	**1,753,158**	**39,465**	**228,514**	**3,302,370**

The fair value disclosure and information on credit quality is set out in Note 22.

Financial assets at fair value through profit and loss is designated at fair value at initial recognition because it is managed, evaluated and reported internally on a fair value basis.

(all amounts are expressed in thousands of HRK)

7. FINANCIAL INVESTMENTS (continued)

Analysis of loans

	2016	2015
Loans based on life policy surrender values		
- Gross	28,323	26,954
- Impairment provisions	(6,116)	(6,116)
Total loans based on life policy surrender values	**22,207**	**20,838**
Loans secured by mortgage or bank guarantee		
- Gross	14,151	16,249
- Impairment provisions	(12,002)	(13,540)
Total loans secured by mortgage or bank guarantee	**2,149**	**2,709**
Other loans		
- Gross	1,685	2,978
- Impairment provisions	(308)	(1,562)
Total other loans	**1,377**	**1,416**
Accrued interest	98	112
Total	**25,831**	**25,075**

Movement in impairment of loans

	Loans based on life policy surrender values	Loans secured by mortgage or bank guarantee	Other loans	Total
As at 1 January 2015	(5,246)	(16,166)	(8,915)	(30,327)
Increase in impairment provisions	(870)	(1,113)	-	(1,983)
Collection of impaired loans	-	919	1,264	2,183
Write-off	-	2,820	6,089	8,909
As at 31 December 2015	**(6,116)**	**(13,540)**	**(1,562)**	**(21,218)**
As at 1 January 2016	(6,116)	(13,540)	(1,562)	(21,218)
Collection of impaired loans	-	1,538	1,254	2,792
As at 31 December 2016	**(6,116)**	**(12,002)**	**(308)**	**(18,426)**

(all amounts are expressed in thousands of HRK)

8. REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

	2016	**2015**
Non-life insurance		
Reinsurers' share in unearned premium	64,486	64,865
Reinsurers' share in provisions for RBNS claims	73,459	75,928
Reinsurers' share in provisions for IBNR claims	56,149	47,039
Reinsurers' share in provision for bonuses and discounts	1,648	1,647
	195,742	**189,479**
Life assurance		
Reinsurers' share in unearned premium	220	236
Reinsurers' share in provisions for RBNS claims	545	578
Reinsurers' share in provisions for IBNR claims	42	167
Reinsurers' share in life assurance mathematical provision	97,875	97,864
	98,682	**98,845**
	294,424	**288,324**

The reinsurers' share in technical provisions represents expected future claims that will be charged to the Company's reinsurers and the reinsurers' share in unearned premiums.

9. INSURANCE CONTRACT AND OTHER RECEIVABLES

	2016	**2015**
Receivables from policyholders, gross	106,161	99,873
- from impairment	(33,485)	(37,652)
Receivables from policyholders, net	72,676	62,221
Receivables from reinsurance		
- from claims recoveries	42,402	62,433
- from reinsurance commission	22,040	52,719
Receivables from reinsurance for share in profit	468	727
Receivables from reinsurance for participation in impairment and guarantee fund provision	6,647	6,277
Credit card receivables	13,302	17,043
Receivables for service claims	4,588	4,375
Other receivables	10,252	26,098
- from impairment	(6,780)	(8,958)
Prepaid expenses	9,789	13,421
	175,384	**236,356**

(all amounts are expressed in thousands of HRK)

9. INSURANCE CONTRACT AND OTHER RECEIVABLES (continued)

The movement in impairment provisions during the year was as follows:

	Premium	Other	Total
As at 1 January 2015	(39,151)	(13,163)	(52,314)
Decrease – impairment gains	1,499	4,205	5,704
As at 31 December 2015	**(37,652)**	**(8,958)**	**(46,610)**
As at 1 January 2016	(37,652)	(8,958)	(46,610)
Decrease – impairment gains	4,167	2,178	6,345
As at 31 December 2016	**(33,485)**	**(6,780)**	**(40,265)**

The analysis of the credit quality of insurance contract receivables at the date of the statement of financial position is as follows:

	2016	2015
Neither past due nor impaired	49,225	40,578
Past due but not impaired	23,451	21,644
Impaired	33,485	37,652
Impairment provision	(33,485)	(37,652)
	72,676	**62,222**

The ageing analysis of receivables past due but not impaired at the reporting date is as follows:

	2016	2015
Less than 30 days	10,860	10,733
30 - 180 days	12,591	10,911
	23,451	**21,644**

Impairment losses from receivables from policyholders are deducted from gross premium written. The Company commences forced collection for receivables due from non-life insurance policyholders mainly 90 days from the maturity of the overall receivable. Unpaid premiums from life assurance policyholders overdue more than 90 days which do not satisfy the criteria for capitalisation, are cancelled. During both mentioned periods, the Company undertakes all available means to collect the respective amounts.

Amounts that are not written off and not collected from non-life assurance policyholders with defaults in payment of more than 180 days, are wholly impaired (100%).

(all amounts are expressed in thousands of HRK)

10. DEFERRED TAX ASSETS AND LIABILITIES

The deferred tax (liabilities) / assets are as follows:

	2016	2015
Deferred tax (liabilities) /assets		
Available-for-sale financial assets	(34,417)	(31,343)
Effect of temporarily non-deductible expenses	2,452	2,301
	(31,965)	**(29,042)**

Movement in temporary differences and components of deferred tax (liabilities) / assets recognised in the statement of comprehensive income and in equity:

	Available-for-sale financial assets	Temporarily non-deductible expenses	Tax losses carried forward from previous years	Deferred tax assets / (liabilities)
As at 1 January 2015	**(30,925)**	**13**	**4,265**	**(26,647)**
Increase in deferred tax liability recognised in other comprehensive income	(418)	-	-	(418)
(Decrease)/increase in deferred tax assets recognised in profit or loss	-	2,288	(4,265)	(1,977)
As at 31 December 2015	**(31,343)**	**2,301**	**-**	**(29,042)**
Increase in deferred tax liability recognised in other comprehensive income	(3,074)	-	-	(3,074)
Increase in deferred tax assets recognised in profit or loss	-	151	-	151
As at 31 December 2016	**(34,417)**	**2,452**	**-**	**(31,965)**

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS

	2016	2015
Non-life insurance (gross)		
Provision for unearned premiums	212,904	190,615
Provision for reported but not settled claims (RBNS)	181,518	192,321
Provision for incurred but not reported claims (IBNR)	201,374	189,907
Provision for bonuses and discounts	6,432	4,649
	602,228	**577,492**
Life assurance (gross)		
Provision for unearned premiums	5,036	5,972
Life assurance mathematical provision	2,303,481	2,423,772
Provision for reported but not settled claims (RBNS)	11,070	13,581
Provision for incurred but not reported claims (IBNR)	6,838	7,404
Provisions for unit-linked products	21,829	16,398
	2,348,254	**2,467,127**
	2,950,482	**3,044,619**

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

Non-life insurance

A provision is made at the date of the statement of financial position for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. The liability for reported claims (RBNS) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the amounts of similar claims. Each claim is reviewed regularly and the relevant provision is regularly updated as and when new information arises. The reinsurers' share is determined by individual calculations based on reinsurance contracts effective at the time when the claim occurred. The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are assessed by actuaries using statistical techniques.

The key methods are:

- chain ladder methods, which use historical data to estimate the future development of unsolved claims;
- expected claims ratio method;
- Bornhuetter-Ferguson method, which, in estimating IBNR provisions, in addition to expected claims, takes into consideration exposure measures;
- benchmarking methods, which use the experience of comparable, more mature, classes to estimate the cost of claims.

The actual method or blend of methods used varies by the year of the claim considered, the class of business and historical claims development. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future.

11. INSURANCE CONTRACTS PROVISIONS (continued)

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

There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the reinsurers' share.

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

Tail factors

For long-tail business, the level of provision is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to their ultimate settlement. These tail factors are estimated prudently based on actuarial judgements and the best fit from a statistical point of view.

Discounting

With the exception of annuities, non-life claims provisions are not discounted. Provisions for annuities are calculated separately for each annuity, based on the amount of annuity from the claim, in the capitalized amount as the present value of all future annuity liabilities. When calculating provisions for annuity claims the Company is using the Republic of Croatia mortality tables 2010-2012 published by the Croatian Bureau of Statistics, at an annual discount rate of 3%, and depending on information regarding the claim, the presumption of the increase in annuity amount is taken into account. Annuity claims mainly arise from motor third party liability and liability claims.

Non-life insurance claims

Anticipated recoveries from reinsurance and estimated recoveries from salvage and subrogation have been disclosed as separate assets. Reinsurance and other recourses are estimated in a manner similar to estimating unsettled claims.

The ultimate liability may vary as a result of subsequent information and events, and may result in significant adjustments to the amounts provided against. The adjustments to the claims provisions established in prior years are reflected in the financial statements in the period of the adjustments and are disclosed separately if material.

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

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

Life assurance

The mathematical provision is calculated by a prospective net method using the statistical data and interest rates adjusted to the provisions of the Ordinance on minimum standards, methods of calculating and guidelines for calculating technical provisions in accordance with accounting rules. Life assurance policies are linked to the EUR. The mathematical provision for life insurance is decreased by the non-amortised acquisition costs (Zillmerisation), where the Zillmerisation rate is not higher than 3.5% of the insured amount, depending on the type of contract and commission paid.

Policyholder discretionary bonuses

Policyholders or beneficiaries of endowment policies are entitled to a share in the profits of the Company realised in the management of life assurance funds. In the event of endowment, the share in profits is paid along with the sum insured. In the event of death, the Company pays the sum insured and the shares in the profits accounted for by that time. The Company provides for discretionary bonuses allocated to policyholders within the mathematical provision.

Unit-linked life assurance

Life assurance where the policyholder takes on the risk of investment combines traditional term life assurance with risk of death and investment in certain investment funds. The policyholder defines the fund where payments are to be invested and can change the fund during the contract.

(b) Analysis of movement in provision for unearned premium

	2016 Gross	2016 Reinsurance	2016 Net	2015 Gross	2015 Reinsurance	2015 Net
Non-life insurance						
As at 1 January	190,615	(64,865)	125,750	180,355	(68,403)	111,952
Premiums written during the year	342,690	(136,183)	206,507	316,755	(137,829)	178,926
Movement in provision for unearned premiums	(320,401)	136,562	(183,839)	(306,495)	141,367	(165,128)
At 31 December	**212,904**	**(64,486)**	**148,418**	**190,615**	**(64,865)**	**125,750**
Life assurance						
As at 1 January	5,972	(236)	5,736	6,037	(253)	5,784
Premiums written during the year	12,993	(805)	12,188	15,271	(894)	14,377
Movement in provision for unearned premiums	(13,929)	821	(13,108)	(15,336)	911	(14,425)
As at 31 December	**5,036**	**(220)**	**4,816**	**5,972**	**(236)**	**5,736**

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

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

	2016 Gross	2016 Reinsurance	2016 Net	2015 Gross	2015 Reinsurance	2015 Net
Non-life insurance						
As at 1 January	192,321	(75,928)	116,393	173,430	(57,414)	116,016
Claims reported in current year	176,620	(76,092)	100,528	177,580	(76,970)	100,610
Change in estimate for previous year claims	(16,344)	8,779	(7,565)	8,076	(4,499)	3,577
Claims paid	(171,079)	69,782	(101,297)	(166,765)	62,955	(103,810)
As at 31 December	**181,518**	**(73,459)**	**108,059**	**192,321**	**(75,928)**	**116,393**
Life assurance						
As at 1 January	13,581	(578)	13,003	14,495	(1,036)	13,459
Current year claims	342,514	(9,235)	333,279	251,529	(5,545)	245,984
Change in previous year claims	6,428	5	6,433	409	12	421
Claims paid	(351,453)	9,263	(342,190)	(252,852)	5,991	(246,861)
As at 31 December	**11,070**	**(545)**	**10,525**	**13,581**	**(578)**	**13,003**

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

	2016 Gross	2016 Reinsurance	2016 Net	2015 Gross	2015 Reinsurance	2015 Net
Non-life insurance						
As at 1 January	189,907	(47,039)	142,868	188,678	(35,254)	153,424
Additions recognised during the year	37,550	(19,867)	17,683	33,492	(26,446)	7,046
Less: transfer to claims reported provision	(26,083)	10,757	(15,326)	(32,263)	14,661	(17,602)
As at 31 December	**201,374**	**(56,149)**	**145,225**	**189,907**	**(47,039)**	**142,868**
Life assurance						
As at 1 January	7,404	(167)	7,237	11,981	(319)	11,662
Additions recognised during the year	87	140	227	(4,181)	163	(4,018)
Less: transfer to claims reported provision	(653)	(15)	(668)	(396)	(11)	(407)
As at 31 December	**6,838**	**(42)**	**6,796**	**7,404**	**(167)**	**7,237**

(all amounts are expressed in thousands of HRK)

11 INSURANCE CONTRACTS PROVISIONS (continued)

(e) Life assurance mathematical provision

	2016 Gross	2016 Reinsurance	2016 Net	2015 Gross	2015 Reinsurance	2015 Net
As at 1 January	2,423,772	(97,864)	2,325,908	2,345,758	(93,540)	2,252,218
Premium allocation	232,494	(9,068)	223,426	312,217	(10,586)	301,631
Release of liabilities due to benefits paid, surrenders and other terminations	(347,303)	8,988	(338,315)	(248,846)	5,830	(243,016)
Allocation of discretionary bonus (DPF)	(1,717)	-	(1,717)	15,975	-	15,975
Change in IBNR and RBNS	(2,829)	85	(2,744)	(1,267)	449	(818)
Change in provision for unearned premiums	(936)	(16)	(952)	(65)	(17)	(82)
As at 31 December	**2,303,481**	**(97,875)**	**2,205,605**	**2,423,772**	**(97,864)**	**2.325.908**

(f) Provisions for unit-linked products

	2016 Gross and net	2015 Gross and net
As at 1 January	16,398	10,457
Technical premium allocation	6,919	7,553
Unrealised losses on funds where policyholders' investments were allocated	(1,488)	(1,612)
As at 31 December	**21,829**	**16,398**

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

(g) Development of claims reserve

For the year ended 31 December 2016

	Prior to 2011	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims at the end of accident year	385,915	101,570	112,080	131,720	279,146	445,948	544,210	-
One year later	405,456	76,473	76,376	140,922	288,608	447,255	-	-
Two years later	368,283	54,936	92,574	139,299	281,778	-	-	-
Three years later	373,555	75,542	90,799	128,360	-	-	-	-
Four years later	397,402	73,148	87,156	-	-	-	-	-
Five years later	410,934	70,965	-	-	-	-	-	-
Six years later	511,480	-	-	-	-	-	-	-
Total estimate of provisions	**511,480**	**70,965**	**87,156**	**128,360**	**281,778**	**447,255**	**544,210**	**2,071,204**
Cumulative payments	(371,825)	(54,985)	(63,472)	(110,096)	(244,852)	(404,035)	(441,671)	(1,690,936)
Provisions for outstanding claims not distinguished by accident year	-	-	-	-	-	-	-	-
Claims handling costs	4,530	519	744	667	1,260	3,488	9,324	20,532
Claims provision as at 31 December 2016	**144,185**	**16,499**	**24,429**	**18,931**	**38,186**	**46,709**	**111,862**	**400,800**

For the year ended 31 December 2015

	Prior to 2010	2010	2011	2012	2013	2014	2015	Total
Estimate of cumulative claims at the end of accident year	296,017	89,898	101,570	112,080	131,720	279,146	445,948	-
One year later	316,074	89,382	76,473	76,376	140,922	288,608	-	-
Two years later	286,008	82,275	54,936	92,574	139,299	-	-	-
Three years later	287,180	86,375	75,542	90,799	-	-	-	-
Four years later	288,321	109,081	73,148	-	-	-	-	-
Five years later	306,426	104,508	-	-	-	-	-	-
Six years later	410,308	-	-	-	-	-	-	-
Total estimate of provisions	**410,308**	**104,508**	**73,148**	**90,799**	**139,299**	**288,608**	**445,948**	**1,552,618**
Cumulative payments	(285,215)	(76,167)	(53,907)	(62,012)	(106,874)	(240,119)	(345,420)	(1,169,714)
Provisions for outstanding claims not distinguished by accident year	-	-	-	-	-	-	-	-
Claims handling costs	3,981	857	618	1,017	1,029	3,888	8,919	20,309
Claims provision as at 31 December 2015	**129,074**	**29,198**	**19,858**	**29,804**	**33,454**	**52,377**	**109,447**	**403,213**

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

(h) Structure of assets used for backing life assurance mathematical provision

	2016	2015
Assets backing mathematical provision		
Government bonds	1,976,102	2,088,950
Corporate bonds	90,238	126,645
Investment funds	197,447	54,730
Cash and deposits	148,077	150,905
Mortgages and borrowings	22,235	20,627
Property	39,604	43,043
Total assets used for backing life assurance mathematical provision	**2,473,703**	**2,484,900**
Life assurance mathematical provision, net of reinsurance	2,205,605	2,325,908
Claims provision for risks for which it is necessary to create mathematical provision, net of reinsurance	11,576	14,385
Required coverage of life assurance mathematical provision	**2,217,1821**	**2,340,293**
Excess of coverage	**256,522**	**144,607**

As at 31 December 2016 and 2015, the Company was in compliance with regulatory requirements relating to the structure and amounts of assets invested for backing mathematical provision.

The table below analyses assets used for backing mathematical provision by remaining maturities and insurance contract liabilities.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
2016					
Assets backing mathematical provision	464,204	1,033,054	798,587	177,858	2,473,703
Life assurance mathematical provision, net of reinsurance	(568,262)	(841,006)	(396,367)	(399,970)	(2,205,605)
Claims provision, net of reinsurance	(9,617)	(1,607)	(352)	-	(11,576)
Maturity gap	**(113,675)**	**190,441**	**401,868**	**(222,112)**	**256,522**
2015					
Assets backing mathematical provision	373,415	1,151,028	752,265	208,192	2,484,900
Life assurance mathematical provision, net of reinsurance	(299,254)	(1,098,873)	(482,530)	(445,251)	(2,325,908)
Claims provision, net of reinsurance	(12,061)	(1,914)	(410)	-	(14,385)
Maturity gap	**62,100**	**50,241**	**269,325**	**(237,059)**	**144,607**

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

As at 31 December 2016, the structure of assets to cover the mathematical provision of the Company is as follows: 48.98% is classified as assets available for sale (2015: 49.07%), and 0.45% as financial assets at fair value through profit or loss (2015: 0.61%), which both can be relatively easily sold by the Company, if required. The remaining structure is as follows: 42.09% as assets held to maturity (2015: 41.68%), 0.90% as prepayments and loans (2015: 0.83%), 5.02% as deposits (2015: 5.88%), 1.60% as property (2015: 1.73%) and 0.96% as funds on a business account (2015: 0.20%).

In 2016, the Company realised an average return by investing 3.53% of the mathematical provision assets (2015: 4.74%).

The following table analyses the financial assets used for backing mathematical provision by relevant groupings based on the currency in which it is denominated. The mathematical provision for traditional products is denominated in EUR.

	EUR	USD	HRK	Total
2016				
Assets backing mathematical provision	2,278,914	29,937	164,852	**2,473,703**
2015				
Assets backing mathematical provision	2,353,169	-	131,731	**2,484,900**

The valuation of financial assets is set out in Note 3 – Accounting policies.

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

(i) Structure of assets used for backing technical provision other than mathematical provision

	2016	2015
Assets used for backing technical provision other than mathematical provision		
Government bonds	410,633	440,090
Corporate bonds	21,576	27,725
Investment funds	14,951	2,297
Cash and deposits	41,037	22,800
Mortgages and borrowings	1,158	1,660
Property	-	4,125
Total assets used for backing technical provision other than mathematical provision	**489,355**	**498,697**
Provision for unearned premiums, net of reinsurance	153,234	131,486
Claims provision, net of reinsurance	259,028	265,117
Other reserves	4,786	3,002
Required coverage of technical provision other than mathematical provision	**417,048**	**399,605**
Difference	**72,307**	**99,092**

As at 31 December 2016 and 2015, the Company was in compliance with regulatory requests relating to the structure and amounts of assets invested for backing the technical provision.

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

The table below analyses assets used for backing technical provision by remaining maturities from the reporting date and the estimated remaining contractual maturities of technical provisions for which coverage is required:

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
2016					
Assets used for backing technical provisions	150,258	316,247	22,696	154	489,355
Provision for unearned premiums, net of reinsurance	(106,371)	(15,544)	(29,085)	(2,234)	(153,234)
Claims provision and other provisions, net of reinsurance	(64,045)	(88,003)	(53,347)	(58,419)	(263,814)
Maturity gap	**(20,158)**	**212,700**	**(59,736)**	**(60,499)**	**72,307**
2015					
Assets used for backing technical provisions	58,445	414,165	21,796	4,291	498,697
Provision for unearned premiums, net of reinsurance	(91,937)	(12,780)	(23,924)	(2,845)	(131,486)
Claims provision and other provisions, net of reinsurance	(61,421)	(84,769)	(53,710)	(68,219)	(268,119)
Maturity gap	**(94,913)**	**316,616**	**(55,838)**	**(66,773)**	**99,092**

As at 31 December 2016, the structure of assets to cover the technical provision of the Company is as follows: 66.06% is classified as assets available for sale (2015: 68.08%), and 0% as financial assets at fair value through profit or loss (2015: 1.15%), which both can be relatively easily sold by the Company, if required. The remaining structure is as follows: 25.32% as assets held to maturity (2015: 25.04%), 0.24% as prepayments and loans (2015: 0.33%), 4.09% as deposits (2015: 1.60%), 0% as property (2015: 0.83%) and 4.29% as funds on a business account (2015: 2.97%).

The following table analyses the financial assets used for backing technical provision by relevant groupings based on the currency in which it is denominated.

	EUR	GBP, USD	HRK	Total
2016				
Assets used for backing technical provisions	161,935	1,916	325,504	489,355
Provision for unearned premiums, net of reinsurance	(18,394)	(4)	(134,836)	(153,234)
Claims provision and other provisions, net of reinsurance	(34,131)	-	(229,683)	(263,814)
	109,410	**1,912**	**(39,015)**	**72,307**
2015				
Assets used for backing technical provisions	153,212	-	345,485	498,697
Provision for unearned premiums, net of reinsurance	(17,735)	(7)	(113,744)	(131,486)
Claims provision and other provisions, net of reinsurance	(35,030)	(9)	(233,080)	(268,119)
	100,447	**(16)**	**(1,339)**	**99,092**

11. INSURANCE CONTRACTS PROVISIONS (continued)

(j) Liability adequacy test

Life assurance

The mathematical provision is tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options. For this purpose the Company uses liability adequacy test for the majority of products in its portfolio. Where reliable market data is available, assumptions are derived from observable market prices. However, in the absence of market transactions in the economy in which the Company operates, significant difficulties remain in calibrating the assumptions used in observable market conditions.

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

Due to the levels of uncertainty in the future development of insurance markets and the Company's portfolio, the Company uses reasonably margins for risk and uncertainty. Input assumptions are updated annually based on recent experience. The methodology of testing considers current estimates of all future cash flows including cash flows from embedded options and guarantees. This methodology enables quantification of correlation between all risks factors.

The principal assumptions used are:

Segmentation

The Company segments the products into several homogeneous groups according to the characteristics of individual products (type of product and guaranteed interest rates). Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining the additional liability to be established.

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

Mortality and morbidity

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

Assumptions for mortality and morbidity are adjusted by a margin for risk and uncertainty.

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

(j) Liability adequacy test (continued)

Persistency

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

Expense

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Company's current experience.

Expected investment return and discount rate

Future investment returns are calculated using the best estimate of interest rate derived from return on government bonds and other instruments in which Company has investments.

The discount rate used is equal to expected future investment returns, taking into account credit risk, and duration and currency structure of the Company's investment portfolio.

	2016	**2015**
1 - 5 years	4.40%	4.40%
5 - 10 years	2.15%	2.65%
Over 10 years	1.87%	2.28%

Profit sharing

Whilst, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Company, the assessment of liability adequacy takes into account future discretionary bonuses. The percentage applied is consistent with the Company's current business practice for bonus allocation.

The Company performed a sensitivity test for the following assumptions: decrease in interest rate (1%), decrease in cancellation rate (10%) and increase in expenses (10%).

The results are presented in the table below:

	2016	**2015**
LAT provision	2,195,315	2,332,221
Sensitivity test for changes in assumptions:		
decrease in interest rate of 1%	2,265,084	2,427,347
decrease in cancellation rate of 10%	2,214,854	2,337,312
increase in expenses of 10%	2,222,313	2,366,064

11. INSURANCE CONTRACTS PROVISIONS (continued)

(j) Liability adequacy test (continued)

The assumption that has the greatest impact on the LAT reserve amount is interest reflecting the expected future returns that will be realised by investing the mathematical provision. The Company's calculation of LAT reserves at 31 December 2016 was performed by applying different rates than those that were used in the calculation of LAT reserves at 31 December 2015. Change in interest rates was caused by (among other things), a different investment strategy. If the non-linearity in interest rates is ignored, it can be said that the LAT reserve increased by approximately HRK 60.5 due to different interest rates applied in 2016 compared to those applied in 2015.

Non-life insurance

The liability adequacy test for non-life insurance is limited to the unexpired portion of existing contracts. It is performed by comparing the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date with the amount of unearned premiums in relation to such policies after deduction of deferred acquisition costs. Expected cash flows relating to claims and expenses are estimated by reference to the experience during the expired portion of the contract. The test is performed by lines of business managed collectively. The results showed that the liability adequacy requirements are met, therefore, additional provisions for non-life insurance are not required.

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

Gains or losses and insurance liabilities are mainly sensitive to fluctuations in investment and mortality rates, cancellation rate and the cost rate estimated to determine the insurance liability adequacy. The Company estimates the impact of changes in key variables on profit for the year and equity at year end, which have a significant effect on the profit and equity. In non-life insurance, variables with the highest impact on insurance liabilities relate to the occurrence of claims and changes in the costs per insurance policy.

Life assurance

Bonuses

Around 90% of the Company’s life insurance contracts include an entitlement to receive a discretionary bonus. Bonuses to policyholders are granted in accordance with rules of the Company reported to HANFA and are recognised as a liability when proposed and approved by the Management Board. Once allocated to policyholders bonuses are guaranteed.

Premiums

Premiums for all life products are linked to EUR and may be payable in regular instalments or as a single premium at inception of the policy. Most endowment-type insurance products contain a premium indexation option which may be exercised annually at the discretion of the policyholder. Where the option is not exercised, premiums are not increased by any index.

11. INSURANCE CONTRACTS PROVISIONS (continued)

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

Term life insurance products

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

Endowment products

These are also traditional life insurance products providing financial protection during the duration of the contract and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer covering for risks of death, endowment, dread diseases, permanent disability and accident rider. Insurance benefits are usually fully paid as a lump-sum.

Non-life insurance

The Company offers many types of non-life insurances, mainly motor, property, liability, marine, transport, health and accident insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at a 3 months notice (6 months notice in case of long-term contracts longer than 5 years). A portion of accident insurance policies have a single premium option for long-term duration (the maximum duration in the portfolio is 30 years). These policies are connected with bank loans. The Company is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to reduce and reject fraudulent claims.

Future insurance claims are the main source of uncertainty which influences the amount and timing of future cash flows. The amount of particular claim payments is limited by the sum insured which is established in the insurance policy. The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the statute of limitation, which is effective 3 years from the date when the policyholder becomes aware of the claim but not later than 5 years from the beginning of the year following the year of occurrence. This feature is particularly significant in case of permanent disability arising from accident insurance and personal injuries in motor third party liability insurance because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

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

Motor insurance

The Company's motor insurance portfolio comprises both motor third party liability insurance (MTPL) and motor hull (casco) insurance. MTPL insurance covers bodily injury claims and property claims in the Republic of Croatia as well as claims caused abroad by insured motorists under the “Green Card” system. Property damage under MTPL and motor hull claims are generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity. The amount of claims relating to bodily injury and related losses of earnings are influenced by decisions and directives set by the Supreme Court which influence court practice.

11. INSURANCE CONTRACTS PROVISIONS (continued)

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

MTPL is regulated by the Compulsory Traffic Insurance Act. The minimum sums insured are regulated by law. Policyholders are entitled to a no-claims bonus under their policy when the conditions are fulfilled, i.e. penalty for bad loss experience is charged.

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

Property insurance

This is broadly split into industrial and personal lines. For industrial lines, the Company uses risk management techniques to identify risks and analyse losses and also cooperates with reinsurers. Personal property insurance consists of standard buildings and contents insurance. Claims are normally reported promptly and can be settled without delay.

Liability insurance

This covers all types of liability and includes commercial liability, employees and professional indemnity as well as personal liability. The majority of general liability covers are written on an "occurrence" basis.

Accident insurance

Accident insurance is traditionally and mostly sold as an addition to life products or to MTPL products offered by the Company and as a part of the insurance package of Raiffeisenbank Austria d.d. Zagreb credit card users. Zagreb.

(all amounts are expressed in thousands of HRK)

12. INSURANCE AND OTHER PAYABLES

	2016	2015
Indirect insurance contract payables	210	127
Reinsurance contract payables	73,473	148,262
Deposits retained from business ceded to reinsurance	98,095	98,100
Other liabilities	25,170	21,100
Accrued expenses	83,895	100,368
Provisions for liabilities and charges	6,178	7,488
Provisions for legal claims /i/	28,879	27,411
	315,900	**402,856**

The Company retains deposits from reinsurance business arising from the quota share reinsurance treaty with the parent company. In accordance with the reinsurance treaty, applicable from 1999, the Company does not cede the reinsurers' share in the mathematical provision, but retains and invests the funds. Deposits retained from reinsurance business bear a 3% fixed interest rate per annum (2015: 3% p.a.).

All insurance contract payables, other insurance related liabilities (except deposits held from business ceded to reinsurance) are due within 12 months from the reporting date. The maturity of deposits held is disclosed in Note 22.3. All payables are expected to be settled within 12 months of the reporting date.

Movement in provision for legal claims

	2016	2015
Opening balance as at 1 January	**27,411**	**38,570**
Increase in provision	4,589	7,552
Decrease in provision	(3,121)	(18,711)
Closing balance as at 31 December	**28,879**	**27,411**

/i/ As at 31 December 2016, the Company was a plaintiff or defendant in several legal claims. Based on the estimate made by Management and legal counsel, provisions were made in the total amount of HRK 28,879 thousand (2015: HRK 27,411 thousand) for legal claims whose outcome is assessed as unfavourable for the Company. Management believes that the Company will not have any material losses from these or other legal claims exceeding the amount provided for as at 31 December 2016.

(all amounts are expressed in thousands of HRK)

13. CAPITAL AND RESERVES

(a) Share capital

As at 31 December 2016, the Company's share capital amounted to HRK 62,700 thousand (2015: HRK 62,700 thousand). It is divided into 76 ordinary shares with a nominal value of HRK 825 thousand per share (2015: 76 ordinary shares with a nominal value of HRK 825 thousand per share).

As at 31 December 2016 and 2015, the Company's sole shareholder is UNIQA International AG, Vienna. The ultimate parent and controlling party is UNIQA Insurance Group AG, Vienna.

(b) Fair value reserve

The fair value reserve represents the cumulative unrealised net change in the fair value of available-for-sale investments.

Movements in the fair value reserve were as follows:

	2016	**2015**
Gross fair value reserve	156,717	154,672
Deferred tax	(31,343)	(30,925)
As at 1 January	**125,374**	**123,702**
Change in fair value	42,873	3,840
Deferred tax on change in fair value	(4,751)	(768)
Net realised gains from available-for-sale financial assets (Note 15)	(8,383)	(1,750)
Deferred tax on net realised gains from available-for-sale financial assets	1,677	350
As at 31 December	**156,790**	**125,374**
Gross fair value reserve	191,207	156,717
Deferred tax (Note 10)	(34,417)	(31,343)
As at 31 December	**156,790**	**125,374**

(c) Capital management

The Company manages its capital by assessing shortfalls between the reported and required capital levels on a regular basis. During the year there were no changes in respect of share capital, aims, policies and processes of capital management adopted in previous years.

The Company's main objective in managing capital is meeting the requirements prescribed by the Croatian Financial Services Supervisory Agency (HANFA) as the regulator of the insurance market in the Republic of Croatia. In accordance with the Insurance Act, the Company is obliged to have a minimum share capital of HRK 57.72 million, i.e. HRK 28.86 million for performing non-life assurance activities and HRK 28.86 million for performing life assurance activities. As at 31 December 2016 and 2015, the Company's share capital amounted to HRK 62.7 thousand and the Company meets the stated criterion.

Capital requirements are determined according to the Solvency II regulation, which came into force on 1 January 2016. Calculations of the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) are conducted quarterly. Throughout the year 2016, the Company has been meeting regulatory capital requirements, reporting quarterly quantitative information to the Croatian Financial Services Supervisory Agency.

(all amounts are expressed in thousands of HRK)

13. CAPITAL AND RESERVES (continued)

The Company's solvency capital is determined by applying a standard formula taking into account transitional measures for Croatian government bonds denominated in euros. The Company's solvency quota as at 31 December 2016 is 276%, while the minimum required capital quota is 613.3%.

The continued monitoring of regulatory capital adequacy and capital management are an integral part of the process of own risk assessment and solvency. The key elements of own risk and solvency assessment are the projection of solvency capital requirement, minimum capital requirement and equity to cover capital requirements throughout the business plan period, and the preparation of sensitivity analyses and stress testing, through which the Company's capital adequacy is continually re-examined.

14. PREMIUMS

	2016	**2015**
Non-life insurance		
Gross premium written	342,690	316,755
Written premiums ceded to reinsurance, net of reinsurers' share in impairment	(136,570)	(137,113)
Change in gross provisions for unearned premiums	(22,289)	(10,260)
Change in unearned premiums, reinsurers' share	(379)	(3,538)
Total premium earned from non-life insurance, net of reinsurance	**183,452**	**165,844**
Life assurance		
Gross premium written	232,302	350,065
Premiums ceded to reinsurance	(8,673)	(9,613)
Change in gross provisions for unearned premiums	936	65
Change in unearned premiums, reinsurers' share	(16)	(17)
Total premium earned from life assurance, net of reinsurance	**224,549**	**340,500**
Net earned premiums	**408,001**	**506,344**
Total life and non-life insurance		
Gross premium written	574,992	666,820
Premiums ceded to reinsurance	(145,243)	(146,726)
Change in gross provisions for unearned premiums	(21,353)	(10,195)
Change in unearned premiums, reinsurers' share	(395)	(3,555)
Net earned premiums	**408,001**	**506,344**

Premiums ceded to reinsurance do not relieve the Company from its direct obligations to its policyholders. Therefore, there is credit risk exposure to the extent that the reinsurer would not be able to settle their liabilities assumed under reinsurance contracts.

(all amounts are expressed in thousands of HRK)

14. PREMIUMS (continued)

An analysis of written premiums and claims incurred by class of business is set out below.

For the year 2016	**Gross premiums written**	**Gross premiums earned**	**Gross claims incurred**	**Acquisition and administration costs**	**Reinsurance balance**
Non-life insurance					
Motor (third party liability)	101,489	102,801	(74,937)	(36,099)	(9,580)
Motor (other classes)	57,012	55,429	(40,593)	(17,799)	166
Property	56,219	52,692	(20,528)	(27,564)	6,826
Personal lines	82,656	65,758	(26,220)	(32,639)	4,957
Other	45,314	43,721	(11,249)	(23,429)	10,321
Total non-life insurance	**342,690**	**320,401**	**(173,527)**	**(137,530)**	**12,690**
Life assurance					
Individual premiums	232,302	233,238	(233,515)	(74,169)	1,970
Periodic premiums	40,889	192,016	(190,851)	(13,055)	(347)
Single premiums	191,412	41,222	(42,664)	(61,114)	(1,623)
Total life insurance	**232,301**	**233,238**	**(233,515)**	**(74,169)**	**(1,970)**
Total	**574,991**	**553,639**	**(407,042)**	**(211,699)**	**10,720**

For the year 2015	**Gross premiums written**	**Gross premiums earned**	**Gross claims incurred**	**Acquisition and administration costs**	**Reinsurance balance**
Non-life insurance					
Motor (third party liability)	104,958	106,198	(67,861)	(40,117)	(7,679)
Motor (other classes)	50,174	42,829	(39,622)	(14,486)	(2,872)
Property	69,117	52,214	(27,417)	(27,536)	2,644
Personal lines	51,214	63,694	(31,906)	(30,378)	4,539
Other	41,292	41,560	(21,381)	(21,874)	1,412
Total non-life insurance	**316,755**	**306,495**	**(188,187)**	**(134,391)**	**(1,956)**
Life assurance					
Individual premiums	350,065	350,130	(331,317)	(82,317)	(1,993)
Periodic premiums	206,077	206,500	(184,836)	(48,458)	(1,173)
Single premiums	143,988	143,630	(146,481)	(33,859)	(820)
Total life insurance	**350,065**	**350,130**	**(331,317)**	**(82,317)**	**(1,993)**
Total	**666,820**	**656,625**	**(519,504)**	**(216,708)**	**(3,949)**

(all amounts are expressed in thousands of HRK)

15. NET INVESTMENT INCOME

	2016	2015
Investment income		
Interest income:		
- Held-to-maturity investments	68,960	77,448
- Available-for-sale financial assets	67,678	70,169
- Financial assets at fair value through profit or loss	227	690
- Loans and receivables	3,799	4,422
Net realised gains:		
- Financial assets at fair value through profit or loss	219	57
- Available-for-sale financial assets	8,383	1,750
- Sale of property	-	99
Net unrealised gains:		
- change in fair value of financial assets through profit or loss	1,552	2,104
- change in fair value of investment property	-	3,678
Reversal of impairment in shares	20	-
Income from collection of impaired loans and receivables	5,541	199
Dividend income	-	916
Rental income	2,844	2,890
	159,223	**164,422**
Investment expenses		
Net realised losses on sale of property	(117)	-
Net unrealised losses on changes in fair value of investment property	(4,491)	-
Custodian expenses	(622)	(558)
Net foreign exchange losses	(27,169)	(9,119)
Investment property expense	(883)	(925)
Other	(4,829)	(6,114)
	(38,111)	**(16,716)**
Net investment income	**121,112**	**147,706**

	2016 Non-life insurance	2016 Life assurance	2016 Total	2015 Non-life insurance	2015 Life assurance	2015 Total
Investment income						
Income from investment of capital	6,969	12,271	19,240	3,709	6,429	10,138
Income from investment of mathematical provision	-	114,562	114,562	-	125,022	125,022
Income from investment of special provision for unit-linked products	-	945	945	-	1,867	1,867
Income from investment of other technical provisions	22,868	1,608	24,476	25,757	1,638	27,395
Total investment income	**29,837**	**129,386**	**159,223**	**29,466**	**134,956**	**164,422**
Investment expenses						
Costs from investment of capital	(1,154)	(3,550)	(4,704)	(1,768)	(1,068)	(2,836)
Costs from investment of mathematical provision	-	(31,148)	(31,148)	-	(12,048)	(12,048)
Costs from investment of other technical provisions	(1,975)	(284)	(2,259)	(1,719)	(113)	(1,832)
Total investment expenses	**(3,129)**	**(34,982)**	**(38,111)**	**(3,487)**	**(13,229)**	**(16,716)**
Net investment income	**26,707**	**94,404**	**121,112**	**25,979**	**121,727**	**147,706**

(all amounts are expressed in thousands of HRK)

16. CLAIMS INCURRED, NET

	2016	2015
Non-life insurance		
Settled claims		
Gross amount	(171,079)	(166,765)
Reinsurers' share	69,782	62,959
Change in provisions for reported but not settled claims		
Gross amount	10,802	(18,891)
Reinsurers' share	(2,469)	18,509
Change in provisions for incurred but not reported claims		
Gross amount	(11,466)	(1,229)
Reinsurers' share	9,110	11,790
Changes in provision for bonuses and discounts		
Gross amount	(1,784)	(1,302)
Reinsurers' share	-	-
Total non-life insurance claims	**(173,527)**	**(188,187)**
Total reinsurers' share in total non-life insurance claims	**76,423**	**93,258**
Total non-life insurance claims, net of reinsurance	**(97,104)**	**(94,929)**
Life assurance		
Settled claims		
Gross amount	(351,453)	(252,852)
Reinsurers' share	9,263	5,981
Change in life assurance mathematical provision		
Gross amount	120,291	(78,014)
Reinsurers' share	12	4,324
Change in provisions for reported but not settled claims		
Gross amount	2,511	914
Reinsurers' share	(33)	(458)
Change in provisions for incurred but not reported claims		
Gross amount	566	4,576
Reinsurers' share	(125)	(152)
Change in provision for unit-linked products	(5,430)	(5,941)
Total life insurance claims	**(233,515)**	**(331,317)**
Total reinsurers' share in life insurance claims	**9,117**	**9,695**
Total life insurance claims, net of reinsurance	**(224,398)**	**(321,622)**
Total claims incurred	**(407,042)**	**(519,504)**
Total reinsurers' share in claims incurred	**85,540**	**102,953**
Total claims incurred, net of reinsurance	**(321,502)**	**(416,551)**

As at 31 December 2016, the Company was involved in 815 (2015: 955) court cases for which HRK 119,737 thousand (2015: HRK 110,076 thousand) was provided as part of the provision for reported but not settled claims. The Management Board believes that the related provisions are sufficient.

(all amounts are expressed in thousands of HRK)

16. CLAIMS INCURRED, NET (continued)

Analysis of claims ratio, cost ratio and combined ratio

The table below presents the claims ratio, cost ratio and combined ratio by line of business calculated in accordance with HANFA's Ordinance on the Form and Content of Financial Statements and Additional Reports of Insurance and Reinsurance Companies.

2016	**Claims ratio**	**Cost ratio**	**Combined ratio**
Accident insurance	11.57%	64.30%	75.87%
Health insurance	68.50%	30.47%	98.97%
Insurance of motor vehicles	73.23%	31.50%	104.73%
Vessel insurance	75.57%	56.46%	132.03%
Insurance of goods in transit	38.00%	36.12%	74.12%
Insurance against fire and natural disasters	51.42%	53.46%	104.88%
Other property insurance	19.87%	51.40%	71.27%
Motor third party liability	72.89%	34.14%	107.04%
Vessel third party liability	17.46%	59.06%	76.52%
Other liability insurance	16.94%	49.83%	66.77%
Guarantee insurance	0.00%	65.71%	65.71%
Financial loss insurance	6.62%	59.34%	65.96%
Insurance of legal protection costs	-2.89%	61.57%	58.68%
Travel insurance	37.88%	57.07%	94.95%
Total non-life insurance	**53.60%**	**42.42%**	**96.02%**

2015	**Claims ratio**	**Cost ratio**	**Combined ratio**
Accident insurance	28.82%	36.06%	64.89%
Health insurance	70.90%	30.73%	101.64%
Insurance of motor vehicles	91.18%	21.63%	112.81%
Vessel insurance	128.90%	39.98%	168.88%
Insurance of goods in transit	-1.13%	25.54%	24.41%
Insurance against fire and natural disasters	54.25%	33.61%	87.86%
Other property insurance	48.93%	36.24%	85.17%
Motor third party liability	62.78%	19.71%	82.49%
Vessel third party liability	12.38%	33.67%	46.05%
Other liability insurance	26.69%	34.48%	61.17%
Guarantee insurance	0.00%	405.45%	405.45%
Financial loss insurance	112.67%	53.12%	165.79%
Insurance of legal protection costs	9.76%	66.20%	75.96%
Travel insurance	32.94%	35.95%	68.89%
Total non-life insurance	**60.30%**	**28.05%**	**88.35%**

The above ratios for 2016 have been calculated in accordance with the Instructions for Completing Financial Statements and Additional Reports of Insurance and Reinsurance Companies, which was issued by HANFA at the Board meeting held on 10 June 2016:

Claims ratio = (settled claims, gross amount + change in provisions for claims, gross amount + change in other technical provisions, gross amount) / (gross premium written + impairment and collected premium impairment + change in gross provisions of unearned premium)

Cost ratio = (operating expenses (business-related expenses), net + other insurance and technical income, net of reinsurance + other technical costs, net of reinsurance) / (gross premium written + impairment and collected premium impairment + change in gross provisions of unearned premium)

Combined ratio = claims ratio + cost ratio.

(all amounts are expressed in thousands of HRK)

16. CLAIMS INCURRED, NET (continued)

The 2015 ratios have been calculated in accordance with HANFA's Instructions for Completing Financial Statements of Insurance and Reinsurance Companies, which were effective as at 31 December 2015, whereby the claims ratio, cost ratio and combined ratio were defined as follows:

Claims ratio = (claims paid + change in claims provisions) / (gross premiums written + change in gross unearned premiums).

Cost ratio = (administration costs – reinsurance commission + acquisition costs – change in deferred acquisition costs) / (gross premium written).

Combined ratio = claims ratio + cost ratio.

The Company uses segmentation as set out in Note 11.j. Calculations do not show a deficiency in provisions.

17. ACQUISITION COSTS

	2016	**2015**
Non-life insurance		
Commission expenses	56,836	52,603
Other acquisition costs	33,401	36,386
Change in deferred acquisition costs	(6,069)	(4,926)
Total acquisition costs, non-life	**84,168**	**84,063**
Life assurance		
Commission expenses	16,326	21,630
Other acquisition costs	14,635	16,373
Total acquisition costs, life	**30,961**	**38,003**
Total	**115,129**	**122,066**

Included within acquisition costs for the Company are internal sales staff costs amounting to HRK 15.1 million (2015: HRK 13.6 million).

(all amounts are expressed in thousands of HRK)

17. ACQUISITION COSTS (continued)

The following table presents acquisition costs by type of insurance:

	2016	**2015**
Non-life insurance		
Accident insurance	16,136	15,540
Health insurance	6,381	5,061
Insurance of motor vehicles	11,820	9,740
Railroad insurance	-	-
Vessel insurance	2,287	2,079
Insurance of goods in transit	197	218
Insurance against fire and natural disasters	9,257	9,952
Other property insurance	5,971	6,660
Motor third party liability	21,202	23,750
Vessel third party liability	806	777
Other liability insurance	5,789	6,041
Loan insurance	2	3
Guarantee insurance	2	1
Financial loss insurance	2,356	2,331
Insurance of legal protection costs	721	810
Travel insurance	1,241	1,100
Total non-life	**84,168**	**84,063**
Life assurance		
Life assurance	27,456	34,888
Annuity insurance	77	52
Life rider products	1,732	1,658
Marriage and birth assurance	196	177
Unit-linked	1,500	1,228
Total life insurance	**30,961**	**38,003**
Total non-life and life insurance	**115,129**	**122,066**

(all amounts are expressed in thousands of HRK)

18. ADMINISTRATION COSTS

	2016	2015
Depreciation and amortisation	7,478	8,280
Staff costs	37,553	37,451
Goods and services	14,791	15,968
Rental expenses	7,388	8,605
Marketing and promotion	8,841	11,374
Maintenance	6,519	6,165
Audit expenses	1,291	765
Other expenses	12,709	6,034
Total	**96,570**	**94,642**

As at 31 December 2016, the Company had 707 employees (2015: 722).

During 2016, the Company paid HRK 16.8 million (2015: HRK 17.0 million) of pension contributions into obligatory defined contribution pension funds in respect of its employees.

The following table presents administration costs by type of insurance:

	2016	2015
Non-life insurance		
Accident insurance	7,380	6,514
Health insurance	2,742	3,264
Insurance of motor vehicles	5,978	4,746
Vessel insurance	1,543	1,260
Insurance of goods in transit	347	350
Insurance against fire and natural disasters	7,491	6,588
Other property insurance	4,846	4,336
Motor third party liability	14,898	16,367
Vessel third party liability	587	493
Other liability insurance	4,920	4,230
Loan insurance	3	4
Guarantee insurance	1	2
Financial loss insurance	1,505	1,249
Insurance of legal protection costs	430	417
Travel insurance	691	508
Total non-life	**53,362**	**50,328**
Life assurance		
Life assurance	38,317	40,681
Annuity insurance	107	60
Life rider products	2,417	1,933
Marriage and birth assurance	273	208
Unit-linked	2,094	1,432
Total life insurance	**43,208**	**44,314**
Total non-life and life insurance	**96,570**	**94,642**

(all amounts are expressed in thousands of HRK)

19. INCOME TAX

	2016	2015
Current tax expense		
Current period	(12,179)	(13,023)
Deferred income tax (expense)/income		
Recognition of deferred tax assets (Note 10)	151	2,288
Decrease in deferred tax assets (Note 10)	-	(4,265)
	(12,028)	**(15,001)**

Reconciliation of accounting result for the period to income tax expense at 20%

	2016	2015
Accounting result before income tax	**37,869**	**69,746**
Income tax at 20% (*2015: 20%)*	(7,574)	(13,949)
Effect of non-deductible expenses	(7,359)	(9,193)
Effect of non-taxable income	2,905	3,876
Effect of tax losses carried forward	-	4,265
Income tax	**(12,028)**	**(15,001)**

As at 31 December 2016 and 2015 there are no tax losses carried forward.

In accordance with local regulations, the Tax Administration may at any time inspect the Company's books and records within 3 years following the year in which the tax liability was reported, and may impose additional tax liabilities and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

(all amounts are expressed in thousands of HRK)

20. RELATED PARTY TRANSACTIONS

The sole shareholder of the Company is UNIQA International AG Vienna, with holdings of 100% of shares at the end of 2016 and 2015. The ultimate parent and controlling party is UNIQA Insurance Group AG, Vienna. The Company considers that it has an immediate related party relationship with its owner, its ultimate parent company, subsidiaries, members of the UNIQA Group, Supervisory Board and Management Board members and other executive management (together "key management personnel"), close family members of key management personnel, and entities jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

Raiffeisenbank Austria d.d. Zagreb and its subsidiaries and affiliates are also considered related parties. The ultimate parent of Raiffeisenbank Austria d.d. Zagreb is Raiffeisen Zentralbank Oesterreich AG (RZB), and UNIQA International AG, Vienna is an associate of RZB.

Assets, liabilities, income and expenses as at and for the years ended 31 December 2016 and 2015 arising from related party transactions were as follows:

2016:	**Assets**	**Liabilities**	**Income**	**Expenses**
Parent company	10,480	112,602	6,886	6,924
Other related companies within UNIQA Group	224,449	83,512	88,783	79,652
Other related companies within RZB Group	19,643	2,231	105,501	18,073
Subsidiaries	-	-	-	-
Key management personnel	-	2,093	-	13,893
	254,572	**200,438**	**201,170**	**118,542**
2015:				
Parent company	11,544	110,980	11,355	17,469
Other related companies within UNIQA Group	130,556	134,658	111,521	134,566
Other related companies within RZB Group	10,633	1,970	184,074	18,681
Subsidiaries	7,815	-	3,839	1,724
Key management personnel	-	2,615	-	13,886
	160,548	**250,223**	**310,789**	**186,326**

(a) Reinsurance business

The parent company and one of the related companies provide reinsurance to the Company. The result of these transactions are receivables and liabilities at year-end as follows:

	2016	**2015**
Premiums ceded to reinsurance:		
Reinsurance premiums payable at beginning of year	146,651	153,515
Premiums ceded to reinsurance during the year	143,877	145,000
Reinsurance premiums paid during the year	(218,898)	(151,864)
Reinsurance premiums payable at end of year	**71,630**	**146,651**
Deposits retained from business ceded to reinsurance	98,095	98,100
Reinsurance recoveries:		
At beginning of year	61,090	35,634
Invoiced during the year	77,035	68,631
Received during the year	(97,133)	(43,174)
Outstanding at end of year	**40,992**	**61,090**
Reinsurance commission:		
At beginning of year	53,885	51,459
Invoiced during the year	47,618	54,069
Received during the year	(78,661)	(51,644)
Outstanding at end of year	**22,842**	**53,885**

20. RELATED PARTY TRANSACTIONS (continued)

(b) Other activities

During 2016, the gross premium written in respect of insurance policies sold through distribution channels of related parties totalled HRK 105.4 million (2015: HRK 184 million).

Related parties have property, motor, life and personal lines insurance policies with the Company. Gross premium written for the policies in 2016 amounted to HRK 1.4 million (2015: HRK 0.8 million).

As at 31 December 2016, the funds on the Company's giro account with related parties amounted to HRK 60.0 million (2015: HRK 23.7 million). In 2016 and 2015, the interest rate on the giro accounts was in the range of 0.05% - 0.5% p.a.

As at 31 December 2016, the Company invested HRK 164.04 million in open-ended investment funds managed by a related party (2015: HRK 10.6 million).

(c) Relationship with key management personnel

The gross remuneration paid or payable by the Company to the key management personnel for 2016 amounted to HRK 13,893 thousand (2015: HRK 13,886 thousand), including fixed salary and bonuses for 2016.

In 2016, the Company paid pension contributions for key management personnel in the amount of HRK 1,827 thousand (2015: HRK 2,077 thousand) into obligatory defined contribution pension funds.

In 2016, the Company paid a variable bonus for 2015 in the total amount of HRK 3,256 thousand, of which HRK 1,511 thousand for 3 members of the Management Board, HRK 32 thousand for 3 procurators and HRK 1,713 thousand for 109 employees.

Included in key management personnel are members of the Management Board and Executive Directors. At year end, members of the Supervisory and Management Boards did not hold any shares of the Company.

21. INSURANCE RISK MANAGEMENT

The Company is exposed to actuarial and underwriting risk arising from a wide range of life and non-life products offered to customers: participating and traditional life products, and main lines of non-life products (property, accident and health, motor vehicle, third party liability, marine and transport).

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

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

Non-life underwriting risk includes also catastrophe risk, which streams from irregular events that are not sufficiently covered by premium and provisions. Life underwriting risk includes biometric risk (comprising mortality, longevity, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rate of policy cancellations, terminations, changes to capitalisation status (cessation of premium payment) and surrenders.

Risk management

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance. The Company’s underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. Non-life contracts are generally annual in nature and the underwriters have the right to refuse the renewal or change the terms and conditions of the contract at renewal.

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance contract to reduce the net exposure for individual insurance contracts.

Ceded reinsurance contains credit risk and such reinsurance receivables are subject to impairment for known uncollectible items. The Company monitors the financial position of reinsurers and enters into reinsurance contracts carefully. The adequacy of liabilities is assessed taking into consideration the supporting assets (fair and carrying value, exchange rate and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of liabilities for life business.

Concentration of insurance risk

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

(all amounts are expressed in thousands of HRK)

21. INSURANCE RISK MANAGEMENT (continued)

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

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

	Gross claims incurred	**Reinsurance balance**	**Net claims incurred**
For the year 2016			
Non-life insurance			
Motor (third party liability)	(74,937)	39,101	(35,836)
Motor (other classes)	(40,593)	19,425	(21,168)
Property	(20,528)	11,924	(8,604)
Personal lines	(26,220)	761	(25,459)
Other	(11,249)	5,212	(6,037)
Total non-life insurance	**(173,527)**	**76,423**	**(97,104)**
Life assurance			
Individual premiums	(233,515)	9,117	(224,398)
Periodic premiums	(190,851)	7,451	(183,400)
Single premiums	(42,664)	1,666	(40,998)
Total life assurance	**(233,515)**	**9,117**	**(224,398)**
Total	**(407,042)**	**85,540**	**(321,502)**

	Gross claims incurred	**Reinsurance balance**	**Net claims incurred**
For the year 2015			
Non-life insurance			
Motor (third party liability)	(39,622)	18,702	(20,920)
Motor (other classes)	(27,417)	15,771	(11,646)
Property	(31,906)	3,859	(28,047)
Personal lines	(21,381)	13,507	(7,874)
Other	(67,861)	41,419	(26,442)
Total non-life insurance	**(188,187)**	**93,258**	**(94,929)**
Life assurance			
Individual premiums	(331,317)	9,695	(321,622)
Periodic premiums	(184,836)	5,409	(179,427)
Single premiums	(146,481)	4,286	(142,195)
Total life assurance	**(331,317)**	**9,695**	**(321,622)**
Total	**(519,504)**	**102,953**	**(416,551)**

(all amounts are expressed in thousands of HRK)

21. INSURANCE RISK MANAGEMENT (continued)

Non-life insurance

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

The greatest likelihood of significant losses to the Company arises from catastrophes, such as floods, storms or earthquake damages. The techniques and assumptions that the Company uses to calculate these risks include: measurement of geographical accumulations, assessment of probable maximum losses, and excess of loss reinsurance.

The table below presents reinsurance coverage and retention of the Company by type of insured event as at 31 December:

	2016 Reinsurance coverage	**2016** Retention	**2015** Reinsurance coverage	**2015** Retention
Motor – third party liability	Unlimited	1,250	Unlimited	1,250
Fire	1,000,000	1,500	600,000	1,500
Motor hull insurance	3,500	360	3,500	360
Machinery breakage	364,000	1,100	364,000	1,100
Construction /assembly	364,000	1,100	364,000	1,100
Theft	1,000,000	1,500	600,000	1,500
Vessels	22,400	1,000	22,400	1,000
Liability	146,000	900	146,000	900
Earthquake	160,000	2,000	104,000	1,250
Flood	160,000	2,000	104,000	1,250

Life assurance

For life assurance contracts that cover policyholder's death, there is no significant geographical concentration of risk, although the concentration of the amount at risk may impact the ratio of insurance payment on the portfolio level. Amounts at risk for life assurance are as follows:

	Value at risk			
	2016		**2015**	
Line of insurance	**HRK'000**	**%**	**HRK'000**	**%**
Life assurance – traditional products	3,545,571	98.79%	4,633,660	99.37%
Unit-linked life assurance products	43,592	1.21%	29,577	0.63%
As at 31 December	**3,589,163**	**100.00%**	**4,663,237**	**100.00%**

(all amounts are expressed in thousands of HRK)

21. INSURANCE RISK MANAGEMENT (continued)

Tables for long-term insurance contracts are presented below, and provide an overview of the concentration of risk through nine groups of contracts grouped by sum insured per policy.

Sum insured per policy as at 31 December 2016 **in HRK**	**Total sum insured Before reinsurance HRK'000**	**%**
< 40,000	630,924	8.2
40,001-60,000	634,732	8.3
60,001-80,000	875,162	11.4
80,001-100,000	995,210	13.0
100,001-125,000	1,397,274	18.2
125,001-150,000	486,069	6.3
150,001-250,000	1,722,276	22.5
250,001-500,000	623,474	8.1
> 500,001	295,419	3.9
As at 31 December 2016	**7,660,540**	**100.0**

Sum insured per policy as at 31 December 2015 **in HRK**	**Total sum insured Before reinsurance HRK'000**	**%**
< 40,000	671,966	8.1
40,001-60,000	705,203	8.5
60,001-80,000	947,400	11.4
80,001-100,000	1,106,451	13.3
100,001-125,000	1,590,884	19.1
125,001-150,000	522,864	6.3
150,001-250,000	1,784,703	21.4
250,001-500,000	685,151	8.2
> 500,001	308,475	3.7
As at 31 December 2015	**8,323,097**	**100.0**

22. FINANCIAL RISK MANAGEMENT

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

22.1. Market risk

Market risk includes three types of risk:

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

Market risk embodies not only the potential for loss but also the potential for gain.

Asset and liability matching

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

The Company establishes target portfolios for each significant insurance product, which represents the investment strategies which are used to finance profitably liabilities within acceptable levels of risk. These strategies include objectives for effective duration, yield curve, sensitivity, liquidity, sector-based asset concentration and credit quality. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly revaluated.

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

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Foreign exchange risk

The Company is exposed to currency risk through foreign currency transactions. This risk entails that the value of the financial instrument will change because of changes in foreign exchange rates. The Company is exposed to foreign currency risk through its lending, deposit and investment activities, as well as its premium income, the calculation of technical provisions and settled claims under insurance policies with a currency clause. The prevailing currency in which the risk arises is the euro. The Company manages its foreign exchange risk exposure by seeking to reduce the gap between the assets and liabilities denominated in foreign currencies or those under currency clause. Investments for the purpose of backing the mathematical provision are mainly EUR denominated, since most of the mathematical provision funds are also EUR denominated.

Considering historical movements of the exchange rate between HRK and EUR, the analysis was made based on the presumptions of possible movements in key variables. The effect of exchange rate risk was analysed for EUR and HRK. The Management Board assessed that an increase/decrease in the EUR exchange rate by 1% (2015: 1%), with other variables held constant, would result in higher/lower profit for the period of HRK 21,029 thousand (2015: HRK 21,475 thousand), not taking into account the effect of exchange rate movement on the mathematical provision denominated in EUR.

The Company's financial assets and liabilities within the scope of IAS 39 as at 31 December 2016 and 31 December 2015 are denominated in the following currencies:

2016	EUR	HRK	Other foreign currencies	Total
Financial assets				
Held-to-maturity investments				
Debt securities	1,177,242	83,751	-	1,260,993
Available-for-sale financial assets				
Debt securities	1,171,417	347,522	-	1,518,939
Bond funds	97,631	-	31,853	129,484
Equity funds	59,476	12,432	-	71,908
Financial assets at fair value through profit or loss				
Debt securities	-	-	-	-
Mixed funds	508	-	-	508
Bond funds	12,351	-	-	12,351
Equity funds	22,997	-	-	22,997
Loans and receivables				
Bank deposits	39,742	107,644	-	147,386
Loans	24,924	907	-	25,831
Other receivables	100,064	65,528	3	165,595
Cash and cash equivalents	36,181	32,656	7	68,844
Total financial assets	**2,742,533**	**650,440**	**31,863**	**3,424,836**
Financial liabilities				
Other liabilities	113,957	82,975	16	196,948
Total financial liabilities	**113,957**	**82,975**	**16**	**196,948**
Currency gap between financial assets and liabilities	**2,628,576**	**567,465**	**31,847**	**3,227,888**

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Foreign exchange risk (continued)

2015	EUR	HRK	Other foreign currencies	Total
Financial assets				
Held-to-maturity investments				
Debt securities	1,190,600	90,633	-	1,281,233
Available-for-sale financial assets				
Debt securities	1,379,461	327,337	-	1,706,798
Bond funds	24,508	-	-	24,508
Equity funds	11,658	10,194	-	21,852
Financial assets at fair value through profit or loss				
Debt securities	4,500	5,829	-	10,329
Mixed funds	490	-	-	490
Bond funds	11,973	-	-	11,973
Equity funds	16,673	-	-	16,673
Loans and receivables				
Bank deposits	105,507	97,932	-	203,439
Loans	23,874	1,201	-	25,075
Other receivables	24,127	198,802	6	222,935
Cash and cash equivalents	2,368	29,430	5	31,803
Total financial assets	**2,795,739**	**761,358**	**11**	**3,557,108**
Financial liabilities				
Other liabilities	111,319	156,237	33	267,589
Total financial liabilities	**111,319**	**156,237**	**33**	**267,589**
Currency gap between financial assets and liabilities	**2,684,420**	**605,121**	**(22)**	**3,289,519**

Interest rate risk

The Company's exposure to market risk for changes in interest rate is concentrated in its investment portfolio. The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. The Company is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. This risk is, however, limited considering that most of the Company's interest bearing investments at the reporting date bear fixed interest rates.

The Company does not have significant debt liabilities and interest rate changes also do not influence the level of non-life provisions. The life assurance provision is discounted using the lower of the technical interest rate or regulatory prescribed rate. The prescribed discount rate to some extent reflects expected movement in interest yields over longer periods of time. Therefore, changes in investment values attributable to interest rate changes will not be mitigated by corresponding and partially offsetting changes in the economic value of insurance provisions.

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

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

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

The Company is presently contractually committed to accrue interest at the rates of 2.75%, 3%, 3.5% and 4.5% per annum on premiums paid under life assurance policies for distribution to policyholders upon maturity of such policies and is not able currently to hedge the future interest rate on assets invested to meet those future liabilities.

The sensitivity analysis for interest risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Debt securities held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

For liabilities under long-term insurance contracts, changes in interest rates will not cause a change to the amount of the liability, unless the change is material enough to trigger a liability adequacy test adjustment.

For debt securities classified as fair value through profit or loss and available for sale, an increase in interest rates will result in a changed fair value of these assets, which will be recorded in other comprehensive income for assets classified as available-for-sale and in profit or loss for assets classified as at fair value through profit or loss.

The tables below present the Company's financial assets and liabilities within the scope of IAS 39 analysed according to the periods of changes in interest rates, which are determined based on the lower of the remaining contractual maturity and the contractual period of interest rate changes.

The tables below present the Management Board's estimate on the Company's interest rate risk exposure as at 31 December 2016 and 2015, which are not necessarily indicative of the position in another period. However, taking into account the interest rate assumptions, which are the basis for the mathematical provision calculation, these estimates show a certain sensitivity of the Company's profit to changes in interest rates. Profit will also be affected by currency structure of assets, liabilities and capital. The Company has significant interest-bearing assets and liabilities on which interest is paid in foreign currency.

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Interest rate risk (continued)

2016	**Effective interest rate**	**Up to 6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Held-to-maturity investments							
Debt securities	5.60%	38,276	13,801	940,722	268,194	-	1,260,993
Available-for-sale financial assets							
Debt securities	5.00%	93,985	109,050	554,036	761,868	-	1,518,939
Bond funds		-	-	-	-	129,484	129,484
Equity funds		-	-	-	-	71,908	71,908
Financial assets at fair value through profit or loss							
Debt securities		-	-	-	-	-	-
Mixed funds		-	-	-	-	508	508
Bond funds		-	-	-	-	12,351	12,351
Equity funds		-	-	-	-	22,997	22,997
Loans and receivables							
Bank deposits	0.78%	39,342	108,044	-	-	-	147,386
Loans	6.80%	2,396	2,811	15,641	4,983		25,831
Other receivables		-	-	-	-	165,595	165,595
Cash and cash equivalents		68,844	-	-	-	-	68,844
Total financial assets		**242,843**	**233,706**	**1,510,399**	**1,035,045**	**402,843**	**3,424,836**
Financial liabilities							
Other liabilities	3.00%	12,719	12,718	37,320	35,338	98,853	196,948
Total financial liabilities		**12,719**	**12,718**	**37,320**	**35,338**	**98,853**	**196,948**
Interest rate gap		**230,124**	**220,988**	**1,473,079**	**999,707**	**303,990**	**3,227,888**

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Interest rate risk (continued)

2015	**Effective interest rate**	**Up to 6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Held-to-maturity investments							
Debt securities	5.60%	-	-	1,009,483	271,750	-	1,281,233
Available-for-sale financial assets							
Debt securities	4.71%	47,467	160,531	722,878	775,922	-	1,706,798
Bond funds		-	-	-	-	24,508	24,508
Equity funds		-	-	-	-	21,852	21,852
Financial assets at fair value through profit or loss							
Debt securities	2.81%	-	-	10,329	-	-	10,329
Mixed funds		-	-	-	-	490	490
Bond funds		-	-	-	-	11,973	11,973
Equity funds		-	-	-	-	16,673	16,673
Loans and receivables							
Bank deposits	1.48%	150,023	53,416	-	-	-	203,439
Loans	7.49%	3,089	2,756	13,520	5,710	-	25,075
Other receivables		-	-	-	-	222,935	222,935
Cash and cash equivalents		31,803	-	-	-	-	31,803
Total financial assets		**232,382**	**216,703**	**1,756,210**	**1,053,382**	**298,431**	**3,557,108**
Financial liabilities							
Other liabilities	3.00%	6,311	6,311	46,347	39,132	169,488	267,589
Total financial liabilities		**6,311**	**6,311**	**46,347**	**39,132**	**169,488**	**267,589**
Interest rate gap		**226,071**	**210,392**	**1,709,863**	**1,014,250**	**128,943**	**3,289,519**

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Equity price risk

The Company's portfolio of trading equity securities, which is presented in the statement of financial position at fair value, exposes the Company to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company assessed that an increase/decrease in the fair value of investments in investment funds classified as available-for-sale assets by 10% (2015: 10%), in comparison to the one reported, with all other variables held constant, would result in a loss/gain recognised in other comprehensive income in the amount of HRK 20,139 thousand (2015: HRK 4,636 thousand) and in a loss/gain recognised in profit or loss in the amount of HRK 3,119 thousand (2015: HRK 2,914 thousand).

22.2. Credit risk

The Company's portfolios of fixed income securities, to a lesser extent short-term and other investments, are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in a borrower's ability to repay the debt. The Company manages this risk by up-front, stringent underwriting analysis, reviews by the Management Board and regular meetings to review credit developments.

Not taking into account the existing collection and other loan security instruments, the maximum exposure to credit risk at the date of the statement of financial position is as follows:

	2016	**2015**
Debt securities:		
- Held-to-maturity investments	1,260,993	1,281,233
- Available-for-sale financial assets	1,720,331	1,706,798
- Financial assets at fair value through profit or loss	35,856	10,329
Loans and receivables:		
Bank deposits	147,386	203,439
Loans	25,831	25,075
Reinsurers' share in insurance contract provisions	294,424	288,324
Other receivables and reinsurance receivables	165,595	222,935
Cash and cash equivalents	68,844	31,803
	3,719,260	**3,769,936**

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.2. Credit risk (continued)

Exposure to state

At the reporting date, the Company had a significant concentration of amounts due from the Republic of Croatia, whose credit rating is BB (S&P):

	2016	2015
Government bonds	2,596,958	2,763,667
Accrued interest on government bonds	52,304	54,697
Total	**2,649,262**	**2,818,364**

The total exposure to Croatian state risk represents 68% of the Company's total assets (2015: 70%).

Exposure to large corporate entities and banks

At 31 December 2016, the exposure to large domestic corporate entities comprising debt securities and accrued interest on debt securities amounted to HRK 101,350 thousand (2015: HRK 150,740 thousand). The credit rating of debt securities comprising 94% (2015: 89%) of the total exposure to corporate entities is A, A-, AA, AA-, B, BB, BBB and BBB+ (S&P), while other issuers do not have a credit rating.

As at 31 December 2016, the exposure to financial institutions comprising deposits with banks and bonds amounts to HRK 176,705 thousand (2015: HRK 231,460 thousand). The total exposure to financial institutions with an A+ rating (S&P) amounts to HRK 8,365 thousand, while other financial institutions do not have a rating.

Exposure to reinsurance companies

To mitigate the risk of reinsurance counterparties not paying amounts due, the Company established business and financial standards for reinsurer and broker approval, incorporating ratings by major rating agencies, considering current market information and historic business relationships.

The exposure to reinsurers according to S&P ratings, where available, was as follows:

S&P rating	**2016**	**2015**
A and AA	123,819	116,093
BBB	2,942	3,322
Other or without rating	2,847	3,552
	129,608	**122,967**

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.2. Credit risk (continued)

Analysis by credit quality at the date of the statement of financial position

	Debt securities	Loans	Bank deposits	Other receivables and reinsurance receivables	Reinsurers' share in insurance contract provisions	Cash and cash equivalents	Total
2016							
Neither past due nor impaired	2,779,932	24,479	147,386	165,595	294,424	68,844	3,480,660
Past due but not impaired	-	1,352	-	-	-	-	1,352
Impaired	-	18,426	-	9,789	-	-	28,215
Impairment provision	-	(18,426)	-	(9,789)	-	-	(28,215)
	2,779,932	**25,831**	**147,386**	**165,595**	**294,424**	**68,844**	**3,482,012**
2015							
Neither past due nor impaired	2,998,360	23,182	203,439	222,935	288,324	31,803	3,768,043
Past due but not impaired	-	1,893	-	-	-	-	1,893
Impaired	-	21,218	-	13,421	-	-	34,639
Impairment provision	-	(21,218)	-	(13,421)	-	-	(34,639)
	2,998,360	**25,075**	**203,439**	**222,935**	**288,324**	**31,803**	**3,769,936**

The Company has collateral instruments in place, mainly property, for loans past due but not impaired with a value determined by an independent valuator of HRK 2,952 thousand (2015: HRK 2,921 thousand).

The loan analysis is presented in Note 7. Loan exposures are covered with collateral, mortgages or the surrender value of life insurance policies. Management believes the estimated value of assets taken as collateral amounting to HRK 69,966 thousand (2015: HRK 72,334 thousand) does not differ significantly from their fair values, as valuations were performed by independent valuation specialists.

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.2. Credit risk (continued)

The ageing analysis of past due but not impaired balances is shown in the table below:

	2016	2015
Less than 30 days	306	388
31 - 180 days	479	687
181 - 365 days	107	298
Over 365 days	460	520
	1,352	**1,893**

Credit risk arising from loans relates to debtors without credit rating. Credit risk relating from other receivables (other than accrued interests, reinsurance receivables and credit card receivables) relates to domestic debtors without credit rating.

22.3. Liquidity risk

Liquidity risk arises from the Company's financial activities and management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe. The Company holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and compliance with legal requirements with respect to the value of liquidity ratios.

The Company's liquidity position is good and all statutory requirements for claims settlement were met in time.

The tables below present the Company's financial assets and liabilities within the scope of IAS 39 as at 31 December 2016 and 31 December 2015 by groups based on the remaining contractual maturity and the estimated remaining contractual maturities of insurance provisions.

The financial liabilities are recorded in the amount of contractual future undiscounted cash flows, whereas financial assets are stated at carrying amount. Equity securities and investments in funds are included in the maturity group 'Up to 6 months', based on their classification.

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.3. Liquidity risk (continued)

2016	Up to 6 months	6-12 months	1-5 years	More than 5 years	Total
Financial assets					
Held-to-maturity investments					
Debt securities	38,276	13,801	940,722	268,194	1,260,993
Available-for-sale financial assets					
Debt securities	93,985	109,050	554,036	761,868	1,518,939
Bond funds	129,484	-	-	-	129,484
Equity funds	71,908	-	-	-	71,908
Financial assets at fair value through profit or loss					
Debt securities	-	-	-	-	-
Mixed funds	508	-	-	-	508
Bond funds	12,351	-	-	-	12,351
Equity funds	22,997	-	-	-	22,997
Loans and receivables					
Bank deposits	39,342	108,044	-	-	147,386
Loans	2,396	2,811	15,641	4,983	25,831
Other receivables	164,695	98	322	480	165,595
Cash and cash equivalents	68,844	-	-	-	68,844
Total financial assets	**644,786**	**233,804**	**1,510,721**	**1,035,525**	**3,424,836**
Financial liabilities					
Other liabilities	109,036	13,096	38,429	36,387	196,948
Total financial liabilities	**109,036**	**13,096**	**38,429**	**36,387**	**196,948**
Maturity gap between financial assets and liabilities	**535,750**	**220,708**	**1,472,292**	**999,138**	**3,227,888**

Remaining expected maturities of insurance liabilities

2016	Up to 1 year	Between 1 and 5 years	Between 1 and 10 years	Between 10 and 15 years	Between 15 and 20 years	Over 20 years	Total
UPR	150,715	22,297	41,722	912	1,141	1,153	217,940
RBNS, IBNR and other provisions	106,541	139,911	84,836	49,074	27,965	20,734	429,061
Mathematical provision	593,479	878,326	413,956	194,673	159,266	63,781	2,303,481
Total technical provision	**850,735**	**1,040,534**	**540,514**	**244,659**	**188,372**	**85,668**	**2,950,482**
Reinsurers' share	102,417	89,580	57,245	23,077	14,942	7,163	294,424
Net technical provision	**748,318**	**950,954**	**483,269**	**221,582**	**173,430**	**78,505**	**2,656,058**
Deposits retained from business ceded to reinsurance	**25,274**	**37,404**	**17,629**	**8,290**	**6,782**	**2,716**	**98,095**

Deposits retained from business ceded to reinsurance are recorded within insurance contract and other payables (Note 12).

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.3. Liquidity risk (continued)

2015	**Up to 6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Total**
Financial assets					
Held-to-maturity investments					
Debt securities	-	-	1,009,483	271,750	1,281,233
Available-for-sale financial assets					
Debt securities	47,467	160,531	722,878	775,922	1,706,798
Bond funds	24,508	-	-	-	24,508
Equity funds	21,852	-	-	-	21,852
Financial assets at fair value through profit or loss					
Debt securities	-	-	10,329	-	10,329
Mixed funds	490	-	-	-	490
Bond funds	11,973	-	-	-	11,973
Equity funds	16,673	-	-	-	16,673
Loans and receivables					
Bank deposits	150,023	53,416	-	-	203,439
Loans	3,089	2,756	13,520	5,710	25,075
Other receivables	222,754	181	-	-	222,935
Cash and cash equivalents	31,803	-	-	-	31,803
Total financial assets	**530,632**	**216,884**	**1,756,210**	**1,053,382**	**3,557,108**
Financial liabilities					
Other liabilities	151,949	25,970	49,420	40,250	267,589
Total financial liabilities	**151,949**	**25,970**	**49,420**	**40,250**	**267,589**
Maturity gap between financial assets and liabilities	**378,683**	**190,914**	**1,706,790**	**1,013,132**	**3,289,519**

2015	**Up to 1 year**	**Between 1 and 5 years**	**Between 1 and 10 years**	**Between 10 and 15 years**	**Between 15 and 20 years**	**Over 20 years**	**Total**
UPR	136,638	19,373	36,265	1,297	1,089	1,925	196,587
RBNS, IBNR and other provisions	105,849	131,160	82,097	50,475	31,053	23,626	424,260
Mathematical provision	311,846	1,145,109	502,832	228,425	142,771	92,789	2,423,772
Total technical provision	**554,333**	**1,295,642**	**621,194**	**280,197**	**174,913**	**118,340**	**3,044,619**
Reinsurers' share	89,560	93,302	58,086	23,853	14,337	9,186	288,324
Net technical provision	**464,773**	**1,202,340**	**563,108**	**256,344**	**160,576**	**109,154**	**2,756,295**
Deposits retained from business ceded to reinsurance	**12,622**	**26,454**	**19,893**	**20,352**	**9,245**	**9,534**	**98,100**

22. FINANCIAL RISK MANAGEMENT (continued)

22.4. Fair values

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value. Held-to-maturity investments, loans and receivables, other receivables and all financial liabilities are measured at amortised cost less impairment.

	Carrying amount		**Fair value**	
	2016	**2015**	**2016**	**2015**
In thousands of HRK				
Held-to-maturity investments – debt securities	1,260,993	1,281,233	1,408,863	1,415,912

The Management Board believes that the carrying value of loans and receivables is not significantly different from their fair value, assuming that all payments on unimpaired exposures will be collected as contracted, and not taking into account any future losses. Loans and receivables include deposits with other banks. Cash and cash equivalents comprise cash at current accounts with banks. The fair value of these fixed-rate deposits and current accounts with banks approximates their carrying amount. The Management Board believes that the fair value of other receivables and other liabilities approximates their carrying amount due to their short-term maturity.

Fair value estimation

The Company adopted the amendment to IFRS 13 for financial instruments that are measured in the statement of financial position at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.4. Fair values (continued)

The following table presents the Company's assets and liabilities that are measured at fair value as at 31 December 2016 and 2015:

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
- Debt securities	-	-	-	**-**
- Bond funds	12,352	-	-	**12,352**
- Mixed funds	508	-	-	**508**
- Equity funds	22,996	-	-	**22,996**
Available-for-sale financial assets				
- Debt securities	1,497,984	20,955	-	**1,518,939**
- Bond funds	129,484	-	-	**129,484**
- Equity funds	71,908	-	-	**71,908**
Investment property	-	-	58,952	**58,952**
Total assets	**1,735,232**	**20,955**	**58,952**	**1,815,139**

At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
- Debt securities	10,329	-	-	**10,329**
- Bond funds	11,973	-	-	**11,973**
- Mixed funds	490	-	-	**490**
- Equity funds	16,673	-	-	**16,673**
Available-for-sale financial assets				
- Debt securities	1,562,375	144,423	-	**1,706,798**
- Bond funds	24,508	-	-	**24,508**
- Equity funds	21,852	-	-	**21,852**
Investment property	-	-	61,627	**61,627**
Total assets	**1,648,200**	**144,423**	**61,627**	**1,854,250**

The Company has financial assets classified in level 3 referring to investment property.

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily government bonds classified as financial assets at fair value through profit or loss or available-for-sale securities.

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.4. Fair values (continued)

Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market (for example, short-term commercial papers) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property comprises land and buildings and is carried at fair value. Fair value estimates are based on valuations performed periodically by independent valuation experts, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of property at similar locations and of a similar category. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Accordingly, the assets are included in fair value level 3.

In 2016, level 2 assets amounted to HRK 20,955 thousand (2015: HRK 144,423 thousand) and relate to a corporate bond. The corporate bond was not actively traded within 15 days, so it is measured at amortised cost using the effective interest method, where the starting value was the last bid price, i.e. the fair value of this security determined in the active market.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. An independent valuation of the Company’s investment property was conducted by external valuers in order to determine the fair value as at 31 December 2016 and 31 December 2015. The fair value of investment property was derived using the income and sales comparison approaches, as appropriate depending on the particular asset.

The most significant inputs in this valuation approach were rental income and price per square meter generated based on comparable properties in close proximity, which were then adjusted by differences in key attributes.

Information about fair value measurements of investment property using significant unobservable inputs:

Fair value		Valuation technique	Unobservable inputs	Range of unobservable inputs in 2016	Range of unobservable inputs in 2015
2016	2015				
58,951	61,627	Income approach	Discount rate	7.0 - 8.25%	5.91 - 6.61%
			Average rent price per m^2	4.09 - 12.54 EUR/m^2	9 - 15 EUR/m^2
		Comparison approach	Average sales price per m^2	431.1 - 1,091 EUR/m^2	1,200 - 1,900 EUR/m^2

A significant increase/(decrease) in the average price per m^2, with other variables held constant, would have an impact on a significant increase/(decrease) in the fair value of investment property. A significant increase/(decrease) in the discount rate, with other variables held constant, would have an impact on a significant decrease/(increase) in the fair value of investment property.

(all amounts are expressed in thousands of HRK)

23. MERGER

Based on the merger agreement, the General Assemblies' decisions and the Decision of the Commercial Court of 4 January 2016, the companies Sedmi element d.o.o. and Deveti element d.o.o. Zagreb merged with the company UNIQA osiguranje d.d., Zagreb including all of their assets, rights and liabilities.

The effect of the merger is as follows:

	As at 4 January 2016
Investment property	8,978
Investments in subsidiaries	(1,183)
Insurance contract and other receivables	25
Cash and cash equivalents	19
Insurance contract and other payables	(13,007)
Effect on capital and reserves	**(5,168)**

The effect of the merger in the amount of HRK 5,168 thousand was recognised in capital and reserves.

The Company's financial statements to the Croatian Financial Services Supervisory Agency (HANFA)

The legally prescribed basic financial statements of the company UNIQA osiguranje d.d. prepared in accordance with the Ordinance on the Form and Content of Financial Statements and Additional Reports of Insurance and Reinsurance Companies (OG 37/16) are presented below. The amounts are rounded and expressed in thousands of HRK, unless otherwise stated.

1. Statement of comprehensive income
    1.1. Reconciliation of the statement of comprehensive income prepared in accordance with the HANFA format and format of these financial statements
2. Statement of financial position in the HANFA format
    2.1. Reconciliation of the statement of financial position prepared in accordance with the HANFA format and format of these financial statements
3. Statement of cash flows in the HANFA format
4. Statement of changes in equity in the HANFA format
5. Notes to the financial statements – see notes 1 to 23 to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the period: 01.01.2016.-31.12.2016.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003+004+005+006	**I**	**Earned premiums (recognised in revenue)**	**340.499.610**	**165.845.162**	**506.344.771**	**224.548.592**	**183.452.116**	**408.000.708**
002		1	Gross written premiums	350.065.377	320.286.374	**670.351.751**	232.301.564	342.112.940	**574.414.505**
003		2	Impairment and collected premium impairment		-3.531.291	**-3.531.291**		576.991	**576.991**
004		3	Premiums ceded to reinsurance (-)	-9.613.400	-137.112.336	**-146.725.737**	-8.672.899	-136.569.748	**-145.242.646**
005		4	Change in gross provisions for unearned premiums (+/-)	64.944	-10.259.771	**-10.194.827**	936.297	-22.289.267	**-21.352.970**
006		5	Change in provision for unearned premiums, reinsurer's share (+/-)	-17.312	-3.537.813	**-3.555.125**	-16.371	-378.800	**-395.171**
007	008+009+010+011+012+013+014	**II**	**Investment income**	**140.048.169**	**31.848.060**	**171.896.229**	**130.939.021**	**30.333.286**	**161.272.306**
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investments in land and buildings	6.931.328	1.240.376	8.171.703	3.570.809	482.287	4.053.095
010		3	Interest income	126.545.340	26.102.952	152.648.293	117.113.184	23.356.711	140.469.895
011		4	Unrealised gain on investments	2.332.869		2.332.869	1.551.880		1.551.880
012		5	Realised gain on investments	164.125	1.778.490	1.942.615	8.396.690	717.375	9.114.065
013		6	Net foreign exchange gains	2.871.743	106.282	2.978.025			
014		7	Other investment income	1.202.765	2.619.959	3.822.724	306.458	5.776.912	6.083.371
015		**III**	**Commission and fee income**	**769.324**	**44.783.401**	**45.552.725**	**504.409**	**43.959.531**	**44.463.940**
016		**IV**	**Other insurance-technical income, net of reinsurance**	**761.199**	**3.863.719**	**4.624.918**	**1.362.202**	**4.352.008**	**5.714.209**
017		**V**	**Other income**	**9.956.196**	**11.916.096**	**21.872.292**	**1.443.854**	**2.590.207**	**4.034.061**
018	019+022	**VI**	**Net claims incurred**	**-241.990.625**	**-93.626.724**	**-335.617.348**	**-339.270.590**	**-95.320.423**	**-434.591.013**
019	020+021	1	Settled claims	-246.871.855	-103.806.151	-350.678.006	-342.190.062	-101.297.327	-443.487.389
020		*1.1*	*Gross amount (-)*	-252.852.445	-166.761.327	-419.613.773	-351.452.736	-171.079.021	-522.531.757
021		*1.2*	*Reinsurer's share (+)*	5.980.590	62.955.176	68.935.767	9.262.674	69.781.694	79.044.369
022	023+024	2	Change in claims provisions (+/-)	4.881.230	10.179.427	15.060.658	2.919.472	5.976.903	8.896.375
023		*2.1*	*Gross amount (-)*	5.491.046	-20.124.593	-14.633.548	3.076.775	-664.133	2.412.641
024		*2.2*	*Reinsurer's share (+)*	-609.815	30.304.021	29.694.205	-157.303	6.641.037	6.483.734
025	026+029	**VII**	**Change in mathematical provision and other technical provisions, net of reinsurance**	**-73.690.121**		**-73.690.121**	**120.303.138**		**120.303.138**
026	027+028	1	Change in mathematical provision (+/-)	-73.690.121		-73.690.121	120.303.138		120.303.138
027		*1.1*	*Gross amount (-)*	-78.014.067		-78.014.067	120.291.434		120.291.434
028		*1.2*	*Reinsurer's share (+)*	4.323.946		4.323.946	11.705		11.705
029	030+031	2	Change in other technical provisions, net of reinsurance (+/-)						
030		*2.1*	*Gross amount (-)*						
031		*2.2*	*Reinsurer's share (+)*						
032	033+034	**VIII**	**Special provisions for unit-linked life insurance group, net of reinsurance (+/-)**	**-5.941.205**		**-5.941.205**	**-5.430.662**		**-5.430.662**
033		1	*Gross amount (-)*	-5.941.205		-5.941.205	-5.430.662		-5.430.662
034		2	*Reinsurer's share (+)*						
035	036+037	**IX**	**Expenditures for return of premium (bonuses and rebates), net of reinsurance**		**-1.302.492**	**-1.302.492**		**-1.783.797**	**-1.783.797**
036		1	Depending on the result (bonuses)		-1.302.492	-1.302.492		-1.783.797	-1.783.797
037		2	Not depending on the result (rebates)						
038	039+043	**X**	**Operating expenditures (for business operations), net**	**-82.506.297**	**-134.577.423**	**-217.083.721**	**-74.051.308**	**-137.461.252**	**-211.512.560**
039	040+041+042	1	Acquisition costs	-38.002.486	-84.063.301	-122.065.787	-30.960.652	-84.168.136	-115.128.788
040		*1.1*	*Commission*	-21.629.777	-52.603.004	-74.232.780	-16.326.027	-56.836.395	-73.162.422
041		*1.2*	*Other acquisition costs*	-16.372.709	-36.386.398	-52.759.107	-14.634.625	-33.400.610	-48.035.235
042		*1.3*	*Change in deferred acquisition costs (+/-)*		4.926.101	4.926.101		6.068.868	6.068.868
043	044+045+046	2	Administration costs	-44.503.811	-50.514.123	-95.017.934	-43.090.656	-53.293.116	-96.383.772
044		*2.1*	*Depreciation and amortisation*	-3.851.591	-4.428.131	-8.279.721	-3.743.770	-6.035.666	-9.779.435
045		*2.2*	*Salaries, taxes and contributions from and on salaries*	-16.211.221	-18.091.179	-34.302.400	-18.304.950	-15.769.532	-34.074.481
046		*2.3*	*Other administration costs*	-24.441.000	-27.994.813	-52.435.813	-21.041.936	-31.487.918	-52.529.855

STATEMENT OF COMPREHENSIVE INCOME

for the period: 01.01.2016.-31.12.2016.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
047	048+049+050+051+052+053+054	**XI**	**Investment costs**	**-18.320.908**	**-5.869.019**	**-24.189.926**	**-36.534.606**	**-3.625.711**	**-40.160.317**
048		1	Depreciation of land and buildings not intended for business operations of the company						
049		2	Interest						
050		3	Impairment of investments	-1.537.150	-3.481.093	-5.018.244	-4.013.981	-847.922	-4.861.904
051		4	Realised losses on investments	-73.245	-62.266	-135.511	-591.586	-183.159	-774.746
052		5	Unrealised losses on investments	-148.188	-80.000	-228.188			
053		6	Net foreign exchange losses	-11.371.383	-942.412	-12.313.794	-26.517.543	-1.343.785	-27.861.328
054		7	Other investment costs	-5.190.942	-1.303.248	-6.494.190	-5.411.495	-1.250.844	-6.662.339
055	056+057	**XII**	**Other technical expenses, net of reinsurance**	**-2.954.114**	**-4.437.393**	**-7.391.506**	**-3.046.677**	**-2.807.830**	**-5.854.507**
056		1	Expenses for preventive operations		-559.540	-559.540		-512.934	-512.934
057		2	Other technical insurance expenses	-2.954.114	-3.877.853	-6.831.967	-3.046.677	-2.294.896	-5.341.573
058		**XIII**	**Other expenses including value adjustments**	**-8.333.908**	**-6.994.785**	**-15.328.694**	**-3.727.205**	**-2.859.004**	**-6.586.210**
059	001+007+015+016+017+018+025+032+035+038+047+055+058	**XIV**	**Profit or loss for the accounting period before tax**	**58.297.320**	**11.448.602**	**69.745.922**	**17.040.168**	**20.829.129**	**37.869.297**
060	061+062	**XV**	**Income tax or loss**	**-11.792.241**	**-3.208.403**	**-15.000.644**	**-8.133.813**	**-3.894.500**	**-12.028.313**
061		1	Current tax expense	-11.757.421	-1.265.543	-13.022.964	-8.404.863	-3.774.235	-12.179.098
062		2	Deferred tax expense (income)	-34.819	-1.942.861	-1.977.680	271.050	-120.265	150.785
063	059+060	**XVI**	**Profit or loss for the accounting period before tax (+/-)**	**46.505.080**	**8.240.199**	**54.745.278**	**8.906.354**	**16.934.630**	**25.840.984**
064		1	Attributable to equity holders of the parent						
065		2	Attributable to non-controlling interest						
066	001+007+015+016+017+062	**XVII**	**TOTAL INCOME**	491.999.679	256.313.576	748.313.255	359.069.127	264.566.882	623.636.010
067	018+025+032+035+038+047+055+058+061	**XVIII**	**TOTAL COSTS**	-445.494.599	-248.073.378	-693.567.977	-350.162.773	-247.632.253	-597.795.026
068	069+070+071+072+073+074+075+076	**XIX**	**Other comprehensive income**	**3.398.935**	**-1.726.632**	**1.672.303**	**30.246.919**	**1.169.363**	**31.416.282**
069		1	Profits/losses on translation of financial statements on foreign operating activities						
070		2	Profits/losses on revaluation of financial assets available for sale	4.527.203	-2.158.290	**2.368.912**	33.605.834	884.326	**34.490.160**
071		3	Profits/losses on revaluation of land and buildings intended for business activities of the company						
072		4	Profits/losses on revaluation of other tangible and (except for land and property) intangible assets						
073		5	Effects from cash flow hedging instruments						
074		6	Actuarial profits/losses on defined benefit pension plans						
075		7	Share in other comprehensive income of associates						
076		8	Profit tax on other comprehensive income	-1.128.267	431.658	**-696.609**	-3.358.916	285.037	**-3.073.879**
077	078+079	**XX**	**Total comprehensive income**	**49.904.015**	**6.513.566**	**56.417.582**	**39.153.273**	**18.103.993**	**57.257.266**
078		1	Attributable to equity holders of the parent						
079		2	Attributable to non-controlling interest						
080		**XXI**	**Reclassification adjustments**						

1.1. Reconciliation of the statement of comprehensive income prepared in accordance with the HANFA the format and the format of these financial statements

Report for the Croatian Financial Services Supervisory Agency		1	2	3	4	5	6	Basic financial statements	
Position description	HRK'000							HRK'000	
Earned premiums (recognised in revenue)	408.001							408.001	Net earned premiums
Gross written premiums	574.415								
Impairment and collected premium impairment	577								
Premiums ceded to reinsurance (-)	-145.243								
Change in gross provisions for unearned premiums (+/-)	-21.353								
Change in provision for unearned premiums, reinsurer's share (+/-)	-395								
Investment income	161.272	(40.160)						121.112	Net investment income
Income from subsidiaries, associates and joint ventures	0								
Income from investments in land and buildings	4.053								
Interest income	140.470								
Unrealised gain on investments	1.552								
Realised gain on investments	9.114								
Net foreign exchange gains	0								
Other investment income	6.083								
Commission and fee income	44.464							44.464	Commission and fee income
Other insurance-technical income, net of reinsurance	5.714			(5.714)					
Other income	4.034			4.722	(1.906)	(45)		6.804	Other operating income
Net claims incurred	-434.591		113.089					(321.502)	Claims incurred
Settled claims	-443.487								
Gross amount (-)	-522.532								
Reinsurer's share (+)	79.044								
Change in claims provisions (+/-)	8.896								
Gross amount (-)	2.413								
Reinsurer's share (+)	6.484								
Change in mathematical provision and other technical provisions, net of reinsurance	120.303		(120.303)						
Change in mathematical provision (+/-)	120.303								
Gross amount (-)	120.291								
Reinsurer's share (+)	12								
Change in other technical provisions, net of reinsurance (+/-)	0								
Gross amount (-)	0								
Reinsurer's share (+)	0								
Special provisions for unit-linked life insurance group, net of reinsurance (+/-)	-5.431		5.431						
Gross amount (-)	-5.431								
Reinsurer's share (+)	0								
Expenditures for return of premium (bonuses and rebates), net of reinsurance	-1.784		1.784						
Depending on the result (bonuses)	-1.784								
Not depending on the result (rebates)	0								
Operating expenditures (for business operations), net	-211.513					45	(231)	(211.699)	Acquisition and administration costs
Acquisition costs	-115.129								
Commission	-73.162								
Other acquisition costs	-48.035								
Change in deferred acquisition costs (+/-)	6.069								
Administration costs	-96.384								
Depreciation and amortisation	-9.779								
Salaries, taxes and contributions from and on salaries	-34.074								
Other administration costs	-52.530								
Investment costs	-40.160	40.160							
Depreciation of land and buildings not intended for business operations of the company	0								
Interest	0								
Impairment of investments	-4.862								
Realised losses on investments	-775								
Unrealised losses on investments	0								
Net foreign exchange losses	-27.861								
Other investment costs	-6.662								
Other technical expenses, net of reinsurance	-5.855						5.855		
Expenses for preventive operations	-513								
Other technical insurance expenses	-5.342								
Other expenses, including value adjustments	-6.586			993	1.906		(5.624)	(9.310)	Other operating expenses
Profit or loss for the accounting period before tax	37.869								
Income tax or loss	-12.028							(12.028)	Income tax
Current tax expense	-12.179								
Deferred tax expense (income)	151								
Profit or loss for the accounting period before tax (+/-)	25.841	-	(0)	-	-	-	0	25.841	

1.1. Reconciliation of the statement of comprehensive income prepared in accordance with the HANFA format and the format of these financial statements (continued)

1. Investment income and costs are presented on a net basis.
2. The change in mathematical provision and other technical provisions is recorded within claims incurred.
3. Reclassification of other insurance and technical income to other operating income and other operating expenses.
4. Provisions for vacation days, interest and foreign exchange differences are recorded on a net basis.
5. Income and expenses from the sale of equipment are recorded on a net basis.
6. Other technical costs, net of reinsurance, are included in other operating expenses and administrative costs.

Financial statements in the format prescribed by the Croatian Financial Service Supervisory Agency
For the year ended 31 December 2016

STATEMENT OF FINANCIAL POSITION

as at: 31.12.2016.

in HRK

Position number	Sum elements	Position code	Position description	Previous year Life	Previous year Non-life	Previous year Total	Current year Life	Current year Non-life	Current year Total
001	002+003	**I**	**INTANGIBLE ASSETS**	**3.377.015**	**4.833.233**	**8.210.248**	**3.084.350**	**3.084.350**	**6.168.700**
002		1	Goodwill						
003		2	Other intangible assets	3.377.015	4.833.233	**8.210.248**	3.084.350	3.084.350	**6.168.700**
004	005+006+007	**II**	**TANGIBLE ASSETS**	**12.176.568**	**31.238.127**	**43.414.695**	**10.582.501**	**27.352.162**	**37.934.663**
005		1	Land and buildings intended for company business operations	6.543.953	25.667.229	**32.211.183**	6.096.608	22.927.988	**29.024.595**
006		2	Equipment	3.875.553	3.875.553	**7.751.106**	2.889.658	2.889.658	**5.779.315**
007		3	Other tangible assets and inventories	1.757.061	1.695.345	**3.452.407**	1.596.236	1.534.517	**3.130.753**
008	009+010+014+033	**III**	**INVESTMENTS**	**2.847.098.184**	**501.708.558**	**3.348.806.743**	**2.744.773.541**	**482.935.391**	**3.227.708.931**
009		**A**	**Investments in land and buildings not intended for company business operations**	**54.035.848**	**7.590.749**	**61.626.597**	**47.613.865**	**11.337.669**	**58.951.534**
010	011+012+013	**B**	**Investments in subsidiaries, associates and joint ventures**		**1.167.085**	**1.167.085**		**4.000**	**4.000**
011		1	Shares and stakes in subsidiaries		1.163.085	**1.163.085**			
012		2	Shares and stakes in associates						
013		3	Shares and stakes in joint ventures		4.000	**4.000**		4.000	**4.000**
014	015+018+023+029	**C**	**Financial assets**	**2.793.062.337**	**492.950.724**	**3.286.013.061**	**2.697.159.676**	**471.593.722**	**3.168.753.397**
015	016+017	**1**	**Held-to-maturity financial assets**	**1.148.102.966**	**133.130.498**	**1.281.233.464**	**1.131.554.821**	**129.437.968**	**1.260.992.789**
016		*1.1*	Debt financial instruments	1.148.102.966	133.130.498	**1.281.233.464**	1.131.554.821	129.437.968	**1.260.992.789**
017		*1.2*	*Other*						
018	019+020+021+022	**2**	**Available-for-sale financial assets**	**1.431.316.706**	**321.841.068**	**1.753.157.773**	**1.401.749.901**	**318.580.949**	**1.720.330.850**
019		*2.1*	Equity financial instruments						
020		*2.2*	Debt financial instruments	1.387.253.783	319.544.351	**1.706.798.134**	1.215.309.126	303.630.026	**1.518.939.152**
021		*2.3*	Shares in investment funds	44.062.923	2.296.717	**46.359.640**	186.440.775	14.950.923	**201.391.698**
022		*2.4*	Other						
023	024+025+026+027+028	**3**	**Financial assets at fair value through profit or loss**	**17.279.605**	**5.828.482**	**23.108.087**	**14.212.665**		**14.212.665**
024		*3.1*	Equity financial instruments						
025		*3.2*	Debt financial instruments	4.500.451	5.828.482	**10.328.933**			
026		*3.3*	Derivative financial instruments						
027		*3.4*	Shares in investment funds	12.779.154		**12.779.154**	14.212.665		**14.212.665**
028		*3.5*	Other						
029	030+031+032	**4**	**Loans and receivables**	**196.363.061**	**32.150.676**	**228.513.737**	**149.642.289**	**23.574.805**	**173.217.094**
030		*4.1*	*Deposits with credit institutions*	175.424.207	28.014.602	**203.438.809**	127.343.825	20.041.967	**147.385.792**
031		*4.2*	*Loans*	19.759.214	3.823.876	**23.583.090**	20.677.188	3.220.639	**23.897.827**
032		*4.3*	*Other*	1.179.639	312.199	**1.491.838**	1.621.276	312.199	**1.933.475**
033		**D**	**Deposits with cedent**						
034		**IV**	**INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE INSURANCE POLICYHOLDERS**	**16.356.654**		**16.356.654**	**21.643.896**		**21.643.896**
035	036+037+038+039+040+041+042	**V**	**REINSURER'S SHARE IN TECHNICAL PROVISIONS**	**98.844.498**	**189.479.487**	**288.323.985**	**98.682.529**	**195.741.723**	**294.424.253**
036		1	Provision for unearned premiums, reinsurers' share	236.134	64.865.176	**65.101.310**	219.763	64.486.376	**64.706.139**
037		2	Mathematical provisions, reinsurers' share	97.863.685		**97.863.685**	97.875.389		**97.875.389**
038		3	Claims provisions, reinsurer's share	744.680	122.966.974	**123.711.653**	587.377	129.608.011	**130.195.387**
039		4	Provisions for bonuses and discounts, reinsurer's share		1.647.337	**1.647.337**		1.647.337	**1.647.337**
040		5	Equalisation provisions, reinsurer's share						
041		6	Other technical provisions, reinsurer's share						
042		7	Special provision for unit-linked life insurance group, reinsurer's share						
043	044+045	**VI**	**DEFERRED AND CURRENT TAX ASSETS**	**1.358.212**	**942.951**	**2.301.163**	**1.629.261**	**822.686**	**2.451.948**
044		1	Deferred tax assets	1.358.212	942.951	**2.301.163**	1.629.261	822.686	**2.451.948**
045		2	Current tax assets						
046	047+050+051	**VII**	**RECEIVABLES**	**24.951.695**	**205.947.399**	**230.899.094**	**11.440.269**	**155.029.290**	**166.469.558**
047	048+049	**1**	**Insurance receivables**	**11.364**	**62.716.773**	**62.728.136**	**77**	**72.986.345**	**72.986.422**
048		*1.1*	*From policyholders*		62.221.257	**62.221.257**		72.676.331	**72.676.331**
049		*1.2*	*From insurance agents, or insurance brokers*	11.364	495.516	**506.880**	77	310.014	**310.091**
050		**2**	**Reinsurance receivables**	**11.154.731**	**104.723.693**	**115.878.424**	**10.431.632**	**54.478.744**	**64.910.376**
051	052+053+054	**3**	**Other receivables**	**13.785.600**	**38.506.933**	**52.292.533**	**1.008.559**	**27.564.201**	**28.572.760**
052		*3.1*	*Receivables from other insurance business*	1.527.712	20.393.013	**21.920.725**	687.969	17.379.823	**18.067.792**
053		*3.2*	*Receivables for income from investments*	48.754	10.351	**59.105**	17.888	9.620	**27.509**
054		*3.3*	*Other receivables*	12.209.134	18.103.569	**30.312.703**	302.702	10.174.758	**10.477.460**
055	056-060+061	**VIII**	**OTHER ASSETS**	**16.986.729**	**14.816.367**	**31.803.096**	**47.637.083**	**21.206.819**	**68.843.902**
056	057+058+059	**1**	**Cash at bank and on hand**	**16.986.729**	**14.809.031**	**31.795.760**	**47.637.083**	**21.206.819**	**68.843.902**
057		*1.1*	*Funds in the business account*	12.067.852	14.799.453	**26.867.305**	23.850.555	21.120.328	**44.970.883**
058		*1.2*	*Funds in the account of assets backing mathematical provision*	4.916.376		**4.916.376**	23.783.677		**23.783.677**
059		*1.3*	*Cash on hand*	2.501	9.578	**12.079**	2.851	86.491	**89.342**
060		**2**	**Non-current assets held for sale and discontinued operation**						
061		**3**	**Other**		7.336	**7.336**			
062	063+064+065	**IX**	**PREPAID EXPENSES AND ACCRUED INCOME**	**4.021.625**	**54.318.173**	**58.339.798**	**2.676.122**	**58.449.658**	**61.125.780**
063		1	Deferred interest and rent	12.230	8.242	**20.473**	36.947	36.947	**73.894**
064		2	Deferred acquisition costs		38.621.241	**38.621.241**		44.690.110	**44.690.110**
065		3	Other prepaid expenses and accrued income	4.009.395	15.688.690	**19.698.084**	2.639.176	13.722.602	**16.361.777**
066	001+004+008+034+035+043+046+055+062	**X**	**TOTAL ASSETS**	**3.025.171.179**	**1.003.284.296**	**4.028.455.475**	**2.942.149.553**	**944.622.079**	**3.886.771.632**
067		**XI**	**OFF-BALANCE-SHEET ITEMS**						

Position number	Sum elements	Position code	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
068	069+072+073+077+081+084	XII	CAPITAL AND RESERVES	367.063.014	155.813.946	522.876.961	406.216.287	168.749.483	574.965.770
069	070+071	**1**	**Registered capital**	**28.875.000**	**33.825.000**	**62.700.000**	**28.875.000**	**33.825.000**	**62.700.000**
070		*1.1*	*Paid-up capital - ordinary shares*	28.875.000	33.825.000	**62.700.000**	28.875.000	33.825.000	**62.700.000**
071		*1.2*	*Paid-up capital - preference shares*						
072		**2**	**Issued shares premiums (capital reserves)**						
073	074+075+076	**3**	**Revaluation reserves**	**107.605.376**	**17.768.633**	**125.374.009**	**137.852.295**	**18.937.996**	**156.790.291**
074		*3.1*	*Land and buildings*	2.068.544		**2.068.544**	2.120.258		**2.120.258**
075		*3.2*	*Financial assets available-for-sale*	105.536.832	17.768.633	**123.305.465**	135.732.037	18.937.996	**154.670.033**
076		*3.3*	*Other revaluation reserves*						
077	078+079+080	**4**	**Reserves**	**153.650.277**	**84.234.746**	**237.885.023**	**153.650.277**	**79.066.290**	**232.716.567**
078		*4.1*	*Legal reserves*	1.134.375	1.134.375	**2.268.750**	1.134.375	1.134.375	**2.268.750**
079		*4.2*	*Statutory reserves*						
080		*4.3.*	*Other reserves*	152.515.902	83.100.371	**235.616.273**	152.515.902	77.931.915	**230.447.817**
081	082+083	**5**	**Retained earnings or accumulated loss**	**30.427.281**	**11.745.369**	**42.172.650**	**76.932.361**	**19.985.567**	**96.917.928**
082		*5.1*	*Retained earnings*	30.427.281	11.745.369	**42.172.650**	76.932.361	19.985.567	**96.917.928**
083		*5.2*	*Accumulated loss (-)*						
084	085+086	**6**	**Profit or loss for the current accounting period**	**46.505.080**	**8.240.199**	**54.745.278**	**8.906.354**	**16.934.630**	**25.840.984**
085		*6.1*	*Profit for the current accounting period*	46.505.080	8.240.199	**54.745.278**	8.906.354	16.934.630	**25.840.984**
086		*6.2*	*Loss for the current accounting period (-)*						
087		**XIII**	**SUBORDINATED LIABILITIES**						
088		**XIV**	**NON-CONTROLLING INTEREST**						
089	090+091+092+093+094+095	**XV**	**TECHNICAL PROVISIONS**	**2.450.729.501**	**577.491.541**	**3.028.221.041**	**2.326.424.995**	**602.228.738**	**2.928.653.733**
090		1	Provisions for unearned premiums, gross amount	5.972.314	190.615.113	**196.587.427**	5.036.017	212.904.380	**217.940.396**
091		2	Mathematical provisions, gross amount	2.423.772.168		**2.423.772.168**	2.303.480.734		**2.303.480.734**
092		3	Claims provisions, gross amount	20.985.019	382.227.742	**403.212.761**	17.908.244	382.891.875	**400.800.119**
093		4	Provisions for bonuses and discounts, gross amount		4.648.686	**4.648.686**		6.432.483	**6.432.483**
094		5	Equalisation provisions, gross amount						
095		6	Other technical provisions, gross amount						
096		**XVI**	**SPECIAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE GROUP, gross amount**	**16.397.899**		**16.397.899**	**21.828.561**		**21.828.561**
097	098+099	**XVII**	**OTHER PROVISIONS**	**24.004.173**	**19.007.640**	**43.011.813**	**25.201.681**	**17.832.662**	**43.034.343**
098		1	Provisions for pensions and similar liabilities						
099		2	Other provisions	24.004.173	19.007.640	**43.011.813**	25.201.681	17.832.662	**43.034.343**
100	101+102	**XVIII**	**DEFERRED AND CURRENT TAX LIABILITY**	**38.285.002**	**5.553.709**	**43.838.712**	**30.821.113**	**7.076.984**	**37.898.097**
101		1	Deferred tax liability	26.901.344	4.442.158	**31.343.502**	30.260.260	4.157.121	**34.417.381**
102		2	Current tax liability	11.383.658	1.111.551	**12.495.209**	560.853	2.919.863	**3.480.716**
103		**XIX**	**DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE**	**98.099.819**		**98.099.819**	**98.095.152**		**98.095.152**
104	105+106+107	**XX**	**FINANCIAL LIABILITIES**						
105		1	Loan payables						
106		2	Issued financial instruments payable						
107		3	Other financial liabilities						
108	109+110+111+112	**XXI**	**OTHER LIABILITIES**	**23.317.777**	**160.418.742**	**183.736.519**	**27.824.988**	**78.553.459**	**106.378.447**
109		1	Liabilities from direct insurance business	3.257.931	6.984.364	**10.242.295**	1.481.678	8.348.036	**9.829.715**
110		2	Liabilities from co-insurance and reinsurance business	11.518.622	136.742.913	**148.261.535**	10.840.245	62.632.910	**73.473.155**
111		3	Liabilities for sale and discontinued operation						
112		4	Other liabilities	8.541.224	16.691.464	**25.232.688**	15.503.065	7.572.513	**23.075.578**
113	114+115	**XXII**	**ACCRUED EXPENSES AND DEFERRED INCOME**	**7.273.995**	**84.998.718**	**92.272.712**	**5.736.775**	**70.180.753**	**75.917.528**
114		1	Deferred reinsurance commission		22.511.942	**22.511.942**		21.792.361	**21.792.361**
115		2	Other accrued expenses and deferred income	7.273.995	62.486.776	**69.760.770**	5.736.775	48.388.393	**54.125.168**
116	068+087+088+089+096+097+100+103+104+108+113	**XXIII**	**TOTAL EQUITY AND LIABILITIES**	**3.025.171.179**	**1.003.284.296**	**4.028.455.475**	**2.942.149.553**	**944.622.079**	**3.886.771.632**
117		**XXIV**	**OFF-BALANCE-SHEET ITEMS**						

2.1. Reconciliation of the statement of financial position prepared in accordance with the HANFA format and the format of these financial statements

Report for the Croatian Financial Services Supervisory Agency		1	2	3	4	Basic financial statements	
Position description	HRK'000					HRK'000	
INTANGIBLE ASSETS	6.169					6.169	Other intangible assets
Goodwill	0						
Other intangible assets	6.169						
TANGIBLE ASSETS	37.935					37.934	Property and equipment
Land and buildings intended for company business operations	29.025						
Equipment	5.779						
Other tangible assets and inventories	3.131						
INVESTMENTS	3.227.709						
Investments in land and buildings not intended for company business operations	58.952					58.952	Investment property
Investments in subsidiaries, associates and joint ventures	4	(4)				0	Investments in subsidiaries
Shares and stakes in subsidiaries	0						
Shares and stakes in associates	0						
Shares and stakes in joint ventures	4						
Financial assets	3.168.753						
Held-to-maturity financial assets	1.260.993					1.260.993	Held-to-maturity investments
Debt financial instruments	1.260.993						
Other	0						
Available-for-sale financial assets	1.720.331					1.720.331	Available-for-sale financial assets
Equity financial instruments	0						
Debt financial instruments	1.518.939						
Shares in investment funds	201.392						
Other	0						
Financial assets at fair value through profit or loss	14.213		21.644			35.856	Financial assets at fair value through profit or loss
Equity financial instruments	0						
Debt financial instruments	0						
Derivative financial instruments	0						
Shares in investment funds	14.213						
Other	0						
Loans and receivables	173.217					173.217	Loans and receivables
Deposits with credit institutions	147.386						
Loans	23.898						
Other	1.933						
Deposits with cedent	0						
INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE INSURANCE POLICYHOLDERS	21.644		(21.644)				
REINSURER'S SHARE IN TECHNICAL PROVISIONS	294.424					294.424	Reinsurers' share in insurance contract provisions
Provision for unearned premiums, reinsurers' share	64.706						
Mathematical provisions, reinsurers' share	97.875						
Claims provisions, reinsurer's share	130.195						
Provisions for bonuses and discounts, reinsurer's share	1.647						
Equalisation provisions, reinsurer's share	0						
Other technical provisions, reinsurer's share	0						
Special provision for unit-linked life insurance group, reinsurer's share	0						
DEFERRED AND CURRENT TAX ASSETS	2.452				(2.452)		
Deferred tax assets	2.452						
Current tax assets	0						
RECEIVABLES	166.470	4		16.436	(7.525)	175.384	Insurance contract and other receivables
Insurance receivables	72.986						
From policyholders	72.676						
From insurance agents, or insurance brokers	310						
Reinsurance receivables	64.910						
Other receivables	28.573						
Receivables from other insurance business	18.068						
Receivables for income from investments	28						
Other receivables	10.477						
OTHER ASSETS	68.844						
Cash at bank and on hand	68.844					68.844	Cash and cash equivalents
Funds in the business account	44.971						
Funds in the account of assets backing mathematical provision	23.784						
Cash on hand	89						
Non-current assets held for sale and discontinued operation	0						
Other	0						
PREPAID EXPENSES AND ACCRUED INCOME	61.126						
Deferred interest and rent	74			(74)			
Deferred acquisition costs	44.690					44.690	Deferred acquisition costs
Other prepaid expenses and accrued income	16.362			(16.362)			
TOTAL ASSETS	3.886.772	-	-	-	(9.977)		
OFF-BALANCE-SHEET ITEMS							

2.1. Reconciliation of the statement of financial position prepared in accordance with the HANFA format and the format of these financial statements (continued)

1. Participation in joint ventures is recorded as other receivables.
2. Investments held on account and at risk of unit-linked life assurance policyholders is recorded together with financial assets at fair value through profit or loss
3. Other prepaid expenses and accrued income, deferred interest and rental payments are recorded in the Basic financial statements in insurance and other receivables.
4. Deferred tax assets and liabilities are recorded on a net basis in the Basic financial statements, while internal receivables in the amount of HRK 7,525 thousand are offset with corresponding liabilities.

Report for the Croatian Financial Services Supervisory Agency		1	2	3	4	Basic financial statements	
Position description	HRK'000					HRK'000	
CAPITAL AND RESERVES	574.966						
Registered capital	62.700					62.700	Share capital
Paid-up capital - ordinary shares	62.700						
Paid-up capital - preference shares	-						
Issued shares premiums (capital reserves)	-						
Revaluation reserves	156.790					156.790	Revaluation reserves
Land and buildings	2.120						
Financial assets available-for-sale	154.670						
Other revaluation reserves	-						
Reserves	232.717					232.717	Legal and other reserves
Legal reserves	2.269						
Statutory reserves	-						
Other reserves	230.448						
Retained earnings or accumulated loss	96.918						
Retained earnings	96.918	25.841				122.759	Retained earnings
Accumulated loss (-)	-						
Profit or loss for the current accounting period	25.841						
Profit for the current accounting period	25.841	(25.841)					
Loss for the current accounting period (-)	-						
SUBORDINATED LIABILITIES	-						
NON-CONTROLLING INTEREST	-						
TECHNICAL PROVISIONS	2.928.654		21.829			2.950.482	Insurance contract provisions
Provisions for unearned premiums, gross amount	217.940						
Mathematical provisions, gross amount	2.303.481						
Claims provisions, gross amount	400.800						
Provisions for bonuses and discounts, gross amount	6.432						
Equalisation provisions, gross amount	-						
Other technical provisions, gross amount	-						
SPECIAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE GROUP, gross amount	21.829		(21.829)				
OTHER PROVISIONS	43.034			(43.034)			
Provisions for pensions and similar liabilities	-						
Other provisions	43.034						
DEFERRED AND CURRENT TAX LIABILITY	37.898						
Deferred tax liability	34.417				(2.452)	31.965	Deferred tax liability
Current tax liability	3.481					3.481	Current tax liability
DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	98.095			(98.095)			
FINANCIAL LIABILITIES	-						
Loan payables	-						
Issued financial instruments payable	-						
Other financial liabilities	-						
OTHER LIABILITIES	106.378			217.047	(7.525)	315.900	Insurance contract and other payables
Liabilities from direct insurance business	9.830						
Liabilities from co-insurance and reinsurance business	73.473						
Liabilities for sale and discontinued operation	-						
Other liabilities	23.076						
ACCRUED EXPENSES AND DEFERRED INCOME	75.918			(75.918)			
Deferred reinsurance commission	21.792						
Other accrued expenses and deferred income	54.125						
TOTAL EQUITY AND LIABILITIES	**3.886.772**	**-**	**-**	**-**	**(9.977)**	**3.876.794**	
OFF-BALANCE-SHEET ITEMS							

1. Profit or loss for the current accounting period is presented together with retained earnings in the Basic financial statements.

2. A special provision for unit-linked life insurance group, gross amount is recorded within technical provisions in the Basic financial statements.

3. Accrued expenses and deferred income and deposits retained from business ceded to reinsurance and other provisions are recorded in the Basic financial statements within Insurance and other liabilities.

4. Deferred tax assets and liabilities are recorded on a net basis in the Basic financial statements, while internal receivables in the amount of HRK 7,525 thousand are offset with corresponding liabilities.

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

for the period: 01.01.2016.-31.12.2016.

in HRK

Position number	Sum elements	Position code	Position description	Current business period	Same period of the previous year
001	002+013+031	**I**	**CASH FLOW FROM OPERATING ACTIVITIES**	**-171.931**	**-236.396.979**
002	003+004	**1**	**Cash flow before changes in operating assets and liabilities**	**-93.265.394**	**-74.363.745**
003		1.1	Profit/loss before tax	37.869.297	69.745.922
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments for:	-131.134.691	-144.109.668
005		*1.2.1*	*Depreciation of property and equipment*	4.539.639	5.027.634
006		*1.2.2*	*Amortisation of intangible assets*	2.939.394	3.252.087
007		*1.2.3*	*Impairment and fair value gains/losses*	5.239.564	-5.966.961
008		*1.2.4*	*Interest expense*		
009		*1.2.5*	*Interest income*	-140.469.895	-154.398.293
010		*1.2.6*	*Share in profit of associates*		
011		*1.2.7*	*Gains/losses on sale of tangible assets (including land and buildings)*		
012		*1.2.8*	*Other adjustments*	-3.383.393	7.975.866
013	014+015+...+030	**2**	**Increase/decrease in operating assets and liabilities**	**114.287.054**	**-161.505.479**
014		2.1	Increase/decrease in available-for-sale financial assets	43.262.175	-225.424.459
015		2.2	Increase/decrease in financial assets at fair value through profit or loss	9.070.332	24.266.851
016		2.3	Increase/decrease in loans and receivables	52.401.508	-142.217.830
017		2.4	Increase/decrease in deposits with cedent		
018		2.5	Increase/decrease in investments for the account and risk of life insurance policyholders	-4.329.138	-6.249.109
019		2.6	Increase/decrease in reinsurer's share in technical provisions	-6.100.268	-30.458.429
020		2.7	Increase/decrease in tax assets	-150.785	1.977.680
021		2.8	Increase/decrease in receivables	56.638.981	-29.592.748
022		2.9	Increase/decrease in other assets	-264.555	96.967
023		2.10	Increase/decrease in prepaid expenses and accrued income	148.524.938	157.254.086
024		2.11	Increase/decrease in technical provisions	-99.567.308	93.683.642
025		2.12	Increase/decrease in special provisions for unit-linked life insurance group	5.430.662	16.397.899
026		2.13	Increase/decrease in tax liabilities	3.073.879	418.076
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance		4.306.634
028		2.15	Increase/decrease in financial liabilities		
029		2.16	Increase/decrease in other liabilities	-77.370.712	-7.170.671
030		2.17	Increase/decrease in accrued expenses and deferred income	-16.332.654	-18.794.066
031		**3**	**Income tax paid**	**-21.193.591**	**-527.755**
032	033+034+...+046	**II**	**CASH FLOW FROM INVESTING ACTIVITIES**	**10.247.147**	**238.034.181**
033		1	Proceeds from sale of tangible assets	3.834	3.955.093
034		2	Expenses for purchase of tangible assets	-1.122.346	-1.376.769
035		3	Proceeds from sale of intangible assets		
036		4	Expenses for purchase of intangible assets	-2.349.201	-1.908.421
037		5	Proceeds from sale of land and buildings not intended for business operations of the company	7.044.860	1.371.625
038		6	Expenses for purchase of land and buildings not intended for business operations of the company		
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		
040		8	Proceeds from held-to-maturity financial assets	6.670.000	279.124.601
041		9	Expenses for held-to-maturity financial assets		-43.131.947
042		10	Proceeds from sale of financial instruments		
043		11	Expenses for investments in financial instruments		
044		12	Proceeds from dividends and share in profit		
045		13	Proceeds from payment of given short-term and long-term loans		
046		14	Expenses for given short-term and long-term loans		
047	048+049+050 +051+052	**III**	**CASH FLOW FROM FINANCING ACTIVITIES**		
048		1	Proceeds from share capital increase		
049		2	Proceeds from received short-term and long-term loans		
050		3	Expenses for repayment of received short-term and long-term loans		
051		4	Expenses for purchase of treasury shares		
052		5	Expenses for payment of dividends		
053	001+032+047		**NET CASH FLOW**	**10.075.216**	**1.637.203**
054		**IV**	**EFFECTS OF FOREIGN CURRENCY EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS**	**26.972.926**	**8.895.746**
055	053+054	**V**	**NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS**	**37.048.142**	**10.532.948**
056		1	Cash and cash equivalents at beginning of year	31.795.760	21.262.812
057	**055+056**	**2**	**Cash and cash equivalents at end of year**	**68.843.902**	**31.795.760**

STATEMENT OF CHANGES IN EQUITY

for the period: 01.01.2016.-31.12.2016.

in HRK

Position number	Position description	Attributable to owners of the parent							Attributable to non-controlling interests*	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Issued shares premium	Revaluation reserves	Reserves (legal, statutory, other)	Retained earnings or accumulated loss	Profit/loss for the year	Total capital and reserves		
I.	**Balance at 1 January of previous year**	**62.700.000**		**123.701.706**	**237.885.023**	**12.854.635**	**29.318.015**	**466.459.379**		**466.459.379**
1.	Changes in accounting policies									
2.	Correction of prior period errors									
II.	**Balance at 1 January of previous year (restated)**	**62.700.000**		**123.701.706**	**237.885.023**	**12.854.635**	**29.318.015**	**466.459.379**		**466.459.379**
III.	**Comprehensive income or loss for the previous year**			**1.672.303**			**54.745.278**	**56.417.582**		**56.417.582**
1.	Profit or loss for the period						54.745.278	54.745.278		**54.745.278**
2.	**Other comprehensive income or loss for the previous year**			**1.672.303**				**1.672.303**		**1.672.303**
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			-77.495				-77.495		**-77.495**
2.3.	Realised gains or losses from financial assets available for sale			1.749.798				1.749.798		**1.749.798**
2.4.	Other non-owner changes in equity									
IV.	**Transactions with owners (previous period)**					**29.318.015**	**-29.318.015**			
1.	Increase/decrease in registered capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends									
4.	Other distributions to owners					29.318.015	-29.318.015			
V.	**Balance at the last day of the reporting period in the previous year**	**62.700.000**		**125.374.009**	**237.885.023**	**42.172.650**	**54.745.278**	**522.876.961**		**522.876.961**
VI.	**Balance at 1 January of the current year**	**62.700.000**		**125.374.009**	**237.885.023**	**42.172.650**	**54.745.278**	**522.876.961**		**522.876.961**
1.	Changes in accounting policies									
2.	Correction of prior period errors									
VII.	**Balance at 1 January of the current year (restated)**	**62.700.000**		**125.374.009**	**237.885.023**	**42.172.650**	**54.745.278**	**522.876.961**		**522.876.961**
VIII.	**Comprehensive income or loss for the current year**			**31.416.282**			**25.840.984**	**57.257.266**		**57.257.266**
1.	Profit or loss for the period						25.840.984	25.840.984		**25.840.984**
2.	**Other comprehensive income or loss for the current year**			**31.416.282**				**31.416.282**		**31.416.282**
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			24.709.649				24.709.649		**24.709.649**
2.3.	Realised gains or losses from financial assets available for sale			6.706.632				6.706.632		**6.706.632**
2.4.	Other non-owner changes in equity									
IX.	**Transactions with owners (current period)**				**-5.168.456**	**54.745.278**	**-54.745.278**	**-5.168.456**		**-5.168.456**
1.	Increase/decrease in registered capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends									
4.	Other transactions with owners				-5.168.456	54.745.278	-54.745.278	-5.168.456		**-5.168.456**
X.	**Balance as at the last day of the reporting period in the current year**	**62.700.000**		**156.790.291**	**232.716.567**	**96.917.928**	**25.840.984**	**574.965.770**		**574.965.770**