



**Annual Report
for 2018**

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Management Report

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.

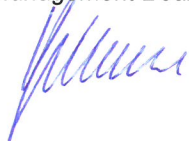
The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Accounting Act in force. The Management Board is also responsible for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

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

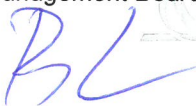
The financial statements of the Company were authorised by the Management Board on 28 March 2019 and submitted to the Supervisory Board for approval.

UNIQA osiguranje d.d.

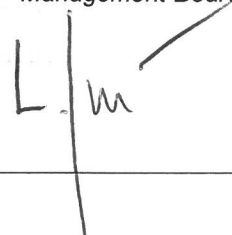
Saša Krbavac
President of the
Management Board



Tatjana Račić Žlibar
Member of the
Management Board



Luka Matošić
Member of the
Management Board





Independent auditor's report *to the Shareholder of UNIQA osiguranje d.d.*

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of UNIQA osiguranje d.d. (the "Company") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Financial statements of the Company which comprise:

- Statement of financial position as at 31 December 2018;
 - Statement of comprehensive income for the year then ended;
 - Statement of changes in equity for the year then ended;
 - Statement of cash flows for the year then ended; and
 - The notes to the financial statements, which include 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.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.



Our audit approach

Overview

Materiality	<ul style="list-style-type: none">Overall Company materiality: HRK 14.6 million, which represents 2.5% of gross written premiums.
Key audit matters	<ul style="list-style-type: none">Estimates used in calculation of insurance contract provisions and liability adequacy test (LAT)

As part of designing our audit we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality for the financial statements as a whole	HRK 14.6 million
How we determined it	2.5% of gross written premiums
Rationale for the materiality benchmark applied	We chose gross written premium as the benchmark because it is the benchmark against which the performance of the Company is measured, in terms of its market share.

Key audit matters

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

Key audit matter

Estimates used in calculation of insurance contract provisions and liability adequacy test (LAT)

Refer to note 11 “Insurance contract provisions”.

The Company had insurance contracts provisions of HRK 2.6 billion at 31 December 2018 representing 88% of the Company’s total liabilities. This is an area that involves significant judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities, and therefore we considered it a key audit matter for our audit.

Consistent with the insurance industry, the Company uses valuation models to support the calculations of the insurance contracts provisions. The complexity of the models may give rise to errors as a result of inadequate or incomplete data or the design or application of the models.

Economic assumptions such as investment return and interest rates and actuarial assumptions such as mortality, morbidity and cancellation rates are key inputs used to estimate these mainly long-term liabilities. Significant judgement is applied in setting these assumptions.

The Company’s IFRS liability adequacy test was performed in order to confirm that insurance contracts provisions were adequate in the context of expected future cash outflows.

How our audit addressed the Key audit matter

We used our own actuarial expert to assist us in performing our audit procedures.

In particular, our audit focused on the models considered more complex or requiring significant judgement in the setting of assumptions used in calculation of insurance contracts provisions or performing liability adequacy test.

We obtained the understanding of the actuarial process of the Company including management’s determination and approval process for setting of economic and actuarial assumptions.

Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management’s rationale for the actuarial judgments applied along with comparison to applicable industry experiences.

We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards.

Furthermore, by performing our recalculations we have determined whether the models and systems were calculating the insurance contracts provisions accurately and completely.

We tested the validity of management’s liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. The inputs used were reconciled to the accounting records.

Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Company and industry experience and specific product features.

Based on the evidence obtained, we found that the assumptions and data used within the models calculating insurance contracts provisions were reasonable. We consider management’s conclusion to be consistent with the available information.

As a result, the insurance contracts provisions are within a reasonable range of outcomes in the context of the uncertainties disclosed in the financial statements.

We also assessed the adequacy of the disclosures regarding these liabilities in the financial statements and found them appropriate.



Reporting on other information including Management Report

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 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 the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company 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.

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

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



Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company on 14 June 2013. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of six years.

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 and 96/18), "Ordinance"), the Management Board of the Company prepared forms presented on pages 103 to 116, entitled the Statement of financial position as at 31 December 2018, and the Statement of comprehensive income, Statement of cash flows (indirect method) and Statement of changes in equity for the period from 01 January to 31 December 2018, 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 in the European Union as presented on pages 19 to 102 adjusted for the purposes of the Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.
Heinzlova 70, Zagreb
11 April 2019

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 2018

(all amounts are expressed in thousands of HRK)

	Note	31 December 2018	31 December 2017
Assets			
Property and equipment	4	23,269	33,483
Investment property	5	56,460	50,845
Intangible assets:			
- Deferred acquisition costs	6	63,430	51,488
- Other intangible assets		4,162	5,130
Financial assets:			
- Financial assets held to maturity	7	892,102	1,200,177
- Available-for-sale financial assets	7	1,775,673	1,657,379
- Financial assets at fair value through profit or loss	7	88,041	62,642
- Loans and receivables	7	43,967	81,821
Reinsurers' share in insurance contract provisions	8	292,494	292,671
Current tax assets		-	1,247
Insurance contract and other receivables	9	185,542	180,466
Cash and cash equivalents		66,756	60,527
Total assets		3,491,896	3,677,876
Liabilities and equity			
Liabilities			
Insurance contract provisions	11	2,604,807	2,749,960
Insurance contract and other payables	12	318,569	318,289
Current tax liability		2,155	-
Deferred tax liability	10	24,442	32,052
Total liabilities		2,949,973	3,100,301
Capital and reserves			
Share capital	13	62,700	62,700
Legal reserves		2,269	2,269
Other reserves	13	230,449	230,449
Fair value reserve	13	125,880	159,175
Retained earnings		120,625	122,982
Total capital and reserves		541,923	577,575
Total liabilities and equity		3,491,896	3,677,876

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

Statement of comprehensive income
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

	Note	2018	2017
Gross written premiums	14	582,447	561,151
Premiums ceded to reinsurance	14	(146,574)	(143,481)
Net premiums written		435,873	417,670
Change in gross provision for unearned premiums	14	(31,170)	(18,911)
Reinsurers' share of change in provision for unearned premiums	14	1,301	604
Net earned premium		406,004	399,363
Investment income	15	136,356	144,812
Investment costs	15	(43,612)	(23,455)
Net investment income		92,744	121,357
Reinsurance commission		43,713	43,174
Other operating income		4,726	6,386
Net income		547,187	570,280
Claims incurred	16	(377,657)	(396,847)
Reinsurers' share of claims incurred	16	77,908	82,424
Net claims incurred		(299,749)	(314,423)
Acquisition costs	17	(110,186)	(111,487)
Administration costs	18	(96,092)	(93,319)
Other operating expenses		(7,232)	(16,996)
Profit before tax		33,928	34,055
Income tax	19	(10,220)	(7,990)
Profit for the year		23,708	26,065
Other comprehensive income			
<i>Items that can be subsequently recognised in profit or loss</i>			
Changes in fair value of available-for-sale financial assets, net of deferred tax		(33,295)	2,385
Comprehensive income		(9,587)	28,450

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 2018

(all amounts are expressed in thousands of HRK)

	Share capital	Legal reserves	Other reserves	Fair value reserve	Retained earnings	Total
Year ended 31 December 2017						
Balance at 1 January 2017	62,700	2,269	230,449	156,790	122,758	574,966
Profit for the year	-	-	-	-	26,065	26,065
<i>Other comprehensive income:</i>						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	2,909	-	2,909
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	(524)	-	(524)
Total comprehensive income for the year, net of tax	-	-	-	2,385	26,065	28,450
Transactions with owner:						
Payment of shares in profit/dividends	-	-	-	-	(25,841)	(25,841)
Balance at 31 December 2017	62,700	2,269	230,449	159,175	122,982	577,575
Year ended 31 December 2018						
Balance at 1 January 2018	62,700	2,269	230,449	159,175	122,982	577,575
Profit for the year	-	-	-	-	23,708	23,708
<i>Other comprehensive income:</i>						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	(40,604)	-	(40,604)
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 13(b))	-	-	-	7,309	-	7,309
Total comprehensive income for the year, net of tax	-	-	-	(33,295)	23,708	(9,587)
Transactions with owner:						
Payment of shares in profit/dividends	-	-	-	-	(26,065)	(26,065)
Balance at 31 December 2018	62,700	2,269	230,449	125,880	120,625	541,923

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

Statement of cash flows
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		33,928	34,055
<i>Adjustments for:</i>			
Depreciation of equipment	4	3,161	3,644
Amortisation of other intangible assets		2,243	2,535
Expenses from write-off and sale of tangible and intangible assets		238	105
Investment income	15	(92,744)	(121,357)
Other		-	49
<i>Changes in assets and liabilities:</i>			
Decrease/(increase) in insurance contract and other receivables		(2,094)	(14,128)
Decrease in investments in securities and investment funds		84,461	81,969
Decrease in investments in loans and receivables		41,890	91,633
Decrease in insurance contract provisions		(145,153)	(200,522)
Decrease/(increase) in reinsurers' share of insurance contract provision		177	1,753
Increase in deferred acquisition costs		(11,942)	(6,798)
Increase/(decrease) in insurance and other payables and deferred income		(6,047)	9,212
<i>Cash flow from operating activities</i>		<i>(91,883)</i>	<i>(117,850)</i>
Interest received		132,525	141,411
Income tax paid		(7,120)	(13,155)
Net cash used in operating activities		33,522	10,406
Cash flows from investing activities			
Proceeds from sale of investment property		1,953	8,737
Investments in intangible assets		(1,274)	(1,496)
Investments in equipment	4	(1,907)	(123)
Net cash from investing activities		(1,228)	7,118
Cash flows from financing activities			
Dividend paid		(26,065)	(25,841)
Net cash inflow from financing activities		(26,065)	(25,841)
Net (decrease)/increase in cash and cash equivalents		6,229	(8,317)
Cash and cash equivalents at beginning of year		60,527	68,844
Cash and cash equivalents at end of year		66,756	60,527

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

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 the Republic of Slovenia.

The sole shareholder of the Company with 100% of voting rights (2017: 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 the Republic of Austria.

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

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 112/18) and the Accounting Act (OG 78/15, 134/15, 120/16 and 116/18).

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.

Notes to the financial statements

For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 2018 was EUR 1 = HRK 7.417575 (2017: EUR 1 = HRK 7.513648).

New and amended standards adopted by the Company

The Company has adopted the following standards and amendments for the annual reporting period commencing 1 January 2018:

- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- Annual Improvements 2014-2016 Cycle
- Transfers to Investment Property - Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Notes to the financial statements For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

2. BASIS OF PREPARATION (CONTINUED)

Standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

- *IFRS 17 Insurance contracts (effective for annual periods beginning on or after 1 January 2022)*

IFRS 17 was issued in May 2017 as a replacement for IFRS 4 Insurance Contracts. The Standard requires a current measurement model, where estimates are remeasured in each reporting period. The contracts are measured by using the following parameters:

- (probability-)weighted discounted cash flows
- explicit risk adjustment and
- contractual service margin - CSM which represents the unearned profit under the contract which is recognised as income over the coverage period.

According to the Standard, one may choose where to present the change in the discount rates - either in profit or loss or directly in other comprehensive income. The final choice is likely to reflect the manner in which insurers disclose their financial assets in accordance with IFRS 9.

An alternative, simplified approach to premium allocation is permitted for the liability for remaining coverage for insurance contracts with short-term coverage, frequently drawn up by non-life insurers.

There is an amendment to the general measurement model called "access to variable fee approach" for certain contracts drawn up by life insurers where the policyholders have a share of returns on the underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. Consequently, the results of the insurers using this model will likely be less unstable than with the general model.

At this stage, the Company is not able to estimate the total impact of the standard on the financial statements, it will make more detailed assessments of the impact over the following periods. The Company plans to adopt this standard on its effective date.

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*. For insurance companies, the adoption of this standard is deferred until 1 January 2021 when the adoption of the new insurance standard is expected.

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new model for impairment of financial assets.

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)*

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

2. BASIS OF PREPARATION (CONTINUED)

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Company has set up a project team which has reviewed all of the Company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Company's operating leases. The Company expects to recognise assets (right-of-use assets) of approximately HRK 14,928 thousand on 1 January 2019 and lease liabilities in the same amount (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Company does not expect the net profit after tax for 2019 to differ significantly as a result of adopting the new rules.

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 or loss as incurred.

Depreciation

Depreciation of assets is recognised in profit or 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
Furniture and equipment	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 denominated in HRK in accordance with the valuation. 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 or loss when incurred. Amortisation is recognised in profit or 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 or loss for the period.

Notes to the financial statements For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 apply 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 or 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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.

Notes to the financial statements For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 group 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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 or 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).

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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. Offsetting 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.

3.9. 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.

3.10. 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.

3.11. 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

3. ACCOUNTING POLICIES (continued)

3.12. 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.

3.13. 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.

3.14. 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 the discretionary bonus provision until finally allocated to policyholders and are recorded as part of mathematical provisions.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

3. ACCOUNTING POLICIES (continued)

3.15. 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.

Dividends

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.

3.16. 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

3. ACCOUNTING POLICIES (continued)

3.16. 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.

3.17. 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)

3.18. 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.

3.19. 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)

3.19. 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 the risk occurrence during the insurance period, based on the assumption of risk patterns. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The reinsurance premium calculation is based on reinsurance contracts.

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

3.20. 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 the 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.

3.21. 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)

3.22. Mathematical provision

The mathematical provision is 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.

3.23. 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 the terms and conditions of the 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 are disclosed separately. The reinsurers' share in the claims provision is calculated on the basis of gross claims provisions in accordance with the terms and conditions of the reinsurance contracts.

Notes to the financial statements For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

3. ACCOUNTING POLICIES (continued)

3.23. Claims (continued)

Whilst the Management Board of the Company 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.

3.24. 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.

3.25. 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)

3.25. 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.

3.26. 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.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

4. PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and other assets	Total
At 1 January 2017	29,024	8,910	37,934
Disposals	-	(58)	(58)
Write-off and impairment	(6)	(41)	(47)
Depreciation	(811)	(2,833)	(3,644)
Additions	47	76	123
Transfer to investment property (Note 5)	(825)	-	(825)
At 31 December 2017	27,429	6,054	33,483
Cost	38,037	35,356	73,393
Accumulated depreciation	(10,608)	(29,302)	(39,910)
Net book amount	27,429	6,054	33,483
At 1 January 2018	27,429	6,054	33,483
Disposals	-	(40)	(40)
Write-off and impairment	(194)	(4)	(198)
Depreciation	(783)	(2,378)	(3,161)
Additions	-	1,907	1,907
Transfer to investment property (Note 5)	(8,722)	-	(8,722)
At 31 December 2018	17,730	5,539	23,269
Cost	26,616	36,559	63,175
Accumulated depreciation	(8,886)	(31,020)	(39,906)
Net book amount	17,730	5,539	23,269

The item land and buildings includes land that is not depreciated, with the total value of HRK 436 thousand as at 31 December 2018 (2017: HRK 436 thousand).

As at 31 December 2018 and 2017, 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).

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

5. INVESTMENT PROPERTY

	2018	2017
At 1 January	50,845	58,952
Disposals	(1,954)	(8,142)
Change in fair value (Note 15)	(1,153)	(790)
Transfer from property and equipment (Note 4)	8,722	825
At 31 December	56,460	50,845

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 valuers using the comparable method and/or income approach as the methods for property valuation.

Rental income is included in the investment income, and amounts to HRK 2,899 thousand (2017: HRK 2,982 thousand). Property management expenses are included in investment costs, and amount to HRK 801 thousand (2017: HRK 687 thousand) (Note 15). Expenses (including repairs and maintenance, security, etc.) arising from investment property that generated income during the period amount to HRK 409 thousand (2017: HRK 389 thousand), and expenses arising from investment property that did not generate income amount to HRK 372 thousand (2017: HRK 298 thousand).

As at 31 December 2018, one of the Company's properties has been pledged as collateral with a carrying value of HRK 209 thousand.

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.

	2018	2017
At 1 January	51,488	44,690
Increase (Note 17)	65,036	55,680
Decrease (Note 17)	(53,094)	(48,882)
At 31 December	63,430	51,488

Notes to the financial statements
For the year ended 31 December 2018

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7. FINANCIAL INVESTMENTS

2018	Held to maturity	Available for sale	At fair value through profit or loss	Loans and receivables	Total
Debt securities – fixed rate, listed					
Government bonds	876,023	1,470,483	-	-	2,346,506
Corporate bonds	-	75,927	-	-	75,927
Bonds of financial institutions	-	-	-	-	-
Accrued interest	16,079	26,233	-	-	42,312
Total debt securities	892,102	1,572,643	-	-	2,464,745
Investment funds					
Mixed funds	-	-	306	-	306
Bond funds	-	142,469	5,748	-	148,217
Equity funds	-	39,691	54,176	-	93,867
Alternative funds	-	3,892	1,701	-	5,593
Total investment funds	-	186,052	61,931	-	247,983
Other					
Structured product	-	16,978	26,110	-	43,088
Other	-	16,978	26,110	-	43,088
Deposits					
Bank deposits	-	-	-	29,055	29,055
Accrued interest	-	-	-	139	139
Total deposits	-	-	-	29,194	29,194
Loans					
Loans based on life policy surrender values	-	-	-	12,770	12,770
Mortgage loans	-	-	-	664	664
Other loans	-	-	-	1,281	1,281
Accrued interest	-	-	-	58	58
Total loans	-	-	-	14,773	14,773
Total	892,102	1,775,673	88,041	43,967	2,799,783

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

7. FINANCIAL INVESTMENTS (continued)

2017	Held to maturity	Available for sale	At fair value through profit or loss	Loans and receivables	Total
Debt securities – fixed rate, listed					
Government bonds	1,175,824	1,397,977	-	-	2,573,801
Corporate bonds	-	17,565	-	-	17,565
Bonds of financial institutions	-	8,228	-	-	8,228
Accrued interest	24,353	26,213	-	-	50,566
Total debt securities	1,200,177	1,449,983	-	-	2,650,160
Investment funds					
Bond funds	-	129,807	12,610	-	142,417
Equity funds	-	69,365	44,669	-	114,034
Alternative funds	-	4,338	1,869	-	6,207
Total investment funds	-	203,510	59,148	-	262,658
Other					
Structured product	-	3,886	3,494	-	7,380
Other	-	3,886	3,494	-	7,380
Deposits					
Bank deposits	-	-	-	61,392	61,392
Accrued interest	-	-	-	33	33
Total deposits	-	-	-	61,425	61,425
Loans					
Loans based on life policy surrender values	-	-	-	17,844	17,844
Mortgage loans	-	-	-	1,127	1,127
Other loans	-	-	-	1,345	1,345
Accrued interest	-	-	-	80	80
Total loans	-	-	-	20,396	20,396
Total	1,200,177	1,657,379	62,642	81,821	3,002,019

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

7. FINANCIAL INVESTMENTS (continued)

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

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

Analysis of loans

	2018	2017
Loans based on life policy surrender values		
- Gross	12,842	23,960
- Impairment provisions	(72)	(6,116)
Total loans based on life policy surrender values	12,770	17,844
Loans secured by mortgage or bank guarantee		
- Gross	6,981	9,940
- Impairment provisions	(6,317)	(8,813)
Total loans secured by mortgage or bank guarantee	664	1,127
Other loans		
- Gross	1,589	1,653
- Impairment provisions	(308)	(308)
Total other loans	1,281	1,345
Accrued interest	58	80
Total	14,773	20,396

Movement in impairment of loans

	Loans based on life policy surrender values	Loans secured by mortgage or bank guarantee	Other loans	Total
At 1 January 2017	(6,116)	(12,002)	(308)	(18,426)
Collection of impaired loans	-	1	-	1
Write-off	-	3,188	-	3,188
At 31 December 2017	(6,116)	(8,813)	(308)	(15,237)
At 1 January 2018	(6,116)	(8,813)	(308)	(15,237)
Collection of impaired loans	2,212	2,167	-	4,379
Write-off	3,832	329	-	4,161
At 31 December 2018	(72)	(6,317)	(308)	(6,697)

Notes to the financial statements
For the year ended 31 December 2018

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8. REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

	2018	2017
Non-life insurance		
Reinsurers' share in unearned premium	66,428	65,109
Reinsurers' share in provisions for RBNS claims	64,395	64,847
Reinsurers' share in provisions for IBNR claims	66,152	63,521
Reinsurers' share in provision for bonuses and discounts	121	1,729
	197,096	195,206
Life assurance		
Reinsurers' share in unearned premium	184	201
Reinsurers' share in provisions for RBNS claims	218	642
Reinsurers' share in provisions for IBNR claims	10	44
Reinsurers' share in life assurance mathematical provision	94,986	96,578
	95,398	97,465
	292,494	292,671

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 and the provision for bonuses and discounts.

9. INSURANCE CONTRACT AND OTHER RECEIVABLES

	2018	2017
Receivables from policyholders, gross	113,649	109,922
- from impairment	(25,671)	(29,886)
Receivables from policyholders, net	87,978	80,036
Receivables from reinsurance		
- from claims recoveries	44,816	47,130
- from reinsurance commission	21,750	21,125
Receivables from reinsurance for share in profit	455	220
Receivables from reinsurance for participation in impairment and guarantee fund provision	5,506	6,238
Credit card receivables	9,585	12,610
Receivables for service claims	5,995	5,236
Other receivables	8,335	8,986
- from impairment	(5,799)	(6,721)
Prepaid expenses	6,921	5,606
	185,542	180,466

Notes to the financial statements
For the year ended 31 December 2018

(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:

	<u>Premium</u>	<u>Other</u>	<u>Total</u>
At 1 January 2017	(33,485)	(6,780)	(40,265)
Decrease in impairment provisions	3,599	59	3,658
At 31 December 2017	(29,886)	(6,721)	(36,607)
 At 1 January 2018	 (29,886)	 (6,721)	 (36,607)
Decrease in impairment provisions	4,214	923	5,137
At 31 December 2018	(25,672)	(5,798)	(31,470)

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

	2018	2017
Neither past due nor impaired	59,026	55,367
Past due but not impaired	28,952	24,669
Impaired	25,671	29,886
Impairment provision	(25,671)	(29,886)
	87,978	80,036

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

	2018	2017
Less than 30 days	14,956	13,243
30 to 180 days	13,996	11,426
	28,952	24,669

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%).

Notes to the financial statements
For the year ended 31 December 2018

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10. DEFERRED TAX ASSETS AND LIABILITIES

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

	2018	2017
Deferred tax (liabilities) / assets		
Available-for-sale financial assets	(27,632)	(34,941)
Effect of temporarily non-deductible expenses	3,191	2,889
	(24,442)	(32,052)

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	Deferred tax assets / (liabilities)
At 1 January 2017	(34,417)	2,452	(31,965)
Increase in deferred tax liability recognised in other comprehensive income	(524)	-	(524)
Increase in deferred tax assets recognised in profit or loss	-	437	437
At 31 December 2017	(34,941)	2,889	(32,052)
Increase in deferred tax liability recognised in other comprehensive income	7,308	-	7,308
Increase in deferred tax assets recognised in profit or loss	-	302	302
At 31 December 2018	(27,633)	3,191	(24,442)

Notes to the financial statements
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(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACT PROVISIONS

	2018	2017
Non-life insurance (gross)		
Provision for unearned premiums	264,797	232,933
Provision for reported but not settled claims (RBNS)	154,409	162,475
Provision for incurred but not reported claims (IBNR)	211,793	210,166
Provision for bonuses and discounts	2,786	9,387
	633,785	614,961
Life assurance (gross)		
Provision for unearned premiums	3,224	3,918
Life assurance mathematical provision	1,865,223	2,066,983
Provision for reported but not settled claims (RBNS)	14,578	9,951
Provision for incurred but not reported claims (IBNR)	6,740	6,363
Provisions for unit-linked products	81,257	47,784
	1,971,022	2,134,999
	2,604,807	2,749,960

(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 uses the 2010-2012 mortality tables of the Republic of Croatia published by the Croatian Bureau of Statistics, at an annual discount rate of 3%. 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 have been disclosed as separate assets and are estimated in accordance with the terms of the reinsurance contracts.

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.

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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/Index-linked life assurance

Life assurance where the policyholder takes on the risk of investment combines the risk of life assurance and investment in financial instruments.

(b) Analysis of movement in provision for unearned premium

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
<i>Non-life insurance</i>						
At 1 January	232,933	(65,109)	167,824	212,904	(64,486)	148,418
Premiums written during the year	380,865	(140,594)	240,271	361,381	(136,599)	224,782
Movement in provision for unearned premiums	(349,001)	139,275	(209,726)	(341,352)	135,976	(205,376)
At 31 December	264,797	(66,428)	198,369	232,933	(65,109)	167,824
<i>Life assurance</i>						
At 1 January	3,918	(201)	3,717	5,036	(220)	4,816
Premiums written during the year	6,119	(755)	5,364	7,467	(691)	6,776
Movement in provision for unearned premiums	(6,813)	772	(6,041)	(8,585)	710	(7,875)
At 31 December	3,224	(184)	3,040	3,918	(201)	3,717

Notes to the financial statements
For the year ended 31 December 2018

(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

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
<i>Non-life insurance</i>						
At 1 January	162,475	(64,847)	97,628	181,518	(73,459)	108,059
Claims reported in current year	205,313	(73,330)	131,983	206,115	(76,762)	129,353
Change in estimate for previous year claims	(16,950)	3,770	(13,180)	(28,728)	10,551	(18,177)
Claims paid	(196,429)	70,012	(126,417)	(196,430)	74,823	(121,607)
At 31 December	154,409	(64,395)	90,014	162,475	(64,847)	97,628
<i>Life assurance</i>						
At 1 January	9,951	(642)	9,309	11,070	(545)	10,525
Claims incurred in the current year	354,827	(8,436)	346,391	408,035	(9,927)	398,108
Change in claims from the previous year	4,644	90	4,734	10,697	(129)	10,568
Claims paid	(354,844)	8,770	(346,074)	(419,851)	9,959	(409,892)
At 31 December	14,578	(218)	14,360	9,951	(642)	9,309

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

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
<i>Non-life insurance</i>						
At 1 January	210,166	(63,520)	146,646	201,374	(56,149)	145,225
Increases recognised during the year	33,816	(12,574)	21,242	46,497	(19,760)	26,737
Less: transfer to claims reported provision	(32,189)	9,942	(22,247)	(37,705)	12,388	(25,317)
At 31 December	211,793	(66,152)	145,640	210,166	(63,521)	146,645
<i>Life assurance</i>						
At 1 January	6,363	(44)	6,319	6,838	(43)	6,795
Increases recognised during the year	697	36	733	(260)	-	(260)
Less: transfer to claims reported provision	(320)	(2)	(322)	(215)	(1)	(216)
At 31 December	6,740	(10)	6,730	6,363	(44)	6,319

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

(e) Life assurance mathematical provision

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
At 1 January	2,066,983	(96,578)	1,970,405	2,303,481	(97,876)	2,205,605
Premium allocation	140,883	(7,023)	133,860	176,699	(8,205)	168,494
Release of liabilities due to benefits paid, surrenders and other terminations	(351,835)	8,453	(343,382)	(416,483)	9,610	(406,873)
Allocation of discretionary bonus (DPF)	4,000	-	4,000	5,344	-	5,344
Change in IBNR and RBNS	5,885	180	6,065	(941)	(89)	(1,030)
Change in provision for unearned premiums	(693)	(18)	(711)	(1,117)	(18)	(1,135)
At 31 December	1,865,223	(94,986)	1,770,237	2,066,983	(96,578)	1,970,405

(f) Provisions for unit-linked products

	2018 Gross and net	2017 Gross and net
At 1 January	47,784	21,829
Technical premium allocation	42,279	25,172
Unrealised gains/(losses) on funds where policyholders' investments were allocated	(8,806)	783
At 31 December	81,257	47,784

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

(g) Development of claims reserve

For the year ended 31 December 2018

	Prior to 2013	2013	2014	2015	2016	2017	2018	Total
Estimate of cumulative claims at the end of accident year	599,565	131,720	279,146	445,948	544,210	613,073	557,078	-
One year later	558,305	140,922	288,608	447,255	556,987	628,335	-	-
Two years later	515,793	139,299	281,778	445,175	553,824	-	-	-
Three years later	539,896	128,360	271,911	439,846	-	-	-	-
Four years later	557,707	130,525	267,688	-	-	-	-	-
Five years later	495,287	125,969	-	-	-	-	-	-
Six years later	641,675	-	-	-	-	-	-	-
Total estimate of provisions	641,675	125,969	267,688	439,846	553,824	628,335	557,078	3,214,415
Cumulative payments	(507,246)	(111,318)	(250,424)	(415,566)	(523,301)	(582,776)	(459,374)	(2,850,005)
Claims handling costs	4,555	408	567	853	1,167	4,348	11,212	23,110
Claims provision as at 31 December 2018	138,984	15,059	17,831	25,133	31,690	49,907	108,916	387,520

For the year ended 31 December 2017

	Prior to 2012	2012	2013	2014	2015	2016	2017	Total
Estimate of cumulative claims at the end of accident year	487,485	112,080	131,720	279,146	445,948	544,210	613,073	-
One year later	481,929	76,376	140,922	288,608	447,255	556,987	-	-
Two years later	423,219	92,574	139,299	281,778	445,175	-	-	-
Three years later	449,097	90,799	128,360	271,911	-	-	-	-
Four years later	470,551	87,156	130,525	-	-	-	-	-
Five years later	481,899	84,353	-	-	-	-	-	-
Six years later	571,818	-	-	-	-	-	-	-
Total estimate of provisions	571,818	84,353	130,525	271,911	445,175	556,987	613,073	2,673,842
Cumulative payments	(436,831)	(64,562)	(110,893)	(249,623)	(412,778)	(516,797)	(513,883)	(2,305,367)
Claims handling costs	4,126	580	490	824	1,150	3,553	9,757	20,480
Claims provision as at 31 December 2017	139,113	20,371	20,122	23,112	33,547	43,743	108,947	388,955

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

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

	2018	2017
Assets backing mathematical provision		
Government bonds	1,703,359	1,919,580
Corporate bonds	63,933	22,113
Investment funds	167,099	199,342
Cash and deposits	58,167	56,103
Mortgages and borrowings	12,812	17,917
Property	38,135	39,094
Total assets used for backing life assurance mathematical provision	2,043,505	2,254,149
Life assurance mathematical provision, net of reinsurance	1,770,237	1,970,404
Claims provision for risks for which it is necessary to create mathematical provision, net of reinsurance	16,656	10,539
Required coverage of life assurance mathematical provision	1,786,893	1,980,943
Excess of coverage	256,612	273,206

As at 31 December 2018 and 2017, 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	Over 10 years	Total
2018					
Assets backing mathematical provision	504,291	936,021	480,648	122,545	2,043,505
Life assurance mathematical provision, net of reinsurance	(432,341)	(583,380)	(358,301)	(396,215)	(1,770,237)
Claims provision, net of reinsurance	(14,230)	(2,020)	(406)	-	(16,656)
Maturity gap	57,720	350,621	121,941	(273,670)	256,612
2017					
Assets backing mathematical provision	521,502	1,229,235	378,355	125,057	2,254,149
Life assurance mathematical provision, net of reinsurance	(447,042)	(746,328)	(381,296)	(395,738)	(1,970,404)
Claims provision, net of reinsurance	(8,833)	(1,405)	(301)	-	(10,539)
Maturity gap	65,627	481,502	(3,242)	(270,681)	273,206

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

As at 31 December 2018, the structure of assets to cover the mathematical provision of the Company is as follows: 57.21% is classified as assets available for sale (2017: 49.61%), and 0.21% as financial assets at fair value through profit or loss (2017: 0.50%), which both can be relatively easily sold by the Company, if required. The remaining structure is as follows: 37.23% as assets held to maturity (2017: 44.88%), 0.63% as loans and advances (2017: 0.79%), 1.23% as deposits (2017: 1.99%), 1.86% as property (2017: 1.73%) and 1.63% as funds on a business account (2017: 0.50%).

In 2018, the Company realised an average return by investing 3.79% of the mathematical provision assets (2017: 4.37%).

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	HRK	Total
2018			
Assets backing mathematical provision	1,945,129	98,376	2,043,505
2017			
Assets backing mathematical provision	2,166,266	87,883	2,254,149

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

Notes to the financial statements
For the year ended 31 December 2018

(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

	2018	2017
Assets used for backing technical provision other than mathematical provision		
Government bonds	433,745	443,542
Corporate bonds	12,621	3,873
Investment funds	23,274	15,332
Cash and deposits	17,191	21,140
Mortgages and borrowings	325	608
Total assets used for backing technical provision other than mathematical provision	487,156	484,495
Provision for unearned premiums, net of reinsurance	201,409	171,541
Claims provision, net of reinsurance	240,089	249,364
Other provisions	2,665	7,657
Required coverage of technical provision other than mathematical provision	444,163	428,562
Difference	42,993	55,933

As at 31 December 2018 and 2017, the Company was in compliance with regulatory requests relating to the structure and amounts of assets invested for backing the technical provision.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

11. INSURANCE CONTRACTS PROVISIONS (continued)

The table below analyses assets used for backing the 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	Over 10 years	Total
2018					
Assets used for backing technical provisions	64,180	285,758	90,365	46,853	487,156
Provision for unearned premiums, net of reinsurance	(120,734)	(32,390)	(45,731)	(2,554)	(201,409)
Claims provision and other provisions, net of reinsurance	(64,161)	(77,666)	(49,509)	(51,418)	(242,754)
Maturity gap	(120,715)	175,702	(4,875)	(7,119)	42,993
2017					
Assets used for backing technical provisions	130,393	222,011	74,505	57,586	484,495
Provision for unearned premiums, net of reinsurance	(112,914)	(20,278)	(36,451)	(1,898)	(171,541)
Claims provision and other provisions, net of reinsurance	(64,912)	(87,568)	(51,665)	(52,876)	(257,021)
Maturity gap	(47,433)	114,165	(13,611)	2,812	55,933

As at 31 December 2018, the structure of assets to cover the technical provision of the Company is as follows: 84.75% is classified as assets available for sale (2017: 72.22%), which both can be relatively easily sold by the Company, if required. The remaining structure is as follows: 11.66% as assets held to maturity (2017: 23.30%), 0.06% as loans and advances (2017: 0.12%), and 3.53% as funds on a business account (2017: 4.36%).

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

	EUR	Other currencies	HRK	Total
2018				
Assets used for backing technical provisions	109,927	-	377,229	487,156
Provision for unearned premiums, net of reinsurance	(17,337)	-	(184,072)	(201,409)
Claims provision and other provisions, net of reinsurance	(17,791)	-	(224,963)	(242,754)
	74,799	-	(31,806)	42,993
2017				
Assets used for backing technical provisions	350,384	-	134,111	484,495
Provision for unearned premiums, net of reinsurance	(14,184)	(4)	(157,353)	(171,541)
Claims provision and other provisions, net of reinsurance	(18,669)	-	(238,352)	(257,021)
	317,531	(4)	(261,594)	55,933

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.

Notes to the financial statements
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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.

	2018	2017
1 - 5 years	3.55%	4.53%
5 - 10 years	2.09%	2.10%
Over 10 years	1.99%	1.95%

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:

	2018	2017
LAT provision	1,852,668	1,924,036
Sensitivity test for changes in assumptions:		
decrease in interest rate of 1%	1,949,163	1,994,399
decrease in cancellation rate of 50%	1,873,086	1,939,318
increase in expenses of 10%	1,867,307	1,942,286

11. INSURANCE CONTRACTS PROVISIONS (continued)

(j) Liability adequacy test (continued)

The assumption that has the greatest impact on the LAT provision amount is interest reflecting the expected future returns that will be realised by investing the mathematical provision. The Company's calculation of LAT provisions at 31 December 2018 was performed by applying different rates than those that were used in the calculation of LAT provisions at 31 December 2017. If the non-linearity in interest rates is ignored, it can be said that the LAT provision increased by approximately HRK 3 due to different interest rates applied in 2018 compared to those applied in 2017.

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 the majority of life products are linked to EUR (in addition to premiums in USD and HRK) 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, loan insurance, 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 related to 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. Insured persons are entitled to a bonus in the premiums payment for the continuation of insurance in the event of no claim occurrence on their police when the conditions are met, ie entitled to malus in case of more claims.

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 credit and debit card users of Raiffeisenbank Austria d.d. Zagreb and other banks.

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12. INSURANCE AND OTHER PAYABLES

	2018	2017
Indirect insurance contract payables	68	287
Reinsurance contract payables	77,391	74,666
Deposits retained from business ceded to reinsurance	95,170	96,780
Other liabilities	30,512	22,426
Accrued expenses	71,446	81,878
Provisions for liabilities and charges	6,452	6,905
Provisions for legal claims /i/	37,530	35,347
	318,569	318,289

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 (2017: 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

	2018	2017
Opening balance as at 1 January	35,347	28,879
Increase in provision	4,826	10,998
Decrease in provision	(2,643)	(4,530)
Closing balance as at 31 December	37,530	35,347

/i/ As at 31 December 2018, 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 37,530 thousand (2017: HRK 35,347 thousand) for legal claims whose outcome is assessed as unfavourable for the Company. The Management Board believes that the Company will not have any material losses arising from these and other disputes above the amount of provisions made as at 31 December 2018.

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13. CAPITAL AND RESERVES

(a) Share capital

As at 31 December 2018, the Company's share capital amounted to HRK 62,700 thousand (2017: HRK 62,700 thousand). It is divided into 76 ordinary shares with a nominal value of HRK 825 thousand per share (2017: 76 ordinary shares with a nominal value of HRK 825 thousand per share).

As at 31 December 2018 and 2017, 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:

	2018	2017
Gross fair value reserve	194,116	191,208
Deferred tax	(34,941)	(34,417)
At 1 January	159,175	156,791
Change in fair value	(30,717)	3,334
Deferred tax on change in fair value	5,529	(600)
Net realised gains from available-for-sale financial assets (Note 15)	(9,886)	(426)
Deferred tax on net realised gains from available-for-sale financial assets	1,779	76
At 31 December	125,880	159,175
Gross fair value reserve	153,513	194,116
Deferred tax (Note 10)	(27,633)	(34,941)
At 31 December	125,880	159,175

(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 2018 and 2017, 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. Calculations of the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) are conducted quarterly. Throughout the year 2018, the Company has been meeting regulatory capital requirements, reporting quarterly quantitative information to the Croatian Financial Services Supervisory Agency.

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13. CAPITAL AND RESERVES (continued)

The Company's solvency capital is determined by applying the standard formula.

The Company's solvency quota as at 31 December 2018 was 214% (2017: 249%), while the minimum required capital quota was 527% (2017: 554%). The 2018 data will be published on the Company's web site as part of the Report on Solvency and Financial Position for 2018 by 22 April 2019 at the latest.

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, an estimation of the deviation between the Company's risk profile and the assumptions on which the standard formula is based and the preparation of sensitivity analyses and stress testing, through which the Company's capital adequacy is continually re-examined.

14. PREMIUMS

	2018	2017
<i>Non-life insurance</i>		
Gross premiums written	380,865	361,381
Written premiums ceded to reinsurance, net of reinsurers' share in impairment	(139,898)	(136,195)
Change in gross provisions for unearned premiums	(31,864)	(20,029)
Change in provision for unearned premiums, reinsurers' share	1,319	622
Total premiums earned from non-life insurance, net of reinsurance	210,422	205,779
<i>Life assurance</i>		
Gross premiums written	201,582	199,770
Premiums ceded to reinsurance	(6,676)	(7,286)
Change in gross provisions for unearned premiums	694	1,118
Change in provision for unearned premiums, reinsurers' share	(18)	(18)
Total premiums earned from life assurance, net of reinsurance	195,582	193,584
Net earned premiums	406,004	399,363
<i>Total life and non-life insurance</i>		
Gross premiums written	582,447	561,151
Premiums ceded to reinsurance	(146,574)	(143,481)
Change in gross provisions for unearned premiums	(31,170)	(18,911)
Change in provision for unearned premiums, reinsurers' share	1,301	604
Net earned premiums	406,004	399,363

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14. PREMIUMS (continued)

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.

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

<i>For the year 2018</i>	Gross premiums written	Gross premiums earned	Gross claims incurred	Acquisition and administration costs	Reinsurance balance
<i>Non-life insurance</i>					
Motor (third party liability)	84,208	88,249	(47,169)	(28,229)	190
Motor (other classes)	60,286	59,419	(50,610)	(18,766)	(826)
Property	64,048	57,989	(22,023)	(26,881)	9,779
Personal lines	80,532	75,611	(44,104)	(30,701)	2,163
Other	91,791	67,733	(15,132)	(34,284)	10,257
Total non-life insurance	380,865	349,001	(179,037)	(138,861)	21,564
<i>Life assurance</i>					
Individual premiums	201,582	202,276	(191,561)	(67,418)	(2,316)
Periodic premiums	161,117	161,547	(157,520)	(53,884)	(1,851)
Single premiums	40,465	40,729	(34,041)	(13,534)	(465)
Total life assurance	201,582	202,276	(191,561)	(67,418)	(2,316)
Total	582,447	551,277	(370,598)	(206,278)	19,248

<i>For the year 2017</i>	Gross premiums written	Gross premiums earned	Gross claims incurred	Acquisition and administration costs	Reinsurance balance
<i>Non-life insurance</i>					
Motor (third party liability)	94,152	98,734	(52,539)	(32,309)	(337)
Motor (other classes)	58,268	56,327	(45,144)	(18,059)	(892)
Property	60,431	54,446	(21,679)	(25,527)	9,586
Personal lines	74,700	69,383	(44,314)	(25,692)	3,266
Other	73,830	62,463	(25,456)	(32,922)	4,491
Total non-life insurance	361,381	341,353	(189,132)	(134,509)	16,114
<i>Life assurance</i>					
Individual premiums	199,770	200,887	(207,714)	(70,298)	(1,077)
Periodic premiums	174,109	174,883	(177,649)	(61,268)	(939)
Single premiums	25,661	26,004	(30,065)	(9,030)	(138)
Total life assurance	199,770	200,887	(207,714)	(70,298)	(1,077)
Total	561,151	542,240	(396,847)	(204,806)	15,037

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15. NET INVESTMENT INCOME

	2018	2017
Investment income		
<i>Interest income:</i>		
- Held-to-maturity investments	56,443	65,935
- Available-for-sale financial assets	60,737	64,162
- Loans and receivables	1,423	2,663
<i>Net realised gains:</i>		
- Financial assets at fair value through profit or loss	82	4,103
- Available-for-sale financial assets	9,886	426
- Sale of property	-	595
<i>Net unrealised gains:</i>		
- change in fair value of financial assets through profit or loss	-	2,184
Income from collection of impaired loans and receivables	4,597	734
Dividend income	289	1,028
Rental income	2,899	2,982
	136,356	144,812
Investment expenses		
<i>Net realised losses:</i>		
Net realised losses on sale of property	(149)	-
<i>Net unrealised losses:</i>		
Net unrealised losses on change in fair value through profit or loss	(5,793)	-
Net unrealised losses on change in fair value of investment property	(1,153)	(790)
Impairment of bonds	(228)	(2,257)
Custodian expenses	(550)	(618)
Net foreign exchange losses	(29,934)	(14,539)
Investment property expense	(801)	(687)
Other	(5,004)	(4,564)
	(43,612)	(23,455)
Net investment income	92,744	121,357

	2018 Non-life insurance	2018 Life assurance	2018 Total	2017 Non-life insurance	2017 Life assurance	2017 Total
Investment income						
Income from investment of capital	3,884	6,703	10,587	2,565	4,790	7,355
Income from investment of mathematical provision	-	106,814	106,814	-	113,102	113,102
Income from investment of special provision for unit-linked products	-	15	15	-	1,921	1,921
Income from investment of other technical provisions	17,376	1,564	18,940	20,859	1,575	22,434
Total investment income	21,260	115,096	136,356	23,424	121,388	144,812
Investment expenses						
Costs from investment of capital	(666)	(1,482)	(2,148)	(298)	(1,622)	(1,920)
Costs from investment of mathematical provision	-	(32,301)	(32,301)	-	(17,631)	(17,631)
Costs from investment of special provision for unit-linked products	-	(5,736)	(5,736)	-	142	142
Costs from investment of other technical provisions	(3,075)	(352)	(3,427)	(3,883)	(163)	(4,046)
Total investment expenses	(3,741)	(39,871)	(43,612)	(4,181)	(19,274)	(23,455)
Net investment income	17,519	75,225	92,744	19,243	102,114	121,357

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16. CLAIMS INCURRED, NET

	2018	2017
<i>Non-life insurance</i>		
Settled claims		
Gross amount	(192,077)	(196,429)
Reinsurers' share	70,012	74,823
Change in provisions for reported but not settled claims		
Gross amount	8,066	19,043
Reinsurers' share	(452)	(8,612)
Change in provisions for incurred but not reported claims		
Gross amount	(1,626)	(8,793)
Reinsurers' share	2,631	7,372
Changes in provision for bonuses and discounts		
Gross amount	(459)	(2,953)
Reinsurers' share	(1,003)	81
Total non-life insurance claims	(186,096)	(189,132)
Total reinsurers' share in total non-life insurance claims	71,188	73,664
Total non-life insurance claims, net of reinsurance	(114,908)	(115,468)
<i>Life assurance</i>		
Settled claims		
Gross amount	(354,844)	(419,851)
Reinsurers' share	8,769	9,959
Change in life assurance mathematical provision		
Gross amount	201,760	236,498
Reinsurers' share	(1,592)	(1,297)
Change in provisions for reported but not settled claims		
Gross amount	(4,627)	1,119
Reinsurers' share	(423)	97
Change in provisions for incurred but not reported claims		
Gross amount	(377)	475
Reinsurers' share	(34)	1
Change in provision for unit-linked products	(33,473)	(25,955)
Total life insurance claims	(191,561)	(207,714)
Total reinsurers' share in life insurance claims	6,720	8,760
Total life insurance claims, net of reinsurance	(184,841)	(198,955)
Total claims incurred	(377,657)	(396,847)
Total reinsurers' share in claims incurred	77,908	82,424
Total claims incurred, net of reinsurance	(299,749)	(314,423)

As at 31 December 2018, the Company was involved in 655 (2017: 700) court cases for which HRK 88,307 thousand (2017: HRK 94,848 thousand) was provided as part of the provision for reported but not settled claims. The Management Board believes that the related provisions are sufficient.

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(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.

2018	Claims ratio	Cost ratio	Combined ratio
Accident insurance	19.88%	63.98%	83.86%
Health insurance	78.47%	28.31%	106.78%
Insurance of motor vehicles	85.18%	31.25%	116.43%
Vessel insurance	104.61%	50.03%	154.64%
Insurance of goods in transit	55.79%	32.24%	88.03%
Insurance against fire and natural disasters	40.14%	46.92%	87.06%
Other property insurance	34.97%	46.57%	81.54%
Motor third-party liability insurance	53.45%	31.36%	84.81%
Vessel third-party liability insurance	14.85%	37.21%	52.06%
Other third-party liability insurance	12.88%	43.02%	55.90%
Loan insurance	1.68%	66.27%	67.96%
Guarantee insurance	628.41%	44.38%	672.79%
Financial loss insurance	44.63%	48.12%	92.75%
Insurance of legal protection costs	14.30%	53.83%	68.13%
Travel insurance	41.96%	47.19%	89.15%
Total non-life insurance	53.19%	39.59%	92.78%
2017			
Accident insurance	24.50%	67.70%	92.20%
Health insurance	80.61%	23.68%	104.29%
Insurance of motor vehicles	80.15%	31.21%	111.36%
Vessel insurance	121.33%	51.90%	173.23%
Insurance of goods in transit	44.26%	32.71%	76.97%
Insurance against fire and natural disasters	41.74%	47.11%	88.85%
Other property insurance	36.87%	46.04%	82.91%
Motor third-party liability insurance	53.21%	31.94%	85.15%
Vessel third-party liability insurance	12.37%	59.52%	71.89%
Other third-party liability insurance	26.43%	44.49%	70.92%
Loan insurance	3.04%	63.26%	66.29%
Guarantee insurance	0.00%	46.56%	46.56%
Financial loss insurance	55.27%	50.76%	106.03%
Insurance of legal protection costs	2.44%	54.70%	57.14%
Travel insurance	40.93%	55.11%	96.04%
Total non-life insurance	54.54%	38.92%	93.46%

The above ratios for 2018 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.

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17. ACQUISITION COSTS

	2018	2017
<i>Non-life insurance</i>		
Commission expenses	68,980	61,560
Other acquisition costs	26,096	27,989
Change in deferred acquisition costs	(11,942)	(6,798)
Total acquisition costs, non-life	83,134	82,751
<i>Life assurance</i>		
Commission expenses	13,863	15,059
Other acquisition costs	13,189	13,677
Total acquisition costs, life	27,052	28,736
Total	110,186	111,487

The Company's acquisition costs include internal sales staff costs amounting to HRK 19.4 million (2017: HRK 17.0 million).

The following table presents acquisition costs by type of insurance:

	2018	2017
<i>Non-life insurance</i>		
Accident insurance	10,795	9,037
Health insurance	10,089	9,017
Insurance of motor vehicles	11,276	11,392
Vessel insurance	3,272	2,688
Insurance of goods in transit	161	174
Insurance against fire and natural disasters	8,813	8,923
Other property insurance	6,559	5,931
Motor third-party liability insurance	14,766	17,920
Vessel third-party liability insurance	892	853
Other third-party liability insurance	7,347	7,252
Loan insurance	15	13
Guarantee insurance	5,138	5,401
Financial loss insurance	2,490	2,388
Insurance of legal protection costs	496	588
Travel insurance	1,025	1,174
Total non-life	83,134	82,751
<i>Life assurance</i>		
Life assurance	18,724	22,286
Annuity insurance	65	201
Life rider products	1,186	1,483
Marriage and birth assurance	169	188
Life or annuity insurance where the policyholder bears the investment risk	6,908	4,578
Total life insurance	27,052	28,736
Total non-life and life insurance	110,186	111,487

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18. ADMINISTRATION COSTS

	2018	2017
Depreciation and amortisation	5,404	6,185
Staff costs	34,990	36,735
Cost of materials and services	13,112	15,024
Rental costs	8,190	7,114
Marketing and promotion	9,344	8,594
Maintenance costs	4,355	5,488
Audit costs	1,266	1,268
Other costs	19,431	12,911
Total	96,092	93,319

As at 31 December 2018, the Company had 598 employees (2017: 627).

During 2018, the Company paid HRK 15.8 million (2017: HRK 16.0 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:

	2018	2017
<i>Non-life insurance</i>		
Accident insurance	5,825	5,143
Health insurance	3,992	2,495
Insurance of motor vehicles	7,489	6,665
Vessel insurance	2,111	1,582
Insurance of goods in transit	249	243
Insurance against fire and natural disasters	6,684	6,435
Other property insurance	4,825	4,238
Motor third-party liability insurance	13,462	14,389
Vessel third-party liability insurance	634	560
Other third-party liability insurance	4,271	4,120
Loan insurance	3,247	3,172
Guarantee insurance	12	11
Financial loss insurance	1,716	1,441
Insurance of legal protection costs	286	319
Travel insurance	923	944
Total non-life	55,726	51,757
<i>Life assurance</i>		
Life assurance	27,940	32,233
Annuity insurance	97	291
Life rider products	1,769	2,145
Marriage and birth assurance	252	272
Life or annuity insurance where the policyholder bears the investment risk	10,308	6,621
Total life insurance	40,366	41,562
Total non-life and life insurance	96,092	93,319

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19. INCOME TAX

	2018	2017
Current tax expense		
Current period	(10,522)	(8,427)
Deferred income tax (expense)/income		
Recognition of deferred tax assets (Note 10)	<u>302</u>	<u>437</u>
	<u>(10,220)</u>	<u>(7,990)</u>

Reconciliation of the accounting result for the period to the income tax expense:

	2018	2017
Accounting result before income tax	33,928	34,055
Income tax at 18%	(6,107)	(6,130)
Effect of non-deductible expenses	(7,375)	(4,808)
Effect of non-taxable income	<u>3,262</u>	<u>2,948</u>
Income tax	<u>(10,220)</u>	<u>(7,990)</u>

As at 31 December 2018 and 31 December 2017, there were 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.

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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 2018 and 2017. 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 2018 and 2017 arising from related party transactions were as follows:

2018:	Assets	Liabilities	Income	Expenses
Parent company	8,546	104,111	4,211	3,438
Other related companies within UNIQA Group	61,600	85,479	114,156	143,013
Other related companies within RZB Group	183,724	5,976	112,396	28,999
Key management personnel	-	2,459	-	14,231
	253,870	198,026	230,763	189,681
2017:				
Parent company	9,274	107,290	10,163	14,745
Other related companies within UNIQA Group	57,162	83,967	120,846	135,470
Other related companies within RZB Group	196,256	1,942	105,484	18,631
Key management personnel	-	2,452	-	14,177
	262,692	195,651	236,493	183,023

(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:

	2018	2017
Premiums ceded to reinsurance:		
Reinsurance premiums payable at beginning of year	71,815	71,630
Premiums ceded to reinsurance during the year	143,944	141,711
Reinsurance premiums paid during the year	(142,713)	(141,526)
Reinsurance premiums payable at end of year	73,046	71,815
Deposits retained from business ceded to reinsurance	95,170	96,780
Reinsurance recoveries:		
At beginning of year	45,402	40,992
Invoiced during the year	77,303	82,168
Collected during the year	(79,859)	(77,758)
Outstanding at end of year	42,846	45,402
Reinsurance commission:		
At beginning of year	20,917	22,842
Invoiced during the year	46,973	44,980
Collected during the year	(46,361)	(46,905)
Outstanding at end of year	21,529	20,917

20. RELATED PARTY TRANSACTIONS (continued)

(b) Other activities

During 2018, the gross premium written in respect of insurance policies sold through distribution channels of related parties totalled HRK 112.3 million (2017: HRK 84.6 million).

Related parties have property, loans, motor, life and personal lines insurance policies with the Company. Gross premium written for the policies in 2018 amounted to HRK 3.7 million (2017: HRK 3.6 million).

As at 31 December 2018, the funds on the Company's giro account with related parties amounted to HRK 32.4 million (2017: HRK 45.7 million).

As at 31 December 2018, the Company invested HRK 179.8 million in open-ended investment funds in assets managed by a related party (2017: HRK 188.9 million) and HRK 3.9 million in the structured product (2017: HRK 7.4 million).

(c) Relationship with key management personnel

The gross remuneration paid or payable by the Company to the key management personnel for 2018 amounted to HRK 14,231 thousand (2017: HRK 14,177 thousand), including fixed salary and bonuses for 2018.

In 2018, the Company paid pension contributions for key management personnel in the amount of HRK 1,898 thousand (2017: HRK 1,809 thousand) into obligatory defined contribution pension funds.

In 2018, the Company paid a variable bonus for 2017 in the total amount of HRK 1,895 thousand, of which HRK 759 thousand for 3 members of the Management Board, HRK 84 thousand for 3 procurators and HRK 1,052 thousand for 117 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.

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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, loans, 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. The provision 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 Company has 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 contracts for non-life insurance policies in order to reduce the net exposure for individual insurance contracts, whereas in terms of life assurance, long-term reinsurance contracts are effective on a proportionate basis.

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

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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
<i>For the year 2018</i>			
<i>Non-life insurance</i>			
Motor (third party liability)	(47,169)	27,165	(20,004)
Motor (other classes)	(50,610)	23,855	(26,755)
Property	(22,023)	9,558	(12,465)
Personal lines	(44,104)	3,466	(40,638)
Other	(22,191)	7,143	(15,048)
Total non-life insurance	(186,097)	71,188	(114,909)
<i>Life assurance</i>			
Individual premiums	(191,561)	6,720	(184,841)
Periodic premiums	(157,520)	5,526	(151,994)
Single premiums	(34,041)	1,194	(32,847)
Total life insurance	(191,561)	6,720	(184,841)
Total	(377,658)	77,908	(299,750)

	Gross claims incurred	Reinsurance balance	Net claims incurred
<i>For the year 2017</i>			
<i>Non-life insurance</i>			
Motor (third party liability)	(45,144)	22,062	(23,082)
Motor (other classes)	(21,679)	9,316	(12,363)
Property	(44,314)	2,548	(41,766)
Personal lines	(25,456)	9,775	(15,681)
Other	(52,539)	29,882	(22,657)
Total non-life insurance	(189,132)	73,583	(115,549)
<i>Life assurance</i>			
Individual premiums	(207,715)	8,760	(198,955)
Periodic premiums	(177,649)	7,492	(170,157)
Single premiums	(30,065)	1,268	(28,797)
Total life insurance	(207,715)	8,760	(198,955)
Total	(396,847)	82,343	(314,504)

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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:

	2018	2018	2017	2017
	Reinsurance coverage	Retention	Reinsurance coverage	Retention
Motor – third party liability	Unlimited	1,250	Unlimited	1,250
Fire	1,000,000	1,500	1,000,000	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	1,000,000	1,500
Vessels	22,400	1,000	22,400	1,000
Liability	146,000	900	146,000	900
Earthquake	160,000	2,000	160,000	2,000
Flood	160,000	2,000	160,000	2,000

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:

Line of insurance	Value at risk			
	2018	%	2017	%
Life assurance – traditional products	2,957,817	96.78%	3,181,495	97.74%
Unit-linked life assurance products	98,337	3.22%	73,654	2.26%
At 31 December	3,056,154	100.00%	3,255,149	100.00%

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21. INSURANCE RISK MANAGEMENT (continued)

The 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 2018	Total sum insured Before reinsurance	
in HRK		%
< 40,000	581,053	9.0
40,001-60,000	512,289	7.9
60,001-80,000	737,309	11.4
80,001-100,000	732,501	11.3
100,001-125,000	1,048,737	16.2
125,001-150,000	665,732	10.3
150,001-250,000	1,446,331	22.3
250,001-500,000	553,896	8.5
> 500,001	203,272	3.1
At 31 December 2018	6,481,120	100.0

Sum insured per policy as at 31 December 2017	Total sum insured Before reinsurance	
in HRK		%
< 40,000	613,619	8.6
40,001-60,000	557,454	7.8
60,001-80,000	828,039	11.6
80,001-100,000	861,437	12.1
100,001-125,000	1,260,883	17.7
125,001-150,000	460,949	6.5
150,001-250,000	1,683,711	23.5
250,001-500,000	585,309	8.2
> 500,001	285,885	4.0
At 31 December 2017	7,137,286	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.

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22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Currency 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% (2017: 1%), with other variables held constant, would result in higher/lower profit for the period of HRK 17,524 thousand (2017: HRK 19,577 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 2018 and 31 December 2017 are denominated in the following currencies:

2018	EUR	HRK	Other foreign currencies	Total
Financial assets				
<i>Held-to-maturity investments</i>				
Debt securities	848,759	43,343	-	892,102
<i>Available-for-sale financial assets</i>				
Debt securities	1,148,762	423,881	-	1,572,643
Bond funds	142,469	-	-	142,469
Equity funds	39,691	-	-	39,691
Alternative funds	3,892	-	-	3,892
Structured product	-	-	16,978	16,978
<i>Financial assets at fair value through profit or loss</i>				
Mixed funds	306	-	-	306
Bond funds	5,748	-	-	5,748
Equity funds	54,176	-	-	54,176
Alternative funds	1,701	-	-	1,701
Structured product	-	3,930	22,180	26,110
<i>Loans and receivables</i>				
Bank deposits	-	29,194	-	29,194
Loans	13,798	975	-	14,773
Other receivables	16,273	162,346	3	178,621
Cash and cash equivalents	24,416	42,122	217	66,756
Total financial assets	2,299,991	705,791	39,378	3,045,160
Financial liabilities				
Other liabilities	109,518	93,608	14	203,141
Total financial liabilities	109,518	93,608	14	203,141
Currency gap between financial assets and liabilities	2,190,472	612,183	39,364	2,842,019

Notes to the financial statements
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(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Currency risk (continued)

2017	EUR	HRK	Other foreign currencies	Total
Financial assets				
<i>Held-to-maturity investments</i>				
Debt securities	1,155,009	45,168	-	1,200,177
<i>Available-for-sale financial assets</i>				
Debt securities	1,082,444	367,539	-	1,449,983
Bond funds	129,807	-	-	129,807
Equity funds	58,257	11,108	-	69,365
Alternative funds	4,338	-	-	4,338
Structured product	-	3,886	-	3,886
<i>Financial assets at fair value through profit or loss</i>				
Mixed funds	-	-	-	-
Bond funds	12,610	-	-	12,610
Equity funds	44,669	-	-	44,669
Alternative funds	1,869	-	-	1,869
Structured product	-	3,494	-	3,494
<i>Loans and receivables</i>				
Bank deposits	27,333	34,092	-	61,425
Loans	20,044	352	-	20,396
Other receivables	15,396	159,461	3	174,860
Cash and cash equivalents	5,101	55,423	4	60,527
Total financial assets	2,556,877	680,523	7	3,237,407
Financial liabilities				
Other liabilities	109,735	84,407	17	194,159
Total financial liabilities	109,735	84,407	17	194,159
Currency gap between financial assets and liabilities	2,447,142	596,116	(10)	3,043,247

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 equal or 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.

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Interest rate risk (continued)

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.

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 contractually committed to accrue interest at rates of 0.5%, 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 currently not able to fully hedge the future interest rate on assets invested to meet those future liabilities. By reducing the technical interest rate in the calculation of the mathematical provision (2.6% in 2017, 2.35% in 2018) the Company reduces exposure to future interest rate risk.

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 2018 and 2017, 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.

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22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Interest rate risk (continued)

2018	Effective interest rate	Up to 6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
<i>Held-to-maturity investments</i>							
Debt securities	5.40%	-	230,241	483,873	177,988	-	892,102
<i>Available-for-sale financial assets</i>							
Debt securities	4.48%	593	71,777	882,334	617,939	-	1,572,643
Bond funds		-	-	-	-	142,469	142,469
Equity funds		-	-	-	-	39,691	39,691
Alternative funds		-	-	-	-	3,892	3,892
Structured product		-	-	-	-	16,978	16,978
<i>Financial assets at fair value through profit or loss</i>							
Mixed funds		-	-	-	-	306	306
Bond funds		-	-	-	-	5,748	5,748
Equity funds		-	-	-	-	54,176	54,176
Alternative funds		-	-	-	-	1,701	1,701
Structured product		-	-	-	-	26,110	26,110
<i>Loans and receivables</i>							
Bank deposits	0.18%	29,194	-	-	-	-	29,194
Loans	6.31%	760	1,831	8,859	3,323	-	14,773
Other receivables	n/a	-	-	-	-	178,621	178,621
Cash and cash equivalents		66,756	-	-	-	-	66,756
Total financial assets		97,303	303,849	1,375,066	799,250	469,692	3,045,160
Financial liabilities							
Other liabilities	3.00%	77,057	2,532	31,988	60,985	30,579	203,141
Total financial liabilities		77,057	2,532	31,988	60,985	30,579	203,141
Interest rate gap		20,246	301,317	1,343,078	738,265	439,113	2,842,019

Notes to the financial statements
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(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Interest rate risk (continued)

2017	Effective interest rate	Up to 6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
<i>Held-to-maturity investments</i>							
Debt securities	5.59%	-	294,272	724,987	180,918	-	1,200,177
<i>Available-for-sale financial assets</i>							
Debt securities	4.96%	-	62,411	878,970	508,602	-	1,449,983
Bond funds		-	-	-	-	129,807	129,807
Equity funds		-	-	-	-	69,365	69,365
Alternative funds		-	-	-	-	4,338	4,338
Structured product		-	-	-	-	3,886	3,886
<i>Financial assets at fair value through profit or loss</i>							
Bond funds		-	-	-	-	12,610	12,610
Equity funds		-	-	-	-	44,669	44,669
Alternative funds		-	-	-	-	1,869	1,869
Structured product		-	-	-	-	3,494	3,494
<i>Loans and receivables</i>							
Bank deposits	0.17%	61,425	-	-	-	-	61,425
Loans	6.58%	1,088	2,246	13,357	3,705	-	20,396
Other receivables	n/a	-	-	-	-	174,860	174,860
Cash and cash equivalents		60,527	-	-	-	-	60,527
Total financial assets		123,040	358,929	1,617,314	693,225	444,898	3,237,407
Financial liabilities							
Other liabilities	3.00%	83,028	11,288	37,848	39,281	22,714	194,159
Total financial liabilities		83,028	11,288	37,848	39,281	22,714	194,159
Interest rate gap		40,012	347,641	1,579,466	653,944	422,184	3,043,247

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22. FINANCIAL RISK MANAGEMENT (continued)

22.1. Market risk (continued)

Equity 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% (2017: 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 18,605 thousand (2017: HRK 20,351 thousand) and in a loss/gain recognised in profit or loss in the amount of HRK 6,193 thousand (2017: HRK 5,915 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:

	2018	2017
<i>Debt securities:</i>		
- Held-to-maturity investments	892,102	1,200,177
- Available-for-sale financial assets	1,775,673	1,657,379
- Financial assets at fair value through profit or loss	88,041	62,642
<i>Loans and receivables:</i>		
Bank deposits	29,194	61,425
Loans	14,773	20,396
Reinsurers' share in insurance contract provisions	292,494	292,671
Other receivables and reinsurance receivables	178,621	174,860
Cash and cash equivalents	66,756	60,527
	3,337,654	3,530,077

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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):

	2018	2017
Government bonds	2,004,047	2,308,160
Accrued interest on government bonds	35,403	44,944
Total	2,039,450	2,353,104

The total exposure to Croatian state risk represents 58% of the total assets of the Company (2017: 64%).

Exposure to large corporate entities and banks

At 31 December 2018, the exposure to large domestic corporate entities comprising debt securities and accrued interest on debt securities amounted to HRK 76,554 thousand (2017: HRK 17,727 thousand). The credit rating of debt securities comprising 88% (2017: 83%) of the total exposure to corporate entities is A-, B+, BBB+ and C (S&P), while other issuers do not have a credit rating.

As at 31 December 2018, the exposure to financial institutions comprising deposits with banks amounts to HRK 29,194 thousand (2017: HRK 69,683 thousand). Financial institutions do not have a credit 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	2018	2017
A and AA	126,202	123,990
BBB	2,550	1,785
Other or without rating	1,795	2,593
	130,547	128,368

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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
2018							
Neither past due nor impaired	2,464,745	14,331	29,194	178,621	292,494	66,756	3,046,140
Past due but not impaired	-	442	-	-	-	-	442
Impaired	-	6,697	-	6,922	-	-	13,619
Impairment provision	-	(6,697)	-	(6,922)	-	-	(13,619)
	2,464,745	14,773	29,194	178,621	292,494	66,756	3,046,582
2017							
Neither past due nor impaired	2,650,160	19,538	61,425	174,860	292,671	60,527	3,259,181
Past due but not impaired	-	858	-	-	-	-	858
Impaired	-	15,237	-	5,605	-	-	20,842
Impairment provision	-	(15,237)	-	(5,605)	-	-	(20,842)
	2,650,160	20,396	61,425	174,860	292,671	60,527	3,260,039

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 44,420 thousand (2017: HRK 60,354 thousand) does not differ significantly from their fair values, as valuations were performed by independent valuation specialists.

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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:

	2018	2017
Less than 30 days	143	278
31 - 180 days	241	383
181 - 365 days	57	86
Over 365 days	1	111
	442	858

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 as a result of the financial activities of the Company and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. 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 2018 and 31 December 2017 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.

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22. FINANCIAL RISK MANAGEMENT (continued)

22.3. Liquidity risk (continued)

2018	Up to 6 months	6-12 months	1-5 years	More than 5 years	Total
Financial assets					
<i>Held-to-maturity investments</i>					
Debt securities	-	230,241	483,873	177,988	892,102
<i>Available-for-sale financial assets</i>					
Debt securities	593	71,777	882,334	617,939	1,572,643
Bond funds	142,469	-	-	-	142,469
Equity funds	39,691	-	-	-	39,691
Alternative funds	3,892	-	-	-	3,892
Structured product	-	-	16,978	-	16,978
<i>Financial assets at fair value through profit or loss</i>					
Mixed funds	306	-	-	-	306
Bond funds	5,748	-	-	-	5,748
Equity funds	54,176	-	-	-	54,176
Alternative funds	1,701	-	-	-	1,701
Structured product	-	-	22,180	3,930	26,110
<i>Loans and receivables</i>					
Bank deposits	29,194	-	-	-	29,194
Loans	760	1,831	8,859	3,323	14,773
Other receivables	177,778	114	309	420	178,621
Cash and cash equivalents	66,756	-	-	-	66,756
Total financial assets	523,064	303,963	1,414,533	803,600	3,045,160
Financial liabilities					
Other liabilities	107,636	2,532	31,988	60,985	203,141
Total financial liabilities	107,636	2,532	31,988	60,985	203,141
Maturity gap between financial assets and liabilities	415,428	301,431	1,382,545	742,615	2,842,019

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22. FINANCIAL RISK MANAGEMENT (continued)

22.3. Liquidity risk (continued)

Remaining expected maturities of insurance liabilities

2018	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	160,329	43,237	61,045	1,808	1,424	180	268,021
RBNS, IBNR and other provisions	113,411	153,812	94,000	51,166	30,656	28,517	471,563
Mathematical provision	455,539	614,683	377,525	206,659	159,291	51,526	1,865,223
Total technical provision	729,279	811,732	532,570	259,633	191,371	80,223	2,604,807
Reinsurers' share	97,730	85,264	61,415	25,628	15,569	6,888	292,494
Net technical provision	631,549	726,468	471,155	234,005	175,802	73,335	2,312,314
Deposits retained from business ceded to reinsurance	23,243	31,363	19,263	10,544	8,128	2,629	95,170

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

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22. FINANCIAL RISK MANAGEMENT (continued)

22.3. Liquidity risk (continued)

2017	Up to 6 months	6-12 months	1-5 years	More than 5 years	Total
Financial assets					
<i>Held-to-maturity investments</i>					
Debt securities	-	294,272	724,987	180,918	1,200,177
<i>Available-for-sale financial assets</i>					
Debt securities	-	62,411	878,970	508,602	1,449,983
Bond funds	129,807	-	-	-	129,807
Equity funds	69,365	-	-	-	69,365
Alternative funds	4,338	-	-	-	4,338
Structured product	3,886	-	-	-	3,886
<i>Financial assets at fair value through profit or loss</i>					
Bond funds	12,610	-	-	-	12,610
Equity funds	44,669	-	-	-	44,669
Alternative funds	1,869	-	-	-	1,869
Structured product	3,494	-	-	-	3,494
<i>Loans and receivables</i>					
Bank deposits	61,425				61,425
Loans	1,088	2,246	13,357	3,705	20,396
Other receivables	173,981	112	323	445	174,860
Cash and cash equivalents	60,527	-	-	-	60,527
Total financial assets	567,059	359,041	1,617,637	693,670	3,237,407
Financial liabilities					
Other liabilities	105,742	11,288	37,848	39,281	194,159
Total financial liabilities	105,742	11,288	37,848	39,281	194,159
Maturity gap between financial assets and liabilities	461,317	347,753	1,579,788	654,389	3,043,248

Remaining expected maturities of insurance liabilities

2017	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	155,479	28,145	50,593	721	1,305	608	236,851
RBNS, IBNR and other provisions	108,902	139,448	91,536	50,186	31,811	24,243	446,126
Mathematical provision	468,954	782,909	399,985	198,051	164,471	52,613	2,066,983
Total technical provision	733,335	950,502	542,114	248,958	197,587	77,464	2,749,960
Reinsurers' share	99,142	88,788	59,657	23,511	15,364	6,209	292,671
Net technical provision	634,193	861,714	482,457	225,447	182,223	71,255	2,457,289
Deposits retained from business ceded to reinsurance	21,958	36,657	18,728	9,273	7,701	2,463	96,780

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

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	
	2018	2017	2018	2017
<i>In thousands of HRK</i>				
Held-to-maturity investments – debt securities	892,102	1,200,177	970,044	1,312,572

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

In accordance with the amendment to IFRS 13 for financial instruments that are measured in the statement of financial position at fair value, the Company discloses 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).

Notes to the financial statements
For the year ended 31 December 2018

(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 2018 and 2017 according to those hierarchical levels:

31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
- Bond funds	5,748	-	-	5,748
- Mixed funds	306	-	-	306
- Equity funds	54,176	-	-	54,176
- Alternative funds	1,701	-	-	1,701
- Structured product	26,110	-	-	26,110
Available-for-sale financial assets				
- Debt securities	1,563,673	8,970	-	1,572,643
- Bond funds	142,469	-	-	142,469
- Equity funds	39,691	-	-	39,691
- Alternative funds	3,892	-	-	3,892
- Structured product	16,978	-	-	16,978
Investment property	-	-	56,460	56,460
Total assets	1,854,744	8,970	56,460	1,920,174

31 December 2017	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
- Bond funds	12,610	-	-	12,610
- Equity funds	44,669	-	-	44,669
- Alternative funds	1,869	-	-	1,869
- Structured product	3,494	-	-	3,494
Available-for-sale financial assets				
- Debt securities	1,449,983	-	-	1,449,983
- Bond funds	129,807	-	-	129,807
- Equity funds	69,365	-	-	69,365
- Alternative funds	4,338	-	-	4,338
- Structured product	3,886	-	-	3,886
Investment property	-	-	50,845	50,845
Total assets	1,720,021	-	50,845	1,770,866

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

22. FINANCIAL RISK MANAGEMENT (continued)

22.4. Fair values (continued)

The fair value of investments held to maturity is determined on the basis of market prices and is classified in level 1 in accordance with IFRS 13.

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 available-for-sale financial assets.

The fair value of financial instruments that are not traded in an active market 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.

In 2018, level 2 assets amounted to HRK 8,970 thousand (2017: no level 2 assets) and relate to the corporate bond. The corporate bond was not actively traded within fifteen (15) days, so it is measured at amortised cost using the effective interest method, where the starting value was the last fair value of this security determined in the active market.

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, these assets are included in fair value level 3.

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 2018 and 31 December 2017. The fair value of investment property was derived using the income and sales comparison approaches, as appropriate depending on the particular asset.

Notes to the financial statements
For the year ended 31 December 2018

(all amounts are expressed in thousands of HRK)

22. FINANCIAL RISK MANAGEMENT (continued)

22.4. Fair values (continued)

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 2018	Range of unobservable inputs in 2017
2018	2017				
56,460	50,845	Income approach	Discount rate	7.0 - 8.5%	7.0 - 8.25%
			Average rent price per m ²	30 - 92 HRK/m ²	30 - 94 HRK/m ²
		Comparison approach	Average sales price per m ²	3,400 - 9,200 HRK/m ²	3,500 - 9,600 HRK/m ²

A significant increase/(decrease) in the average price per m², 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.

**The Company's financial statements in accordance with the format prescribed by the Croatian
Financial Services Supervisory Agency (HANFA)**

The financial statements on the operations 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, 96/18) are presented below.

1. Statement of financial position
 - 1.1. Reconciliation of the statement of financial position prepared in accordance with the HANFA format and format of these financial statements
2. Statement of comprehensive income
 - 2.1. Reconciliation of the statement of comprehensive income prepared in accordance with the HANFA format and format of these financial statements
3. Statement of cash flows
4. Statement of changes in equity
5. Notes to the financial statements – see Notes 1 to 22 to the financial statements.

Financial statements in the format prescribed by the Croatian Financial Services
Supervisory Agency
For the year ended 31 December 2018

STATEMENT OF FINANCIAL POSITION

As at: 31 December 2018

in HRK

Position No.	Sum elements	Position code	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003	I	INTANGIBLE ASSETS	2.564.922	2.564.922	5.129.843	2.080.623	2.080.623	4.161.246
002		1	Goodwill						
003		2	Other intangible assets	2.564.922	2.564.922	5.129.843	2.080.623	2.080.623	4.161.246
004	005+006+007	II	TANGIBLE ASSETS	8.380.411	25.102.432	33.482.843	7.992.305	15.276.563	23.268.868
005		1	Land and buildings intended for company business operations	5.353.716	22.075.740	27.429.457	5.223.048	12.507.311	17.730.359
006		2	Equipment	2.060.304	2.060.305	4.120.609	2.047.145	2.047.145	4.094.290
007		3	Other tangible assets and inventories	966.390	966.387	1.932.778	722.112	722.107	1.444.219
008	009+010+014+033	III	INVESTMENTS	2.524.272.075	481.959.953	3.006.232.028	2.281.966.034	493.025.786	2.774.991.820
009		A	Investments in land and buildings not intended for company business operations	45.026.950	5.817.899	50.844.849	42.801.244	13.659.089	56.460.333
010	011+012+013	B	Investments in subsidiaries, associates and joint ventures		4.000	4.000			
011		1	Shares and stakes in subsidiaries						
012		2	Shares and stakes in associates						
013		3	Shares and stakes in joint ventures		4.000	4.000			
014	015+018+023+029	C	Financial assets	2.479.245.125	476.138.054	2.955.383.179	2.239.164.790	479.366.697	2.718.531.487
015	016+017	1	Financial assets held to maturity	1.081.746.681	118.430.795	1.200.177.476	829.714.709	62.387.654	892.102.363
016		1.1	Debt financial instruments	1.081.746.681	118.430.795	1.200.177.476	829.714.709	62.387.654	892.102.363
017		1.2	Other						
018	019+020+021+022	2	Available-for-sale financial assets	1.311.239.932	346.139.105	1.657.379.037	1.364.737.645	410.935.005	1.775.672.650
019		2.1	Equity financial instruments						
020		2.2	Debt financial instruments	1.119.176.054	330.806.695	1.449.982.749	1.184.982.730	387.661.525	1.572.644.256
021		2.3	Shares in investment funds	188.177.429	15.332.411	203.509.840	162.777.371	23.273.480	186.050.851
022		2.4	Other	3.886.448		3.886.448	16.977.544		16.977.544
023	024+025+026+027+028	3	Financial assets at fair value through profit or loss	16.006.098		16.006.098	6.789.228		6.789.228
024		3.1	Equity financial instruments						
025		3.2	Debt financial instruments						
026		3.3	Derivative financial instruments						
027		3.4	Shares in investment funds	16.006.098		16.006.098	6.789.228		6.789.228
028		3.5	Other						
029	030+031+032	4	Loans and receivables	70.252.414	11.568.154	81.820.567	37.923.208	6.044.038	43.967.246
030		4.1	Deposits with credit institutions	52.334.999	9.089.220	61.424.219	25.099.926	4.094.198	29.194.124
031		4.2	Loans	17.204.534	2.478.933	19.683.468	12.545.410	1.949.840	14.495.250
032		4.3	Other	712.881		712.881	277.872		277.872
033		D	Deposits with cedent						
034		IV	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE INSURANCE POLICYHOLDERS	46.636.127		46.636.127	81.251.712		81.251.712

Financial statements in the format prescribed by the Croatian Financial Services
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For the year ended 31 December 2018

in HRK

Position No.	Sum elements	Position code	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
035	036+037+038+039+040+041+042	V	REINSURER'S SHARE IN TECHNICAL PROVISIONS	97.465.054	195.205.448	292.670.502	95.398.140	197.095.526	292.493.666
036		1	Provision for unearned premiums, reinsurance share	201.281	65.109.005	65.310.286	183.600	66.427.621	66.611.221
037		2	Mathematical provisions, reinsurance share	96.578.393		96.578.393	94.986.332		94.986.332
038		3	Claims provisions, reinsurer's share	685.381	128.367.940	129.053.320	228.208	130.547.057	130.775.265
039		4	Provisions for bonuses and discounts, reinsurer's share		1.728.503	1.728.503		120.849	120.849
040		5	Equalisation provisions, reinsurer's share						
041		6	Other technical provisions, reinsurance share						
042		7	Special provision for unit-linked life insurance group, reinsurer's share						
043	044+045	VI	DEFERRED AND CURRENT TAX ASSETS	9.733.756	2.829.655	12.563.411	8.148.650	3.408.503	11.557.153
044		1	Deferred tax assets	2.373.794	515.636	2.889.430	2.683.950	506.916	3.190.865
045		2	Current tax assets	7.359.961	2.314.019	9.673.980	5.464.700	2.901.587	8.366.287
046	047+050+051	VII	RECEIVABLES	10.410.936	159.424.037	169.834.973	10.376.702	162.790.385	173.167.087
047	048+049	1	Receivables from insurance business	8.568	80.315.156	80.323.724	77.939	88.502.362	88.580.301
048		1.1	From policyholders		80.036.461	80.036.461		87.977.727	87.977.727
049		1.2	From insurance agents, or insurance brokers	8.568	278.695	287.263	77.939	524.634	602.574
050		2	Reinsurance receivables	9.139.096	59.336.300	68.475.397	9.025.972	57.995.093	67.021.065
051	052+053+054	3	Other receivables	1.263.272	19.772.581	21.035.853	1.272.792	16.292.930	17.565.721
052		3.1	Receivables from other insurance business	795.830	17.086.474	17.882.304	626.577	14.972.677	15.599.253
053		3.2	Receivables for income from investments	41.519	2.134	43.654	25.158	5.404	30.562
054		3.3	Other receivables	425.923	2.683.973	3.109.896	621.057	1.314.849	1.935.907
055	056+060+061	VIII	OTHER ASSETS	39.249.552	21.277.587	60.527.140	49.434.373	17.321.530	66.755.903
056	057+058+059	1	Cash at bank and in hand	39.249.552	21.277.587	60.527.140	49.434.373	17.321.530	66.755.903
057		1.1	Funds in the business account	27.932.567	21.264.588	49.197.155	16.364.709	17.314.097	33.678.806
058		1.2	Funds in the account of assets backing mathematical provision	11.313.896		11.313.896	33.066.664		33.066.664
059		1.3	Cash on hand	3.090	12.999	16.089	3.001	7.433	10.434
060		2	Non-current assets held for sale and discontinued operation						
061		3	Other						
062	063+064+065	IX	PREPAID EXPENSES AND ACCRUED INCOME	825.615	62.505.393	63.331.009	3.874.340	71.983.234	75.857.573
063		1	Deferred interest and rent	28.896	20.810	49.706	28.197	16.546	44.743
064		2	Deferred acquisition costs		51.488.086	51.488.086		63.430.028	63.430.028
065		3	Other prepaid expenses and accrued income	796.719	10.996.497	11.793.216	3.846.143	8.536.660	12.382.802
066	001+004+008+034+035+043+046+055+062	X	TOTAL ASSETS	2.739.538.448	950.869.428	3.690.407.877	2.540.522.878	962.982.150	3.503.505.029
067		XI	OFF-BALANCE-SHEET ITEMS						

Financial statements in the format prescribed by the Croatian Financial Services
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For the year ended 31 December 2018

in HRK

Position No.	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	410.971.222	166.604.060	577.575.283	379.323.402	162.599.575	541.922.977
069	070+071	1	Subscribed share capital	28.875.000	33.825.000	62.700.000	28.875.000	33.825.000	62.700.000
070		1.1	<i>Paid-up capital - ordinary shares</i>	28.875.000	33.825.000	62.700.000	28.875.000	33.825.000	62.700.000
071		1.2	<i>Paid-up capital - preference shares</i>						
072		2	Issued shares premiums (capital reserves)						
073	074+075+076	3	Revaluation reserves	141.053.054	18.122.310	159.175.364	111.606.266	14.274.567	125.880.833
074		3.1	<i>Land and buildings</i>	2.120.258		2.120.258	2.120.258		2.120.258
075		3.2	<i>Financial assets available-for-sale</i>	138.932.796	18.122.310	157.055.107	109.486.008	14.274.567	123.760.575
076		3.3	<i>Other revaluation reserves</i>						
077	078+079+080	4	Reserves	153.650.277	79.066.290	232.716.567	153.650.277	79.066.290	232.716.567
078		4.1	<i>Legal reserves</i>	1.134.375	1.134.375	2.268.750	1.134.375	1.134.375	2.268.750
079		4.2	<i>Statutory reserves</i>						
080		4.3	<i>Other reserves</i>	152.515.902	77.931.915	230.447.817	152.515.902	77.931.915	230.447.817
081	082+083	5	Retained earnings or accumulated loss	76.932.361	19.985.567	96.917.928	76.932.361	19.985.567	96.917.928
082		5.1	<i>Retained earnings</i>	76.932.361	19.985.567	96.917.928	76.932.361	19.985.567	96.917.928
083		5.2	<i>Accumulated loss (-)</i>						
084	085+086	6	Profit or loss for the current accounting period	10.460.530	15.604.893	26.065.423	8.259.498	15.448.151	23.707.649
085		6.1	<i>Profit for the current accounting period</i>	10.460.530	15.604.893	26.065.423	8.259.498	15.448.151	23.707.649
086		6.2	<i>Loss for the current accounting period (-)</i>						
087		XIII	SUBORDINATED LIABILITIES						
088		XIV	NON-CONTROLLING INTEREST						
089	090+091+092+093+094+095	XV	TECHNICAL PROVISIONS	2.087.215.206	614.960.703	2.702.175.909	1.889.765.557	633.784.781	2.523.550.338
090		1	Provisions for unearned premiums, gross amount	3.918.046	232.933.391	236.851.437	3.224.352	264.797.020	268.021.372
091		2	Mathematical provisions, gross amount	2.066.982.771		2.066.982.771	1.865.223.192		1.865.223.192
092		3	Claims provisions, gross amount	16.314.389	372.641.751	388.956.140	21.318.014	366.201.840	387.519.854
093		4	Provisions for bonuses and discounts, gross amount		9.385.561	9.385.561		2.785.921	2.785.921
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	47.783.835		47.783.835	81.257.156		81.257.156
097	098+099	XVII	OTHER PROVISIONS	36.052.459	13.545.198	49.597.657	37.683.379	12.259.118	49.942.497
098		1	Provisions for pensions and similar liabilities						
099		2	Other provisions	36.052.459	13.545.198	49.597.657	37.683.379	12.259.118	49.942.497
100	101+102	XVIII	DEFERRED AND CURRENT TAX LIABILITY	36.319.478	7.048.830	43.368.309	31.126.243	7.027.629	38.153.872
101		1	Deferred tax liability	30.962.865	3.978.068	34.940.934	24.498.936	3.133.442	27.632.378
102		2	Current tax liability	5.356.613	3.070.762	8.427.375	6.627.307	3.894.187	10.521.494
103		XIX	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	96.779.674		96.779.674	95.169.932		95.169.932
104	105+106+107	XX	FINANCIAL LIABILITIES						
105		1	Loan liabilities						
106		2	Issued financial instruments payable						
107		3	Other financial liabilities						
108	109+110+111+112	XXI	OTHER LIABILITIES	19.109.263	79.486.253	98.595.516	19.363.278	88.659.578	108.022.856
109		1	Liabilities from direct insurance business	1.586.360	8.079.772	9.666.131	3.779.256	11.408.429	15.187.685
110		2	Liabilities from co-insurance and reinsurance business	9.556.079	65.097.580	74.653.659	9.405.059	67.981.540	77.386.599
111		3	Liabilities for sale and discontinued operation						
112		4	Other liabilities	7.966.824	6.308.901	14.275.725	6.178.963	9.269.609	15.448.572
113	114+115	XXII	ACCRUED EXPENSES AND DEFERRED INCOME	5.307.310	69.224.384	74.531.694	6.833.930	58.651.470	65.485.400
114		1	Deferred reinsurance commission		21.777.283	21.777.283		21.758.586	21.758.586
115		2	Other accrued expenses and deferred income	5.307.310	47.447.101	52.754.412	6.833.930	36.892.883	43.726.813
116	068+087+088+089+096+097+100+103+104+108+113	XXIII	TOTAL EQUITY AND LIABILITIES	2.739.538.448	950.869.428	3.690.407.877	2.540.522.878	962.982.150	3.503.505.029
117		XXIV	OFF-BALANCE-SHEET ITEMS						

Financial statements in the format prescribed by the Croatian Financial Services
Supervisory Agency
For the year ended 31 December 2018

1.1. 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	Basic financial statements	
Position description	HRK'000				HRK'000	
INTANGIBLE ASSETS	4.161				4.161	Other intangible assets
Goodwill	0					
Other intangible assets	4.161					
TANGIBLE ASSETS	23.269				23.269	Property and equipment
Land and buildings intended for company business operations	17.730					
Equipment	4.094					
Other tangible assets and inventories	1.444					
INVESTMENTS	2.774.992					
Investments in land and buildings not intended for company business operations	56.460				56.460	Investment property
Investments in subsidiaries, associates and joint ventures	0				0	Investment in subsidiary
Shares and stakes in subsidiaries	0					
Shares and stakes in associates	0					
Shares and stakes in joint ventures	0					
Financial assets	2.718.531					
Held-to-maturity financial assets	892.102				892.102	Held to maturity investments
Debt financial instruments	892.102					
Other	0					
Available-for-sale financial assets	1.775.673				1.775.673	Available-for-sale financial assets
Equity financial instruments	0					
Debt financial instruments	1.572.644					
Shares in investment funds	186.051					
Other	16.978					
Financial assets at fair value through profit or loss	6.789	81.252			88.041	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	6.789					
Other	0					
Loans and receivables	43.967				43.967	Loans and receivables
Deposits with credit institutions	29.194					
Loans	14.495					
Other	278					
Deposits with cedent	0					
INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE INSURANCE POLICYHOLDERS	81.252	(81.252)				
REINSURER'S SHARE IN TECHNICAL PROVISIONS	292.494				292.494	Reinsurers' share in insurance contract provisions
Provision for unearned premiums, reinsurance share	66.611					
Mathematical provisions, reinsurance share	94.986					
Claims provisions, reinsurer's share	130.775					
Provisions for bonuses and discounts, reinsurer's share	121					
Equalisation provisions, reinsurer's share	0					
Other technical provisions, reinsurance share	0					
Special provision for unit-linked life insurance group, reinsurer's share	0					
DEFERRED AND CURRENT TAX ASSETS	11.557					
Deferred tax assets	3.191			(3.191)		
Current tax assets	8.366			(8.366)	0	Current tax assets
RECEIVABLES	173.167		12.428	(52)	185.542	Insurance contracts and other receivables
Receivables from insurance business	88.580					
From policyholders	87.978					
From insurance agents, or insurance brokers	603					
Reinsurance receivables	67.021					
Other receivables	17.566					
Receivables from other insurance business	15.599					
Receivables for income from investments	31					
Other receivables	1.936					
OTHER ASSETS	66.756					
Cash at bank and in hand	66.756				66.756	Cash and cash equivalents
Funds in the business account	33.679					
Funds in the account of assets backing mathematical provision	33.067					
Cash on hand	10					
Non-current assets held for sale and discontinued operation	0					
Other	0					
PREPAID EXPENSES AND ACCRUED INCOME	75.858					
Deferred interest and rent	45		(45)			
Deferred acquisition costs	63.430				63.430	Deferred acquisition costs
Other prepayments and accrued income	12.383		(12.383)			
TOTAL ASSETS	3.503.505	-	-	(11.609)	3.491.895	

1. Investments held on account and at risk of unit-linked life assurance policyholders are recorded together with financial assets at fair value through profit or loss
2. Deferred interest and rental payments and other prepaid expenses and accrued income are recorded in insurance and other receivables.
3. Deferred tax assets and liabilities are recorded on a net basis in the Basic financial statements, while internal receivables in the amount of HRK 52 thousand are offset with the corresponding liabilities.

Financial statements in the format prescribed by the Croatian Financial Services
Supervisory Agency
For the year ended 31 December 2018

Report for the Croatian Financial Services						Basic financial statements	
Position description	HRK'000	1	2	3	4	HRK'000	
CAPITAL AND RESERVES	541.923						
Subscribed share 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	125.881					125.881	Revaluation reserves
Land and buildings	2.120						
Financial assets available-for-sale	123.761						
Other revaluation reserves	-						
Reserves	232.717					232.717	Legal and other reserves
Legal reserves	2.269						
Statutory reserves	-						
Other reserves	230.448						
Retained profit or transferred loss	96.918						
Retained profit	96.918	23.708				120.626	Retained earnings
Accumulated loss (-)	-						
Profit or loss for the current accounting period	23.708						
Profit for the current accounting period	23.708	(23.708)					
Loss for the current accounting period (-)	-						
SUBORDINATED LIABILITIES	-						
NON-CONTROLLING INTEREST	-						
TECHNICAL PROVISIONS	2.523.550		81.257			2.604.807	Insurance contract provisions
Provisions for unearned premiums, gross amount	268.021						
Mathematical provisions, gross amount	1.865.223						
Claims provisions, gross amount	387.520						
Provisions for bonuses and discounts, gross amount	2.786						
Equalisation provisions, gross amount	-						
Other technical provisions, gross amount	-						
SPECIAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE GROUP, gross amount	81.257		(81.257)				
OTHER PROVISIONS	49.942			(49.942)			
Provisions for pensions and similar liabilities	-						
Other provisions	49.942						
DEFERRED AND CURRENT TAX LIABILITY	38.154						
Deferred tax liability	27.632				(3.191)	24.442	Deferred tax liability
Current tax liability	10.521				(8.366)	2.155	Current tax liability
DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	95.170			(95.170)			
FINANCIAL LIABILITIES	-						
Borrowings	-						
Issued financial instruments payable	-						
Other financial liabilities	-						
OTHER LIABILITIES	108.023			210.597	(52)	318.568	Insurance contracts and other payables
Liabilities from direct insurance business	15.188						
Liabilities from co-insurance and reinsurance business	77.387						
Liabilities for sale and discontinued operation	-						
Other liabilities	15.449						
ACCRUED EXPENSES AND DEFERRED INCOME	65.485			(65.485)			
Deferred reinsurance commission	21.759						
Other accrued expenses and deferred income	43.727						
TOTAL EQUITY AND LIABILITIES	3.503.505	-	-	-	(11.609)	3.491.896	

1. Profit or loss for the current accounting period is presented together with retained earnings in the Basic financial statements.
2. Special provision for unit-linked life insurance group, the gross amount is recorded within technical provisions in the Basic financial statements.
3. Accrued expenses and deferred income, 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 offset in the Basic financial statements, while internal receivables in the amount of HRK 52 thousand are offset with the corresponding liabilities.

Financial statements in the format prescribed by the Croatian Financial Services
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For the year ended 31 December 2018

STATEMENT OF COMPREHENSIVE INCOME									
For the period: 1 Jan. 2018-31 Dec. 2018									
in HRK									
Position No.	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)	193.583.649	205.779.484	399.363.133	195.582.120	210.422.344	406.004.464
002		1	Gross written premiums	199.769.777	360.271.556	560.041.333	201.582.487	381.568.891	583.151.378
003		2	Impairment and collected premium impairment		1.109.262	1.109.262		-704.262	-704.262
004		3	Premiums ceded to reinsurance (-)	-7.285.616	-136.194.951	-143.480.568	-6.676.379	-139.897.273	-146.573.652
005		4	Change in gross provisions for unearned premiums (+/-)	1.117.971	-20.029.012	-18.911.041	693.694	-31.863.628	-31.169.935
006		5	Change in provisions for unearned premiums, reinsurance share (+/-)	-18.482	622.629	604.147	-17.681	1.318.616	1.300.935
007	008+009+010+011+012+013+014	II	Investment income	122.116.409	23.668.874	145.785.283	116.365.276	21.515.235	137.880.511
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investment in land and buildings	3.181.064	569.283	3.750.347	3.030.066	28.513	3.058.579
010		3	Interest income	111.006.659	21.680.407	132.687.065	100.715.046	17.795.566	118.510.613
011		4	Unrealised gain on investments	2.211.962		2.211.962	10.458		10.458
012		5	Realised gain on investments	4.175.401	391.391	4.566.792	9.730.266	949.297	10.679.563
013		6	Net foreign exchange gains	17.488		17.488			
014		7	Other investment income	1.523.835	1.027.793	2.551.628	2.879.440	2.741.859	5.621.299
015		III	Commission and fee income	360.743	42.813.299	43.174.042	500.841	43.212.112	43.712.953
016		IV	Other insurance-technical income, net of reinsurance	894.220	3.337.140	4.231.361	1.358.338	1.565.091	2.923.429
017		V	Other income	960.381	6.407.186	7.367.567	1.128.149	3.201.997	4.330.146
018	019+022	VI	Net claims incurred	-408.200.414	-112.596.171	-520.796.585	-351.535.234	-113.445.784	-464.981.017
019	020+021	1	Claims paid	-409.892.273	-121.606.224	-531.498.497	-346.074.437	-122.064.812	-468.139.249
020		1.1	Gross amount (-)	-419.850.870	-196.429.281	-616.280.151	-354.843.890	-192.076.667	-546.920.557
021		1.2	Reinsurer's share (+)	9.958.597	74.823.057	84.781.654	8.769.453	70.011.855	78.781.308
022	023+024	2	Change in claims provisions (+/-)	1.691.859	9.010.054	10.701.912	-5.460.797	8.619.028	3.158.231
023		2.1	Gross amount (-)	1.593.855	10.250.124	11.843.979	-5.003.624	6.439.911	1.436.287
024		2.2	Reinsurer's share (+)	98.004	-1.240.071	-1.142.067	-457.172	2.179.117	1.721.944
025	026+029	VII	Change in mathematical provision and other technical provisions, net of reinsurance	235.200.967		235.200.967	200.167.518		200.167.518
026	027+028	1	Change in mathematical provision (+/-)	235.200.967		235.200.967	200.167.518		200.167.518
027		1.1	Gross amount (-)	236.497.963		236.497.963	201.759.579		201.759.579
028		1.2	Reinsurer's share (+)	-1.296.996		-1.296.996	-1.592.061		-1.592.061
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 (+/-)	-25.955.274		-25.955.274	-33.473.321		-33.473.321
033		1	Gross amount (-)	-25.955.274		-25.955.274	-33.473.321		-33.473.321
034		2	Reinsurer's share (+)						
035	036+037	IX	Expenditures for return of premium (bonuses and rebates), net of reinsurance		-2.871.912	-2.871.912		-1.462.461	-1.462.461
036		1	Depending on the result (bonuses)		-2.871.912	-2.871.912		-1.462.461	-1.462.461
037		2	Not depending on the result (rebates)						
038	039+043	X	Operating expenditures (for business operations), net	-70.240.961	-134.457.418	-204.698.379	-67.355.477	-138.799.511	-206.154.988
039	040+041+042	1	Acquisition costs	-28.735.716	-82.750.976	-111.486.692	-27.052.021	-83.134.378	-110.186.398
040		1.1	Commission	-15.059.262	-61.560.295	-76.619.557	-13.862.748	-68.980.403	-82.843.151
041		1.2	Other acquisition costs	-13.676.454	-27.988.658	-41.665.112	-13.189.273	-26.095.916	-39.285.190
042		1.3	Change in deferred acquisition costs (+/-)		6.797.977	6.797.977		11.941.942	11.941.942
043	044+045+046	2	Administration costs (administrative expenses)	-41.505.246	-51.706.442	-93.211.687	-40.303.456	-55.665.134	-95.968.590
044		2.1	Depreciation and amortisation	-2.820.022	-3.365.186	-6.185.207	-2.440.886	-3.163.687	-5.604.573
045		2.2	Sales, taxes and contributions from and on salaries	-15.259.833	-18.368.006	-33.627.839	-14.669.620	-17.227.858	-31.897.478
046		2.3	Other administration costs	-23.425.391	-29.973.250	-53.398.641	-23.192.950	-35.273.589	-58.466.539

Financial statements in the format prescribed by the Croatian Financial Services
Supervisory Agency
For the year ended 31 December 2018

in HRK									
Position No.	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 charges	-20.003.040	-4.425.238	-24.428.277	-41.140.977	-3.995.849	-45.136.826
048		1	Depreciation of land and buildings not intended for business operations of the company						
049		2	Interests						
050		3	Impairment of investments	-699.919	-2.459.332	-3.159.251	-1.063.553	-670.031	-1.733.584
051		4	Realised losses on investments	-34.165	-37.825	-71.990	-712.533		-712.533
052		5	Unrealised losses on investments	-28.028		-28.028	-5.803.473		-5.803.473
053		6	Net foreign exchange losses	-13.899.799	-730.916	-14.630.715	-28.070.506	-1.863.244	-29.933.750
054		7	Other investment costs	-5.341.129	-1.197.165	-6.538.295	-5.490.912	-1.462.574	-6.953.486
055	056+057	XII	Other technical expenses, net of reinsurance	-3.008.001	-1.742.337	-4.750.339	-2.991.089	-944.281	-3.935.370
056		1	Expenses for preventive operations		-472.817	-472.817		-442.849	-442.849
057		2	Other technical insurance expenses	-3.008.001	-1.269.520	-4.277.521	-2.991.089	-501.432	-3.492.521
058		XIII	Other expenses including value adjustments	-10.636.069	-6.930.203	-17.566.272	-4.029.495	-1.917.835	-5.947.330
059	001+007+015+016+017+018+025+032+035+038+047+055+058	XIV	Profit or loss for the accounting period before loss (+/-)	15.072.611	18.982.705	34.055.315	14.576.650	19.351.058	33.927.708
060	061+062	XV	Income tax or loss	-4.612.080	-3.377.812	-7.989.892	-6.317.152	-3.902.907	-10.220.059
061		1	Current tax expense	-5.356.613	-3.070.762	-8.427.375	-6.627.307	-3.894.187	-10.521.494
062		2	Deferred tax expense (income)	744.533	-307.050	437.483	310.155	-8.720	301.435
063	069+060	XVI	Profit or loss for the accounting period after tax (+/-)	10.460.530	15.604.893	26.065.423	8.259.498	15.448.151	23.707.649
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	318.659.936	281.698.933	600.358.869	315.244.880	279.908.059	595.152.939
067	018+025+032+035+038+047+055+058+061	XVIII	TOTAL EXPENSES	-308.199.406	-266.094.040	-574.293.446	-306.985.381	-264.459.909	-571.445.290
068	069+070+071+072+073+074+075+076	XIX	Other comprehensive income	3.200.759	-815.686	2.385.073	-29.446.788	-3.847.743	-33.294.531
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	3.903.365	-994.739	2.908.626	-35.910.717	-4.692.370	-40.603.087
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 (except for land and property) and 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	-702.606	179.053	-523.553	6.463.929	844.627	7.308.556
077	078+079	XX	Total comprehensive income	13.661.289	14.789.207	28.450.497	-21.187.290	11.600.407	-9.586.882

Financial statements in the format prescribed by the Croatian Financial Services
Supervisory Agency
For the year ended 31 December 2018

2.1. Reconciliation of the statement of comprehensive income 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	5	6	Basic financial statements	
Position description	HRK'000							HRK'000	
Earned premiums (recognised in revenue)	406.004							406.004	Net earned premiums
Gross written premiums	583.151								
Impairment and collected premium impairment	(704)								
Premiums ceded to reinsurance (-)	(146.574)								
Change in gross provisions for unearned premiums (+/-)	(31.170)								
Change in provision for unearned premiums, reinsurance share (+/-)	1.301								
Investment income	137.881	(45.137)						92.744	Net income from investments
Income from subsidiaries, associates and joint ventures	-								
Income from investments in land and buildings	3.059								
Interest income	118.511								
Unrealised gain on investments	10								
Realised gain on investments	10.680								
Net foreign exchange gains	-								
Other investment income	5.621								
Income from commissions and fees	43.713							43.713	Income from commissions and fees
Other insurance-technical income, net of reinsurance	2.923			(2.923)					
Other income	4.330			1.686		(40)	(1.251)	4.726	Other operating income
Net claims incurred	(464.981)		165.232					(299.749)	Claims incurred
Settled claims	(468.139)								
Gross amount (-)	(546.921)								
Reinsurer's share (+)	78.781								
Change in claims provisions (+/-)	3.158								
Gross amount (-)	1.436								
Reinsurer's share (+)	1.722								
Change in mathematical provision and other technical provisions, net of reinsurance	200.168		(200.168)						
Change in mathematical provision (+/-)	200.168								
Gross amount (-)	201.760								
Reinsurer's share (+)	(1.592)								
Change in other technical provisions, net of reinsurance (+/-)	-								
Gross amount (-)	-								
Reinsurer's share (+)	-								
Special provisions for unit-linked life insurance group, net of reinsurance (+/-)	(33.473)		33.473						
Gross amount (-)	(33.473)								
Reinsurer's share (+)	-								
Expenditures for return of premium (bonuses and rebates), net of reinsurance	(1.462)		1.462						
Depending on the result (bonuses)	(1.462)								
Not depending on the result (rebates)	-								
Operating expenditures (for business operations), net	(206.155)				(281)		157	(206.278)	Acquisition and administration costs
Acquisition costs	(110.186)								
Commission	(82.843)								
Other acquisition costs	(39.285)								
Change in deferred acquisition costs (+/-)	11.942								
Administration costs (administrative expenses)	(95.969)								
Depreciation charge	(5.605)								
Salaries, taxes and contributions from and on salaries	(31.897)								
Other administrative expenses	(58.467)								
Investment charges	(45.137)	45.137							
Depreciation of land and buildings not intended for business operations of the company	-								
Interest	-								
Impairment of investments	(1.734)								
Realised losses on investments	(713)								
Unrealised losses on investments	(5.803)								
Net foreign exchange losses	(29.934)								
Other investment costs	(6.953)								
Other technical expenses, net of reinsurance	(3.935)				3.935				
Expenses for preventive operations	(443)								
Other technical expenses of insurance	(3.493)								
Other expenses, including value adjustments	(5.947)			1.237	(3.655)	40	1.093	(7.231)	Other operating expenses
Profit or loss for the accounting period before tax (+/-)	33.928								
Income tax or loss	(10.220)							(10.220)	Income tax
Current tax expense	(10.521)								
Deferred tax expense (income)	301								
Profit or loss for the accounting period after tax (+/-)	23.708	-	-	-	-	-	-	23.708	

1. Investment income and costs are presented on a net basis
2. The change in the mathematical provision, special provision for life assurance policies where the policyholder bears the risk of insurance 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. Reclassification of other technical costs to other operating expenses and administration costs
5. Income and expenses from the sale of equipment are recorded on a net basis
6. Reclassification of other income to other expenses and administration costs

Financial statements in the format prescribed by the Croatian Financial Services
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STATEMENT OF CASH FLOWS (INDIRECT METHOD)

For the period: 1 Jan. 2018-31 Dec. 2018

in HRK

Position No.	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	-278.504.563	-54.272.327
002	003+004	1	Cash flow before changes in operating assets and liabilities	-76.323.645	-93.583.217
003		1.1	Profit/loss before tax	33.927.708	34.055.315
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments for:	-110.251.353	-127.638.533
005		1.2.1	Depreciation of property and equipment	3.161.172	3.643.760
006		1.2.2	Amortisation	2.242.571	2.534.932
007		1.2.3	Impairment and fair value gains/losses	2.550.081	-1.393.935
008		1.2.4	Interest expense		
009		1.2.5	Interest income	-118.510.613	-132.687.065
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	305.435	263.775
013	014+015+...+030	2	Increase/decrease in operating assets and liabilities	-195.061.237	52.465.587
014		2.1	Increase/decrease in available-for-sale financial assets	-168.308.250	52.899.869
015		2.2	Increase/decrease in financial assets at fair value through profit or loss	8.865.585	-1.564.018
016		2.3	Increase/decrease in loans and receivables	42.018.789	90.769.890
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	-40.615.255	-23.615.431
019		2.6	Increase/decrease in reinsurer's share in technical provisions	176.836	1.753.750
020		2.7	Increase/decrease in tax assets	-301.435	-437.483
021		2.8	Increase/decrease in receivables	-3.332.114	-3.365.415
022		2.9	Increase/decrease in other assets	38.190	730.309
023		2.10	Increase/decrease in prepaid expenses and accrued income	119.741.079	139.214.040
024		2.11	Increase/decrease in technical provisions	-178.625.571	-226.477.824
025		2.12	Increase/decrease in special provisions for unit-linked life insurance group	33.473.321	25.955.274
026		2.13	Increase/decrease in tax liabilities	-7.308.556	523.553
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance	-1.609.742	-1.315.479
028		2.15	Increase/decrease in financial liabilities		
029		2.16	Increase/decrease in other liabilities	9.427.340	-7.782.932
030		2.17	Increase/decrease in accrued expenses and deferred income	-8.701.455	5.177.481
031		3	Income tax paid	-7.119.682	-13.154.696
032	033+034+...+046	II	CASH FLOW FROM INVESTING ACTIVITIES	280.922.431	57.124.877
033		1	Proceeds on sale of tangible assets		
034		2	Expenses for purchase of tangible assets	-1.908.158	-853.361
035		3	Proceeds from sale of intangible assets		
036		4	Purchases of intangible assets	-1.273.974	-1.811.630
037		5	Proceeds from sale of land and buildings not intended for business operations of the company	1.953.457	8.737.059
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	282.151.106	51.052.809
041		9	Expenses for held-to-maturity financial assets		
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 short-term and long-term loans given		
046		14	Expenses for short-term and long-term loans given		

Financial statements in the format prescribed by the Croatian Financial Services
Supervisory Agency
For the year ended 31 December 2018

<i>in HRK</i>					
Position No.	Sum elements	Position code	Position description	Current business period	Same period of the previous year
047	048+049+050 +051+052	III	CASH FLOW FROM FINANCING ACTIVITIES	-26.065.423	-25.840.984
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	-26.065.423	-25.840.984
053	001+032+047		NET CASH FLOW	-23.647.555	-22.988.434
054		IV	EFFECTS OF FOREIGN CURRENCY EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS	29.876.319	14.671.671
055	053+054	V	NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	6.228.764	-8.316.762
056		1	Cash and cash equivalents at beginning of period	60.527.140	68.843.902
057	055+056	2	Cash and cash equivalents at end of period	66.755.903	60.527.140

Financial statements in the format prescribed by the Croatian Financial Services Supervisory Agency
For the year ended 31 December 2018

STATEMENT OF CHANGES IN EQUITY

For the period: 1 Jan. 2018-31 Dec. 2018

in HRK

Position No.	Position description	Attributable to owners of the parent						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	
I.	Balance at 1 January of previous year	62.700.000		156.790.291	232.716.567	96.917.928	25.840.984	574.965.770
1.	Changes in accounting policies							
2.	Correction of prior period errors							
II.	Balance at 1 January of previous year (restated)	62.700.000		156.790.291	232.716.567	96.917.928	25.840.984	574.965.770
III.	Comprehensive income or loss for the previous year			2.385.073			26.065.423	28.450.497
1.	Profit or loss for the period						26.065.423	26.065.423
2.	Other comprehensive income or loss for the previous year			2.385.073				2.385.073
2.1.	Unrealised gains or losses from tangible assets (land and buildings)							
2.2.	Unrealised gains or losses from financial assets available for sale			2.035.489				2.035.489
2.3.	Realised gains or losses from financial assets available for sale			349.585				349.585
2.4.	Other non-owner changes in equity							
IV.	Transactions with owners (previous period)						-25.840.984	-25.840.984
1.	Increase/decrease in registered capital							
2.	Other payments by owners							
3.	Payment of shares in profit /dividends						-25.840.984	-25.840.984
4.	Other distributions to owners							
V.	Balance at the last day of the reporting period in the previous year	62.700.000		159.175.364	232.716.567	96.917.928	26.065.423	577.575.283
VI.	Balance at 1 January of the current year	62.700.000		159.175.364	232.716.567	96.917.928	26.065.423	577.575.283
1.	Changes in accounting policies							
2.	Correction of prior period errors							
VII.	Balance at 1 January of the current year (restated)	62.700.000		159.175.364	232.716.567	96.917.928	26.065.423	577.575.283
VIII.	Comprehensive income or loss for the current year			-33.294.531			23.707.649	-9.586.882
1.	Profit or loss for the period						23.707.649	23.707.649
2.	Other comprehensive income or loss for the current year			-33.294.531				-33.294.531
2.1.	Unrealised gains or losses from tangible assets (land and buildings)							
2.2.	Unrealised gains or losses from financial assets available for sale			-35.073.906				-35.073.906
2.3.	Realised gains or losses from financial assets available for sale			1.779.375				1.779.375
2.4.	Other non-owner changes in equity							
IX.	Transactions with owners (current period)						-26.065.423	-26.065.423
1.	Increase/decrease in registered capital							
2.	Other payments by owners							
3.	Payment of shares in profit /dividends						-26.065.423	-26.065.423
4.	Other transactions with owners							
X.	Balance as at the last day of the reporting period in the current year	62.700.000		125.880.833	232.716.567	96.917.928	23.707.649	541.922.977