ERSTE OSIGURANJE VIENNA INSURANCE GROUP d.d.

Financial statements

For the year 2016

Contents

VIENNA INSURANCE GROUP

COMPANY PROFILE

Vienna Insurance Group (VIG) is well established in all lines of business and thus offers a comprehensive customer-oriented portfolio of products and services with more than 50 Group companies and around 24,000 employees in 25 countries. The Group generated around EUR 9 billion in premiums in 2016, further strengthening its market leader position in Austria and in Central and Eastern Europe (CEE), where VIG has been operating for more than 25 years.

VIG's successful expansion into the CEE region
VIG's roots reach back more than 190 years in Austria, during which time the Company developed from its start as a local insurer in 1824 to an international insurance group. In 1990, visionaries in Wiener Städtische recognised the many opportunities offered by the CEE region and took the chance of entering the market in the former Czechoslovakia. The expansion continued in following years. From Estonia to Albania and Germany to Georgia, the entire region was slowly covered. The 2014 entry into the market in the Republic of Moldova filled the final remaining gap in coverage of the CEE region.

Using its combined strengths to become number 1
VIG has worked its way to the top of the insurance market in many countries in previous years. Using a focused growth strategy and long-term perspective, it created a stable base that led to double-digit market shares in many markets.
The figures for the region show that the decision to expand into the CEE region was correct. In 2016, around half of VIG's total premium volume of around EUR 9 billion was generated in the CEE markets. The Group continues to believe in the potential offered by the ongoing economic growth in the region, which brings with it a rising demand for insurance products.
The importance of the region was confirmed by another decision by the Group in 2008 to establish the registered office of the internal Group reinsurance company VIG Re in the Czech Republic.
Focusing together on the core business
The decisions above underscore the path followed by VIG and strengthen the focus on insurance as the clear core business. It pursues a progressive and highly risk-conscious insurance strategy. Reliability, trustworthiness and solidity define its relationships with business partners, employees and shareholders.
This fundamental approach is also reflected in its strategy of continuous sustainable growth and excellent creditworthiness. The international rating agency Standard & Poor's has confirmed VIG's development with an A+ rating with stable outlook for many years. VIG continues to have the best rating of all companies in the ATX, the leading index of the Vienna Stock Exchange.

Side-by-side with our customers
Customer loyalty and customer proximity are major factors in VIG's success. Our local employees know the needs of their customers the best, which is why VIG places its trust in these employees and local entrepreneurship.
In order to create stability and trust, the Group uses a multi-brand strategy that retains established brands and unites them under the Vienna Insurance Group umbrella. This also allows a wide variety of distribution channels to be used. The Company's strategic orientation is rounded off by a conservative investment and reinsurance policy.

Erste Group and VIG: strong together
Erste Group is strongly anchored in Austria and is one of the top players in the CEE region. The strategic partnership between Erste Group and VIG began in 2008 and has grown and strengthened over the past eight years. VIG Group companies offer Erste Group products, and Erste Group branches sell VIG insurance products in return.

Stable dividend policy of the Group
VIG has been listed on the Vienna stock exchange since 1994. Today, it is one of the top companies in the "prime market" segment, and offers an attractive dividend policy with a dividend payout ratio of at least 30% of Group profits (after taxes and non-controlling interests) for shareholders.
The significance of the Central and Eastern European economic area was once again underscored by the Company's second listing on the Prague Stock Exchange in February 2008. VIG shares have also established themselves as one of the top companies there.

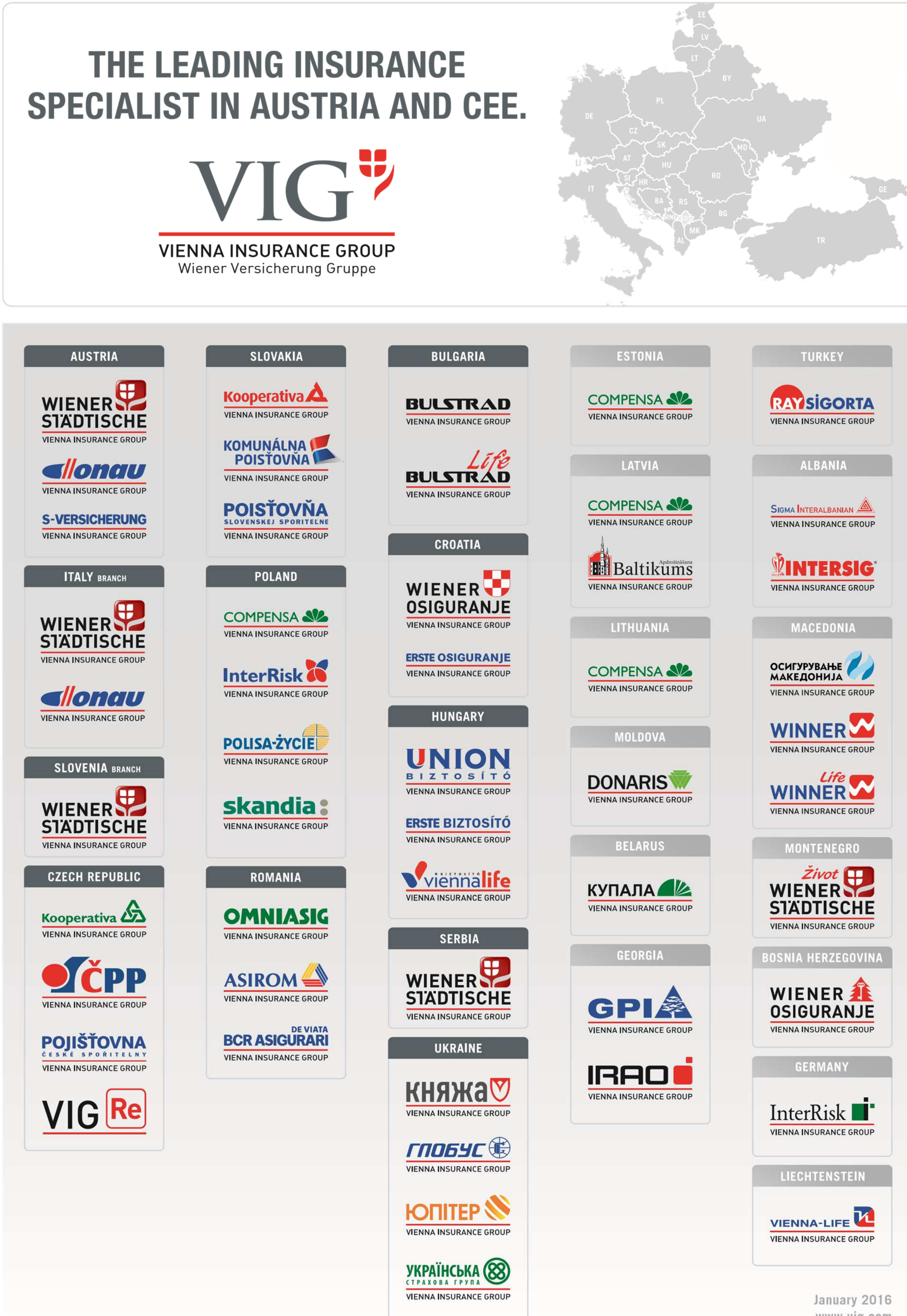
The shareholder structure has remained stable since the capital increase in 2005. Around 70% of the shares are held by its principal shareholder, Wiener Städtische Versicherungsverein. The remaining 30% of the shares are in free float.

Searching for the best together

All VIG Group companies strive to attract the most talented and intelligent employees. As a result, identifying and developing individual skills is a central priority in the company's human resources management. Promoting diversity is also highly important, as is creating a framework that offers appropriate development opportunities for employees. This is because it is clear to VIG that its success is built on the dedication of its 23,000 employees.

Further information on Vienna Insurance Group is available at www.vig.com or in the VIG Group Annual Report.

Vienna Insurance Group members



Annual Management Board's report

The Management Board is submitting its report together with the audited financial statements for the year ended 31 December 2016.

Review of operations

The result for the year ended 31 December 2016 of the Company is set out in the statement of comprehensive income on page 13.

Management Board of Erste osiguranje Vienna Insurance Group d.d.

The Management Board, during the course of 2016 and up to the date of the signing of this report, comprised:

Snježana Bertoncelj	President of the Management Board
Daliborka Dedić	Member of the Management Board

Supervisory Board of Erste osiguranje Vienna Insurance Group d.d.

The Supervisory Board, during the course of 2016 and up to the date of the signing of this report, comprised:

Roland Gröll	Member of the Supervisory Board, named President of the Supervisory Board at April 27, 2016, mandate extended on December 20, 2016
Erwin Hammerbacher	Member of the Supervisory Board and Deputy President of the Supervisory Board since April 27, 2016, mandate extended on December 20, 2016
Johann Franz Josef Bichler	Member of the Supervisory Board since April 27, 2016
Jurica Smoljan	Member of the Supervisory Board, mandate extended on December 20, 2016
Anita Markota Štriga	Member of the Supervisory Board, mandate extended on December 20, 2016
Peter Franz Höfinger	stopped being President of the Supervisory Board on April 27, 2016
Franz Fuchs	stopped being Deputy President of the Supervisory Board on April 27, 2016
Natalia Čadek	stopped being Member of the Supervisory Board on April 27, 2016

Annual Management Board's report (continued)

Introduction

Erste osiguranje Vienna Insurance Group d.d. started to operate on 1 July 2005. The seat of the Company is in Zagreb, Slovenska 24, and the Company has no own subsidiaries.
The total premium income for the year 2016 amounts to HRK 175.0 million, which represents an increase of 2.1 percent from the prior year.
In the same period, the life insurance market reported a premium decrease of 0.5 %, whereby 10 of a total of 14 companies also reported a premium growth, and 4 companies reported premium levels lower than in 2015.
At 31 December 2016 the market share of Erste osiguranje Vienna Insurance Group d.d. in the life-insurance business was 6.0 percent, and in 2015 it was 5.84 percent.
In 2016 the Company generated a pre-tax profit in the amount of HRK 16.7 million, 7.9 percent more than in 2015. Thus, the Company's operations in 2016 were stable, with its premium income and profit before taxation having increased.

Shareholders' structure

The shareholders of Erste osiguranje Vienna Insurance Group d.d. are as follows:
Vienna Insurance Group Wiener Städtische Versicherung AG, Vienna, with an interest of 90 percent,
Wiener osiguranje Vienna Insurance Group d.d., with an interest of 5 percent, and Erste & Steiermärkische Bank d.d. with an interest of 5 percent.

Selling activities and gross premium written

The Company has an agency and business cooperation agreement with Erste & Steiermärkische Bank d.d.
The selling activities are focused mainly on retail business. Of the total of HRK 175.4 million of the gross premium written, HRK 114.9 million are in respect of new premiums, and HRK 60.1 million reflect premiums from previous years
In 2016 an excellent performance in single-premium guaranteed endowment policy sales was achieved, a product under which the investment risk is borne by the policyholder, with the Company earning a premium income of HRK 62.6 million. In addition to the single-premium business, the sales activities were focused on mixed-life insurance with a premium income of HRK 107.9 million, HRK 40.9 of which relate to single-premium policies.
Despite the retail business being the main source of premium income, the volume of operations with legal persons, i.e. the Corporate Division of Erste & Steiermärkische Bank d.d. continued to increase in 2016.
The gross premium written is higher by 16.8 percent than in 2015 and amounts to HRK 11.8 million, still representing a relatively small share of the total premium. However, the positive trend as described above gives rise to expected increase in the volume also in the future.
One of the main strategic goals of the Company is independent sale of policies not related to loans. Therefore, we are trying to expand our offer with new products which will be interesting to the clients and suitable for sale in banks. In 2016 we have, in cooperation with Erste Plavi pension funds, developed Sintegra – special combination of investment in pension funds and life insurance with decreasing insured amount. The intended market for this product are clients who have long-term plans and responsible attitude toward pension.
Except for that, in 2016 we have also for the first time offered the possibility of issuing all products in HRK. After the change, 62.9 percent of the new premium was written in HRK, which shows that this segment has a great potential for growth.

Operating expenses

At 31 December 2016 gross liquidated claims amount to HRK 83.6 million, which represents an increase of 32.3 percent from 2015. The balance was mainly due to surrendered (HRK 59.1 million) and expired (HRK 16.4 million) insurance contracts. Such a development was expected because of the maturing portfolio and the economic and financial crisis.
Loss ratio at 31 Decebmer 2016 amounts to 18.0 percent which is 0.5 percent higher compared to 2015 when loss ratio amounted to 17.5 percent.

Increase in technical provisions

Total technical provisions for 2016 increased by HRK 80.2 million (12.3%) from 2015 and amount to HRK 733.5 million. Mathematical reserve in the amount of HRK 507.1 million represents the largest share, which is in line with the portfolio structure portfolio structure given the concentration of endowment. The share of technical provisions for life insurance with the risk borne by the policyholder rose significantly from HRK 146.2 million in 2015 to 212.3 million in 2016, which is an increase of 45.2%.

Annual Management Board's report (continued)

Capital and investments

In 2016 the Company generated net financial result in the amount of HRK 38.4 million which represents a increase of 18.2 percent compared to 2015 when net financial result was HRK 32.5 million.
Increase in result was due to increase in insurance where the risk is borne by policyholder result (HRK 9.5 million, which is 155.5% increase when compared to 2015, when the result was HRK 3.7 million).
At 31 December 2016 capital and reserves amounted to HRK 108.4 million, which represents increase of HRK 18.5 million, or 20.6%, when compared to 2015.

Risk management

Risk management at the Company is performed on an on-going basis and methodically. It enables identification, quantification, analysis and control of risks.
The risks the Company is facing can be divided into market, credit, life insurance risks, operational, strategic and reputational.
For each of the risk categories, the Company takes measures to minimise the risk. Each measure is developed based on a close analysis of residual risks determined on the basis of internal controls and planned levels, adverse scenarios and stress tests as part of the ORSA process.
The Company has management system in place, which is responsible for organisation and implementation of responsibilities that are attributed to key functions. System and the internal documents which regulate the work of key functions are proportional to the size and complexity of the Company.
The Company controls the risks using well-developed internal policies which define the risk management strategy, the risks taken on by the Company in its operations as well as the way of creating reserves. The management of assets and liabilities, liquidity and concentration risks, the investment strategy, operational risk management, and the negotiation rules and requirements applicable to reinsurance are defined in a clear and comprehensive manner.

Human resources

At 31 December 2016 the Company had 45 employees, with an average per-employee premium of HRK 3.9 million, which places the Company as a market leader by efficiency.
During the year, in line with the human resource development strategy, the Management invested in the education, advanced training and motivation of its staff as its key strength.
This included professional trainings and conferences, in particular from the areas of actuarial mathematics, accounting, risk management, IT and other areas of the Company's activities.

Social responsibility

Erste osiguranje VIG has made significant efforts to align business goals to social and ecological matters in a sustainable way. Social responisbilty is shown by promoting various social and cultural projects. The most important activity is Social Active Day, for initiative came from Vienna Insurance Group and is being practiced in many members of the group. Activity has started in 2011 and the goal is to encourage all employees to to voluntary work. This is fifth year that Erste osiguranje VIG has been a part of the initiative. The Company encourages its employees to spend a day as a volunteer in the selected institution. In the 2016 we have volunteered in Mali zmaj – institution which helps to improve life quality of poor and abandoned children. Besides that, different institutions and projects are being supported through sponsorships and donations.

Corporate values promoted by the Company are client committment, team work, knowledge and innovation, reliability and responisbility, ethics and transparency. Our goal s to create a society which will care about needs of all its members – clients, employees and shareholders.

Planned business development in 2017

Due to decrease in technical interest rates and participation in sale of index linked products, for which the insurers have trouble finding the right guarantees, we expect the market to stagnate or experience slight fall in 2017. The Company expects the increase in premium of 1.3 percent.
The Company actively works on development of products with quality insurance cover. Special focus is on development of riziko products and products where policyholder bears the investment risk and on retaining the current portfolio. Therefore, significant efforts will be invested in managing the customer base as well as maintaining and improving customer relations.

We will continue to invest in the professional training and motivation of our employees who are the pillar of the overall development of the Company. We will seek to improve the existing business processes, especially the IT support, by optimising them, and consequently the level of operating expenses, all with the purpose of simplifying and complementing our customer support. We will also intensify the implementation of risk management measures and improve them continuously. In 2017 we also intend to broaden the products and services on offer, in line with the Company’s bankassurance strategy focus.

Annual Management Board's report (continued)

Planned business development in 2017 (continued)

Cherishing the high quality of our relationship with Erste&Steiermärkische Bank d.d., on-going efforts to sustain the quality and positive approach in our relationship with policyholders and the resulting higher quality of our portfolio as well as further strengthening of our position on the Croatian life insurance market remain in our focus.

Snježana Bertoncelj
President of the Management Board

Daliborka Dedić
Member of the Management Board

Erste osiguranje
Vienna Insurance Group d.d.
ZAGREB, Slovenska 24

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), which give a true and fair view of the state of affairs and 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 the consolidated and unconsolidated financial statements.

In preparing those 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 Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for preparation and content of the annual report in accordance with the article 21 of the Accounting Act.

Signed by the Management Board on 15th March 2017

Snježana Bertoncelj
President of the Management Board

Daliborka Dedić
Member of the Management Board

2 Erste osiguranje
Vienna Insurance Group d.d.
ZAGREB, Slovenska 24

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Erste osiguranje Vienna Insurance Group d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Erste osiguranje Vienna Insurance Group d.d. (the Company), which comprise the statement of financial position as at December 31, 2016, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information (continued)

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

1) Information included in the other information is, in all material respects, consistent with the attached annual financial statements for the year,
2) Management Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information. 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 IFRSs, adopted by 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's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 skepticism 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

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

- 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 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 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.

Report on Other Legal and Regulatory Requirements

The Management Board has prepared reporting forms in accordance with the Regulation on the Structure and Content of Annual Financial Statements of Insurance and Reinsurance companies (NN 37/16 - "the Regulation"), adopted by the Croatian Financial Services Supervisory Agency. The reporting forms are provided as a supplement to these financial statements, set out on pages 73 to 84, and comprise the statement of financial position and the statement of comprehensive income, statement of cash flows, statement of changes in equity for the year then ended and notes of reconciliation. These reporting forms are the responsibility of the Company's management and do not form an inseparable part of the financial statements set out on pages 12 to 72, but rather a requirement specified by the Regulation.

Branislav Vrtačnik, President of Management Board — **Vanja Vlak, Certified auditor**

March 15, 2017

Deloitte d.o.o.

Radnička cesta 80, Zagreb

Statement of financial position
At 31 December

	Notes	**2016** **HRK'000**	2015 HRK'000
Assets			
Equipment	*1.10*	**2,172**	1,983
Investment property	*1.11*	**8,069**	8,582
Intangible assets	*1.12*	**5,079**	5,725
Held-to-maturity investments	*1.13*	**67,700**	69,274
Available-for-sale financial assets	*1.13*	**551,058**	506,089
Loans and receivables	*1.13*	**12,376**	12,348
Investments for account and risk of life insurance policyholders	*1.13*	**212,324**	146,188
Technical provisions, reinsurers' share	*1.14*	**3,443**	4,375
Receivables from insurance operations and other receivables	*1.16*	**13,438**	13,229
Cash and cash equivalents	*1.17*	**1,871**	996
Total assets		**877,530**	768,789
Capital and reserves			
Share capital	*1.23*	**30,000**	30,000
Fair value reserve	*1.23*	**35,444**	19,483
Actuarial gains and losses		**(6)**	7
Statutory reserves		**21,248**	21,248
Retained earnings		**21,715**	19,145
Total capital and reserves		**108,401**	89,883
Liabilities			
Insurance contract provisions	*1.18*	**732,095**	652,083
Discretionary profit participation provision	*1.19*	**1,385**	1,200
Other provisions	*1.22*	**532**	448
Liabilities under insurance contracts and other liabilities	*1.20*	**29,324**	21,503
Deferred tax liability	*1.15*	**5,449**	2,456
Current tax liability	*1.21*	**344**	1,216
Total liabilities		**769,129**	678,906
Total liabilities and equity		**877,530**	768,789

The significant accounting policies and other notes on pages 16 to 72 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December

	Notes	**2016**	2015
		HRK'000	HRK'000
Gross premium written	*1.25*	**175,033**	171,424
Outward reinsurance premiums	*1.25*	**(1,577)**	(3,799)
Net premium written		**173,456**	167,625
Changes in the gross unearned premium reserve	*1.25*	**(5)**	(210)
Changes in the gross unearned premium reserve, reinsurer's share	*1.25*	**(40)**	8
Net premium earned		**173,411**	167,423
Fee and commission income	*1.26*	**449**	1,701
Financial income	*1.27*	**45,016**	38,429
Other operating income	*1.28*	**642**	690
Net operating income		**219,518**	208,243
Claims incurred	*1.29*	**(163,757)**	(156,643)
Claims incurred, reinsurer's share	*1.29*	**(155)**	1,476
Claims incurred, net		**(163,912)**	(155,167)
Acquisition costs	*1.30*	**(20,717)**	(21,278)
Administrative expenses	*1.31*	**(11,271)**	(10,114)
Other operating expenses	*1.32*	**(294)**	(254)
Profit from operations		**23,324**	21,430
Financial expenses	*1.33*	**(6,622)**	(5,954)
Profit before tax		**16,702**	15,476
Income tax	*1.34*	**(3,662)**	(3,170)
Profit for the year		**13,040**	12,306
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains / losses on pension plans with defined pensions		**(14)**	19
Items that may be reclassified subsequently to profit or loss:			
Gains / losses on remeasurement of available-for-sale assets at fair value, net of deferred tax		**15,961**	(5,135)
Other comprehensive income, net of income tax		**15,947**	(5,116)
Total comprehensive income		**28,987**	7,190
Profit per share		**HRK**	HRK
Basic and diluted earnings per share		**434**	410

The significant accounting policies and other notes on pages 16 to 72 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital HRK'000	Fair value reserve HRK'000	Statutory reserves HRK'000	Retained earnings HRK'000	Total capital and reserves HRK'000
Balance at 1 January 2016	**30,000**	**19,490**	**21,248**	**19,145**	**89,883**
Net losses on remeasurement of available-for-sale financial assets at fair value, net of realised amounts (Note 1.23)	-	18,871	-	-	18,871
Deferred tax on net losses on available-for-sale assets, net of realised amounts (Note 1.15)	-	(2,910)	-	-	(2,910)
Other comprehensive income, net of income tax	-	15,961	-	-	15,961
Other non-owner change of capital	-	(14)	-	-	(14)
Profit for the year	-	-	-	13,040	13,040
Total comprehensive income for the period	-	15,947	-	13,040	28,987
Dividends paid	-	-	-	(10,470)	(10,470)
Transactions with equity holders recognised directly in equity	-	-	-	(10,470)	(10,470)
Balance at 31 December 2016	**30,000**	**35,438**	**21,248**	**21,715**	**108,401**

	Share capital HRK'000	Fair value reserve HRK'000	Statutory reserves HRK'000	Retained earnings HRK'000	Total capital and reserves HRK'000
Balance at 1 January 2015	**30,000**	**24,607**	**21,248**	**17,038**	**92,893**
Net losses on remeasurement of available-for-sale financial assets at fair value, net of realised amounts (Note 1.23)	-	(6,419)	-	-	(6,419)
Deferred tax on net losses on available-for-sale assets, net of realised amounts (Note 1.15)	-	1,284	-	-	1,284
Other comprehensive income, net of income tax	-	(5,135)	-	-	(5,135)
Other non-owner changes in equity	-	19	-	-	19
Profit for the year	-	-	-	12,306	12,306
Total comprehensive income for the period	-	(5,116)	-	12,306	7,190
Dividends paid	-	-	-	(10,200)	(10,200)
Transactions with equity holders recognised directly in equity	-	-	-	(10,200)	(10,200)
Balance at 31 December 2015	**30,000**	**19,491**	**21,248**	**19,145**	**89,883**

The significant accounting policies and other notes on pages 16 to 72 form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December

	2016	2015
	HRK '000	**HRK '000**
CASH FLOW FROM OPERATING ACTIVITIES	**11,197**	**(94,860)**
Cash flow before changes in operating assets and liabilities	**(25,098)**	**(16,883)**
Profit before tax	16,702	15,476
Value adjustments:	(41,800)	(32,359)
Depreciation of property and equipment	1,104	1,138
Amortization of intangible assets	1,068	867
Net mpairment and gains from fair value	(9,248)	(692)
Interest income	(25,848)	(25,940)
Losses on disposal of fixed assets (including land and buildings)	-	(2)
Other adjustments	(8,876)	(7,730)
Increase / decrease in operating assets and liabilities	**40,746**	**(75,006)**
Increase in investments available for sale	(17,250)	(141,689)
Increase in deposits, loans and receivables	(28)	(13,261)
Increase in investmensts where the policyholder bears investment risk	(56,633)	(46,174)
Increase / decrease of reinsurance in technical provisions	932	(857)
Increase / decrease of tax assets	83	(327)
Decrease in receivables	26,149	27,718
Increase in prepayments and accrued income	(513)	(13)
Increase in technical provisions	14,061	43,810
Increase in technical provisions for life insurance policies where the policyholder bears the investment risk	66,136	49,895
Decrease / increase in deposits retained from reinsurance business	(288)	744
Increase in other liabilities	7,288	5,178
Increase / decrease in accruals and deferred income	809	(30)
Income taxes paid	(4,451)	(2,971)
CASH FLOWS FROM INVESTING ACTIVITIES	**148**	**104,958**
Proceeds/payments from sale of fixed assets	(214)	20
Payments for purchases of property and equipment	(798)	(664)
Payments for purchases of intangible assets	(421)	(789)
Payments for acquisition of land and property under IAS 40	-	(22)
Proceeds from held-to-maturity investments	1,581	106,413
CASH FLOWS FROM FINANCING ACTIVITIES	**(10,470)**	**(10,200)**
Cash payments for profit share (dividends)	(10,470)	(10,200)
NET CASH FLOW	**875**	**(102)**
Net increase / decrease in cash and cash equivalents	**875**	**(102)**
Cash and cash equivalents at the beginning of period	996	1,098
Cash and cash equivalents at the end of period	**1,871**	**996**

The significant accounting policies and other notes on pages 16 to 72 form an integral part of these financial statements.

Notes to the financial statements

1.1 Reporting entity

Erste osiguranje Vienna Insurance Group d.d. ("the Company"), Zagreb, Slovenska 24 is a public limited company incorporated and domiciled in the Republic of Croatia.

The Company offers life insurance products in Croatia, and is regulated by the Croatian Financial Services Supervision Agency ("CFSSA").

The majority shareholder of the Company (90% voting rights), is Vienna Insurance Group Wiener Städtische Versicherung AG, joint stock company incorporated and domiciled in Austria.

1.2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by EU ("IFRS"). The financial statements were authorised for issue by the Management Board on March 15, 2017 for approval by the Supervisory Board.

(b) Functional and presentation currency

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

(c) Basis of measurement

These financial statements are prepared on a historical cost or amortised cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those 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 any future periods affected. Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.5 Insurance Risk Management.

(e) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the mid exchange rate of the Croatian National Bank (CNB) prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the mid exchange rate of the CNB in effect at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary items denominated in foreign currencies represent the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments made during the year, and amortised cost in the foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are retranslated to the functional currency using the exchange rate at the date of fair value measurement. Foreign exchange differences arising on translation are recognised in profit or loss.

Changes in the fair value of monetary securities denominated in, or linked to foreign currency, that are classified as available for sale are split into exchange differences arisen from the changes in the amortised cost and into other changes of the carrying amount of the security. Exchange differences are recognised in profit or loss as foreign exchange gains or losses arisen on remeasurement of monetary assets and liabilities and are included within investment income or expense.

1.2 Basis of preparation (continued)

(e) Foreign currency translation (continued)

For non-monetary financial assets denominated in, or linked to foreign currency, classified as available for sale, exchange differences on revaluation are recognised in other comprehensive income.

In addition to the Croatian kuna (HRK), the principal currency in which the Company's assets and liabilities are denominated is euro (EUR). The exchange rate for Euro, applied as of 31 December 2016 was EUR 1 = HRK 7.558 (2015: EUR 1 = HRK 7.635).

(f) Standards and Interpretations

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

1.2. Basis of preparation (continued)

(f) Standards and Interpretations (continued)

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 28 February, 2017 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

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

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

1.3 1.3 Significant accounting policies

(a) Equipment

Equipment includes assets that are held for use in the supply of services or other administrative purposes.

Recognition and measurement

Equipment is recognised at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure

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

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful life of equipment.

The estimated useful lives are presented below:

	2016	**2015**
Furniture and fittings	4 years	4 years
IT equipment	4 years	4 years
Vehicles	5 years	5 years
Other equipment	10 years	10 years

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

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 amounts, and are included in profit or loss.

(b) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods and services, or for administrative purposes or sale in the ordinary course of business.

Investment property is measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2016	**2015**
Investment property	30 years	30 years

1.3 Significant accounting policies (continued)

(c) Intangible assets

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

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.

Depreciation

Depreciation 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 lives are presented below:

	2016	**2015**
Software	4 years	4 years
Leasehold improvements	Over the lease term/ 4 years	Over the lease term/ 4 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts, and are included in profit or loss.

(d) Financial instruments

Classification, recognition and reclassification

The Company classifies its financial instruments in 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. Management determines the classification of financial assets and financial liabilities at initial recognition and, where appropriate, re-evaluates this designation at every reporting date. Items are classified as designated at fair value through profit or loss only on initial recognition.

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

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities which are classified as held for trading or on initial recognition designated by the Company as at fair value through profit or loss. The Company does not apply hedge accounting. As stated above, this category has two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. 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:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- 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.

Financial instruments at fair value through profit or loss comprise investments in investment fund units and structured bonds for the account of policyholders.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

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 advances to insurees.

Receivables arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their 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. Held-to-maturity investments include Government debt securities as well as municipal debt securities.

Available-for-sale financial assets

Financial assets available for sale are non-derivatives that are either designated as available for sale are not classified elsewhere. 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. Available-for-sale financial assets include investment funds, equity securities, structured bonds, treasury bills and commercial papers.

Other financial liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss. The Company does not have financial liabilities designated at fair value through profit or loss except those related to the unit-linked and index-linked products described in accounting policy 1.3 (v). Liabilities arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*. Other financial liabilities are disclosed in the statement of financial position under line item “Insurance and other payables”.

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and financial assets available for sale are recognised on the trade date which is the date that the Company becomes a party to the contractual provisions of the investment. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. The Company derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on 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.

A financial liability is derecognised only when it no longer exists, i.e. when it is discharged, cancelled or 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.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial assets or financial liabilities 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.

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

Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairment losses. Financial liabilities not designated at fair value through profit or loss or available for sale 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 or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in fair value reserve within other comprehensive income. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to profit or loss. In case of non-monetary financial assets available for sale, all changes of fair value, including those relating to exchange differences are recognized in other comprehensive income. Upon sale or other derecognition of financial assets available for sale, any cumulative gains or losses are transferred from other comprehensive income to profit or loss.

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

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

Apart from gains and losses arising from the change in fair value of available-for-sale financial assets which are recognised in the other comprehensive income, as described above, all other gains and losses and interest are recognised in the profit or loss under line items “Financial income” and “Financial expense”.

Fair value measurement principles

The fair value of financial assets and liabilities at fair value through profit or loss and available for sale financial instruments is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Company establishes fair value by using valuation techniques. These include the use of prices achieved in 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 management’s best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. When using pricing model, the Company uses market values at the reporting date.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Company considers evidence of impairment at a specific asset level. All individually significant financial assets are individually assessed for specific impairment. Individually significant assets which are not assessed as impaired are then collectively assessed for any impairment incurred but not yet identified at the reporting date. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance 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.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest income on the impaired asset continues to be recognised through the amortisation of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

In case of equity and debt securities available for sale significant or prolonged decrease in fair value below cost is taken into consideration when assessing whether the value is impaired. For such equity securities available for sale cumulative impairment loss recognised as a difference between its cost and current fair value, less any impairment loss previously recognised in the profit or loss is transferred from equity and recognised as profit or loss. For equity securities, impairment losses recognised in profit or loss in the statement of comprehensive income are not subsequently reversed through profit or loss.

Any subsequent recovery in the fair value of impaired available-for-sale debt securities is recognised in profit or loss. However, any subsequent recovery of the fair value of an equity security available for sale previously impaired is recognized through other comprehensive income. Movements in the impairment allowance resulting from the time value of money are included in interest income.

Specific instruments

Embedded derivatives within insurance contracts and investment contracts

Sometimes, a derivative may be part of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary similarly to stand-alone derivative. Such derivatives are referred to as embedded derivatives.

Embedded derivatives are separated from the host contract and are measured at fair value. Changes in fair value of embedded derivatives are included in profit or loss if the following conditions are met:

• the economic characteristics and risks of embedded derivatives are not closely related to the economic characteristics and risks of the host contract,

• a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,

• the hybrid instrument is not measured at fair value and changes its fair value are not recognized in profit or loss.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Specific instruments (continued)

Embedded derivatives within insurance contracts and investment contracts (continued)

Embedded derivatives that meet the definition of an insurance contract can not be separated from the host contract. Furthermore, the Group used advantage of the exemptions within IFRS 4:

• it does not separate and measure fair value of option of insurer to buy back an insurance contract for a fixed amount (or an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of insurance liability;
• does not separate and measure fair value of option of policyholder to repurchase contract with discretionary participation features.

Repurchase agreements

The Company enters into purchases and sales of securities under agreements of resell or repurchase substantially identical securities on a specified future date at a fixed price. Investments, purchased under reverse repurchase agreement in the future, are not recognized in the statement of financial position. Expenses are recognized as loans and receivables.

The receivables are shown as collateralised by underlying security. Securities sold under repurchase agreements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset measured at amortized cost or at fair value.
Proceeds from sales of securities are reported as liabilities to either banks or customers.

The difference between the amount to be paid at the sale and the amount to be paid in repurchase is amortised over the period of the transaction and it is included in interest income or in interest expense.

Debt securities

Debt securities are classified as financial assets at fair value through profit or loss, held to maturity or available for sale, depending on the purpose for which the debt securitie is acquired.

Deposits with banks

Bank deposits are classified as loans and receivables and are measured at amortized cost less any impairment losses.

Loans to customers

Loans to customers are classified as loans and receivables and are stated net of impairment allowances in order to reflect the estimated recoverable amounts.

Equity securities

Equity securities are classified as financial assets at fair value through profit or loss or as available for sale and carried at fair value. If the fair value can not be reliably measured, the equity investments are measured at cost less impairment.

Investment funds

Investment funds are classified as financial assets at fair value through profit or loss and as financial assets available for sale and are carried at fair value.

Investments for the account and risk of life insurance policyholders

Investments where the life insurance policyholder bears the risk of return include investments in unit-linked and index-linked products and are classified as financial assets at fair value through profit and loss. The Company has formed Internal fund which consists of security increased for accrued interest (based on coupon) on the date of beginning of insurance. The insurer keeps the security for the entire period of insurance contract and adds the daily accrued interest to its market value.Other receivables are carried at cost less impairment loss.

Trade and other payables are measured initially at fair value and subsequently at amortised cost.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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 when gains and losses arise from a group of similar transactions.

(e) Assets under lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. There were no such leases at the Company at the reporting date. Other leases are operating leases where leased assets are not recognised in the Company's statement of financial position.

Payments under operating leases, where the Company is the lessee, are recognised in the statement of comprehensive income over the term of the underlying lease.

(f) Cash and cash equivalents

Cash and cash equivalents consists of balances with banks and cash in hand.

(g) Staff costs

Pension funds with defined contribution amount

Obligations for contributions to pension plans are recognized as an expense in profit or loss in the period in which they are incurred.

Jubilee awards and statutory redundancy

Liabilities under long-term employee benefits, such as jubilee awards and statutory redundancy payments are included in the net present value of the defined benefit obligation at the reporting date. For calculation of present value of benefit obligations projected unit credit method is used. The discount rate used is market yield on government bonds at the reporting date.

Retirement benefits that relate to the early termination of employment are recognized as an expense when there is evidence that the Company is committed, without realistic possibility of withdrawal, on implementation of a detailed formal plan which entails termination of employment before the normal retirement date or severance pay based on the offer, which is given as an incentive to voluntarily leaving the workplace. Retirement benefits for voluntarily leaving employment are recognized when the Company has made an offer to voluntarily leave the workplace, if there is high probability that the offer will be accepted and if it is possible to reliably estimate the number of offers that will be accepted. If severance payments are due for payment more than 12 months after the date of the financial statements, they will be discounted to their present value.

(h) Income tax

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case the tax 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 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, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

Deferred tax assets and liabilities are not discounted and are presented within non-current assets and/or non-current liabilities.

1.3 Significant accounting policies (continued)

(i) 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.

(j) Discretionary profit participation provision

Insured persons or beneficiaries, in the case of mixed insurance (according to price lists HR11, HR11U, HR21, HR21U, HR31, HR31U, HR41, HR41U, HR51, HR51U_EUR, HR51U_HRK, HR61_EUR, HR61_HRK, HRC1, HRC2, HRC3, HRC4_EUR and HRC4_HRK) and life insurance where the risk insured is death (HR14, HR24, HR34_EUR, HR34_HRK) have a share in the profit of the Company realized through the management of life insurance funds. The right on share in the profit is calculated following the expiry of the third year of insurance policies with the installment payments of premiums and after the first year in case of the insurance policies with one-time payment of premiums. Level of the profit is determined by management. The discretionary element of these contracts is evidented as a liability in the provision for profit-sharing.

(k) Share capital

Ordinary 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.

Statutory reserves

Statutory reserves are formed in accordance with the Companies Act. The Company has the obligation to allocate 5 percent of its annual net profit decreased for accumulated losses to legal reserve until it reaches 5 percent of the issued share capital.

The legal reserve funds may be utilised to cover prior-period losses, unless loss is covered from the profit for the year or other reserves are available to cover the loss. Statutory reserve is formed through shareholders' contribution for coverage of losses.

Fair value reserve

The fair value reserve represents unrealised gains and losses arising from a change in the fair value of available-for-sale financial assets, net of deferred tax.

Retained earnings

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.

(l) Impairment

The carrying amounts of the Company's assets, other than financial assets (see accounting policy 1.3 (d)) and deferred tax assets (see accounting policy 1.3 (h)), are reviewed at each reporting date 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 reporting date.

An impairment loss is recognised if the 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 can be separately identified from those of other assets or groups of assets. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1.3 Significant accounting policies (continued)

(l) Impairment (continued)

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 net 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 reporting date 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.

(m) Revenue

The accounting policy for the recognition of revenue under concluded insurance contracts is described in Note 1.3 (p) Premiums.

Financial income

Interest income from all interest-bearing financial instruments measured at amortised cost is recognised in the profit or loss as it accrues using the effective yield on the asset by applying the rate that discounts expected future cash flows to the net present value over the term of the underlying contract or the currently applicable interest rate. Interest income from monetary assets at fair value through profit or loss is recognized as income at coupon rate.

Financial income also includes net foreign exchange differences from calculation of monetary assets and liabilities at the exchange rate at the reporting date, dividends, net gains from changes in fair value of financial assets at fair value through profit or loss and net realized gains on derecognition of financial assets available for sale.Dividend income is recognised in profit or loss on the date that the dividend is declared.

The accounting policy in relation to financial income recognition is disclosed in note 1.3 (d) Financial instruments under "Gains and losses".

Income from investment property consists of realized gains from sale of property, rental income and other income related to investments in real estate. Rental income from investment properties and other operating leases are recognized in profit or loss on a straight-line basis over the entire term of the lease.

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 various reinsurance commission income.

(n) Expenses

Operating expenses

Operating expenses consist of policy acquisition costs and administrative expenses.

Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts such as the sales staff costs, commission expenses and marketing and advertising expenses.

Life commission expenses are recognised on a cash basis consistent with the related income recognition criteria (see accounting policy 1.3 (p) Premiums.).

Administrative expenses

Administrative expenses include staff costs, depreciation and amortisation, electricity costs and other costs. Other costs consist mainly of costs of premium collection, policy termination costs, portfolio management costs and administration costs relating to reinsurance.

1.3 Significant accounting policies (continued)

(n) Expenses (continued)

Operating lease expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognised in profit or loss as an integral part of the total lease expense.

Financial expenses

Financial expenses include negative foreign exchange differences resulting from translating monetary assets and liabilities using the exchange rate at the reporting date, impairment of available-for-sale financial assets, unrealised losses from changes in fair value of financial assets through profit or loss and realised losses on the sale of financial instruments.

The accounting policy in relation to financial income recognition is disclosed in note 1.3 (d) Financial instruments under “Gains and losses”.

(o) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or another beneficiary of insurance are classified as insurance contracts. Insurance risk differs from financial risk. Financial risk is the risk of a possible future change in one or more of a specified variables: interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, 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 can also transfer a certain level of the financial risk.

Contracts that do not pass significant insurance risk from the policyholder to the Company are classified as investment contracts. The Company had no investment contracts at reporting date.

Contracts with discretionary participation features

Insurance and investment contracts may include discretionary participation features. A contract with a discretionary participation feature represents the contractual right of the policyholder to receive, as a supplement to minimum guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits and whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract;
- realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
- the profit or loss of the company, fund or other entity that issues the contract.

The discretionary feature of such contracts is accounted for as discretionary profit participation provision.

The provision for discretionary benefits comprises amounts arising from the right of profit participation, the allocation of which to policyholders has not been specified at the reporting date.

Discretionary profit participation provision

Policyholders or beneficiaries of endowment and policyholders of life insurance are entitled to a share in the profits of the Company realised through the management of life assurance funds. The entitlement is calculated following the expiry of the first or third year of insurance depending on the pricing. The level of the profit entitlement is determined by management and approved by the General Assembly.

The discretionary feature of such contracts is accounted for as discretionary profit participation provision.

The provision for discretionary bonus amounts from the policies with discretionary profit participation whose allocation is not specified at the reporting date. Once the allocation is determined, the amounts are transferred to the mathematical reserve (note 19).

1.3 Significant accounting policies (continued)

(p) Premiums

Written premiums include all premiums written during the year and they are recorded at the date stated on the insurance contract. Premiums include any corrections of premiums written in previous accounting periods.

The earned portion of premiums received, including unclosed business, is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received in the same accounting period as the premiums for the related direct insurance business.

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

(q) Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, calculated based on a "pro rata temporis" method.

The provision for unearned premiums in respect of life insurance is included within the life insurance provision.

For the calculation of the reinsurance portion of unearned premiums, the same methodology is applied.

(r) Life assurance provision (mathematical reserve) based on accounting regulations

The life insurance provision based on accounting regulations has been determined by the Company's actuary, taking into account the principles set out in the rules for determining the mathematical provision for life insurers issued by CFSSA. The life insurance provision has been calculated on the basis of current premiums using the Zillmer rates, by taking into account all actual costs of acquisition, collection and administrative expenses, as well as all guaranteed payments and benefits, both those declared and proposed. The prospective net method has been adopted.

The Zillmer rates range from 0% to 4.5% of the total insurance premium, depending on the life insurance tariff. The Zillmer rates applied by the Company are within the limits specified by CFSSA and it is taking account that Zillmer rate is not higher than 3.5%.

The provision is initially measured using the assumptions applied in determining the corresponding premiums that remain unchanged, except in case of liability inadequacy or unless CFSSA prescribes otherwise. The bonuses attributable to the policyholders are determined at the reporting date and are presented as discretionary profit participation provision.

The amount of bonus to be allocated to policyholders is irrevocably fixed at the reporting date and is presented within the reserve for participation in the profits. The Company has no policy to reduce subsequent discretionary participation in the Company's favor once the reserves are set aside for discretionary bonuses.

(s) Claims

Reserves for reported claims are recorded as claims are processed and recognised i.e. determined in the amount of the outflow required to settle the claim. Settled claims are increased by the amount of the claims settlement process.

Settled claims are reduced by the amounts of claims recovered or to be recovered by third parties.

Claims provision, determined on the basis of individual claim assessment and using the statistical methods, represent the Company's provision for the estimated ultimate cost of settlement of all claims incurred but not settled at the reporting date, whether reported or not, together with the related internal and external claims processing charges and appropriate margins for prudence. Claims provisions are determined by reviewing individual claims and establishing a provision for claims incurred but not reported, taking into account the internal and external predictable events, such as changes in the claims processing procedure, inflation, court trends, changes in the underlying legislation, as well as historical experience and trends.

Amounts recovered from reinsurance and otherwise are estimated in a manner similar to the one as those used in estimating the claims provision.

Although the management considers the gross claim provision and the related recoveries from reinsurance as being adequately disclosed based on the currently available information and events, 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. The methods and the underlying estimates and assumptions are regularly reviewed.

1.3 Significant accounting policies (continued)

(t) Reinsurance

Receivables under reinsurance contracts are reviewed for impairment at each reporting date. It is assumed that such assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due from the reinsurer and that the event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

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

Premiums ceded and benefits reimbursed are presented in the profit or loss and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not pass significant insurance risk (e.g. financial reinsurance) are accounted for as deposits. The Company had no such contracts at the reporting date.

Reinsurance assets include amounts receivable from reinsurer for the liabilities ceded out of insurance. Amounts due from the reinsurer are estimated in a manner consistent with the one applied in determining the claims provisions or for claims settled on the basis of a reinsurance policy.

Reinsurance assets include actual or estimated amounts recoverable, based on the underlying reinsurance contracts, from the reinsurer in connection with technical provisions. Reinsurance assets related to technical provisions are established on the basis of the terms and conditions of the underlying reinsurance contract and measured on the same basis as the related reinsured liabilities. The Company establishes a provision for estimated unrecoverable reinsurance assets if required.

Reinsurance and profit-based commissions

Included in the reinsurance and profit-based commissions are commissions received or receivable from the reinsurer and the share in the profit in accordance with the underlying reinsurance contracts.

(u) Liabilities and related assets under liability adequacy test

Insurance contracts are tested for 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 and any related assets. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss.

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Company assesses at the end of calendar year whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under all of its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (increased by related deferred acquisition costs) are inadequate in the light of the estimated future cash flows, the entire deficiency is charged to profit or loss. The estimates of future cash flows are based on realistic actuarial assumptions taking into consideration claim occurrence experience, demographic tables adopted for experience in mortality, aspects of mortality, morbidity, investment return, expenses and inflation.

(v) Measurement of liabilities under unit-linked and index-linked contracts

Liabilities in relation to unit-linked and index-linked insurance contracts are classified at fair value through profit and loss. Transaction costs and front-end fees in respect of financial liabilities measured at fair value are not included in the initial measurement amount and are recognised as an expense where incurred. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract.

(w) Insurance receivables and payables

Insurance receivables and payables are accounted for in accordance with IFRS 4. Insurance receivables and payables include receivables and payables arising from insurance and reinsurance contracts entered by the Company. Life assurance premiums are recognised on cash receipt basis.

1.4 Accounting estimates and judgements

The disclosures set out below amend the Note 1.37 Financial risk management and Note 1.5. Insurance risk management.

The Company makes estimates and assumptions about the future. Accounting estimates vary inherently from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1.4.1 Key sources of estimation uncertainty

Impairment losses on loans and receivables

Impairment of assets carried at amortised costs is assessed as described in Accounting Policy 1.3 (d) “Impairment of financial assets”.

Impairment with respect to individual exposures within total impairment losses are assessed on the basis of the management’s best assessment of the present value of expected future cash inflows. In estimating those inflows, the management assesses the financial position of the debtor and the net selling price of the security instrument obtained. Each impaired item of assets is subject to an individual assessment, while the credit risk function passes the recovery strategy independently, as well as provides an estimate of the recoverable cash flows.

Fair value measurement

Fair values of financial assets with no quoted market prices require the use of the measurement methods described in Accounting Policy 1.3 (d) “Financial Instruments”. The fair value of financial instruments that are rarely traded and with non-transparent prices is less objective and requires a different level of judgement, depending on liquidity, concentration, uncertainty of risk factors, pricing assumptions and other risks that affect an individual instrument.

Loans and receivables are measured at amortised cost less impairment

The market value of loans and receivables with residual maturities of less than 12 months approximates book value due to their short remaining maturities. The carrying value of loans and receivables with remaining maturities over 12 months and fixed rates is not significant at the reporting date.

Debt securities classifed as financial assets available for sale are measured at fair value based on closing average prices at the reporting date.

Level 2 category includes instruments valued using: quoted market prices in active markets for underlying financial assets of index-linked debt securities or other valuation techniques as discounted cash flows in which all significant inputs are directly or indirectly observable from market data.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair value of financial instruments is based on quoted price (unadjusted) in an active market.
- Level 2: Fair value of finacial instruments is estimated by using estimation techniques which use inputs that are measurable, either direct (prices) or indirect (derived from prices).
- Level 3: Fair value of finacial instruments is estimated by using estimation techniques which use inputs that are not measurable.

1.4 Accounting estimates and judgements (continued)

1.4.1 *Key sources of estimation uncertainty (continued)*

At 31 December 2016	**Level 1 HRK'000**	**Level 2 HRK'000**	**Level 3 HRK'000**	**Total HRK'000**
Available-for-sale financial assets				
~ Debt securities	544,555	3,100	-	**547,655**
~ Investment funds	3,403	-	-	**3,403**
Financial assets at fair value through profit or loss				
~Investments for the benefit of index-/unit-linked products	-	212,324	-	**212,324**
Total financial assets at fair value	**547,958**	**215,424**		**763,382**

At 31 December 2015	**Level 1 HRK'000**	**Level 2 HRK'000**	**Level 3 HRK'000**	**Total HRK'000**
Available-for-sale financial assets				
~ Debt securities	502,338	1,821	-	**504,159**
~ Investment funds	1,931	-	-	**1,931**
Financial assets at fair value through profit or loss				
~Investments for the benefit of index-/unit-linked products	-	146,188	-	**146,188**
Total financial assets at fair value	**504,269**	**148,009**	**-**	**652,278**

During 2016 there were no movements between levels of fair value hierarchy.

Uncertainty of provision estimates

The most significant area of estimate in the financial statements of the Company relates to provisions.

The principal assumptions used in determining the level of life insurance provision are disclosed in Note 1.18(g) Insurance contract.

Insurance risk is described in detail in Note 1.6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses, whereas provisions for insurance contracts are analysed in Note 1.18 Insurance contract provisions.

Taxes

The Company establishes a tax liability in accordance with the tax legislation of the Republic of Croatia. Tax returns are subject to inspection by tax authorities, authorised to inspect the business records of a taxpayer subsequent to the tax period.

Regulatory requirements

CFSSA is authorised to review the Company's operations and may require modifications to the carrying amounts of assets and liabilities in accordance with applicable regulations.

1.4 Accounting estimates and judgements (continued)

1.4.2 Key accounting judgements in the application of the Company's accounting policies

The key accounting judgements in the application of the Company's accounting policies are as follows:

Classification of financial assets and liabilities

The Company's accounting policies provide for the initial classification of assets and liabilities, in certain circumstances, into various accounting categories. In classifying financial assets and liabilities as held for trading, the Company is satisfied that they meet the definition of assets and liabilities held for trading as disclosed in Accounting Policy 1.3 (d) Financial instruments. In designation of financial assets at fair value through profit or loss, the Company has determined that it meets one of the criteria for this designation set out in accounting policy 3 (f). Reclassification of financial assets and financial liabilities in portfolio held at fair value through profit or loss is allowed in rare cases. Investments held to maturity may be classified as such if the Company has the positive intentions and abilities to hold these assets to maturity.

Valuation of financial assets

The accounting policies of the Company related to financial assets at fair value through profit or loss are shown in Accounting policy 1.3 (d). The Company measures the fair market value using a hierarchy of market values as it is disclosed in Note 1.4.1 as part of the financial risk management.

Classification of products

The Company's accounting policy pertaining to the classification of insurance contracts is described in Note 1.3 (o) Classification of contracts.

Estimated useful life of equipment and intangible assets

The Company continued to use certain equipment and intangible assets in use that are fully depreciated. The depreciation rates were determined initially using the best estimate of the useful life of those assets

The Management believes that this is appropriate, as the Company will soon cease to use those assets.

Impairment test for AFS equity instruments

The Company as of 31 December 2016 has no equity instruments classified as available for sale.

1.5 Insurance risk management

Insurance risk relates to uncertainties in insurance operations. The most significant insurance risk components are the premium risk and the reserve risk. They are associated with the adequacy of premium tariffs and reserves to the insurance liabilities and capital base.

Premium risk is present at the point of issuing an insurance policy before the insured risk occurs. The risk is that expenses and incurred losses will be higher than the premium received. Reserve risk is the risk that the absolute level of technical provisions may be misestimated.

Life insurance underwriting risk includes biometric risk (which includes mortality, life expectancy, sickness and disability risks) and cancellation risk. Cancellation risk represents a higher or a lower rate of cancelling or terminating insurance policies, changes in the capitalisation status (default in premium payment) and surrender.

Risk management

The Company manages the insurance risks by setting acquisition limits, clearly defined approval procedures for transactions involving new products or exceeding the set limits, the pricing and structure of its products and managing reinsurance arrangements.

The acquisition strategy is aimed at establishing a balanced portfolio, based on a large portfolio of similar risks over the years, which minimises the variability of the results.

The Company arranges reinsurance for all the risks it underwrites so as to manage its loss exposure and safeguard its capital base.

Reinsurance ceded contains the credit risk, and such insurance receivables are presented net of uncollectible amounts. The Company monitors the financial condition of reinsurers and majority signs the contracts with reinsurers who are rated A. The Company has a proportional reinsurance contract for its products.

Adequacy of liabilities is assessed taking into account the asset (fair and book value, currency and interest rate sensitivity), changes in interest rates and exchange rates and the development of mortality, morbidity, lapses and expenses as well as general market conditions.

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of underwriting risk, which determines the extent to which a particular event or series of events could impact significantly the Company's liabilities. Such concentrations may arise from a single insurance contract or a number of related 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.

Risk concentrations may arise from low-frequency, high-severity events such as natural disasters or unexpected changes in trends, such as unexpected changes in the mortality or behaviour of the insured; or where significant legal actions or regulatory risks may result in high individual losses or produce significant effects that spread over a large number of contracts.

The Company's underwriting risks is present mainly in the Republic of Croatia.

There is no significant geographical concentration of risks under contracts that include policyholder death coverage. However, the sum insured can affect the claim settlement ratio on the portfolio level. Value at risk of the sums insured under life assurance are as follows:

Line of insurance		**Value at risk**		
		2016		**2015**
	HRK'000	**%**	**HRK'000**	%
Life assurance – traditional products	1,011,617	27.90%	1,052,178	27.61%
Life-assurance products where the investment risk is borne by the policy holder	19,526	0.54%	13,689	0.36%
Supplementary insurance	2,594,854	71.56%	2,744,339	72.03%
Balance at 31 December	**3,625,997**	**100.00%**	**3,810,206**	**100.00%**

1.5 Insurance risk management (continued)

The table presenting long-term insurance contracts below shows risk concentrations through six insurance classes grouped by sum insured per insured person:

Sum insured per insured person at the end of 2016	Total sum insured			
	Before reinsurance		After reinsurance	
HRK	HRK'000	%	HRK'000	%
< 20,000	229,125	13.40%	230,270	14.93%
20,001-40,000	349,557	20.45%	351,399	22.79%
40,001-60,000	143,386	8.39%	146,444	9.50%
60,001-80,000	150,282	8.79%	147,039	9.54%
80,001-100,000	99,755	5.83%	97,796	6.34%
> 100,001	737,546	43.14%	569,136	36.91%
Balance at 31 December 2016	**1,709,651**	**100.00%**	**1,542,084**	**100.00%**

Sum insured per insured person at the end of 2015	Total sum insured			
	Before reinsurance		After reinsurance	
HRK	HRK'000	%	HRK'000	%
< 20,000	229,752	13.66%	230,621	15.47%
20,001-40,000	331,341	19.70%	333,722	22.38%
40,001-60,000	128,548	7.64%	132,190	8.86%
60,001-80,000	154,802	9.20%	150,092	10.07%
80,001-100,000	102,040	6.07%	98,817	6.63%
> 100,001	735,681	43.73%	545,714	36.60%
Balance at 31 December 2015	**1,682,164**	**100.00%**	**1,491,156**	**100.00%**

1.6 Key assumptions with most significant impact on the recognised assets, liabilities, income and expenses from insurance operations

At the reporting date, a provision is made 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 costs, less amounts already paid.

The liability for reported, but not settled claims ("RBNS") is assessed on a case-by-case basis, with due regard to the circumstances surrounding the claim, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and updated as and when new information arises.

The estimation of claims incurred, but not reported ("IBNR") is generally subject to a greater degree of uncertainty than reported claims. The IBNR reserve is assessed by the Company's actuaries using statistical techniques.

The key methods, which have remained consistent with those used in the prior year, are as follows:

- average cost per IBNR claim, which is based on the Company's historical claims experience;
- the best estimate method, which relies on the experience in a comparable, more developed insurance Company so as to assess the claims.

1.6 Key assumptions with most significant impact on the recognised assets, liabilities, income and expenses from insurance operations (continued)

The IBNR reserve is initially assessed in gross amount, with a separate calculation made to determine the reinsurer's share.

Mathematical reserve is determined using the prospective net method and interest rates applied in determining the tariff. Mathematical reserve is determined in accordance with the Rules on the Minimum Standards, Method of Calculation and Criteria for Determining Technical Provisions. The assumptions used are determined on the inception of the insurance policy and remain in effect until the liability is expired, except in case of inadequate liability, or unless the CFSSA prescribes otherwise. Life insurance policies are tied to EUR.

The guaranteed technical interest rate included in the policies is 3.25% for the tariffs HR11, HR11U, HRR and HRRU, 2.75% for HRC1 and 2.5% for HRR2, HRR2U, HRR3, HRR4, HRR4U, HRR5, HRIL1U, HRIL2U, HRIL3U, HRIL4U, HR21, HR31, HR41, HR21U, HR31U, HRC2, 2.25% for HRR6, HRR7, HR41U, HR51, HRIL5U and HRC3, 2% za HR14, HR24, HR61_HRK, HR51U_HRK, HRR8_HRK, HRR9_HRK, HRR10_HRK. HRC4_HRK, HR34_HRK and 1.25% for HR61_EUR, HRR8_EUR, HRR9_EUR, HRR5U_EUR, HR51U_EUR, HRC4_EUR, HR34_EUR, HRIL6U and HRIL7U by reference to the actual technical interest rate used in determining the premium.

The principal assumptions used in determining the significant components of the mathematical reserve are disclosed in Note 1.18 (d) Life assurance provision.

There were no changes in the assumptions underlying the measurement of life insurance operations during 2016.

Discretionary bonus participation

The insured persons or beneficiaries of mixed insurances (as per price lists HR11, HR11U, HR21, HR21U, HR31, HR31U, HR41, HR41U, HR51U_EUR, HR51U_EUR, HR51, HR61_EUR, HR61_HRK, HRC1, HRC2, HRC3, HRC4_EUR and HRC4_HRK) and endowment insurances (HR 14, HR24, HR34_EUR and HR34_HRK) are entitled to a discretionary share in the Company's return achieved as a result of managing life insurance funds. The participation in the return on those funds is determined as of 31 December each year following the expiry of the first year (HR11U, HR21U, HRK31U, HR41U, HR51U_EUR and HR51U_HRK) and the third year (HR11, HR21, HR31, HR41, HR51, HR61_EUR, HR61_HRK,HRC1, HRC2, HRC3,HRC4_EUR, HRC4_HRK, HR14, HR24, HR34_HRK, HR34_EUR) of insurance. In case of survival to maturity, the participation is paid together with the sum insured. In case of death, the Company disburses the sum insured and the participation accrued as of the date of death. The Company provides amounts of discretionary bonus participation to policy holders within the life insurance provision.

1.7 Liability adequacy test

The life assurance provision (mathematical reserve) 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, expenses and exercise of policyholder options. For this purpose, the Company tests the profit for the most products within its portfolio. Where reliable market information is available, the assumptions are derived from them.

However, due to a lack of the market transactions in the economic environment in which the Company operates, there are often significant problems in revising the assumptions arrived from the observable market conditions.

Assumptions that cannot be based reliably on the market values are based on the current assumptions arrived at using the Company's internal models and public sources of information (e.g. demographic information published by the national bureaus of statistics).

Because of the level of uncertainty in connection with the future development of the insurance market and the Company's portfolio, the Company uses reasonably conservative margins to reflect those risks and uncertainties.

The original assumptions are revised annually in accordance with the most recent experience.

The key assumptions generally used while performing liability adequacy tests are:

Segmentation

The Company segments the products into several homogenous groups according to the characteristics of individual products. 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 using the assumptions described below is compared with the insurance liabilities for each product group separately. If that comparison shows that the carrying amount of the 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 provision.

1.7 Liability adequacy test (continued)

Mortality and morbidity

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

For calculation of mathematical reserves mortality rates of the Republic of Croatia that are used for calculation of premium are used. Company is additionally testing mathematical reserves calculation every year using newest probability tables of Republic of Croatia. If such calculation gives higher amounts the Company records such higher amounts.

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.

Expenses

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Company's current experience. For future periods, cash flows are increased by the factor which equals future inflation rate.

Expected investment return and discount rate

The future investment returns are determined using the Croatian kuna risk-free rate curve.

Profit allocation

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 the liability adequacy takes into account future discretionary bonuses.

1.8 The sensitivity of liability adequacy test's future cash flows to changes in significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, cancellation rate, expense rate and discount rates which are estimated for calculating the adequate value of insurance liabilities during the liability adequacy test.

The Company has estimated the impact of changes in key variables that may have a material effect on the net present value of future cash outflows and net present value of future cash inflows at the end of the year.

Liability adequacy test – modelled future cash flows

	HRK'000
Base run ('initial value')	**680,385**
Investment return –100bp	**712,731**
Mortality +5%	**681,364**
Policy maintenance expenses +10%	**689,643**

The liability adequacy test was performed on the total portfolio.

Base run („initial value") represents LAT future cash flows calculated using the assumptions described under note 1.7 Liability adequacy test.

Changes in variables represent reasonably possible changes which, had they occurred, would have led to significant changes in insurance liabilities at the reporting date. The reasonably possible changes represent neither expected changes in variables nor worst-case scenarios.

1.8 The sensitivity of liability adequacy test's future cash flows to changes in significant variables (continued)

The analysis was prepared for a change in variable with all other assumptions remaining unchanged and ignores changes in values of the related assets.

The sensitivity was calculated for an unfavourable movement, therefore the sensitivity to changes in mortality was calculated by estimating the effect on LAT future cash flows of an increase of mortality for life insurance products by 5%. The sensitivity to changes in expense rate was calculated by estimating the effect on LAT future cash flows of a 10% increase in policy maintenance expenses.

The profit or loss and insurance liabilities (as evidenced by LAT cash flow above) are mostly influenced by a decrease in the interest rates and increase in policy maintenance expenses.

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

Discretionary profit participation

Traditional life insurance contracts include an entitlement to participate in profit in accordance with the underlying insurance terms and conditions. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed by the Management Board and approved by General Shareholders' Assembly in accordance with the relevant legal requirements. Once allocated to policyholders, the bonuses become guaranteed.

Premiums

Premiums may be payable in regular instalments or as a single premium at inception of the policy. Some endowment-type insurance contracts contain a premium indexation option which may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums are not increased by an agreed index.

Term life insurance products

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

Life-long endowment

Life-long endowment includes risk of death. Premiums are paid regularly, for a maximum period of 10 years. Policies offer a fixed sum insured for death.

Endowment products

These are traditional life insurance products providing long term financial protection. A majority of these policies give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer cover for risks of death and endowment. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid on a one-off basis.

Unit-linked life assurance

Unit-linked life assurance combines traditional term life assurance, with the risk of death and the possibility to invest regular premium or an extra single premium into certain investment funds. The policyholder defines the fund where payments are to be invested and can change the fund during the contract. The policyholders can pay an additional single premium or withdraw a part of the policy value.

Index-linked life assurance

Index-linked life assurance is a product with single premium which includes term life insurance product and a savings product with guaranteed return. The savings component is invested into structured instruments with a guaranteed value at maturity (issuers guarantee). As a result, policyholders have the insured sum at maturity guaranteed; however there is no guarantee in case of surrender.

1.10 Equipment

	Motor vehicles	Equipment and furniture	Tangible assets under construction	Total
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Cost				
Balance at 1 January 2015	998	3,777	4	4,779
Additions	-	685	-	685
Disposals	-	(499)	(4)	(503)
Balance at 31 December 2015	**998**	**3,963**	**-**	**4,961**
Balance at 1 January 2016	998	3,963	-	4,961
Additions	867	152	-	1,019
Disposals	(536)	(529)	-	(1,065)
Balance at 31 December 2016	**1,329**	**3,586**	**-**	**4,915**
Accumulated depreciation and impairment				
Balance at 1 January 2015	525	2,138	-	2,663
Charge for the year	200	600	-	800
Disposals	-	(485)	-	(485)
Balance at 31 December 2015	**725**	**2,253**	**-**	**2,978**
Balance at 1 January 2016	725	2,253	-	2,978
Charge for the year	189	635	-	824
Disposals	(537)	(522)	-	(1,059)
Balance at 31 December 2016	**377**	**2,366**	**-**	**2,743**
Net book value				
At 1 January 2015	473	1,639	4	2,116
At 31 December 2015	**273**	**1,710**	**-**	**1,983**
At 1 January 2016	273	1,710	-	1,983
At 31 December 2016	**952**	**1,220**	**-**	**2,172**

The depreciation charge is recognised under administrative expenses in the statement of comprehensive income.

1.11 Investment property

	Total HRK'000
Cost	
Balance at 1 January 2015	11,748
Additions	22
Impairment	(1,749)
Balance at 31 December 2015	**10,021**
Balance at 1 January 2016	10,021
Impairment	(231)
Balance at 31 December 2016	**9,790**
Accumulated depreciation and impairment	
Balance at 1 January 2015	1,100
Charge for the year	339
Balance at 31 December 2015	**1,439**
Balance at 1 January 2016	1,439
Charge for the year	282
Balance at 31 December 2016	**1,721**
Net book value	
At 1 January 2015	10,648
At 31 December 2015	**8,582**
At 1 January 2016	8,582
At 31 December 2016	**8,069**

Investment property comprises four properties rented out to related party Wiener Vienna Insurance Group d.d. which Company acquired on 27 September 2011 for HRK 11,748 thousand based on a valuation report from licensed real estate appraiser. The appraiser used sales comparison method for initial valuation of purchase price. Investment property is measured at cost less accumulated depreciation and impairment losses.

The fair value of investment property was appraised by certified court appraiser. Value appraisal of investment property that is valued at cost has been conducted per method prescribed by Real estate valuation Act (NN 78/15 – comparable method, income method or cost method, depending on type of property and its specifics. It was appraised that book value of investment property is HRK 231 thousand (2015: HRK 1,749 thousand) higher that appraised value. Investment property are ranked in hierarchy under the third level

The depreciation charge is recognised through profit or loss under financial expenses.

Rental income in the amount of HRK 822 thousand *(2015: HRK 1,100 thousand)* is recognised as a separate line within Note 1.27 Financial income.

1.12 Intangible assets

	Licences	Investments in software	Leasehold improvements	Intangible assets under development	Total
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Cost					
Balance at 1 January 2015	2,863	916	4,606	940	9,325
Additions	587	58	-	144	789
Disposals	(54)	(190)	-	-	(244)
Transfer	1,084	-	-	(1,084)	-
Balance at 31 December 2015	**4,480**	**784**	**4,606**	**-**	**9,870**
Balance at 1 January 2016	2,863	916	4,606	940	9,325
Additions	587	58	-	144	789
Balance at 31 December 2016	**4,480**	**784**	**4,606**	**-**	**9,870**
Accumulated amortisation and impairment					
Balance at 1 January 2015	2,698	557	267	-	3,522
Charge for the year	220	186	461	-	867
Disposals	(54)	(190)	-	-	(244)
Balance at 31 December 2015	**2,864**	**553**	**728**	**-**	**4,145**
Balance at 1 January 2016	2,864	553	728	-	4,145
Charge for the year	479	129	460	-	1,068
Disposals	-	-	-	-	-
Balance at 31 December 2016	**3,343**	**682**	**1,188**	**-**	**5,213**
Net book value					
At 1 January 2015	165	359	4,339	940	5,803
At 31 December 2015	**1,616**	**231**	**3,878**	**-**	**5,725**
At 1 January 2016	1,616	231	3,878	-	5,725
At 31 December 2016	**1,137**	**232**	**3,418**	**292**	**5,079**

The depreciation charge is recognised under administrative expenses in the statement of comprehensive income.

1.13 Financial investments

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Held-to-maturity investments	**67,700**	69,274
Available-for-sale financial assets (including funds)	**551,058**	506,089
Loans and receivables	**12,376**	12,348
Investments where life insurance policyholder bears investment risk	**146,188**	96,293
	843,458	733,899

The Company classified its financial instruments into following categories:

	Held-to-maturity investments	**Financial assets available for sale**	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
31 December 2016					
Croatian government bonds (RH)	67,700	529,896	-	-	597,596
Foreign government bonds	-	3,919	-	-	3,919
Corporate bonds	-	10,740	-	-	10,740
Structured bond	-	3,100	-	-	3,100
Fixed-rate debt securities, listed	**67,700**	**547,655**	**-**	-	**615,355**
Open-ended investment funds	-	3,403	-	-	3,403
Investment funds – listed	**-**	**3,403**	**-**	-	**3,403**
Index linked	-	-	212,324	-	212,324
Investments where life insurance policyholder bears investment risk	**-**	-	**212,324**	**-**	**212,324**
Loans	-	-	-	376	376
Deposits	-	-	-	12,000	12,000
Loans and receivables	**-**	-	-	**12,376**	**12,376**
	67,700	**551,058**	**212,324**	**12,376**	**843,458**

1.13 Financial investments (continued)

	Held-to-maturity investments	**Financial assets available for sale**	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
31 December 2015					
Croatian government bonds (RH)	68,517	490,023	-	-	558,540
Foreign government bonds	-	2,037	-	-	2,037
Municipal bonds	757	-	-		757
Corporate bonds	-	10,277	-	-	10,277
Structured bond	-	1,821	-	-	1,821
Fixed-rate debt securities, listed	**69,274**	**504,158**	**-**	-	**573,432**
Open-ended investment funds	-	1,931	-	-	1,931
Investment funds – listed	**-**	**1,931**	**-**	-	**1,931**
Index linked	-	-	146,188	-	146,188
Investments where life insurance policyholder bears investment risk	**-**	-	**146,188**	**-**	**146,188**
Loans	-	-	-	348	348
Deposits	-	-	-	12,000	12,000
Loans and receivables	**-**	-	-	**12,348**	**12,348**
	69,274	**506,089**	**146,188**	**12,348**	**733,899**

1.14 Technical provisions, reinsurers' share

	Notes	**31 December 2016**	31 December 2015
		HRK'000	HRK'000
Reinsurers' share in provision for unearned premiums	*1.18 a)*	**348**	389
Reinsurers' share in RBNS provisions	*1.18.b)*	**-**	2
Reinsurers' share in IBNR provisions	*1.18.c)*	**2,848**	3,711
Reinsurance share in life insurance provision	*1.18.d)*	**247**	273
		3,443	4,375

The reinsurers' share in the technical provisions represents the expected future claims to be settled by the Company's reinsurer, as well as the reinsurers' share in the premium written. Premiums ceded by the Company to reinsurance do not release the Company from its direct liability towards insured. Thus, the credit risk exposure exists within the reinsurers' share to the extent that the reinsurer is not able to settle the claim as specified in the underlying contract.

1.15 Deferred tax (liability) /asset

	31 December 2016 HRK'000	31 December 2015 HRK'000
Deferred tax assets		
Impairment of loans and receivables	**344**	350
Impairment of investment property	**1,440**	1,600
Provisions - tax non-deductible expenses	**547**	465
	2,331	2,415
Deferred tax liability		
Unrealised gains on financial assets available for sale	**(7,780)**	(4,871)
Net deferred tax liability	**(5,449)**	(2,456)

	At 1 January 2016 HRK'000	Recognised in profit or loss HRK'000	Recognised in other comprehensive income HRK'000	At 31 December 2016 HRK'000
Deferred tax asset /(liability)				
Unrealised losses on financial assets available for sale	(4,871)	-	(2,909)	(7,780)
Impairment of investment property	350	(6)	-	344
Impairment of loans and receivables	1,600	(160)	-	1,440
Provisions - tax non-deductible expenses	468	(3)	-	465
	(2,456)	**(84)**	**(2,909)**	**(5,449)**

	At 1 January 2015 HRK'000	Recognised in profit or loss HRK'000	Recognised in other comprehensive income HRK'000	At 31 December 2015 HRK'000
Deferred tax assets				
Unrealised losses on financial assets available for sale	(6,155)	-	1,284	(4,871)
Impairment of investment property	-	350	-	350
Impairment of loans and receivables	1,350	250	-	1,600
Provisions - tax non-deductible expenses	-	468	-	468
	(4,337)	**597**	**1,284**	**(2,456)**

1.16 Receivables from insurance operations and other receivables

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Interest receivable	**12,412**	12,775
Receivables from bankruptcy estate	**8,000**	8,000
Receivables from reinsurance	**269**	203
Prepaid expenses	**581**	69
Other receivables	**176**	182
	21,438	21,229
Impairment	**(8,000)**	(8,000)
	13,438	13,229

Receivables from bankruptcy estate include receivables on deposit of Credo banka (bankrupt) in the amount of HRK 8,000 thousands on 31st December 2011 the Company has carried out impairment of deposit in the amount of HRK 6,751 thousands recognized through item of financial costs, in 2015 additonal impairment of HRK 1,249 thousands are recorded and the net book value of mentioned receviable amounts to HRK 0 as of December 31, 2016.

1.17 Cash and cash equivalents

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Cash with banks	**1,871**	994
Cash in hand	**-**	2
	1,871	996

1.18 Insurance contract provisions

	31 December 2016 HRK'000	31 December 2015 HRK'000
Unearned premium provision	**1,017**	1,012
Mathematical reserves	**505,682**	496,055
Life assurance provision for unit-linked and index-linked products	**212,324**	146,188
Reserve for reported but not settled claims (RBNS)	**3,536**	2,256
Reserve for incurred but not reported claims (IBNR)	**5,496**	6,072
Other technical insurance provisions	**4,040**	500
Total insurance contract provisions	**732,095**	652,083

a) Analysis of movements in unearned premium provision

	2016 Gross amount HRK'000	**2016 Reinsurer's share HRK'000**	**2016 Net HRK'000**	**2015 Gross amount HRK'000**	**2015 Reinsurer's share HRK'000**	**2015 Net HRK'000**
Balance at 1 January	**1,012**	**389**	**623**	**801**	**380**	**421**
Premium written during the year	6,571	1,577	4,994	6,670	3,799	2,871
Less: premium earned durinig the year	(6,566)	(1,618)	(4,948)	(6,459)	(3,790)	(2,669)
Balance at 31 December	**1,017**	**348**	**669**	**1,012**	**389**	**623**

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

	2016 Gross amount HRK'000	**2016 Reinsurer's share HRK'000**	**2016 Net HRK'000**	**2015 Gross amount HRK'000**	**2015 Reinsurer's share HRK'000**	**2015 Net HRK'000**
Balance at 1 January	**2,256**	**2**	**2,254**	**1,351**	**78**	**1,273**
Claims for the year	2,282	379	1,903	64,515	629	63,886
Movements in prior-year claims	85	356	(271)	(462)	(77)	(385)
Claims paid	(1,087)	(737)	(350)	(63,148)	(628)	(62,520)
Balance at 31 December	**3,536**	**0**	**3,536**	**2,256**	**2**	**2,254**

1.18 Insurance contract provisions (continued)

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

	2016 Gross amount HRK'000	2016 Reinsurer's share HRK'000	2016 Net HRK'000	2015 Gross amount HRK'000	2015 Reinsurer's share HRK'000	2015 Net HRK'000
Balance at 1 January	**6,072**	**3,711**	**2,361**	**5,099**	**2,783**	**2,316**
Additions recognised during the year	(576)	(863)	287	1,054	928	126
Transferred to reported claims provision	-	-	-	(81)	-	(81)
Balance at 31 December	**5,496**	**2,848**	**2,648**	**6,072**	**3,711**	**2,361**

d) Analysis of movements in mathematical reserve

	2016 Gross amount HRK'000	2016 Reinsurer's share HRK'000	2016 Net HRK'000	2015 Gross amount HRK'000	2015 Reinsurer's share HRK'000	2015 Net HRK'000
Balance at 1 January	**496,055**	**273**	**495,782**	**453,533**	**278**	**453,255**
Premium allocation	80,907	247	80,660	87,408	273	87,135
Release of liabilities due to benefits paid, surrenders and other terminations	(81,250)	(273)	(80,977)	(58,146)	(278)	(57,868)
Unwinding of discount/accretion interest	12,968	-	12,968	12,871	-	12,871
Changes in the unearned premium reserve	864	-	864	2,102	-	2,102
Change in Zillmer adjustment	1,322	-	1,322	488	-	488
Exchange differences	(5,184)	-	(5,184)	(1,713)	-	(1,713)
Increase for mortality tables	-	-	-	(488)	-	(488)
Balance at 31 December	**505,682**	**247**	**505,435**	**496,055**	**273**	**495,782**

e) Analysis of movements in life assurance provision for unit-linked and index-linked products

	2016 HRK'000	2015 HRK'000
Balance at 1 January	**146,188**	96,293
Premium allocation	**66,136**	49,895
Balance at 31 December	**212,324**	146,188

f) Analysis in movement in other technical insurance provisions, gross amount

	2016 '000 kn	2015 '000 kn
Balance at 1 January	**500**	-
Allocation of premium	**3,540**	500
Balance at 31 December	**4,040**	500

1.18 Insurance contract provisions (continued)

g) Principal actuarial assumptions for life assurance

Description	Price list	Interest rate	Mortality tables
	HR11	3.25%	1990-91
	HR11U		
	HR21		
Endowment products	HR21U		2000-02
	HR31	2.50%	
	HR31U		Unisex 2000-02
	HR41		
	HR51	2.25%	Unisex 2000-02
	HR61_EUR	1.25%	Unisex 2000-02
	HR61_HRK	2.00%	Unisex 2000-02
	HR51U_EUR	1.25%	Unisex 2000-02
	HR51U_HRK	2.00%	Unisex 2000-02
Term life insurance products	HRR	3.25%	1990-91
	HRRU		
	HRR2		2000-02
	HRR2U		
	HRR4	2.50%	
	HRR4U		Unisex 2000-02
	HRR3		
	HRR5		
	HRR6	2.25%	Unisex 2000-02
	HRR7	2.25%	Unisex 2000-02
	HRR8_EUR	1.25%	Unisex 2000-02
	HRR8_HRK	2.00%	Unisex 2000-02
	HRR9_EUR	1.25%	Unisex 2000-02
	HRR9_HRK	2.00%	Unisex 2000-02
	HRR5U_EUR	1.25%	Unisex 2000-02
	HRR10_HRK	2.00%	Unisex 2000-02
Children insurance	HRC1	2.75%	2001-02
	HRC2	2.50%	Unisex 2000-02
	HRC3	2.25%	Unisex 2000-02
	HRC4_EUR	1.25%	Unisex 2000-02
	HRC4_HRK	2.00%	Unisex 2000-02
Life-long endowment	HR14	2.00%	2001-02
	HR24	2.00%	Unisex 2000-02
	HR34_EUR	1.25%	Unisex 2000-02
	HR34_HRK	2.00%	Unisex 2000-02
Supplementary life insurance	HRUI, HRUT		
	HRUI2, HRUT2		
	HRUIC, HRUIC2, HRCI		
	HRUT3, HRCC		
	HRUT4, HRCC2		
	HRUT5, HRCC3		
	HRUT6, HRCC4		
	HRUI2_EUR, HRUI2_HRK		
	HRUT2_EUR, HRUT2_HRK		
	HRUT6_EUR, HRCC4_EUR		
	HRUT6_HRK, HRCC4_HRK		
	HRUT7_HRK		
	HRSC, HRSC2, HRSC3		
	HRSC4_HRK, HRSC4_EUR		

1.18 Insurance contract provisions (continued)

g) Principal actuarial assumptions for life assurance (continued)

	HRUIC2_EUR, HRCI_EUR HRUIC2_HRK, HRCI_HRK		
Life-assurance products where the investment risk is borne by the policy holder	HRUL1, HRUL1U HRIL1U	2.50%	1990-91 2001-02
	HRIL2U		
	HRIL 3U		
	HRIL4U		
	HRIL5U	2.25%	
	HRIL6U	1.25%	
	HRIL7U	1.25%	

h) Development of claims provision for life assurance products at 31 December 2016

	For the year ended 31 December 2011 HRK'000	**For the year ended 31 December 2012 HRK'000**	**For the year ended 31 December 2013 HRK'000**	**For the year ended 31 December 2014 HRK'000**	**For the year ended 31 December 2015 HRK'000**	**Total HRK'000**
Estimate of cumulative claims at the end of underwriting year	41,944	54,449	54,924	62,548	81,621	-
One year later	42,187	53,971	55,121	63,701	-	-
Two years later	41,744	53,340	54,546	-	-	-
Three years later	41,635	52,931	-	-	-	-
Four years later	41,561	-	-	-	-	-
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	41,561	52,931	54,546	63,701	81,621	294,360
Cumulative payments	(41,340)	(52,110)	(54,086)	(62,319)	(75,795)	(285,650)
Amount recognised at 31 December	371	224	1,264	1,155	4,868	7,882
Claims handling costs	-	-	-	-	446	446
Amount recognised at 31 December 2016	**221**	**821**	**460**	**1,382**	**6,148**	**9,032**

1.18 Insurance contract provisions (continued)

i) Remaining maturities of insurance liabilities as at 31 December 2016

	Less than 1 year HRK'000	**Between 1 and 5 years HRK'000**	**Between 5 and 10 years HRK'000**	**More than 10 years HRK'000**	**Total HRK'000**
Unearned premium provision	1,016	-	-	-	1,016
RBNS and IBNR reserves	9,032	-	-	-	9,032
Life assurance provision and life assurance provision for unit linked and index linked products and discretionary profit participation provision	58,430	321,019	214,482	128,116	722,047
Insurance liabilities	**68,478**	**321,019**	**214,482**	**128,116**	**732,095**

j) Analysis of assets backing life assurance (mathematical) provision

	31 December 2016 HRK'000	31 December 2015 HRK'000
Asset used for backing life assurance mathematical provision		
Securities issued by the Republic of Croatia	539,671	501,931
Securities issued by Croatian development bank (HBOR)	-	7,909
Croatian municipal bonds and other debt securities	-	757
Bonds and other debt securities traded on regulated stock exchange in Croatia	11,197	9,420
Advances in the amount of surrender value	376	348
Deposits in banks situated in Republic of Croatia	12,000	12,000
Balances on giro account of the Company	989	411
Total assets backing life assurance (mathematical) provision	**564,233**	**532,776**
Life assurance provision and discretionary profit participation provision, net of reinsurance	506,821	496,981
Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance	3,475	2,203
Required backing of mathematical provision	**510,296**	**499,184**

1.18 Insurance contract provisions (continued)

j) Analysis of assets backing life assurance (mathematical) provision (continued)

In 2016 the Company's yield on assets used for backing life insurance provision amounted to 5.40% *(2015: 6.08%).*

The following table details assets investments to back life assurance provision, analysed by relevant maturity groupings based on the remaining period, and the estimated remaining period to maturity for life assurance provision and claims provision required to be covered:

31 December 2016	**Less than 1 year HRK'000**	**Between 1 and 5 years HRK'000**	**Between 5 and 10 years HRK'000**	**More than 10 years HRK'000**	**Total HRK'000**
Assets backing life assurance mathematical provision	9,387	125,582	426,390	2,874	**564,233**
Life assurance provision and discretionary profit participation provision, net of reinsurance	(31,298)	(152,319)	(194,863)	(128,341)	**(506,821)**
Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance	(3,475)	-	-	-	**(3,475)**
Maturity gap	**(25,386)**	**(26,737)**	**231,527**	**(125,467)**	**53,937**
31 December 2015					
Assets backing life assurance mathematical provision	757	190,690	338,886	2,443	**532,776**
Life assurance provision and discretionary profit participation provision, net of reinsurance	(19,511)	(155,648)	(191,292)	(130,530)	**(496,981)**
Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance	(2,203)	-	-	-	**(2,203)**
Maturity gap	**(20,957)**	**35,042**	**147,594**	**(128,087)**	**33,592**

At 31 December 2016 the majority of assets used for backing mathematical provision were classified as available for sale.

The following table details the assets used to back life insurance provision, analysed by relevant groupings based on the currency in which they are denominated. The mathematical provision is denominated in euros, and presented in kunas.

	EUR	**EUR-linked**	**Total EUR-denominated and EUR-linked**	**HRK denominated**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
31 December 2016					
Structure of assets backing life assurance mathematical provision	**69,837**	**352,883**	**422,720**	**141,513**	**564,233**
31 December 2015					
Assets backing life assurance mathematical provision	**70,171**	**393,978**	**464,149**	**68,627**	**532,776**

1.18 Insurance contract provisions (continued)

k) Assets backing technical provisions

	31 December 2016 HRK'000	31 December 2015 HRK'000
Assets backing technical provisions		
Securities issued by the Republic of Croatia	**2,479**	**2,456**
Financial instruments issued by HBOR	**11,421**	**3,954**
Units and shares of investment funds registered in Croatia	**867**	**733**
Total assets backing technical provisions	**14,767**	**7,143**
Unearned premium reserve, net of reinsurers' share	**668**	**623**
Claims provision, net of reinsurers' share	**2,709**	**2,412**
Other technical insurance provision	**4,040**	**500**
Required backing of technical provisions	**7,417**	**3,535**

Accounting policies for financial assets used for backing life assurance and technical provision are described in accounting policy 1.3. d).

l) Structure of assets used for backing technical provision

The following table details the financial assets backing technical provisions, analysed by relevant maturity groupings based on the remaining period to maturity, and the estimated remaining contractual maturities of technical provisions required to be covered:

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	More than 10 years HRK'000	Total HRK'000
31 December 2016					
Assets backing technical provisions	11,421	1,313	1,167	866	**14,767**
Unearned premium reserve, net of reinsurers' share	(668)	-	-	-	**(668)**
Claims provision, net of reinsurers' share	(2,709)	-	-	-	**(2,709)**
Other technical insurance provision	-	(3,265)	(775)	-	**(4,040)**
Maturity gap	**8,044**	**(1,952)**	**392**	**866**	**7,350**
31 December 2015					
Assets backing technical provisions	-	5,281	1,130	732	**7,143**
Unearned premium reserve, net of reinsurers' share	(623)	-	-	-	**(623)**
Claims provision, net of reinsurers' share	(2,412)	-	-	-	**(2,412)**
Other technical insurance provision	-	(500)	-	-	**(500)**
Maturity gap	**(3,035)**	**4,781**	**1,130**	**732**	**3,608**

1.18 Insurance contract provisions (continued)

l) Structure of assets used for backing technical provision (continued**)**

As of 31 December 2016 all the assets backing technical provisions were classified as available for sale, which enables the Company to easily dispose of these assets if required.

The following table details the assets backing technical provisions based on the currency in which they are denominated. The technical provisions are denominated in euros and presented in kunas.

	EUR	**EUR-linked**	**Total EUR-denominated and EUR-linked**	**HRK denominated**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
31 December 2016					
Assets backing technical provisions	**11,421**	**3,346**	**14,767**	**-**	**14,767**
31 December 2015					
Assets backing technical provisions	**3,954**	**3,189**	**7,143**	**-**	**7,143**

1.19 Discretionary profit participation provision

	2016	2015
	HRK'000	HRK'000
Balance at 1 January	**1,200**	2,500
Additions recognised during the year	**993**	927
Amounts allocated during the year	**(808)**	(2,227)
Balance at 31 December	**1,385**	1,200

1.20 Liabilities under insurance contracts and other liabilities

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Insurance contract payables		
- To policyholders	**17,944**	11,086
- To intermediaries	**3,980**	3,803
	21,924	14,889
Other liabilities		
Reinsurance contract payables	**180**	67
Deposits retained from reinsurance business	**2,466**	2,754
Trade payables	**714**	565
Salaries payable	**846**	824
Other liabilities and accrued expenses	**3,194**	2,404
	7,400	6,614
	29,324	21,503

The Company holds deposits on reinsurance basis based on quota reinsurance contract on life reinsurance concluded with VIG Holding. The Company maintains and invests deposit in accordance with the terms and conditions of reinsurance contract and pays interest rate on retained deposits. Interest rate is calculated on quarterly basis as an average of BID and ASK 3M ZIBOR price valid at the beginning of the accounting period increased by 0.5 percentage points.

1.21 Current tax liability

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Current tax liability	**344**	1,216

1.22 Other provisions

	Provisions for jubilee bonuses	**Provisions for retirement and termination benefits**	**Provisions for unused vacation days**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Balance at 1 January 2016	**57**	**18**	**373**	**448**
Reversed as unutilised	(6)	-	-	(6)
New provisions made during the year	25	4	61	90
Balance at 31 December 2016	**76**	**22**	**434**	**532**
Balance at 1 January 2015	**70**	**22**	**421**	**513**
Reversed as unutilised	-	(6)	-	(6)
New provisions made during the year	(13)	2	(48)	(59)
Balance at 31 December 2015	**57**	**18**	**373**	**448**

1.23 Capital and reserves

Share capital

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Authorised, issued and fully paid in		
30,000 (2014: 30,000) ordinary shares of HRK 1,000.00 each	**30,000**	**30,000**

The Company's share capital is denominated in Croatian kunas. The nominal value per share is HRK 1,000.00. All the shares are fully paid in.

The shareholders of the Company at the year end are as follows:

	2016	2015
Vienna Insurance Group Wiener Städtische Versicherung AG	**90%**	90%
Erste&Steiermärkische Bank d.d.	**5%**	5%
Wiener osiguranje Vienna Insurance Group d.d.	**5%**	**5%**
	100%	100%

During the year the General Assembly adopted a decision to pay dividend in the amount of HRK 10,470,000 (*2015: HRK* 10,200,000), that is of HRK 349 per share, which were paid before the end of the year.

Fair value reserve

Fair value reserve represents cumulative unrealised net changes in the fair value of available-for-sale financial assets.

1.23. Capital and reserves (continued)

Movement in fair value reserve is as follows:

	2016 HRK'000	2015 HRK'000
Balance at 1 January	**19,483**	24,618
Movement in fair value reserve of available-for-sale financial assets	**18,871**	(6,419)
Movement in deferred tax asset	**(2,910)**	1,284
Balance at 31 December	**35,444**	19,483

Statutory reserves

Statutory (legal reserve) represents cumulative allocation from retained earnings in accordance with the Insurance Act effective until 31 December 2005, under which minimum one-third of the Company's profit after tax needed to be allocated to unallocated legal reserve until it reaches one half of the average earned premium over the past two years. In the previous years based on the General Assembly's decision, allocation to legal was calculated taking into consideration previous year's results.

From 2006, a new Insurance Act is effective, according to which the allocation to legal reserves is no longer required. However, according to the Companies Act, the Company has the obligation to allocate 5% of its annual net profit to legal reserve until it reaches 5% of the issued share capital.

Legal reserve may be utilised to cover prior-period losses, unless the loss is covered from the profit for the year or other reserves are available to cover the loss.

1.24 Capital management

As of 1 January 2016 the new Insurance law has been in force. The new law is compliant with Solvency II directive. With the new law, a new regulatory framework is established which replaces the old capital adequacy and solvency margin requirements and establishes new capital adequacy calculation model which will take into consideration risk profile of the Company. That will result in greater transparency, efficiency in risk management and will improve customer protection level.

In the process of risk assessment, all risks arising form Company's business model are qualitatively and quantitavely acknowledged and capital adequacy is deternmined by taking those risks into consideration. When risks are being qualitatively assessed, the area of activity and efficiency of management system is assessed based on appointed persons' estimate (Management Board, Key functions and Directors). Quantitative assessment includes the calculation of indicators (general, solvency, liquidity, efficiency and profitability indicators), as well as stress testing.

It is the Company's duty to have own funds at a level sufficient to cover minimum capital requirement. Minimum capital requirements is the lowest allowable level of capital, while solvency capital requirement is the level of capital which enables the Company to absorbe all events and to continue being solvent with regards to Copmany specific risks.

The goal of Company's capital management is to keep the available capital at a level which is significantly above minimum requirements, keep optimal capital structure, protect capital base which insures stability of policyholders, add new economic value through efficient business development, accomplishment of business goals and maximise return to shareholders.

Company assesses capital requirements on quartal basis and compares it to projected capital levels. Risks are being analysed and sensitivity analysis is conducted. Procedures and results are approved by Management Board. Standard formula is being used for solvency capital requirement calculation and own risk and solvency assessment is conducted in order to identify risks and quantify their capital effect. The Company calculates solvency capital at least once a year and minimum capital requirement at least quarterly.

1.24 Capital management (continued)

	2016 HRK'000	2015 HRK'000
Available capital	**138,704**	133,197
Solvency capital requirement	**31,602**	36,093
Minimum capital requirement	**28,860**	28,860
Ratio of available capital to solvency capital requirement	**423%**	369%
Ratio of available capital to minimum capital requirement	**463%**	462%

1.25 Premiums

	Gross premium written HRK'000	**Outward reinsurance premiums HRK'000**	**Change in the gross unearned premium provision HRK'000**	**Change in unearned premium provision, reinsurers' share HRK'000**	**Premium earned HRK'000**
2016					
Life insurance	105,813	(464)	-	-	105,349
Supplementary life insurance	6,571	(1,113)	(5)	(40)	5,413
Life-assurance products or annuities where the investment risk is borne by the policy holder	62,649	-	-	-	62,649
	175,033	**(1,577)**	**(5)**	**(40)**	**173,411**
2015					
Life insurance	111,842	(545)	-	-	111,297
Supplementary life insurance	6,670	(3,254)	(210)	8	3,214
Life-assurance products or annuities where the investment risk is borne by the policy holder	52,912	-	-	-	52,912
	171,424	**-3,799**	**-210**	**8**	**167,423**

Gross premiums written include premiums of HRK 62,649 thousand *(2015: HRK 52,912 thousand)* in respect of index-linked products.

	2016	2015
Types of contracts		
Individual premiums	**175,033**	171,424
	175,033	171,424
Regular premium contracts	**71,448**	73,225
Single premium contracts	**103,585**	98,199
	175,033	171,424
Premiums for non-profit contracts	**1,991**	1,799
Premiums for with-profit contracts	**110,393**	116,713
Premiums for contracts under which the investment risk is borne by the policyholder	**62,649**	52,912
	175,033	171,424

1.26 Fee and commission income

	2016	2015
	HRK'000	HRK'000
Reinsurance commission income	**449**	1,701

1.27 Financial income

	Investment income from capital funds	**Investment income from mathematical reserves**	**Investment income from UL/IL technical provisions**	**Investment income - other technical provisions**	**Total financial income**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
2016					
Interest income					
– Held-to-maturity (HTM) investments	-	3,681	-	-	**3,681**
– Available-for-sale financial assets	1,740	19,140		761	**21,641**
– Loans and receivables	-	526	-	-	**526**
Net unrealised gains on financial assets at fair value through profit or loss	-	-	9,490	-	**9,490**
Net realised gains on financial assets available for sale	39	8,817	-	-	**8,856**
Rental income	822	-	-	-	**822**
	2,601	**32,164**	**9,490**	**761**	**45,016**
2015					
Interest income					
– Held-to-maturity (HTM) investments	-	4,926	-	-	**4,926**
– Available-for-sale financial assets	1,517	18,561	-	348	**20,426**
– Loans and receivables	-	395	-	-	**395**
Net unrealised gains on financial assets at fair value through profit or loss	-	-	3,714	-	**3,714**
Net realised gains on financial assets available for sale	19	7,656	-	-	**7,675**
Rental income	1,100	-	-	-	**1,100**
Other financial income	193	-	-	-	**193**
	2,829	**31,538**	**3,714**	**348**	**38,429**

1.28 Other operating income

	2016	2015
	HRK'000	HRK'000
Income from sale of equipment	**214**	2
Reversal of unused provisions and accrued expenses	**53**	517
Income from support of sale of life insurances	**238**	-
Other operating income	**137**	171
	642	690

1.29 Claims incurred

	2016	2015
	HRK'000	HRK'000
Gross claims paid	**(83,565)**	(63,149)
Reinsurer's share	**737**	628
Changes in mathematical reserve, gross		
Gross amount	**(9,627)**	(42,522)
Reinsurer's share	**(27)**	(5)
Change in other technical provisions	**(3,540)**	(500)
Change in the reserve for reported but not settled claims (RBNS)		
Gross amount	**(1,280)**	(903)
Reinsurer's share	**(2)**	(75)
Reserve for incurred but not reported claims (IBNR)		
Gross amount	**576**	(974)
Reinsurer's share	**(863)**	928
Change in the provision for unit-linked and index-linked products, gross and net	**(66,136)**	(49,895)
Change in the discretionary profit participation provision	**(185)**	1,300
Total gross claims incurred	**(163,757)**	(156,643)
Claims incurred, reinsurer's share	**(155)**	1,476
Claims incurred, net of reinsurance	**(163,912)**	(155,167)

1.30 Acquisition costs

2016	**Life insurance**	**Supplementary life insurance**	**Annuities where the investment risk is borne by the policy holder**	**Total insurance**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Commission expense	8,728	868	1,887	11,483
Staff costs	2,338	2,067	71	4,476
Other acquisition costs	2,485	2,197	76	4,758
	13,551	**5,132**	**2,034**	**20,717**
2015				
Commission expense	9,140	879	1,598	11,617
Staff costs	2,459	2,098	62	4,619
Other acquisition costs	2,684	2,290	68	5,042
	14,283	**5,267**	**1,728**	**21,278**

1.31 Administrative expenses

2016	Life insurance HRK'000	Supplementary life insurance HRK'000	Annuities where the investment risk is borne by the policy holder HRK'000	Total insurance HRK'000
Depreciation of equipment and amortisation of intangible assets	1,653	184	55	1,892
Staff costs	4,739	527	157	5,423
Rental costs	1,404	156	47	1,607
Audit fees	253	28	8	289
Material and services	1,801	200	59	2,060
	9,850	**1,095**	**326**	**11,271**

2015	Life insurance HRK'000	Supplementary life insurance HRK'000	Annuities where the investment risk is borne by the policy holder HRK'000	Total insurance HRK'000
Depreciation of equipment and amortisation of intangible assets	1,462	162	42	1,666
Staff costs	4,368	486	125	4,979
Rental costs	1,621	180	46	1,847
Audit fees	279	31	8	318
Material and services	1,144	127	33	1,304
	8,874	**986**	**254**	**10,114**

The total fees paid to the Company's auditor for statutory financial statement audits for year 2016 amount to HRK 289 thousand *(2015: HRK 318 thousand)*, the fee paid for IT audit amount to HRK 40 thousand (2015: HRK 0 thousand), the tax advisor services amounts to HRK 20 thousand *(2015: HRK 21 thousand)*, and the fee paid to the attorney amounts to HRK 70 thousand *(2015: HRK 34 thousand).*
In 2016 the average number of employees of the Company was 44 *(2015: 41)*.

1.32 Other operating expenses

	2016 HRK'000	2015 HRK'000
Taxes, contributions and membership fees	**160**	170
Expenses for support in sale of non lfe insurance	**100**	-
Other technical charges	**34**	84
	294	254

1.33 Financial expenses

	Investment of capital funds HRK'000	**Investment of mathematical reserve funds HRK'000**	**Investments of UL/IL technical provisions HRK'000**	**Investment of other technical provisions HRK'000**	**Total financial expenses HRK'000**
2016					
Impairment of receivables	281	-	-	-	**281**
Impairment of investment property	232	-	-	-	**232**
Net loss from fx differences	180	4,230	-	136	**4,546**
Other expenses	185	1,378	-	-	**1,563**
	878	**5,608**	**-**	**136**	**6,622**

	Investment of capital funds HRK'000	**Investment of mathematical reserve funds HRK'000**	**Investments of UL/IL technical provisions HRK'000**	**Investment of other technical provisions HRK'000**	**Total financial expenses HRK'000**
2015					
Impairment of receivables	339	-	-	-	339
Impairment of deposit	-	1,248	-	-	1,248
Impairment of investment property	1,749	-	-	-	1,749
Net loss from fx differences	49	1,354	-	22	1,425
Other expenses	1,107	86	-	-	1,193
	3,244	**2,688**	**-**	**22**	**5,954**

1.34 Income tax

Income tax recognised in the statement of comprehensive income

	2016	2015
	HRK'000	HRK'000
Currrent tax	**(3,579)**	(3,767)
Deferred income tax credit (Note 1.15)	**(83)**	597
Income tax	**(3,662)**	(3,170)

Reconciliation of accounting profit for the period to income tax expense at the rate of 20%.

	2016	2015
	HRK'000	HRK'000
Accounting profit for the period before income taxes	**16,702**	15,476
Income tax at the rate of 20% *(2015: 20%)*	**(3,340)**	(3,095)
Net non-deductible income/(expenses)	**(322)**	(75)
Total income tax expense	**(3,662)**	(3,170)
Effective tax rate	**21.93%**	20.48%

1.35 Operating leases

The Company uses business premises and motor vehicles under operating lease arrangements. All leases are cancellable and typically run for an initial period of one to seven years. None of the leases include contingent rentals.

For the year ended 31 December 2016 HRK 1,523 thousand were recognised as an expense in the Company's statement of comprehensive income in respect of operating leases *(2015: HRK 1,771 thousand)*.

1.36 Related parties

Parent Company

At the year-end, the majority shareholder of the Company is Vienna Insurance Group Wiener Städtische Versicherung AG, with a shareholding of 90% *(2015: 90%)* since 1 October 2008.

The remaining 10% are held by the following minority shareholders: Erste&Steiermärkische Bank d.d., with a holding of 5% *(2015: 5%)* and Wiener osiguranje Vienna Insurance Group d.d., with a holding of 5% *(2015: 5%).*

1.36 Related parties (continued)

Key management personnel

Included in key management personnel are Management and Supervisory Board members. During 2016 the Company did not approve loans to Management Board members. The remuneration of the Management Board amounted to HRK 3,017 thousand (*2015: HRK 2,936 thousand),* and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic pay and bonuses, benefits in kind, pension and other retirement benefits, and life assurance. The remuneration to Supervisory Board amounted to HRK 132 thousand *(2015: HRK 221 thousand)* representing gross fees. The pension contributions paid on behalf of the key management personnel in 2016 amount to HRK 243 thousand *(2015: HRK 260 thousand).*

Other related parties

Erste&Steiermärkische Bank d.d. is the distribution channel of the Company.

Also, part of the reinsurance business is done with VIG RE, VIG Group member company and part to another member group company Sparkassen Versicherung AG and VIG holding company. This resulted with reinsurance premiums, claims paid from reinsurers during the year and assets and liabilities at year end.

The Company lets out premises classified as investment property to the related party Wiener Vienna Insurance Group d.d.

Assets, liabilities, income and expense as at 31 December resulting from the transactions with related parties were as follows:

2016	**Assets**	**Liabilities**	**Revenue**	**Expenses**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Key management personnel	-	1,115	-	3,392
Camelot Informatik und Consulting Gesellschaft m.b.H.	-	-	-	2,185
Erste&Steiermärkische Bank d.d.	1,806	4,001	-	11,638
Sparkassen Versicherung AG	-	-	-	176
VIG RE zajišťovn, a.s.	753	2,013	399	581
Wiener osiguranje Vienna Insurance Group d.d.	-	78	918	1,693
Vienna Insurance Group AG Wiener Versicherung Gruppe	1,871	278	170	343
	4,430	**7,485**	**1,487**	**20,008**

2015	**Assets**	**Liabilities**	**Revenue**	**Expenses**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Key management personnel	-	1,275	-	3,158
Camelot Informatik und Consulting Gesellschaft m.b.H.	-	-	-	1,641
Erste&Steiermärkische Bank d.d.	936	3,803	-	11,703
Sparkassen Versicherung AG	-	-	-	123
VIG RE zajišťovn, a.s.	750	305	427	682
Wiener osiguranje Vienna Insurance Group d.d. za osiguranje	-	-	1,100	1,267
Vienna Insurance Group AG Wiener Versicherung Gruppe	2,041	2,091	1,313	1,542
	3,727	**7,474**	**2,840**	**20,116**

1.37 Financial risk management

The principal purpose of the Company in managing financial and insurance risks is to protect the policyholders and Company's shareholders from events that would prevent accomplishment of the business objectives, including the inability to benefit from opportunities. The management is aware of the importance of an efficient and effective risk management system.

The Company has implemented a risk management function. The established function has a clear organisational structure and clear tasks as set by the Supervisory Board. Finally, the Company has a risk-profile based risk management policy in place. The application of each policy is supervised by a member of the management.

Legislative authorities protect and oversee the shareholder rights to make sure that the Company operates for their benefit. At the same time, they monitor the Company's solvency to ensure that all liabilities arising from potential changes in the economy or natural disasters are covered in order to protect policyholders.

In transactions involving financial instruments, it is the Company that accepts the financial risks. Those risks include market risk, credit risk (including the reinsurance credit risk) and liquidity risk. Each of the risks is described in detail further in the text, along with a summary of the manner in which the Company manages the risk.

Market risk

Market risk includes three types of risk:

- Currency risk, which is the risk that the value of financial instruments will fluctuate as a result of changes in exchange rates;
- Interest rate risk, which is the risk that the value of financial instruments will fluctuate due to changes in market rates;
- Price risk, which is the risk that the value of financial instruments will fluctuate as a result of fluctuation in market prices, either due to a security or issuer specific factors, or factors affecting all instruments traded on the market.

Market risk does not include only a potential loss but also a potential gain.

Matching of assets and liabilities

The Company manages its assets actively and applies approaches that balance the quality, diversification, and matching of assets and liabilities, liquidity and return on investments. The objective of the investment process is to optimise the risk-adjusted after-tax return on investments and the total risk-adjusted return, by managing assets and liabilities on the basis of the timing of cash flows. The management reviews and approves the target portfolios periodically, determines the investment guidelines and limits, and monitors the asset and liability management process. Due attention is paid to compliance with the rules provided in the Insurance Act.

The Company establishes the target portfolios in accordance with regulatory requirements, which represents investments strategies used to provide an advantageous funding for the liabilities at an acceptable level of risk. The strategies include targeted effective duration, yield curve, liquidity, concentrations of assets by industry, and credit quality. Estimates used in determining the approximate amounts and timing of payments to the policyholders under insurance contracts are regularly reviewed.

Most of the estimates are subjective in their nature and may affect the ability of the Company to accomplish its asset and liability management objectives.

1.37 Financial risk management (continued)

Interest rate risk

The Company's exposure to the market risk of changes in interest rates 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 changes in market interest rates. However, this risk is limited, as the majority of the Company's interest-bearing assets were at fixed rates at the reporting date.

Mathematical provision is discounted using the lower of the technical interest rate and the regulatory prescribed rate. The latter reflects, to a certain extent, the expected trends in interest yield over a longer period of time.

Consequently, any changes in the value of investments that are not attributable to changes in interest rates will not be mitigated in partly by accompanying opposite changes in the economic value of reserves for insurance contracts.

The Company monitors this exposure by occasionally reviewing the balance of its assets and liabilities. Cash flow estimates, and the effects of changes in interest rates within the investment portfolio and technical provisions are regularly modelled and reviewed. The overall objective of the strategies is to limit changes in the net value of assets and liabilities arising from changes in interest rates.

The Company seeks to match future recoveries on those assets with its insurance liabilities by purchasing government bonds. However, given the relatively short maturity of those bonds and the longer period of liabilities under life insurance, as well as the inability of the Company to purchase interest-rate swaps in Croatia, the Company is exposed to interest rate risk.

Under the current insurance agreements, the Company has to charge interest at an annual rate from 2.0% to 3.25% annually on the premiums paid under life insurance policies for the purpose of making payments to policy holders upon the expiry of the policies and is currently not able to protect itself from the future interest rate risk exposure with respect of the funds investments to provide for the coverage of its future liabilities.

The analysis of changes in interest rates on the financial assets of the Company at the reporting date is disclosed in Note 1.39 Interest rate risk analysis.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, certain variables are separately modified.

An assumption of a change of 0.25 basis points in the interest rate is taken in the analysis, which is done separately for the kuna and euro interest rate. Those are the only currencies in which the Company's investments are denominated. Only financial assets at fair value through profit or loss and available-for-sale financial assets and held to maturity were considered.

Change in interest rate		**Impact on profit or loss 2016 HRK'000**	**Impact on profit or loss 2015 HRK'000**
HRK	+0.25% / (0.25)%	424 / (424)	240 / (240)
EUR	+0.25% / (0.25)%	1,144 / (1,144)	1,223 / (1,223)

1.37 Financial risk management (continued)

Price risk

The Company's portfolio includes trading equities, which are carried at fair value in the statement of financial position, and represents the Company's exposure to price risk. The price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market rates, either due to a security or issuer specific factors, or factors affecting all instruments traded on the market.

It is the objective of the Company to achieve a competitive yield, by investing in a diversified security portfolio. The portfolio characteristics are regularly reviewed. At the reporting date, included in the Company's portfolio is one equity security of a single issuer, due to high price risks and caps set by the top management.

Equity market risk affects equity securities, equities and mutual investment funds. The Company invests only in debt securities on the domestic market. Therefore, Crobex, the local index, is the appropriate measure. The impact of the equity security market risk on equity and on mutual financial funds is different. As the impact on equity funds is higher, they have a higher correlation to Crobex. Domestic investment funds invest on foreign markets as well, however, the related exposure is too low to be monitored separately. Equity funds have been analysed by types of assets involved.

	Impact on profit or loss 2016 HRK'000	**Impact on equity 2016 HRK'000**	**Impact on profit or loss 2015 HRK'000**	**Impact on equity 2015 HRK'000**
Change in the price of ± 2.9%	0/(0)	81/(81)	0/(0)	45/(45)

Foreign exchange risk

The Company is exposed to the risk of fluctuation of foreign exchange rates, which is the risk that the value of a financial instrument will vary due to changes in the underlying foreign exchange rate.

The Company is exposed to foreign exchange risk through its investment activities, as well as its premium income, the calculation of technical provisions and settled claims under insurance policies with a currency clause. The currency in which the risk arises is 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 covering the mathematical provision are mainly EUR denominated, i.e. 80 % in accordance with the Insurance Act, whereas the mathematical reserve funds are denominated in EUR.

The analysis of financial assets of the Company by currency at the reporting date is provided in Note 1.40 Currency risk analysis.

The following analysis was prepared based on the assumptions of possible movement in foreign exchange rate, showing the impact on profit which stems from the change in value od financial instrument. The analysis does not take into account the impact of the change in exchange rate on the value of the mathematical reserve whis is also denominated in euro. Correlation of certain variables would have significant impact on the final currency risk, however, in order to present the impact certain variables are separately modified.

Change in fx rate	**7.635047**	**Impact on profit or loss 2016 HRK'000**	**Impact on profit or loss 2015 HRK'000**
EUR	+3% / (3%)	16,113/(16,113)	15,283/(15,283)

1.37 Financial risk management (continued)

Credit risk

Fixed-yield security portfolios and, to a lesser extent, current and other investments are subject to credit risk. Credit risk is defined as a potential decline in the market value as a result of adverse changes in the ability of the debtor to repay the debt.

The Company manages this risk by applying a strict analysis of credit risks in advance, regular management reviews and meetings to monitor credit risk trends.

The management has a credit policy in place, and the credit risk exposure is monitored on an on-going basis. Life insurance policies past due beyond 90 days that do not qualify for capitalisation are cancelled.

The Company has adopted a prudent investment policy. Accordingly, the following significant concentration has been identified with respect to amounts due from the Republic of Croatia at the reporting date:

	31 December 2016	31 December 2015
	HRK'000	HRK'000
Government bonds	**597,596**	559,297
Interest accrued on government bonds	**11,186**	12,173
	608,782	571,470

The total credit risk exposure with respect to bonds issued by the Republic of Croatia is 106.58% *(2015:* 107.04 *%)* of the total financial assets of the Company.

In order to reduce the risk of default on receivables past due from the reinsurer, the Company has established a set of operating and financial standards for approving reinsurers and brokers, which include ratings of significant rating agencies and take into account the current market information. Most of the reinsurance agreements are entered into with company VIG RE.

1.37 Financial risk management (continued)

The Company's exposure to credit risk by type of asset is set out in the table below:

	AAA-A HRK'000	BBB-B HRK'000	Not rated HRK'000	Total HRK'000
31 December 2016				
Held-to-maturity investments				
Debt securities	-	67,700	-	**67,700**
Available-for-sale financial assets				
Debt securities	-	547,655	-	**547,655**
Investment funds	-	-	3,403	**3,403**
Investments for account and risk of life insurance policyholders				
Index-linked	-	212,324	-	212,324
Loans and receivables				
Prepayments made	-	-	376	376
Deposit	-	12,000	-	12,000
Cash and cash equivalents		1,871	-	1,871
Technical provisions, reinsurers' share	3.443	-	-	**3,443**
Receivables from insurance operations and other receivables	269	12,355	813	**13,438**
Total financial assets	**3.712**	**853,905**	**4,593**	**862,210**
31 December 2015				
Held-to-maturity investments				
Debt securities	-	69,274	-	**69,274**
Available-for-sale financial assets				
Debt securities	-	504,158	-	**504,158**
Investment funds	-	-	1,931	**1,931**
Investments for account and risk of life insurance policyholders				
Index-linked	-	146,188	-	**146,188**
Loans and receivables				
Prepayments made	-	-	348	**348**
Deposits	-	12,000	-	**12,000**
Cash and cash equivalents	-	994	2	**996**
Technical provisions, reinsurers' share	4,375	-	-	**4,375**
Receivables from insurance operations and other receivables	203	12,728	298	**13,229**
Total financial assets	**4,578**	**745,342**	**2,579**	**752,499**

1.37 Financial risk management (continued)

Liquidity risk

Liquidity risk arises in the general funding of the Company's activities 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 timeframe.

The Company maintains a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuity in business and meet legal requirements.

The Company's liquidity position is satisfactory, and statutory requirements for timely claims settlement during the year were met.

Note 1.38 discloses the maturity analysis of the Company’s financial assets at the reporting date.

Other liabilities disclosed in Note 1.20 Insurance and other payables as of 31 December 2016 amounted to HRK 7,400 thousand (2015: HRK 6,614 thousand), which also represents their expected cash outflows in period of less than 6 months.

Note 1.18 discloses the maturity analysis of the Company’s technical provisions.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, on an arm’s length basis. Financial instruments available for sale and financial assets at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortised cost less impairment. The management believes that the carrying amounts of those instruments do not differ materially from their fair values, provided that all payments under exposures not impaired will be collected as agreed and without taking account of any future losses. The fair value of the held-to-maturity portfolio has been assessed to be HRK thousand 8,934 higher *(2015: 7,383 thousand higher)* than its carrying amount.

	31 December 2016		**31 December 2015**	
	Book value	**Fair value**	**Book value**	**Fair value**
	HRK’000	**HRK’000**	**HRK’000**	**HRK’000**
Investments held to maturity	**67,700**	**76,634**	69,274	76,657
Financial assets available for sale	**551,058**	**551,058**	506,089	506,089
Loans and receivables	**12,376**	**12,376**	12,348	12,348
Ulaganja za račun i rizik vlasnika polica životnog osiguranja	**212,324**	**212,324**	146,188	146,188
Technical provisions, reinsurers’ share	**3,443**	**3,443**	4,375	4,375
Receivables from insurance contracts and other receivables	**13,438**	**13,438**	13,229	13,229
Cash and cash equivalents	**1,871**	**1,871**	996	996
Total financial assets	**862,210**	**871,144**	752,499	759,882
Total financial liabilities	**29,324**	**29,324**	21,503	21,503

1.37 Financial risk management (continued)

Fair value (continued)

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at 31 December 2016	31 December 2015	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Available for sale assets						
Debt securities	**544,555**	**502,337**	Level 1	Price quoted on a stock exchange – average trade or bid price on the last day in the month	Not applicable	Not applicable
Debt securities	**3,100**	**1,821**	Level 2	The bond is priced by discounting the expected cashflow at maturity using an appropriate credit spread	Not applicable	Not applicable
Open-end investment fund shares	**3,403**	**1,931**	Level 1	Quoted price issued by the fund	Not applicable	Not applicable
Financial assets at fair value through profit or loss						
Debt securities	**212,324**	**146,188**	Level 2	Quoted market prices in active markets for underlying financial assets of index-linked debt securities or other valuation techniques as discounted cash flows in which all significant inputs are directly or indirectly observable from market data	Not applicable	Not applicable

1.38 Maturity analysis

The tables below analyses the financial assets and financial liabilities within the scope of IAS 39 of the Company at 31 December 2016 and 31 December 2015 into relevant maturity groupings based on the remaining contractual maturity. The maturities of investments in open-ended Investment funds are disclosed according to their secondary liquidity of 6 months.

	Up to 6 months HRK'000	6 to 12 months HRK'000	1 to 3 years HRK'000	3 to 5 years HRK'000	Over 5 years HRK'000	Total HRK'000
31 December 2016						
Held-to-maturity investments						
Debt securities	-	-	25,818	16,939	24,943	67,700
Available-for-sale financial assets						
Debt securities	11,421	10,740	12,752	87,194	425,548	547,655
Investment funds	3,403	-	-	-	-	3,403
Loans and receivables						
Prepayments made	-	76	259	38	3	376
Deposits	-	-	-	-	12,000	12,000
Investments for account and risk of life insurance policyholders						
Index-linked	-	26,923	122,408	43,500	19,493	212,324
Technical provisions, reinsurers' share	1.722	1,721				3,443
Cash and cash equivalents	1.871	-	-	-	-	1,871
Receivables from insurance operations and other receivables	677	856	441	1,964	9,500	13,438
Total financial assets	**19.094**	**40,316**	**161,678**	**149,635**	**491,487**	**862,210**
Total financial liabilities	**20.291**	**4,724**	**2,922**	**1,074**	**313**	**29,324**
31 December 2015						
Held-to-maturity investments						
Debt securities	-	757	-	43,154	25,363	69,274
Available-for-sale financial assets						
Debt securities	-	-	37,263	130,790	336,105	504,158
Investment funds	1,931	-	-	-	-	1,931
Loans and receivables						
Prepayments made	-	-	348	-	-	348
Deposit	-	-	-	-	12,000	12,000
Investments for account and risk of life insurance policyholders						
Index-linked	-	-	74,182	23,850	48,156	146,188
Technical provisions, reinsurers' share	2.051	2,052	3	9	260	4,375
Cash and cash equivalents	996	-	-	-	-	996
Receivables from insurance operations and other receivables	12.403	255	47	-	524	13,229
Total financial assets	**17.381**	**3,064**	**111,843**	**197,803**	**422,408**	**752,499**
Total financial liabilities	**20.126**	**1,377**	**-**	**-**	**-**	**21,503**

1.39 Interest rate gap analysis

The following tables present the Company's financial assets and financial liabilities within the scope of IAS 39 analysed according to repricing dates determined as the earlier of the remaining contractual maturity and the contractual repricing.

The tables are management's estimate of the interest rate risk for the Company as at 31 December 2016 and 31 December 2015 and are not necessarily indicative of the positions at other times but, taking into account the interest rate assumptions on which the calculation of the mathematical reserve is based (Note 1.18 (d) Insurance contract provisions – Life assurance provision), provide some indication of the sensitivities of the Company's earnings to movements in interest rates. The profit will also be affected by the currency of the assets and liabilities and equity. The Company has a significant proportion of interest-earning assets and interest-bearing liabilities in a foreign currency.

	Fixed interest rate	Up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
		HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2016									
Held-to-maturity investments									
Debt securities	3-4	-	-	25,819	16,939	24,942	-	**67,700**	67,700
Available-for-sale financial assets									
Debt securities	3-4	11,420	10,740	12,752	87,194	425,549	-	**547,655**	547,655
Investment funds	n/a	-	-	-	-	-	3,403	**3,403**	-
Loans and receivables									
Prepayments made	5	-	76	259	38	3	-	376	376
Deposits	4.1	-	-	-	-	12,000	-	12,000	12,000
Investments for account and risk of life insurance policyholders									
Index-linked	2-4	-	26,923	122,409	43,500	19,492	-	**212,324**	212,324
Technical provisions, reinsurers' share	n/a	-	-	-	-	-	3,443	**3,443**	-
Cash and cash equivalents	n/a	1.871	-	-	-	-	-	**1,871**	-
Receivables from insurance operations and other receivables	n/a	-	-	-	-	-	13,438	**13,438**	-
Total financial assets		**13.291**	**37,739**	**161,239**	**147,671**	**481,986**	**20,284**	**862,210**	**840,055**
Total financial liabilities		**-**	**-**	**-**	**-**	**-**	**29,324**	**29,324**	**-**
31 December 2015									
Held-to-maturity investments									
Debt securities	2-3	-	757	-	43,154	25,363	-	**69,274**	69,274
Available-for-sale financial assets									
Debt securities	3-4	-	-	37,262	130,790	336,106	-	**504,158**	504,158
Investment funds	n/a	-	-	-	-	-	1,931	**1,931**	-
Loans and receivables		-	-	-	-	-	-	-	-
Prepayments made	5	-	-	348	-	-	-	**348**	348
Deposits	4.1	-	-	-	-	12,000	-	**12,000**	12,000
Investments for account and risk of life insurance policyholders									
Index-linked	n/a	-	-	74,182	23,850	48,156	-	146,188	146,188
Technical provisions, reinsurers' share		-	-	-	-	-	4,375	4,375	-
Cash and cash equivalents	n/a	994	-	-	-	-	2	996	-
Receivables from insurance operations and other receivables	n/a	-	-	-	-	-	13,229	13,229	-
Total financial assets		**994**	**757**	**111,792**	**197,794**	**421,625**	**19,537**	**752,499**	**731,968**
Total financial liabilities		**-**	**-**	**-**	**-**	**-**	**21,503**	**21,503**	**-**

1.40 Currency risk analysis

The Company's financial assets and financial liabilities within the scope of IAS 39 were denominated as follows as at 31 December 2016 and 31 December 2015:

	EUR and EUR-linked	HRK	Total
	HRK'000	HRK'000	HRK'000
31 December 2016			
Held-to-maturity investments			
Debt securities	67,700	-	67,700
Available-for-sale financial assets			
Debt securities	390,025	157,630	547,655
Investment funds	867	2,536	3,403
Financial assets at fair value through profit and loss			
Loans and receivables			
Prepayments made	376	-	376
Deposits	-	12,000	12,000
Investments for account and risk of life insurance policyholders			
Index-linked	212,324	-	212,324
Technical provisions, reinsurers' share	3.443	-	3,443
Cash and cash equivalents	75	1,796	1871
Receivables from insurance operations and other receivables	10.266	3,172	13,438
Total financial assets	**685.076**	**177,134**	**862,210**
Total financial liabilities	**2.648**	**26,676**	**29,324**
31 December 2015			
Held-to-maturity investments			
Debt securities	69,274	-	69,274
Available-for-sale financial assets			
Debt securities	420,019	84,139	504,158
Investment funds	733	1,198	1,931
Financial assets at fair value through profit and loss			
Loans and receivables			
Prepayments made	348	-	348
Deposits	-	12,000	12,000
Investments for account and risk of life insurance policyholders			
Index-linked	146,188	-	146,188
Technical provisions, reinsurers' share	4.375	-	4,375
Cash and cash equivalents	234	762	996
Receivables from insurance operations and other receivables	11.071	2,158	13,229
Total financial assets	**652.242**	**100,257**	**752,499**
Total financial liabilities	**2.821**	**18,682**	**21,503**

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency
Statement of financial position – Assets at 31 December

in HRK

Item #	Sum components	Item#	Item descriptions	Prior period Life	Prior period Non-life	Prior period Total	Current period Life	Current period Neživot	Current period Total
001	002+003	**I**	**INTANGIBLE ASSETS**	**5,725,341**		**5,725,341**	**5,078,702**		**5,078,702**
002		1	Goodwill						
003		2	Other intangible assets	**5,725,341**		**5,725,341**	**5,078,702**		**5,078,702**
004	005+006+007	**II**	**TANGIBLE ASSETS**	**1,983,149**		**1,983,149**	**2,172,186**		**2,172,186**
005		1	Land and buildings used by the company in its business						
006		2	Equipment	1,892,161		**1,892,161**	2,083,095		**2,083,095**
007		3	Other tangible assets and inventories	90,988		**90,988**	89,091		**89,091**
008	009+010+014+033	**III**	**INVESTMENTS**	**596,293,569**		**596,293,569**	**651,548,827**		**651,548,827**
009		**A**	Investments in land and buildings used by the company in its business	**8,581,857**		**8,581,857**	**8,069,388**		**8,069,388**
010	011+012+013	**B**	**Investments in subsidiaries, associates and joint ventures**						
011		1	Equity shares in subsidiaries						
012		2	Equity shares in associates						
013		3	Interests in joint ventures						
014	015+018+023+029	**C**	**Financial assets**	**587,711,713**		**587,711,713**	**643,479,438**		**643,479,438**
015	016+017	**1**	**Held-to-maturity investments**	**69,274,238**		**69,274,238**	**68,814,904**		**68,814,904**
016		*1.1*	*Debt securities and other fixed-income securities*	69,274,238		**69,274,238**	68,814,904		**68,814,904**
017		*1.2*	*Other*						
018	019+020+021+022	**2**	**Available-for-sale investments**	**506,089,317**		**506,089,317**	**561,346,929**		**561,346,929**
019		*2.1*	Equities and other variable-income securities						
020		*2.2*	Debt securities and other fixed-income securities	504,158,510		**504,158,510**	557,944,133		**557,944,133**
021		*2.3*	Units and shares in investment funds	1,930,806		**1,930,806**	3,402,796		**3,402,796**
022		*2.4*	Other						
023	024+025+026+027+028	**3**	**Investments at fair value through profit or loss**						
024		*3.1*	Equities securities						
025		*3.2*	Debt securities						
026		*3.3*	Derivative financial instruments						
027		*3.4*	Units and shares in investment funds						
028		*3.5*	Other						

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency (continued)

Statement of financial position – Assets at 31 December (continued) in HRK

029	030+031+032	4	Loans and receivables	12,348,158		12,348,158	13,317,605		13,317,605
030		4.1	Deposits with credit institutions (banks)	12,000,000		12,000,000	12,884,476		12,884,476
031		4.2	Loans	348,158		348,158	433,129		433,129
032		4.3	Other loans and receivables						
033		D	Deposits on the basis of insurance business transferred to reinsurance						
034		IV	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	146,188,314		146,188,314	212,324,145		212,324,145
035	036+037+038+039+040+041+042	V	REINSURANCE SHARE IN TECHNICAL RESERVES	4,375,136		4,375,136	3,442,695		3,442,695
036		1	Unearned premium, reinsurers' share	388,522		388,522	348,111		348,111
037		2	Life assurance provision (mathematical reserve), reinsurers' share	273,470		273,470	246,584		246,584
038		3	Claims provision, reinsurers' share	3,713,144		3,713,144	2,848,000		2,848,000
039		4	Bonuses and rebates provisions, reinsurers' share						
040		5	Equalisation reserve, reinsurers' share						
041		6	Other technical provisions, reinsurers' share						
042		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurers' share						
043	044+045	VI	CURRENT AND DEFERRED TAX ASSETS						
044		1	Deferred tax assets						
045		2	Current tax assets						
046	047+050+051	VII	RECEIVABLES	13,160,105		13,160,105	511,668		511,668
047	048+049	1	Receivables from direct insurance operations						
048		1.1	From insured persons						
049		1.2	Receivables from insurance agents and brokers						
050		2	Receivables from co-insurance and reinsurance operations	203,490		203,490	269,479		269,479
051	052+053+054	3	Other receivables	12,956,615		12,956,615	242,189		242,189
052		3.1	Receivables from other insurance operations	4,659		4,659	2,808		2,808
053		3.2	Receivables for return on investments	10,224,636		10,224,636	66,528		66,528
054		3.3	Other receivables	2,727,320		2,727,320	172,853		172,853
055	056-060+061	VIII	OTHER ASSETS	996,034		996,034	1,870,631		1,870,631
056	057+058+059	1	Cash with banks and in hand	996,034		996,034	1,870,631		1,870,631
057		1.1	Balances on the business account	581,944		581,944	881,729		881,729
058		1.2	Assets on mathematical reserve backing asset account	412,001		412,001	988,903		988,903
059		1.3	Cash in hand	2,088		2,088			
060		2	Non-current assets held for sale and discontinued operations						
061		3	Other						
062	063+064+065	IX	PREPAID EXPENSES AND ACCRUED INCOME	68,028		68,028	580,860		580,860
063		1	Accrued interest and prepaid rentals						
064		2	Accrued interest and prepaid rentals						
065		3	Other prepaid expenses and accrued income	68,028		68,028	580,860		580,860
066	001+004+008+034+035+043+046+055+062	X	TOTAL ASSETS	768,789,675		768,789,675	877,529,714		877,529,714
067		XI	OFF-BALANCE SHEET ITEMS						

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency (continued)

Statement of financial position – Equity and liabilities at 31 December — in HRK

068	069+072+073+077+081+084	**XII**	**CAPITAL AND RESERVES**	**89,883,321**		**89,883,321**	**108,400,466**		**108,400,466**
069	070+071	**1**	**Subscribed capital**	**30,000,000**		**30,000,000**	**30,000,000**		**30,000,000**
070		*1.1*	Paid-in capital - ordinary shares	30,000,000		**30,000,000**	30,000,000		**30,000,000**
071		*1.2*	Paid-in capital - preference shares						
072		**2**	**Share premium (capital reserves)**						
073	074+075+076	**3**	**Revalorizacijske rezerve**	**19,490,549**		**19,490,549**	**35,438,017**		**35,438,017**
074		*3.1*	Land and buildings						
075		*3.2*	Financial investments AFS	19,482,750		**19,482,750**	35,443,990		**35,443,990**
076		*3.3*	Other revaluation reserves	7,799		**7,799**	-5,973		**-5,973**
077	078+079+080	**4**	**Reserves**	**21,247,508**		**21,247,508**	**21,247,508**		**21,247,508**
078		*4.1*	Legal reserves	21,247,508		**21,247,508**	21,247,508		**21,247,508**
079		*4.2*	Statutory reserve						
080		*4.3.*	Other reserves						
081	082+083	**5**	**Retained earnings / Accumulated losses**	**6,839,018**		**6,839,018**	**8,675,264**		**8,675,264**
082		*5.1*	Retained earnings	6,839,018		**6,839,018**	8,675,264		**8,675,264**
083		*5.2*	Accumulated losses (-)						
084	085+086	**6**	**Profit or loss for the period**	**12,306,246**		**12,306,246**	**13,039,676**		**13,039,676**
085		*6.1*	Profit for the period	12,306,246		**12,306,246**	13,039,676		**13,039,676**
086		*6.2*	Loss for the period (-)						
087		**XIII**	**SUBORDINATED DEBT**						
088		**XIV**	**MINORITY INTEREST**						
089	090+091+092+093+094+095	**XV**	**Technical reserves**	**507,094,251**		**507,094,251**	**521,155,491**		**521,155,491**
090		1	Unearned premium reserve, gross	1,011,548		**1,011,548**	1,016,484		**1,016,484**
091		2	Mathematical reserve, gross	497,254,765		**497,254,765**	507,067,092		**507,067,092**
092		3	Claims reserve, gross	8,327,938		**8,327,938**	9,031,916		**9,031,916**
093		4	Bonuses and rebates reserve, gross						
094		5	Equalization reserve, gross						
095		6	Other technical reserves, gross	500,000		**500,000**	4,040,000		**4,040,000**
096		**XVI**	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross	**146,188,314**		**146,188,314**	**212,324,145**		**212,324,145**

Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency (continued)

Statement of financial position – Equity and liabilities at 31 December (continued) **in HRK**

097	098+099	**XVII**	**Other reserves**	**448,404**		**448,404**	**532,170**		**532,170**
098		1	Provisions for retirement benefits and similar obligations	448,404		**448,404**	532,170		**532,170**
099		2	Other reserves						
100	101+102	**XVIII**	**CURRENT AND DEFERRED TAX LIABILITIES**	**3,672,261**		**3,672,261**	**5,793,353**		**5,793,353**
101		1	Deferred tax liability	2,455,929		**2,455,929**	5,448,669		**5,448,669**
102		2	Current tax liability	1,216,333		**1,216,333**	344,684		**344,684**
103		**XIX**	DEPOSITS RETAINED FROM OUTWARD REINSURANCE BUSINESS						
104	105+106+107	**XX**	**FINANCIAL LIABILITIES**						
105		1	Borrowings						
106		2	Liabilities in respect of issued securities						
107		3	Other financial liabilities						
108	109+110+111+112	**XXI**	**OTHER LIABILITIES**	**16,424,574**		**16,424,574**	**23,725,477**		**23,725,477**
109		1	Liabilities from direct insurance operations	14,888,765		**14,888,765**	21,924,028		**21,924,028**
110		2	Liabilities arising from co-insurance and reinsurance operations	67,077		**67,077**	180,314		**180,314**
111		3	Liabilities in respect of disposals and discontinued operations						
112		4	Other liabilities	1,468,732		**1,468,732**	1,621,136		**1,621,136**
113	114+115	**XXII**	**ACCRUED EXPENSES AND DEFERRED INCOME**	**5,078,550**		**5,078,550**	**5,598,612**		**5,598,612**
114		1	Accrued reinsurance commission						
115		2	Other accrued expenses and deferred income	5,078,550		**5,078,550**	5,598,612		**5,598,612**
116	068+087+088+089+096+097+100+103+104+108+113	**XXIII**	**TOTAL LIABILITIES AND EQUITY**	**768,789,675**		**768,789,675**	**877,529,714**		**877,529,714**
117		**XXIV**	**OFF-BALANCE SHEET ITEMS**						

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Comprehensive Income for the year ended 31 December

in HRK

Item #	Sum components	Item #	Item description	Prior accounting period			Current accounting period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003+004+005+006	**I**	**Premium earned**	**167,423,496**		**167,423,496**	**173,410,362**		**173,410,362**
002		1	Gross premium written	171,423,971		**171,423,971**	175,032,720		**175,032,720**
003		2	Impairment allowance and reversal of impairment allowance on insurance/coinsurance premiums						
004		3	Outward reinsurance premiums (-)	-3,798,846		**-3,798,846**	-1,577,012		**-1,577,012**
005		4	Change in the gross unearned premium reserve (+/-)	-210,106		**-210,106**	-4,935		**-4,935**
006		5	Change in the gross unearned premium reserve, reinsurers' share, (+/-)	8,476		**8,476**	-40,411		**-40,411**
007	008+009+010+011+012+013+014	**II**	**Investment income**	**89,571,163**		**89,571,163**	**82,910,408**		**82,910,408**
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investments in land and buildings	1,100,275		1,100,275	821,995		821,995
010		3	Interest income	25,939,764		25,939,764	25,847,598		25,847,598
011		4	Unrealised gains on FVTPL investments						
012		5	Realised gains on investments	7,717,972		7,717,972	8,857,854		8,857,854
013		6	Net exchange gains	51,099,032		51,099,032	36,200,729		36,200,729
014		7	Other investment income	3,714,119		3,714,119	11,182,233		11,182,233
015		**III**	**Fee and commisssion income**	**1,700,803**		**1,700,803**	**448,727**		**448,727**
016		**IV**	**Other technical income, net of reinsurers' share**	**690,463**		**690,463**	**642,438**		**642,438**
017		**V**	**Other income**						
018	019+022	**VI**	**Expenditure for claims incurred, net**	**-63,546,109**		**-63,546,109**	**-84,397,067**		**-84,397,067**
019	020+021	1	Settled claims	-62,520,458		-62,520,458	-82,827,946		-82,827,946
020		*1.1*	*Gross amount (-)*	-63,148,134		-63,148,134	-83,564,465		-83,564,465
021		*1.2*	*Reinsurers' share (+)*	627,676		627,676	736,519		736,519
022	023+024	2	Change in claims reserves (+/-)	-1,025,651		-1,025,651	-1,569,121		-1,569,121
023		*2.1*	*Gross amount (-)*	-1,878,668		-1,878,668	-703,978		-703,978
024		*2.2*	*Reinsurers' share (+)*	853,017		853,017	-865,144		-865,144
025	026+029	**VII**	**Change in mathematical reserves and in other technical provisions, net of reinsurers' share**	**-41,726,249**		**-41,726,249**	**-13,379,213**		**-13,379,213**
026	027+028	1	Change in the mathematical reserve (+/-)	-41,226,249		-41,226,249	-9,839,213		-9,839,213
027		*1.1*	*Gross amount (-)*	-41,221,656		-41,221,656	-9,812,327		-9,812,327
028		*1.2*	*Reinsurers' share (+)*	-4,593		-4,593	-26,886		-26,886

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Comprehensive Income for the year ended 31 December (continued) in HRK

029	030+031	2	Change in other technical provisions, net of reinsurers' share (+/-)	-500.000		-500.000	-3.540.000		-3.540.000
030		2.1	Gross amount (-)	-500.000		-500.000	-3.540.000		-3.540.000
031		2.2	Reinsurers' share (+)						
032	033+034	VIII	Change in specific life assurance technical provisions where the investment risk is borne by the policyholders, net of reinsurance (+/-)	-49.894.838		-49.894.838	-66.135.831		-66.135.831
033		1	Gross amount (-)	-49.894.838		-49.894.838	-66.135.831		-66.135.831
034		2	Reinsurers' share (+)						
035	036+037	IX	Expenses on return of premiums, net of reinsurers' share						
036		1	Result dependent (bonuses)						
037		2	Result independent (discounts)						
038	039+043	X	Operating expenses, net	-31.391.947		-31.391.947	-31.987.640		-31.987.640
039	040+041+042	1	Acquisition costs	-21.278.215		-21.278.215	-20.716.917		-20.716.917
040		1.1	Commission	-11.616.778		-11.616.778	-11.482.758		-11.482.758
041		1.2	Other acquisitions costs	-9.661.437		-9.661.437	-9.234.159		-9.234.159
042		1.3	Change in deferred acquisition costs						
043	044+045+046	2	Administrative expenses	-10.113.732		-10.113.732	-11.270.724		-11.270.724
044		2.1	Depreciation	-799.585		-799.585	-823.507		-823.507
045		2.2	Payroll, taxes and contributions	-4.978.577		-4.978.577	-5.422.574		-5.422.574
046		2.3	Other administrative expenses	-4.335.570		-4.335.570	-5.024.642		-5.024.642
047	048+049+050+051+052+053+054	XI	Investment expenses	-57.096.761		-57.096.761	-44.516.433		-44.516.433
048		1	Depreciation of land and buildings not used by the company for business purposes	-338.704		-338.704	-280.984		-280.984
049		2	Interest						
050		3	Impairment of investment	-2.997.485		-2.997.485	-231.484		-231.484
051		4	Realised gains on investments	-43.523		-43.523	-976		-976
052		5	Realised losses on investments						
053		6	Net foreign exchange losses	-52.523.901		-52.523.901	-40.747.412		-40.747.412
054		7	Other investment expenses	-1.193.148		-1.193.148	-3.255.577		-3.255.577
055	056+057	XII	Other technical expenses, net of reinsurers' share	-253.683		-253.683	-293.771		-293.771
056		1	Expenses for preventive operations						
057		2	Other technical expenses	-253.683		-253.683	-293.771		-293.771
058		XIII	Other expenses, including value adjustment						
059	001+007+015+016+017+018+025+032+035+038+047+055+058	XIV	Profit or loss for the period before tax (+/-)	15.476.336		15.476.336	16.701.980		16.701.980
060	061+062	XV	Income tax or tax loss	-3.170.090		-3.170.090	-3.662.304		-3.662.304

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Comprehensive Income for the year ended 31 December (continued) in HRK

061		1	Current tax expense	-3,766,923		-3,766,923	-3,579,264		-3,579,264
062		2	Deferred tax expense (income)	596,833		596,833	-83,040		-83,040
063	059+060	**XVI**	**Profit or loss for the period after tax (+/-)**	**12,306,246**		**12,306,246**	**13,039,676**		**13,039,676**
064		1	Attributable to the equity holders of the parent						
065		2	Attributable to the non-controlling interest						
066	001+007+015+016+017+062	**XVII**	**Total income**	259,982,758		259,982,758	257,328,896		257,328,896
067	018+025+032+035+038+047+055+058+061	**XVIII**	**Total expenses**	-247,676,512		-247,676,512	-244,289,220		-244,289,220
068	069+070+071+072+073+074+075+076	**XIX**	**Other comprehensive income**	**-5,116,394**		**-5,116,394**	**15,947,468**		**15,947,468**
069		1	Gains/losses on retranslation of financial statements of foreign operations						
070		2	Gains/losses on revaluation of financial assets available for sale	-5,135,095		**-5,135,095**	15,961,240		**15,961,240**
071		3	Gains/losses on revaluation of land and buildings not used by the company for business purposes						
072		4	Gains/losses on revaluation of other tangible (except land and buildings) and intangible assets						
073		5	Effects of cash flow hedging instruments						
074		6	Actuarial gains/losses on defined retirement benefit plans	18,701		**18,701**	-13,772		**-13,772**
075		7	Share in other comprehensive income of associates						
076		8	Income tax on other comprehensive income						
077	078+079	**XX**	**Total comprehensive income**	**7,189,852**		**7,189,852**	**28,987,145**		**28,987,145**
078		1	Attributable to the equity holders of the parent						
079		2	Attributable to the non-controlling interest						
080		**XXI**	**Reclassification adjustments**						

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Cash Flow Statement for the year **in HRK**

Item #	Sum components	Item #	Item description	Current period	Comparative prior period
001	002+013+031	**I**	**CASH FlOWS FROM OPERATING ACTIVITIES**	**11,197,930**	**-94,859,832**
002	003+004	**1**	**Cash flows before working capital change**	**-25,097,505**	**-16,883,042**
003		1.1	Profit/(Loss) before tax	16,701,980	15,476,336
004	005+006+007 +008+009+010 +011+012	1.2	Adjusted by:	-41,799,485	-32,359,378
005		*1.2.1*	*Depreciation*	1,104,492	1,138,289
006		*1.2.2*	*Amortisation of intangible assets*	1,068,300	866,584
007		*1.2.3*	*Impairment losses and gains/losses on remeasurement at fair value*	-9,247,860	-691,905
008		*1.2.4*	*Interest expense*		
009		*1.2.5*	*Interest income*	-25,847,598	-25,939,764
010		*1.2.6*	*Share in profit of associates*		
011		*1.2.7*	*Gains/losses on disposal of tangible assets (including land and buildings)*		-2,160
012		*1.2.8*	*Other adjustments*	-8,876,819	-7,730,422
013	014+015+…+030	**2**	**Increase/decrease in operating assets and liabilities**	**40,746,348**	**-75,005,971**
014		2.1	Increase/decrease in available for sale assets	-17,249,787	-141,689,421
015		2.2	Increase/decrease of investments at fair value through profit or loss		
016		2.3	Increase/decrease in given loans and receivables	-27,842	-13,261,091
017		2.4	Increase/decrease of outward reinsurance deposits		
018		2.5	Increase/decrease of investments for the account and risk of life assurance policyholders	-56,632,810	-46,174,180
019		2.6	Increase/decrease of reinsurer's share in technical provisions	932,441	-856,900
020		2.7	Increase/decrease in tax assets	83,040	-326,527
021		2.8	Increase/decrease in receivables	26,148,806	27,718,361
022		2.9	Increase/decrease in other assets		
023		2.10	Increase/decrease in prepaid expenses and accrued income	-512,832	-12,780
024		2.11	Increase/decrease in technical provisions	14,061,240	43,810,430
025		2.12	Increase/decrease in technical provisions for life insurance with the risk borne by the policyholder	66,135,831	49,894,838
026		2.13	Increase/decrease in tax liabilities		
027		2.14	Increase/decrease in deposits retained from outward reinsurance business	-288,042	744,052

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Cash Flow Statement for the year (continued) in HRK

028		2.15	Increase/decrease in financial liabilities		
029		2.16	Increase/decrease in other liabilities	7,288,200	5,177,718
030		2.17	Increase/decrease in accrued expenses and deferred income	808,104	-30,472
031		**3**	**Income taxes paid**	**-4,450,913**	**-2,970,819**
032	033+034+…+046	**II**	**Cash flows from investing activities**	**146,667**	**104,957,748**
033		1	Proceeds from sale of tangible assets	-214,100	19,835
034		2	Payments for purchases of tangible assets	-798,444	-663,798
035		3	Proceeds from sale of intangible assets		
036		4	Payments for purchases of intangible assets	-421,661	-788,924
037		5	Payments for purchases of land and buildings not used by the company in its business		
038		6	Payments for purchases of land and buildings not used by the company in its business		-21,875
039		7	Increase/decrease of investments in subsidiaries, associates and joint ventures		
040		8	Proceeds from held-to-maturity investments	1,580,873	106,412,510
041		9	Payments made for held-to-maturity investments		
042		10	Proceeds from sale of securities and units		
043		11	Payments made for investments in securities and equities		
044		12	Dividends received		
045		13	Proceeds from given short-term and long-term loans		
046		14	Given short-term and long-term loans		
047	048+049+050 +051+052	**III**	**CASH FLOWS FROM FINANCING ACTIVITIES**	**-10,470,000**	**-10,200,000**
048		1	Cash received from share capital increase		
049		2	Proceeds from short-term and long-term borrowings		
050		3	Repayments of short-term and long-term borrowings		
051		4	Cash paid for purchase of own shares		
052		5	Dividends paid	-10,470,000	-10,200,000
053	001+032+047		**NET CASH**	**874,598**	**-102,085**
054		**IV**	EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		
055	053+054	**V**	**NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS**	**874,598**	**-102,085**
056		1	Cash and cash equivalents at beginning of period	996,034	1,098,118
057	**055+056**	**2**	**Cash and cash equivalents at end of period**	**1,870,631**	**996,034**

Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency (continued)

Statement of Changes in Equity

in HRK

Item #	Item description	Attributable to the equity holders of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid in capitla (ordinary and preference shares)	Share premium	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or accumulated losses	Profit/loss for the year	**Total capital and reserves**		
I.	**At 1 January of the prior year**	**30,000,000**		**24,606,943**	**21,247,508**	**5,037,695**	**12,001,323**	**92,893,469**		**92,893,469**
1.	Changes in accounting policies									
2.	Correction of prior period errors									
II.	**At 1 January of the prior year (as restated)**	**30,000,000**		**24,606,943**	**21,247,508**	**5,037,695**	**12,001,323**	**92,893,469**		**92,893,469**
III.	**Comprehensive income or loss for prior year**			**-5,116,394**			**12,306,246**	**7,189,852**		**7,189,852**
1.	Profit or loss for the period						12,306,246	12,306,246		**12,306,246**
2.	**Other comprehensive income or loss for the prior year**			**-5,116,394**				**-5,116,394**		**-5,116,394**
2.1.	Unrealised gains or losses on tangible assets (land and buildings)									
2.2.	Unrealised gains or losses on financial assets available for sale			-5,135,095				-5,135,095		**-5,135,095**
2.3.	Realised gains/losses on financial assets available for sale									
2.4.	Other changes in equity not attributable to the equity holders in their capacity as owners			18,701				18,701		**18,701**
IV.	**Transactions with owners (prior period)**					**1,801,323**	**-12,001,323**	**-10,200,000**		**-10,200,000**
1.	Increase/decrease in subscribed capital									
2.	Other payments made by the owners									
3.	Dividends paid						-10,200,000	-10,200,000		**-10,200,000**
4.	Other distributions to the owners					1,801,323	-1,801,323			
V.	**Closing balance for the prior year**	**30,000,000**		**19,490,549**	**21,247,508**	**6,839,018**	**12,306,246**	**89,883,321**		**89,883,321**
VI.	**At 1 January of the current year**	**30,000,000**		**19,490,549**	**21,247,508**	**6,839,018**	**12,306,246**	**89,883,321**		**89,883,321**
1.	Changes in accounting policies									
2.	Correction of prior-period error									
VII.	**At 1 January of the current year (restated)**	**30,000,000**		**19,490,549**	**21,247,508**	**6,839,018**	**12,306,246**	**89,883,321**		**89,883,321**
VIII.	**Comprehensive income or loss for the year**			**15,947,468**			**13,039,676**	**28,987,145**		**28,987,145**
1.	Profit or loss for the period						13,039,676	13,039,676		**13,039,676**
2.	**Other comprehensive income or loss for the current year**			**15,947,468**				**15,947,468**		**15,947,468**
2.1.	Unrealised gains or losses on tangible assets (land and buildings)									
2.2.	Unrealised gains or losses on financial assets available for sale			15,961,240				15,961,240		**15,961,240**
2.3.	Realised gains/losses on financial assets available for sale									
2.4.	Other changes in equity not attributable to the equity holders in their capacity as owners			-13,772				-13,772		**-13,772**
IX.	**Transactions with owners (current period)**					**1,836,246**	**-12,306,246**	**-10,470,000**		**-10,470,000**
1.	Increase/decrease in subscribed capital									
2.	Other payments made by the owners									
3.	Dividends paid						-10,470,000	-10,470,000		**-10,470,000**
4.	Dividends paid					1,836,246	-1,836,246			
X.	**Closing balance for the current year**	**30,000,000**		**35,438,017**	**21,247,508**	**8,675,264**	**13,039,676**	**108,400,466**		**108,400,466**

Reconciliation between financial statements for Croatian Financial Services Supervisory Agency

Statement of financial position

Intrerest receivables shown in audited financial statements have increased position Investments in the financial statements for Croatian Financial Services Supervisory Agency on the following positions:

- 16 – Debt securities
- 20 - Debt securities
- 30 - Deposits
- 31 – Loans

Receivables from insurance contracts and other receivables presented in audited financial statements, including interest receivables, in the financial statements for Croatian Financial Services Supervisory Agency are presented in the following positions:

- 50 - Insurance receivables
- 51 - Other receivables
- 62 - Prepaid expenses and accrued income
- 16 - Debt securities (part for interest)
- 20 - Debt securities (part for interest)
- 30 - Deposits (part for interest)
- 31 - Loans (part for interest)

Advance income tax is netted against following position: Current tax liabilities in the financial report.

Insurance contract provisions and discretionary profit participation provision shown in the auditors financial statement are recorded in the financial statements for Croatian Financial Services Supervisory Agency on positions:

- 90 to 96

Liabilities under insurance contracts and other liabilities shown in the auditors financial statement are recorded in the financial statements for Croatian Financial Services Supervisory Agency on positions:

- 108 and 113

Statement of comprehensive income

Position Financial income in the financial report includes the auditor's financial report for the Croatian Agency for Supervision of Financial Services position:

- 09 - Income from investments in land and buildings
- 10 – Interest income
- 12 - Gain on sale (realization) of financial assets (netted against position 51- Realised investment losses)
- 14 - Other income from investments, netted with position 54- Other investment expenses (unrealized and realized investment results for the name and account of policyholders who bear the investment risk)

Position Claims incurred in the auditors financial statement are presented in the financial report for the Croatian Agency for Supervision of Financial Services on following positions:

- 20 - Liquidated claims: Gross
- 23 - Change in provision for claims: Gross
- 27 - Change in mathematical provision: Gross
- 27 - Change in other technical provisions: Gross
- 33 - Changes in special reserves for insurance on life insurance where the policyholder takes the investment risk, net of reinsurance: Gross amount.

Reconciliation between financial statements for Croatian Financial Services Supervisory Agency (continued)

Statement of comprehensive income (continued)

Position Reinsurers' share of claims incurred in the auditors financial statement are presented in the financial report for the Croatian Agency for Supervision of Financial Services on following positions:

- 21 - Liquidated claims: Reinsurers' share
- 24 - Change in provision for claims: Reinsurers' share
- 28 - Change in mathematical provision: Reinsurers' share.

Position Financial expenses in the auditors financial statement includes in the financial report for the Croatian Agency for Supervision of Financial Services following positions:

- 48- Depreciation of land and equipment not used for basic business
- 50- Impairment of investment
- 53 – Net exchange losses netted with position 13- Net exchange gains
- 54- Other investment expenses, netted with position 14- Other investment income (positive exchange differences on the investments for the account and risk of policyholders)