

Wiener osiguranje Vienna Insurance Group d.d.

**Annual report
for 2020**

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Management Board report

The Management Board is submitting its Management Board report together with the audited financial statements for the year ended 31 December 2020.

Wiener osiguranje Vienna Insurance Group d.d. (the “Company”) is a joint stock company offering life and non-life insurance products, with headquarters in Zagreb, Slovenska 24. The major shareholder of the Company and the parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe (“VIG” or “the Group”). The ultimate parent company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group.

The Company’s membership to the Group is not only demonstrated by using the „family-name“ “Vienna Insurance Group, but also by sharing strategic objectives.

Values of the Company are part of the strategic corporate governance based on the vision of a future, in which the Company has a key role in insuring every person, home and company in Croatia.

Part of Vienna Insurance Group

VIG: “We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times.”

Over 25,000 employees work for VIG, at around 50 companies in 30 countries. We develop insurance solutions in line with personal and local needs, which has made us the leader in the insurance industry in Austria and Central and Eastern Europe (CEE).

Expertise & Stability

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, the Group expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. Experience coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for more than 22 million customers.

Focus on Central and Eastern Europe

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. The Group’s operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

Local market presence

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local brands as well as local management. Ultimately, the Group’s success and closeness to its customers is down to the strengths of each individual brand and local know-how.

Strong Finances and Credit Rating

VIG has an A+ rating with stable outlook from the well-known rating agency Standard & Poor’s, meaning that it remains the top-rated company on the Vienna Stock Exchange’s index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG’s shares. The remaining shares are in free float.

Management Board report (continued)

The Company

The year 2020 has been globally shaped by Covid-19 pandemic. In Croatia, daily routine was additionally burdened by two strong earthquakes. However, in 2020 again, the Company recorded its best premium year since VIG entered the Croatian market in 1999, with stable premium development, as well as stable profit generation. Through over 80 sales points located across the country, over 450 sales employees and strong external sales channels and web-sales, as well as the support of the strategic partner Erste & Steiermärkische Bank d.d., the Company's goal is to constantly provide clients with complete insurance cover and to make claims handling faster and more efficient. With stability based on core competences, the Company is a conscious insurer. The Company always strives for reliability and trustworthiness in dealings with customers and business partners, employees and shareholders.

Due to an outbreak of a pandemic in March 2020, Croatian government introduced restrictive measures which also meant the decrease of economic activities. Given the possible negative consequences of the pandemic that threatened the Company's operations, the rights of the policyholders and business continuity, the Company recognized the importance of performing Adhoc ORSA and took preventive actions to limit the risk and prevent negative consequences.

The Company reacted promptly on new circumstances, organizing home-office and rotation for majority of employees, adapted processes were needed, in order to ensure business continuity and safe working for all involved parties. The way of confronting new challenges, demonstrates openness of employees for change, where positive attitude and result orientation with needed expertise were not missed.

The business results for 2020 are indicator of further strengthening of the position of the Company. As one of the top five leading insurers, the Company is following its vision to be a Company, which has a key role in insuring every person, home and company in Croatia.

The Company has introduced its vision, mission, and values, in order to put focus on a common organizational culture harmonizing different cultures existing due to the mergers. Values promoted in daily business, are result orientation, expertise, openness for change and positive attitude.

In the course of 2020, the Company continued the activities related to the implemented ISO standard ISO 9001:2015 certificate for quality management system.

With over 650 motivated and educated employees living the Company's values in daily business, the Company demonstrates its readiness to achieve great performance also in the next years.

Business performance

In 2020, the Company reported net profit of HRK 40.0 million, which despite the aggravating circumstances reflects stability in operations of the Company, strict cost management and conservative investment policy. Although implemented the growth strategy, the Company was following selective underwriting policy in order to be even more earning oriented, regardless of possible premium losses. This management principle has proved its effectiveness and success.

The Company wrote gross premiums (including premium written outside of the Croatian insurance market via freedom of service (further on FOS)) of HRK 980.4 million, representing an increase by 5.7% in comparison to 2019, which positioned the Company on fifth place among insurance companies in Croatia, with a total market share of 9.4%. On the Croatian insurance market, the Company wrote total gross written premiums (without FOS premiums) of HRK 973.1 million, representing an increase of 5.7% in comparison to 2019, while the market records decrease by 2.6% which positioned the Company on fourth place. In life insurances, the Company realizes decrease in premium by 4.3% and holds first place with market share of 19.7%, while the market records decrease by 13.7%. In non-life insurances, the Company records growth in gross written premiums by 20.0% with market share of 5.9% or without FOS premium growth by 20.1%, while the market records growth by 2.2%. As in previous years, the largest share in total premium relates to life insurance (53.2%) and motor insurance (17.9%). The Company's share of motor insurances business, after years of continues decrease because of the unsatisfying situation of the market in this line of business, finally reached a positive trend reversal in 2019, which is ongoing also during the reporting year and visible in the premium result.

Management Board report (continued)

Business performance (continued)

This positive development is on the one hand due to the stabilized liberalization of the motor third party liability market in Croatia and even more importantly due to the new MTPL tariff with better segmentation. The Company is making a lot of effort in careful monitoring and reacting on market trends, strictly following the profitability strategy and will maintain these efforts in the future. The Company's clear focus is on the profitability of all lines of business.

In 2020, net policyholder claims and benefits incurred amounted to HRK 674.6 million, which is, compared to the previous year, an increase of HRK 25.5 million or 3.9%. The Company continued with group-wide anti-fraud initiative and with structured fraud management process, expecting additional profit potentials. Total acquisition, administrative and other operating expenses amounted to HRK 280.3 million, which is an increase of HRK 18.4 million or 7.0%, compared to the previous year.

As of 31 December 2020, the Company's total assets amounted to HRK 4,809 billion, which is, compared to the previous year, an increase of HRK 36.8 million or 0.8%.

The Company has strong capital base and was in compliance with all regulatory capital requirements during 2020. Strong capital base provides security to our policyholders.

In the course of 2020, the Company did not buy back any shares and has no subsidiaries.

Keeping stability in operations, as well as the growth and profitability strategy sustainable also in future asks for further development of the digitization process of sales and portfolio management. The Company also in 2020 has been deeply involved in IT projects in many segments of business, in order to adapt to the global digital transformation and to optimize business processes in the field of Business Intelligence, Document Management System, Client Relation Management and Sales support (apps WOPIS).

In the course of 2020, the Management Board continued activities supporting the implemented 5 Year Strategy and its four main initiatives related to premium growth, work force productivity, cost optimization and digitization, with the main target of sustainable profitable growth.

After very successful sales of the complementary health insurance product and good start of sales of the supplementary health insurance product the Company is focused on gaining market-share in this line of business.

Besides the health insurance as one of the strategic lines of business, the Company will be also focused on regular life insurances, corporate and SME business, as well as the further development of the bank assurance.

In order to maintain financial stability and security, business objectives of the Company are focused on further increase of profitability of the Company, through growth of premium income and market share, in combination with new underwriting measures and reduction of overall operating costs.

Risk management

The management of risks to which the Company is exposed in its ordinary business is conducted on regular basis. Risk management allows for identification, analysis, quantification and control of risks. The main risks to which the Company is exposed to are insurance risks, credit risk, market risks (price risk, interest rate risk and foreign exchange risk), liquidity risk, operational risks, strategic risks and reputational risks. In each risk category, the Company undertakes measures for management and control of risks in order to limit the risks to acceptable level. Exposure to these risks is shown in the notes to the financial statements.

Further, the Company is aware of potential emerging risks for insurance industry (cyber risks, sustainability risks) and performs evaluation of those risks as part of its ORSA process. In 2020, the Company performed ad hoc ORSA in which it assessed the impact of the outbreak of Covid-19 pandemic.

Solvency II takes into consideration all risks, to which the Company is exposed in its business activities. The most important role is given to the market and insurances risks. Therefore, the Company will also in the next years pay particular attention to the assessment of all risks to which the balance sheet positions and especially the financial investments are exposed.

Management Board report (continued)

Croatian insurance market

The Croatian insurance market has been affected not only by the initially stated Covid-19 pandemic and two strong earthquakes, but also by the decision of the Supreme Court of the Republic of Croatia related to Orientation Criteria and the amounts for determining fair monetary compensation for non-pecuniary damage for already reported and future claims.

According to statistical data from the Croatian Insurance Bureau, in 2020 total gross written premium of the insurance companies decreased by 0.7% (or by 2.6% without FOS premium), compared to 2019. The main factors, which influenced the insurance business on the Croatian market were Covid-19 pandemic, earthquakes and bad touristic season.

In 2020, 16 insurance companies operating on the Croatian insurance market recorded a gross written premium of HRK 10.47 billion (or HRK 10.03 billion without FOS premium). Non-life segment experienced growth of 4.7% (or 2.2% without FOS premium) and life segment decrease of 13.7% in comparison to 2019.

Social responsibility

Corporate Social Responsibility is the continuing commitment by business to ensure sustainable development, behave ethically and contribute to economic development while improving the quality of life of the workforce and of the local community along with the society. It includes meeting quality requirements in internal operations – in dealing with employees, as well as externally – in dealing with shareholders, policyholders, partners, the regulator and the community.

In 2020, in the context of the Social Active Day, the Company was mainly focused on education about combatting cyberbullying.

The project (O)siguran online about the safety of children online was recognized and awarded by the VIG. Due to the COVID-19 pandemic, children and teenagers are spending even more time online. Now, more than ever, it is crucial for them to get help when encountering cyberbullying. Thus, the Company continued the project in 2019 and 2020, creating the online platform UHO (Online shelter for the brave), which is the first digital platform in Croatia to combat cyberbullying, designed as a safe #nohate zone for them to come for advice when exposed to online violence.

For 2020, the Company will report on its non-financial aspects within the consolidated disclosure of the Group, based on the EU Directive (2014/95/EU) regarding disclosure of non-financial and diversity information. The consolidated Group sustainability report will be available from 15th of April 2021 at www.vig.com.

Corporate Governance

The Company considers responsible Corporate Governance to be a prerequisite for the creation of sustainable values, growth and creation of values to shareholders, policyholders and other stakeholders.

The Company implements both external and internal regulations, as well as the regulations of its parent company, Vienna Insurance Group, provided these are not in conflict with the regulations in force in the Republic of Croatia and it also monitors the alignment of its organizational structure, to be able to modify and adjust promptly if needed.

The shareholders exercise their voting rights in the General Assembly, which is convened by the Management Board after the Supervisory Board approves the decisions that are to be adopted by the Assembly based on the Statute and law. The Assembly in particular decides on the appointment of the Supervisory Board members, the annual financial statements, profit distribution, appointment of the Company's auditor.

Management Board report (continued)

Corporate Governance (continued)

The Management Board is responsible for the management of the Company's activities and represents the Company toward third parties. It ensures that the Company operates in line with risk management regulations, that is secures and maintains an adequate level of capital, manages control functions, the performance of external and internal audit, draws up financial and other reports in line with accounting regulations and standards and reports to the Croatian Financial Services Supervisory Agency.

The Management Board, during the course of 2020 and up to the date of the signing of this report, comprised:

Jasminka Horvat Martinović	President
Tamara Rendić	Member
Božo Šaravanja	Member

The Supervisory Board monitors the performance of the Company's activities, appoints and recalls members of the Management Board, participates in the development of annual financial reports, submits a written supervisory report to the General Assembly, represents the Company before the Management Board and grants prior approval to Management Board decisions when this is prescribed by law or the Statute of the Company.

The Supervisory Board set up from amongst its members and members appointed by the Supervisory Board, an Audit Committee which fulfils statutory task, i.e. correct and transparent disclosure of information.

The Supervisory Board, during the course of 2020 and up to the date of the signing of this report, comprised:

Peter Franz Höfingler	Chairman until April 26 th , 2020
Gabor Lehel	Chairman from April 27 th , 2020
Wolfgang Petschko	Deputy Chairman
Zoran Dimov	Member
Ingrid Riedl	Member
Katarina Kraljević	Member

Efficient cooperation has been established between the Company's Management Board and the Supervisory Board, as well as its committees. The Management Board reports regularly (through quarterly and annual reports) to the Supervisory Board about the Company's operations, performance, the risk management and control system, as well as financial plan realization.

5 March 2021


Jasminka Horvat Martinović
President of the Management Board


Tamara Rendić
Member of the Management Board


Božo Šaravanja
Member of the Management Board

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Responsibilities of the Management Board for the preparation and approval of the annual financial statements and the Management Board report

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 (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of the Company for that period.

The Management Board is responsible for implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 of the Company is responsible for the preparation and fair presentation of Supplementary information prepared in accordance with the Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance Companies (Official Gazette 37/16) and Ordinance on Amendments to Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance Companies (Official Gazette 96/18, 50/19 and 98/20), as well reconciliation between financial statements and Supplementary information.

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

For and on behalf of Wiener osiguranje Vienna Insurance Group d.d., as at 5 March 2021:


Jasminka Horvat Martinović
President of the Management Board


Tamara Rendić
Member of the Management Board


Božo Saravanja
Member of the Management Board

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VIENNA INSURANCE GROUP d.d.
ZAGREB 7



Independent Auditors' Report to the shareholders of Wiener osiguranje Vienna Insurance group d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Wiener osiguranje Vienna Insurance Group d.d. ("the Company"), which comprise the statement of financial position of the Company as at 31 December 2020, and the statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



Independent Auditors' Report to the shareholders of Wiener osiguranje Vienna Insurance group d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Measurement of life- and non-life insurance provisions

As at 31 December 2020, technical provisions amounted to HRK 3,596,907 thousand representing 89,3% of the Client's total liabilities (31 December 2019 HRK 3,482,723 thousand, 88.7%).

Please refer to pages 38 and 40 (Significant accounting policies), page 41 (Accounting estimates and judgements), Note 6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses, Note 7 Liability adequacy test and Note 23 Technical provisions.

Key audit matter

Insurance provisions represent the Company's single largest liability in its statement of financial position. Measurement thereof is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions. These assumptions are used as inputs into a valuation model that uses standard actuarial methodologies.

At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, 'LAT') with an aim to determine whether its recognized insurance provisions are adequate. The test is based on the comparison of the management's current estimates of the present value of the future cash flows arising from the in-force insurance contracts with the stated amounts of related provisions. In case the LAT test shows that the amounts of insurance provisions are insufficient, the deficiency is recognized in profit or loss.

For life assurance provisions, the key assumptions used in the above cash flow projections include those in respect of expected expenses, surrenders, maturity and mortality rates, investment yields and discount rates.

How our audit addressed the matter

Our audit procedures in this area included, among others:

- Evaluating the methodology applied by the Company in measuring insurance provisions against relevant regulatory and financial reporting requirements. Also, assessing the consistency of valuation methodologies applied in the reporting period;
- Testing the design, implementation and operating effectiveness of selected key process controls and also, assisted by our own information technology (IT) specialists, testing general IT controls;

Supported by our own actuarial specialists:

- Reconciling the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data used to the underlying policy and claims documentation;



Independent Auditors' Report to the shareholders of Wiener osiguranje Vienna Insurance group d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Measurement of life- and non-life insurance contract liabilities (continued)

Key audit matter	How our audit addressed the matter
<p>For non-life insurance business, particular complexity is associated with the management's assessment of the amount of the expected ultimate cost of claims incurred but not yet reported as at the reporting date ('IBNR') as well as reported but not yet settled ('RBNS'). A range of methods may be used and in many cases standard actuarial methods need adjustments specific to the circumstances and such adjustments also require the application of judgment. Management estimates the IBNR amounts using a complex model, with key assumptions including those in respect of the applicability of historical trends to project the pattern of future reporting of incurred claims and their settlement. The Company uses the number and amounts of incurred and already reported losses, average cost per claim and claim frequency data to develop its estimate of these claim reserves.</p> <p>As part of the process, the Company also needs to assess whether past claims experience is a reasonable predictor of future experience. Relatively minor changes in management's assumptions can have a significant effect on the recognized amounts of insurance provisions. The completeness and accuracy of the data underlying the actuarial projections is also an area of our audit focus. In view of the above-mentioned factors, we consider measurement of life- and non-life insurance provisions to be a key risk in our audit.</p>	<ul style="list-style-type: none">▪ Assessing whether key assumptions of surrenders, maturity and mortality rates (for life assurance) as well as claims frequency and severity (for non-life business) used by management in the LAT tests were properly extracted from the Company's experience studies;▪ Independently estimating the non-life IBNR claim reserve, and comparing the re-calculated amounts to those recorded by the Company with explanations sought for any significant differences;▪ Evaluating the reasonableness of the claim reserves by performing the comparison of the actual experience to previously expected results;▪ Assessing the Company's disclosures in respect of insurance provisions against the requirements of the relevant financial reporting standards.



Independent Auditors' Report to the shareholders of Wiener osiguranje Vienna Insurance group d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 Board report, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Board report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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.



Independent Auditors' Report to the shareholders of Wiener osiguranje Vienna Insurance group d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' 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 auditors' 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 International Standards on Auditing 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 International Standards on Auditing, 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 auditors' 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 auditors' 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 controls that we identify during our audit.



Independent Auditors' Report to the shareholders of Wiener osiguranje Vienna Insurance group d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 11 March 2020 to audit the financial statements of Wiener osiguranje Vienna Insurance Group d.d. for the year ended 31 December 2020. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2017 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 5 March 2021;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

Pursuant to the Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance Companies (Official Gazette 37/16, 96/18, 50/19, 98/20) published by the Croatian Financial Services Supervisory Agency, the Management Board of the Company has prepared the supplementary information set out on pages 120 to 133 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2020, and of the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), set out on pages 134 to 143, of the Schedules with the financial statements set out on pages 13 to 119. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Company set out on pages 13 to 119 on which we have expressed an unmodified opinion as set out above.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
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KPMG Croatia 5 March 2021
d.o.o. za reviziju
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Ivana Lučića 2a, 10000 Zagreb

Goran Horvat
Director, Croatian Certified Auditor

Statement of financial position

as at 31 December

	<i>Note</i>	2020	2019
		HRK'000	HRK'000
Assets			
Property and equipment	11	101,718	96,371
Right-of-use asset	12a)	28,025	31,775
Investment property	13	140,112	83,011
Intangible assets			
Deferred acquisition costs	14	39,985	31,559
Other intangible assets	15	64,761	50,157
Held-to-maturity investments	16	297,113	838,478
Available-for-sale financial assets	16	3,188,919	2,545,318
Financial assets at fair value through profit or loss	16	330,326	596,063
Loans and receivables	16	95,577	119,511
Reinsurers' share of technical provisions	17	243,721	186,729
Deferred tax asset	18	7,794	6,769
Inventories		61	45
Insurance and other receivables	19	177,405	150,738
Current income tax prepayment	35c)	121	-
Cash	20	93,489	35,841
		<u> </u>	<u> </u>
Total assets		4,809,127	4,772,365
		<u> </u>	<u> </u>
Shareholders' equity			
Share capital	21a)	235,795	235,795
Capital reserves	21b)	50,453	50,453
Legal and statutory reserve	21c)	4,213	4,213
Other reserves	21d)	172,560	172,560
Fair value reserve	21f)	172,990	249,369
Retained earnings		175,691	135,668
		<u> </u>	<u> </u>
Total equity		811,702	848,058
		<u> </u>	<u> </u>
Liabilities			
Technical provisions	23	3,596,907	3,482,723
Provisions for liabilities and charges	24	7,213	7,538
Deferred tax liability	18	37,973	54,740
Lease liabilities	12b)	28,653	32,115
Current income tax liability	35c)	-	2,241
Insurance and other payables	25	326,679	344,950
		<u> </u>	<u> </u>
Total liabilities		3,997,425	3,924,307
		<u> </u>	<u> </u>
Total liabilities and equity		4,809,127	4,772,365
		<u> </u>	<u> </u>

The accounting policies and other explanatory notes on pages 17 to 119 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December

	<i>Note</i>	2020 HRK'000	2019 HRK'000
Gross premiums written	26	977,753	927,348
Written premiums ceded to reinsurers	26	(156,157)	(136,220)
Net premiums written		821,596	791,128
Change in the gross provision for unearned premiums	26	(36,155)	(22,714)
Reinsurers' share of change in the provision for unearned premiums	26	10,313	4,819
Net earned premiums		795,754	773,233
Fees and commission income	27	34,473	35,409
Financial income	28	175,592	166,887
Other operating income	29	10,173	7,144
Operating income		1,015,992	982,673
Claims and benefits incurred	30	(815,723)	(716,958)
Reinsurers' share of claims and benefits incurred	30	141,139	67,814
Net policyholder claims and benefits incurred		(674,584)	(649,144)
Acquisition costs	31	(159,357)	(142,386)
Administrative expenses	32	(104,322)	(105,509)
Other operating expenses	33	(16,972)	(14,038)
Financial expenses	34	(11,736)	(6,916)
Profit before income tax		49,021	64,680
Income tax expense	35a)	(8,998)	(12,083)
Profit for the year		40,023	52,597
Other comprehensive (loss)/income for the year <i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax		(76,379)	149,441
Total comprehensive (loss)/income for the year		(36,356)	202,038
Earnings per share		HRK	HRK
Basic and diluted earnings per share	22	107	140

The accounting policies and other explanatory notes on pages 17 to 119 form an integral part of these financial statements.

Statement of changes in equity

	Share capital	Capital reserves	Legal and statutory reserve	Other reserves	Fair value reserve	Retained earnings	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January 2019	235,795	50,453	4,213	172,560	99,928	123,604	686,553
Total comprehensive income for the year							
<i>Profit for the year</i>	-	-	-	-	-	52,597	52,597
<i>Other comprehensive income</i>							
Change in fair value of available-for-sale financial assets, net of amounts realised and impairment (Note 21 f)	-	-	-	-	182,246	-	182,246
Deferred tax on change in fair value of available-for-sale financial assets, net of amounts realised and impairment (Note 21 f)	-	-	-	-	(32,805)	-	(32,805)
<i>Total other comprehensive income</i>	-	-	-	-	149,441	-	149,441
Total comprehensive income for the year	-	-	-	-	149,441	52,597	202,038
Transactions with owners recognised directly in equity							
Dividends for 2018 (Note 21 e)	-	-	-	-	-	(40,533)	(40,533)
At 31 December 2019	235,795	50,453	4,213	172,560	249,369	135,668	848,058
At 1 January 2020	235,795	50,453	4,213	172,560	249,369	135,668	848,058
Total comprehensive income for the year							
<i>Profit for the year</i>	-	-	-	-	-	40,023	40,023
<i>Other comprehensive (loss)/income</i>							
Change in fair value of available-for-sale financial assets, net of amounts realised and impairment (Note 21 f)	-	-	-	-	(93,146)	-	(93,146)
Deferred tax on change in fair value of available-for-sale financial assets, net of amounts realised and impairment (Note 21 f)	-	-	-	-	16,767	-	16,767
<i>Total other comprehensive loss</i>	-	-	-	-	(76,379)	-	(76,379)
Total comprehensive (loss)/income for the year	-	-	-	-	(76,379)	40,023	(36,356)
Transactions with owners recognised directly in equity							
Dividends for 2019 (Note 21 e)	-	-	-	-	-	-	-
At 31 December 2020	235,795	50,453	4,213	172,560	172,990	175,691	811,702

The accounting policies and other explanatory notes on pages 17 to 119 form an integral part of these financial statements.

Statement of cash flows*for the year ended 31 December*

	<i>Note</i>	2020	2019
		HRK'000	HRK'000
Cash flows from operating activities			
Profit for the year before tax		49,021	64,680
Adjustments for:			
Depreciation and reversal of impairment losses on investment property and property and equipment	11,13	9,062	3,832
Amortisation and write off of other intangible assets	15	9,028	7,608
Depreciation of rights-of-use assets	12	8,353	7,083
Change in deferred acquisition costs	14	(8,426)	(5,959)
Depreciation of small inventory		100	74
Net impairment losses on financial assets	34	895	166
Net impairment losses on insurance and other receivables	19,29,33,34	2,611	190
Net fair value gains on financial assets	28	(61,152)	(33,084)
Net foreign exchange gains	28	(24,139)	(7,049)
Dividend income	28	(1,068)	(1,068)
Interest income	28	(82,839)	(116,670)
Interest expense	34	823	960
Profit on disposal of property and equipment	29	(104)	(178)
Loss/(profit) on disposal of investment property	28	1	(11)
Net change in provisions for liabilities and charges	24	(69)	1,119
Changes in operating assets and liabilities			
Net decrease in held-to-maturity investments		533,552	136,689
Net increase in available-for-sale financial assets		(672,753)	(372,500)
Net decrease in financial assets at fair value through profit or loss		269,145	78,008
Net decrease in loans and receivables		20,698	60,503
Net increase in investment property		(61,512)	(113)
Net (increase)/decrease in reinsurance share in technical provisions		(56,992)	13,872
Net increase in receivables and other assets		(41,474)	(7,932)
Net increase in technical provisions		114,184	108,841
Net (decrease)/increase in insurance and other payables		(8,733)	23,129
Interest received		105,121	138,438
Interest paid		(726)	(584)
Dividend received		1,068	1,068
Income tax paid		(12,385)	(9,739)
Net cash from operations		91,290	91,373
Cash flow from investing activities			
Purchases of property and equipment		(10,114)	(7,954)
Purchases of other intangible assets		(23,632)	(30,760)
Proceeds from sale of property and equipment		104	443
Net cash used in investing activities		(33,642)	(38,271)
Cash flows from financing activities			
Dividends paid	21e)	-	(40,533)
Net cash used in financing activities		-	(40,533)
Net increase in cash and cash equivalents		57,648	12,569
Cash and cash equivalents at 1 January		35,841	23,272
Cash and cash equivalents at 31 December	20	93,489	35,841

The accounting policies and other explanatory notes on pages 17 to 119 form an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Wiener osiguranje Vienna Insurance Group d.d. (the “Company”) whose registered address is at Slovenska ulica 24, Zagreb is a joint stock company incorporated and domiciled in Croatia.

The Company is a composite insurer offering life and non-life insurance products in Croatia, regulated by the Croatian Financial Services Supervision Agency (“HANFA” or “the Agency”).

The Company’s major shareholder (97.82% of voting rights) is Vienna Insurance Group AG Wiener Versicherung Gruppe, which is a joint stock company, incorporated and domiciled in Austria, Vienna and ultimate parent company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group, mutual insurance association, founded and domiciled in Vienna, Austria.

2 Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Management Board on 5 March 2021 for approval by the Supervisory Board.

(b) Basis of measurement

These financial statements are prepared on a historical or amortised cost basis except for the following assets which are measured at their fair value: available-for-sale financial assets, financial assets held for trading and financial assets designated at fair value through profit or loss.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by EU 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 these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Information about judgments made by management in the application of IFRS as adopted by EU that have significant effect on the financial statements and information about estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in Note 4.

2 Basis of preparation (continued)

(e) New standards and interpretations

Certain new standards and amendments, are effective for annual periods beginning on or after 1 January 2020. Although these new standards and amendments applied for the first time in 2020, they did not have a material impact on the annual financial statements of the Company.

Number of new and revised standards and interpretations issued by the International Accounting Standards Board and its Interpretations Committee for International Financial Reporting have been approved for issuance but have not yet been applied to entities reporting in accordance with IFRS in the period ending 31 December 2020 or have not been adopted by the European Union and have not been applied in the preparation of these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, which will have a significant impact on the classification and measurement of financial assets and financial liabilities of the Company as well as measurement of expected credit losses, is fully completed and issued by the International Accounting Standards Board in 2014 with mandatory application from 1 January 2018. The Company meets the criteria for a temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contract standard (IFRS 17). In March 2020, the International Accounting Standards Board adopted a proposal to defer the effective date of IFRS 17 for periods beginning on or after 1 January 2023.

The following table shows the amounts of fair value at the end of reporting period for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) and all other financial assets:

	2020			2019		
	SPPI HRK'000	Other HRK'000	Total HRK'000	SPPI HRK'000	Other HRK'000	Total HRK'000
Equity securities	-	63,943	63,943	-	64,809	64,809
Debt securities	3,180,160	208,129	3,388,289	3,354,744	397,223	3,751,967
Investment funds	-	403,456	403,456	-	222,128	222,128
Deposits with banks	62,364	-	62,364	80,583	-	80,583
Loans	37,272	-	37,272	43,094	-	43,094
Insurance and other receivables	177,405	-	177,405	150,738	-	150,738
Current income tax prepayment	121	-	121	-	-	-
Cash and cash equivalents	93,489	-	93,489	35,841	-	35,841
	3,550,811	675,528	4,226,339	3,665,000	684,160	4,349,160

2 Basis of preparation (continued)

(e) New standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

The following table shows carrying amounts applying IAS 39 *Financial instruments: Recognition and Measurement* and information about the credit risk exposure, including significant credit risk concentrations, inherent in the financial assets:

	2020		
	SPPI	Other	Total
	HRK'000	HRK'000	HRK'000
Loans and deposits with banks			
BBB - B	46,966	-	46,966
No rating	48,611	-	48,611
	<u>95,577</u>	<u>-</u>	<u>95,577</u>
Other securities			
AAA - A	2,395	-	2,395
BBB - B	3,133,488	208,129	3,341,617
No rating	4,947	467,399	472,346
	<u>3,140,830</u>	<u>675,528</u>	<u>3,816,358</u>
Insurance and other receivables			
No rating	177,405	-	177,405
	<u>177,405</u>	<u>-</u>	<u>177,405</u>
Cash and cash equivalents			
BBB - B	92,275	-	92,275
No rating	1,214	-	1,214
	<u>93,489</u>	<u>-</u>	<u>93,489</u>
	<u><u>3,507,301</u></u>	<u><u>675,528</u></u>	<u><u>4,182,829</u></u>

2 Basis of preparation (continued)

(e) New standards and interpretations (continued)

Amendments to IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to resolve issues arising from different effective dates of IFRS 9 and a new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as fair value through profit or loss; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

During the year the Company carried out insurance predominance test and concluded that its activities were primarily related to insurance as at 31 December 2015. During 2020 no significant changes occurred in the Company's activities requiring re-evaluation. The Company intends to apply a temporary exemption from IFRS 9 and continue to apply IAS 39 in the next reporting period.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts that includes recognition and measurement, presentation and disclosure, replacing IFRS 4 Insurance Contracts.

In contrast to IFRS 4 requirements, which are largely based on the monitoring of previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by a variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

2 Basis of preparation (continued)

(e) New standards and interpretations (continued)

IFRS 17 Insurance Contracts (continued)

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt a new standard on the Effective Date together with IFRS 9.

The Company participates in Group project of IFRS 17 implementation, in course of which the business and financial aspects of IFRS 17 are being introduced into its operations. During 2020, Financial Impact Analysis („FIA“) has been conducted, through which the Company gained insight in application of IFRS 17 methodology and calculations in practice. Softwares for cash-flows projections (Prophet and ResQ) are being upgraded to meet the demands of IFRS 17, while the software for assets (Simcorp) is being upgraded to meet the demands of IFRS 9. Furthermore, upgrade of sub-ledger (SAP 4/HANA Tool Data) is in progress.

Taking into account significant differences between current IFRS 4 standard and the new IFRS 17 standard, the Company expects that the significant amount of resources will continue to be needed throughout 2021 to successfully meet all the implementation requirements. The Company has identified synergies between Solvency II calculations and IFRS 17 requirements which will ease the implementation process (e.g. cash-flow projections, discounting etc.). On the other hand, the Company is aware of the differences between SII and IFRS 17 and has, with the support from the Group, assessed the impact of those on the implementation project.

The Company has nominated representatives in each of HANFA/HUO IFRS 17 working groups. Working groups have started its work in 2021, in line with the suggested timelines.

3 Significant accounting policies

(a) Property and equipment

Property and equipment are held for use in the provision of services or for administrative purposes.

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amount of the related asset, and are included in profit or loss.

Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is reclassified as investment property with unchanged carrying amount.

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Land and assets acquired but not brought into use are not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	2020	2019
Buildings	50 years	50 years
Equipment and furniture	4 -10 years	4 -10 years
Motor vehicles	5 years	5 years
Leasehold improvements	over the period of the lease	over the period of the lease

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3 Significant accounting policies (continued)

(b) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in supply of services or for administrative purposes. The Company also holds some investment property acquired through the enforcement of security over mortgage loans to policyholders.

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. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

If an investment property becomes owner-occupied because its use has changed, it is reclassified as property and equipment, with no change in carrying amount.

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:

	2020	2019
Investment property	50 years	50 years

(c) Intangible assets: Deferred acquisition costs (DAC) – insurance contracts

Those direct and indirect costs incurred during the financial period arising from actually acquiring or renewing of insurance contracts are capitalised as an intangible asset (DAC) to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred. DAC is amortised over the terms of the policies as premium is earned.

Costs subject to deferral include: employee, agent or broker commissions for successful contract acquisitions, renewal commissions, bonuses to agents or brokers, portion of employees' salaries and bonuses relating to defined acquisition activities that lead to the successful issuance or renewal of an insurance contract, contract issuance material costs, advertising costs and other acquisition costs which result directly from and are essential to the contract transaction and would not have been incurred by the Company had that contract transaction not occurred.

For life assurance business, except part of life rider products, acquisition costs are taken into account in calculating life provisions by means of Zillmerisation. As such, a separate deferred acquisition cost asset for the life assurance business is not recognised at the reporting date.

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

(d) Other intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the Company's share of the underlying net identifiable assets acquired, including intangible assets, at the date of acquisition. Bargain purchase gain arising on an acquisition is recognised directly in profit or loss.

Goodwill represents amounts arising on acquisition of subsidiaries and is included in intangible assets.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is not amortised but is tested annually for impairment (Note 4.2). Impairment losses on goodwill are not reversed.

3 Significant accounting policies (continued)

(d) Other intangible assets (continued)

Acquired present value of in-force business

Insurance contracts acquired in business combinations and portfolio transfers are measured at fair value at the acquisition date. The difference between the fair value of the insurance contracts and the liability measured in accordance with the accounting policies for the insurance contracts is recorded as the acquired present value of in-force business (“acquired PVIF”) and is amortised over the estimated life of the insurance contracts. It is tested for impairment at each reporting date. Best estimate actuarial assumptions for interest, mortality, persistency and expenses are used in calculating acquired PVIF.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete the development and to use or sell the asset. Development expenditure is not capitalised but recognised in profit or loss when incurred. The Company recognises as assets only separately acquired intangible assets hence capitalises only purchase price, including import duties and non-refundable purchase taxes and after deducting trade discounts and rebates and directly attributable cost to preparing the asset for its intended use with such as professional fees.

Other intangible assets

Other intangible assets that are acquired by the Company and 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.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Assets acquired but not brought into use are not depreciated. The estimated useful lives are as follows:

	2020	2019
Software	4-10 years	4-10 years
Acquired present value of in-force business	10 years	10 years

Amortisation methods and useful lives are reassessed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount, and are included in profit or loss.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software is separately acquired.

3 Significant accounting policies (continued)

(e) Non-current assets and disposal groups classified as held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Company's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(f) Financial instruments

Classification and recognition

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at fair value through profit or loss 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.

Reclassification

In 2011 and 2012, the Company reclassified part of its available-for-sale financial assets, for which it has the intent and ability to hold to maturity, in the category of held-to-maturity investments.

On reclassification of the available-for-sale financial assets to held-to-maturity category, the fair value of financial asset available for sale immediately prior to the reclassification becomes the new amortised cost. Following reclassification of a financial asset with a fixed maturity, any gain or loss previously recognised in other comprehensive income, and the difference between the newly established cost and the maturity amount are both amortised over the remaining term of the financial asset using the effective interest method. For a financial asset with no stated maturity, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss when the financial asset is disposed of or impaired. The impact of the above reclassifications is shown in Note 16.

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

Financial assets and financial liabilities at fair value through profit or loss are financial assets 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 are those assets 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 financial liabilities at fair value through profit or loss when either:

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

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

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

Financial assets at fair value through profit or loss include equity securities, debt securities and investments in investment fund units, both for the Company's own account and for the account of policyholders.

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 3(z). Payables arising from insurance contracts are accounted for under IFRS 4 *Insurance contracts*.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the management upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables arise when the Company provides money to a debtor with no intention of trading with the receivable and include deposits with banks, mortgage loans and advances to policyholders from the life assurance provision. 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 other than those that meet definition of loans and receivables that the Company has the positive intention and ability to hold to maturity. Any sale or reclassification of a significant amount of held-to-maturity investments 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.

Available-for-sale financial assets

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

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities are disclosed in the statement of financial position under line item "*Insurance and other payables*".

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Recognition and derecognition

Purchases and sales of financial assets available for sale, financial assets at fair value through profit or loss and held-to-maturity investments are recognised on the settlement date which is the date that the Company pays or receives payment for the contractual provisions of the investment. Loans and receivables and other financial liabilities carried at amortised cost are recognised when paid to borrowers or received from lenders.

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

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

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Company measures financial assets at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reasons, 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, and discounted cash flow analysis.

Loans and receivables and held-to-maturity investments are measured at amortised cost less impairment losses. Other financial liabilities 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 at fair value through profit or loss are recognised in the profit or loss.

Gains or losses arising from a change in the fair value of available-for-sale are recognised directly in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in profit or loss. For non-monetary financial assets available for sale all changes in fair value, including those related to translation difference, are recognised in other comprehensive income. Upon sale or other de-recognition of available-for-sale financial assets, any cumulative gains or losses on the instrument are transferred from other comprehensive income to profit or loss.

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

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

Apart from gains and losses arising from the change in fair value of available-for-sale financial assets which are recognised in other comprehensive income, as described above, all other gains and losses and interest are recognised in profit or loss under line items "*Financial income*" (Note 28) and "*Financial expenses*" (Note 34).

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at the date. The fair value of liability reflects its non-performance risk. When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

The following prices are used: average weighted mid prices for domestic debt and equity securities, closing bid prices for securities of foreign issuers and prices quoted per unit by investment management companies for units in investment funds.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of directly and indirectly observable inputs and minimise the use of derived inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate applicable at the reporting date for a financial instrument with similar terms and conditions.

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 a negative effect on the estimated future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, 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.

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

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its original cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity securities are not subsequently reversed through profit or loss, but all value increases until the final sale are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Changes in impairment provisions attributable to the time value of money are reflected as a component of interest income.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Specific instruments

Embedded derivatives within insurance and investment contracts

Sometimes, a derivative may be a component of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Such derivatives are sometimes known as „embedded derivatives“.

Embedded derivatives are separated from their host contract, measured at fair value and changes in their fair value included in profit or loss if they meet the following conditions:

- the economic characteristics and risks of the 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 and,
- the hybrid instrument is not measured at fair value and changes in its fair value are not recognised in profit or loss.

Embedded derivatives which satisfy the definition of an insurance contract do not need to be separated from their host contract. In addition, the Company took advantage of the following exemptions available within IFRS 4:

- not to separate and measure at fair value a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate) even if the exercise price differs from the carrying amount of the host insurance liability;
- not to separate and measure at fair value a policyholder's option to surrender contracts with discretionary participation features.

Debt securities

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

Deposits with banks

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

Loans to customers

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

Equity securities

Equity securities are classified as financial assets at fair value through profit or loss or available-for-sale financial assets and carried at fair value, unless there is no reliable measure of the fair value, in which case equity securities are stated at cost, less impairment.

Investments in investment funds

Investments in investment funds are classified as financial assets at fair value through profit or loss and as available-for-sale financial assets and are carried at current fair value.

Investments held on account and at risk of life assurance policyholders

Investments held on account and at the risk of life assurance policyholders comprise policyholders' investments in unit-linked products and index-linked products and are classified as financial assets at fair value through profit or loss.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Specific instruments (continued)

Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses. Trade and other receivables are classified as loans and receivables.

Loans, borrowings and subordinated debt

Interest-bearing loans, borrowings and subordinated debt are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between proceeds (less attributable transaction costs) and redemption value being recognised in profit or loss over the term of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are initially recognised at fair value and then subsequently at amortised cost. Trade and other payables are classified as other liabilities.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, including gains and losses arising from a group of similar transactions.

(g) Leases

The Company leases various offices, vehicles and IT equipment. Rental contracts are typically made for indefinite time with termination option for lessee and lessor. When entering into a contract, the Company assesses whether the contract is a lease, and does it contain a lease. Under IFRS 16, a contract is a lease agreement or it is a contract containing lease if it transfers the right to exercise control over the use of an identified asset for a specified period in exchange for a fee. The Company does not separate non-lease components from lease components, but instead calculates all related components as one lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the end of 2018 financial year, leases of property were classified as operating leases. From 1 January 2019 (initial recognition date), leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company for new business premises, or from the initial recognition date for contracts enforceable before 1 January 2019.

3 Significant accounting policies (continued)

(g) Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments, less any lease incentives receivable and payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, where the lessee does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and office furniture.

Extension and termination options

Extension and termination options are included in a number of leases. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable by the Company and by the respective lessor.

(h) Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise cash with banks, cash in hand and demand deposits with banks while for the cash flow statement they also comprise short-term highly liquid investments with original maturities up to three months.

3 Significant accounting policies (continued)

(i) Employee benefits

Defined contribution plans

For defined contribution plans, the Company pays contributions to State-owned and private pension management companies, in accordance with legal requirements or individual choice. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred. The Company has no further payment obligations once the contributions have been paid.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Jubilee awards and termination benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The market yield on government bonds on the reported date is used as the discount rate.

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(j) Income tax

Income tax expense comprises current and deferred tax. 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 it is recognised in other comprehensive income.

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 in respect of 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 at 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 difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or non-current liabilities.

3 Significant accounting policies (continued)

(k) Provisions for liabilities and charges

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.

Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Accounting policy for onerous insurance contracts is disclosed under 3 (t) *Unexpired risk provision*.

(l) 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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Capital reserves

Capital reserves consist of direct payments of shareholders into these reserves.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

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

Legal reserve

As required by Company Act, the Company is required to appropriate 5% of its annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital. Legal and capital reserves formed under the Companies Act can be used for covering prior period losses up to 5% of issued capital, if they are not covered by profit in the current period or if other reserves are not available.

Other reserves

Other reserves can be used for share capital increase, loss coverage or other purposes at the discretion of the Company's General Assembly.

Fair value reserve

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

3 Significant accounting policies (continued)

(l) Share capital (continued)

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.

(m) Impairment

The carrying amounts of the Company's assets, other than deferred acquisition costs (see accounting policy 3 (c)), financial assets (see accounting policy 3 (f)) and deferred tax assets (see accounting policy 3 (j)), are tested for impairment at each reporting date. If any indication of impairment 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 or group of assets that generates cash flows that are largely independent from the Company's other assets and liabilities. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each 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 depreciation or amortisation, if no impairment loss had been recognised.

(n) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments, which include life insurance segment and non-life insurance segment.

Allocation of income and costs between the life insurance and non-life insurance segments

Investment income, realised and unrealised gains and losses, expenses and charges representing non-life business funds are directly included to the non-life business segment.

Investment income, realised and unrealised gains and losses, expenses and charges arising on life insurance business are directly included in the life insurance business segment.

Investment income, realised and unrealised gains and losses, expenses and charges arising on investments from equity are allocated to the life and non-life insurance segments depending on the allocation of the underlying assets.

3 Significant accounting policies (continued)

(n) Segment reporting (continued)

Allocation of income and costs between the life insurance and non-life insurance segments (continued)

During the year, direct other operating income, acquisition costs, administration expenses and other operating are directly charged to the non-life and life segments. Commissions are recorded separately in the life and non-life accounts. Direct other acquisition costs are directly allocated to the life and non-life segments based on the insurance product to which they relate. Other operating expenses are almost entirely booked separately in the non-life and life segments. The costs of sales and administrative personnel assigned exclusively to life and non-life insurance are directly allocated to the segment of life or non-life. All operating income and costs that cannot be allocated directly to a particular segment are allocated on the basis of estimate of the hours spent on life and non-life insurance and the weighted ratio between non-life and life segments in the gross premium, claims paid, technical provisions and investments.

Allocation of equity and assets

Property and equipment, intangible assets, financial investments and investment property are allocated to the non-life and life segments according to the source of funding. Financial investments from equity are allocated to both non-life and life segments according to the source of equity. Equity is allocated according to minimal regulatory capital requirements and share issued by the shareholders. Fair value reserve is allocated according to the source of the related financial assets, while the legal reserves and other reserves were allocated to each segment according to the results of the related segment. Other receivables and payables are allocated based on those segments from which they originate.

(o) Revenue

The accounting policy in relation to revenue recognition from insurance contracts is disclosed in Note 3 (r).

Financial income

Interest income is recognised in profit or loss as it accrues for all interest bearing financial assets measured at amortised cost using the effective interest rate method, i.e. the interest rate that discounts expected future cash flows to net present value during the period of the contract or at the currently effective variable interest rate. Interest income from monetary assets at fair value through profit or loss, is recognised as interest income at the coupon interest rate.

Financial income also includes net positive foreign exchange differences resulting from translation of monetary assets and liabilities using the exchange rate applicable at the reporting date, dividends, net gains on the change in the fair value of financial assets at fair value through profit or loss and realised net gains from 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 3 (f) under “*Gains and losses*”.

Income from investment property comprises realised gains upon derecognition, rental income and other income related to investment property. Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of each lease.

Fees 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. Fees and commission income includes reinsurance commission income.

3 Significant accounting policies (continued)

(p) Expenses

Operating expenses

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

Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the acquiring or renewal of insurance contracts such as employee, agent or broker commissions, bonuses to agents or brokers, employees' salaries and benefits relating to acquisition activities, contract issuance material costs, advertising costs, medical and inspection cost and other acquisition costs. Non-life commission expenses are recognised on an accruals basis, while life commission expenses are recognised on a cash basis consistent with the related income recognition criteria (see accounting policy 3 (r)).

The accounting policy in relation to deferred acquisition costs is disclosed in Note 3 (c).

Administration costs

Administration costs include administrative personnel expenses, software, rentals, telecommunication and post services, energy and utilities, depreciation of property and equipment, maintenance, travel expenses and daily allowances, amortisation of other intangible assets, intellectual fees, management fees by parent, audit fees and other expenses.

Other operating expenses

Other operating expenses include technical expenses of regulatory levies (compulsory motor third party liability insurance contribution to the Croatian health fund, guarantee – fund levies and financing Croatian Insurance Bureau, fire brigade contributions), legal enforcement collection of receivables from contract holders, credit cards payment fee, prevention costs, provision for legal claims, impairment and write off losses of property and equipment, other intangible assets and other receivables and other expenses.

Operating lease payments

Payments made under operating leases that do not qualify for recognition as a right of use within the framework of IFRS 16, are recognized in profit or loss on a linear basis over the term of the lease. Lease incentives received are recognized in profit or loss as an integral part of the total lease expense.

Financial expenses

Financing expenses include interest expenses recognised using the effective interest rate method and net negative foreign exchange differences resulting from translation of monetary assets and liabilities using the exchange rate at the reporting date.

Financial expenses also include net losses from changes in the fair value of financial assets at fair value through profit or loss and net realised losses on derecognition of financial assets available for sale, impairment losses on financial assets, custodian, brokers and valutors fees and investment property expense. Investment property expense includes impairment losses, energy, utilities and maintenance costs of property classified as investment property. The accounting policy in relation to financial expense recognition is disclosed in Note 3 (f) under "Gains and losses".

3 Significant accounting policies (continued)

(q) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Such contracts may also transfer financial risk. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts. At the reporting date the Company did not have any investment contracts.

Contracts with discretionary participation features

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

- the performance (i.e. profit from specific source) 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 that issues the contracts.

Discretionary profit participation provision

Policyholders or beneficiaries of products with savings component (endowment, pure endowment, whole life, term-fix and annuity assurance policies) are entitled to participate in the profits of the Company realised through one of the above mentioned sources. The entitlement is calculated following the expiry of the first, second or third year of insurance, depending on the tariff and type of premium payment. The level of the profit entitlement is determined by management. The discretionary element of those contracts is accounted for within the life assurance provision.

During 2020, the Company recognised additional provision for discretionary profit participation in amount of HRK 600 thousand (2019: HRK 700 thousand) within life assurance provision against the profit for the year. As at the reporting date discretionary profit participation amounted to HRK 48,506 thousand (2019: HRK 51,055 thousand) while the amount of HRK 47,906 thousand (2019: HRK 50,355 thousand) was allocated to individual policyholders and amount of HRK 600 thousand (2019: HRK 700 thousand) was not yet allocated to individual policyholders.

(r) Premiums

Non-life business written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods.

Premiums written include adjustments to reflect write-offs of amounts due from policyholders and the movement in impairment allowances for premiums due from policyholders.

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received in the same accounting period as the premiums for the related direct insurance business.

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

3 Significant accounting policies (continued)

(s) Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following financial years, computed using the “pro rata temporis” or 365 method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. The provision for unearned premiums in respect of life assurance (main coverage, excluding riders) is included within the life assurance provision.

Unearned premium provision for individual insurance contracts is formed in the amount of the part of written premium which relates to insurance coverage for the insurance period after the accounting period for which the provision is calculated. For the calculation of gross unearned premium for non-life insurance with equal risk dispersion, the “pro-rata temporis” method is used.

The reinsurance share in unearned premium provision is calculated according to reinsurance contracts.

(t) Unexpired risk provision

Provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisition costs and administrative expenses likely to arise after the end of the financial year) attributable to the unexpired periods of policies in force at the date of financial position exceeds the provision for unearned premiums related to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately using the liability adequacy test by reference to classes of business which are managed together, without taking into account expected investment returns. Liability adequacy testing for both life and non-life and related assets is disclosed in more detail in accounting policy 3 (y) and in Note 7.

(u) Claims provisions and other technical provisions

Claims provisions represent the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the reporting date. Non-life and life claims provision includes provisions for reported claims and provisions for incurred but not reported claims and the provision for claims handling costs. Other technical provision for non-life insurance include provisions for bonuses and discounts and other technical provisions. The provision for bonuses and discounts is recognised in the amount to which the insurers are entitled based on their participation in profit as a result of their insurance contract or as a future partial reduction of the premium based on the insurance contract. Other technical provision for life insurance include provision to cover the cost of uncertainty of future index price compared to the guarantee given at maturity in index-linked products.

(v) Life assurance provisions

The life assurance provision has been computed by the Company’s actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life assurers, issued by HANFA. The prospective net premium valuation method has been adopted together with the risk and administration reserve of unit-linked and index-linked products and the provision based on the fair value of the underlying assets.

The life assurance provision has been computed on an in-force premium basis, applying a Zillmer type valuation method, and taking into account actual acquisition, collection and administrative costs as well as all guaranteed benefits and bonuses already declared.

The Company uses maximum Zillmer rate of 3.5% in the year of policy inception. The applied Zillmer rate is within the limits prescribed by HANFA.

The provision is initially measured using the assumptions defined by HANFA. At each subsequent reporting date, the reserve is calculated on the same principles. A liability adequacy test (“LAT”) is performed yearly by the Company’s actuaries using current estimates of future cash flows under its insurance contracts (refer to Liability adequacy test). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in profit or loss with a corresponding increase to the life assurance provision.

The amount of bonus allocated to policyholders has been determined at the reporting date and is presented within the discretionary profit participation provision. The Company does not have a policy to decrease the discretionary profit participation provision, in favour of the Company, once provision has been formed.

3 Significant accounting policies (continued)

(w) Claims

Claims arising from non-life business

Claims incurred in respect of non-life business consist of claims and claims-handling costs settled during the financial year, together with the movement in the provision for outstanding claims.

Claims settled are recorded in the moment of processing the claim and are recognised (determined) as the amount to be paid to settle the claim. Claims settled are increased by claims-handling costs. Collected claims recoverable from third parties are deducted from claims settled.

Claims outstanding based on case estimates and statistical methods comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred up to but unpaid at the reporting date, whether reported or not, together with the related internal and external claims-handling expenses and an appropriate margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends.

Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance is determined according to contracts valid at the time in which claims occurred.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately, if significant. The methods used, and the estimates made, are reviewed regularly, which is further discussed in Note 6.

Claims arising from life assurance business

Life assurance business claims reflect the cost of all claims and benefits arising during the year.

(x) Reinsurance

The Company cedes premium to 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 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. Amounts recoverable under such contracts are recognised in the same year as the related claim. The cost of reinsurance related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date applying the same methodology as applied for loans and receivables as described in Note 3 f). The Company records an allowance for estimated irrecoverable reinsurance assets, if any. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

3 Significant accounting policies (continued)

(x) Reinsurance (continued)

Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are based on earned premium.

(y) Liabilities and related assets under liability adequacy test

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Company assesses yearly 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, lapse rates, Croatian demographic tables, aspects of mortality, morbidity, discount rate, expenses and inflation.

(z) Liability measurement of unit-linked and index-linked contracts

Liabilities in relation to unit-linked and index-linked insurance contracts are classified at fair value through profit or loss. The financial liability is measured based on the carrying value of the assets that are held to back the contract. Additionally, the Company recognises provision for administration cost that will be incurred and for risk of death within life assurance provision for traditional products.

(aa) 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.

(bb) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate on the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available for sale equity instruments classified as available for sale which are recognised in other comprehensive income.

Changes in the fair value of monetary securities denominated in or linked to foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amount are recognised in other comprehensive income.

The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in their fair value.

The most significant foreign currency in which the Company holds assets and liabilities is Euro. The exchange rate used for translation at 31 December 2020 was EUR 1 = HRK 7.536898 (31 December 2019: EUR 1 = HRK 7.442580).

4 Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 38) and insurance risk management (Note 5).

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements relating to technical provisions represent the major source of uncertainty of judgements. The estimates and judgements 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.

4.1. Key sources of estimation uncertainty

Estimation uncertainty in relation to technical provisions

The most significant estimates in relation to the Company's financial statements relate to technical provisions. The Company takes a reasonably prudent approach to reserving and applies HANFA regulations. The Company employs certified actuaries.

The Company's policy is to make provision for unexpired risks arising from non-life insurance business where the claims, deferred acquisition costs and administrative expenses likely to arise after the end of the financial year in respect of insurance contracts concluded before that date are expected to exceed the unearned premiums and premiums available under those contracts. The management believes that at the reporting date such provisions have been adequately valued and accounted for.

Major assumptions in calculating the life assurance provision are set out in Note 6 and all technical provisions are analysed in Note 23.

Impairment losses of loans and receivables

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3 (f) "Impairment of financial assets".

The need for impairment is assessed individually for each exposure based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral.

Determining fair values

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (f). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation uncertainty in relation to court cases

A significant source of estimation uncertainty stems from court cases. At 31 December 2020, the Company was involved in 826 (2019: 787) claims-related court cases for which HRK 75,255 thousand (2019: HRK 64,695 thousand) was provided as part of the claims reserve for reported but not yet settled claims. At 31 December 2020, the Company was involved in 18 (2019: 20) non-insurance court cases for which HRK 5,719 thousand (2019: HRK 6,291 thousand) was provided as provision for non-insurance related court cases (Note 24). The management believes that the related provisions are sufficient.

Tax

The Company provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

4 Accounting estimates and judgements (continued)

4.1. Key sources of estimation uncertainty (continued)

Regulatory requirements

HANFA is entitled to carry out regulatory inspections of the Company's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Joint liability

The Company has a liability towards the Croatian Insurance Bureau in respect of the Company's share in motor third party liability ("MTPL") claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the Croatian market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Insurance Act.

The Company also has a joint liability in relation to green card claims for damages from unknown vehicles. These claims are paid through Croatia insurance office and all Croatian insurance companies finance this institution according to the market share in MTPL insurance segment. The Croatian Insurance Bureau provides the Company with the amount of reported claims provision and with the lower limit for IBNR calculation.

Valuation of investment property

Valuation of investment property carried at cost is based on management's best estimate of the recoverable amount of investment property. Recoverable amount is the higher of fair value less cost to sell and the value in use and is annually reassessed by chartered surveyors.

The estimated fair value of investment property held by the Company amounts to HRK 162,380 thousand as of 31 December 2020 (2019: HRK 89,783 thousand). Fair value is determined by an independent appraiser having an appropriate professional qualification. Fair values were determined using a mixture of different valuation techniques, which would in hierarchy of fair value be classified as Level 3.

Useful economic life of equipment and intangible assets

The Company continues to use certain equipment and intangible assets which have been fully depreciated. Amortisation/depreciation rates were initially determined in accordance with the best estimate of the useful life of these equipment and intangible assets.

4.2. Critical accounting judgements in applying the Company's accounting policies

Critical accounting judgements made in applying the Company's accounting policies include:

Financial asset and liability classification

The Company's accounting policies provide the scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances. In classifying financial assets as "trading", the Company has determined that it meets the definition of trading assets set out in accounting policy 3 (f) "*Financial assets at fair value through profit or loss*". In designating financial assets at fair value through profit or loss, the Company has determined that it has met one of the criteria for this designation set out in accounting policy 3 (f). Reclassification of financial assets and financial liabilities at fair value through profit or loss is allowed in certain rare circumstances and is explained in accounting policy 3 (f) under paragraph "Reclassification". Held-to-maturity investments can be classified as such only if the Company has the positive intention and the ability to hold these investments to maturity.

4 Accounting estimates and judgements (continued)

4.2. Critical accounting judgements in applying the Company's accounting policies (continued)

Valuation of financial instruments

The Company's accounting policy on fair value measurements is discussed in accounting policy 3 (f). The Company measures fair values using the fair value hierarchy as discussed in Note 39 on financial risk management.

In accordance with the Agency regulations and as allowed by IFRS 13 *Fair Values*, the Company uses weighted average prices as a measure of fair value on active markets for domestic debt and equity securities.

Classification of products

The Company's accounting policy on classification of contracts as insurance or investment contracts is disclosed in accounting policy 3 (q). At the reporting date, the Company had no insurance products which should be classified as investment contracts.

Classification of property between investment property and owner-used property

The Company classifies as investment properties all properties that are not used in the performance of its own activities but are held to earn rental income or for capital appreciation.

Dual-use property

The Company has property that has dual use purpose (part of the property is used for own activities and part of the property is used as investment property). A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out separately under finance lease contract.

Leases

According to IFRS 16 requirements, in determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

During the current financial year, there was no revision of lease terms to reflect the effect of exercising extension and termination options given that there were no events or changes in contracts requiring reassessment.

Allocation of indirect expenses between life and non-life

The allocation of expenses between life and non-life insurance segments is described in accounting policy 3 (n).

4 Accounting estimates and judgements (continued)

4.2. Critical accounting judgements in applying the Company's accounting policies (continued)

Impairment allowance for insurance receivables

Insurance receivables are evaluated for impairment at each reporting date in order to identify potential impairment allowance, on the basis of best estimate of the recoverability of these assets. Receivables are assessed on group and individual level based on the expected amount and date of collection and held collaterals. The Management believes that insurance receivables are recoverable.

Control over debtors in financial difficulties

In accordance with requirements of IFRS 10 *Consolidated Financial Statements*, the Company regularly reassess whether it has control over significant activities of debtors in financial difficulties. For 2020, the Company concluded that there are no debtors which should be consolidated, which is consistent with 2019.

Goodwill

In accordance with IFRS 3 "*Business Combinations*" the Company discontinued to amortise goodwill from 1 January 2005. At the beginning of 2005 the Company eliminated the carrying amount of the related accumulated amortisation against the gross value of goodwill. Goodwill is tested for impairment in accordance with IAS 36 "*Impairment of Assets*".

The Company has performed impairment test of goodwill for the year ended 31 December 2020, which indicated that the carrying amount of goodwill is recoverable.

The recoverable amount of goodwill has been determined based on value-in-use calculations for cash generating units. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

The key assumptions used for value-in-use calculations in 2020 are as follows:

Long term growth rate	1%
Discount rate (pre-tax)	12%

Management determined compound annual volume growth rate for cash generating unit to be a key assumption. The volume of non-life gross written premium in each period is the main driver for revenue and costs. The compound annual volume growth rate is based on past performance and management's expectations of market development.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in a 8.3% decrease of the recoverable amount of goodwill. Despite the decrease, the net recoverable amount of goodwill would still exceed its carrying value.

Deferred acquisition costs

Deferred acquisition costs are assessed at each reporting date for recoverability. The calculation is based on the Company's assumptions for allocation of acquisition costs over the duration of the related insurance contract. Management believes that deferred acquisition costs are recoverable during the remaining duration of insurance contracts active at the reporting date.

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. The impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In 2020, as a result of impairment test, the Company recognised impairment loss of HRK 865 thousand (2019: HRK 226 thousand).

5 Insurance risk management

The Company is exposed to insurance risk arising from a wide range of life and non-life products offered to customers: whole life, traditional life products, annuity products, unit-linked products, index-linked products, hybrid products and all lines of non-life products (property, accident, health, travel health, motor vehicle, third party liability, marine and transport).

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

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

Non-life underwriting risk includes also catastrophe risk, which stems from irregular events that are not sufficiently covered by premium and reserve risk. Underwriting risk components of the life business include biometric risk (comprising mortality, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rates of policy lapses, terminations, changes to pay up status (cessation of premium payment) and surrenders.

Risk management

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance. The Company arranges reinsurance for all the risks it underwrites so as to manage its loss exposure and safeguard its capital base.

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. The most of the non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

For the non-life business, the Company buys non-proportional reinsurance treaty to reduce the net exposure for an individual risk to amount of EUR 75 thousand for casco, a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure for an individual risk to amount of EUR 250 thousand (effectively EUR 125 thousand) for motor third party liability, EUR 150 thousand for property, EUR 200 thousand for liability, EUR 100 thousand for marine and aviation risks and EUR 100 thousand for personal accident. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe agreement provides cover for the first EUR 899.85 million (2019: EUR 899.85 million) of losses exceeding the EUR 150 thousand.

For life business the Company has more than one proportional treaty for savings products and more than one non-proportional treaty for the policies which include death risk and permanent disability risk. The net exposure per life is maximum EUR 45 thousand sum at risk.

Ceded reinsurance contains credit risk and such reinsurance receivables are reported after deductions for known uncollectible items. The Company monitors the financial condition of reinsurers and enters into reinsurance agreements with mostly A graded reinsurers by Standard & Poor's.

The adequacy of liabilities is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for life business. For a detailed description of the liability adequacy test, refer to accounting policy 3 (y) and Note 7.

5 Insurance risk management (continued)

Concentration of insurance risk

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

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

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

The concentration of insurance risk before and after reinsurance in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of the claims and benefits incurred (gross and net of reinsurance) arising from insurance contracts:

	2020			2019		
	Gross claims incurred HRK'000	Reinsurer's share of claims and benefits incurred HRK'000	Net claims incurred HRK'000	Gross claims incurred HRK'000	Reinsurer's share of claims and benefits incurred HRK'000	Net claims incurred HRK'000
<i>Non-life insurance business</i>						
Motor third party	(70,353)	34,429	(35,924)	(50,285)	26,128	(24,157)
Motor other classes	(31,191)	(81)	(31,272)	(25,313)	(118)	(25,431)
Property	(109,278)	81,855	(27,423)	(43,534)	27,519	(16,015)
Personal lines	(11,313)	(308)	(11,621)	(12,447)	71	(12,376)
Other	(81,902)	24,168	(57,734)	(66,499)	13,164	(53,335)
Total non-life	(304,037)	140,063	(163,974)	(198,078)	66,764	(131,314)
<i>Life assurance business</i>						
Life assurance	(503,159)	771	(502,388)	(509,775)	791	(508,984)
Annuity assurance	(774)	-	(774)	(880)	-	(880)
Additional riders	(3,094)	305	(2,789)	(827)	259	(568)
Index/Unit Linked	(4,659)	-	(4,659)	(7,398)	-	(7,398)
Total life	(511,686)	1,076	(510,610)	(518,880)	1,050	(517,830)
Grand total	(815,723)	141,139	(674,584)	(716,958)	67,814	(649,144)

Non-life insurance

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

The greatest likelihood of significant losses to the Company arises from catastrophe events, such as earthquake, flood or storm damage. The techniques and assumptions that the Company uses to calculate these risks are as follows:

- measurement of geographical accumulations;
- assessment of probable maximum losses;
- excess of loss reinsurance.

5 Insurance risk management (continued)

Concentration of insurance risk (continued)

Life assurance

The management believes that for life assurance contracts covering the risk of death there is no significant geographic concentration of risk of insured persons in the Republic of Croatia, although the concentration of the capital at risk can affect the ratio of insurance payments on the portfolio level. Sum at risk for life assurance is as follows:

Line of insurance	Sum at risk			
	2020		2019	
	HRK'000	%	HRK'000	%
Life assurance – traditional products	6,953,685	55.9	6,747,840	54.2
Unit-linked and index-linked products	243,777	2.0	404,141	3.2
Supplementary risks to life assurance	5,245,495	42.1	5,296,051	42.6
As at 31 December	12,442,957	100.0	12,448,032	100.0

Table for long-term insurance stated below shows risk concentration through three insurance classes grouped by sum insured per policy.

Sum insured per policy at 31 December 2020

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 100,000	2,953,195	30.1	2,925,798	32.0
100,000 – 250,000	5,359,897	54.7	4,963,305	54.4
>250,000	1,491,854	15.2	1,242,752	13.6
At 31 December 2020	9,804,946	100.0	9,131,855	100.0

Sum insured per policy at 31 December 2019

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 100,000	2,850,494	29.8	2,832,285	32.0
100,000 – 250,000	5,364,637	56.1	4,938,783	55.7
>250,000	1,346,267	14.1	1,093,322	12.3
At 31 December 2019	9,561,398	100.0	8,864,390	100.0

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

Non-life insurance

Provision is made at the reporting date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid.

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

Reinsurers' share is determined through individual calculation based on the reinsurance contract valid at the moment when the claim occurred.

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

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the Company's expectation of the loss ratio for a class of business.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

IBNR provisions are initially estimated in the gross amount and a separate calculation is carried out to estimate the size of reinsurance recoveries.

In 2020 there has been a change in Supreme Court orientation tables for non-material claims which will cause increase in that kind of claims in the future. This change can also be applied retroactively on existing claims, so claims provision was increased accordingly.

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

Expected claims ratio

The expected claims ratio represents the ratio of expected claims incurred to premiums earned. The assumptions in respect of expected claims ratios for the most recent accident year, per class of business, have the greatest influence on the level of provisions.

Tail factors

For long-tail business, the level of provision is significantly influenced by the estimate of development of claims from the latest development year for which historical data is available to ultimate settlement. These tail factors are estimated prudently including actuarial judgment.

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

Non-life insurance (continued)

Discounting

With the exception of annuities, non-life claims provisions are not discounted. In 2020, there have been no major changes in assumptions used to measure non-life insurance assets and liabilities.

Claims outstanding

Claims outstanding include provisions for MTPL claims payable as annuities, which are stated at estimated net present value based on a discount rate of maximum 3% per annum. Annuities are calculated using the Republic of Croatia mortality tables from 2010-12.

Claims handling provisions

The provision for claims handling expenses is computed as a certain percentage of the RBNS provision and the IBNR provision. Percentage is based on information on the ratio of claims handling expenses and settled claims. For calculating the provision for claims handling expenses the Company was using a percentage of 2.8%.

Life assurance

The life assurance provision is calculated by a prospective net premium method. The life assurance provision is calculated in accordance with HANFA regulations. Assumptions used are specified at the beginning of the policy and they remain in force until the expiration of policy, except in the case of liability inadequacy or if HANFA does not specify otherwise.

In accordance with regulation of Republic Croatia which from 1 July 2013 requires that insurer provides equal treatment for both sexes, the Company introduced new, unisex mortality tables. If the use of original mortality tables results in a higher life assurance provision than if it would be calculated with 2010 mortality tables, than the mentioned tables for calculation of mathematical provision are used. For critical illness, the original morbidity and mortality tables are used and for additional surgery and child birth rider the original biometric tables are used.

According to the guidelines and the rules issued by HANFA, the maximum interest rate used for discounting when calculating life assurance provision is 3.3% for the policies concluded before year 2010, 3% for the policies concluded during 2010, 2.75% for the policies concluded from 1 January 2011 until 30 June 2016, 2% for the policies concluded in HRK from 1 July 2016 until 31 December 2017, 1.75% for the policies with currency clause in EUR concluded after 1 January 2018 with duration up to 5 years and 1% for all other policies. The tariffs that have technical interest rate used for premium determination which is lower than those prescribed percentage amounts, use that lower interest rate for life provision calculation.

The principal assumptions underlying the calculation of the significant components of the life assurance provision are stated in the following table.

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

Life assurance (continued)

Principal assumptions for life assurance business

Description	Product	TIR for calculating reserve	Mortality tables for calculating reserve
	H11, H31, H31J, L11, L11J	3.30%	MT HR 2000
	L31, L31J, C31	3.30%	MT HR 2000
	A11, A12, AUR20, AUR21, AURDC	3.30%	MT HR 2000
	L41, L41J, H51, H51J	2.50%	MT HR 2000
	B11, A2011, DJ11, CE-N11, C11, CE11	2.50%	MT HR 2000
	C, C03, B, A07, CE	3.00%	MT HR 2000
	AWS	3.00%	MT HR 1980-82
	DJ	3.00%	MT HR 1989-91
	A13, B13, C13, CS13, CS-N13, CS-N14, H61C, H61CJ	2.50%	Wiener unisex tables 1
	D16-HRK, CH16, GW16	2.00%	Wiener unisex tables 3
	D16-EUR	1.75%	Wiener unisex tables 3
	D18-EUR, D18 HRK, GW18	1.00%	Wiener unisex tables 3
	DS18, DS18B	1.75%	Wiener unisex tables 4
	CS-N19	1.25%	Wiener unisex tables 4
	HR11	3.25%	MT HR 1989-91
	HR11U	3.25%	MT HR 1989-91
	HR21	2.50%	MT HR 2000
	HR21U	2.50%	MT HR 2000
	HR31	2.50%	MT HR 2000
	HR31U	2.50%	Erste Unisex 2000-02
	HR41	2.50%	Erste Unisex 2000-02
	HR51	2.25%	Erste Unisex 2000-02
	HR61_EUR	1.25%	Erste Unisex 2010-12
	HR61_HRK	2.00%	Erste Unisex 2010-12
	HR51U_EUR	1.00%	Erste Unisex 2010-12
	HR51U_HRK	1.00%	Erste Unisex 2010-12
	HR61U	1.75%	Erste Unisex 2010-12
	HR71_EUR	1.00%	Erste Unisex 2010-12
	HR71_HRK	1.00%	Erste Unisex 2010-12
	HR71U_EUR	1.75%	Erste Unisex 2010-12
	HRC1	2.75%	MT HR 2000
	HRC2	2.50%	Erste Unisex 2000-02
	HRC3	2.25%	Erste Unisex 2000-02
	HRC4_EUR	1.25%	Erste Unisex 2010-12
Endowment	HRC4_HRK	2.00%	Erste Unisex 2010-12
Endowment - group	G13, G17, G18, G32, G33, G36	3.30%	MT HR 2000
	BR	3.00%	MT HR 1980-82
	D11, D11J	3.30%	MT HR 2000
	D41, D41J, BR11	2.50%	MT HR 2000
Pure endowment	BR13	2.50%	Wiener unisex tables 1
	IK, IKD,	3.00%	MT HR 1989-91
	IKE, IK-F	3.00%	MT HR 2000
	SSA	2.50%	MT HR 2000
	SSA13	2.50%	Wiener unisex tables 1
	IK13	2.50%	Wiener unisex tables 2
	IKS13, IKD13, IKD13B	2.50%	Wiener unisex tables 1
	POS	3.30%	MT HR 2000
	T11, T11J	3.30%	MT JUG 1970
	T41, T41J, IK11, IKD11, IKE11, IKD12, IK-F11	2.50%	MT HR 2000
	IK16, IKD16	1.75%	Wiener unisex tables 3
	IKD18, IKL18	1.00%	Wiener unisex tables 4
	HRR	3.25%	MT HR 1989-91
	HRRU	3.25%	MT HR 1989-91
Term	HRR2	2.50%	MT HR 2000

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

Life assurance (continued)

Principal assumptions for life assurance business (continued)

Description	Product	TIR for calculating reserve	Mortality tables for calculating reserve
	HRR2U	2.50%	MT HR 2000
	HRR4	2.50%	Erste Unisex 2000-02
	HRR4U	2.50%	Erste Unisex 2000-02
	HRR3	2.50%	Erste Unisex 2000-02
	HRR5	2.50%	Erste Unisex 2000-02
	HRR6	2.25%	Erste Unisex 2000-02
	HRR7	2.25%	Erste Unisex 2000-02
	HRR8_EUR	1.00%	Erste Unisex 2010-12
	HRR8_HRK	1.00%	Erste Unisex 2010-12
	HRR9_EUR	1.25%	Erste Unisex 2010-12
	HRR9_HRK	2.00%	Erste Unisex 2010-12
	HRR5U_EUR	1.00%	Erste Unisex 2010-12
	HRR10_HRK	1.00%	Erste Unisex 2010-12
Term (continued)	HRG1U_H	1.00%	Erste Unisex 2010-12
	E,VF1	3.00%	MT HR 2000
Term fix	E11	2.50%	MT HR 2000
Permanent working disability	PWD,PWDU1	2.50%	GC
Pension annuity	Z11, Z12, Z12J	3.30%	MT HR 2000
Scholarships annuity	Z13F,Z13S,Z13JF ,Z14F	3.30%	MT HR 2000
Whole Life annuity	WLR , WLRJ	2.50%	MT HR 2010
	WLGW-35	3.30%	MT HR 2010
	L-100	3.30%	MT HR 2000
	WLU1	2.50%	MT HR 2000
	WLP	3.30%	MT HR 2010
	WLGW-25	2.50%	MT HR 2000
	WL16	2.00%	Wiener unisex tables 3
	HR14	2.00%	MT HR 2000
	HR24	2.00%	Erste Unisex 2000-02
	HR34_EUR	1.25%	Erste Unisex 2010-12
Whole Life	HR34_HRK	2.00%	Erste Unisex 2010-12
	EB,EG,EIL-2009 ,EIL-2013	2.50%	MT HR 2000
	EIL-2008	3.30%	MT HR 2000
	HRIL1U	2.50%	MT HR 2000
	HRIL2U	2.50%	MT HR 2000
	HRIL3U	2.50%	MT HR 2000
	HRIL4U	2.50%	MT HR 2000
	HRIL5U	2.25%	
	HRIL6U	1.25%	
	HRIL7U	1.25%	
	IL-CRO20EUR, IL-CRO22	1.75%	Wiener unisex tables 3
Index-linked	IL-CRO20HRK	2.00%	Wiener unisex tables 3
	UL,U LS,FI,UL-07	-	MT HR 1980-82
Unit-linked	UL13	-	Wiener unisex tables 1

7 Liability adequacy test

Life assurance

The life assurance provision is tested each year against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, discount rates, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options. For this purpose, the Liability adequacy test (LAT) is used. No additional liabilities are established as a result of the liability adequacy test in 2020.

Where reliable market data is available, assumptions are derived from observable market prices.

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

Due to levels of uncertainty in the future development of insurance markets and the Company's portfolio, the Company uses margins for risk and uncertainty within the liability adequacy test. This margin is namely for uncertainty in mortality.

Input assumptions are revised and updated annually based on recent experience.

The methodology of testing considers current estimates of all future contractual cash flows. This methodology enables quantification of the correlation between all risks factors.

The principal assumptions used are:

Segmentation

The Company segments the products into several homogenous groups according to the characteristics of individual products in order to derive adequate assumptions for calculation. While deriving each assumption, homogenous risk groups are taken into account. Those groups are different for different assumption as it should correspond to the risk influencing the assumption.

The net present value of future cash flows calculated using the assumptions described below is compared with the life insurance liabilities. 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.

Mortality and morbidity

Mortality is usually based on data supplied by the Croatian Statistical Bureau and amended by the Company based on a statistical investigation of the Company's mortality experience. Apart from Mortality the Company uses assumptions about fertility and surgical operation.

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 homogenous groups and policy durations). The Company regularly investigates its actual persistency rates by adequacy of homogenous groups and duration and amends its assumptions accordingly.

Expenses

Estimates for future renewal, claim and maintenance expenses included in the liability adequacy test are derived from the Company's current experience and split by homogenous groups with regards to real administration effort needed per particular products or claim type.

7 Liability adequacy test (continued)

Life assurance (continued)

Expected discount rate

The Company uses internally developed interest rate term structure (curve).

In 2019, the Company changed interest rate curve for discounting purposed in liability adequacy test from the risk free interest rate curve issued by EIOPA to internally developed interest rate curve as it believes that the risk free interest rate curve does not adequately reflect conditions and yields that could be generated on the Croatian financial and capital markets, where the assets backing life assurance provision is invested in. The same approach is applied in 2020. The risk free interest rate curve as of 31 December 2020 is negative in the first year and marginally positive in the following years while the Company's assets backing life assurance provision generate much higher yields. Should the Company used the risk free interest rate curve issued by EIOPA for the liability adequacy test as of 31 December 2020 instead of internally developed interest rate curve, the liability adequacy test would require additional HRK 121 million of life assurance provision.

Non-life insurance

Insurance liabilities in respect of non-life insurance are calculated by using current assumptions.

The liability adequacy test for non-life insurance is therefore limited to the unexpired portion of existing contracts. It is performed by comparing the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date with the amount of unearned premiums in relation to such policies after deduction of deferred acquisition costs. Expected cash flows relating to claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur.

The test is performed one each line of business which comprises insurance contracts with a similar risk profile.

At 31 December 2020, a provision of HRK 730 thousand has been established as a result of the liability adequacy test (2019: -).

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, lapse rate, expense rate, discount rates, and investment return 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 LAT - modelled future cash flows at the end of the year.

Life assurance

	LAT future cash flow -modelled HRK'000
Base run	2,951,344
Interest rates down SII (discounting and investment return)	3,261,815
Mortality +10%	2,980,852
Policy maintenance expenses +10%	2,984,593

The portfolio modelled represents 99.71% of in force life assurance provision (HRK 2,942,700 thousand life assurance provision modelled).

Base run represents future cash flows calculated using the assumptions described under Note 7 during liability adequacy testing.

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

The analysis has been 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 direction of 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 10%. 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 sensitivity to changes in interest rates was calculated by estimating the effect on LAT future cash flows in case of decrease of the interest rates using the SII shock down term structure.

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.

Non-life insurance

In non-life insurance, the insurance variables which would have the greatest impact on insurance liabilities relate to MTPL court claims. Court claims related liabilities are sensitive to legal, judicial, political, economic and social trends. Management believes it is not practicable to quantify the sensitivity of non-life reserves to changes in these variables.

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

Non-life insurance contracts

The Company offers many types of non-life insurance, mainly motor, property, liability, marine, transport, health, travel health and accident insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis. The Company is generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and reject fraudulent claims.

Future insurance claims are the main source of uncertainty which influences the amount and the timing of future cash flows.

The amount of particular claim payments is limited by the sum insured which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the statute of limitation, which is effective 3 years from the date when the policyholder becomes aware of the claim but not later than 5 years from the beginning of the year following the year of occurrence. This feature is particularly significant in case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

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

Motor insurance

The Company motor insurance portfolio comprises both motor third party liability insurance (MTPL) and motor (casco) insurance. MTPL insurance covers bodily injury claims and property claims in the Republic of Croatia as well as claims caused abroad by motorists insured under the Green Card system.

Material damage under MTPL and casco claims are generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

The amount of claims relating to bodily injury and related losses of earnings are influenced by directives set by the Supreme Court which influence court practice.

MTPL is regulated by the Law on Obligatory Traffic Insurance. Minimum sums insured are regulated by legislation. Policyholders are entitled to a no-claims bonus on renewal of their policy where the conditions are fulfilled.

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

Property insurance

This is broadly split into industrial and personal lines. For Industrial lines, the Company uses risk management techniques to identify risks and analyse losses and hazards and also cooperates with reinsurers. Personal property insurance consists of standard buildings and contents insurance.

Claims are normally notified promptly and can be settled without delay.

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

Non-life insurance contracts (continued)

Liability insurance

This covers all types of liability and includes commercial liability, product liability and professional indemnity as well as personal liability. All liability covers are written on a “loss occurrence basis”.

Accident insurance

Accident insurance is traditionally sold as an add-on to life products or to MTPL products offered by the Company, but is also sold as a stand-alone product.

Health insurance

This covers supplementary and complementary health insurance. Claims are normally notified promptly and can be settled without delay

Life assurance contracts

Bonuses

Almost all of the Company’s traditional life insurance contracts with savings component include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Management Board in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are 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 and dinamization option. Indexation means both premium and sum assured increase, while with dinamization only premium grows and sum assured remains unchanged. Indexation may be exercised at the discretion of the policyholder. Where the option is not exercised, premiums are not increased.

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 or sum insured which is decreasing over time. Death benefits are paid only if the policyholder dies during the term of insurance.

Endowment and Term-fix products

These are traditional life assurance products providing long term financial protection. Capital life insurance products for regular or single premium offer cover for risks of death and survival. Accident and other additional coverages can be added as a rider to the main endowment coverage. Insurance benefits are usually paid in a lump-sum.

Pure endowments

These are also traditional life insurance products providing life-long financial protection at expiry. The premium under this product is paid annually or in instalments and it covers the risk of survival and accident rider, if included.

Annuities

There is small number of policies of annuities in the Company’s portfolio. Some of them are still in accumulation phase while some of them are in payment phase.

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

Life assurance contracts (continued)

Whole Life assurance

Whole Life insurance products are products with savings component that comprise risk of death during the entire lifetime (until the age of 100 when policy matures). Premium is paid annually, semi-annually, quarterly or monthly. Surrender values are guaranteed in a fixed amount and specified at the contract start. Insurance benefits are paid in a lump-sum. Additional terminal illness, surgery, child birth or accidental death benefit riders may be added to some main coverage portfolio groups.

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. Policyholders can pay an additional single premium or withdraw a part of the fund value.

Unit-linked with internal fund

Unit-linked with internal fund is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into the internal fund. The internal fund's asset is invested into the Croatian government bonds. Policyholders have therefore guaranteed value at policy maturity, however the amount of surrender value is not guaranteed.

Index-linked life assurance

Index-linked life assurance is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into a structured note with a guaranteed maturity value (guaranteed by the note issuer). Policyholders have therefore guaranteed value at policy maturity, however the amount of surrender value is not guaranteed.

Hybrid products

Life insurance with combination of classical life insurance (compound insurance consisting of endowment and death benefit) and unit linked insurance. Product with premium allocation both to classical life insurance (Traditional fund) and stock fund (Unit-linked fund). The stock fund allocation ratio (Investment ratio) is chosen by a policyholder and can be changed during the insurance duration.

10 Segment reporting

Statement of financial position by business segment as at 31 December 2020

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	34,358	67,360	101,718
Right-of-use asset	27,958	67	28,025
Investment property	23,323	116,789	140,112
Intangible assets			
Deferred acquisition costs	39,761	224	39,985
Other intangible assets	49,089	15,672	64,761
Held-to-maturity investments	-	297,113	297,113
Available-for-sale financial assets	523,828	2,665,091	3,188,919
Financial assets at fair value through profit or loss	3,525	326,801	330,326
Loans and receivables	1,876	93,701	95,577
Reinsurers' share of technical provisions	242,091	1,630	243,721
Deferred tax asset	3,051	4,743	7,794
Inventories	61	-	61
Insurance and other receivables	167,726	9,679	177,405
Current income tax prepayment	62	59	121
Cash	40,381	53,108	93,489
	<hr/>	<hr/>	<hr/>
Total assets	1,157,090	3,652,037	4,809,127
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Shareholders' equity			
Share capital	101,491	134,304	235,795
Capital reserves	43,700	6,753	50,453
Legal and statutory reserve	561	3,652	4,213
Other reserves	33,937	138,623	172,560
Fair value reserve	39,841	133,149	172,990
Retained earnings	73,631	102,060	175,691
	<hr/>	<hr/>	<hr/>
Total equity	293,161	518,541	811,702
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Technical provisions	572,064	3,024,843	3,596,907
Provisions for liabilities and charges	4,157	3,056	7,213
Deferred tax liability	8,745	29,228	37,973
Lease liabilities	28,579	74	28,653
Insurance and other payables	250,384	76,295	326,679
	<hr/>	<hr/>	<hr/>
Total liabilities	863,929	3,133,496	3,997,425
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and equity	1,157,090	3,652,037	4,809,127
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Segment reporting (continued)**Statement of financial position by business segment as at 31 December 2019**

	Non-life	Life	Total
	HRK'000	HRK'000	HRK'000
Assets			
Property and equipment	29,174	67,197	96,371
Right-of-use asset	31,611	164	31,775
Investment property	26,480	56,531	83,011
Intangible assets			
Deferred acquisition costs	31,304	255	31,559
Other intangible assets	38,329	11,828	50,157
Held-to-maturity investments	56,176	782,302	838,478
Available-for-sale financial assets	430,533	2,114,785	2,545,318
Financial assets at fair value through profit or loss	38,512	557,551	596,063
Loans and receivables	1,914	117,597	119,511
Reinsurers' share of technical provisions	185,171	1,558	186,729
Deferred tax asset	2,544	4,225	6,769
Inventories	45	-	45
Insurance and other receivables	141,318	9,420	150,738
Cash	16,412	19,429	35,841
	<hr/>	<hr/>	<hr/>
Total assets	1,029,523	3,742,842	4,772,365
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Shareholders' equity			
Share capital	101,491	134,304	235,795
Capital reserves	43,700	6,753	50,453
Legal and statutory reserve	561	3,652	4,213
Other reserves	33,937	138,623	172,560
Fair value reserve	57,054	192,315	249,369
Retained earnings	53,174	82,494	135,668
	<hr/>	<hr/>	<hr/>
Total equity	289,917	558,141	848,058
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Technical provisions	464,021	3,018,702	3,482,723
Provisions for liabilities and charges	4,067	3,471	7,538
Deferred tax liability	12,524	42,216	54,740
Lease liabilities	31,945	170	32,115
Current income tax liability	1,146	1,095	2,241
Insurance and other payables	225,903	119,047	344,950
	<hr/>	<hr/>	<hr/>
Total liabilities	739,606	3,184,701	3,924,307
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and equity	1,029,523	3,742,842	4,772,365
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2020

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	456,541	521,212	977,753
Written premiums ceded to reinsurers	(152,442)	(3,715)	(156,157)
Net premiums written	304,099	517,497	821,596
Change in the gross provision for unearned premiums	(36,503)	348	(36,155)
Reinsurers' share of change in the provision for unearned premiums	10,306	7	10,313
Net earned premiums	277,902	517,852	795,754
Fees and commission income	33,319	1,154	34,473
Financial income	20,379	155,213	175,592
Other operating income	6,102	4,071	10,173
Operating income	337,702	678,290	1,015,992
Claims and benefits incurred	(304,037)	(511,686)	(815,723)
Reinsurers' share of claims and benefits incurred	140,063	1,076	141,139
Net policyholder claims and benefits incurred	(163,974)	(510,610)	(674,584)
Acquisition costs	(90,687)	(68,670)	(159,357)
Administrative expenses	(40,207)	(64,115)	(104,322)
Other operating expenses	(13,995)	(2,977)	(16,972)
Financial expenses	(3,726)	(8,010)	(11,736)
Profit before income tax	25,113	23,908	49,021
Income tax expense	(4,656)	(4,342)	(8,998)
Profit for the year	20,457	19,566	40,023
Other comprehensive loss for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	(17,213)	(59,166)	(76,379)
Total comprehensive income/(loss) for the year	3,244	(39,600)	(36,356)

10 Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2019

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	382,573	544,775	927,348
Written premiums ceded to reinsurers	(132,582)	(3,638)	(136,220)
Net premiums written	249,991	541,137	791,128
Change in the gross provision for unearned premiums	(22,943)	229	(22,714)
Reinsurers' share of change in the provision for unearned premiums	4,844	(25)	4,819
Net earned premiums	231,892	541,341	773,233
Fees and commission income	34,343	1,066	35,409
Financial income	21,274	145,613	166,887
Other operating income	5,477	1,667	7,144
Operating income	292,986	689,687	982,673
Claims and benefits incurred	(198,078)	(518,880)	(716,958)
Reinsurers' share of claims and benefits incurred	66,764	1,050	67,814
Net policyholder claims and benefits incurred	(131,314)	(517,830)	(649,144)
Acquisition costs	(76,585)	(65,801)	(142,386)
Administrative expenses	(38,881)	(66,628)	(105,509)
Other operating expenses	(12,236)	(1,802)	(14,038)
Financial expenses	(2,378)	(4,538)	(6,916)
Profit before income tax	31,592	33,088	64,680
Income tax expense	(5,935)	(6,148)	(12,083)
Profit for the year	25,657	26,940	52,597
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	33,237	116,204	149,441
Total comprehensive income for the year	58,894	143,144	202,038

10 Segment reporting (continued)

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy note.

The main business segments of the Company are Non-life insurance and Life assurance. Note 9 of these financial statements provides further information about the significant terms and conditions of insurance products.

Segment results, assets and liabilities include items directly attributable to the segment, as well as those which have been allocated on a reasonable basis.

The main products and services offered by the reported business segments include:

Non-life:

Property and liability

Motor third party liability

Motor casco

Accident and travel health

Marine and transport

Supplementary and complementary health

Life:

Endowment

Endowment with fixed age at maturity (Whole Life)

Term insurance

Unit-linked

Index-linked

Hybrid

Geographical segment

The Company operates mostly in the Republic of Croatia. Almost the entire income from insurance contracts is generated from clients in the Republic of Croatia, therefore no geographical segment information is presented.

11 Property and equipment

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
Cost					
At 1 January 2019	124,206	1,900	29,161	2,034	157,301
Additions	4,667	-	3,210	97	7,974
Disposals	-	(1,159)	(94)	-	(1,253)
Write offs (Note 33)	-	-	-	(94)	(94)
Reclassification to investment property (Note 13)	(2,621)	-	-	-	(2,621)
Reclassification to other intangible assets (Note 15)	-	-	(85)	-	(85)
At 31 December 2019	126,252	741	32,192	2,037	161,222
At 1 January 2020	126,252	741	32,192	2,037	161,222
Additions	4,491	-	5,446	61	9,998
Disposals	-	(317)	(31)	-	(348)
At 31 December 2020	130,743	424	37,607	2,098	170,872
Depreciation and impairment losses					
At 1 January 2019	36,658	1,379	22,922	1,729	62,688
Depreciation charge for the year (Note 32)	1,914	171	2,868	79	5,032
Disposals	-	(952)	(86)	-	(1,038)
Write offs (Note 33)	-	-	-	(93)	(93)
Reversal of impairment (Note 29)	(460)	-	-	-	(460)
Reclassification to investment property (Note 13)	(1,258)	-	-	-	(1,258)
Reclassification to other intangible assets (Note 15)	-	-	(20)	-	(20)
At 31 December 2019	36,854	598	25,684	1,715	64,851
At 1 January 2020	36,854	598	25,684	1,715	64,851
Depreciation charge for the year (Note 32)	1,940	79	2,555	77	4,651
Disposals	-	(317)	(31)	-	(348)
At 31 December 2020	38,794	360	28,208	1,792	69,154
Carrying amounts					
At 1 January 2019	87,548	521	6,239	305	94,613
At 31 December 2019	89,398	143	6,508	322	96,371
At 1 January 2020	89,398	143	6,508	322	96,371
At 31 December 2020	91,949	64	9,399	306	101,718

Included within land and buildings is non-depreciable land with a carrying amount of HRK 14,689 thousand (2019: HRK 14,689 thousand). The depreciation charge is recognised in profit or loss under “*Administrative expenses*” (Note 32) while write off losses and impairment losses are recognised under “*Other operating expenses*” (Note 33).

In 2019, the Company changed the use of business premises with carrying amount of HRK 1,363 thousand from owner-occupied to investment property and reclassified these premises as such.

During 2020 and 2019, there were no capitalised borrowing costs related to the acquisition of property and equipment.

12 Rights-of-use asset

a) Rights-of-use asset

	Property HRK'000	Motor vehicles HRK'000	IT Equipment HRK'000	Other HRK'000	Total HRK'000
Cost					
At 1 January 2019	-	-	-	-	-
Acquisitions	32,525	7,056	225	452	40,258
Write up/Accumulated depreciation	(1,848)	448	-	-	(1,400)
Disposals	(138)	-	-	-	(138)
At 31 December 2019	30,539	7,504	225	452	38,720
At 1 January 2020	30,539	7,504	225	452	38,720
Acquisitions	4,863	595	1,574	19	7,051
Write up/Accumulated depreciation	(2,456)	8	-	-	(2,448)
Disposals	(951)	(349)	(225)	-	(1,525)
At 31 December 2020	31,995	7,758	1,574	471	41,798
Depreciation and impairment losses					
At 1 January 2019	-	-	-	-	-
Depreciation (Note 32)	4,797	2,039	142	105	7,083
Disposal	(138)	-	-	-	(138)
At 31 December 2019	4,659	2,039	142	105	6,945
At 1 January 2020	4,659	2,039	142	105	6,945
Depreciation (Note 32)	5,064	2,729	454	106	8,353
Disposal	(951)	(349)	(225)	-	(1,525)
At 31 December 2020	8,772	4,419	371	211	13,773
At 1 January 2019	-	-	-	-	-
At 31 December 2019	25,880	5,465	83	347	31,775
At 1 January 2020	25,880	5,465	83	347	31,775
At 31 December 2020	23,223	3,339	1,203	260	28,025

b) Lease liabilities

The future aggregate minimum lease payments under operating leases recognised as Rights-of-use assets are as follows:

	2020 HRK'000	2019 HRK'000
No later than 1 year	7,666	7,285
Later than 1 year and no later than 5 years	14,977	17,342
Later than 5 year and no later than 10 years	6,010	6,173
Later than 10 years	-	1,315
	28,653	32,115

13 Investment property

	HRK'000
Cost	
At 1 January 2019	102,398
Additions	327
Disposals	(215)
Reclassification from property and equipment (Note 11)	2,621
	<hr/>
At 31 December 2019	105,131
	<hr/>
At 1 January 2020	105,131
Additions	62,698
Disposals	(1,613)
	<hr/>
At 31 December 2020	166,216
	<hr/>
Depreciation and impairment losses	
At 1 January 2019	21,613
Depreciation charge for the year (Note 34)	1,282
Disposals	(11)
Reversal of impairment (Note 28)	(2,022)
Reclassification from property and equipment (Note 11)	1,258
	<hr/>
At 31 December 2019	22,120
	<hr/>
At 1 January 2020	22,120
Depreciation charge for the year (Note 34)	1,469
Disposals	(427)
Impairment (Note 34)	2,942
	<hr/>
At 31 December 2020	26,104
	<hr/>
Carrying amounts	
At 1 January 2019	80,785
At 31 December 2019	83,011
	<hr/>
At 1 January 2020	83,011
At 31 December 2020	140,112
	<hr/> <hr/>

The rental income arising during the year amounted to HRK 5,473 thousand (2019: HRK 5,772 thousand) and is recognised in profit or loss within “*Financial income*” (Note 28). The depreciation charge and impairment losses are recognised in profit or loss under “*Financial expenses*” (Note 34). Direct operating expenses (maintenance and utility) arising from investment property during the year amounted to HRK 2,096 thousand (2019: HRK 2,556 thousand) and are recognised in profit or loss within “*Financial expenses*” (Note 34).

In 2019, the Company changed the use of business premises with carrying amount of HRK 1,363 thousand from owner-occupied to investment property and reclassified these premises as such.

14 Deferred acquisition costs

As part of the Company's insurance business, certain acquisition costs are deferred. For the life assurance business, acquisition costs are taken into account in calculating the life assurance provisions by means of Zillmerisation as a result of which a separate deferred acquisition cost asset for the life assurance business is not recognised at the reporting date. For segment reporting purposes, life rider business is classified as life assurance business.

An analysis of deferred costs is shown below:

	Non-life		Life rider		Total	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
At 1 January	31,304	25,329	255	271	31,559	25,600
Net change recognised in profit or loss (Note 31)	8,457	5,975	(31)	(16)	8,426	5,959
At 31 December	39,761	31,304	224	255	39,985	31,559

15 Other intangible assets

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software not brought into use HRK'000	Other HRK'000	Prepayments HRK'000	Total HRK'000
Cost							
At 1 January 2019	3,552	3,450	70,538	11,547	62	-	89,149
Additions	-	-	15,332	5,415	-	8,316	29,063
Transfer into use	-	-	10,688	(10,688)	-	-	-
Reclassification from property and equipment (Note 11)	-	-	85	-	-	-	85
Write offs (Note 33)	-	(3,450)	(98)	-	(62)	-	(3,610)
At 31 December 2019	3,552	-	96,545	6,274	-	8,316	114,687
At 1 January 2020	3,552	-	96,545	6,274	-	8,316	114,687
Additions	-	-	15,764	7,583	-	285	23,632
Transfer into use	-	-	1,805	(1,805)	-	-	-
Transfer from prepayments	-	-	-	1,710	-	(1,710)	-
At 31 December 2020	3,552	-	114,114	13,762	-	6,891	138,319
Amortisation and impairment losses							
At 1 January 2019	-	3,450	56,166	834	62	-	60,512
Amortisation for the year (Note 32)	-	-	7,557	-	-	-	7,557
Reclassification from property and equipment (Note 11)	-	-	20	-	-	-	20
Write offs (Note 33)	-	(3,450)	(47)	-	(62)	-	(3,559)
At 31 December 2019	-	-	63,696	834	-	-	64,530
At 1 January 2020	-	-	63,696	834	-	-	64,530
Amortisation for the year (Note 32)	-	-	9,028	-	-	-	9,028
At 31 December 2020	-	-	72,724	834	-	-	73,558
Carrying amounts							
At 1 January 2019	3,552	-	14,372	10,713	-	-	28,637
At 31 December 2019	3,552	-	32,849	5,440	-	8,316	50,157
At 1 January 2020	3,552	-	32,849	5,440	-	8,316	50,157
At 31 December 2020	3,552	-	41,390	12,928	-	6,891	64,761

The depreciation charge is recognised in profit or loss within “*Administrative expenses*” (Note 32) while write off losses and impairment losses are recognised within “*Other operating expenses*” (Note 33)

By the end of 2021, the Company plans to move from the existing information system for the non-life insurance portfolio, to a unified, technologically advanced and more functional IT system for administering the portfolio of non-life and life insurance.

16 Financial investments

	2020 HRK'000	2019 HRK'000
Held-to-maturity investments	297,113	838,478
Available-for-sale financial assets	3,188,919	2,545,318
Financial assets held for trading	122,197	198,840
Financial assets designated at fair value through profit or loss	208,129	397,223
Financial assets at fair value through profit or loss	330,326	596,063
Loans and receivables	95,577	119,511
	3,911,935	4,099,370

Financial assets at fair value through profit or loss

As at 31 December 2020 and 31 December 2019 there were no past due financial assets at fair value through profit or loss.

Available-for-sale financial assets

In 2020, the Company recognised impairment losses on securities available for sale in the amount of HRK 865 thousand (2019: HRK 226 thousand). As at 31 December 2020 and 31 December 2019 there were no past due available-for-sale financial assets.

Held-to-maturity investments

As at 31 December 2020 and 31 December 2019 there were no past due held-to-maturity investments.

Loans and receivables

Loans and receivables consist of deposits with banks and loans to customers. Loans to customers and deposits with banks are stated net of impairment allowance as follows:

	2020 HRK'000	2019 HRK'000
Loans to customers	55,783	61,468
Deposits with banks	94,292	112,511
Impairment allowance on loans to customers	(22,570)	(22,540)
Impairment allowance on deposits with banks	(31,928)	(31,928)
Loans to customers, net of impairment allowance	33,213	38,928
Deposits with banks, net of impairment allowance	62,364	80,583
	95,577	119,511

16 Financial investments (continued)

Loans and receivables (continued)

Loans and receivables are analysed as shown below:

	2020 HRK'000	2019 HRK'000
Not due and not impaired	93,119	116,390
Due but not impaired	672	533
Due and impaired	56,284	57,056
Impairment	(54,498)	(54,468)
	<u>95,577</u>	<u>119,511</u>

Out of the Company's past due but not impaired loans and receivables in the amount of HRK 672 thousand (2019: HRK 533 thousand), HRK 670 thousand (2019: HRK 527 thousand) is secured by the redemption value of life assurance policies while HRK 2 thousand is not secured (2019: HRK 6 thousand).

Out of past due and impaired loans and receivables in the amount of HRK 56,284 thousand (2019: HRK 57,056 thousand), HRK 24,356 thousand (2019: HRK 25,128 thousand) relate to past due and impaired loans and HRK 31,928 thousand (2019: HRK 31,928 thousand) relate to past due and fully impaired deposits with banks. Out of past due and impaired loans in the amount of HRK 24,356 thousand (2019: HRK 25,128 thousand), HRK 15,457 thousand (2019: HRK 16,172 thousand) is secured by mortgages on real estate, while HRK 8,899 thousand (2019: HRK 8,956 thousand) is not secured, however is fully impaired.

In 2020 and 2019, no interest income was recognised on impaired loans.

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Investment property". Repossessed properties are sold as soon as practicable to use proceeds to reduce the outstanding indebtedness either held for capital appreciation or to earn rentals.

The movement in impairment allowance for loans to customers during the year was as follows:

	2020 HRK'000	2019 HRK'000
At 1 January	<u>22,540</u>	<u>26,218</u>
Impairment losses	170	26
Collection of amounts previously provided for	(140)	(86)
Impairment losses/(reversal of impairment losses) on loans to customers, net (Note 34)	30	(60)
Write offs	-	(3,618)
At 31 December	<u>22,570</u>	<u>22,540</u>

In 2020, the Company has not foreclosed properties in exchange of uncollected loans and interest receivables (2019: HRK 230 thousand). Amounts charged to the allowance account are generally written off after property is repossessed following the foreclosure on loans that are in default and when afterwards there is no further expectation of recovering additional cash. In 2020, there were no amounts subsequently written off following the foreclosure on loans and repossession (2019: HRK 1,347 thousand).

16 Financial investments (continued)

	Held-to-maturity investments HRK'000	Available-for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
2020					
Listed	-	12,499	3,526	-	16,025
Unlisted	-	47,918	-	-	47,918
Equity securities	-	60,417	3,526	-	63,943
Government bonds of the Republic of Croatia	297,113	2,809,253	-	-	3,106,366
Government bonds - foreign	-	2,395	-	-	2,395
Corporate bonds – domestic	-	27,558	-	-	27,558
Corporate bonds – foreign	-	4,511	5,076	-	9,587
Corporate bonds – assets backing index-linked products, foreign	-	-	16,254	-	16,254
Government bonds of the Republic of Croatia – assets backing unit and index linked products – domestic	-	-	186,799	-	186,799
Debt securities – fixed rate, listed	297,113	2,843,717	208,129	-	3,348,959
Investment funds – open ended, quoted	-	284,785	81,417	-	366,202
Investment funds – assets backing unit-linked products, domestic	-	-	37,254	-	37,254
Investment funds	-	284,785	118,671	-	403,456
Deposits with banks	-	-	-	62,364	62,364
Loans to customers – secured by the redemption value of life assurance	-	-	-	30,322	30,322
Loans to customers - secured by mortgages on real estate	-	-	-	1,940	1,940
Loans to customers - other	-	-	-	951	951
Loans and receivables	-	-	-	95,577	95,577
	297,113	3,188,919	330,326	95,577	3,911,935
2019					
Listed	-	13,953	4,325	-	18,278
Unlisted	-	46,531	-	-	46,531
Equity securities	-	60,484	4,325	-	64,809
Government bonds of the Republic of Croatia	838,478	2,423,242	-	-	3,261,720
Government bonds - foreign	-	2,198	-	-	2,198
Corporate bonds – domestic	-	27,650	-	-	27,650
Corporate bonds – foreign	-	4,131	19,444	-	23,575
Corporate bonds – assets backing index-linked products, foreign	-	-	44,041	-	44,041
Government bonds of the Republic of Croatia – assets backing unit and index linked products – domestic	-	-	333,738	-	333,738
Debt securities – fixed rate, listed	838,478	2,457,221	397,223	-	3,692,922
Investment funds – open ended, quoted	-	27,613	158,205	-	185,818
Investment funds – assets backing unit-linked products, domestic	-	-	36,310	-	36,310
Investment funds	-	27,613	194,515	-	222,128
Deposits with banks	-	-	-	80,583	80,583
Loans to customers – secured by the redemption value of life assurance	-	-	-	34,902	34,902
Loans to customers - secured by mortgages on real estate	-	-	-	2,770	2,770
Loans to customers - other	-	-	-	1,256	1,256
Loans and receivables	-	-	-	119,511	119,511
	838,478	2,545,318	596,063	119,511	4,099,370

16 Financial investments (continued)

Reclassification of financial assets

From 2011 to 2012 upon decision of the Management Board, based on paragraph 54 of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, the Company reclassified available-for-sale financial assets as held-to-maturity investments. The Company has intent and ability to hold the reclassified assets to maturity.

Reclassification date	Net book value at the reclassification date HRK'000	Effective interest rate at the reclassification date %	Other comprehensive income up to the reclassification date HRK'000
5 October 2011	219,132	6.38	(1,759)
2 November 2011	296,041	6.80	(8,764)
20 March 2012	132,781	6.38	3,714
Total	647,954	6.57	(6,809)

	At the reclassification date		31 December 2020		31 December 2019	
	Net book value HRK'000	Fair value HRK '000	Net book value HRK'000	Fair value HRK'000	Net book value HRK'000	Fair value HRK'000
Assets reclassified in 2011:						
Debt securities	515,173	515,173	-	-	515,846	522,501
Assets reclassified in 2012:						
Debt securities	132,781	132,781	132,118	145,521	130,598	151,996
	647,954	647,954	132,118	145,521	646,444	674,497

The following table shows the amounts recognised in profit or loss and other comprehensive income from reclassified assets:

	2020		2019	
	Profit or loss HRK'000	Other comprehensive income HRK '000	Profit or loss HRK'000	Other comprehensive income HRK'000
Available-for-sale financial asset reclassified to held-to-maturity investments 2011 to 2012				
Exchange rate differences	1,653	-	1,387	-
Interest income	14,495	-	43,729	-
Amortisation of discount	62	-	268	-
Amortisation of fair value reserve to profit or loss	50	-	(1,029)	-
Change in fair value reserve, net of income tax	-	(41)	-	844
	16,260	(41)	44,355	844

16 Financial investments (continued)

Reclassification of financial assets (continued)

The following table shows the amounts that would be recognised in profit or loss and other comprehensive income from reclassified assets if there was no reclassification:

	2020		2019	
	Profit or loss HRK'000	Other comprehensive income HRK'000	Profit or loss HRK'000	Other comprehensive income HRK'000
Available-for-sale financial asset reclassified to held-to-maturity investments 2011 to 2012				
Exchange rate differences	2,881	-	1,761	-
Interest income	14,495	-	43,729	-
Amortisation of premium	(25)	-	(1,413)	-
Change in fair value reserve, net of income tax	-	(11,939)	-	(33,024)
	<u>17,351</u>	<u>(11,939)</u>	<u>44,077</u>	<u>(33,024)</u>

17 Reinsurers' share of technical provisions

	<i>Note</i>	2020 HRK'000	2019 HRK'000
Non-life			
Reinsurance share in provision for unearned premiums	23 a)	67,972	57,666
Reinsurance share in reported but not settled claims reserve	23 b)	96,745	73,010
Reinsurance share in incurred but not reported claims reserve	23 c)	76,800	54,237
Reinsurance share in premium refund provision	23 e)	574	258
Total Non-life		<u>242,091</u>	<u>185,171</u>
Life			
Reinsurance share in provision for unearned premiums	23 a)	261	254
Reinsurance share in reported but not settled claims reserve	23 b)	347	284
Reinsurance share in incurred but not reported claims reserve	23 c)	821	818
Reinsurance share in life insurance provision	23 g)	201	202
Total Life		<u>1,630</u>	<u>1,558</u>
Total reinsurers' share of technical provisions		<u>243,721</u>	<u>186,729</u>

Reinsurers' share in technical provisions represents expected future claims that will be charged to reinsurers and reinsurers' share in unearned premium. Premiums ceded to reinsurance do not relieve the Company from its direct obligations towards policyholders. Accordingly, the Company incurs a credit risk up to the extent that the reinsurer would not be able to settle its liability under the reinsurance agreement.

18 Deferred tax asset/liability

	Deferred tax asset			Deferred tax liability		
	Impairment losses HRK'000	Unrealised losses HRK'000	Provisions for liabilities and charges HRK'000	Total deferred tax asset HRK'000	Fair value reserve HRK'000	Total deferred tax liability HRK'000
At 1 January 2019	6,854	594	339	7,787	(21,935)	(21,935)
Debited to profit or loss (Note 35a)	(506)	(510)	(2)	(1,018)	-	-
Debited to other comprehensive income (Note 21f)	-	-	-	-	(32,805)	(32,805)
At 31 December 2019	6,348	84	337	6,769	(54,740)	(54,740)
At 1 January 2020	6,348	84	337	6,769	(54,740)	(54,740)
Credited to profit or loss (Note 35a)	752	140	133	1,025	-	-
Credited to other comprehensive income (Note 21f)	-	-	-	-	16,767	16,767
At 31 December 2020	7,100	224	470	7,794	(37,973)	(37,973)

19 Insurance and other receivables

	2020	2019
	HRK'000	HRK'000
Receivables arising from insurance contracts		
- from policyholders	104,063	92,734
- from recourses	27,571	28,077
- from intermediaries	611	578
- from other	23,027	18,866
Receivables from reinsurance		
- for claims recoveries	26,626	31,003
- for reinsurance commission	19,466	3,404
- for reinsurance deposit	3,752	369
Other receivables		
- interest receivables and accrued interest	13,903	13,802
- other	11,023	13,503
Prepaid expenses	1,645	1,773
Impairment allowance		
- for receivables from policyholders (Note 19a)	(31,634)	(30,614)
- for recourse receivables (Note 19b)	(4,441)	(4,441)
- for interest receivables and accrued interest (Note 19c)	(13,571)	(13,571)
- for other receivables (Note 19d)	(4,636)	(4,745)
Total insurance and other receivables	177,405	150,738

The analysis of insurance and other receivables* is given below:

	2020	2019
	HRK'000	HRK'000
Not due and not impaired	134,500	108,871
Due but not impaired	19,775	18,231
Due and impaired	49,841	48,930
Impairment allowance	(49,841)	(48,930)
	<u>154,275</u>	<u>127,102</u>

As at 31 December 2020, insurance and other receivables* in the amount of HRK 19,775 thousand (2019: HRK 18,231 thousand) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2020	2019
	HRK'000	HRK'000
Up to 30 days	7,832	6,857
31 up to 90 days	7,480	6,499
91 up to 180 days	3,938	4,092
181 up to 365 days	1	269
more than 365 days	524	514
	<u>19,775</u>	<u>18,231</u>

*Net receivables from recourses in the amount of HRK 23,130 thousand (2019: HRK 23,636 thousand) were past due and recognised within "Insurance and other payables" (Note 25) as "Deferred income from recourses".

19 Insurance and other receivables (continued)

a) Receivables from policyholders

The movement in impairment allowance for receivables from policyholders during the year was as follows:

	2020	2019
	HRK'000	HRK'000
At 1 January	<u>30,614</u>	<u>31,687</u>
Increase in provisions for impairment	5,404	3,583
Decrease in provisions due to collection	<u>(2,789)</u>	<u>(3,520)</u>
Net increase of impairment provision (Note 26)	<u>2,615</u>	<u>63</u>
Receivables written off during the year as uncollectible	<u>(1,595)</u>	<u>(1,136)</u>
At 31 December	<u><u>31,634</u></u>	<u><u>30,614</u></u>

Net increase of impairment provision for receivables from policyholders are deducted from gross premiums written of non-life segment.

b) Receivables from recourses

The movement in impairment allowance for recourse receivables during the year was as follows:

	2020	2019
	HRK'000	HRK'000
At 1 January	<u>4,441</u>	<u>4,723</u>
Receivables written off during the year as uncollectible	<u>-</u>	<u>(282)</u>
At 31 December	<u><u>4,441</u></u>	<u><u>4,441</u></u>

19 Insurance and other receivables (continued)

c) Interest receivables and accrued interest

The movement in impairment allowance for interest receivables and accrued interest during the year was as follows:

	2020	2019
	HRK'000	HRK'000
At 1 January	13,571	15,276
Write off	-	(1,705)
At 31 December	13,571	13,571

d) Other receivables

The movement in impairment allowance for other receivables during the year was as follows:

	2020	2019
	HRK'000	HRK'000
At 1 January	4,745	5,325
Increase in provisions (Notes 33, 34)	183	832
Decrease in provisions due to collection (Notes 28, 29)	(187)	(705)
(Net reversal)/net impairment loss of impairment provision	(4)	127
Write off	(105)	(707)
At 31 December	4,636	4,745

20 Cash

	2020 HRK'000	2019 HRK'000
Cash at bank	93,482	35,837
Cash on hand	7	4
Total cash	<u>93,489</u>	<u>35,841</u>

21 Equity

a) Share capital

	2020 HRK'000	2019 HRK'000
Authorised, issued and fully paid		
374,278 (2019: 374,278) ordinary shares of HRK 630	<u>235,795</u>	<u>235,795</u>

The share capital of the Company is denominated in Croatian Kuna. The nominal value of each share issued is HRK 630.

At the reporting date, the shareholders of the Company are as follows:

	2020 % ownership	2019 % ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	97.82	97.82
Minority shareholders	<u>2.18</u>	<u>2.18</u>
	<u>100.00</u>	<u>100.00</u>

The parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe and the ultimate parent company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group.

b) Capital reserves

Capital reserves consist of direct payments of shareholders into these reserves.

c) Legal reserve

The legal reserve represents accumulated appropriations from retained earnings in accordance with the previous Insurance Act, effective until 31 December 2005, which required a minimum of one third of the Company's net profit to be transferred to a non-distributable statutory reserve until the reserve reaches half of the average of earned premium of the preceding two years.

d) Other reserves

Other reserves can be used for share capital increase, loss coverage or other purposes at the discretion of the Company's General Assembly.

21 Equity (continued)

e) Dividends per share

In 2019, the Company paid dividends for 2018 in the amount of HRK 40,533 thousand or HRK 108.29 per share, following declaration by shareholders at General Assembly.

In light of the exceptional market circumstances caused by Covid-19 pandemic and the earthquake that stroke city of Zagreb on 22nd March 2020, the Management Board, with the consent of the Supervisory Board, withdraw a proposal to the General Assembly to pay out dividends for 2020. The aforementioned decision was made with the aim of ensuring the stable operations, liquidity position and solvency of the Company.

In addition, the Governing Board of the Croatian Financial Services Supervisory Agency (HANFA) adopted a decision banning insurance companies in Croatia from paying dividends from realized profits until 30 April 2021.

f) Fair value reserve

The fair value reserve represents the cumulative realized gains and losses from change in fair value of financial assets available-for-sale, net of deferred tax. All movements are presented in other comprehensive income in the Statement of comprehensive income, net of tax. Movements in the fair value reserve were as follows:

	2020 HRK'000	2019 HRK'000
At 1 January		
Gross fair value reserve	304,109	121,863
Deferred tax (Note 18)	(54,740)	(21,935)
Net	249,369	99,928
Net (losses)/gains from change in fair value of available-for-sale financial assets	(33,214)	207,111
Impairment losses on financial assets available for sale – transfer to profit or loss (Note 34)	865	226
Net gains on disposal of available-for-sale financial assets – transfer to profit or loss (Note 28)	(60,797)	(25,091)
	(93,146)	182,246
Deferred tax on net (losses)/gains from change in fair value of available-for-sale financial assets, net of amounts realized and impairment losses (Note 18)	16,767	(32,805)
<i>Net (loss)/gain recognised in other comprehensive income</i>	<i>(76,379)</i>	<i>149,441</i>
At 31 December		
Gross fair value reserve	210,963	304,109
Deferred tax (Note 18)	(37,973)	(54,740)
Net	172,990	249,369

21 Equity (continued)

Solvency II regulatory framework came into force on 1 January 2016 and has replaced the Solvency I capital requirements as the binding regulatory regime. The new Solvency II regime has fundamentally changed the calculation of solvency capital, measurement of assets and liabilities, introduced a number of new requirements in risk management and placed a greater emphasis on the assessment and documentation of risks and controls, including the development of an articulation of 'risk appetite'. In order to systematise risk management in 2016, the Company established and adopted the policies that cover the framework of risk management, own risk and solvency assessments (ORSA) and risk management for each risk category and continued on ongoing basis.

Capital management objectives, policies and approach

The Company established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company and thereby providing sufficient security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on employed capital meet the requirements of shareholders;
- To retain financial flexibility by maintaining strong liquidity;
- To align the profile of assets and liabilities taking into account the risks inherent in the business.

The operations of the Company are also subject to regulatory requirements imposed by Croatian Financial Services Supervisory Agency. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency of the insurance companies to meet unforeseeable liabilities as they arise. The Company has met all of these requirements throughout the financial year.

In reporting of financial strength, capital and solvency are measured using the rules prescribed by the European Insurance and Occupational Pensions Authority (EIOPA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written. The Company's capital management policy for its insurance is to hold sufficient capital to cover the statutory requirements based on the EU directives and regulations as well as Croatian Insurance Act.

Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders. The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The capital requirements are routinely forecast on a periodic basis and assessed against the forecast available capital including risk and sensitivity analyses. The process is ultimately subject to approval by the Management Board. The Company is using the standard Solvency II formula to calculate eligible own funds and the solvency capital requirement and performs own risk and solvency assessment to identify the risks and quantify their impact on the economic capital.

21 Equity (continued)

Approach to capital management (continued)

ORSA is one of the requirements of the Solvency II legislation. ORSA is a process that ensures compliance of the business strategy with the risk strategy and capital requirements in the context of the general risk management framework. It aims to ensure that the insurer is fully aware of the relationship between its business strategy, the risks that the insurer is taking in the short term as well as in the medium to long term and the capital requirements arising from those risks. In line with legislation, ORSA incorporates the following three key elements:

- the insurance company's assessment of overall solvency needs,
- the assessment of compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions, and
- the assessment of the significance of the deviation of the insurance company's risk profile from the assumptions underlying the Solvency Capital Requirement in accordance with the standard formula.

The Company's objective is to maintain available capital at the level that is significantly above the minimum requirements indicated and consistent with the Company's risk profile, risk appetite and capital management strategy.

Solvency II regulatory capitalisation (unaudited):

	30 September 2020 HRK'000	31 December 2019 HRK'000
Eligible own funds	719,717	732,059
Solvency capital requirement	347,382	314,596
Minimum capital requirement	156,322	141,568
Solvency ratio	207.2%	232.7%

As of approval of these financial statements, the calculation of Solvency capital requirement as at 31 December 2020 has not yet been finalised.

22 Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the profit for the year attributable to equity holders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic and diluted earnings per share was 374,278 (2019: 374,278). Given that there are no effects of options, convertible bonds or similar instruments, the diluted earnings per share is the same as the basic earnings per share.

	2020 HRK'000	2019 HRK'000
Profit attributable to ordinary shareholders for earnings per share	<u>40,023</u>	<u>52,597</u>
	2020 HRK	2019 HRK
Basic and diluted earnings per share	<u>107</u>	<u>140</u>

23 Technical provisions

	<i>Note</i>	2020 HRK'000	2019 HRK'000
<i>Non-life insurance business</i>			
Provision for unearned premiums	23 a)	220,597	184,094
Reported but not settled claims reserve	23 b)	183,430	151,412
Incurred but not reported claims reserve	23 c)	165,627	127,604
Unexpired risk provision	23 d)	730	-
Premium refund provision	23 e)	1,680	911
Total Non-life insurance business		<u>572,064</u>	<u>464,021</u>
<i>Life assurance business</i>			
Provision for unearned premiums	23 a)	1,934	2,282
Reported but not settled claims reserve	23 b)	39,413	37,822
Incurred but not reported claims reserve	23 c)	2,291	2,292
Other technical provision	23 f)	769	3,490
Life assurance provision for traditional products	23 g)	2,740,128	2,558,727
Provision for unit-linked and index-linked	23 h)	240,308	414,089
Total Life assurance business		<u>3,024,843</u>	<u>3,018,702</u>
Total technical provisions		<u>3,596,907</u>	<u>3,482,723</u>

23 Technical provisions (continued)

a) Analysis of movement in provision for unearned premium

	2020	2020	2020	2019	2019	2019
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance business</i>						
At 1 January	184,094	57,666	126,428	161,151	52,822	108,329
Premiums written during the year	456,541	152,442	304,099	382,573	132,582	249,991
Less: premiums earned during the year	(420,038)	(142,136)	(277,902)	(359,630)	(127,738)	(231,892)
At 31 December	220,597	67,972	152,625	184,094	57,666	126,428
<i>Life assurance business</i>						
At 1 January	2,282	254	2,028	2,511	279	2,232
Premiums written during the year	1,934	261	1,673	2,282	254	2,028
Less: premiums earned during the year	(2,282)	(254)	(2,028)	(2,511)	(279)	(2,232)
At 31 December	1,934	261	1,673	2,282	254	2,028

b) Analysis of movements in reported but not settled claims reserve

	2020	2020	2020	2019	2019	2019
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance business</i>						
At 1 January	151,412	73,010	78,402	164,920	88,700	76,220
Current year claims	257,352	110,346	147,006	193,741	59,625	134,116
Change in previous year claims	7,163	6,838	325	8,502	10,175	(1,673)
Claims paid	(232,497)	(93,449)	(139,048)	(215,751)	(85,490)	(130,261)
At 31 December	183,430	96,745	86,685	151,412	73,010	78,402
<i>Life assurance business</i>						
At 1 January	37,822	284	37,538	29,038	141	28,897
Current year claims	503,789	932	502,857	421,917	1,179	420,738
Change in previous year claims	2,999	142	2,857	1,946	(21)	1,967
Claims paid	(505,197)	(1,011)	(504,186)	(415,079)	(1,015)	(414,064)
At 31 December	39,413	347	39,066	37,822	284	37,538

23 Technical provisions (continued)

c) Analysis of movements in incurred but not reported claims reserve

	2020		2019		2019	
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance business</i>						
At 1 January	127,604	54,237	73,367	130,620	57,531	73,089
Additions recognised during the year	82,889	44,447	38,442	32,948	9,046	23,902
Transfer to claims reported provision	(44,866)	(21,884)	(22,982)	(35,964)	(12,340)	(23,624)
At 31 December	165,627	76,800	88,827	127,604	54,237	73,367
<i>Life assurance business</i>						
At 1 January	2,292	818	1,474	4,378	905	3,473
Additions recognised during the year	557	(39)	596	(1,119)	(326)	(793)
Transfer to claims reported provision	(558)	42	(600)	(967)	239	(1,206)
At 31 December	2,291	821	1,470	2,292	818	1,474

d) Analysis of movements in unexpired risk provision

	2020		2019		2019	
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January	-	-	-	710	-	710
Release in profit or loss	-	-	-	(710)	-	(710)
Increase in profit or loss	730	-	730	-	-	-
At 31 December	730	-	730	-	-	-

e) Analysis of movements in premium refund provision

	2020		2019		2019	
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January	911	258	653	1,346	-	1,346
Release in profit or loss	(911)	(258)	(653)	(1,346)	-	(1,346)
Increase in profit or loss	1,680	574	1,106	911	258	653
At 31 December	1,680	574	1,106	911	258	653

23 Technical provisions (continued)

f) Analysis of movements in other technical provision

	2020 Gross HRK'000	2020 Reinsurance HRK'000	2020 Net HRK'000	2019 Gross HRK'000	2019 Reinsurance HRK'000	2019 Net HRK'000
<i>Non-life insurance business</i>						
At 1 January	-	-	-	4	-	4
Release in profit or loss	-	-	-	(4)	-	(4)
Increase in profit or loss	-	-	-	-	-	-
At 31 December	-	-	-	-	-	-
<i>Life assurance business</i>						
At 1 January	3,490	-	3,490	3,465	-	3,465
Increase in profit or loss	(2,721)	-	(2,721)	25	-	25
At 31 December	769	-	769	3,490	-	3,490

g) Life assurance provisions

	2020 Gross HRK'000	2020 Reinsurance HRK'000	2020 Net HRK'000	2019 Gross HRK'000	2019 Reinsurance HRK'000	2019 Net HRK'000
At 1 January	2,558,727	202	2,558,525	2,330,508	223	2,330,285
Premium allocation	449,433	(2)	449,435	459,046	(1)	459,047
Release of liabilities due to benefits paid, surrenders and other terminations	(341,215)	(1)	(341,214)	(287,785)	(21)	(287,764)
Unwinding of discount/accretion of interest	57,066	-	57,066	55,575	-	55,575
Change in Zillmer adjustment	(6,898)	-	(6,898)	(6,866)	-	(6,866)
Change in provision for unearned premium	(4,008)	-	(4,008)	1,117	-	1,117
Foreign currency translations	27,023	2	27,021	7,132	1	7,131
Balance at 31 December	2,740,128	201	2,739,927	2,558,727	202	2,558,525

23 Technical provisions (continued)

h) Provision for unit-linked and index-linked

	2020	2020	2020	2019	2019	2019
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January	414,089	-	414,089	545,230	-	545,230
Premium allocation	(43,258)	-	(43,258)	(192,290)	-	(192,290)
Unrealised gains on funds where policyholder investments were allocated	43,391	-	43,391	192,316	-	192,316
Foreign currency translations	3,059	-	3,059	1,199	-	1,199
Release of liabilities due to benefits paid, surrenders and other terminations	(176,973)	-	(176,973)	(132,366)	-	(132,366)
Balance at 31 December	240,308	-	240,308	414,089	-	414,089

i) Development of claims reported by policyholders at 31 December 2020

	Prior to 2014	2014	2015	2016	2017	2018	2019	2020	Total
	HRK'000	HRK'000							
Estimate of cumulative claims at the end of underwriting year	2,759,767	319,215	344,773	370,228	434,189	521,135	510,537	679,116	
One year later	2,714,309	311,220	338,087	373,097	434,704	524,242	513,541		
Two years later	2,691,551	290,901	330,194	363,082	437,449	521,018			
Three years later	2,741,466	288,590	327,799	359,550	439,364				
Four years later	2,737,920	284,155	326,430	361,397					
Five years later	2,736,752	282,408	325,385						
Six years later	2,733,467	282,594							
Seven years later	2,738,554								
Current estimate of cumulative claims	2,738,554	282,594	325,385	361,397	439,364	521,018	513,541	679,116	5,860,969
Cumulative payments	2,669,094	271,775	312,500	344,350	416,943	494,718	470,015	509,858	5,489,253
Amount recognised in the current year statement of financial position	69,460	10,819	12,885	17,047	22,421	26,300	43,526	169,258	371,716
Claims handling costs and recourses	6,139	659	771	974	1,177	1,180	1,672	5,081	17,653
Unsettled claims at 31 December 2020 on policies transferred in at 30 December 2005 on merger with Aurum	1,392	-	-	-	-	-	-	-	1,392
Total value recognised in the current year statement of financial position	76,991	11,478	13,656	18,021	23,598	27,480	45,198	174,339	390,761

The historical data in respect of unsettled claims transferred in upon merger with Aurum is insufficient to enable the presentation of their development over an eight-year period in the form as set above.

23 Technical provisions (continued)

j) Remaining maturities of technical provisions

2020

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	222,531	-	-	-	-	-	222,531
Reported but not settled claims reserve and incurred but not reported claims reserve	153,433	190,401	46,927	-	-	-	390,761
Unexpired risk provision	730	-	-	-	-	-	730
Premium refund provision	1,680	-	-	-	-	-	1,680
Other technical provision	-	769	-	-	-	-	769
Life assurance provision and provision for unit-linked and index- linked	438,833	1,191,877	504,390	199,181	137,948	508,207	2,980,436
Technical provisions	<u>817,207</u>	<u>1,383,047</u>	<u>551,317</u>	<u>199,181</u>	<u>137,948</u>	<u>508,207</u>	<u>3,596,907</u>

2019

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	186,376	-	-	-	-	-	186,376
Reported but not settled claims reserve and incurred but not reported claims reserve	118,652	155,897	44,581	-	-	-	319,130
Premium refund provision	911	-	-	-	-	-	911
Other technical provision	-	3,490	-	-	-	-	3,490
Life assurance provision and provision for unit-linked and index- linked	371,500	1,210,133	515,914	189,013	153,185	533,071	2,972,816
Technical provisions	<u>677,439</u>	<u>1,369,520</u>	<u>560,495</u>	<u>189,013</u>	<u>153,185</u>	<u>533,071</u>	<u>3,482,723</u>

23 Technical provisions (continued)

k) Structure of assets used for backing life assurance provision

The following table analyses the financial assets used for backing life assurance provision into relevant maturity categories based on the remaining period from the reporting date to the contractual maturity date and the estimated remaining contractual maturities of life assurance provision and claims provision for which coverage is requested.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2020					
Asset backing life assurance provision	329,380	916,783	530,775	1,318,151	3,095,089
Life assurance provision, net of reinsurance	(421,374)	(1,000,289)	(498,082)	(820,182)	(2,739,927)
Claims provision, net of reinsurance	(30,116)	-	-	-	(30,116)
Maturity gap	(122,110)	(83,506)	32,693	497,969	325,046
2019					
Asset backing life assurance provision	645,558	829,238	599,452	969,929	3,044,177
Life assurance provision, net of reinsurance	(198,873)	(999,600)	(509,753)	(850,299)	(2,558,525)
Claims provision, net of reinsurance	(25,850)	-	-	-	(25,850)
Maturity gap	420,835	(170,362)	89,699	119,630	459,802

As of 31 December 2020, 82.64% of total assets used for backing life assurance provision were classified as financial assets available for sale, which enables the Company to dispose of these assets easily to meet insurance contracts liabilities when needed. 9.6% of assets used for backing life assurance provision are classified as held-to-maturity investments. 2.63% of assets used for backing life assurance provision are classified as financial assets at fair value through profit and loss, 2.97% as loans and receivables, 2.03% as property and 0.13% as cash in bank.

The following table analyses the life assurance provision and financial asset used for backing life assurance provision into relevant categories based on the currency in which is denominated.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	USD HRK'000	Total HRK'000
2020						
Asset backing life assurance provision	50,358	2,180,635	2,230,993	854,311	9,785	3,095,089
Life assurance provision, net of reinsurance	-	(2,220,124)	(2,220,124)	(510,628)	(9,175)	(2,739,927)
Claims provision, net of reinsurance	-	(29,203)	(29,203)	(913)	-	(30,116)
	50,358	(68,692)	(18,334)	342,770	610	325,046
2019						
Asset backing life assurance provision	313,444	1,757,086	2,070,530	963,439	10,208	3,044,177
Life assurance provision, net of reinsurance	-	(2,036,192)	(2,036,192)	(511,674)	(10,659)	(2,558,525)
Claims provision, net of reinsurance	-	(25,321)	(25,321)	(529)	-	(25,850)
	313,444	(304,427)	9,017	451,236	(451)	459,802

In 2020, the Company achieved an annual return on investments from life assurance provision in amount of 4.54% (2019: 4.94%). Weighted average yield for the two-year period from 2019 to 2020 was 4.73% (2019: two-year period from 2018 to 2019: 5.16%). Valuation of financial assets is described in accounting policy Note 3 (f).

23 Technical provisions (continued)

l) Structure of assets used for backing technical provisions (other than life assurance provision)

The following table analyses the financial assets used for backing technical provisions into relevant maturity categories based on the remaining period from the reporting date to the contractual maturity date and the estimated remaining contractual maturities of technical provisions for which coverage is requested:

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2020					
Asset backing technical provisions	204,351	122,470	254,711	45,727	627,259
Provision for unearned premium, net of reinsurance	(154,298)	-	-	-	(154,298)
Claims provision, net of reinsurance	(65,712)	(95,680)	(24,540)	-	(185,932)
Other provisions	(1,836)	(769)	-	-	(2,605)
Maturity gap	(17,495)	26,021	230,171	45,727	284,424
2019					
Asset backing technical provisions	134,126	30,340	336,647	59,056	560,169
Provision for unearned premium, net of reinsurance	(128,456)	-	-	-	(128,456)
Claims provision, net of reinsurance	(62,231)	(77,052)	(25,390)	-	(164,673)
Other provisions	(911)	(3,490)	-	-	(4,401)
Maturity gap	(57,472)	(50,202)	311,257	59,056	262,639

As of 31 December 2020, 85.2% of total assets used for backing technical provisions are classified as financial assets available for sale and 0.56% as financial assets at fair value through profit or loss, which enables the Company to dispose of those assets easily to meet insurance contracts liabilities when needed. 14.24% of assets used for backing technical provision are classified as cash in bank.

The following table analyses the financial assets used for backing technical provisions and technical provisions into relevant categories based on the currency in which are denominated.

	EURO	EURO linked	EURO and EURO linked total	HRK	USD	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2020						
Asset backing technical provision	3,444	90,039	93,483	533,776	-	627,259
Provision for unearned premium, net of reinsurance	-	(1,404)	(1,404)	(152,891)	(3)	(154,298)
Claims provision, net of reinsurance	-	(10,156)	(10,156)	(175,776)	-	(185,932)
Other provisions	-	-	-	(2,605)	-	(2,605)
	<u>3,444</u>	<u>78,479</u>	<u>81,923</u>	<u>202,504</u>	<u>(3)</u>	<u>284,424</u>
2019						
Asset backing technical provision	36,119	76,988	113,107	447,062	-	560,169
Provision for unearned premium, net of reinsurance	-	(1,729)	(1,729)	(126,722)	(5)	(128,456)
Claims provision, net of reinsurance	-	(13,972)	(13,972)	(150,701)	-	(164,673)
Other provisions	-	-	-	(4,401)	-	(4,401)
	<u>36,119</u>	<u>61,287</u>	<u>97,406</u>	<u>165,238</u>	<u>(5)</u>	<u>262,639</u>

24 Provisions for liabilities and charges

	Provision for court cases HRK'000	Termination benefits and jubilee awards HRK'000	Restructuring provision HRK'000	Total HRK'000
At 1 January 2019	7,222	844	651	8,717
Used during the year	(1,717)	(97)	(484)	(2,298)
Release of provision as unused	(1,263)	-	-	(1,263)
Increase of provision	2,049	333	-	2,382
<i>Net charged to profit or loss</i>	<u>786</u>	<u>333</u>	<u>-</u>	<u>1,119</u>
At 31 December 2019	<u>6,291</u>	<u>1,080</u>	<u>167</u>	<u>7,538</u>
At 1 January 2020	6,291	1,080	167	7,538
Used during the year	(11)	(86)	(159)	(256)
Release of provision as unused	(2,317)	-	(8)	(2,325)
Increase of provision	1,756	500	-	2,256
<i>Net charged to profit or loss</i>	<u>(561)</u>	<u>500</u>	<u>(8)</u>	<u>(69)</u>
At 31 December 2020	<u>5,719</u>	<u>1,494</u>	<u>-</u>	<u>7,213</u>

Provision for court cases

In 2020, increase of provision for court cases is recognised in “Other operating expenses” (Note 33) and decrease in “Other operating income” (Note 29) while in 2019 net increase of provision for court cases is recognised in “Other operating expenses” (Note 33).

Termination benefits and jubilee awards

Increase of obligatory severance payments and jubilee awards provision are recognised within „Administrative expenses“ (Note 32).

Restructuring provision

Release of unused restructuring provision in 2020 is recognised in “Other operating income” (Note 29).

25 Insurance and other payables

	2020	2019
	HRK'000	HRK'000
Direct insurance contract payables		
- to policyholders and claimant	3,592	2,848
- to agents, brokers and intermediaries	5,054	5,110
- advance premium payments	30,741	47,419
Reinsurance contract payables	61,807	56,652
Deposits retained from reinsurance business (Note 37)	95,590	83,769
Liabilities for salaries	10,231	9,562
Trade payables	5,679	9,686
Commission expense accrual	20,378	19,012
Other payables	8,959	10,941
Deferred income from recourses (Note 19)	23,130	23,636
Accrued expenses	61,518	76,315
Total insurance and other payables	326,679	344,950

The Company retains deposits from reinsurance business arising from the Quota Share reinsurance treaties for Motor Third Party Liability and Personal Accident insurance with a parent company. In accordance with the reinsurance treaties, applicable from 1 January 2010 for Motor Third Party Liability insurance and from 1 January 2011 for Personal Accident insurance (Quota share for Personal accident insurance is now in run-off, ie. not applied to new portfolio, therefore the reinsurance deposit exists on run-off reinsurance portfolio), the reinsurance deposit is retained and the Company invests the funds. Deposit from 1 January 2011 bears variable interest rate determined quarterly as the average of BID and ASK prices of 3 month ZIBOR at beginning of the accounting period increased by + 0.5 pp, and after the cessation of the publication of ZIBOR in 2020, 3 month deposit rate is being used.

26 Premiums

	2020 HRK'000	2019 HRK'000
<i>Non-life insurance</i>		
Gross premium written	456,541	382,573
Written premiums ceded to reinsurers	(152,442)	(132,582)
Change in unearned premiums, gross	(36,503)	(22,943)
Change in unearned premiums, reinsurance share	10,306	4,844
Total premium income net, (earned) from non-life insurance	277,902	231,892
<i>Life assurance</i>		
Gross premium written	521,212	544,775
Written premiums ceded to reinsurers	(3,715)	(3,638)
Change in unearned premiums, gross	348	229
Change in unearned premiums, reinsurance share	7	(25)
Total premium income net, (earned) from life assurance	517,852	541,341
Total		
Gross premium written	977,753	927,348
Written premiums ceded to reinsurers	(156,157)	(136,220)
Change in unearned premiums, gross	(36,155)	(22,714)
Change in unearned premiums, reinsurance share	10,313	4,819
Total premiums	795,754	773,233

In 2020, gross premiums written for life assurance business include premiums of HRK 3.7 million (2019: HRK 3.9 million) in respect of unit-linked products. Gross premiums written for non-life insurance are stated after adjusting for the net increase in provisions for premium debtors of HRK 2,615 thousand (2019: net increase for HRK 63 thousand) (Note 19a) and direct write-off of premium debtors of HRK 12 thousand (2019: HRK – thousand).

26 Premiums (continued)**Analysis by class of business**

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

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance* HRK'000
2020					
<i>Non-life insurance business</i>					
Motor third party	120,390	105,545	(70,353)	(31,392)	(4,721)
Motor other classes	55,078	48,540	(31,191)	(9,907)	(864)
Property	110,758	104,053	(109,278)	(38,551)	40,528
Personal lines	28,960	25,270	(11,313)	(8,070)	(1,555)
Other	141,355	136,630	(81,902)	(42,974)	(2,147)
Total non-life	456,541	420,038	(304,037)	(130,894)	31,241
<i>Life assurance business</i>					
Life assurance	498,042	498,119	(503,159)	(118,982)	(664)
Annuity assurance	444	444	(774)	(79)	-
Additional riders	19,054	19,325	(3,094)	(12,901)	(814)
Index/Unit Linked	3,672	3,672	(4,659)	(823)	-
Total life	521,212	521,560	(511,686)	(132,785)	(1,478)
Grand total	977,753	941,598	(815,723)	(263,679)	29,763
2019					
<i>Non-life insurance business</i>					
Motor third party	93,141	89,843	(50,285)	(29,524)	(2,930)
Motor other classes	41,312	38,455	(25,313)	(8,264)	(758)
Property	95,625	90,058	(43,534)	(33,004)	(5,779)
Personal lines	21,335	20,641	(12,447)	(6,917)	(379)
Other	131,160	120,633	(66,499)	(37,757)	(16,785)
Total non-life	382,573	359,630	(198,078)	(115,466)	(26,631)
<i>Life assurance business</i>					
Life assurance	521,085	521,113	(509,775)	(119,096)	(590)
Annuity assurance	491	491	(880)	(82)	-
Additional riders	19,238	19,439	(827)	(12,195)	(957)
Index/Unit Linked	3,961	3,961	(7,398)	(1,056)	-
Total life	544,775	545,004	(518,880)	(132,429)	(1,547)
Grand total	927,348	904,634	(716,958)	(247,895)	(28,178)

* Reinsurance balance does not include technical interests on reinsurance deposit in the amount of HRK 581 thousand for non-life and HRK 1 thousand for life business (2019: HRK 572 thousand for non-life and HRK 1 thousand for life business) (Note 34).

27 Fees and commission income

	2020 HRK'000	2019 HRK'000
Reinsurance commission	33,731	33,528
Profit reinsurance commission	742	1,881
	<u>34,473</u>	<u>35,409</u>

28 Financial income

	2020 HRK'000	2019 HRK'000
Interest income, calculated using the effective interest rate method:		
- Available-for-sale financial assets	56,922	53,793
- Held-to-maturity investments	22,121	56,396
- Loans and receivables	3,796	6,481
	<u>82,839</u>	<u>116,670</u>
Dividend income	1,068	1,068
Rental income from investment property (Note 13)	5,473	5,772
Net unrealised gains on assets at fair value through profit or loss	2,152	9,682
Net realised losses on assets at fair value through profit or loss	(1,805)	(1,689)
Net realised gains on assets available for sale (Note 21f)	60,797	25,091
Net realised gains on assets held to maturity	8	-
Net (loss)/gain on disposal of investment property	(1)	11
Reversal of impairment loss on investment property (Note 13)	-	2,022
Foreign exchange translation gains		
- Financial assets at fair value through profit or loss	3,061	1,265
- Available-for-sale financial assets	16,537	3,825
- Held-to-maturity investments	4,477	2,188
- Loans and receivables	537	184
- Other	(473)	(413)
Decrease in provision for other receivables due to collection	165	-
Other financial income	757	1,211
	<u>175,592</u>	<u>166,887</u>

	Non-life 2020 HRK'000	Life 2020 HRK'000	Total 2020 HRK'000	Non-life 2019 HRK'000	Life 2019 HRK'000	Total 2019 HRK'000
Financial income						
Income from assets backing equity	1,281	5,402	6,683	3,005	7,376	10,381
Income from assets backing life assurance provision	-	144,594	144,594	-	128,969	128,969
Income from assets backing other technical provisions	19,098	908	20,006	18,269	827	19,096
Income from assets backing index-linked and unit-linked products	-	4,309	4,309	-	8,441	8,441
	<u>20,379</u>	<u>155,213</u>	<u>175,592</u>	<u>21,274</u>	<u>145,613</u>	<u>166,887</u>

29 Other operating income

	2020	2019
	HRK'000	HRK'000
Refund of legal enforcement collection expense and penalty interest	999	2,171
Income from service claims	658	668
Profit on disposal of property and equipment	104	178
Reversal of impairment loss of property (Note 11)	-	460
Income from recharged expenses	34	101
Decrease in provision for other receivables due to collection	22	705
Income from court settlement	-	221
Release of unused provision for court cases (Note 24)	2,317	-
Release of unused restructuring provision (Note 24)	8	-
Release of unused accrual for sales commission	1,969	-
Other operating income	4,062	2,640
	10,173	7,144

30 Net policyholders claims and benefits accrued

	2020	2019
	HRK'000	HRK'000
<i>Non-life insurance</i>		
Claims paid		
Gross amount	(232,497)	(215,751)
Reinsurers' share	93,449	85,490
Change in reported but not settled claims reserve		
Gross amount	(32,018)	13,508
Reinsurers' share	23,735	(15,690)
Change in incurred but not reported claims reserve		
Gross amount	(38,023)	3,016
Reinsurers' share	22,563	(3,294)
Change in unexpired risk provision, gross and net	(730)	710
Change in premium refund provision		
Gross amount	(769)	435
Reinsurers' share	316	258
Change in other technical provision, gross and net	-	4
	<u> </u>	<u> </u>
Total gross claims incurred from non-life insurance	(304,037)	(198,078)
Total reinsurance share in claims incurred from non-life insurance	140,063	66,764
	<u> </u>	<u> </u>
Total net claims incurred from non-life insurance	(163,974)	(131,314)
	<u> </u>	<u> </u>
<i>Life assurance</i>		
Claims paid (benefits and surrenders)		
Gross amount	(505,197)	(415,079)
Reinsurers' share	1,011	1,015
Change in life assurance provision		
Gross amount	(181,401)	(228,219)
Reinsurers' share	(1)	(21)
Change in life assurance provision for unit and index-linked products, gross and net	173,781	131,141
Change in reported but not settled claims reserve		
Gross amount	(1,591)	(8,784)
Reinsurers' share	63	143
Change in incurred but not reported claims reserve		
Gross amount	1	2,086
Reinsurers' share	3	(87)
Change in other technical provision, gross and net	2,721	(25)
	<u> </u>	<u> </u>
Total gross claims incurred from life assurance	(511,686)	(518,880)
Total reinsurance share in claims incurred from life assurance	1,076	1,050
	<u> </u>	<u> </u>
Total net claims incurred from life assurance	(510,610)	(517,830)
	<u> </u>	<u> </u>
Total gross claims incurred	(815,723)	(716,958)
Total reinsurance share in claims incurred	141,139	67,814
	<u> </u>	<u> </u>
Total	(674,584)	(649,144)
	<u> </u>	<u> </u>

30 Net policyholders claims and benefits accrued (continued)

The table below presents claims ratio, costs ratio and combined ratio by line of business calculated in accordance with HANFA's Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance Companies.

Analysis of claims ratio, costs ratio and combined ratio

	Claims ratio	Costs ratio	Combined ratio
2020			
Personal accident insurance	44.77%	33.37%	78.14%
Health insurance	58.21%	34.15%	92.36%
Insurance of motor vehicles	64.26%	21.31%	85.57%
Insurance of track vehicles	(26.76%)	107.57%	80.81%
Insurance of aircrafts	10,067.10%	(603.27%)	9,463.83%
Insurance of vessels	62.23%	33.49%	95.72%
Insurance of goods in transit	29.16%	29.80%	58.96%
Insurance against fire and natural disasters	120.60%	37.20%	157.80%
Other property insurance lines	82.47%	41.41%	123.88%
Motor third party liability insurance	66.66%	34.40%	101.06%
Aircraft liability insurance	(99.47%)	40.98%	(58.49%)
Vessel liability insurance	13.24%	26.34%	39.58%
Other third liability insurance lines	28.40%	35.19%	63.59%
Credit insurance	(37,152.93%)	(14,257.52%)	(51,410.45%)
Suretyship insurance	12.52%	27.44%	39.96%
Insurance of miscellaneous financial losses	197.13%	21.01%	218.14%
Insurance of legal protection	31.38%	120.40%	151.78%
Travel insurance	61.68%	32.16%	93.84%
Total non-life	72.31%	33.33%	105.64%
2019			
Personal accident insurance	60.30%	33.84%	94.14%
Health insurance	56.32%	41.17%	97.49%
Insurance of motor vehicles	65.47%	21.79%	87.26%
Insurance of track vehicles	25.33%	52.56%	77.89%
Insurance of aircrafts	53.50%	26.82%	80.32%
Insurance of vessels	81.04%	34.10%	115.14%
Insurance of goods in transit	3.83%	38.13%	41.96%
Insurance against fire and natural disasters	40.15%	36.73%	76.88%
Other property insurance lines	59.64%	40.80%	100.44%
Motor third party liability insurance	56.16%	37.05%	93.21%
Aircraft liability insurance	35.65%	44.51%	80.16%
Vessel liability insurance	165.33%	25.48%	190.81%
Other third liability insurance lines	30.46%	32.93%	63.39%
Credit insurance	(17,451.97%)	(7,834.87%)	(25,286.84%)
Suretyship insurance	(6.86%)	47.27%	40.41%
Insurance of miscellaneous financial losses	10.78%	14.85%	25.63%
Insurance of legal protection	(176.34%)	312.74%	136.40%
Travel insurance	59.45%	41.38%	100.83%
Total non-life	55.08%	34.12%	89.20%

Ratios are calculated in accordance with Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (Official Gazette 37/16, 96/18, 50/19) as follows:

Claims ratio = (claims paid, gross + change in claims reserves, gross + change in unexpired risk provision, gross + change in other technical provision, gross) / (gross written premiums including net provision for premium receivables impairment + change in gross unearned premium)

Costs ratio = (acquisition costs + change in deferred acquisition costs + administrative expenses + other operating-technical expenses + other operating-technical income) / (gross written premium including net provision for premium receivables impairment + change in gross unearned premium)

Combined ratio = claims ratio + costs ratio

31 Acquisition costs

	2020 HRK'000	2019 HRK'000
<i>Non-life insurance business</i>		
Commission expenses	73,019	58,636
Other acquisition costs	26,125	23,924
Changes in deferred acquisition costs (Note 14)	(8,457)	(5,975)
Total acquisition costs, non-life	90,687	76,585
<i>Life assurance business</i>		
Commission expenses	24,886	29,630
Other acquisition costs	43,753	36,155
Changes in deferred acquisition costs (Note 14)	31	16
Total acquisition costs, life	68,670	65,801
	159,357	142,386

Included within acquisition costs are internal sales staff costs amounting to HRK 59.3 million (2019: HRK 50.5 million).

32 Administrative expenses

	2020 HRK'000	2019 HRK'000
Personnel expenses	40,544	39,179
Rentals	1,778	3,396
Software	9,213	9,808
Telecommunication and post services	5,388	6,103
Energy and utilities	4,516	4,806
Depreciation of property and equipment (Note 11)	4,651	5,032
Amortisation of other intangible assets (Note 15)	9,028	7,557
Amortisation of rights-of-use assets (Note 12)	8,353	7,083
Travel expenses and daily allowances	1,781	2,941
Maintenance	3,325	3,064
Consulting costs	2,110	1,579
Audit fees	715	601
Management fees – related parties (Note 37)	994	939
Lawyers fees	427	533
Provision for termination benefits and jubilee awards, net (Note 24)	500	333
Other expenses	10,999	12,555
	104,322	105,509

In 2020, the average number of employees of the Company was 616 (2019: 595). In 2020, the Company paid pension contributions of HRK 19.9 million (2019: HRK 18.3 million) into obligatory pension funds.

33 Other operating expenses

	2020 HRK'000	2019 HRK'000
Credit cards payments fees	2,692	2,641
Compulsory motor third party liability insurance contribution to the Croatian health fund	2,992	2,359
Legal enforcement collection of receivables from policyholders	716	1,731
Prevention costs	1,439	1,469
Guarantee – fund and Croatian Insurance Bureau levies	1,547	1,272
Croatian Supervisory Financial Agency levies	956	880
Impairment loss on other receivables	-	832
Provision for court cases (Note 24)	1,756	786
Fire brigade contributions	817	729
Legal claims paid (lawsuit brought against Company)	1	583
Change in Guarantee - fund Croatian Insurance Bureau provision	2,490	(142)
Write off loss on other receivables	-	21
Write off loss and impairment loss on property and equipment (Note 11)	-	1
Write off loss on other intangible assets (Note 15)	-	51
Other expenses	1,566	825
	<u>16,972</u>	<u>14,038</u>

34 Financial expenses

	2020 HRK'000	2019 HRK'000
Interest expense on reinsurance deposit (Note 37)	582	573
Interest expenses from lease liabilities	241	387
Depreciation of investment property (Note 13)	1,469	1,282
Impairment loss on investment property (Note 13)	2,942	-
Impairment loss on available-for-sale financial assets (Note 21f)	865	226
Impairment loss/(reversal of impairment loss) on loans to customers (Note 16), net	30	(60)
Impairment loss on other receivables (Note 19d)	183	-
Energy, utilities and maintenance expenses of investment property (Note 13)	2,096	2,556
Other expenses	3,328	1,952
	<u>11,736</u>	<u>6,916</u>

34 Financial expenses (continued)

	Non-life	Life	Total	Non-life	Life	Total
	2020	2020	2020	2019	2019	2019
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	2,976	5,083	8,059	1,399	3,597	4,996
Expenses from assets backing life assurance provision	-	2,927	2,927	-	870	870
Expenses from assets backing other technical provisions	750	-	750	979	71	1,050
Expenses from assets backing index-linked and unit-linked products	-	-	-	-	-	-
	<u>3,726</u>	<u>8,010</u>	<u>11,736</u>	<u>2,378</u>	<u>4,538</u>	<u>6,916</u>

35 Income taxes

	2020	2019
	HRK'000	HRK'000
Current income tax	(10,023)	(11,065)
Deferred income tax (Note 18)	1,025	(1,018)
Total income tax expense	<u>(8,998)</u>	<u>(12,083)</u>

a. Reconciliation of accounting profit for the year to income tax expense

	2020	2019
	HRK'000	HRK'000
Profit before tax	49,021	64,680
Income tax at 18%	(8,824)	(11,642)
Tax effects of:		
Non-deductible expenses	(1,599)	(1,074)
Income not subject to tax	400	1,651
Origination and reversal of temporary differences (Note 18)	1,025	(1,018)
Total income tax expense	<u>(8,998)</u>	<u>(12,083)</u>
Effective income tax rate	<u>18.3%</u>	<u>18.7%</u>

35 Income taxes (continued)

b. Income tax recognised in other comprehensive income

	2020 HRK'000	2019 HRK'000
On available-for-sale financial assets		
Deferred tax on net (losses)/gains from change in fair value of available-for-sale financial assets, net of amounts realised and impairment losses including change in tax rate (Note 18 and Note 21 f)	<u>16,767</u>	<u>(32,805)</u>

c. Current income tax (prepayment)/liability

	2020 HRK'000	2019 HRK'000
Current income tax (prepayment)/liability	<u>(121)</u>	<u>2,241</u>

36 Commitments

a. Capital commitments

By the end of 2021, the Company plans to move from the existing information system for the non-life insurance portfolio, to a unified, technologically advanced and more functional IT system for administering the portfolio of non-life and life insurance. Capital expenditure for software, contracted for at the end of the reporting period but not yet incurred amounts to HRK 23.4 million (2019: HRK 17.1 million).

b. Operating leases

The Company lease office space, motor vehicles and other equipment under operating leases. All leases may be cancelled with a notice period of 1 to 3 months and they are mostly concluded for an indefinite period or/and for three year period. None of the lease contracts includes contingent rentals.

As of 1 January 2019 operating leases are recognized in accordance with IFRS 16, as disclosed in the Significant Accounting Policies 3 (g).

37 Related parties

The major shareholder of the Company is Vienna Insurance Group AG Wiener Versicherung Gruppe with a holding of 97.82% (2019: 97.82%) of the Company's shares at year end. The remaining 2.18% (2019: 2.18%) of the shares are held by minority shareholders. Ultimate parent of the Company is Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group. The Company considers that it has an immediate related party relationship with its shareholders, the ultimate parent of its key shareholder, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

Parent company and other related companies within VIG Group

The Company cedes reinsurance to the parent company and other related companies, VIG Re, DONAU, Wiener Städtische Versicherung AG, UNION Vienna Insurance Group Biztosító Zrt and Ray Sigorta AS. The results of transactions with parent company and related companies are reinsurance premiums and recoveries during the year as well as receivable and payable balances at the end of the year, as follows:

	2020	2019
	HRK'000	HRK'000
Premium ceded:		
Reinsurance premiums payable at beginning of the year	(38,753)	(30,696)
Reinsurance premiums ceded during the year	(142,468)	(114,575)
Reinsurance premiums paid during the year	125,865	106,518
	<u>(53,356)</u>	<u>(38,753)</u>
Reinsurance recoveries:		
At the beginning of the year	23,665	13,959
Invoiced during the year	86,880	84,202
Received during the year	(82,395)	(74,496)
	<u>28,150</u>	<u>23,665</u>
Reinsurance commission:		
At the beginning of the year	2,568	6,272
Invoiced during the year	32,366	30,250
Received during the year	(20,944)	(33,954)
	<u>13,990</u>	<u>2,568</u>
Deposit retained from reinsurance business (Note 25)	<u>95,590</u>	<u>83,769</u>
Interest expense on deposit retained from reinsurance business (Note 34)	<u>582</u>	<u>573</u>

37 Related parties (continued)

Parent company and other related companies within VIG Group (continued)

In 2020, management fees charged to the Company amounted to HRK 1 million (2019: 0.9 million) (Note 32) and software maintenance services amounted to HRK 3.1 million (2019: HRK 3.4 million) (Note 32) while there were no capitalised costs in 2020 (2019: HRK 0.4 million).

The Company holds 2.63% of shareholding in VIG FUND, a.s., Prague, related company, which is carried at value of HRK 47,918 thousand (2019: 2.63%, HRK 46,531 thousand). In 2020, the Company recognized gain from change in fair value in amount of HRK 1,387 thousand in other comprehensive income (2019: gain HRK 1,938 thousand). In 2020, VIG FUND, a.s. paid dividend in amount of HRK 988 thousand to the Company (2019: HRK 603 thousand) (Note 28). The Company rents office premises from related company S.O.S.-Expert d.o.o., owned by LVP Holding GmbH, whereby rental expenses were recognised in the amount of HRK 1.5 million (2019: HRK 1.5 million) (Note 32).

Camelot Informatik und Consulting Gesellschaft m.b.H. provided in 2020 software maintenance service to the Company in amount of HRK 0.7 million (2019: HRK 1.6 million).

Erste&Steiermärkische Bank Group

The Company has strategic partnership with Erste&Steiermärkische Bank d.d (further on "Erste Bank"). The Company offers insurance products over the Erste Bank sales network as distribution channel. During 2020, the Company acquired through the Erste Bank as distribution channel gross written premium in amount of HRK 277.5 million (2019: HRK 321.7 million) and paid commission to Erste Bank thereon in amount of HRK 21.6 million (2019: HRK 25.2 million). Erste Bank and other members of Erste Bank Group concludes insurance contracts with the Company with gross written premium in amount of HRK 17.6 million in 2020 (2019: HRK 15.9 million) and the Company has paid claims to Erste Bank in the amount of HRK 16.5 million (2019: HRK 22.6 million). Majority of concluded insurance contracts were property insurance contracts.

The Company holds deposits and cash at bank accounts with Erste Bank in amount of HRK 106.7 million as at 31 December 2020 (2019: HRK 50.0 million). The Company holds corporate bond issued by Erste Bank in amount of HRK 6 million as at 31 December 2020 (2019: HRK 22.7 million) and structured bonds issued by Erste Bank AG and Banca Comerciala Romana s.a. in amount of HRK 21.3 million as at 31 December 2020 (2019: HRK 63.5 million). The Company holds units in investment funds managed by Erste Asset Management d.o.o. in amount of HRK 132.6 million as at 31 December 2020 (2019: HRK 200.8 million), and recognised income from retrocession fee in amount of HRK 335 thousand (2019: HRK 833 thousand).

Erste Bank provides custody services, cash and payment transaction services and guarantee services to the Company for which the Company was charged with HRK 1.8 million during 2020 (2019: HRK 1.9 million). As at 31 December 2020 contingent guarantees amounted to HRK 3.1 million (2019: HRK 1.6 million). The Company also acquires services from other members of Erste Bank Group. The Company leases vehicles under operating leases with Erste & Steiermärkische S-Leasing d.o.o. During 2020, the Company paid to Erste & Steiermärkische S-Leasing d.o.o. under operating leases HRK 48 thousand (2019: HRK 185 thousand) and as at 31 December 2020 had operating lease commitments for minimum lease payments of HRK 92 thousand (2019: HRK 257 thousand). Erste Card Club d.o.o. provides card payment transaction services to the Company for which the Company was charged with HRK 852 thousand in 2020 (2019: HRK 824 thousand). Erste nekretnine d.o.o. provides real estate valuation services to the Company for which the Company was charged with HRK 200 thousand in 2020 (2019: HRK 265 thousand). Erste Group IT HR d.o.o. provides software maintenance services to the Company for which the Company was charged with amount of HRK 152 thousand during 2020 (2019: HRK 163 thousand). The Company rents premises to Erste d.o.o. - društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima and as well receives commission for contracting pension fund membership, whereby revenues were recognised in the amount of HRK 47 thousand (2019: HRK 78 thousand). The Company rents premises to Erste Group Card Processor d.o.o. whereby rental revenues were recognised in the amount of HRK 2.9 million (2019: HRK 2.9 million).

Deposits, bonds and investment funds attract standard commercial rates and yields as well services provided are subject to standard commercial transaction and service fees and charges.

Key management personnel

Included in key management personnel are Management and Supervisory Board members. The remuneration of the key management personnel amounted to HRK 6.6 million (2019: HRK 7.4 million), and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic salary, bonuses and benefits in kind.

37 Related parties (continued)

2020

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel</i>	-	1,795	-	6,594
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	18,076	115,390	63,493	80,607
<i>Shareholder</i>				
Erste&Steiermärkische Bank Group	305,528	1,508	23,926	45,477
<i>Related companies</i>				
Wiener Staedtische Versicherung AG	118	1,578	161	1,605
VIG Re	23,796	32,531	55,423	62,987
DONAU	-	-	19	77
Kooperativa pojišťovna, a.s., Vienna Insurance Group, Prague	8	103	8	103
UNION Vienna Insurance Group Biztosító Zrt	135	1,083	135	1,083
RAY SIGORTA AS	7	13	7	13
S.O.S. – Expert d.o.o.	-	-	-	1,517
Camelot Informatik und Consulting	-	306	-	662
	<u>347,668</u>	<u>154,307</u>	<u>143,172</u>	<u>200,725</u>

2019

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel</i>	-	2,264	-	7,428
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	12,391	98,730	76,776	68,877
<i>Shareholder</i>				
Erste&Steiermärkische Bank Group	337,052	1,902	19,720	50,996
<i>Related companies</i>				
Wiener Staedtische Versicherung AG	106	1,143	859	2,491
VIG Re	13,735	23,917	36,796	47,322
DONAU	-	-	9	81
Kooperativa pojišťovna, a.s., Vienna Insurance Group, Prague	-	-	10	103
S.O.S. – Expert d.o.o.	-	-	-	1,480
Camelot Informatik und Consulting	-	306	-	1,582
	<u>363,284</u>	<u>128,262</u>	<u>134,170</u>	<u>180,360</u>

38 Financial Risk Management

The primary objective of the Company's risk and financial management framework is to protect the Company's policyholders and shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

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

Market risk

Market risk includes three types of risk:

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

Market risk embodies the potential loss as well as the potential gain.

Asset and liability matching

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

The Company establishes target asset portfolios for each business segment, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. These strategies include objectives for effective duration, liquidity, asset sector concentration and credit risk quality. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly reviewed.

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

Interest rate risk

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio and debt obligations. 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 different amounts.

The Company is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. This risk is, however, limited, considering that majority of the Company's interest earning investments and majority of interest bearing liabilities bear fixed interest rates at the reporting date.

38 Financial risk management (continued)

Interest rate risk (continued)

Deposits retained from reinsurance bear variable interest rates.

Interest rate changes do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the date of financial position. The life assurance provision is discounted using the lower of the technical interest rate or maximum rate prescribed by HANFA, which cannot be higher than the weighted average annual return for the last two years on assets backing life assurance provision.

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

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

Note 40 discloses the effective interest rates and repricing analysis at the reporting date for the Company's and the Company's financial assets and financial liabilities within the scope of IAS 39 at 31 December 2020 and 31 December 2019.

Since the majority of interest earning assets and majority of interest bearing liabilities on those dates, had fixed interest rate, there would be no direct effect on the Company's profit or loss. Indirect effect would be reflected in the change of fair value of debt securities at fair value through profit or loss, therefore there are no disclosures on interest rate sensitivity analysis.

Price risk

The Company is exposed to price risk on its portfolio of marketable equity securities and investment funds carried in the statement of financial position at fair value. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded on the market.

The Company's objective is to earn competitive returns by investing in a diverse portfolio of securities. Portfolio characteristics are analysed regularly. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit and other comprehensive income resulting from financial instruments.

	Impact on profit or loss after tax 2020 HRK'000	Impact on other comprehensive income after tax 2020 HRK'000	Impact on profit or loss after tax 2019 HRK'000	Impact on other comprehensive income after tax 2019 HRK'000
Change in price by \pm 1%	697/(697)	2,831/(2,831)	1,333/(1,333)	722/(722)
Change in price by \pm 3%	2,090/(2,090)	8,492/(8,492)	3,998/(3,998)	2,167/(2,167)
Change in price by \pm 5%	3,483/(3,483)	14,153/(14,153)	6,664/(6,664)	3,612/(3,612)

38 Financial risk management (continued)

Foreign exchange risk

The Company is exposed to currency risk through transactions in foreign currencies. This is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency exposure arises from credit, deposit and investment activities as well as from premium income, calculation of related technical provisions and settlement of claims on insurance policies linked to foreign currency and subordinated loan. The currency giving rise to this risk is Euro.

The Company manages foreign currency risk by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency.

Note 41 discloses the currency analysis at the reporting date for the Company's financial assets and financial liabilities as at 31 December 2020 and 31 December 2019.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit or loss and other comprehensive income resulting from financial investments.

All the Company's assets and liabilities are denominated either in HRK, EUR or USD. The EUR/HRK rate is targeted in an interval of between 7.43 HRK for 1 EUR and 7.63 HRK for 1 EUR (2019: between 7.37 HRK for 1 EUR and 7.46 HRK for 1 EUR). The EUR/HRK rate was most of the time in the past within that range.

	Impact on profit or loss after tax 2020 HRK'000	Impact on other comprehensive income after tax 2020 HRK'000	Impact on profit or loss after tax 2019 HRK'000	Impact on other comprehensive income after tax 2019 HRK'000
EUR / HRK rate				
Change in fx rate by \pm 1%	19,854/(19,854)	1,826/(1,826)	21,003/(21,003)	608/(608)
Change in fx rate by \pm 2%	39,708/(39,708)	3,653/(3,653)	42,006/(42,006)	1,216/(1,216)

38 Financial risk management (continued)

Credit risk

In the course of its normal operations the Company is exposed to credit risk. Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. It usually results from the adverse changes in a borrower's ability to repay the debt. The Company's maximum exposure to credit risk is represented by the carrying value of its financial assets.

The Company's portfolios of fixed income securities, mortgage loans and to a lesser extent deposits with banks and other investments are subject to credit risk. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans.

Maximum exposure to credit risk at the reporting date is as follows:

	<i>Note</i>	2020 HRK'000	2019 HRK'000
Cash	20	93,489	35,841
Debt securities	16	3,348,959	3,692,922
Deposits with banks	16	62,364	80,583
Loans to customers	16	33,213	38,928
Reinsurers' share of technical provisions	17	243,721	186,729
Insurance and other receivables	19	177,405	150,738
Current income tax prepayment	35c)	121	-
		<u>3,959,272</u>	<u>4,185,741</u>

Accordingly, at the reporting date, the Company had a significant concentration of amounts due from the Republic of Croatia as follows:

	<i>Note</i>	2020 HRK'000	2019 HRK'000
Government bonds	16	3,106,366	3,261,720
Insurance and other receivables	19	-	621
Current income tax prepayment	35c)	121	-
		<u>3,106,487</u>	<u>3,262,341</u>

The total exposure to Croatian state risk represents 65% of the total assets of the Company (2019: 68%).

38 Financial risk management (continued)**Credit risk (continued)**

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit ratings of counterparties.

2020

	AAA - A HRK'000	BBB - B HRK'000	Not rated HRK'000	Total HRK'000
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	-	5,076	-	5,076
Debt securities – assets backing index-linked products	-	203,053	-	203,053
<i>Available-for-sale financial assets</i>				
Debt securities	2,395	2,836,375	4,947	2,843,717
<i>Held-to-maturity investments</i>				
Debt securities	-	297,113	-	297,113
<i>Loans and receivables</i>				
Deposits with banks	-	46,966	15,398	62,364
Loans to customers	-	-	33,213	33,213
Reinsurers' share of technical provisions	243,721	-	-	243,721
Insurance and other receivables	49,844	-	127,561	177,405
Current income tax prepayment	-	121	-	121
Cash	-	92,275	1,214	93,489
Total exposure to credit risk	295,960	3,480,979	182,333	3,959,272

2019

	AAA - A HRK'000	BBB - B HRK'000	Not rated HRK'000	Total HRK'000
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	14,829	4,615	-	19,444
Debt securities – assets backing index-linked products	27,743	350,036	-	377,779
<i>Available-for-sale financial assets</i>				
Debt securities	2,198	2,427,373	27,650	2,457,221
<i>Held-to-maturity investments</i>				
Debt securities	-	838,478	-	838,478
<i>Loans and receivables</i>				
Deposits with banks	-	50,800	29,783	80,583
Loans to customers	-	-	38,928	38,928
Reinsurers' share of technical provisions	186,729	-	-	186,729
Insurance and other receivables	26,232	-	124,506	150,738
Cash	-	-	35,841	35,841
Total exposure to credit risk	257,731	3,671,302	256,708	4,185,741

38 Financial risk management (continued)

Credit risk (continued)

To mitigate the risk of reinsurance counterparties not paying amounts due, the Company established business and financial standards for reinsurers and broker approvals, incorporating ratings by major rating agencies and considering current market information (Standard&Poor's, A.M. Best).

Reinsurers as of 31 December 2019	Credit rating (Standard&Poor's or AM Best)
American Agricultural Insurance Company	A
ACE INA Overseas Insurance Co	AA-
ACE American Insurance Company	AA
AIG Europe Ltd	A+
CHUBB European Group SE	AA
CHUBB Insurance Japan	AA-
CHUBB Insurance Company of Australia	Not Rated
CHUBB Insurance Company of Canada	AA
CHUBB Insurance Switzerland Ltd	AA
CCR / Caisse Centrale de Reassurance	A
Randall and Quilter Group Investment Holdings Ltd. (ex - Chevanstell Limited)	Not rated
DONAU Versicherung AG Vienna Insurance Group (rating VIG group)	A+
General Reinsurance AG	AA+
Glacier Reinsurance AG	Not rated
Hannover Rückversicherung AG	AA-
Helvetia Schweizerische Versicherungsgesellschaft AG	A
Kooperativa, pojist'ovna, a.s. Vienna Insurance Group (rating VIG group)	A+
Korean Reinsurance Co.	A
Liberty Mutual Insurance Europe SE	A
Mapfre Re, Compania de Reaseguros, S.A.	A+
Mutuelle Centrale de Reassurance	Not Rated
Münchener Rückversicherungsgesellschaft	AA-
New Reinsurance Company	AA-
Odyssey Reinsurance Company	A-
Partner Reinsurance Europe SE	A+
Polish Re / Polskie Towarzystwo Reasekuracyjne S.A.	A-
RAY SIGORTA AS	Not rated
R + V Versicherung AG	AA-
Sava / Pozavarovalnica Sava, d.d.	A
SCOR Global P&C SE	AA-
Swiss Re Europe S.A.	AA-
The Toa Reinsurance Company Limited	A+
Transatlantic Reinsurance Company Ltd.	A+
UNION Vienna Insurance Group Biztosító Zrt	Not rated
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	A+
VIG Re zajistovna a.s.	A+
Wiener Städtische Versicherung AG Vienna Insurance Group (rating VIG group)	A+
XL Re Europe SE	AA-
Zurich Insurance Company	AA-
Lloyd's Insurance CO SA	A+
Lloyd's of London – various syndicates	A+

38 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 holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and to meet legal requirements.

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

Note 39 discloses the maturity analysis at the reporting date for the Company's financial assets and financial liabilities.

Note 23 discloses the maturity analysis of the Company's technical provisions.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

	Note	2020		2019	
		Book value HRK'000	Fair value HRK'000	Book value HRK'000	Fair value HRK'000
Held-to-maturity investments	16	297,113	336,443	838,478	897,523
Available-for-sale financial assets	16	3,188,919	3,188,919	2,545,318	2,545,318
Financial assets at fair value through profit or loss	16	330,326	330,326	596,063	596,063
Loans and receivables	16	95,577	99,636	119,511	123,677
Reinsurers' share of technical provisions	17	243,721	243,721	186,729	186,729
Insurance and other receivables	19	177,405	177,405	150,738	150,738
Current income tax prepayment	35c)	121	121	-	-
Cash	20	93,489	93,489	35,841	35,841
Total financial assets		4,426,671	4,470,060	4,472,678	4,535,889
Insurance and other payables	25	326,679	326,679	344,950	344,950
Current income tax liability	35c)	-	-	2,241	2,241
Total financial liabilities		326,679	326,679	347,191	347,191

38 Financial risk management (continued)

Fair values (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 are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at			Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2020	31 December 2019	Fair value hierarchy			
<i>Fair value through profit and loss</i>						
Debt securities	208,129	397,223	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
Equity securities	3,526	4,325	Level 1	Price quoted on a stock exchange – average price on the last day in the month	Not applicable	Not applicable
Open-end investment fund shares	118,671	194,515	Level 1	Quoted price issued by the fund	Not applicable	Not applicable
<i>Available for sale assets</i>						
Debt securities	2,840,776	2,454,248	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	2,941	2,973	Level 2	Last average price amortised until maturity and corporate bond in the process of listing into stock exchange (purchase price is used)	Not applicable	Not applicable
Equity securities	12,499	13,953	Level 1	Price quoted on a stock exchange – average price on the last day in the month	Not applicable	Not applicable
Equity securities	47,918	46,531	Level 2	Measured at cost and price based on NAV of the real estate fund	Not applicable	Not applicable
Open-end investment fund shares	284,785	27,613	Level 1	Quoted price issued by the fund	Not applicable	Not applicable

38 Financial risk management (continued)

Hierarchy of fair values

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: quoted price (unadjusted) in an active market;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the financial assets, either directly (for example prices) or indirectly (for example derived from prices);
- Level 3: inputs for assets are not based on observable market data (for example valuation techniques using significant unobservable inputs).

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
31 December 2020				
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	-	5,076	-	5,076
Debt securities – assets backing index-linked products	-	203,053	-	203,053
Equity securities	3,526	-	-	3,526
Investment funds	81,417	-	-	81,417
Investment funds – assets backing unit-linked products	37,254	-	-	37,254
<i>Available-for-sale financial assets</i>				
Debt securities	2,840,776	2,941	-	2,843,717
Equity securities	12,499	47,918	-	60,417
Investment funds	284,785	-	-	284,785
Total financial assets	3,260,257	258,988	-	3,519,245
31 December 2019				
<i>Financial assets at fair value through profit or loss</i>				
Debt securities	-	19,444	-	19,444
Debt securities – assets backing index-linked products	-	377,779	-	377,779
Equity securities	4,325	-	-	4,325
Investment funds	158,205	-	-	158,205
Investment funds – assets backing unit-linked products	36,310	-	-	36,310
<i>Available-for-sale financial assets</i>				
Debt securities	2,454,248	2,973	-	2,457,221
Equity securities	13,953	46,531	-	60,484
Investment funds	27,613	-	-	27,613
Total financial assets	2,694,654	446,727	-	3,141,381

In both 2020 and 2019 there were no transfers between Level 1 and Level 2 of the fair value hierarchy and available for sale hierarchy.

39 Maturity analysis

The tables below analyse the financial assets and liabilities within the scope of IAS 39 of the Company at 31 December 2020 and 31 December 2019 into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date, except for non-monetary financial assets at fair value through profit or loss which are classified as short term and non-monetary financial assets available for sale carried at cost which are classified as long term. The estimated remaining contractual maturities of insurance provisions are analysed in Note 23 j).

2020

	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets						
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	5,076	-	-	-	5,076
Debt securities – assets backing index-linked products	-	16,254	186,799	-	-	203,053
Equity securities	3,526	-	-	-	-	3,526
Investment funds	81,417	-	-	-	-	81,417
Investment funds – assets backing unit-linked products	-	-	-	-	37,254	37,254
<i>Available-for-sale financial assets</i>						
Debt securities	-	-	4,242	709,754	2,129,721	2,843,717
Equity securities	12,499	-	-	-	47,918	60,417
Investment funds	284,785	-	-	-	-	284,785
<i>Held-to-maturity investments</i>						
Debt securities	-	-	135,892	150,497	10,724	297,113
<i>Loans and receivables</i>						
Deposits with banks	31,752	-	15,214	15,398	-	62,364
Loans to customers	5,332	2,896	4,535	4,422	16,028	33,213
Reinsurers' share of technical provisions	62,593	63,413	5,919	89,409	22,387	243,721
Insurance and other receivables	177,405	-	-	-	-	177,405
Current income tax prepayment	121	-	-	-	-	121
Cash	93,489	-	-	-	-	93,489
Total financial assets	752,919	87,639	352,601	969,480	2,264,032	4,426,671
Financial liabilities						
Insurance and other payables	195,261	73,414	9,167	28,098	20,739	326,679
Lease liabilities	3,833	3,833	1,955	13,023	6,009	28,653
Total financial liabilities	199,094	77,247	11,122	41,121	26,748	355,332

39 Maturity analysis (continued)

2019

	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets						
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	14,829	-	4,615	-	-	19,444
Debt securities – assets backing index-linked products	172,239	-	16,298	189,242	-	377,779
Equity securities	4,325	-	-	-	-	4,325
Investment funds	158,205	-	-	-	-	158,205
Investment funds – assets backing unit-linked products	-	-	-	-	36,310	36,310
<i>Available-for-sale financial assets</i>						
Debt securities	14,869	-	2,022	503,625	1,936,705	2,457,221
Equity securities	13,953	-	-	-	46,531	60,484
Investment funds	27,613	-	-	-	-	27,613
<i>Held-to-maturity investments</i>						
Debt securities	543,772	-	-	284,089	10,617	838,478
<i>Loans and receivables</i>						
Deposits with banks	20,359	-	30,440	29,784	-	80,583
Loans to customers	6,513	2,107	4,205	6,028	20,075	38,928
Reinsurers' share of technical provisions	42,955	45,110	9,298	70,174	19,192	186,729
Insurance and other receivables	150,738	-	-	-	-	150,738
Cash	35,841	-	-	-	-	35,841
Total financial assets	1,206,211	47,217	66,878	1,082,942	2,069,430	4,472,678
Financial liabilities						
Current income tax liability	2,241	-	-	-	-	2,241
Insurance and other payables	228,527	62,358	11,092	23,783	19,190	344,950
Lease liabilities	3,642	3,642	6,937	10,405	7,489	32,115
Total financial liabilities	234,410	66,000	18,029	34,188	26,679	379,306

40 Interest rate repricing analysis

The following tables present the Company's financial assets and 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 2020 and 31 December 2019 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 6), provide some indication of the sensitivities of the Company's earnings to movements in interest rates. Earnings 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 foreign currency.

2020

	Effective interest rate	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non – interest bearing	Total	Amounts subject to fixed rates
	%	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets									
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	n/a	-	-	-	-	-	5,076	5,076	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	203,053	203,053	-
Equity securities	n/a	-	-	-	-	-	3,526	3,526	-
Investment funds	n/a	-	-	-	-	-	81,417	81,417	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	37,254	37,254	-
<i>Available-for-sale financial assets</i>									
Debt securities	2.21	-	-	4,135	700,407	2,118,635	20,540	2,843,717	2,823,177
Equity securities	n/a	-	-	-	-	-	60,417	60,417	-
Investment funds	n/a	-	-	-	-	-	284,785	284,785	-
<i>Held-to-maturity investments</i>									
Debt securities	6.00	-	-	132,118	146,635	10,564	7,796	297,113	289,317
<i>Loans and receivables</i>									
Deposits with banks	3.21	26,379	-	12,000	15,000	-	8,985	62,364	53,379
Loans to customers	6.47	5,332	2,896	4,535	4,422	12,427	3,601	33,213	28,014
Reinsurers' share of technical provisions	n/a	-	-	-	-	-	243,721	243,721	-
Insurance and other receivables	n/a	-	-	-	-	-	177,405	177,405	-
Current income tax prepayment	n/a	-	-	-	-	-	121	121	-
Cash	0.01	93,489	-	-	-	-	-	93,489	-
Total financial assets		125,200	2,896	152,788	866,464	2,141,626	1,137,697	4,426,671	3,193,887
Financial liabilities									
Insurance and other payables	0.76	93,907	137	94	835	616	231,090	326,679	2,026
Lease liabilities	2.17	3,833	3,833	1,955	13,023	6,009	-	28,653	-
Total financial liabilities		97,740	3,970	2,049	13,858	6,625	231,090	355,332	2,026

40 Interest rate repricing analysis (continued)

2019

	Effective interest rate %	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non – interest bearing	Total	Amounts subject to fixed rates
		HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets									
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	n/a	-	-	-	-	-	19,444	19,444	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	377,779	377,779	-
Equity securities	n/a	-	-	-	-	-	4,325	4,325	-
Investment funds	n/a	-	-	-	-	-	158,205	158,205	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	36,310	36,310	-
<i>Available-for-sale financial assets</i>									
Debt securities	2.79	14,559	-	2,019	494,551	1,918,531	27,561	2,457,221	2,429,660
Equity securities	n/a	-	-	-	-	-	60,484	60,484	-
Investment funds	n/a	-	-	-	-	-	27,613	27,613	-
<i>Held-to-maturity investments</i>									
Debt securities	6.40	532,444	-	-	276,547	10,461	19,026	838,478	819,452
<i>Loans and receivables</i>									
Deposits with banks	3.41	17,000	-	26,049	27,000	-	10,534	80,583	70,049
Loans to customers	6.82	6,513	2,107	4,205	6,028	14,280	5,795	38,928	31,031
Reinsurers' share of technical provisions	n/a	-	-	-	-	-	186,729	186,729	-
Insurance and other receivables	n/a	-	-	-	-	-	150,738	150,738	-
Cash	0.01	35,841	-	-	-	-	-	35,841	-
Total financial assets		606,357	2,107	32,273	804,126	1,943,272	1,084,543	4,472,678	3,350,192
Financial liabilities									
Current income tax liability	n/a	-	-	-	-	-	2,241	2,241	-
Insurance and other payables	0.76	81,910	120	202	851	686	261,181	344,950	2,256
Lease liabilities	1.92	3,642	3,642	6,937	10,405	7,489	-	32,115	-
Total financial liabilities		85,552	3,762	7,139	11,256	8,175	263,422	379,306	2,256

41 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 2020 and 31 December 2019.

2020

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	GBP HRK'000	HRK HRK'000	Total HRK'000
Financial assets							
<i>Financial assets at fair value through profit or loss</i>							
Debt securities	5,076	-	5,076	-	-	-	5,076
Debt securities – assets backing index-linked products	16,254	186,799	203,053	-	-	-	203,053
Equity securities	-	-	-	-	-	3,526	3,526
Investment funds	-	67,211	67,211	-	-	14,206	81,417
Investment funds – assets backing unit-linked products	-	37,254	37,254	-	-	-	37,254
<i>Available-for-sale financial assets</i>							
Debt securities	36,950	1,706,564	1,743,514	9,073	-	1,091,130	2,843,717
Equity securities	47,918	-	47,918	-	-	12,499	60,417
Investment funds	13,262	161,546	174,808	-	-	109,977	284,785
<i>Held-to-maturity investments</i>							
Debt securities	-	297,113	297,113	-	-	-	297,113
<i>Loans and receivables</i>							
Deposits with banks	-	31,752	31,752	-	-	30,612	62,364
Loans to customers	-	16,934	16,934	746	-	15,533	33,213
Reinsurers' share of technical provisions	-	2,636	2,636	36	-	241,049	243,721
Insurance and other receivables	-	3,258	3,258	-	-	174,147	177,405
Current income tax prepayment	-	-	-	-	-	121	121
Cash	3,590	-	3,590	-	-	89,899	93,489
Total financial assets	123,050	2,511,067	2,634,117	9,855	-	1,782,699	4,426,671
Financial liabilities							
Insurance and other payables	-	140,672	140,672	-	4	186,003	326,679
Lease liabilities	-	20,099	20,099	-	-	8,534	28,653
Total financial liabilities	-	160,771	160,771	-	4	194,537	355,332

41 Currency risk analysis (continued)

2019

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	GBP HRK'000	HRK HRK'000	Total HRK'000
Financial assets							
<i>Financial assets at fair value through profit or loss</i>							
Debt securities	19,444	-	19,444	-	-	-	19,444
Debt securities – assets backing index-linked products	44,041	260,298	304,339	-	-	73,440	377,779
Equity securities	-	-	-	-	-	4,325	4,325
Investment funds	-	-	-	-	-	158,205	158,205
Investment funds – assets backing unit-linked products	-	36,310	36,310	-	-	-	36,310
<i>Available-for-sale financial assets</i>							
Debt securities	290,400	1,228,066	1,518,466	9,785	-	928,970	2,457,221
Equity securities	46,531	-	46,531	-	-	13,953	60,484
Investment funds	13,358	14,255	27,613	-	-	-	27,613
<i>Held-to-maturity investments</i>							
Debt securities	-	584,619	584,619	-	-	253,859	838,478
<i>Loans and receivables</i>							
Deposits with banks	-	30,440	30,440	-	-	50,143	80,583
Loans to customers	-	19,254	19,254	471	-	19,203	38,928
Reinsurers' share of technical provisions	-	2,725	2,725	36	-	183,968	186,729
Insurance and other receivables	-	3,905	3,905	-	-	146,833	150,738
Cash	536	-	536	-	-	35,305	35,841
Total financial assets	414,310	2,179,872	2,594,182	10,292	-	1,868,204	4,472,678
Financial liabilities							
Current income tax liability	-	-	-	-	-	2,241	2,241
Insurance and other payables	-	5,354	5,354	38	6	339,552	344,950
Lease liabilities	-	24,371	24,371	-	-	7,744	32,115
Total financial liabilities	-	29,725	29,725	38	6	349,537	379,306

42 Contingent assets and liabilities

Off-balance sheet accounts

The Company had no off-balance sheet accounts as at 31 December 2020 (2019: -).

Litigations and claims

The Company is sued in several litigations (excluding court claims) for which provision was made in the financial statements when the Management believes that is probable that the Company will lose the court case.

43 Subsequent events

As at 31 December 2020 the Company made, for the earthquake in Sisak- Moslavina County that happened on 29 December 2020, an estimate of total claims according to available data like total sum insured on this area and previous experience with similar events.

Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
Statement of financial position (balance sheet) 31 December 2020

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003	I	INTANGIBLE ASSETS	11,992,211	69,939,701	81,931,912	15,739,176	77,046,711	92,785,887
002		1	Goodwill	-	3,551,774	3,551,774	-	3,551,774	3,551,774
003		2	Other intangible assets	11,992,211	66,387,927	78,380,138	15,739,176	73,494,937	89,234,113
004	005+006+007	II	TANGIBLE ASSETS	67,196,316	29,219,577	96,415,893	67,359,945	34,419,078	101,779,023
005		1	Land and buildings intended for company business operations	66,418,785	22,979,198	89,397,983	66,754,656	25,193,880	91,948,536
006		2	Equipment	777,531	5,872,928	6,650,459	605,288	8,857,457	9,462,745
007		3	Other tangible assets and stock	-	367,451	367,451	-	367,741	367,741
008	009+010+014+033	III	INVESTMENTS	3,214,676,221	553,614,993	3,768,291,214	3,259,186,349	552,553,224	3,811,739,573
009		A	Investments in land and buildings not intended for company business operations	56,530,300	26,480,223	83,010,523	116,788,821	23,323,477	140,112,298
010	011+012+013	B	Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-
011		1	Shares and stakes in subsidiaries	-	-	-	-	-	-
012		2	Shares and stakes in associates	-	-	-	-	-	-
013		3	Joint venture participation	-	-	-	-	-	-
014	015+018+023+029	C	Financial investments	3,158,145,921	527,134,770	3,685,280,692	3,142,397,528	529,229,746	3,671,627,275
015	016+017	1	Financial investments held-to-maturity	782,301,790	56,176,004	838,477,794	297,113,233	-	297,113,233
016		1.1	Debt financial securities	782,301,790	56,176,004	838,477,794	297,113,233	-	297,113,233
017		1.2	Other	-	-	-	-	-	-
018	019+020+021+022	2	Financial investments available-for-sale	2,114,785,301	430,532,889	2,545,318,190	2,665,091,248	523,827,909	3,188,919,157
019		2.1	Equity financial securities	49,356,099	11,128,060	60,484,160	51,805,502	8,611,515	60,417,017
020		2.2	Debt financial securities	2,037,816,633	419,404,829	2,457,221,462	2,431,411,419	412,305,971	2,843,717,390
021		2.3	Investment fund units	27,612,568	-	27,612,568	181,874,327	102,910,422	284,784,749
022		2.4	Other	-	-	-	-	-	-
023	024+025+026+027+028	3	Financial investments at fair value through profit and loss account	143,461,672	38,512,099	181,973,771	86,492,679	3,525,709	90,018,388
024		3.1	Equity financial securities	-	4,324,667	4,324,667	-	3,525,709	3,525,709
025		3.2	Debt financial securities	19,443,709	-	19,443,709	5,075,533	-	5,075,533
026		3.3	Derivative financial instruments	-	-	-	-	-	-
027		3.4	Investment fund units	124,017,963	34,187,432	158,205,395	81,417,147	-	81,417,147
028		3.5	Other	-	-	-	-	-	-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of financial position (balance sheet) 31 December 2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
029	030+031+032	4	Loans and receivables	117,597,159	1,913,779	119,510,937	93,700,367	1,876,129	95,576,496
030		4.1	Deposits with credit institutions (banks)	80,582,644	-	80,582,644	62,363,876		62,363,876
031		4.2	Loans	37,014,514	1,913,779	38,928,293	31,336,492	1,876,129	33,212,620
032		4.3	Other	-	-	-	-	-	-
033		D	Deposits with the cedent	-	-	-	-	-	-
034		IV	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	414,089,227	-	414,089,227	240,308,104		240,308,104
035	036+037+038+039+040+041+042	V	REINSURANCE SHARE IN TECHNICAL PROVISIONS	1,557,734	185,171,408	186,729,143	1,629,786	242,091,112	243,720,898
036		1	Provisions for unearned premiums, reinsurance share	253,930	57,665,873	57,919,802	260,868	67,972,292	68,233,160
037		2	Mathematical provision, reinsurance share	202,083	-	202,083	200,715	-	200,715
038		3	Provision for claims outstanding, reinsurance share	1,101,722	127,247,636	128,349,357	1,168,203	173,544,947	174,713,150
039		4	Provisions bonuses and rebates, reinsurance share	-	257,900	257,900	-	573,872	573,872
040		5	Equalisation provisions, reinsurance share	-	-	-	-	-	-
041		6	Other insurance technical provisions, reinsurance share	-	-	-	-	-	-
042		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-	-	-	-	-	-
043	044+045	VI	DEFERRED AND CURRENT TAX ASSET	4,225,074	2,544,111	6,769,185	4,801,576	3,113,292	7,914,868
044		1	Deferred tax asset	4,225,074	2,544,111	6,769,185	4,743,145	3,051,210	7,794,355
045		2	Current tax asset	-	-	-	58,430	62,082	120,512
046	047+050+051	VII	RECEIVABLES	9,386,568	140,139,522	149,526,090	9,650,866	166,902,397	176,553,263
047	048+049	1	Receivables from insurance business	90,000	62,606,919	62,696,919	231	73,039,454	73,039,684
048		1.1	From policyholders	-	62,119,412	62,119,412	-	72,429,152	72,429,152
049		1.2	From insurance agents, or insurance brokers	90,000	487,507	577,507	231	610,302	610,533
050		2	Receivables from reinsurance business	1,746,432	33,029,827	34,776,259	1,690,934	48,152,914	49,843,848
051	052+053+054	3	Other receivables	7,550,136	44,502,776	52,052,912	7,959,702	45,710,030	53,669,731
052		3.1	Receivables from other insurance business	-	25,085,905	25,085,905	-	24,179,557	24,179,557
053		3.2	Receivables for return on investments	231,126	73	231,200	331,915	-	331,915
054		3.3	Other receivables	7,319,010	19,416,798	26,735,808	7,627,787	21,530,473	29,158,260

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of financial position (balance sheet) 31 December 2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
055	056-060+061	VIII	OTHER ASSETS	19,428,650	16,412,207	35,840,857	53,107,530	40,381,218	93,488,748
056	057+058+059	1	Cash at bank and in hand	19,428,650	16,412,207	35,840,857	53,107,530	40,381,218	93,488,748
057		1.1	<i>Funds in the business account</i>	10,749,055	16,407,976	27,157,031	48,928,920	40,373,839	89,302,759
058		1.2	<i>Funds in the account of assets covering mathematical provision</i>	8,679,595	-	8,679,595	4,178,610	-	4,178,610
059		1.3	<i>Cash in hand</i>	-	4,231	4,231	-	7,379	7,379
060		2	Long-term assets intended for sale and business cessation	-	-	-	-	-	-
061		3	Other	-	-	-	-	-	-
062	063+064+065	IX	PREPAYMENTS AND ACCRUED INCOME	289,628	32,481,859	32,771,487	252,343	40,584,069	40,836,412
063		1	Deferred interest and rent	-	-	-	-	-	-
064		2	Deferred acquisition costs	255,313	31,304,102	31,559,415	223,368	39,761,248	39,984,616
065		3	Other prepayments and accrued income	34,316	1,177,757	1,212,072	28,975	822,821	851,796
066	001+004+008+034+035+043+046+055+062	X	TOTAL ASSETS	3,742,841,630	1,029,523,379	4,772,365,009	3,652,035,674	1,157,091,100	4,809,126,774
067		XI	OFF BALANCE SHEET ITEMS	-	-	-	-	-	-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of financial position (balance sheet) 31 December 2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
068	069+072+073+077+081+084	XII	CAPITAL AND RESERVES	558,141,585	289,917,074	848,058,660	518,540,177	293,161,237	811,701,415
069	070+071	1	Subscribed capital	134,303,825	101,491,315	235,795,140	134,303,825	101,491,315	235,795,140
070		1.1	<i>Paid-up capital - ordinary shares</i>	134,303,825	101,491,315	235,795,140	134,303,825	101,491,315	235,795,140
071		1.2	<i>Paid-up capital - preference shares</i>	-	-	-	-	-	-
072		2	Issued shares premiums (capital reserves)	6,752,671	43,699,922	50,452,593	6,752,671	43,699,922	50,452,593
073	074+075+076	3	Revaluation reserve	192,315,620	57,053,855	249,369,474	133,148,355	39,841,281	172,989,637
074		3.1	<i>Land and buildings</i>	-	-	-	-	-	-
075		3.2	<i>Financial investments available-for-sale</i>	192,315,620	57,053,855	249,369,474	133,148,355	39,841,281	172,989,637
076		3.3	<i>Other revaluation reserves</i>	-	-	-	-	-	-
077	078+079+080	4	Reserves	142,275,613	34,497,964	176,773,577	142,275,613	34,497,964	176,773,577
078		4.1	<i>Legally stipulated reserves</i>	2,781,327	560,571	3,341,898	2,781,327	560,571	3,341,898
079		4.2	<i>Statutory reserve</i>	871,562	-	871,562	871,562	-	871,562
080		4.3	<i>Other reserve</i>	138,622,724	33,937,392	172,560,117	138,622,724	33,937,392	172,560,117
081	082+083	5	Transferred profit or retained loss	55,554,652	27,516,089	83,070,741	82,493,857	53,174,020	135,667,876
082		5.1	<i>Retained profit</i>	55,554,652	27,516,089	83,070,741	82,493,857	53,174,020	135,667,876
083		5.2	<i>Transferred loss (-)</i>	-	-	-	-	-	-
084	085+086	6	Profit or loss of the current accounting period	26,939,204	25,657,931	52,597,135	19,565,856	20,456,736	40,022,593
085		6.1	<i>Profit of the current accounting period</i>	26,939,204	25,657,931	52,597,135	19,565,856	20,456,736	40,022,593
086		6.2	<i>Loss of the current accounting period (-)</i>	-	-	-	-	-	-
087		XIII	SUBORDINATED LIABILITIES	-	-	-	-	-	-
088		XIV	MANORITY INTERESTS	-	-	-	-	-	-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of financial position (balance sheet) 31 December 2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
089	090+091+092+093+094+095	XV	TECHNICAL PROVISIONS	2,604,612,653	464,020,990	3,068,633,643	2,784,534,884	572,063,643	3,356,598,527
090		1	Provisions for unearned premiums, gross amount	2,282,023	184,094,384	186,376,408	1,933,628	220,596,744	222,530,372
091		2	Mathematical provision, gross amount	2,558,726,663	-	2,558,726,663	2,740,127,519	-	2,740,127,519
092		3	Provision for claims outstanding, gross amount	40,113,966	279,016,012	319,129,979	41,704,737	349,057,170	390,761,907
093		4	Provisions bonuses and rebates, gross amount	-	910,593	910,593	-	1,679,730	1,679,730
094		5	Equalisation provision, gross amount	-	-	-	-	-	-
095		6	Other insurance technical provisions, gross amount	3,490,000	-	3,490,000	769,000	730,000	1,499,000
096		XVI	LIFE ASSURANCE TECHN.PROV.WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	414,089,227	-	414,089,227	240,308,104	-	240,308,104
097	098+099	XVII	OTHER RESERVES	3,470,814	4,067,031	7,537,845	3,055,601	4,157,206	7,212,807
098		1	Provisions for pensions and similar liabilities	-	1,079,964	1,079,964		1,494,142	1,494,142
099		2	Other provisions	3,470,814	2,987,067	6,457,881	3,055,601	2,663,064	5,718,665
100	101+102	XVIII	DEFERRED AND CURRENT TAX LIABILITY	43,310,120	13,670,415	56,980,536	29,227,688	8,745,647	37,973,335
101		1	Deferred tax liability	42,215,624	12,524,017	54,739,641	29,227,688	8,745,647	37,973,335
102		2	Current tax liability	1,094,496	1,146,398	2,240,895	-	-	-
103		XIX	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	600,503	83,168,331	83,768,833	568,505	95,021,328	95,589,833
104	105+106+107	XX	FINANCIAL LIABILITIES	169,661	31,945,261	32,114,922	74,347	28,578,964	28,653,311
105		1	Liabilities on the basis of loans	-	-	-	-	-	-
106		2	Liabilities on the basis of issued financial instrument	-	-	-	-	-	-
107		3	Other financial liabilities	169,661	31,945,261	32,114,922	74,347	28,578,964	28,653,311

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of comprehensive income (income statement) for period 01.01.2020- 31.12.2020

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
108	109+110+111+112	XXI	OTHER LIABILITIES	53,049,204	89,169,148	142,218,353	32,987,780	93,075,370	126,063,150
109		1	Liabilities from direct insurance business	40,628,080	14,819,760	55,447,840	23,782,593	15,609,066	39,391,660
110		2	Liabilities from co-insurance and reinsurance business	2,094,740	54,556,887	56,651,627	1,796,249	60,010,612	61,806,861
111		3	Liabilities for sale and ceased business	-	-	-	-	-	-
112		4	Other liabilities	10,326,384	19,792,502	30,118,886	7,408,937	17,455,691	24,864,629
113	114+115	XXII	ACCRUED EXPENSES AND DEFERRED INCOME	65,397,863	53,565,128	118,962,991	42,738,588	62,287,704	105,026,293
114		1	Deferred reinsurance commission	-	-	-	-	-	-
115		2	Other accrued expenses and deferred income	65,397,863	53,565,128	118,962,991	42,738,588	62,287,704	105,026,293
116	068+087+088+089+096+097+100+103+104+108+113	XXIII	TOTAL LIABILITIES	3,742,841,630	1,029,523,379	4,772,365,009	3,652,035,674	1,157,091,100	4,809,126,774
117		XXIV	OFF BALANCE SHEET ITEMS	-	-	-	-	-	-

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of comprehensive income (income statement) for period 01.01.2020 - 31.12.2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003+004+005+006	I	Earned premiums (recognised in revenue)	541,340,170	231,892,744	773,232,914	517,851,872	277,902,399	795,754,271
002		1	Written gross premiums	544,774,936	382,636,553	927,411,489	521,211,533	459,168,697	980,380,231
003		2	Value adjustment and charged adjustment of insurance premium value	-	(63,150)	(63,150)	-	(2,627,305)	(2,627,305)
004		3	Premiums ceded to reinsurance (-)	(3,637,964)	(132,581,711)	(136,219,675)	(3,714,995)	(152,443,053)	(156,158,048)
005		4	Change in gross provisions for unearned premiums (+/-)	228,671	(22,943,166)	(22,714,495)	348,396	(36,502,360)	(36,153,964)
006		5	Change in provisions for unearned premiums, reinsurance share (+/-)	(25,472)	4,844,218	4,818,745	6,938	10,306,420	10,313,357
007	008+009+010+011+012+013+014	II	Income from investments	162,728,303	21,400,800	184,129,103	168,210,819	22,090,383	190,301,202
008		1	Income from subsidiaries, associates and joint ventures	-	-	-	-	-	-
009		2	Income from investment in land and buildings	4,323,354	1,459,230	5,782,584	4,379,478	1,092,802	5,472,280
010		3	Interest income	101,659,819	15,009,548	116,669,367	72,389,915	10,449,494	82,839,408
011		4	Unrealized profits from investment	22,965,733	414,803	23,380,537	11,434,330	32,500	11,466,830
012		5	Realized profits from investment	23,074,394	2,792,191	25,866,585	52,131,172	9,213,445	61,344,617
013		6	Net positive exchange rate differentials	7,748,108	370,194	8,118,302	26,210,615	978,154	27,188,769
014		7	Other investment profits	2,956,895	1,354,834	4,311,729	1,665,310	323,988	1,989,298
015		III	Income from commissions and fees	1,065,716	34,342,943	35,408,659	1,154,251	33,318,844	34,473,095
016		IV	Other insurance-technical income, net of reinsurance	1,044,722	3,956,969	5,001,691	2,545,928	4,070,687	6,616,615
017		V	Other income	622,280	1,520,483	2,142,763	1,525,391	2,031,105	3,556,496
018	019+022	VI	Expenditures for insured events, net	(420,707,129)	(132,721,506)	(553,428,635)	(505,709,626)	(162,791,897)	(668,501,523)
019	020+021	1	Settled claims	(414,064,785)	(130,261,274)	(544,326,059)	(504,185,337)	(139,048,052)	(643,233,388)
020		1.1	Gross amount (-)	(415,079,577)	(215,751,902)	(630,831,479)	(505,196,041)	(232,497,240)	(737,693,280)
021		1.2	Reinsurer share(+)	1,014,792	85,490,628	86,505,420	1,010,704	93,449,188	94,459,892
022	023+024	2	Change in provisions for claims outstanding (+/-)	(6,642,344)	(2,460,232)	(9,102,576)	(1,524,289)	(23,743,846)	(25,268,135)
023		2.1	Gross amount (-)	(6,698,003)	16,523,660	9,825,657	(1,590,771)	(70,041,157)	(71,631,928)
024		2.2	Reinsurer share(+)	55,658	(18,983,892)	(18,928,233)	66,482	46,297,311	46,363,793

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of comprehensive income (income statement) for period 01.01.2020 - 31.12.2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
025	026+029	VII	Change in other technical provisions, net of reinsurance	(228,262,891)	714,163	(227,548,728)	(178,681,224)	(730,000)	(179,411,224)
026	027+028	1	Change in mathematical provision (+/-)	(228,237,891)	-	(228,237,891)	(181,402,224)	-	(181,402,224)
027		1.1	Gross amount (-)	(228,217,264)	-	(228,217,264)	(181,400,856)	-	(181,400,856)
028		1.2	Reinsurer share(+)	(20,626)	-	(20,626)	(1,368)	-	(1,368)
029	030+031	2	Change in other technical provisions, net of reinsurance (+/-)	(25,000)	714,163	689,163	2,721,000	(730,000)	1,991,000
030		2.1	Gross amount (-)	(25,000)	714,163	689,163	2,721,000	(730,000)	1,991,000
031		2.2	Reinsurer share(+)	-	-	-	-	-	-
032	033+034	VIII	Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)	131,140,587	-	131,140,587	173,781,123	-	173,781,123
033		1	Gross amount (-)	131,140,587	-	131,140,587	173,781,123	-	173,781,123
034		2	Reinsurer share(+)	-	-	-	-	-	-
035	036+037	IX	Expenditures for return of premium (bonuses and rebates), net of reinsurance	-	692,832	692,832	-	(453,164)	(453,164)
036		1	Depending on the result (bonuses)	-	692,832	692,832	-	(453,164)	(453,164)
037		2	Not depending on the result (rebates)	-	-	-	-	-	-
038	039+043	X	Business expenditures (for business operations), net	(132,428,916)	(115,466,178)	(247,895,095)	(132,785,810)	(130,893,424)	(263,679,233)
039	040+041+042	1	Acquisition costs	(65,801,135)	(76,584,755)	(142,385,890)	(68,670,184)	(90,579,113)	(159,249,297)
040		1.1	Commission	(29,630,008)	(58,635,762)	(88,265,771)	(24,885,800)	(73,018,762)	(97,904,562)
041		1.2	Other acquisition costs	(36,155,420)	(23,924,518)	(60,079,938)	(43,752,440)	(26,017,497)	(69,769,936)
042		1.3	Change in deferred acquisition costs (+/-)	(15,707)	5,975,526	5,959,819	(31,945)	8,457,146	8,425,201
043	044+045+046	2	Management costs (administration costs)	(66,627,781)	(38,881,424)	(105,509,205)	(64,115,626)	(40,314,310)	(104,429,936)
044		2.1	Depreciation	(13,474,115)	(6,214,123)	(19,688,238)	(15,323,874)	(6,762,500)	(22,086,374)
045		2.2	Salaries, taxes and contributions to and from salaries	(22,048,722)	(17,358,044)	(39,406,767)	(22,528,888)	(18,015,518)	(40,544,406)
046		2.3	Other administration costs	(31,104,944)	(15,309,256)	(46,414,200)	(26,262,864)	(15,536,292)	(41,799,156)

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of comprehensive income (income statement) for period 01.01.2020 - 31.12.2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
047	048+049+050+051+052+053+054	XI	Investment expenses	(21,653,520)	(2,504,286)	(24,157,806)	(21,008,426)	(5,437,511)	(26,445,937)
048		1	Depreciation (buildings not intended for business operations of the company)	(859,736)	(422,545)	(1,282,281)	(922,266)	(549,080)	(1,471,346)
049		2	Interest	(269,524)	(690,126)	(959,650)	(162,014)	(660,803)	(822,817)
050		3	Investment value adjustment (reduction)	-	(176,558)	(176,558)	(2,299,409)	(1,537,812)	(3,837,220)
051		4	Realized losses from sale of financial assets	(2,463,693)	-	(2,463,693)	(2,224,547)	(119,836)	(2,344,383)
052		5	Unrealized losses from sale of financial assets	(13,698,676)	-	(13,698,676)	(8,483,017)	(831,458)	(9,314,476)
053		6	Net negative exchange rate differences	(942,760)	(126,413)	(1,069,174)	(2,289,787)	(759,843)	(3,049,630)
054		7	Other investment expenses	(3,419,130)	(1,088,645)	(4,507,775)	(4,627,386)	(978,679)	(5,606,065)
055	056+057	XII	Other technical expenses, net of reinsurance	(1,111,183)	(11,202,084)	(12,313,266)	(1,602,474)	(13,168,399)	(14,770,874)
056		1	Expenses for preventive operations	-	(2,196,411)	(2,196,411)	-	(2,255,857)	(2,255,857)
057		2	Other technical expenses of insurance	(1,111,183)	(9,005,672)	(10,116,855)	(1,602,474)	(10,912,543)	(12,515,017)
058		XIII	Other expenses including value adjustments	(690,630)	(1,033,881)	(1,724,511)	(1,374,273)	(825,909)	(2,200,182)
059	001+007+015+016+017+018+025+032+035+038+047+055+058	XIV	Profit or loss of the accounting period before taxation (+/-)	33,087,509	31,592,999	64,680,508	23,907,551	25,113,115	49,020,666
060	061+062	XV	Profit or loss tax	(6,148,305)	(5,935,068)	(12,083,372)	(4,341,694)	(4,656,379)	(8,998,073)
061		1	Current tax expense	(5,404,807)	(5,661,108)	(11,065,915)	(4,859,766)	(5,163,477)	(10,023,243)
062		2	Deferred tax expense (income)	(743,497)	(273,960)	(1,017,457)	518,071	507,099	1,025,170
063	059+060	XVI	Profit or loss of the accounting period after taxation (+/-)	26,939,204	25,657,931	52,597,135	19,565,856	20,456,736	40,022,593
064		1	Attributable to owners of the parent	-	-	-	-	-	-
065		2	Attributable to non-controlling interests	-	-	-	-	-	-
066	001+007+015+016+017+062	XVII	TOTAL INCOME	706,057,693	292,839,979	998,897,672	691,806,332	339,920,518	1,031,726,850
067	018+025+032+035+038+047+055+058+061	XVIII	TOTAL EXPENDITURE	(679,118,489)	(267,182,048)	(946,300,537)	(672,240,476)	(319,463,781)	(991,704,257)

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of comprehensive income (income statement) for period 01.01.2020 - 31.12.2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
068	069+070+071+072+073+074+075+076	XIX	Other comprehensive income	116,204,708	33,236,655	149,441,363	(59,167,264)	(17,212,574)	(76,379,838)
069		1	Profits/losses on translation of financial statements on foreign operating activities	-	-	-	-	-	-
070		2	Profits/losses on revaluation of financial assets available for sale	142,586,982	40,984,823	183,571,805	(72,155,200)	(20,990,943)	(93,146,144)
071		3	Profits/losses on revaluation of land and buildings intended for business activities of the company	-	-	-	-	-	-
072		4	Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets	-	-	-	-	-	-
073		5	Effects from cash flow hedging instruments	-	-	-	-	-	-
074		6	Actuarial profits/losses on defined benefit pension plans	-	-	-	-	-	-
075		7	Share in other comprehensive income of associated companies	-	-	-	-	-	-
076		8	Profit tax on other comprehensive income	(26,382,274)	(7,748,168)	(34,130,442)	12,987,936	3,778,370	16,766,306
077	078+079	XX	Total comprehensive income	143,143,912	58,894,586	202,038,498	(39,601,408)	3,244,163	(36,357,245)
078		1	Attributable to owners of the parent	-	-	-	-	-	-
079		2	Attributable to non-controlling interests	-	-	-	-	-	-
080		XXI	Reclassification adjustments	-	-	-	-	-	-

Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of cash flow (indirect method) for period 01.01.2020 - 31.12.2020

In HRK

Position number	Sum elements	Position code	Position description	Current business period	The same period of the previous year
001	002+013+031	I	CASH FLOW FROM OPERATING ACTIVITIES	(381,813,812)	(46,273,641)
002	003+004	1	Cash flow before the change in assets and liabilities	(97,946,837)	(72,346,165)
003		1.1	Profit/loss before taxation	49,020,666	64,680,508
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	(146,967,503)	(137,026,673)
005		1.2.1	Depreciation of real estate and equipment	14,528,917	13,413,379
006		1.2.2	Depreciation of intangible assets	9,028,804	7,557,140
007		1.2.3	Value impairment and profits/losses on reduction to fair value	(54,704,698)	(35,174,092)
008		1.2.4	Interest expense	822,817	960,000
009		1.2.5	Interest income	(82,839,408)	(116,669,367)
010		1.2.6	Shares in profit of associated companies	-	-
011		1.2.7	Profits/losses on sale of tangible assets (including land and buildings)	(102,972)	(189,030)
012		1.2.8	Other adjustments	(33,700,962)	(6,924,703)
013	014+015+...+030	2	Increase/decrease in assets and liabilities	(271,482,325)	35,812,199
014		2.1	Increase/decrease in investments available-for-sale	(672,752,581)	(372,500,247)
015		2.2	Increase/decrease in investment valued at fair value through profit and loss account	91,321,413	(61,272,715)
016		2.3	Increase/decrease in deposits, loans and receivables	20,698,053	60,502,825
017		2.4	Increase/decrease of deposits in insurance business ceded to reinsurance	-	-
018		2.5	Increase/decrease in investments for the account and risk of life assurance policyholders	177,824,043	139,277,922
019		2.6	Increase/decrease in reinsurance share in technical provisions	(56,991,755)	13,872,214
020		2.7	Increase/decrease in tax assets	-	-
021		2.8	Increase/decrease in receivables	71,754,136	130,454,126
022		2.9	Increase/decrease in other assets	-	-
023		2.10	Increase/decrease in prepayments and accrued income	(8,064,924)	(5,907,829)
024		2.11	Increase/decrease in technical provisions	287,964,884	239,982,007
025		2.12	Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	(173,781,123)	(131,140,587)
026		2.13	Increase/decrease in tax liabilities	-	-
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance	11,820,999	640,281
028		2.15	Increase/decrease in financial liabilities	-	-
029		2.16	Increase/decrease in other liabilities	(7,338,772)	20,371,145
030		2.17	Increase/decrease in accruals and deferred income	(13,936,698)	1,533,057
031		3	Paid profit tax	(12,384,650)	(9,739,675)

Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of cash flow (indirect method) for period 01.01.2020 - 31.12.2020 (continued)

In HRK

Position number	Sum elements	Position code	Position description	Current business period	The same period of the previous year
032	033+034+...+046	II	CASH FLOW FROM INVESTING ACTIVITIES	439,461,702	99,374,909
033		1	Inflows from sale of tangible assets	103,904	443,089
034		2	Outflows for purchase of tangible assets	(10,112,086)	(7,953,749)
035		3	Inflows from sale of intangible assets	-	-
036		4	Outflows for purchase of intangible assets	(23,633,095)	(30,760,454)
037		5	Inflows from sale of land and buildings not intended for business operations of the company	1,175,780	214,826
038		6	Outflows for purchase of land and buildings not intended for business operations of the company	(62,692,327)	(327,352)
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures	-	-
040		8	Inflows from investments held to maturity	533,551,804	136,690,039
041		9	Outflows for investments held to maturity	-	-
042		10	Inflows from sale of securities and stakes	-	-
043		11	Outflows for investments in securities and stakes	-	-
044		12	Inflows from dividends and shares in profit	1,067,723	1,068,510
045		13	Inflows on the basis of payment of given short-term and long-term loans	-	-
046		14	Outflows for given short-term and long-term loans	-	-
047	048+049+050+051+052	III	CASH FLOW FROM FINANCING ACTIVITIES	-	(40,532,628)
048		1	Cash inflows on the basis of initial capital increase	-	-
049		2	Cash inflows from received short-term and long-term loans	-	-
050		3	Cash outflows for payment of received short-term and long-term loans	-	-
051		4	Cash outflows for repurchase of own shares	-	-
052		5	Cash outflows for payment of dividends	-	(40,532,628)
053	001+032+047		NET CASH FLOW	57,647,890	12,568,640
054		IV	EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS	-	-
055	053+054	V	NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	57,647,890	12,568,640
056		1	Cash and cash equivalents at the beginning of the period	35,840,857	23,272,218
057	055+056	2	Cash and cash equivalents at the end of the period	93,488,748	35,840,858

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of changes in equity for period 01.01.2020 - 31.12.2020

In HRK

Position code	Position description	Attributable to owners of the parent						Total capital and reserves	Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year			
VI.	Balance as at 1 January of the current year	235,795,140	50,452,593	99,928,111	176,773,577	81,650,619	41,952,750	686,552,790		686,552,790
1.	Changes in accounting policies	-	-	-	-	-	-	-	-	-
2.	Correction of errors from previous periods	-	-	-	-	-	-	-	-	-
VII.	Balance as at 1 January of the current year (corrected)	235,795,140	50,452,593	99,928,111	176,773,577	81,650,619	41,952,750	686,552,790		686,552,790
VIII.	Comprehensive income/loss of the current year									
1.	Profit or loss of the previous period	-	-	-	-	-	52,597,135	52,597,135	-	52,597,135
2.	Other comprehensive income or loss of the current year	-	-	149,441,363	-	-	-	149,441,363	-	149,441,363
2.1.	Unrealised gains or losses from tangible assets (land and buildings)	-	-	-	-	-	-	-	-	-
2.2.	Unrealised gains or losses from financial assets available for sale	-	-	174,531,947	-	-	-	174,531,947	-	174,531,947
2.3.	Realised gains or losses from financial assets available for sale	-	-	(25,090,584)	-	-	-	(25,090,584)	-	(25,090,584)
2.4.	Other non-owner changes in equity	-	-	-	-	-	-	-	-	-
IX.	Transactions with owners (current period)									
1.	Increase/decrease in subscribed capital	-	-	-	-	-	-	-	-	-
2.	Other payments by owners	-	-	-	-	-	-	-	-	-
3.	Payment of shares in profit /dividends	-	-	-	-	-	(40,532,628)	(40,532,628)	-	(40,532,628)
4.	Other transactions with owners	-	-	-	-	1,420,122	(1,420,122)	-	-	-
X.	Balance as at the last day of the reporting period in the current year	235,795,140	50,452,593	249,369,474	176,773,577	83,070,741	52,597,135	848,058,660		848,058,660

**Supplementary information prescribed by the Regulation of the Croatian Financial Services Supervisory Agency
(continued)**

Statement of changes in equity for period 01.01.2020 - 31.12.2020 (continued)

In HRK

Position code	Position description	Attributable to owners of the parent						Total capital and reserves	Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year			
VI.	Balance as at 1 January of the current year	235,795,140	50,452,593	249,369,474	176,773,577	83,070,741	52,597,135	848,058,660	-	848,058,660
1.	Changes in accounting policies	-	-	-	-	-	-	-	-	-
2.	Correction of errors from previous periods	-	-	-	-	-	-	-	-	-
VII.	Balance as at 1 January of the current year (corrected)	235,795,140	50,452,593	249,369,474	176,773,577	83,070,741	52,597,135	848,058,660	-	848,058,660
VIII.	Comprehensive income/loss of the current year	-	-	(76,379,838)	-	-	40,022,593	(36,357,245)	-	(36,357,245)
1.	Profit or loss of the previous period	-	-	-	-	-	40,022,593	40,022,593	-	40,022,593
2.	Other comprehensive income or loss of the current year	-	-	(76,379,838)	-	-	-	(76,379,838)	-	(76,379,838)
2.1.	Unrealised gains or losses from tangible assets (land and buildings)	-	-	-	-	-	-	-	-	-
2.2.	Unrealised gains or losses from financial assets available for sale	-	-	(15,583,346)	-	-	-	(15,583,346)	-	(15,583,346)
2.3.	Realised gains or losses from financial assets available for sale	-	-	(60,796,492)	-	-	-	(60,796,492)	-	(60,796,492)
2.4.	Other non-owner changes in equity	-	-	-	-	-	-	-	-	-
IX.	Transactions with owners (current period)	-	-	-	-	-	-	-	-	-
1.	Increase/decrease in subscribed capital	-	-	-	-	-	-	-	-	-
2.	Other payments by owners	-	-	-	-	-	-	-	-	-
3.	Payment of shares in profit /dividends	-	-	-	-	-	-	-	-	-
4.	Other transactions with owners	-	-	-	-	-	-	-	-	-
X.	Balance as at the last day of the reporting period in the current year	235,795,140	50,452,593	172,989,637	176,773,577	83,070,741	92,619,728	811,701,415	-	811,701,415

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules

Statement of financial position – Assets as at 31 December 2020

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of right-of-use assets	Transfer of deferred acquisition costs	Transfer of other tangible assets to inventories	Transfer of investments for and on behalf of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of other prepaid expenses and other assets to insurance and other receivables	Statutory financial statements	Comment
INTANGIBLE ASSETS	92,785,887	(28,024,742)					64,761,145	Other intangible assets
Goodwill	3,551,774							
Other intangible assets	89,234,113							
		28,024,742					28,024,742	Right-of-use assets
			39,984,616				39,984,616	Deferred acquisition costs
TANGIBLE ASSETS	101,779,023			(61,343)			101,717,680	Property and equipment
Land and buildings intended for company business operations	91,948,536							
Equipment	9,462,745							
Other tangible assets and stock	367,741							
INVESTMENTS	3,811,739,573							
Investments in land and buildings not intended for company business operations	140,112,298						140,112,298	Investment property
Investments in subsidiaries, associates and joint ventures	-							
Shares and stakes in subsidiaries	-							
Shares and stakes in associates	-							
Joint venture participation	-							
Financial investments	3,671,627,275							
Financial investments held-to-maturity	297,113,233						297,113,233	Held-to-maturity investments
Debt financial securities	297,113,233							
Other	-							
Financial investments available-for-sale	3,188,919,157						3,188,919,157	Available-for-sale financial assets
Equity financial securities	60,417,017							
Debt financial securities	2,843,717,390							
Investment fund units	284,784,749							
Other	-							
Financial investments at fair value through profit and loss account	90,018,388				240,308,104		330,326,492	Financial assets at fair value through profit or loss
Equity financial securities	3,525,709							
Debt financial securities	5,075,533							
Derivative financial instruments	-							
Investment fund units	81,417,147							
Other	-							
Loans and receivables	95,576,496						95,576,496	Loans and receivables
Deposits with credit institutions (banks)	62,363,876							
Loans	33,212,620							
Other	-							
Deposits with the cedent	-							

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

Statement of financial position – Assets as at 31 December 20120 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services	Transfer of right-of-use assets	Transfer of deferred acquisition costs	Transfer of other tangible assets to inventories	Transfer of investments for and on behalf of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of other prepaid expenses and other assets to insurance and other receivables	Statutory financial statements	Comment
INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS				(240,308,104)			
REINSURANCE SHARE IN TECHNICAL PROVISIONS						243,720,898	Reinsurers' share of technical provisions
Provisions for unearned premiums, reinsurance share						68,233,160	
Mathematical provision, reinsurance share						200,715	
Provision for claims outstanding, reinsurance share						174,713,150	
Provisions bonuses and rebates, reinsurance share						573,872	
Equalisation provisions, reinsurance share						-	
Other insurance technical provisions, reinsurance share						-	
Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share						-	
DEFERRED AND CURRENT TAX ASSET						7,914,868	
Deferred tax asset						7,794,355	Deferred tax assets
Current tax asset						120,512	
RECEIVABLES						176,553,263	
Receivables from insurance business						73,039,684	
<i>From policyholders</i>						72,429,152	
<i>From insurance agents, or insurance brokers</i>						610,533	
Receivables from reinsurance business						49,843,848	
Other receivables						53,669,731	
<i>Receivables from other insurance business</i>						24,179,557	
<i>Receivables for return on investments</i>						331,915	
<i>Other receivables</i>						29,158,260	
OTHER ASSETS						93,488,748	
Cash at bank and in hand						93,488,748	Cash
<i>Funds in the business account</i>						89,302,759	
<i>Funds in the account of assets covering mathematical provision</i>						4,178,610	
<i>Cash in hand</i>						7,379	
Long-term assets intended for sale and business cessation						-	
Other						-	
PREPAYMENTS AND ACCRUED INCOME						40,836,412	
Deferred interest and rent						-	
Deferred acquisition costs						39,984,616	
Other prepayments and accrued income						851,796	
TOTAL ASSETS						4,809,126,774	Total assets
OFF BALANCE SHEET ITEMS						-	

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

Statement of financial position – Equity and liabilities as at 31 December 2020

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of current year profit to retained earnings	Transfer of statutory reserve to legal reserves	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of deposit from reinsurance, accrued expenses and other liabilities to insurance and other payables	Statutory financial statements	Comment
CAPITAL AND RESERVES	811,701,415					811,701,415	Total equity
Subscribed capital	235,795,140					235,795,140	Share capital
<i>Paid-up capital - ordinary shares</i>	<i>235,795,140</i>						
<i>Paid-up capital - preference shares</i>	<i>-</i>						
Issued shares premiums (capital reserves)	50,452,593					50,452,593	Capital reserves
Revaluation reserve	172,989,637					172,989,637	Fair value reserve
<i>Land and buildings</i>	<i>-</i>						
<i>Financial investments available-for-sale</i>	<i>172,989,637</i>						
<i>Other revaluation reserves</i>	<i>-</i>						
Reserves	176,773,577						
<i>Legally stipulated reserves</i>	<i>3,341,898</i>		871,562			4,213,460	Legal and statutory reserves
<i>Statutory reserve</i>	<i>871,562</i>		(871,562)				
<i>Other reserve</i>	<i>172,560,117</i>					172,560,117	Other reserves
Transferred profit or retained loss	135,667,876	40,022,593				175,690,469	Retained earnings
<i>Retained profit</i>	<i>135,667,876</i>						
<i>Transferred loss (-)</i>	<i>-</i>						
Profit or loss of the current accounting period	40,022,593	(40,022,593)					
<i>Profit of the current accounting period</i>	<i>40,022,593</i>						
<i>Loss of the current accounting period (-)</i>	<i>-</i>						
SUBORDINATED LIABILITIES	-						
MANORITY INTERESTS	-						
TECHNICAL PROVISIONS	3,356,598,527			240,308,104		3,596,906,631	Technical provisions
Provisions for unearned premiums, gross amount	222,530,372						
Mathematical provision, gross amount	2,740,127,519						
Provision for claims outstanding, gross amount	390,761,907						
Provisions bonuses and rebates, gross amount	1,679,730						
Equalisation provision, gross amount	-						
Other insurance technical provisions, gross amount	1,499,000						

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

Statement of financial position – Equity and liabilities as at 31 December 2020 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of current year profit to retained earnings	Transfer of statutory reserve to legal reserves	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of deposit from reinsurance, accrued expenses and other liabilities to insurance and other payables	Statutory financial statements	Comment
LIFE ASSURANCE TECHN.PROV.WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	240,308,104			(240,308,104)			
OTHER RESERVES	7,212,807					7,212,807	Provisions for liabilities and charges
Provisions for pensions and similar liabilities	1,494,142						
Other provisions	5,718,665						
DEFERRED AND CURRENT TAX LIABILITY	37,973,335						
Deferred tax liability	37,973,335					37,973,335	Deferred tax liability Current income tax liability
Current tax liability	-						
DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	95,589,833				(95,589,833)		
FINANCIAL LIABILITIES	28,653,311						
Liabilities on the basis of loans	-						
Liabilities on the basis of issued financial instrument	-						
Other financial liabilities	28,653,311					28,653,311	Lease liabilities Insurance and other payables
OTHER LIABILITIES	126,063,150						
Liabilities from direct insurance business	39,391,660						
Liabilities from co-insurance and reinsurance business	61,806,861						
Liabilities for sale and ceased business	-						
Other liabilities	24,864,629						
ACCRUED EXPENSES AND DEFERRED INCOME	105,026,293				(105,026,293)		
Deferred reinsurance commission	-						
Other accrued expenses and deferred income	105,026,293						
TOTAL LIABILITIES	4,809,126,774					4,809,126,774	Total liabilities and equity
OFF BALANCE SHEET ITEMS	-						

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**Statement of comprehensive income for year ended 31 December 2020**

		Netting off of premium impairment with gross premium written	Adding other technical income to other operating income	Adding gross changes in provisions to gross claims incurred	Adding reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Adding other expenses to other operating expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services									
Earned premiums (recognised in revenue)	795,754,271								
Written gross premiums	980,380,231	(2,627,305)						977,752,926	Gross premiums written
Value adjustment and charged adjustment of insurance premium value	(2,627,305)	2,627,305							
Premiums ceded to reinsurance (-)	(156,158,048)							(156,158,048)	Written premiums ceded to reinsurers
Change in gross provisions for unearned premiums (+/-)	(36,153,964)							(36,153,964)	Change in the gross provision for unearned premiums
Change in provisions for unearned premiums, reinsurance share (+/-)	10,313,357							10,313,357	Reinsurers' share of change in the provision for unearned premiums
Income from investments	190,301,202						(14,708,489)	175,592,713	Financial income
Income from subsidiaries, associates and joint ventures	-								
Income from investment in land and buildings	5,472,280								
Interest income	82,839,408								
Unrealized profits from investment	11,466,830						(2,344,383)		
Realized profits from investment	61,344,617						(9,314,476)		
Net positive exchange rate differentials	27,188,769						(3,049,630)		
Other investment profits	1,989,298								
Income from commissions and fees	34,473,095							34,473,095	Fee and commission income
Other insurance-technical income, net of reinsurance	6,616,615		(6,616,615)						
Other income	3,556,496		6,616,615					10,173,112	Other operating income
Expenditures for insured events, net	(668,501,523)								
Settled claims	(643,233,388)								
Gross amount (-)	(737,693,280)			(78,029,797)				(815,723,078)	Claims and benefits incurred
Reinsurer share(+)	94,459,892				46,678,398			141,138,290	Reinsurers' share of claims and benefits incurred
Change in provisions for claims outstanding (+/-)	(25,268,135)								
Gross amount (-)	(71,631,928)			71,631,928					
Reinsurer share(+)	46,363,793				(46,363,793)				

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**Statement of comprehensive income for year ended 31 December 20120 (continued)**

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Adding other technical income to other operating income	Adding gross changes in provisions to gross claims incurred	Adding reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Adding other expenses to other operating expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
Change in other technical provisions, net of reinsurance	(179,411,224)								
Change in mathematical provision (+/-)	(181,402,224)								
Gross amount (-)	(181,400,856)			181,400,856					
Reinsurer share(+)	(1,368)				1,368				
Change in other technical provisions, net of reinsurance (+/-)	1,991,000								
Gross amount (-)	1,991,000			(1,991,000)					
Reinsurer share(+)	-								
Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)	173,781,123			(173,781,123)					
Gross amount (-)	173,781,123								
Reinsurer share(+)	-								
Expenditures for return of premium (bonuses and rebates), net of reinsurance	(453,164)								
Depending on the result (bonuses)	(453,164)			769,137	(315,972)				
Not depending on the result (rebates)	-								
Business expenditures (for business operations), net	(263,679,233)								
Acquisition costs	(159,249,297)							(159,249,297)	Acquisition costs
Commission	(97,904,562)								
Other acquisition costs	(69,769,936)								
Change in deferred acquisition costs (+/-)	8,425,201								
Management costs (administration costs)	(104,429,936)							(104,429,936)	Administration costs
Depreciation	(22,086,374)								
Salaries, taxes and contributions to and from salaries	(40,544,406)								
Other administration costs	(41,799,156)								

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**Statement of comprehensive income for year ended 31 December 2020 (continued)**

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Adding other technical income to other operating income	Adding gross changes in provisions to gross claims incurred	Adding reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Adding other expenses to other expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
Investment expenses	(26,445,937)								
Depreciation (buildings not intended for business operations of the company)	(1,471,346)						14,708,489	(11,737,448)	Financial expenses
Interest	(822,817)								
Investment value adjustment (reduction)	(3,837,220)								
Realized losses from sale of financial assets	(2,344,383)						2,344,383		
Unrealized losses from sale of financial assets	(9,314,476)						9,314,476		
Net negative exchange rate differences	(3,049,630)						3,049,630		
Other investment expenses	(5,606,065)								
Other technical expenses, net of reinsurance	(14,770,874)					(2,200,182)		(16,971,056)	Other operating expenses
Expenses for preventive operations	(2,255,857)								
Other technical expenses of insurance	(12,515,017)								
Other expenses including value adjustments	(2,200,182)					2,200,182			
Profit or loss of the accounting period before taxation (+/-)	49,020,666							49,020,666	Profit before income tax
Profit or loss tax	(8,998,073)							(8,998,073)	Income tax expense
Current tax expense	(10,023,243)								
Deferred tax expense (income)	1,025,170								
Profit or loss of the accounting period after taxation (+/-)	40,022,593							40,022,593	Profit for the year
Attributable to owners of the parent	-								
Attributable to non-controlling interests	-								
TOTAL INCOME	1,031,726,850								
TOTAL EXPENDITURE	(991,704,257)								

Reconciliation between financial statements and Croatian Financial Services Supervisory**Statement of comprehensive income for year ended 31 December 2020 (continued)**

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Netting off of premium impairment with gross premium written	Adding other technical income to other operating income	Adding gross changes in provisions to gross claims incurred	Adding reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Adding other expenses to other operating expenses	Netting off of positive and negative foreign exchange differences, unrealized/realized gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	Comment
Other comprehensive income	(76,379,838)							(76,379,838)	Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax
Profits/losses on translation of financial statements on foreign operating activities	-								
Profits/losses on revaluation of financial assets available for sale	(93,146,144)								
Profits/losses on revaluation of land and buildings intended for business activities of the company	-								
Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets	-								
Effects from cash flow hedging instruments	-								
Actuarial profits/losses on defined benefit pension plans	-								
Share in other comprehensive income of associated companies	-								
Profit tax on other comprehensive income	16,766,306								
Total comprehensive income	(36,357,245)							(36,357,245)	Total comprehensive loss for the year
Attributable to owners of the parent	-								
Attributable to non-controlling interests	-								
Reclassification adjustments	-								

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

Statement of cash flows for year ended 31 December 2020

Statement of cash flow prepared in accordance with the Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (Official Gazette 37/16, 96/18, 50/19), the preparation of which is described in detail in the Instructions for completing financial statements and additional reports of insurance and reinsurance companies ("HANFA CF") differ in the presentation from the Statement of cash flows ("CF") forming a part of statutory financial statements.

Differences are as follows:

1. Reversal of impairment losses and write off losses on other intangible assets, property and equipment and investment property are shown in CF together with amortization or depreciation correspondingly, while in CF HANFA they are presented within Impairment losses and fair value gains/losses.
2. Depreciation of rights-of-use assets in CF is presented separately while in HANFA CF is presented within Depreciation of real estate and equipment.
3. Change in deferred acquisition costs in CF is presented separately while in HANFA CF is presented within Other adjustments.
4. Depreciation of small inventory is shown separately in CF, while in CF HANFA is shown within Depreciation of property and equipment.
5. Net impairment losses on financial assets and insurance and other receivables are presented separately in CF while in HANFA CF are presented within Impairment losses and fair value gains/losses.
6. Net fair value gains on financial assets are presented separately in CF and include realised and unrealised gains/losses while in CF HANFA unrealised gains are presented within Impairment losses and fair value gains/losses and realised gains are presented within Other adjustments.
7. Net foreign exchange gains are presented separately in CF while in HANFA CF are shown within Other adjustments.
8. Dividend income and cash receipts from dividends are in CF presented separately and within operating cash flow while in CF HANFA dividend income is presented within Other adjustments and dividend cash receipts within investing activities.
9. Net gain on disposal of property and equipment as well investment property are shown separately in CF, while in CF HANFA they are shown together within Profit/losses on sale of tangible assets (including land and buildings).
10. Provision for liabilities and charges in CF is shown separately while in CF HANFA is shown within Other adjustments.
11. Net decrease in held-to-maturity investments in CF is shown within cash flow from operating activities, while in HANFA CF within cash flow from investing activities.
12. Net decrease in financial assets at fair value through profit and loss in CF is shown comprising investments for the account and risk of life assurance policyholders as opposed to being shown separately in HANFA CF.

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

Statement of cash flows for year ended 31 December 2020 (continued)

13. Net increase in investment property in CF is shown within cash flow from operating activities while in CF HANFA is presented within cash flow from investing activities.
14. Net increase in technical provision in CF comprise Increase/decrease in technical provisions and Increase/decrease in life assurance technical provisions where the policyholder bears the investment risk which are shown separately in HANFA CF.
15. Net (increase) / decrease in receivables and other assets in CF are shown collectively while in CF HANFA are shown separately within Increase/decrease in receivables and Increase/decrease in prepayments and accrued income after deducting Interest received shown separately in CF.
16. Net increase / (decrease) in insurance and other liabilities in CF are shown collectively while in CF HANFA are shown separately within Increase/decrease in deposits retained from business ceded to reinsurance, Increase/decrease in other liabilities, Increase/decrease in financial liabilities, Increase/decrease in accruals and deferred income after deducting Interest paid which is shown separately in CF.