**ERSTE OSIGURANJE VIENNA INSURANCE GROUP d.d.**

***Financial statements***

***For the year 2014***

**Contents**

# VIENNA INSURANCE GROUP
# COMPANY PROFILE

**Approximately 23,000 Vienna Insurance Group (VIG) employees in around 50 Group companies in 25 countries generated around EUR 9.2 billion in premiums in 2014. This makes the Group one of the leading exchange-listed insurance groups in Austria and Central and Eastern Europe. As the number 1 in its core markets, VIG provides its customers an outstanding portfolio offering a wide range of property and casualty, life and health insurance products and services.**

### *From Austria to Central and Eastern Europe*

VIG's roots go all the way back to the year 1824 in Austria: 190 years of history in which the Company developed from a successful local insurer to a leading international insurance group. The story begins with Wiener Städtische, one of the first Western European companies in its industry to recognise the growth opportunities in Central and Eastern Europe, and to take a chance on entering the market in the former Czechoslovakia in 1990. Additional markets followed, with the Company expanding into Hungary in 1996, Poland in 1998, Croatia in 1999 and Romania in 2001, to mention only a few examples. Following its entry into the Moldovan market in 2014, Vienna Insurance Group now operates in 25 markets.

### *Number 1 in its core markets*

VIG's core markets include Austria, the Czech Republic, Slovakia, Poland, Romania, Bulgaria, Croatia, Hungary, Serbia and Ukraine. With a market share of more than 19%, VIG is the clear number 1 insurer in these markets.
The VIG markets in Central and Eastern Europe generated more than half of the approximately EUR 9.2 billion in Group premiums in 2014 – a clear indication of the success of the CEE expansion strategy. VIG is convinced that the region will continue to converge economically, leading to further increases in the demand for insurance.
VIG RE, the reinsurance company that was established by VIG in 2008, has its registered office in the Czech Republic, thereby stressing the importance of the CEE region as a growth market for VIG.

### *Customer proximity – in 25 markets*

Local entrepreneurship, and the customer proximity it brings, plays a key role in VIG's success and is reflected in the regional ties, multi-brand strategy and the wide variety of distribution channels used. The Group therefore intentionally relies on established regional brands united under the Vienna Insurance Group umbrella, because it is the individual strengths of these brands and local expertise that make VIG successful as a corporate group.

### *Success thanks to a focus on our core business and binding values*

VIG is a progressive, highly risk-conscious insurer that focuses on its core business, the insurance business. It offers security in the form of reliability, trustworthiness and soundness – not only to its customers, but also in its dealings with business partners, employees and shareholders. All its business decisions in this regard are based on ethical values such as honesty, integrity, diversity, equal opportunity and customer orientation.
The effects of this fundamental approach are shown not only by its strategy of continuous sustainable growth, but also its excellent creditworthiness. In July 2014 the internationally recognised rating agency Standard & Poor's confirmed its A+ rating with a stable outlook. As a result, VIG continues to have the best rating of all companies in the ATX, the leading index of the Vienna Stock Exchange.

### *Two strong partners in the CEE region: VIG and the Erste Group*

The Erste Group is one of the leading banking groups in Central and Eastern Europe, with strong ties to Austria. VIG and the Erste Group entered into a strategic partnership in 2008 that has benefited both of them. In markets where both groups are active, Erste Group branches market VIG insurance products and VIG Group companies offer Erste Group bank products in return.

### *Strong stock-exchange presence, long-term principal shareholder*

VIG shares have been listed on the Vienna Stock Exchange since October 1994. At the end of 2014, slightly more than 20 years after its IPO, VIG was one of the top companies in the Prime Market of the Vienna Stock Exchange with a market capitalisation of around EUR 4.8 billion. While the ATX leading index fell by 15.2% in 2014, VIG shares once again proved their stability by achieving a price gain of around 2.4%. The Company's dividend policy is based on stability and continuity. VIG has paid a dividend every year since its IPO, the latest being EUR 1.30 per share in 2013.

VIG's secondary listing on the Prague Stock Exchange in February 2008 underscores the great importance of the Central and Eastern European region to the Company. With a market capitalisation of around CZK 132.1 billion, VIG was also one of the largest companies on the Prague Stock Exchange at the end of 2014.

Around 70% of VIG's shares are held by Wiener Städtische Versicherungsverein, a stable principal shareholder with a long-term orientation. The remaining shares are in free float.

### *Employer of choice*

In addition to being first choice for insurance products, VIG also wants to be the first choice as an employer and to attract the most talented and intelligent employees. A wide array of measures, such as identifying and developing each employee's individual skills, are implemented by a modern People Management department. Diversity is seen as an opportunity and is part of day-to-day life at VIG. Importance is attached to creating the conditions needed to enable women to develop their full potential. This is because Vienna Insurance Group is aware that its success is based on people, and therefore on the dedication of its approximately 23,000 employees.

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

## Vienna Insurance Group members

## Annual Management Board's report

The Management Board is submitting its report together with the audited financial statements for the year ended 31 December 2014.

**Review of operations**

The result for the year ended 31 December 2014 of the Company is set out in the statement of comprehensive income on page 11.

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

The Management Board, during the course of 2014 and up to the date of the signing of this report, comprised:

| | |
|---|---|
| Snježana Bertoncelj | President of the Management Board |
| Marijan Jalšovec | Member of the Management Board |

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

The Supervisory Board, during the course of 2014 and up to the date of the signing of this report, comprised:

| | |
|---|---|
| Peter Franz Höfinger | President of the Supervisory Board |
| Hans-Peter Hagen | Deputy President of the Supervisory Board |
| Anita Markota Štriga | Member of the Supervisory Board |
| Natalia Čadek | Member of the Supervisory Board |
| Roland Gröll | Member of the Supervisory Board |
| Erwin Hammerbacher | Member of the Supervisory Board |
| Jurica Smoljan | became a Member of the Supervisory Board on 21 January 2014 |

## Annual Management Board's report (continued)

**Management Board's report to the General Assembly of Erste osiguranje Vienna Insurance Group d.d. regarding the Company's position for 2014**

**Introduction**

Erste osiguranje Vienna Insurance Group d.d., headquartered in Zagreb, Slovenska 24, commenced its operations on 1 July 2005 and has no own subsidiaries.

In 2014, the Company acquired a gross premium written the total amount of HRK 151.4 million, which is an increase of 8.7% compared to the prior year. During the year, life insurance market grew 3.9%, with only eleven out of 15 companies recording a premium growth, while the premiums of four companies decreased compared to 2013. At 31 December 2014 Erste osiguranje VIG d.d. had a share of 5.74% on the life-insurance, compared to its 5,49% share at the end of 2013. The Company's gross profit for the year amounts to HRK 14,480,526.55 which is 23.5% more than in 2013.

The Company was stabile in 2014 and had increase of gross written premiun and profit before taxation.

**Shareholders' structure**

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

**Sales and gross premiums written**

The Company has an intermediation and business cooperation contract with Erste and Steiermärkische Bank d.d. The selling activities are focused mainly on endowment in the retail segment. On 31 December 2014 such insurance comprised 71.7% of gross premiums written or HRK 108.5 million, out of which HRK 39.9 million relate to single-premium policies. The share of endowment premium fell slightly from 81,5 percent in 2013 due to excellent sales of Erste&Steiermärkische Bank d.d. bond-linked life insurance policy under which the Company generated a premium revenue in the amount of HRK 40.3 million. Out of the total of HRK 151.4 million of gross premium written, HRK 91.5 million were generated from new insurance contracts, and HRK 59.9 million to premiums written in prior years. One of the Company's sales strategy guidelines is selling policies not linked to loans (non-endorsed policies), with a significant step forward made during the year, as such policies reached 64.3 percent of the new multi-premium portfolio. The trend is important for the Company's stability in the long run.

Although the retail segment remained the main source of premium income, the volume of business with corporate customers, i.e. the Corporate Sector of Erste&Steiermärkische Bank d.d. continued to grow in 2014. Thus, the gross premium written in the corporate segment increased four times compared to 2013. In absolute figures, the amount was HRK 7.18 million, which is still a relatively low portion of the total premium. However, because of the positive trend, this segment of the business is expected to grow in the future.

**Operating expenses**

At 31 December 2014 gross settled claims amounted to HRK 53.6 million, which is an increase of 1.85% compared to 2013. The majority of the settled claims relate to surrenders (HRK 43.6 million) and payments made under expired insurance contracts (HRK 6.7 million) This was expected due to the portfolio maturity structure and the economic and financial crisis.

Operating expenses increased 5.5 percent compared to 2013 and amounted to HRK 30.3 million at 31 December 2014. Given the still lower rise in the expenses compared to the premium increase rate, the loss ratio for 2014 decreased 4.3 percent year-on-year and was merely 20.11 percent.

**Increase in technical provisions**

In 2014, the total technical provisions increased by HRK 89.8 million (19.1 % versus 2013) and amount to HRK 559.6 million. Mathematical reserve accounts for the major part (HRK 456 million), which is in line with the portfolio structure given the concentration of endowment. The share of technical provisions for life insurance with the risk borne by the policyholder rose significantly from HRK 50.8 million in 2013 to HRK 96.2 million in 2014. This was due to the sale of index-linked insurance products for which the provision is formed.

**Capital and investments**

In 2014 the Company generated investment income in the total amount of HRK 64.4 million (1.2 less than in 2013) and a positive financial result in the amount of HRK 39.2 million, which represents a 11.0 percent increase compared to HRK 35.3 million in 2013. The total investment income consists of interest income amounts to HRK 27.3 million, foreign exchange gains amount to HRK 25.6 million, realised gains amount to HRK 4.8 million, and other income amounts to HRK 0.6 million. The largest item of total expenses are foreign exchange losses in the amount of HRK 24.0 million. Taking into account other investment costs in the amount of HRK 1.2 million, the financial result was determined in the amount of HRK 39.2 million.

## Annual Management Board's report (continued)

As at 31 December 2014 the Company's regulatory capital amounted to HRK 50.5 million and, with a surplus capital of HRK 21.6 million, the Company was fully capitalised and compliant with the capital adequacy requirement.

**Risk management**

The Company manages its risks continuously and methodically. Risk management enables identification, quantification, analysis and control of the risks the Company is facing. The risks to which the Company is exposed comprise market, actuarial, operating, strategic and reputation risks. For each of the risk categories, the Company takes measures to minimise the risk. Each of the measures is a result of carefully analyzed residual risks which are identified with internal control system, planned size and stress tests as a part of the ORSA process.

The company through developed internal policy controls risks by defining a risk management strategy,defining risks that takes in in its business and how that shapes neccesary reserves. Management of assets and liabilities, liquidity and concentration risk, investment strategy, operational risk management, and policy and criteria conclusion of reinsurance contracts are defined in a clear and comprehensive manner policies

**Human resources**

As at 31 December 2014 the Company had 42 employees, with the average premium per employee amounting to HRK 3.6 million, which ranks the Company in the top markets in terms of efficiency. By undertaking the strategy of human potential development during the year, the Management Board continued to invest in the education, professional development and motivation of its employees, which included professional training courses, in particular from the areas of actuarial mathematics, accounting, risk management, information technologies, as well as other areas of operations.

**Planned business development in 2015**

Macroeconomic expectations for 2015 are rather pessimistic. It is anticipated that gross domestic product will remain at the 2014 level, with the high unemployment rate remaining a major problem. Furthermore, taking into account that the life insurance market in 2014 grew mainly on insurance with one-time payments, we believe that the market will stagnate or even achieve a slight decrease.

Despite that, the Company is expecting the gross written premium to increase 8.6 percent. and a positive operating result before taxation to increase 3 percent.

We remain committed to professional training and motivation of our staff as the pillars of the Company's overall development. We are also committed to improving the existing processes by implementing IT support in order to optimise them, which should reflect itself positively on the operating expenses as well as facilitate the delivery of a more integrated service to our customers. Furthermore, we will continue to conduct and continuously improve our risk management measures. It is also our aim to work on expanding the products and services on offer in 2014, in line with the envisaged strategic role of a bank-assurance company.

Our focus is to maintain the high-quality cooperation with Erste & Steiermärkische Bank d.d. and our policyholders, work constantly towards improving relationships with our insurance customers and to increase, as a result, the quality of our portfolio and strengthen our position at the Croatian life insurance market.

| | |
|---|---|
| Snježana Bertoncelj | Marijan Jalšovec |
| President of the Management Board | Member of the Management Board |

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Vienna Insurance Group d.d.
ZAGREB, Slovenska 24

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

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (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.

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

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

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

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

Signed by the Management Board on 25th February 2015.

Snježana Bertoncelj
President of the Management Board

Marijan Jalšovec
Member of the Management Board

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Vienna Insurance Group d.d.
ZAGREB, Slovenska 24

# Independent auditor's report

**To the owners of Erste Osiguranje Vienna Insurance Group d.d.:**

We have audited the accompanying financial statements of Erste osiguranje Vienna Insurance Osiguranje Group d.d., ("the Company") which comprise the statements of financial position as at 31 December 2014, the statement of profit or loss, statement of other comprehensive income the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Independent auditor's report (continued)

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

*Other legal and regulatory requirements*

i. The Management Board has prepared reporting forms in accordance with the Regulation on the Structure and Content of the Financial Statements of Insurance and/or Reinsurance Companies (NN 149/09, 42/10, 52/13 - "the Regulation"), adopted by the Croatian Financial Services Supervisory Agency. The reporting forms are provided as a supplement to these financial statements, set out on pages 72 to 80, and comprise the statement of financial position and the statement of comprehensive income, statement of cash flows, statement of changes in equity for the year then ended and notes of reconciliation. These reporting forms are the responsibility of the Company's management and do not form an inseparable part of the financial statements set out on pages 10 to 71, but rather a requirement specified by the Regulation.

ii. The management is also responsible for the preparation of the Annual Report in accordance with the requirements of the Croatian Accounting Law. Our responsibility is to issue an opinion on the consistency of the Annual Report with the financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing of whether information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We have not audited any data or information other than the financial information obtained from the financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements as of 31 December 2014.

Deloitte d.o.o.
Zagrebtower
Radnička cesta 80
10 000 Zagreb
MB 0700851

**Branislav Vrtačnik**

President of the Management Board

**Deloitte d.o.o.**

Zagreb, 25 February 2015

## Statement of financial position
### At 31 December

| | *Notes* | **2014** | 2013 |
|---|---|---|---|
| | | **HRK'000** | HRK'000 |
| **Assets** | | | |
| Equipment | *1.10* | **2,116** | 953 |
| Investment property | *1.11* | **10,648** | 10,985 |
| Intangible assets | *1.12* | **5,803** | 577 |
| Held-to-maturity investments | *1.13* | **175,182** | 176,883 |
| Available-for-sale financial assets | *1.13* | **363,624** | 296,465 |
| Loans and receivables | *1.13* | **336** | 348 |
| Investments for account and risk of life insurance policyholders | *1.13* | **96,293** | 50,848 |
| Technical provisions, reinsurers' share | *1.14* | **3,518** | 2,641 |
| Receivables from insurance operations and other receivables | *1.16* | **15,007** | 13,948 |
| Cash and cash equivalents | *1.17* | **1,098** | 1,660 |
| **Total assets** | | **673,625** | 555,308 |
| **Capital and reserves** | | | |
| Share capital | *1.23* | **30,000** | 30,000 |
| Fair value reserve | *1.23* | **24,618** | 6,235 |
| Actuarial gains and losses | | **(11)** | - |
| Statutory reserves | | **21,248** | 21,248 |
| Retained earnings | | **17,039** | 12,897 |
| **Total capital and reserves** | | **92,894** | 70,380 |
| **Liabilities** | | | |
| Insurance contract provisions | *1.18* | **557,077** | 466,334 |
| Discretionary profit participation provision | *1.19* | **2,500** | 3,460 |
| Other reserves | *1.22* | **512** | 326 |
| Liabilities under insurance contracts and other liabilities | *1.20* | **15,885** | 14,286 |
| Deferred tax liability | *1.15* | **4,337** | 67 |
| Current tax liability | *1.21* | **420** | 455 |
| **Total liabilities** | | **580,731** | 484,928 |
| **Total liabilities and equity** | | **673,625** | 555,308 |

The significant accounting policies and other notes on pages 14 to 71 form an integral part of these financial statements.

## Statement of comprehensive income
**For the year ended 31 December**

| | *Notes* | **2014** | 2013 |
|---|---|---|---|
| | | **HRK'000** | HRK'000 |
| Gross premium written | *1.25* | **151,385** | 139,302 |
| Outward reinsurance premiums | *1.25* | **(3,728)** | (3,516) |
| **Net premium written** | | **147,657** | 135,786 |
| Changes in the gross unearned premium reserve | *1.25* | **(20)** | (137) |
| Changes in the gross unearned premium reserve, reinsurer's share | *1.25* | **(13)** | (157) |
| **Net premium earned** | | **147,624** | 135,492 |
| Fee and commission income | *1.26* | **1,600** | 1,811 |
| Financial income | *1.27* | **40,192** | 36,686 |
| Other operating income | *1.28* | **896** | 638 |
| **Net operating income** | | **190,312** | 174,627 |
| Claims incurred | *1.29* | **(144,410)** | (131,112) |
| Claims incurred, reinsurer's share | *1.29* | **1,763** | 1,111 |
| **Claims incurred, net** | | **(142,647)** | (130,001) |
| Acquisition costs | *1.30* | **(22,057)** | (21,556) |
| Administrative expenses | *1.31* | **(9,802)** | (8,942) |
| Other operating expenses | *1.32* | **(330)** | (412) |
| Other expenses | *1.32* | **-** | (617) |
| **Profit from operations** | | **15,476** | 13,099 |
| Financial expenses | *1.33* | **(996)** | (1,373) |
| **Profit before tax** | | **14,480** | 11,726 |
| Income tax | *1.34* | **(2,479)** | (2,495) |
| **Profit for the year** | | **12,001** | 9,231 |
| **Other comprehensive income, net of income tax** | | | |
| Gains / losses on remeasurement of available-for-sale assets at fair value, net of deferred tax | | **18,383** | (11,108) |
| Actuarial gains / losses on pension plans with defined pensions | | **(11)** | - |
| **Total comprehensive income** | | **30,373** | (1,877) |
| Profit / (loss) per share | | **HRK** | HRK |
| Basic and diluted earnings per share | | **400** | 307 |

The significant accounting policies and other notes on pages 14 to 71 form an integral part of these financial statements.

## Statement of Changes in Equity

| | Share capital | Fair value reserve | Actuarial gains and losses | Statutory reserves | Retained earnings | Total capital and reserves |
|---|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **Balance at 1 January 2014** | **30,000** | **6,235** | **-** | **21,248** | **12,897** | **70,380** |
| Net losses on remeasurement of available-for-sale financial assets at fair value, net of realised amounts (Note 1.23) | - | 22,979 | - | - | - | 22,979 |
| Deferred tax on net losses on available-for-sale assets, net of realised amounts (Note 1.15) | - | (4,596) | - | - | - | (4,596) |
| Actuarial gains and (losses) | - | - | (11) | - | - | (11) |
| *Other comprehensive income, net of income tax* | - | 18,383 | (11) | - | - | 18,372 |
| Profit for the year | - | - | - | - | 12,001 | 12,001 |
| *Total comprehensive income for the period* | - | 18,383 | (11) | - | 12,001 | 30,373 |
| Increase/decrease in subscribed capital | - | - | - | - | - | - |
| Dividends paid | - | - | - | - | (7,859) | (7,859) |
| *Transactions with equity holders recognised directly in equity* | - | - | - | - | (7,859) | (7,859) |
| **Balance at 31 December 2014** | **30,000** | **24,618** | **(11)** | **21,248** | **17,039** | **92,894** |

| | Share capital | Fair value reserve | Actuarial gains and losses | Statutory reserves | Retained earnings | Total capital and reserves |
|---|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **Balance at 1 January 2013** | **22,500** | **17,341** | **-** | **28,748** | **10,710** | **79,299** |
| Net losses on remeasurement of available-for-sale financial assets at fair value, net of realised amounts (Note 1.23) | - | (13,884) | - | - | - | (13,884) |
| Deferred tax on net losses on available-for-sale assets, net of realised amounts (Note 1.15) | - | 2,778 | - | - | - | 2,778 |
| *Other comprehensive income, net of income tax* | - | (11,106) | - | - | - | (11,106) |
| Profit for the year | - | - | - | - | 9,231 | 9,231 |
| *Total comprehensive income for the period* | - | (11,106) | - | - | 9,231 | (1,875) |
| Increase / decrease of share capital | 7,500 | - | - | (7,500) | - | - |
| Dividends paid | - | - | - | - | (7,044) | (7,044) |
| *Transactions with equity holders recognised directly in equity* | 7,500 | - | - | (7,500) | (7,044) | (7,044) |
| **Balance at 31 December 2013** | **30,000** | **6,235** | **-** | **21,248** | **12,897** | **70,380** |

The significant accounting policies and other notes on pages 14 to 71 form an integral part of these financial statements.

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

| | 2014. | 2013. |
|---|---|---|
| | HRK '000 | HRK '000 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **13,041** | 7,267 |
| **Cash flow before changes in operating assets and liabilities** | **(21,527)** | (17,376) |
| Profit / loss before tax | **14,480** | 11,726 |
| Value adjustments: | **(36,007)** | (29,102) |
| Depreciation of property and equipment | **961** | 799 |
| Amortization of intangible assets | **534** | 247 |
| Impairment and gains / losses from fair value | **(5,513)** | (2,938) |
| Interest income | **(27,363)** | (25,456) |
| Gains / losses on disposal of fixed assets (including land and buildings) | **(41)** | (1) |
| Other adjustments | **(4,585)** | (1,753) |
| **Increase / decrease in operating assets and liabilities** | **37,408** | 27,151 |
| Increase / decrease in investments available for sale | **(39,733)** | (54,112) |
| Increase / decrease in deposits, loans and receivables | **13** | (287) |
| Increase / decrease in insurance business in reinsurance | **(39,856)** | (20,620) |
| Increase / decrease of reinsurance in technical provisions | **(878)** | (636) |
| Increase / decrease of deferred tax assets | **(327)** | (85) |
| Increase / decrease in receivables | **26,232** | 25,691 |
| Increase / decrease in prepayments and accrued income | **90** | (6) |
| Increase / decrease in technical provisions | **44,338** | 53,608 |
| Increase / decrease in technical provisions for life insurance policies where the policyholder bears the investment risk | **45,445** | 24,044 |
| Increase / decrease in tax liabilities | **-** | (1,722) |
| Increase / decrease in deposits retained from reinsurance business | **435** | 401 |
| Increase / decrease in other liabilities | **2,332** | 500 |
| Increase / decrease in accruals and deferred income | **(683)** | 375 |
| **Income taxes paid** | **(2,840)** | (2,508) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(5,744)** | (890) |
| Proceeds from sale of fixed assets | **64** | 2 |
| Payments for purchases of property and equipment | **(1,813)** | (354) |
| Payments for purchases of intangible assets | **(5,761)** | (220) |
| Proceeds from held-to-maturity | **1,766** | (318) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **(7,859)** | (7,044) |
| Cash payments for profit share (dividends) | **(7,859)** | (7,044) |
| **NET CASH FLOW** | **(562)** | (667) |
| **Net increase / decrease in cash and cash equivalents** | **(562)** | (667) |
| Cash and cash equivalents at the beginning of period | **1,660** | 2,327 |
| **Cash and cash equivalents at the end of period** | **1,098** | 1,660 |

The significant accounting policies and other notes on pages 14 to 71 form an integral part of these financial statements.

# Notes to the financial statements

### *1.1 Reporting entity*

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

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

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

### *1.2 Basis of preparation*

#### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by EU. The financial statements were authorised for issue by the Management Board on 25 February 2015 for approval by the Supervisory Board.

#### (b) Functional and presentation currency

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

#### (c) Basis of measurement

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

#### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.5 Insurance Risk Management.

#### (e) Foreign currency translation

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

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

### *1.2 Basis of preparation (continued)*

**(e) Foreign currency translation (continued)**

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

In addition to the Croatian kuna (HRK), the principal currency in which the Company's assets and liabilities are denominated is euro (EUR). The exchange rate for Euro, applied as of 31 December 2014 was EUR 1 = HRK 7.661 (2013: EUR 1 = HRK 7.638).

**(f) Standards and Interpretations**

**Standards and Interpretations effective in the current period**

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies nor affected the Company's profit in the current or previous year.

### *1.2. Basis of preparation (continued)*

**(f) Standards and Interpretations (continued)**

**Standards and Interpretations issued by IASB and adopted by the EU but not yet effective**

IFRSs currently adopted by the EU do not differ significantly from the rules issued by the International Accounting Standards Board (abbreviated: IASB), except for the following standards, amendments to standards and interpretations whose adoption in the EU September 30, 2014 year decision has not been taken:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

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

### *1.3 Significant accounting policies*

#### (a) Equipment

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

*Recognition and measurement*

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

*Reclassification in investment in property*

In the moment when the property is no longer used for its own purpose, it becomes investment in the property, and this property is reclassified as investment property.

*Subsequent expenditure*

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

*Depreciation*

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

The estimated useful lives are presented below:

| | **2014** | **2013** |
|---|---|---|
| Furniture and fittings | 4 years | 4 years |
| IT equipment | 4 years | 4 years |
| Vehicles | 5 years | 5 years |
| Other equipment | 10 years | 10 years |

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

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

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

#### (b) Investment property

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

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

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

| | **2014** | **2013** |
|---|---|---|
| Investment property | 30 years | 30 years |

### *1.3 Significant accounting policies (continued)*

#### (c) Intangible assets

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

*Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

*Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are presented below:

| | **2014** | **2013** |
|---|---|---|
| Software | 4 years | 4 years |
| Leasehold improvements | Over the lease term/ 4 years | Over the lease term/ 4 years |

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

#### (d) Financial instruments

*Classification, recognition and reclassification*

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

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

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities which are classified as held for trading or on initial recognition designated by the Company as at fair value through profit or loss. The Company does not apply hedge accounting. As stated above, this category has two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short-term profit or position taking.

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

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

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

### *1.3 Significant accounting policies (continued)*

#### (d) Financial instruments (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivable arise when the Company provides money to a debtor with no intention of trading with the receivable and include advances to insurees.

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

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments include Government debt securities as well as municipal debt securities.

*Available-for-sale financial assets*

Financial assets available for sale are non-derivatives that are either designated as available for sale are not classified elsewhere. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include investment funds, equity securities, structured bonds, treasury bills and commercial papers.

*Other financial liabilities*

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

*Recognition and derecognition*

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

A financial liability is derecognised only when it no longer exists, i.e. when it is discharged, cancelled or expired. If the terms of a financial liability change, the Company will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

### *1.3 Significant accounting policies (continued)*

**(d) Financial instruments (continued)**

*Initial and subsequent measurement*

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

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

Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairment losses. Financial liabilities not designated at fair value through profit or loss or available for sale are measured at amortised cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

*Gains and losses*

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

Gains or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in fair value reserve within other comprehensive income. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to profit or loss. In case of non-monetary financial assets available for sale, all changes of fair value, including those relating to exchange differences are recognized in other comprehensive income. Upon sale or other derecognition of financial assets available for sale, any cumulative gains or losses are transferred from other comprehensive income to profit or loss.

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

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

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

*Fair value measurement principles*

The fair value of financial assets and liabilities at fair value through profit or loss and available for sale financial instruments is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Company establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. When using pricing model, the Company uses market values at the reporting date.

### *1.3 Significant accounting policies (continued)*

**(d) Financial instruments (continued)**

*Impairment of financial assets*

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

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

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

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

*Specific instruments*

**<u>Embedded derivatives within insurance contracts and investment contracts</u>**

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

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

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

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

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

### *1.3 Significant accounting policies (continued)*

**(d) Financial instruments (continued)**

*Specific instruments (continued)*

***Embedded derivatives within insurance contracts and investment contracts (continued)***

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

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

***Repurchase agreements***

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

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

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

***Debt securities***

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

***Deposits with banks***

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

***Loans to customers***

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

***Equity securities***

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

***Investment funds***

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

***Investments for the account and risk of life insurance policyholders***

Investments for the account and risk of life insurance policyholders include 'investments in unit-linked and index - linked products and are classified as financial assets at fair value through profit and loss.

Other receivables are carried at cost less impairment loss.

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

### *1.3 Significant accounting policies (continued)*

**(d) Financial instruments (continued)**

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount 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.

**(e) Assets under lease**

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

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

**(f) Cash and cash equivalents**

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

**(g) Staff costs**

*Pension funds with defined contribution amount*

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

*Jubilee awards and statutory redundancy*

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

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

**(h) Income tax**

Income tax expense comprises current and deferred taxes. Income tax expense 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 equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

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

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

### *1.3 Significant accounting policies (continued)*

#### (i) Provisions

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

#### (j) Discretionary profit participation provision

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

#### (k) Share capital

*Ordinary share capital*

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

*Dividends*

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

*Statutory reserves*

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

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

*Fair value reserve*

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

*Retained earnings*

Any profit for the year retained after appropriations is transferred to reserves based on the shareholders' decision or left in retained earnings. Retained earnings are available for distribution to shareholders.

#### (l) Impairment

The carrying amounts of the Company's assets, other than financial assets (see accounting policy 1.3 (d)) and deferred tax assets (see accounting policy 1.3 (h)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

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

### *1.3 Significant accounting policies (continued)*

#### (l) Impairment (continued)

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

#### (m) Revenue

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

*Financial income*

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

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

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

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

*Fee and commission income*

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

#### (n) Expenses

*Operating expenses*

Operating expenses consist of policy acquisition costs and administrative expenses.

*Acquisition costs*

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

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

*Administrative expenses*

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

### *1.3 Significant accounting policies (continued)*

#### (n) Expenses (continued)

*Operating lease expenses*

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

*Financial expenses*

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

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

#### (o) Classification of insurance contracts

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

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

*Contracts with discretionary participation features*

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

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

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

The provision for discretionary benefits comprises amounts arising from participation or other unlinked policies the allocation of which to policyholders has not been specified at the reporting date.

*Discretionary profit participation provision*

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

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

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

### *1.3 Significant accounting policies (continued)*

#### (p) Premiums

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

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

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

#### (q) Unearned premium provision

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

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

For the calculation of the reinsurance portion of unearned premiums are applied the provisions of the reinsurance contract.

#### (r) Life assurance provision (mathematical reserve)

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

The Zillmer rates range from 0% to 3.5% of the total insurance premium, depending on the life insurance tariff. The Zillmer rates applied by the Company are within the limits specified by CFSSA.

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

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

#### (s) Claims

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

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

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

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

Although the management considers the gross claim provision and the related recoveries from reinsurance as being adequately disclosed based on the currently available information and events, the ultimate liability may vary as a result of subsequent information and events, and may result in significant adjustments to the amounts provided against. The adjustments to the claims provisions established in prior years are reflected in the financial statements in the period of the adjustments and are disclosed separately if material. The methods and the underlying estimates and assumptions are regularly reviewed, as discussed in more detail in Note 1.4 Liability adequacy test.

### *1.3 Significant accounting policies (continued)*

#### (t) Reinsurance

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

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

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

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

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

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

Costs of reinsurance pertaining to life insurance contracts are accounted for over the term of the insurance policies to which they relate using the assumptions consistent with those applied in accounting for the related policies.

*Reinsurance and profit-based commissions*

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

#### (u) Liabilities and related assets under liability adequacy test

Insurance contracts are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs and any related assets. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss.

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

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

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

#### (w) Insurance receivables and payables

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

### *1.4 Accounting estimates and judgements*

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

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

#### *1.4.1 Key sources of estimation uncertainty*

*Impairment losses on loans and receivables*

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

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

*Fair value measurement*

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

Loans and receivables are measured at amortised cost less impairment.

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

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

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

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

- Level 1: 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.

## *1.4. Accounting estimates and judgements (continued)*

### 1.4.1. *Key sources of estimation uncertainty (continued)*

| At 31 December 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| Available-for-sale financial assets | | | | |
| ~ Debt securities | 362,753 | - | - | 362,753 |
| ~ Equity securities | - | - | - | |
| ~ Investment funds | 871 | - | - | 871 |
| Investments for the benefit of index-/unit-linked products | 96,293 | - | - | 96,293 |
| **Total financial assets at fair value** | **459,917** | | **-** | **459,917** |

| At 31 December 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| Available-for-sale financial assets | | | | |
| ~ Debt securities | 294,216 | - | - | 294,216 |
| ~ Equity securities | - | 551 | - | 551 |
| ~ Investment funds | 1,698 | - | - | 1,698 |
| Investments for the benefit of index-/unit-linked products | 50,848 | - | - | 50,848 |
| **Total financial assets at fair value** | **346,762** | **551** | | **347,313** |

In 2014 there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy and there were no transfers to or from Level 3.

*Uncertainty of provision estimates*

The most significant area of estimate in the financial statements of the Company relates to provisions. The principal assumptions used in determining the level of life insurance provision are disclosed in Note 1.18(f) Insurance contract.

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

*Taxes*

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

*Regulatory requirements*

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

### *1.4. Accounting estimates and judgements (continued)*

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

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

*Classification of financial assets and liabilities*

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

***Valuation of financial assets***

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

*Classification of products*

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

*Estimated useful life of equipment and intangible assets*

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

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

*Impairment test for AFS equity instruments*

The Company as of 31 December 2014 has no equity instruments classified as available for sale.

### *1.5 Insurance risk management*

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

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

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

#### *Risk management*

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

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

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

Reinsurance ceded contains the credit risk, and such insurance receivables are presented net of uncollectible amounts. The Company monitors the financial condition of reinsurers and majority signs the contracts with reinsurers who are rated A.

The Company has a proportional reinsurance contract for its products.

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

#### *Concentrations of insurance risk*

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

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

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

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

| ***Line of insurance*** | **Value at risk** | | | |
|---|---|---|---|---|
| | **2014** | | **2013** | |
| | **HRK'000** | **%** | **HRK'000** | % |
| Life assurance – traditional products | **1,077,153** | 27.71% | **1,145,806** | 30.98% |
| Life-assurance products where the investment risk is borne by the policy holder | **8,620** | 0.22% | **4,685** | 0.13% |
| Supplementary insurance | **2,801,966** | 72.07% | **2,547,619** | 68.89% |
| **Balance at 31 December** | **3,887,739** | 100.00% | **3,698,110** | 100.00% |

### *1.5 Insurance risk management (continued)*

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

| Sum insured per insured person at the end of 2014 | Total sum insured | | | |
|---|---|---|---|---|
| | Before reinsurance | | After reinsurance | |
| HRK | HRK'000 | % | HRK'000 | % |
| < 20,000 | 211,489 | 13.10% | 208,233 | 17.06% |
| 20,001-40,000 | 310,687 | 19.25% | 302,872 | 24.81% |
| 40,001-60,000 | 137,463 | 8.52% | 128,894 | 10.56% |
| 60,001-80,000 | 156,479 | 9.69% | 151,406 | 12.40% |
| 80,001-100,000 | 97,982 | 6.07% | 92,513 | 7.58% |
| > 100,001 | 700,232 | 43.37% | 336,943 | 27.59% |
| **Balance at 31 December 2014** | 1,614,332 | 100.00% | 1,220,861 | 100.00% |

| Sum insured per insured person at the end of 2013 | Total sum insured | | | |
|---|---|---|---|---|
| | Before reinsurance | | After reinsurance | |
| HRK | HRK'000 | % | HRK'000 | % |
| < 20,000 | 193,454 | 12.09% | 190,066 | 15.64% |
| 20,001-40,000 | 299,592 | 18.72% | 292,472 | 24.07% |
| 40,001-60,000 | 164,015 | 10.25% | 156,671 | 12.90% |
| 60,001-80,000 | 170,188 | 10.64% | 164,542 | 13.54% |
| 80,001-100,000 | 98,851 | 6.18% | 93,911 | 7.73% |
| > 100,001 | 673,964 | 42.12% | 317,225 | 26.12% |
| **Balance at 31 December 2013** | 1,600,064 | 100.00% | 1,214,887 | 100.00% |

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

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

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

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

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

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

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

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

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

The guaranteed technical interest rate included in the policies is 3.25% for the tariffs HR11, HR11U, HRR and HRRU, 2.75 % for HRC1, and 2.5% for HRR2, HRR2U, HRR3, HRR4, HRR4U, HRIL1U, HRIL2U, HR21, HR31, HR41, HR21U i HR31U, and 2% for HR14 and HR24 by reference to the actual technical interest rate used in determining the premium.

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

There were no significant changes in the assumptions underlying the measurement of life insurance operations during 2014.

*Discretionary bonus participation*

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

### *1.7 Liability adequacy test*

The life assurance provision (mathematical reserve) is tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options. For this purpose, the Company tests the profit for the most products within its portfolio. Where reliable market information is available, the assumptions are derived from the observed market prices.

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

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

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

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

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

*Segmentation*

The Company segments the products into several homogenous groups according to the characteristics of individual products. Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining the additional liability to be established.

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

### *1.7 Liability adequacy test (continued)*

*Mortality and morbidity*

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

The mortality rates of the Republic of Croatia from the period 2001-02 are used (MT RH).

The mortality assumptions are adjusted by risk and uncertainty margins.

*Persistency*

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

*Expenses*

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

*Expected investment return and discount rate*

The future investment returns are determined using the euro risk-free rate curve and amounts 2.52%. The discount curve is equal to the euro risk-free interest curve .The discount rate is equal to the expected return on future investments, taking into account the credit risk, maturity, the currency structure of the Company’s investment portfolio, adjusted by the margin for uncertainty.

*Profit allocation*

Whilst, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Company, the assessment of the liability adequacy takes into account future discretionary bonuses.

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

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

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

| **Liability adequacy test – modelled future cash flows** | **2014** |
|---|---|
| | **HRK’000** |
| Base run ('initial value') | **437.230** |
| Investment return –100bp | **465.918** |
| Mortality +5% | **438.690** |
| Policy maintenance expenses +10% | **444.807** |

The liability adequacy test was performed on the total portfolio.

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

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

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

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

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

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

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

*Discretionary profit participation*

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

*Premiums*

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

*Term life insurance products*

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

*Life-long endowment*

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

*Endowment products*

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

*Unit-linked life assurance*

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

*Index-linked life assurance*

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

### *1.10 Equipment*

| | Motor vehicles | Equipment and furniture | Tangible assets under construction | Total |
|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **Cost** | | | | |
| Balance at 1 January 2013 | 935 | 3,370 | - | 4,305 |
| Additions | - | 345 | 10 | 355 |
| Disposals | - | (15) | - | (15) |
| **Balance at 31 December 2013** | **935** | **3,700** | **10** | **4,645** |
| Balance at 1 January 2014 | 935 | 3,700 | 10 | 4,645 |
| Additions | 317 | 1,491 | 4 | 1,812 |
| Disposals | (254) | (1,414) | (10) | (1,678) |
| **Balance at 31 December 2014** | **998** | **3,777** | **4** | **4,779** |
| **Accumulated depreciation and impairment** | | | | |
| Balance at 1 January 2013 | 392 | 2,855 | - | 3,247 |
| Charge for the year | 183 | 276 | - | 459 |
| Disposals | - | (14) | - | (14) |
| **Balance at 31 December 2013** | **575** | **3,117** | **-** | **3,692** |
| Balance at 1 January 2014 | 575 | 3,117 | - | 3,692 |
| Charge for the year | 195 | 429 | - | 624 |
| Disposals | (245) | (1,408) | - | (1,653) |
| **Balance at 31 December 2014** | **525** | **2,138** | **-** | **2,663** |
| **Net book value** | | | | |
| At 1 January 2013 | 543 | 515 | - | 1,058 |
| At 31 December 2013 | 360 | 583 | 10 | 953 |
| At 1 January 2014 | 360 | 583 | 10 | 953 |
| **At 31 December 2014** | **473** | **1,639** | **4** | **2,116** |

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

### *1.11 Investment property*

| | **Total HRK'000** |
|---|---|
| **Cost** | |
| Balance at 1 January 2013 | 11,748 |
| Additions | - |
| Disposals | - |
| **Balance at 31 December 2013** | **11,748** |
| Balance at 1 January 2014 | 11,748 |
| Additions | - |
| Disposals | - |
| **Balance at 31 December 2014** | **11,748** |
| **Accumulated depreciation and impairment** | |
| Balance at 1 January 2013 | 423 |
| Charge for the year | 340 |
| Disposals | - |
| **Balance at 31 December 2013** | **763** |
| Balance at 1 January 2014 | 763 |
| Charge for the year | 337 |
| Disposals | - |
| **Balance at 31 December 2014** | **1,100** |
| **Net book value** | |
| At 1 January 2013 | 11,325 |
| **At 31 December 2013** | **10,985** |
| At 1 January 2014 | 10,985 |
| **At 31 December 2014** | **10,648** |

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

The fair value of investment property in 2014 was 11,373 thousand and the fair value of each property is higher than the book value. Management of the Company determined the fair value on the basis of sales comparison approach. Fair values were determined according to the latest market transactions with similar properties, which in the fair value hierarchy came under the second level

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

Rental income in the amount of HRK 1,101 thousand *(2013: HRK 1,093 thousand)* is recognised as a separate line within Note 1.27 Financial income.

### *1.12 Intangible assets*

| | Licences | Investments in software | Leasehold improvements | Intangible assets under development | Total |
|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **Cost** | | | | | |
| Balance at 1 January 2013 | 2,620 | 720 | 654 | - | 3,994 |
| Additions/(Transfer into use) | 140 | - | 15 | 65 | 220 |
| **Balance at 31 December 2013** | **2,760** | **720** | **668** | **65** | **4,214** |
| Balance at 1 January 2014 | 2,760 | 720 | 668 | 65 | 4,213 |
| Additions | 102 | 196 | 4,606 | 876 | 5,780 |
| Disposals | - | - | (668) | - | (668) |
| **Balance at 31 December 2014** | **2,862** | **916** | **4,606** | **941** | **9,325** |
| **Accumulated amortisation and impairment** | | | | | |
| Balance at 1 January 2013 | 2,587 | 273 | 529 | - | 3,389 |
| Charge for the year | 51 | 130 | 66 | - | 247 |
| **Balance at 31 December 2013** | **2,638** | **403** | **596** | **-** | **3,637** |
| Balance at 1 January 2014 | 2,638 | 403 | 595 | - | 3,636 |
| Charge for the year | 59 | 154 | 321 | | 534 |
| Disposals | - | - | (648) | - | (648) |
| **Balance at 31 December 2014** | **2,697** | **557** | **268** | **-** | **3,522** |
| **Net book value** | | | | | |
| At 1 January 2013 | 33 | 447 | 125 | - | 605 |
| **At 31 December 2013** | **122** | **317** | **73** | **65** | **577** |
| At 1 January 2014 | 122 | 317 | 73 | 65 | 577 |
| **At 31 December 2014** | **165** | **359** | **4,338** | **941** | **5,803** |

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

### *1.13 Financial investments*

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Held-to-maturity investments | **175,182** | 176,883 |
| Available-for-sale financial assets | **363,624** | 296,465 |
| Loans and receivables | **336** | 348 |
| Investments for account and risk of life insurance policyholders | **96,293** | 50,848 |
| | **635,435** | 524,544 |

The Company classified its financial instruments into following categories:

| | **Held-to-maturity investments** | **Financial assets available for sale** | **Financial assets at fair value through profit or loss** | **Loans and receivables** | **Total** |
|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **2014** | | | | | |
| Croatian government bonds (RH) | 173,686 | 350,330 | - | - | 524,016 |
| Foreign government bonds | - | 2,081 | - | - | 2,081 |
| Municipal bonds | 1,496 | - | - | - | 1,496 |
| Corporate bonds | - | 9,636 | - | - | 9,636 |
| Structured bond | - | 706 | - | - | 706 |
| **Fixed-rate debt securities, listed** | **175,182** | **362,753** | **-** | **-** | **537,935** |
| Open-ended investment funds | - | 871 | - | - | 871 |
| **Investment funds – listed** | **-** | **871** | **-** | **-** | **871** |
| Structured bond – asset backing index-linked products, listed | - | - | 96,293 | - | 96,293 |
| **Investments for account and risk of life insurance policyholders** | **-** | **-** | **96,293** | **-** | **96,293** |
| **Loans and receivables** | **-** | **-** | **-** | **336** | **336** |
| | **175,182** | **363,624** | **96,293** | **336** | **635,435** |

### *1.13 Financial investments (continued)*

| | Held-to-maturity investments | Financial assets available for sale | Financial assets at fair value through profit or loss | Loans and receivables | Total |
|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **2013** | | | | | |
| Listed | - | 551 | - | - | 551 |
| **Equity securities** | **-** | **551** | **-** | **-** | **551** |
| Croatian government bonds (RH) | 174,678 | 281,006 | - | - | 455,684 |
| Foreign government bonds | - | 2,000 | - | - | 2,000 |
| Municipal bonds | 2,205 | - | - | - | 2,205 |
| Corporate bonds | - | 9,309 | - | - | 9,309 |
| Structured bond | - | 1,901 | - | - | 1,901 |
| **Fixed-rate debt securities, listed** | **176,883** | **294,216** | **-** | **-** | **471,099** |
| Open-ended investment funds | - | 1,698 | - | - | 1,698 |
| **Investment funds – listed** | **-** | **1,698** | **-** | **-** | **1,698** |
| Structured bond – asset backing index-linked products, listed | - | - | 50,848 | - | 50,848 |
| **Investments for account and risk of life insurance policyholders** | **-** | **-** | **50,848** | **-** | **50,848** |
| **Loans and receivables** | **-** | **-** | **-** | **348** | **348** |
| | **176,883** | **296,465** | **50,848** | **348** | **524,544** |

### *1.14 Technical provisions, reinsurers' share*

| | *Notes* | **2014** | 2013 |
|---|---|---|---|
| | | **HRK'000** | HRK'000 |
| Reinsurers' share in provision for unearned premiums | *1.18 a)* | **380** | 393 |
| Reinsurers' share in RBNS provisions | *1.18.b)* | **77** | 40 |
| Reinsurers' share in IBNR provisions | *1.18.c)* | **2,783** | 1,926 |
| Reinsurance share in life insurance provision | *1.18.d)* | **278** | 282 |
| | | **3,518** | 2,641 |

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

### *1.15 Deferred tax asset /(liability)*

| | 2014 | 2013 |
|---|---|---|
| | **HRK'000** | **HRK'000** |
| **Deferred tax assets** | | |
| Impairment of loans and receivables | 1,350 | 1,350 |
| Impairment of financial assets available for sale | - | 142 |
| Provisions - tax non-deductible expenses | 468 | - |
| | **1,818** | **1,492** |
| **Deferred tax liability** | | |
| Unrealised losses on financial assets available for sale | **(6,155)** | **(1,559)** |
| **Net deferred tax (liability)** | **(4,337)** | **(67)** |

| | At 1 January 2014 | Recognised in profit or loss | Recognised in other comprehensive income | At 31 December 2014 |
|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **Deferred tax asset /(liability)** | | | | |
| Unrealised losses on financial assets available for sale | (1,559) | - | (4,596) | (6,155) |
| Impairment of loans and receivables | 1,350 | - | - | 1,350 |
| Impairment of financial assets available for sale | 142 | (142) | - | - |
| Provisions - tax non-deductible expenses | - | 468 | - | 468 |
| | (67) | 326 | (4,596) | (4,337) |

| | At 1 January 2013 | Recognised in profit or loss | Recognised in other comprehensive income | At 31 December 2013 |
|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **Deferred tax assets** | | | | |
| Unrealised losses on financial assets available for sale | (4,335) | - | 2,776 | (1,559) |
| Impairment of loans and receivables | 1,350 | - | - | 1,350 |
| Impairment of financial assets available for sale | 56 | 86 | - | 142 |
| | (2,929) | 86 | 2,776 | (67) |

### *1.16 Receivables from insurance operations and other receivables*

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Interest receivable | **13,466** | 12,105 |
| Receivables from bankruptcy estate | **8,000** | 8,000 |
| Receivables from reinsurance | **41** | 207 |
| Prepaid expenses | **55** | 146 |
| Other receivables | **196** | 241 |
| | **15,007** | 13,948 |
| Impairment | (6,751) | (6,751) |
| | **15,007** | 13,948 |

Other receivables include receivables on deposit of Credo banka (bankrupt) in the amount of HRK 8,000 thousands on 31st December 2011 The group has carried out impairment of deposit in the amount of HRK 6,751 thousands recognized through item of financial costs and the net book value of mentioned receviable amounts HRK 1,249 thousands.

### *1.17 Cash and cash equivalents*

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Cash with banks | **1,095** | 1,659 |
| Cash in hand | **3** | 1 |
| | **1,098** | 1,660 |

### *1.18 Insurance contract provisions*

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Unearned premium provision | **801** | 781 |
| Mathematical reserves | **453,533** | 408,820 |
| Life assurance provision for unit-linked and index-linked products | **96,293** | 50,848 |
| Reserve for reported but not settled claims (RBNS) | **1,351** | 1,562 |
| Reserve for incurred but not reported claims (IBNR) | **5,099** | 4,323 |
| **Total insurance contract provisions** | **557,077** | 466,334 |

a) Analysis of movements in unearned premium provision

| | **2014 Gross amount HRK'000** | **2014 Reinsurer's share HRK'000** | **2014 Net HRK'000** | **2013 Gross amount HRK'000** | **2013 Reinsurer's share HRK'000** | **2013 Net HRK'000** |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | 781 | 392 | 389 | 645 | 549 | 96 |
| Premium written during the year | 6,259 | 3,728 | 2,531 | 6,067 | 2,946 | 3,121 |
| Less: premium earned durinig the year | (6,239) | (3,740) | (2,499) | (5,931) | (3,102) | (2,828) |
| **Balance at 31 December** | **801** | **380** | **421** | **781** | **393** | **389** |

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

| | **2014 Gross amount HRK'000** | **2014 Reinsurer's share HRK'000** | **2014 Net HRK'000** | **2013 Gross amount HRK'000** | **2013 Reinsurer's share HRK'000** | **2013 Net HRK'000** |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | 1,562 | 40 | 1,521 | 1,065 | 36 | 1,029 |
| Claims for the year | 53,477 | 919 | 52,558 | 53,030 | 352 | 52,678 |
| Movements in prior-year claims | 959 | (9) | 968 | 1,063 | (30) | 1,093 |
| Claims paid | (54,647) | (873) | (53,774) | (53,596) | (318) | (53,278) |
| **Balance at 31 December** | **1,351** | **77** | **1,273** | **1,562** | **40** | **1,522** |

### *1.18 Insurance contract provisions (continued)*

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

| | 2014 Gross amount HRK'000 | 2014 Reinsurer's share HRK'000 | 2014 Net HRK'000 | 2013 Gross amount HRK'000 | 2013 Reinsurer's share HRK'000 | 2013 Net HRK'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | **4,323** | **1,926** | **2,397** | **2,823** | **1,143** | **1,680** |
| Additions recognised during the year | 3,394 | 907 | 2,487 | 2,645 | 789 | 1,856 |
| Transferred to reported claims provision | (2,618) | (50) | (2,568) | (1,145) | (6) | (1,139) |
| **Balance at 31 December** | **5,099** | **2,783** | **2,316** | **4,323** | **1,926** | **2,397** |

d) Mathematical reserve

| | 2014 Gross amount HRK'000 | 2014 Reinsurer's share HRK'000 | 2014 Net HRK'000 | 2013 Gross amount HRK'000 | 2013 Reinsurer's share HRK'000 | 2013 Net HRK'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | 408,820 | 282 | 408,538 | 356,804 | 276 | 356,528 |
| Premium allocation | 81,513 | 278 | 81,235 | 89,145 | 282 | 88,863 |
| Release of liabilities due to benefits paid, surrenders and other terminations | (52,677) | (282) | (52,395) | (55,714) | (276) | (55,438) |
| Unwinding of discount/accretion interest | 12,504 | - | 12,504 | 11,390 | - | 11,390 |
| Changes in the unearned premium reserve | 1,232 | - | 1,232 | 1,547 | - | 1,547 |
| Change in Zillmer adjustment | 729 | - | 729 | 723 | - | 723 |
| Exchange differences | 1,412 | - | 1,412 | 4,925 | - | 4,925 |
| **Balance at 31 December** | **453,533** | **278** | **453,255** | **408,820** | **282** | **408,538** |

e) Life assurance provision for unit-linked and index-linked products

| | **2014 HRK'000** | 2013 HRK'000 |
|---|---|---|
| **Balance at 1 January** | 50,848 | 26,804 |
| Premium allocation | 45,445 | 20,693 |
| Unrealised losses on funds where policyholder investments were allocated | - | 2,690 |
| Exchange differences | - | 661 |
| **Balance at 31 December** | **96,293** | **50,848** |

### *1.18 Insurance contract provisions (continued)*

f) Principal actuarial assumptions for life assurance

| Description | Price list | Interest rate | Mortality tables |
|---|---|---|---|
| Endowment products | HR11<br>HR11U | 3.25% | 1990-91 |
| | HR21<br>HR21U<br>HR31<br>HR31U<br>HR41 | 2.50% | 2000-02<br>Unisex 2000-02 |
| Term life insurance products | HRR<br>HRRU | 3.25% | 1990-91 |
| | HRR2<br>HRR2U<br>HRR4<br>HRR4U<br>HRR3 | 2.50% | 2000-02<br>Unisex 2000-02 |
| Children insurance | HRC1 | 2.75% | 2001-02 |
| | HRC2 | 2.50% | Unisex 2000-02 |
| Life-long endowment | HR14 | 2.00% | 2001-02 |
| | HR24 | 2.00% | Unisex 2000-02 |
| Supplementary life insurance | HRUI, HRUT<br>HRUI2, HRUT2<br>HRUIC, HRUIC2, HRCI<br>HRUT3, HRCC<br>HRUT4, HRCC2<br>HRUT5, HRCC3 | | |
| Life-assurance products where the investment risk is borne by the policy holder | HRUL1, HRUL1U | | 1990-91 |
| | HRIL1U<br>HRIL2U | 2.50% | 2001-02 |

### *1.18 Insurance contract provisions (continued)*

g) Development of claims provision for life assurance products at 31 December 2014

| | For the year ended 31 December 2010 | For the year ended 31 December 2011 | For the year ended 31 December 2012 | For the year ended 31 December 2013 | For the year ended 31 December 2014 | Total |
|---|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| Estimate of cumulative claims at the end of underwriting year | 17,385 | 27,998 | 41,944 | 54,449 | 54,924 | 196,700 |
| One year later | 16,241 | 28,336 | 42,187 | 53,971 | - | 140,735 |
| Two years later | 16,432 | 28,031 | 41,744 | - | - | 86,207 |
| Three years later | 16,638 | 27,959 | - | - | - | 44,597 |
| Four years later | 16,696 | - | - | - | - | 16,696 |
| Five years later | - | - | - | - | - | - |
| **Current estimate of cumulative claims** | 16,696 | 27,959 | 41,744 | 53,971 | 54,924 | 195,294 |
| Cumulative payments | (16,255) | (27,893) | (41,407) | (51,809) | (51,606) | (188,970) |
| Amount recognised at 31 December 2014 | 441 | 66 | 337 | 2,162 | 3,318 | 6,324 |
| Claims handling costs | - | - | - | - | 126 | 126 |
| **Amount recognised at 31 December 2014** | **441** | **66** | **337** | **2,162** | **3,444** | **6,450** |

h) Remaining maturities of insurance liabilities as at 31 December 2014

| | Less than 1 year | Between 1 and 5 years | Between 5 and 10 years | Between 10 and 15 years | Between 15 and 20 years | More than 20 years | Total |
|---|---|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| Unearned premium provision | 802 | - | - | - | - | - | 802 |
| RBNS and IBNR reserves | 6,449 | - | - | - | - | - | 6,449 |
| Life assurance provision and life assurance provision for unit linked and index linked products and discretionary profit participation provision | 11,039 | 239,061 | 179,730 | 43,050 | 26,927 | 52,519 | 552,326 |
| Insurance liabilities | 18,290 | 239,061 | 179,730 | 43,050 | 26,927 | 52,519 | 559,577 |

### *1.18 Insurance contract provisions (continued)*

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

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| **Asset used for backing life assurance mathematical provision** | | |
| Securities issued by the Republic of Croatia | **484,126** | 418,951 |
| Securities issued by Croatian development bank (HBOR) | **7,687** | 7,603 |
| Croatian municipal bonds and other debt securities | **1,496** | 2,205 |
| Bonds and other debt securities traded on regulated stock exchange in Croatia | **9,355** | 9,283 |
| Advances in the amount of surrender value | **336** | 349 |
| Balances on giro account of the Company | **289** | 1,174 |
| **Total assets backing life assurance (mathematical) provision** | **503,289** | 439,565 |
| Life assurance provision and discretionary profit participation provision, net of reinsurance | **455,755** | 411,998 |
| Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance | **1,216** | 1,438 |
| **Required backing of mathematical provision** | **456,971** | 413,436 |
| Assets backing life assurance mathematical provision | **503,289** | 439,564 |
| Required backing of mathematical provision | **456,971** | 413,436 |
| **Surplus** | **46,318** | 26,128 |

In 2014 the Company's yield on assets used for backing life insurance provision amounted to 6.97 *(2013: 7.66%).*

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

| **2014** | **Less than 1 year HRK'000** | **Between 1 and 5 years HRK'000** | **Between 5 and 10 years HRK'000** | **More than 10 years HRK'000** | **Total HRK'000** |
|---|---|---|---|---|---|
| Assets backing life assurance mathematical provision | 104,273 | 190,965 | 207,762 | 289 | 503,289 |
| Life assurance provision and discretionary profit participation provision, net of reinsurance | (11,038) | (142,752) | (179,699) | (122,266) | (455,755) |
| Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance | (1,216) | | | | (1,216) |
| **Maturity gap** | **92,019** | **48,213** | **31,063** | **(121,977)** | **46,318** |
| **2013** | | | | | |
| Assets backing life assurance mathematical provision | 19,037 | 154,607 | 221,082 | 44,838 | 439,564 |
| Life assurance provision and discretionary profit participation provision, net of reinsurance | (7,049) | (122,675) | (172,333) | (109,941) | (411,998) |
| Claims provision for risks required to be provided for using the mathematical provision, net of reinsurance | (1,194) | (135) | (52) | (57) | (1,438) |
| **Maturity gap** | **10,794** | **31,797** | **48,697** | **(65,160)** | **26,128** |

### *1.18 Insurance contract provisions (continued)*

At 31 December 2014 the majority of assets used for backing mathematical provision were classified as held-to maturity.

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

| | **EUR** | **EUR-linked** | **Total EUR-denominated and EUR-linked** | **HRK denominated** | **Total** |
|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **2014** | | | | | |
| **Structure of assets backing life assurance mathematical provision** | **60,513** | **404,957** | **465,470** | **37,819** | **503,289** |
| 2013 | | | | | |
| Assets backing life assurance mathematical provision | 83,558 | 319,281 | 402,839 | 36,726 | 439,565 |

j) Assets backing technical provisions

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| **Assets backing technical provisions** | | |
| Securities issued by the Republic of Croatia | **2,986** | 2,369 |
| Units and shares of investment funds registered in Croatia | **693** | 658 |
| **Total assets backing technical provisions** | **3,679** | 3,027 |
| Unearned premium reserve, net of reinsurers' share | **421** | 389 |
| Claims provision, net of reinsurers' share | **2,374** | 2,481 |
| **Required backing of technical provisions** | **2,795** | 2,870 |
| Assets backing technical provisions other than life assurance provision | **3,679** | 3,027 |
| Required level of backing technical provisions other than life assurance provision | **2,795** | 2,870 |
| **Surplus** | **884** | 157 |

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

### *1.18 Insurance contract provisions (continued)*

j) Structure of assets used for backing technical provision (continued)

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

| | **Less than 1 year HRK'000** | **Between 1 and 5 years HRK'000** | **Between 5 and 10 years HRK'000** | **More than 10 years HRK'000** | **Total HRK'000** |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Assets backing technical provisions | - | **533** | **2,453** | **693** | **3,679** |
| Unearned premium reserve, net of reinsurers' share | (421) | - | - | - | (421) |
| Claims provision, net of reinsurers' share | (2,374) | - | - | - | (2,374) |
| **Maturity gap** | **(2,795)** | **533** | **2,453** | **693** | **884** |
| **2013** | | | | | |
| Assets backing technical provisions | - | **525** | **1,844** | **658** | **3,027** |
| Unearned premium reserve, net of reinsurers' share | (389) | - | - | - | (389) |
| Claims provision, net of reinsurers' share | (2,481) | - | - | - | (2,481) |
| **Maturity gap** | **(2,870)** | **525** | **1,844** | **658** | **157** |

As of 31 December 2014 all the assets backing technical provisions were classified as available for sale, which enables the Company to easily dispose of these assets if required.

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

| | **EUR HRK'000** | **EUR-linked HRK'000** | **Total EUR-denominated and EUR-linked HRK'000** | **HRK denominated HRK'000** | **Total HRK'000** |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Assets backing technical provisions** | **-** | **3,679** | **3,679** | **-** | **3,679** |
| 2013 | | | | | |
| Assets backing technical provisions | **-** | **3,027** | **3,027** | **-** | **3,027** |

### 1.19 Discretionary profit participation provision

| | 2014 | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| **Balance at 1 January** | **3,460** | 4,000 |
| Additions recognised during the year | **997** | 86 |
| Amounts allocated during the year | **(1,957)** | (626) |
| **Balance at 31 December** | **2,500** | 3,460 |

### 1.20 Liabilities under insurance contracts and other liabilities

| | 2014 | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| **Insurance contract payables** | | |
| - To policyholders | **6,448** | 4,809 |
| - To intermediaries | **3,609** | 3,638 |
| | **10,057** | 8,447 |
| **Other liabilities** | | |
| Reinsurance contract payables | **89** | 81 |
| Deposits retained from reinsurance business | **2,010** | 1,574 |
| Trade payables | **535** | 418 |
| Salaries payable | **750** | 683 |
| Other liabilities and accrued expenses | **2,444** | 3,083 |
| | **5,828** | 5,839 |
| | **15,885** | 14,286 |

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

### 1.21 Current tax liability

| | 2014 | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Current tax liability | **420** | 455 |

### *1.22 Other reserves*

| | Provisions for jubilee bonuses | Provisions for retirement and termination benefits | Provisions for unused vacation days | Total |
|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **Balance at 1 January 2014** | **54** | **9** | **263** | **326** |
| Reversed as unutilised | - | - | - | - |
| New provisions made during the year | 16 | 13 | 157 | 186 |
| **Balance at 31 December 2014** | **70** | **22** | **420** | **512** |
| Balance at 1 January 2013 | **44** | **7** | **332** | **383** |
| Reversed as unutilised | - | - | - | - |
| New provisions made during the year | 10 | 2 | (69) | (57) |
| **Balance at 31 December 2013** | **54** | **9** | **263** | **326** |

### *1.23 Capital and reserves*

*Share capital*

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| **Authorised, issued and fully paid in** | | |
| 30,000 (2013: 30,000) ordinary shares of HRK 1,000.00 each | **30,000** | **30,000** |

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

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

| | **2014** | 2013 |
|---|---|---|
| Vienna Insurance Group Wiener Städtische Versicherung AG | **90%** | 90% |
| Erste&Steiermärkische Bank d.d. | **5%** | 5% |
| Wiener osiguranje Vienna Insurance Group d.d. | **5%** | **5%** |
| | **100%** | 100% |

During the year the General Assembly adopted a decision to pay dividend in the amount of HRK 7,859,000 (*2013: HRK 7,044,000*), that is of HRK 262 per share, which were paid before the end of the year.

### *1.23. Capital and reserves (continued)*

*Fair value reserve*

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

Movement in fair value reserve is as follows:

| | 2014<br>HRK'000 | 2013<br>HRK'000 |
|---|---|---|
| **Balance at 1 January** | **6,235** | 17,341 |
| Movement in fair value reserve of available-for-sale financial assets | **22,979** | (13,884) |
| Movement in deferred tax asset | **(4,596)** | 2,778 |
| **Balance at 31 December** | **24,618** | 6,235 |

*Statutory reserves*

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

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

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

### 1.24 Capital management

Externally imposed capital requirements are set and regulated by the CFSSA and EU directives. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholder value.

The Company manages capital, by assessing regularly the differences between the reported and the required level of capital, which is adjusted to reflect the economic conditions and risks to which the Company is exposed.

The following table presents the capital adequacy of the Company as at 31 December 2014 and 31 December 2013:

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Solvency margin | **22,469** | 20,455 |
| Capital | **49,222** | 53,088 |
| Surplus capital | **26,753** | 32,633 |
| 1/3 solvency margin | **7,490** | 6,818 |
| Regulatory capital | **50,471** | 54,337 |
| Surplus regulatory capital | **42,981** | 47,519 |
| Minimum share capital | **28,860** | 27,750 |

Capital analysis is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| **Core capital** | | |
| Core capital | **-** | - |
| Issued share capital | **30,000** | 30,000 |
| Capital reserves pertaining to insurance liabilities | **21,248** | 21,248 |
| Intangible assets | **(5,803)** | (577) |
| Profit brought forward | **5,037** | 3,666 |
| | **50,482** | 54,337 |
| **Supplementary capital** | | |
| Fair value reserve | **-** | - |
| **Regulatory capital** | **50,471** | 54,337 |
| **Deductible items** | | |
| Non-liquid assets | **(1,249)** | (1,249) |
| Capital | **49,222** | 53,088 |
| Minimum share capital | **28,860** | 27,750 |

### *1.25 Premiums*

| | Gross premium written HRK'000 | Outward reinsurance premiums HRK'000 | Change in the gross unearned premium provision HRK'000 | Change in unearned premium provision, reinsurers' share HRK'000 | Premium earned HRK'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Life insurance | 104,803 | (548) | - | - | 104,255 |
| Supplementary life insurance | 6,259 | (3,180) | (20) | (13) | 3,046 |
| Life-assurance products or annuities where the investment risk is borne by the policy holder | 40,323 | - | - | - | 40,323 |
| | **151,385** | **(3,728)** | **(20)** | **(13)** | **147,624** |
| **2013** | | | | | |
| Life insurance | 109,210 | (569) | - | - | 108,641 |
| Supplementary life insurance | 6,069 | (2,947) | (137) | (157) | 2,828 |
| Life-assurance products or annuities where the investment risk is borne by the policy holder | 24,023 | (0) | - | - | 24,023 |
| | **139,302** | **(3,516)** | **(137)** | **(157)** | **135,492** |

Gross premiums written include premiums of HRK 40,323 thousand *(2013: HRK 24,023 thousand)* in respect of index-linked products.

| | **2014** | 2013 |
|---|---|---|
| **Types of contracts** | | |
| Individual premiums | **151,385** | 139,302 |
| | **151,385** | 139,302 |
| Regular premium contracts | **71,101** | 70,933 |
| Single premium contracts | **80,284** | 68,369 |
| | **151,385** | 139,302 |
| Premiums for non-profit contracts | **1,577** | 1,425 |
| Premiums for with-profit contracts | **109,485** | 113,854 |
| Premiums for contracts under which the investment risk is borne by the policyholder | **40,323** | 24,023 |
| | **151,385** | 139,302 |

### *1.26 Fee and commission income*

| | **2014 HRK'000** | 2013 HRK'000 |
|---|---|---|
| Reinsurance commission income | **1,600** | 1,811 |

### *1.27 Financial income*

| | **Investment income from capital funds** | **Investment income from mathematical reserves** | **Investment income from UL/IL technical provisions** | **Investment income - other technical provisions** | **Total financial income** |
|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **2014** | | | | | |
| Interest income | | | | | |
| – Held-to-maturity (HTM) investments | - | 9,471 | - | 26 | **9,497** |
| – Available-for-sale financial assets | 1,499 | 16,211 | | 131 | **17,841** |
| – Loans and receivables | | 18 | - | | **18** |
| Net unrealised gains on financial assets at fair value through profit or loss | - | - | 5,605 | - | **5,605** |
| Net realised gains on financial assets available for sale | 330 | 4,187 | 76 | - | **4,593** |
| Foreign exchange gains, net | 54 | 1,464 | 2 | 9 | **1,529** |
| Rental income | 1,101 | **-** | **-** | **-** | **1,101** |
| Other financial income | - | 8 | - | - | **8** |
| | 2,984 | 31,359 | 5,683 | 166 | **40,192** |
| **2013** | | | | | |
| Interest income | | | | | |
| – Held-to-maturity (HTM) investments | - | 9,906 | - | 25 | **9,931** |
| – Available-for-sale financial assets | 2,064 | 13,328 | - | 109 | **15,501** |
| – Loans and receivables | - | 16 | - | - | **16** |
| Net unrealised gains on financial assets at fair value through profit or loss | - | - | 3,351 | - | **3,351** |
| Net realised gains on financial assets available for sale | 394 | 1,356 | - | - | **1,750** |
| Foreign exchange gains, net | 208 | 4,789 | 12 | 26 | **5,035** |
| Rental income | 1,093 | - | - | - | **1,093** |
| Other financial income | | | | | |
| | 3,759 | 29,404 | 3,363 | 160 | **36,686** |

### *1.28 Other operating income*

| | **2014** **HRK'000** | 2013 HRK'000 |
|---|---|---|
| Income from sale of equipment | **41** | 1 |
| Reversal of unused provisions and accrued expenses | **593** | 254 |
| Other operating income | **262** | 383 |
| | **896** | 638 |

### *1.29 Claims incurred*

| | **2014** **HRK'000** | 2013 HRK'000 |
|---|---|---|
| Gross claims paid | **(54,647)** | (53,596) |
| Reinsurer's share | **873** | 318 |
| Changes in mathematical reserve | | |
| Gross amount | **(44,713)** | (50,937) |
| Reinsurer's share | **(4)** | 6 |
| Change in the reserve for reported but not settled claims (RBNS) | | |
| Gross amount | **211** | (496) |
| Reinsurer's share | **37** | 4 |
| Reserve for incurred but not reported claims (IBNR) | | |
| Gross amount | **(776)** | (1,500) |
| Reinsurer's share | **857** | 783 |
| Change in the provision for unit-linked and index-linked products, gross and net | **(45,445)** | (24,044) |
| Change in the discretionary profit participation provision | **960** | (539) |
| **Total gross claims incurred** | **(144,410)** | (131,112) |
| **Claims incurred, reinsurer's share** | **1,763** | 1,111 |
| **Claims incurred, net of reinsurance** | **(142,647)** | (130,001) |

### *1.30 Acquisition costs*

| **2014** | **Life insurance** | **Supplementary life insurance** | **Annuities where the investment risk is borne by the policy holder** | **Total insurance** |
|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| Commission expense | 9,211 | 752 | 1,214 | 11,177 |
| Staff costs | 2,691 | 2,195 | 61 | 4,947 |
| Other acquisition costs | 3,227 | 2,632 | 74 | 5,933 |
| | **15,129** | **5,579** | **1,349** | **22,057** |
| **2013** | | | | |
| Commission expense | 9,174 | 1,016 | 834 | 11,024 |
| Staff costs | 2,681 | 2,255 | 59 | 4,995 |
| Other acquisition costs | 2,972 | 2,500 | 65 | 5,537 |
| | **14,827** | **5,771** | **958** | **21,556** |

### *1.31 Administrative expenses*

| **2014** | **Life insurance** | **Supplementary life insurance** | **Annuities where the investment risk is borne by the policy holder** | **Total insurance** |
|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| Depreciation of equipment and amortisation of intangible assets | 1,018 | 113 | 26 | 1,158 |
| Staff costs | 4,262 | 474 | 110 | 4,846 |
| Rental costs | 1,315 | 146 | 34 | 1,495 |
| Audit fees | 212 | 24 | 5 | 241 |
| Certified actuary fee | - | - | - | - |
| Material and services | 1,814 | 202 | 47 | 2,062 |
| | **8,621** | **959** | **222** | **9,802** |
| **2013** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| Depreciation of equipment and amortisation of intangible assets | 623 | 69 | 14 | 706 |
| Staff costs | 3,906 | 434 | 88 | 4,428 |
| Rental costs | 1,396 | 155 | 31 | 1,582 |
| Audit fees | 241 | 27 | 5 | 273 |
| Material and services | 1,723 | 191 | 39 | 1,953 |
| | **7,889** | **876** | **177** | **8,942** |

The total fees paid to the Company's auditor for statutory financial statement audits for year 2014 amount to HRK 239 thousand *(2013: HRK 238 thousand)*, the fee paid for IT audit amount to HRK 67 thousand (2013: HRK 67 thousand), the tax advisor services amounts to HRK 29 thousand *(2013: HRK 16 thousand)*, and the fee paid to the attorney amounts to HRK 0 thousand *(2013: HRK 41 thousand).*
In 2014 the average number of employees of the Company was 42 *(2013: 37)*

### *1.32 Other operating expenses*

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Taxes, contributions and membership fees | **151** | 160 |
| Other technical charges | **179** | 252 |
| Other expenses | **-** | 617 |
| | **330** | 1,029 |

### *1.33 Financial expenses*

| | **Investment of capital funds** | **Investment of mathematical reserve funds** | **Investments of UL/IL technical provisions** | **Investment of other technical provisions** | **Total financial expenses** |
|---|---|---|---|---|---|
| | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** | **HRK'000** |
| **2014** | | | | | |
| Depreciation of investment properties | 339 | - | - | - | **337** |
| Impairment of financial assets available for sale | - | - | - | - | **-** |
| Other expenses | 73 | 584 | - | - | **655** |
| | 412 | 584 | - | - | 996 |
| **2013** | | | | | |
| Depreciation of investment properties | 339 | - | - | - | **337** |
| Impairment of financial assets available for sale | 425 | - | - | - | **425** |
| Other expenses | 516 | 93 | - | - | **611** |
| | **1,280** | **93** | **-** | **-** | **1,373** |

### *1.34 Income tax*

*Income tax recognised in the statement of comprehensive income*

| | 2014 HRK'000 | 2013 HRK'000 |
|---|---|---|
| Currrent tax | **(2,806)** | (2,580) |
| Deferred income tax credit (Note 1.15) | **327** | 85 |
| Income tax | **(2,479)** | (2,495) |

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

| | 2014 HRK'000 | 2013 HRK'000 |
|---|---|---|
| Accounting profit for the period before income taxes | **14,480** | 11,726 |
| Income tax at the rate of 20% *(2013: 20%)* | **(2,896)** | (2,345) |
| Net non-deductible income/(expenses) | **417** | (150) |
| Utilisation of tax losses brought forward | **-** | |
| **Total income tax expense** | **(2,479)** | (2,495) |
| Effective tax rate | **17.12%** | 21.27% |

### *1.35 Operating leases*

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

For the year ended 31 December 2014 HRK 1,409 thousand were recognised as an expense in the Company's statement of comprehensive income in respect of operating leases *(2013: HRK 1,547 thousand)*.

### *1.36 Related parties*

The Company considers that it has an immediate related party relationship with its key shareholders, ultimate parent company and their subsidiaries; Supervisory Board members, Management Board members and other management personnel (together „key management personnel“); close family members of Management Board; 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.*

*Parent Company*

At the year-end, the majority shareholder of the Company is Vienna Insurance Group Wiener Städtische Versicherung AG, with a shareholding of 90% *(2013: 90%)* since 1 October 2008.

The remaining 10% are held by the following minority shareholders: Erste&Steiermärkische Bank d.d., with a holding of 5% *(2013: 5%)* and Wiener osiguranje Vienna Insurance Group d.d., with a holding of 5% *(2013: 5%).*

### 1.36 Related parties (continued)

*Key management personnel*

Included in key management personnel are Management and Supervisory Board members. During 2014 the Company did not approve loans to Management Board members. The remuneration of the Management Board amounted to HRK 2,680 thousand (*2013: HRK 2,807 thousand),* and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic pay and bonuses, benefits in kind, pension and other retirement benefits, and life assurance. The remuneration to Supervisory Board amounted to HRK 174 thousand *(2013: HRK 193 thousand)* representing gross fees. The pension contributions paid on behalf of the key management personnel in 2014 amount to HRK 258 thousand *(2013: HRK 229 thousand).*

*Other related parties*

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

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

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

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

| **2014** | **Assets HRK'000** | **Liabilities HRK'000** | **Revenue HRK'000** | **Expenses HRK'000** |
|---|---|---|---|---|
| Key management personnel | - | 989 | - | 2,854 |
| Camelot Informatik und Consulting Gesellschaft m.b.H. | - | - | - | 1,638 |
| Erste&Steiermärkische Bank d.d. | 1,022 | 3,609 | - | 11,340 |
| Sparkassen Versicherung AG | - | 50 | - | 132 |
| VIG RE zajišťovn, a.s. | 726 | 320 | 422 | 569 |
| Wiener osiguranje Vienna Insurance Group d.d. | - | - | 1,101 | 75 |
| Wiener nekretnine d.o.o. | - | - | - | 593 |
| Vienna Insurance Group AG Wiener Versicherung Gruppe | 1,351 | 1,393 | 1,508 | 1,676 |
| | **3,099** | **6,361** | **3,031** | **18,877** |

| **2013** | **Assets HRK'000** | **Liabilities HRK'000** | **Revenue HRK'000** | **Expenses HRK'000** |
|---|---|---|---|---|
| Key management personnel | - | 1,075 | - | 3,000 |
| Camelot Informatik und Consulting Gesellschaft m.b.H. | - | - | - | 1,693 |
| Erste&Steiermärkische Bank d.d. | 1,606 | 3,638 | - | 10,983 |
| Sparkassen Versicherung AG | - | 40 | - | 50 |
| VIG RE zajišťovn, a.s. | 758 | 323 | 351 | 653 |
| Wiener osiguranje Vienna Insurance Group d.d. za osiguranje | 60 | - | 1,093 | 104 |
| Vienna Insurance Group AG Wiener Versicherung Gruppe | 900 | 929 | 1,338 | 1,445 |
| | **3,324** | **6,005** | **2,782** | **17,928** |

### *1.37 Financial risk management*

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

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

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

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

#### *Market risk*

Market risk includes three types of risk:

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

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

*Matching of assets and liabilities*

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

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

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

### *1.37 Financial risk management (continued)*

*Interest rate risk*

The Company’s exposure to the market risk of changes in interest rates is concentrated in its investment portfolio. The Company’s operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts.

The Company is also exposed to the risk of changes in future cash flows arising from changes in market interest rates. However, this risk is limited, as the majority of the Company’s interest-bearing assets were at fixed rates at the reporting date.

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

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

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

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

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

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

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

An assumption of a change of 0,25 basis points in the interest rate is taken in the analysis, which is done separately for the kuna and euro interest rate. Those are the only currencies in which the Company's investments are denominated. Only financial assets at fair value through profit or loss and available-for-sale financial assets and held to maturity were considered.

| **Change in interest rate** | | **Impact on profit or loss 2014 HRK’000** | **Impact on profit or loss 2013 HRK’000** |
|---|---|---|---|
| HRK | +0.25% / (0.25)% | 121 / (121) | 114 / (114) |
| EUR | +0.25% / (0.25)% | 1,223 / (1,223) | 1,125 / (1,125) |

### *1.37 Financial risk management (continued)*

*Price risk*

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

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

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

| | **Impact on profit or loss 2014 HRK'000** | **Impact on equity 2014 HRK'000** | **Impact on profit or loss 2013 HRK'000** | **Impact on equity 2013 HRK'000** |
|---|---|---|---|---|
| Change in the price of ± 2.9% | 0/(0) | 20/(20) | 0/(0) | 52/(52) |

At the reporting date equity securities classified as available for sale were impaired.

*Foreign exchange risk*

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

The Company is exposed to foreign exchange risk through its investment activities, as well as its premium income, the calculation of technical provisions and settled claims under insurance policies with a currency clause. The currency in which the risk arises is euro.

The Company manages its foreign exchange risk exposure, by seeking to reduce the gap between the assets and liabilities denominated in foreign currencies or those under currency clause. Investments for the purpose of covering the mathematical provision are mainly EUR denominated, i.e. 80 % in accordance with the Insurance Act, whereas the mathematical reserve funds are denominated in EUR.

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

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

| **Change in fx rate** | **7,661471** | **Impact on profit or loss 2014 HRK'000** | **Impact on profit or loss 2013 HRK'000** |
|---|---|---|---|
| EUR | +3% / (3%) | 14,096/(14,096) | 11,465/(11,465) |

### *1.37 Financial risk management (continued)*

*Credit risk*

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

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

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

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

| | **2014** | 2013 |
|---|---|---|
| | **HRK'000** | HRK'000 |
| Government bonds | **525,513** | 457,890 |
| Interest accrued on government bonds | **13,060** | 11,895 |
| | **538,573** | 469,785 |

The total credit risk exposure with respect to bonds issued by the Republic of Croatia is 95.62% *(2013: 94.56 %)* of the total financial assets of the Company.

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

### *1.37 Financial risk management (continued)*

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

| | AAA-A HRK’000 | BBB-B HRK’000 | Not rated HRK’000 | Total HRK’000 |
|---|---|---|---|---|
| **2014** | | | | |
| Held-to-maturity investments | | | | |
| Debt securities | - | 175,182 | - | 175,182 |
| Available-for-sale financial assets | | | | |
| Debt securities | - | 362,753 | - | 362,753 |
| Investment funds | | | 871 | 871 |
| Investments for account and risk of life insurance policyholders | | | | |
| Index-linked | - | 96,293 | - | 96,293 |
| Loans and receivables | | | | |
| Prepayments made | - | - | 336 | 336 |
| Cash and cash equivalents | | 1,095 | 3 | 1,098 |
| Receivables from insurance operations and other receivables | 41 | 13,434 | 1,531 | 15,006 |
| **Total financial assets** | **41** | **648,757** | **2,741** | **651,539** |
| **2013** | | | | |
| Held-to-maturity investments | | | | |
| Debt securities | - | 176,883 | - | 176,883 |
| Available-for-sale financial assets | | | | |
| Debt securities | - | 294,216 | - | 294,216 |
| Equity securities | | | 551 | 551 |
| Investment funds | | | 1,698 | 1,698 |
| Financial assets at fair value through profit or loss | - | - | - | - |
| Investments for account and risk of life insurance policyholders | | | | |
| Index-linked | - | 50,848 | - | 50,848 |
| Loans and receivables | | | | |
| Prepayments made | - | 348 | - | 348 |
| Cash and cash equivalents | - | 1,659 | 1 | 1,660 |
| Receivables from insurance operations and other receivables | 207 | 12,105 | 1,636 | 13,948 |
| **Total financial assets** | **207** | **536,059** | **3,886** | **540,152** |

### *1.37 Financial risk management (continued)*

*Liquidity risk*

Liquidity risk arises in the general funding of the Company's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

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

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

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

Other liabilities disclosed in Note 1.20 Insurance and other payables as of 31 December 2014 amounted to HRK 5,828 thousand (2013: HRK 5,839 thousand), which also represents their expected cash outflows in period of less than 6 months.

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

*Fair value*

Fair value is the amount for which an asset could be exchanged, or a liability settled, on an arm's length basis. Financial instruments available for sale and financial assets at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortised cost less impairment. The management believes that the carrying amounts of those instruments do not differ materially from their fair values, provided that all payments under exposures not impaired will be collected as agreed and without taking account of any future losses. The fair value of the held-to-maturity portfolio has been assessed to be HRK 7,877 higher *(2013: 7,517 thousand higher)* than its carrying amount.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| | **HRK'000** | **HRK'000** | HRK'000 | HRK'000 |
| Investments held to maturity | **175,182** | **183,059** | 176,833 | 184,350 |
| Financial assets available for sale | **363,624** | **363,624** | 296,465 | 296,465 |
| Financial assets at fair value through profit or loss | **-** | **-** | - | - |
| Loans and receivables | **336** | **336** | 348 | 348 |
| Receivables from insurance contracts and other receivables | **15,006** | **15,006** | 13,948 | 13,948 |
| Cash and cash equivalents | **1,098** | **1,098** | 1,660 | 1,660 |
| **Total financial assets** | **555,246** | **563,123** | 489,254 | 496,771 |
| **Total financial liabilities** | **15,885** | **15,885** | 14,286 | 14,286 |

### *1.38 Maturity analysis*

The tables below analyses the financial assets within the scope of IAS 39 of the Company at 31 December 2014 and 31 December 2013 into relevant maturity groupings based on the remaining contractual maturity. The maturities of investments in open-ended Investment funds are disclosed according to their secondary liquidity of 6 months.

| | Up to 6 months HRK'000 | 6 to 12 months HRK'000 | 1 to 3 years HRK'000 | 3 to 5 years HRK'000 | Over 5 years HRK'000 | Total HRK'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| Held-to-maturity investments | | | | | | |
| Debt securities | - | 104,806 | 1,496 | 26,050 | 42,830 | 175,182 |
| Available-for-sale financial assets | | | | | | |
| Debt securities | - | - | 21,165 | 15,655 | 325,933 | 362,753 |
| Equity securities | - | - | - | - | - | - |
| Investment funds | 871 | - | - | - | - | 871 |
| Loans and receivables | | | | | | |
| Prepayments made | - | - | - | 336 | - | 336 |
| Investments for account and risk of life insurance policyholders | | | | | | |
| Unit-linked | - | - | - | - | - | - |
| Index-linked | - | - | 25,983 | 47,650 | 22,660 | 96,293 |
| Cash and cash equivalents | 1,098 | - | - | - | - | 1,098 |
| Receivables from insurance operations and other receivables | 14,780 | 226 | - | - | - | 15,006 |
| **Total financial assets** | **16,749** | **105,032** | **48,644** | **89,691** | **391,423** | **651,539** |
| **2013** | | | | | | |
| Held-to-maturity investments | | | | | | |
| Debt securities | - | 17,863 | 105,772 | - | 53,248 | 176,883 |
| Available-for-sale financial assets | | | | | | |
| Debt securities | - | - | 2,000 | 54,739 | 237,477 | 294,216 |
| Equity securities | - | - | - | - | 551 | 551 |
| Investment funds | 1,698 | - | - | - | | 1,698 |
| Loans and receivables | | | | | | |
| Prepayments made | - | - | - | 348 | - | 348 |
| Investments for account and risk of life insurance policyholders | | | | | | |
| Unit-linked | - | - | - | - | - | - |
| Index-linked | - | - | - | 50,848 | - | 50,848 |
| Cash and cash equivalents | 1,660 | - | - | - | - | 1,660 |
| Receivables from insurance operations and other receivables | 13,948 | - | - | - | - | 13,948 |
| **Total financial assets** | **17,306** | **17,863** | **107,772** | **105,935** | **291,276** | **540,152** |

### *1.39 Interest rate gap analysis*

The following tables present the Company’s financial assets 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 2014 and 31 December 2013 and are not necessarily indicative of the positions at other times but, taking into account the interest rate assumptions on which the calculation of the mathematical reserve is based (Note 1.18 (d) Insurance contract provisions – Life assurance provision), provide some indication of the sensitivities of the Company’s earnings to movements in interest rates. The profit will also be affected by the currency of the assets and liabilities and equity. The Company has a significant proportion of interest-earning assets and interest-bearing liabilities in a foreign currency.

| | **Fixed interest rate** | **Up to 6 months** | **6 to 12 months** | **1 to 3 years** | **3 to 5 years** | **Over 5 years** | **Non-interest bearing** | **Total** | **Fixed interest rate** |
|---|---|---|---|---|---|---|---|---|---|
| | | **HRK’000** | **HRK’000** | **HRK’000** | **HRK’000** | **HRK’000** | **HRK’000** | **HRK’000** | **HRK’000** |
| **2014** | | | | | | | | | |
| Held-to-maturity investments | | | | | | | | | |
| Debt securities | 2-3 | - | 104,806 | 1,496 | 26,050 | 42,830 | | 175,182 | 175,182 |
| Available-for-sale financial assets | | | | | | | | | |
| Debt securities | 3-4 | - | - | 21,165 | 15,655 | 325,933 | | 362,753 | 362,753 |
| Equity securities | n/a | - | - | - | - | - | - | - | - |
| Investment funds | n/a | - | - | - | - | - | 871 | 871 | - |
| Financial assets at fair value through profit and loss | | - | - | - | - | - | - | - | |
| Loans and receivables | | | | | | | | | |
| Prepayments made | 5 | - | - | - | 336 | - | - | 336 | 336 |
| Investments for account and risk of life insurance policyholders | | | | | | | | | |
| Index-linked | n/a | - | - | 25,983 | 47,650 | 22,660 | - | 96,293 | 96,293 |
| Cash and cash equivalents | n/a | 1.095 | - | - | - | - | 3 | 1,098 | - |
| Receivables from insurance operations and other receivables | n/a | - | - | - | - | - | 15,006 | 15,006 | - |
| **Total financial assets** | | **1,095** | **104,806** | **48,644** | **89,691** | **391,423** | **15,880** | **651,539** | **634,564** |
| **2013** | | | | | | | | | |
| Held-to-maturity investments | | | | | | | | | |
| Debt securities | 4-5 | - | 17,863 | 105,772 | - | 53,248 | - | 176,883 | 176,883 |
| Available-for-sale financial assets | | | | | | | | | |
| Debt securities | 5-6 | - | - | 2,000 | 54,739 | 237,477 | - | 294,216 | 294,216 |
| Equity securities | n/a | - | - | - | - | - | 551 | 551 | - |
| Investment funds | n/a | - | - | - | - | - | 1,698 | 1,698 | - |
| Financial assets at fair value through profit and loss | | - | - | - | - | - | - | - | - |
| Prepayments made | 5 | - | - | - | 348 | - | - | 348 | 348 |
| Investments for account and risk of life insurance policyholders | | | | | | | | | |
| Index-linked | 0.4 | - | - | - | 50,848 | - | - | 50,848 | 50,848 |
| Cash and cash equivalents | n/a | 1.659 | - | - | - | - | 1 | 1,660 | - |
| Receivables from insurance operations and other receivables | n/a | - | - | - | - | - | 13,948 | 13,948 | - |
| **Total financial assets** | | **1,659** | **17,863** | **107,772** | **105,935** | **290,725** | **16,198** | **540,152** | **522,295** |

### *1.40 Currency risk analysis*

The Company's financial assets within the scope of IAS 39 were denominated as follows as at 31 December 2014 and 31 December 2013:

| | EUR and EUR-linked | HRK | Total |
|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 |
| **2014** | | | |
| Held-to-maturity investments | | | |
| Debt securities | 175,182 | - | 175,182 |
| Available-for-sale financial assets | | | |
| Debt securities | 314,203 | 48,550 | 362,753 |
| Equity securities | | | |
| Investment funds | 692 | 179 | 871 |
| Financial assets at fair value through profit and loss | | | |
| Loans and receivables | | | |
| Prepayments made | 336 | - | 336 |
| Investments for account and risk of life insurance policyholders | | | |
| Index-linked | 96,293 | - | 96,293 |
| Cash and cash equivalents | 608 | 490 | 1,098 |
| Receivables from insurance operations and other receivables | 12.668 | 2,338 | 15,006 |
| **Total financial assets** | **599,982** | **51,557** | **651,539** |

| | EUR and EUR-linked | HRK | Total |
|---|---|---|---|
| **2013** | HRK'000 | HRK'000 | HRK'000 |
| **Held-to-maturity investments** | | | |
| Debt securities | 176,883 | - | 176,883 |
| Available-for-sale financial assets | | | |
| Debt securities | 248,424 | 45,792 | 294,216 |
| Equity securities | - | 551 | 551 |
| Investment funds | 658 | 1,040 | 1,698 |
| Financial assets at fair value through profit and loss | | | |
| Loans and receivables | | | |
| Prepayments made | 348 | - | 348 |
| Investments for account and risk of life insurance policyholders | | | |
| Unit-linked | 50,848 | - | 50,848 |
| Index-linked | - | - | - |
| Cash and cash equivalents | 211 | 1,449 | 1,660 |
| Receivables from insurance operations and other receivables | 11,473 | 2,475 | 13,948 |
| **Total financial assets** | **488,845** | **51,307** | **540,152** |

## Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency

### Statement of financial position – Assets at 31 December in HRK

| Item # | Sum components | Item # | Item description | Prior year | | | Current year | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Life | Non-life | Total | Life | Non-life | Total |
| **001** | 002+003 | **A** | **RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID** | | | | | | |
| 002 | | 1 | Called-up capital | | | | | | |
| 003 | | 2 | Uncalled capital | | | | | | |
| **004** | 005+006 | **B** | **INTANGIBLE ASSETS** | **576,676** | | **576,676** | **5,803,001** | | **5,803,001** |
| 005 | | 1 | Goodwill | | | | | | |
| 006 | | 2 | Other intangible assets | **576,676** | | **576,676** | **5,803,001** | | **5,803,001** |
| **007** | 008+009+010 | **C** | **TANGIBLE ASSETS** | **953,043** | | **953,043** | **2,116,776** | | **2,116,776** |
| 008 | | 1 | Land and buildings used by the company in its business | | | | | | |
| 009 | | 2 | Equipment | 852,633 | | **852,633** | 2,022,026 | | **2,022,026** |
| 010 | | 3 | Other tangible assets and inventories | 100,410 | | **100,410** | 94,750 | | **94,750** |
| **011** | 012+013+017+036 | **D** | **INVESTMENTS** | **484,682,946** | | **484,682,946** | **549,789,596** | | **549,789,596** |
| **012** | | **I** | **Investments in land and buildings used by the company in its business** | **10,986,266** | | **10,986,266** | **10,647,666** | | **10,647,666** |
| **013** | 014+015+016 | **II** | **Investments in subsidiaries, associates and joint ventures** | | | | | | |
| 014 | | 1 | Equity shares in subsidiaries | | | | | | |
| 015 | | 2 | Equity shares in associates | | | | | | |
| 016 | | 3 | Interests in joint ventures | | | | | | |
| **017** | 018+021+026+032 | **III** | **Other financial investments** | **473,696,680** | | **473,696,680** | **539,141,930** | | **539,141,930** |
| **018** | 019+020 | **1** | **Held-to-maturity investments** | **176,883,157** | | **176,883,157** | **175,182,380** | | **175,182,380** |
| 019 | | *1.1* | *Debt securities and other fixed-income securities* | 176,883,157 | | **176,883,157** | 175,182,380 | | **175,182,380** |
| 020 | | *1.2* | *Other held-to-maturity (HTM) investments* | | | | | | |
| **021** | 022+023+024+025 | **2** | **Available-for-sale investments** | **296,465,246** | | **296,465,246** | **363,623,978** | | **363,623,978** |
| 022 | | *2.1* | *Equities and other variable-income securities* | 551,000 | | **551,000** | | | |
| 023 | | *2.2* | *Debt securities and other fixed-income securities* | 294,216,275 | | **294,216,275** | 362,752,662 | | **362,752,662** |
| 024 | | *2.3* | *Units and shares in investment funds* | 1,697,970 | | **1,697,970** | 871,316 | | **871,316** |
| 025 | | *2.4* | Other available-for-sale investments | | | | | | |
| **026** | 027+028+029+030+031 | **3** | **Investments at fair value through profit or loss** | | | | | | |
| 027 | | *3.1* | *Equities and other variable-income securities* | | | | | | |
| 028 | | *3.2* | *Debt securities and other fixed-income securities* | | | | | | |
| 029 | | *3.3* | *Derivative financial instruments* | | | | | | |
| 030 | | *3.4* | *Units and shares in investment funds* | | | | | | |
| 031 | | *3.5* | *Other investments* | | | | | | |
| **032** | 033+034+035 | **4** | **Deposits, loans and receivables** | **348,277** | | **348,277** | **335,572** | | **335,572** |
| 033 | | *4.1* | *Deposits with credit institutions (banks)* | | | | | | |
| 034 | | *4.2* | *Loans* | 348,277 | | **348,277** | 335,572 | | **335,572** |
| 035 | | *4.3* | *Other loans and receivables* | | | | | | |
| **036** | | **IV** | **Deposits on the basis of insurance business transferred to reinsurance** | | | | | | |
| **037** | | **E** | **INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS** | **50,848,053** | | **50,848,053** | **96,293,475** | | **96,293,475** |

## Supplementary information under the Rules of the Croatian Financial Servisce Supervisory Agency

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

| Item # | Sum components | Item # | Item description | Prior year Life | Prior year Non-life | Prior year Ukupno | Current year Život | Current year Neživot | Current year Ukupno |
|---|---|---|---|---|---|---|---|---|---|
| **038** | 039+040+041+ 042 +043+044+045 | **F** | **REINSURANCE SHARE IN TECHNICAL RESERVES** | **2,640,632** | | **2,640,632** | **3,518,236** | | **3,518,236** |
| 039 | | 1 | Unearned premium, reinsurers' share | 392,534 | | **392,534** | 380,046 | | **380,046** |
| 040 | | 2 | Life assurance provision (mathematical reserve), reinsurers' share | 282,093 | | **282,093** | 278,063 | | **278,063** |
| 041 | | 3 | Claims provision, reinsurers' share | 1,966,005 | | **1,966,005** | 2,860,127 | | **2,860,127** |
| 042 | | 4 | Provisions for return of premiums, both dependent and independent of the result (bonuses and discounts), reinsurers' share | | | | | | |
| 043 | | 5 | Equalisation reserve, reinsurers' share | | | | | | |
| 044 | | 6 | Other technical provisions, reinsurers' share | | | | | | |
| 045 | | 7 | Life assurance technical provisions where the policyholder bears the insurance risk, reinsurers' share | | | | | | |
| **046** | 047+048 | **G** | **CURRENT AND DEFERRED TAX ASSETS** | | | | | | |
| 047 | | 1 | Deferred tax assets | | | | | | |
| 048 | | 2 | Current tax assets | | | | | | |
| **049** | 050+053+054 | **H** | **RECEIVABLES** | **15,927,062** | | **15,927,062** | **14,951,062** | | **14,951,062** |
| **050** | 051+052 | **1** | **Receivables from direct insurance operations** | | | | | | |
| 051 | | *1.1* | *From insured persons* | | | | | | |
| 052 | | *1.2* | *Receivables from insurance agents and brokers* | | | | | | |
| **053** | | **2** | **Receivables from co-insurance and reinsurance operations** | **206,973** | | **206,973** | **41,108** | | **41,108** |
| **054** | 055+056+057 | **3** | **Other receivables** | **15,720,088** | | **15,720,088** | **14,909,954** | | **14,909,954** |
| 055 | | *3.1* | *Receivables from other insurance operations* | | | | 17,019 | | **17,019** |
| 056 | | *3.2* | *Receivables for return on investments* | 12,104,863 | | **12,104,863** | 13,466,450 | | **13,466,450** |
| 057 | | *3.3* | *Other receivables* | 3,615,225 | | **3,615,225** | 1,426,486 | | **1,426,486** |
| **058** | 059+063+064 | **I** | **OTHER ASSETS** | **1,659,914** | | **1,659,914** | **1,098,118** | | **1,098,118** |
| **059** | 060+061+062 | **1** | **Cash with banks and in hand** | **1,659,914** | | **1,659,914** | **1,098,118** | | **1,098,118** |
| 060 | | *1.1* | *Balances on the business account* | 484,689 | | **484,689** | 805,800 | | **805,800** |
| 061 | | *1.2* | *Assets on mathematical reserve backing asset account* | 1,174,202 | | **1,174,202** | 289,214 | | **289,214** |
| 062 | | *1.3* | *Cash in hand* | 1,023 | | **1,023** | 3,104 | | **3,104** |
| **063** | | **2** | **Non-current assets held for sale and discontinued operations** | | | | | | |
| **064** | | **3** | **Other** | | | | | | |
| **065** | 066+067+068 | **J** | **PREPAID EXPENSES AND ACCRUED INCOME** | **145,551** | | **145,551** | **55,248** | | **55,248** |
| 066 | | 1 | Accrued interest and prepaid rentals | | | | | | |
| 067 | | 2 | Deferred acquisition costs | | | | | | |
| 068 | | 3 | Other prepaid expenses and accrued income | 145,551 | | **145,551** | 55,248 | | **55,248** |
| **069** | 001+004+007+ 011 +037+038+046 +049+058+065 | **K** | **TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)** | **557,433,877** | | **557,433,877** | **673,625,512** | | **673,625,512** |
| **070** | | **L** | **OFF-BALANCE SHEET ITEMS** | | | | | | |

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

### Statement of financial position – Equity and liabilities at 31 December

in HRK

| Broj pozicije | Elementi zbroja | Oznaka pozicije | Opis pozicije | Prethodna godina | | | Tekuća godina | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Život | Neživot | Ukupno | Život | Neživot | Ukupno |
| **071** | 072+076+077+ 081+085+088 | **A** | **CAPITAL AND RESERVES** | **70,379,829** | | **70,379,829** | **92,893,469** | | **92,893,469** |
| **072** | 073+074+075 | **1** | **Subscribed capital** | **30,000,000** | | **30,000,000** | **30,000,000** | | **30,000,000** |
| 073 | | *1.1* | *Paid-in capital - ordinary shares* | 30,000,000 | | **30,000,000** | 30,000,000 | | **30,000,000** |
| 074 | | *1.2* | *Paid-in capital - preference shares* | | | | | | |
| 075 | | *1.3* | *Called-up capital* | | | | | | |
| **076** | | **2** | **Share premium (capital reserves)** | | | | | | |
| **077** | 078+079+080 | **3** | **Revaluation reserves** | **6,234,626** | | **6,234,626** | **24,606,943** | | **24,606,943** |
| 078 | | *3.1* | *Land and buildings* | | | | | | |
| 079 | | *3.2* | *Financial investments* | 6,234,626 | | **6,234,626** | 24,617,845 | | **24,617,845** |
| 080 | | *3.3* | *Other revaluation reserves* | | | | -10,902 | | **-10,902** |
| **081** | 082+083+084 | **4** | **Reserves** | **21,247,508** | | **21,247,508** | **21,247,508** | | **21,247,508** |
| 082 | | *4.1* | *Statutory reserves* | 21,247,508 | | **21,247,508** | 21,247,508 | | **21,247,508** |
| 083 | | *4.2* | *Statutory reserve* | | | | | | |
| 084 | | *4.3.* | *Other reserves* | | | | | | |
| **085** | 086+087 | **5** | **Retained earnings / Accumulated losses** | **3,666,417** | | **3,666,417** | **5,037,695** | | **5,037,695** |
| 086 | | *5.1* | *Retained earnings* | 3,666,417 | | **3,666,417** | 5,037,695 | | **5,037,695** |
| 087 | | *5.2* | *Accumulated losses (-)* | | | | | | |
| **088** | 089+090 | **6** | **Profit or loss for the period** | **9,231,278** | | **9,231,278** | **12,001,323** | | **12,001,323** |
| 089 | | *6.1* | *Profit for the period* | 9,231,278 | | **9,231,278** | 12,001,323 | | **12,001,323** |
| 090 | | *6.2* | *Loss for the period ( - )* | | | | | | |
| **091** | | **B** | **SUBORDINATED DEBT** | | | | | | |
| **092** | 093+094+095+ 096+097+098 | **C** | **TECHNICAL PROVISIONS** | **418,946,095** | | **418,946,095** | **463,283,821** | | **463,283,821** |
| 093 | | 1 | Unearned premium, gross | 781,436 | | **781,436** | 801,443 | | **801,443** |
| 094 | | 2 | Mathematical provision, gross | 412,280,130 | | **412,280,130** | 456,033,109 | | **456,033,109** |
| 095 | | 3 | Claims provision, gross | 5,884,529 | | **5,884,529** | 6,449,270 | | **6,449,270** |
| 096 | | 4 | Reserve for return of premiums, both dependent and independent of the result (bonuses and discounts), gross | | | | | | |
| 097 | | 5 | Equalisation reserve, gross | | | | | | |
| 098 | | 6 | Other technical provisions, gross | | | | | | |
| **099** | | **D** | **LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross** | **50,848,053** | | **50,848,053** | **96,293,475** | | **96,293,475** |
| **100** | 101+102 | **E** | **OTHER RESERVES** | **326,201** | | **326,201** | **512,353** | | **512,353** |
| 101 | | 1 | Provisions for retirement benefits and similar obligations | 326,201 | | **326,201** | 512,353 | | **512,353** |
| 102 | | 2 | Other reserves | | | | | | |
| **103** | 104+105 | **F** | **CURRENT AND DEFERRED TAX LIABILITIES** | **2,646,836** | | **2,646,836** | **4,756,764** | | **4,756,764** |
| 104 | | 1 | Deferred tax liability | 67,257 | | **67,257** | 4,336,535 | | **4,336,535** |
| 105 | | 2 | Current tax liability | 2,579,579 | | **2,579,579** | 420,229 | | **420,229** |
| **106** | | **G** | **DEPOSITS RETAINED FROM OUTWARD REINSURANCE BUSINESS** | | | | | | |
| **107** | 108+109+110 | **H** | **FINANCIAL LIABILITIES** | | | | | | |
| 108 | | 1 | Borrowings | | | | | | |
| 109 | | 2 | Liabilities in respect of issued securities | | | | | | |
| 110 | | 3 | Other financial liabilities | | | | | | |
| **111** | 112+113+114+ 115 | **I** | **OTHER LIABILITIES** | **9,673,887** | | **9,673,887** | **11,520,659** | | **11,520,659** |
| 112 | | 1 | Liabilities from direct insurance operations | 8,446,429 | | **8,446,429** | 10,056,810 | | **10,056,810** |
| 113 | | 2 | Liabilities arising from co-insurance and reinsurance operations | 80,848 | | **80,848** | 88,508 | | **88,508** |
| 114 | | 3 | Liabilities in respect of disposals and discontinued operations | | | | | | |
| 115 | | 4 | Other liabilities | 1,146,610 | | **1,146,610** | 1,375,342 | | **1,375,342** |
| **116** | 117+118 | **J** | **ACCRUED EXPENSES AND DEFERRED INCOME** | **4,612,975** | | **4,612,975** | **4,364,970** | | **4,364,970** |
| 117 | | 1 | Accrued reinsurance commission | | | | | | |
| 118 | | 2 | Other accrued expenses and deferred income | 4,612,975 | | **4,612,975** | 4,364,970 | | **4,364,970** |
| **119** | 071+091+092+ 099+100+103 +106+107+111 +116 | **K** | **TOTAL LIABILITIES AND EQUITY (A+B+C+D+E+F+G+H+I+J)** | **557,433,877** | | **557,433,877** | **673,625,512** | | **673,625,512** |
| **120** | | **L** | **OFF-BALANCE SHEET ITEMS** | | | | | | |

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

### Statement of Comprehensive Income for the year ended 31 December in HRK

| Item # | Sum components | Item # | Item description | Prior accounting period | | | Current accounting period | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Life | Non-life | Ukupno | Život | Neživot | Ukupno |
| **001** | 002+003+004+005+006+007+008+009 | **I** | **Premium earned** | **135,492,254** | | **135,492,254** | **147,624,308** | | **147,624,308** |
| 002 | | 1 | Gross premium written | 139,301,691 | | **139,301,691** | 151,384,723 | | **151,384,723** |
| 003 | | 2 | Co-insurance premiums | | | | | | |
| 004 | | 3 | Impairment allowance and reversal of impairment allowance on insurance/coinsurance premiums | | | | | | |
| 005 | | 4 | Outward reinsurance premiums (-) | -3,515,944 | | **-3,515,944** | -3,727,919 | | **-3,727,919** |
| 006 | | 5 | Outward co-insurance premiums (-) | | | | | | |
| 007 | | 6 | Change in the gross unearned premium reserve (+/-) | -136,609 | | **-136,609** | -20,007 | | **-20,007** |
| 008 | | 7 | Change in the gross unearned premium reserve, reinsurers' share, (+/-) | -156,884 | | **-156,884** | -12,488 | | **-12,488** |
| 009 | | 8 | Changes in unearned premium reserve, co-insurers' share (+/-) | | | | | | |
| **010** | 011+012+016+017+018+022+023 | **II** | **Investment income** | **63,678,949** | | **63,678,949** | **64,447,439** | | **64,447,439** |
| 011 | | 1 | Income from subsidiaries, associates and joint ventures | | | | | | |
| 012 | 013+014+015 | 2 | Income from investments in land and buildings | 1,092,882 | | 1,092,882 | 1,101,389 | | 1,101,389 |
| 013 | | *2.1* | *Rental income* | 1,092,882 | | 1,092,882 | 1,101,389 | | 1,101,389 |
| 014 | | *2.2* | *Surplus on revaluation of land and buildings* | | | | | | |
| 015 | | *2.3* | *Income from sale of land and buildings* | | | | | | |
| 016 | | 3 | Interest income | 25,456,062 | | 25,456,062 | 27,363,344 | | 27,363,344 |
| 017 | | 4 | Unrealised gains on FVTPL investments | | | | | | |
| 018 | 019+020+021 | 5 | Gains from sale of financial investments | 2,183,056 | | 2,183,056 | 4,787,253 | | 4,787,253 |
| 019 | | *5.1* | *Investments at fair value through profit or loss* | | | | | | |
| 020 | | *5.2* | *Available-for-sale investments* | 2,003,432 | | 2,003,432 | 4,647,501 | | 4,647,501 |
| 021 | | *5.3* | *Other gains from sale of financial investments* | 179,624 | | 179,624 | 139,751 | | 139,751 |
| 022 | | 6 | Net foreign exchange gains | 31,596,379 | | 31,596,379 | 25,590,252 | | 25,590,252 |
| 023 | | 7 | Other investment income | 3,350,570 | | 3,350,570 | 5,605,202 | | 5,605,202 |
| **024** | | **III** | **Fee and commission income** | **1,810,456** | | **1,810,456** | **1,599,618** | | **1,599,618** |
| **025** | | **IV** | **Other technical income, net of reinsurers' share** | **638,092** | | **638,092** | **896,635** | | **896,635** |
| **026** | | **V** | **Other income** | | | | | | |
| **027** | 028+032 | **VI** | **Expenditure for claims incurred, net** | **-54,487,338** | | **-54,487,338** | **-53,444,420** | | **-53,444,420** |
| 028 | 029+030+031 | 1 | Settled claims | -53,278,249 | | -53,278,249 | -53,773,802 | | -53,773,802 |
| 029 | | *1.1* | *Gross amount (-)* | -53,596,191 | | -53,596,191 | -54,646,879 | | -54,646,879 |
| 030 | | *1.2* | *Coinsurers' share (+)* | | | | | | |
| 031 | | *1.3* | *Reinsurers' share (+)* | 317,942 | | 317,942 | 873,077 | | 873,077 |
| 032 | 033+034+035 | 2 | Change in the claims provision (+/-) | -1,209,089 | | -1,209,089 | 329,381 | | 329,381 |
| 033 | | *2.1* | *Gross amount (-)* | -1,996,064 | | -1,996,064 | -564,740 | | -564,740 |
| 034 | | *2.2* | *Coinsurers' share (+)* | | | | | | |
| 035 | | *2.3* | *Reinsurers' share (+)* | 786,975 | | 786,975 | 894,122 | | 894,122 |
| **036** | 037+040 | **VII** | **Change in mathematical reserves and in other technical provisions, net of reinsurers' share** | **-51,470,349** | | **-51,470,349** | **-43,757,009** | | **-43,757,009** |
| 037 | 038+039 | 1 | Change in the mathematical reserve (+/-) | -51,470,349 | | -51,470,349 | -43,757,009 | | -43,757,009 |
| 038 | | *1.1* | *Gross amount (-)* | -51,476,611 | | -51,476,611 | -43,752,979 | | -43,752,979 |
| 039 | | *1.2* | *Reinsurers' share (+)* | 6,262 | | 6,262 | -4,030 | | -4,030 |
| 040 | 041+042+043 | 2 | Change in other technical provisions, net of reinsurers' share (+/-) | | | | | | |
| 041 | | *1.1* | *Gross amount (-)* | | | | | | |
| 042 | | *1.2* | *Coinsurers' share (+)* | | | | | | |
| 043 | | *1.3* | *Reinsurers' share (+)* | | | | | | |
| **044** | 045+046+047 | **VIII** | **Change in specific life assurance technical provisions where the investment risk is borne by the policyholders, net of reinsurance (+/-)** | **-24,043,650** | | **-24,043,650** | **-45,445,422** | | **-45,445,422** |
| 045 | | 1 | *Gross amount (-)* | -24,043,650 | | -24,043,650 | -45,445,422 | | -45,445,422 |
| 046 | | 2 | *Coinsurers' share (+)* | | | | | | |
| 047 | | 3 | *Reinsurers' share (+)* | | | | | | |

## Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency

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

| Item # | Sum components | Item # | Item description | Prior accounting period | | | Current accounting period | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Life | Non-life | Total | Life | Non-life | Total |
| **048** | 049+050 | **IX** | **Expenses on return of premiums, net of reinsurers' share** | | | | | | |
| 049 | | 1 | Result-dependent (bonuses) | | | | | | |
| 050 | | 2 | Result-independent (discounts) | | | | | | |
| **051** | 052+056 | **X** | **Operating expenses, net** | **-30,498,322** | | **-30,498,322** | **-31,859,206** | | **-31,859,206** |
| 052 | 053+054+055 | 1 | Acquisition costs | -21,556,039 | | -21,556,039 | -22,057,541 | | -22,057,541 |
| 053 | | *1.1* | *Commissions* | -11,024,557 | | -11,024,557 | -11,177,250 | | -11,177,250 |
| 054 | | *1.2* | *Other acquisition costs* | -10,531,481 | | -10,531,481 | -10,880,290 | | -10,880,290 |
| 055 | | *1.3* | *Change in deferred acquisition costs (+/-)* | | | | | | |
| 056 | 057+058+059 | 2 | Administrative expenses | -8,942,283 | | -8,942,283 | -9,801,665 | | -9,801,665 |
| 057 | | *2.1* | *Depreciation* | -458,079 | | -458,079 | -624,328 | | -624,328 |
| 058 | | *2.3* | *Payroll taxes and contributions* | -4,428,008 | | -4,428,008 | -4,845,225 | | -4,845,225 |
| 059 | | *2.4* | *Other administrative expenses* | -4,056,195 | | -4,056,195 | -4,332,112 | | -4,332,112 |
| **060** | 061+062+063+064+065+066+067 | **XI** | **Investment expenses** | **-28,365,347** | | **-28,365,347** | **-25,251,680** | | **-25,251,680** |
| 061 | | 1 | Depreciation of land and buildings not used by the company for business purposes | -338,600 | | -338,600 | -338,600 | | -338,600 |
| 062 | | 2 | Interest | | | | | | |
| 063 | | 3 | Impairment of investments | -424,500 | | -424,500 | | | |
| 064 | | 4 | Losses on the sale of financial assets | -432,938 | | -432,938 | -194,939 | | -194,939 |
| 065 | | 5 | Value adjustment of financial assets at fair value through profit or loss | | | | | | |
| 066 | | 6 | Net foreign exchange losses | -26,559,557 | | -26,559,557 | -24,060,941 | | -24,060,941 |
| 067 | | 7 | *Other investment expenses* | -609,752 | | -609,752 | -657,201 | | -657,201 |
| **068** | 069+070 | **XII** | **Other technical expenses, net of reinsurers' share** | **-411,758** | | **-411,758** | **-329,737** | | **-329,737** |
| 069 | | 1 | Expenses for preventive operations | | | | | | |
| 070 | | 2 | Other technical expenses | -411,758 | | -411,758 | -329,737 | | -329,737 |
| **071** | | **XIII** | **Other expenses, including value adjustment** | **-617,029** | | **-617,029** | | | |
| **072** | 001+010+024+025+026+027+036+044+048+051+060+068+071 | **XIV** | **Profit or loss for the period before tax (+/-)** | **11,725,957** | | **11,725,957** | **14,480,527** | | **14,480,527** |
| **073** | 074+075 | **XV** | **Income tax or tax loss** | **-2,494,679** | | **-2,494,679** | **-2,479,203** | | **-2,479,203** |
| 074 | | 1 | Current tax expense | -2,579,579 | | -2,579,579 | -2,805,730 | | -2,805,730 |
| 075 | | 2 | Deferred tax expense (income) | 84,900 | | 84,900 | 326,527 | | 326,527 |
| **076** | 072+073 | **XVI** | **Profit or loss for the period before tax (+/-)** | **9,231,278** | | **9,231,278** | **12,001,323** | | **12,001,323** |
| 077 | | 1 | Attributable to the equity holders of the parent | | | | | | |
| 078 | | 2 | Attributable to the non-controlling interest | | | | | | |
| **079** | 001+010+024+025+026+075 | **XVII** | **TOTAL INCOME** | 201,704,651 | | 201,704,651 | 214,894,527 | | 214,894,527 |
| **080** | 027+036+044+048+051+060+068+071+074 | **XVIII** | **TOTAL EXPENSES** | -192,473,373 | | -,192,473,373 | -202,893,204 | | -202,893,204 |
| **081** | 082+083+084+085+086+087+088+089 | **XIX** | **Other comprehensive income** | **-11,107,705** | | **-11,107,705** | **18,372,318** | | **18,372,318** |
| 082 | | 1 | Gains/losses on retranslation of financial statements of foreign operations | | | | | | |
| 083 | | 2 | Gains/losses on revaluation of financial assets available for sale | -11,107,705 | | **-11,107,705** | 18,383,219 | | **18,383,219** |
| 084 | | 3 | Gains/losses on revaluation of land and buildings not used by the company for business purposes | | | | | | |
| 085 | | 4 | Gains/losses on revaluation of other tangible (except land and buildings) and intangible assets | | | | | | |
| 086 | | 5 | Effects of cash flow hedging instruments | | | | | | |
| 087 | | 6 | Actuarial gains/losses on defined retirement benefit plans | | | | -10,902 | | **-10,902** |
| 088 | | 7 | Share in other comprehensive income of associates | | | | | | |
| 089 | | 8 | Income tax on other comprehensive income | | | | | | |
| **090** | 076+081 | **XX** | **Total comprehensive income** | **-1,876,427** | | **-1,876,427** | **30,373,641** | | **30,373,641** |
| 091 | | 1 | Attributable to the equity holders of the parent | | | | | | |
| 092 | | 2 | Attributable to the non-controlling interest | | | | | | |
| **093** | | **XXI** | **Reclassification adjustments** | | | | | | |

## Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency
### Cash Flow Statement for the year

in HRK

| Item # | Sum components | Item # | Item description | Current period | Comparative prior period |
|---|---|---|---|---|---|
| **001** | 002+013+031 | **I** | **CASH FLOWS FROM OPERATING ACTIVITIES** | **13,041,210** | **7,266,101** |
| **002** | 003+004 | **1** | **Cash flows before working capital changes** | **-21,526,387** | **-17,376,760** |
| 003 | | 1.1 | Profit/(Loss) before tax | 14,480,527 | 11,725,957 |
| 004 | 005+006+007 +008+009+01 0 +011+012 | 1.2 | Adjusted by: | -36,006,913 | -29,102,716 |
| 005 | | *1.2.1* | *Depreciation* | 962,928 | 796,679 |
| 006 | | *1.2.2* | *Amortisation of intangible assets* | 534,343 | 247,184 |
| 007 | | *1.23* | *Impairment losses and gains/losses on remeasurement at fair value* | -5,512,678 | -2,937,930 |
| 008 | | *1.2.4* | *Interest expense* | | |
| 009 | | *1.25* | *Interest income* | -27,363,344 | -25,456,062 |
| 010 | | *1.2.6* | *Share in the profit of associates* | | |
| 011 | | *1.2.7* | *Gains/losses on disposal of tangible assets (including land and buildings)* | -40,753 | -837 |
| 012 | | *1.2.8* | *Other adjustments* | -4,587,410 | -1,751,750 |
| **013** | 014+015+030 | **2** | **Increase/decrease in operating assets and liabilities** | **37,407,898** | **27,151,115** |
| 014 | | 2.1 | Increase/decrease in available-for-sale investments | -39,733,375 | -54,111,881 |
| 015 | | 2.2 | Increase/decrease of investments at fair value through profit or loss | | |
| 016 | | 2.3 | Increase/decrease in given deposits, loans and receivables | 12,704 | -287,157 |
| 017 | | 2.4 | Increase/decrease of outward reinsurance deposits | | |
| 018 | | 2.5 | Increase/decrease of investments for the account and risk of life assurance policyholders | -39,855,861 | -20,619,984 |
| 019 | | 2.6 | Increase/decrease of reinsurer's share in technical provisions | -877,604 | -636,353 |
| 020 | | 2.7 | Increase/decrease in tax assets | -326,527 | -84,900 |
| 021 | | 2.8 | Increase/decrease in receivables | 26,231,584 | 25,690,627 |
| 022 | | 2.9 | Increase/decrease in other assets | | |
| 023 | | 2.10 | Increase/decrease in prepaid expenses and accrued income | 90,302 | -6,093 |
| 024 | | 2.11 | Increase/decrease in technical provisions | 44,337,726 | 53,609,284 |
| 025 | | 2.12 | Increase/decrease in technical provisions for life insurance with the risk borne by the policyholder | 45,445,422 | 24,043,650 |
| 026 | | 2.13 | Increase/decrease in tax liabilities | | -1,721,937 |
| 027 | | 2.14 | Increase/decrease in deposits retained from outward reinsurance business | 435,312 | 401,458 |
| 028 | | 2.15 | Increase/decrease in financial liabilities | | |
| 029 | | 2.16 | Increase/decrease in other liabilities | 2,331,530 | 499,742 |
| 030 | | 2.17 | Increase/decrease in accrued expenses and deferred income | -683,317 | 374,658 |
| **031** | | **3** | **Income taxes paid** | **-2,840,302** | **-2,508,254** |
| **032** | 033+034+046 | **II** | **CASH FLOWS FROM INVESTING ACTIVITIES** | **-5,743,005** | **-891,142** |
| 033 | | 1 | Proceeds from sale of tangible assets | 64,401 | 1,644 |
| 034 | | 2 | Payments for purchases of tangible assets | -1,811,709 | -354,523 |
| 035 | | 3 | Proceeds from sale of intangible assets | | |
| 036 | | 4 | Payments for purchases of intangible assets | -5,760,668 | -220,492 |
| 037 | | 5 | Payments for purchases of land and buildings not used by the company in its business | | |
| 038 | | 6 | Payments for purchases of land and buildings not used by the company in its business | | |
| 039 | | 7 | Increase/decrease of investments in subsidiaries, associates and joint ventures | | |
| 040 | | 8 | Proceeds from held-to-maturity investments | 1,764,971 | -317,770 |
| 041 | | 9 | Payments made for held-to-maturity investments | | |
| 042 | | 10 | Proceeds from sale of securities and units | | |
| 043 | | 11 | Payments made for investments in securities and equities | | |
| 044 | | 12 | Dividends received | | |
| 045 | | 13 | Proceeds from given short-term and long-term loans | | |
| 046 | | 14 | Given short-term and long-term loans | | |
| **047** | 048+049+050 +051+052 | **III** | **CASH FLOWS FROM FINANCING ACTIVITIES** | **-7,860,000** | **-7,042,500** |
| 048 | | 1 | Cash received from share capital increase | | |
| 049 | | 2 | Proceeds from short-term and long-term borrowings | | |
| 050 | | 3 | Repayments of short-term and long-term borrowings | | |
| 051 | | 4 | Cash paid for purchase of own shares | | |
| 052 | | 5 | Dividends paid | -7,860,000 | -7,042,500 |
| **053** | 001+032+047 | | **NET CASH** | **-561,796** | **-667,541** |
| **054** | | **IV** | **EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS** | | |
| **055** | 053+054 | **V** | **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **-561,796** | **-667,541** |
| 056 | | 1 | Cash and cash equivalents at beginning of period | 1,659,914 | 2,327,455 |
| **057** | **055+056** | **2** | **Cash and cash equivalents at end of period** | **1,098,118** | **1,659,914** |

## Supplementary information under the Rules of the Croatian Financial Services Supervisory Agency

### Statement of Changes in Equity - in HRK

| # | Item description | Attributable to the equity holders of the parent | | | | | | | Attributable to non-controlling interest | Total capital and reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Paid-in capital (ordinary and preference shares) | Share premium | Revaluation reserves | Reserves (legal, statutory, other) | Retained profit or accumulated losses | Profit /loss for the year | Total capital and reserves | | |
| **I** | **At 1 January of the prior year** | **22,500,000** | | **17,342,330** | **28,747,508** | **2,420,014** | **8,288,904** | **79,298,755** | | **79,298,755** |
| 1 | Changes in accounting policies | | | | | | | | | |
| 2 | Correction of prior-period error | | | | | | | | | |
| **II** | **At 1 January of the prior year (as restated)** | **22,500,000** | | **17,342,330** | **28,747,508** | **2,420,014** | **8,288,904** | **79,298,755** | | **79,298,755** |
| **III** | **Comprehensive income or loss for the prior year** | | | **-11,107,705** | | | **9,231,278** | **-1,876,427** | | **-1,876,427** |
| 1 | Profit or loss for the period | | | | | | 9,231,278 | 9,231,278 | | 9,231,278 |
| **2** | **Other comprehensive income or loss for the prior year** | | | **-11,107,705** | | | | **-11,107,705** | | **-11,107,705** |
| 2.1 | Unrealised gains or losses on tangible assets (land and buildings) | | | | | | | | | |
| 2.2 | Unrealised gains or losses on financial assets available for sale | | | -11,107,705 | | | | -11,107,705 | | -11,107,705 |
| 2.3 | Realised gains/losses on financial assets available for sale | | | | | | | | | |
| 2.4 | Other changes in equity not attributable to the equity holders in their capacity as owners | | | | | | | | | |
| **IV** | **Transactions with owners (prior period)** | **7,500,000** | | | **-7,500,000** | **1,246,404** | **-8,288,904** | **-7,042,500** | | **-7,042,500** |
| 1 | Increase/decrease in subscribed capital | 7,500,000 | | | -7,500,000 | | | | | |
| 2 | Other payments made by the owners | | | | | | | | | |
| 3 | Dividends paid | | | | | | -7,042,500 | -7,042,500 | | -7,042,500 |
| 4 | Other distributions to the owners | | | | | 1,246,404 | -1,246,404 | | | |
| **V** | **Closing balance for the prior year** | **30,000,000** | | **6,234,626** | **21,247,508** | **3,666,417** | **9,231,278** | **70,379,829** | | **70,379,829** |
| | | | | | | | | | | |
| **VI** | **At 1 January of the current year** | **30,000,000** | | **6,234,626** | **21,247,508** | **3,666,417** | **9,231,278** | **70,379,829** | | **70,379,829** |
| 1 | Changes in accounting policies | | | | | | | | | |
| 2 | Correction of prior-period error | | | | | | | | | |
| **VII** | **At 1 January of the current year (restated)** | **30,000,000** | | **6,234,626** | **21,247,508** | **3,666,417** | **9,231,278** | **70,379,829** | | **70,379,829** |
| **VIII** | **Comprehensive income or loss for the year** | | | **18,372,318** | | | **12,001,323** | **30,373,641** | | **30,373,641** |
| 1 | Profit or loss for the period | | | | | | 12,001,323 | 12,001,323 | | 12,001,323 |
| **2** | **Other comprehensive income or loss for the current year** | | | **18,372,318** | | | | **18,372,318** | | **18,372,318** |
| 2.1 | Unrealised gains or losses on tangible assets (land and buildings) | | | | | | | | | |
| 2.2 | Unrealised gains or losses on financial assets available for sale | | | 18,383,219 | | | | 18,383,219 | | 18,383,219 |
| 2.3 | Realised gains/losses on financial assets available for sale | | | | | | | | | |
| 2.4 | Other changes in equity not attributable to the equity holders in their capacity as owners | | | -10,902 | | | | -10,902 | | -10,902 |
| **IX** | **Transactions with owners (current period)** | | | | | **1,371,278** | **-9,231,278** | **-7,860,000** | | **-7,860,000** |
| 1 | Increase/decrease in subscribed capital | | | | | | | | | |
| 2 | Other payments made by the owners | | | | | | | | | |
| 3 | Dividends paid | | | | | | -7,860,000 | -7,860,000 | | -7,860,000 |
| 4 | Other transactions with the owners | | | | | 1,371,278 | -1,371,278 | | | |
| **X** | **Closing balance for the current year** | **30,000,000** | | **24,606,943** | **21,247,508** | **5,037,695** | **12,001,323** | **92,893,469** | | **92,893,469** |

## Reconciliation between financial statements for Croatian Financial Services Supervisory Agency

***Statement of financial position***

Receivables arising from insurance contracts and other receivables shown in the auditors financial statement are recorded in the financial statements for Croatian Financial Services Supervisory Agency on positions:

- 53 - Receivables from coinsurance and reinsurance
- 54 - Other receivables
- 65 - Prepaid expenses and accrued income
- 105 - Current tax liabilities.

Advance income tax is netted against following positions: Other receivables and current tax liabilities in the financial statements for Croatian Financial Services Supervisory Agency, while the auditors financial statement showing this position of Receivables arising from insurance contracts and other receivables.

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

- 93 to 99

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

- 111 and 116

***Statement of comprehensive income***

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

- 12 - Income from investments in land and buildings
- 18 - Gain on sale (realization) of financial assets
- 22 - Net foreign exchange gains
- 23 - Other income from investments
- 64 - Losses from sale (realization) of financial assets
- 66 - Net foreign exchange losses.

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

- 29 - Liquidated damages: Gross
- 33 - Change in provision for claims: Gross
- 36 - Change in mathematical and other technical provisions, net of reinsurance
- 38 - Change in mathematical provision: Gross
- 45 - Changes in special reserves for insurance on life insurance where the policyholder takes the investment risk, net of reinsurance: Gross amount.

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

- 31 - Liquidated claims: Reinsurers' share
- 35 - Change in provision for claims: Reinsurers' share
- 39 - Change in mathematical provision: Reinsurers' share.

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

***Statement of comprehensive income (continued)***

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

- 61 - Income from investments in land and buildings
- 63 - Gain on sale (realization) of financial assets
- 67 - Net foreign exchange gains.