ADRIATIC

2018

ANNUAL REPORT FOR THE YEAR 2018 TOGETHER WITH THE INDEPENDENT AUDITOR`S REPORT

2018

ADRIATIC OSIGURANJE PLC.

ANNUAL REPORT FOR THE YEAR 2018 TOGETHER WITH THE INDEPENDENT AUDITOR`S REPORT

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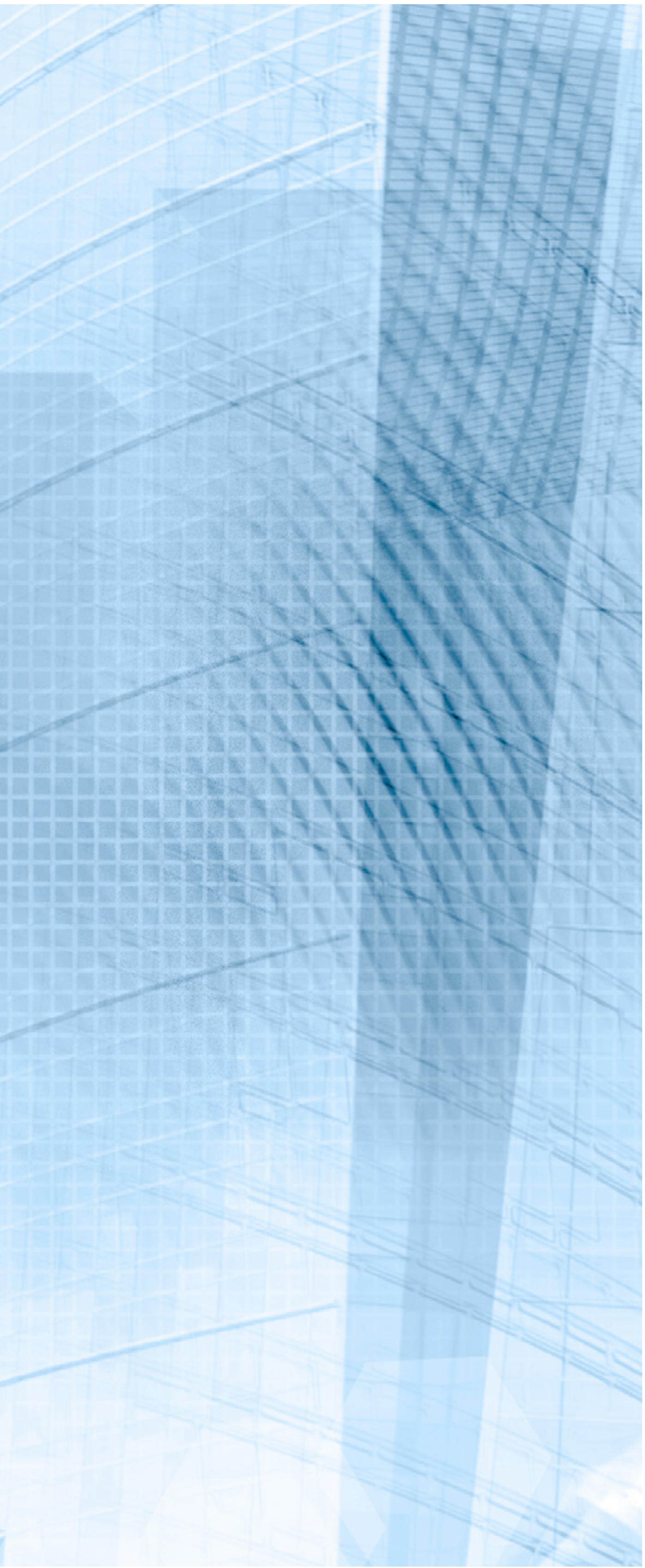


ANNUAL MANAGEMENT REPORT AS AT 31 DECEMBER 2018

Annual Management Report as at 31 December 2018

Important events which affected the Company's operations

The past business year 2018 brought a certain stability to the non-life insurance market and the non-life insurance market significantly increased after many years (2018: 9.90%, 2017: 4.67%). The life insurance market, same as the non-life insurance market, saw a positive trend (2018: 6.60%; 2017: 0.75%). The total insurance market increased by 8.83%.

According to the data of the Croatian Insurance Bureau, in 2018 the insurance companies' total written gross premium for non-life insurance amounted to HRK 6,721,438,304.

In 2018, in the written gross premium structure on the non-life insurance market in the Republic of Croatia, road vehicle insurance premiums - Casco and Motor Vehicle Liability Insurance - have the most significant share, amounting to 48.03%. In relation to the same period of the previous year, the share of the road vehicle insurance premiums - Casco and Motor Vehicle Liability Insurance - increased by HRK 294.94 million in the absolute amount, while it increased by 10.06% in the relative amount. The written gross insurance premium for Motor Vehicle Liability Insurance increased by 6.32% in 2018, in comparison to the same period in 2017.

In relation to the same period in 2017, the share of the written gross insurance premium for Motor Vehicle Liability Insurance in the total calculated gross non-life insurance premium decreased from 33.51% to 32.42%, while the share of the written gross road insurance premium - Casco - in the total written non-life insurance premiums increased from 14.45% to 15.61%.

With regard to its business operations and functioning, the Company adopted the Corporate Governance Statement prepared by the Croatian Financial Services Supervisory Agency in 2010, and it continues to be applied in 2018.

We expect the positive economic trends to continue and the GDP to grow between 2 and 3% in 2019. In line with our expectations, we believe that the non-life market will increase as well.

Even in the following period, Adriatic osiguranje Plc. will focus on Motor Vehicle Insurance, predominantly on Motor Vehicle Liability Insurance and Road Vehicle Insurance, so we expect the relevant two insurance groups to have the largest share in the total portfolio in 2019.

The Company purchased shares in the company Tehnomobil nekretnine Ltd. in 2017 and shares in the company Autocentar Vrbovec Ltd. in 2018. The Company acquired 100% shares in the companies through the relevant purchase.

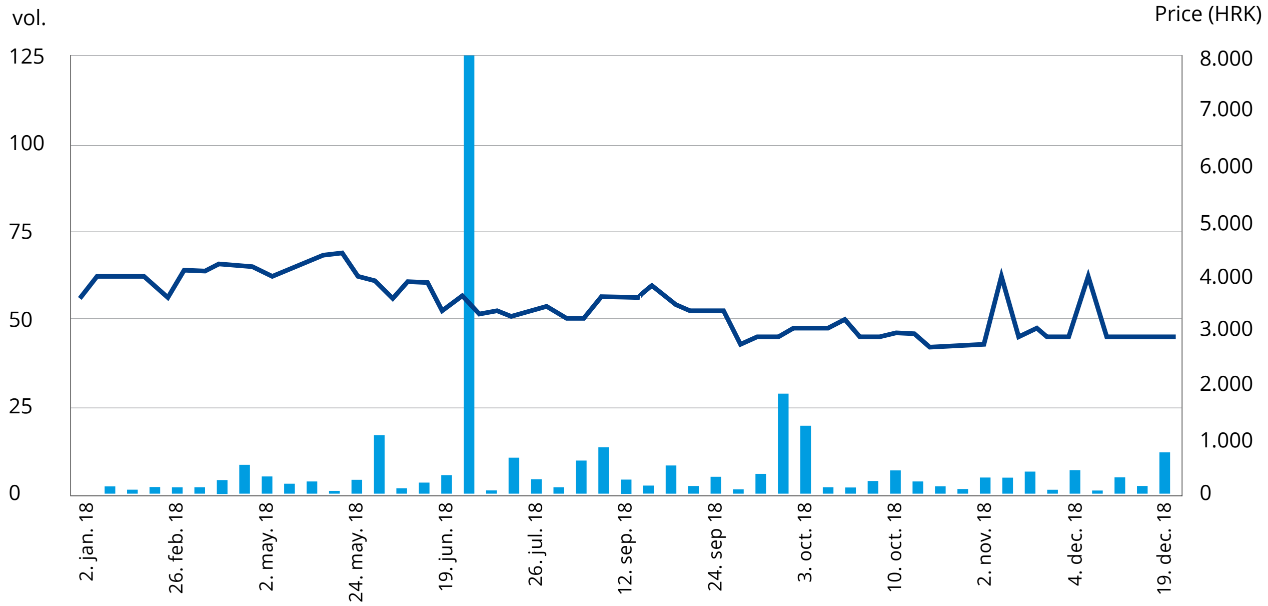
The audit company Deloitte Ltd., Radnička cesta 80, Zagreb, conducted the audit in 2018.

Shares and shareholders' structure

The share capital of the Company amounts to HRK 50,000,000 and is divided into 125,000 shares at a nominal value of HRK 400 each. All shares are regular and carry a name, and each share ensures the right to 1 vote in the General Assembly. They are in dematerialised format and paid in total. Furtheremore, they are entered into the register of the Central Depository Agency. The shares were listed in the Zagreb Stock Exchange in April 2007.

In 2018, the shares were traded at the average price of HRK 2,863.40, which is 7.16 times higher than the share's nominal value. The lowest share value amounted to HRK 2,500.00, and the highest 3,300.00.

The shareholders' structure changed in relation to the same period in the previous year and comprised 400 shareholders at 31/12/2018 (at 31/12/2017, the number of shareholders amounted to 402).



Trends in share prices in 2018

Company's operations

In 2018, Adriatic osiguranje Plc. designed its goals in line with the general condition of the market, with the shift in negative non-life insurance market trends in mind. In the reporting period, the Company made net profit in the amount of HRK 61,394,541. In relation to the same period in 2017, the net profit increased by 43.70%. There were no statutory changes in the area of mergers and acquisitions in the period audited. The collection of income is within the relevant activity-specific framework and the Company's realisation in successful due to a high-quality developed system of relations with its insured persons and adequate sales tools. The Company's written gross premium increased by 11.71% in 2018, in comparison to the same period in the previous year. In 2018, 1,038,533 insurance policies were contracted, 50.62% of which are mandatory Motor Third Party Liability Insurance policies.

In the end of 2018 the Company, with the total calculated gross insurance premium amounting to HRK 662,491,637, ranked third in terms of non-life insurance market share.
In the end of 2018 the Company went through a re-branding stage, including a name change, meaning that the Company shall continue to operate under the name Adriatic osiguranje Plc. in the future. The Company plans taking its operations a step further in 2019 and offering its insurance products on European markets. The Company will commence its business path to European markets on the market of the Republic of Italy. The head office of the Italian subsidiary will be located in Trieste, where the Company purchased a business building at a prestigious location in the centre of Trieste. The primary goal of the Company's expansion of business operations in the insurance market of the Republic of Italy is to ensure the growth, development and stable operations of the Company, which aims to assert itself as a serious insurance market participant on the market of the Republic of Italy.

in HRK '000	1/1 - 31/12/2017	1/1 - 31/12/2018	Index
Non-life	**Written gross premium**	**Written gross premium**	**Written gross premium**
Motor Third Party Liability Insurance	320.828	343.724	107,14
Property	52.153	64.386	123,46
Motor Casco Insurance	81.763	108.521	132,73
Persons (non-life)	73.064	79.475	108,77
Transport	3.621	5.436	150,12
Liability	34.166	34.116	99,85
Health Insurance	1.316	1.309	0,00
Other	26.125	25.524	97,70
Total	593.036	662.492	111,71

Structure portfolio of Adriatic osiguranje Plc. (co-insurance premium included)

The Company's written gross remium realisation was the most significant in the area of Motor Vehicle Liability Insurance (51.88% of total written gross premium) and the Road Vehicle Insurance – Casco ranks second in the total share of realised gross premium and its share amounts to 16.38% of total calculated gross premium. In the total revenue structure, which amounted to HRK 696,033,241 in 2018, the written gross premium share amounts to 95.18%.

The remaining share in the revenue consists of financial income from loan placement, investment in deposits, bonds, real estate and other financial instruments. When managing the investment policy, the Company uses a conservative approach and principles of security, cost-effectiveness, liquidity, and dispersion. The result of the Company's investment policy direction is the placement of the largest part of free cash in real estate.

The total expenses of the Company for the year 2018 amount to HRK 634,638,700. Liquidated claims costs and business expenses are the most substantial part of the expenses.

Positions	2017	2018	Index 18/17
Total assets per employee	2.617.900	2.692.645	102,9
Written premium per employee	791.771	857.040	108,2
Net profit per employee	57.041	79.424	139,2
Net profit per share	341,79	491,16	143,7
Total share profitability	10,00%	17,01%	170,0

Performance indicators

Pursuant to the Accounting Act of the Republic of Croatia, the Management of the Company is responsible for ensuring that the annual financial statements of the Company are prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the European Union, to give a truthful and objective review of the financial position and the results of the business operations of "the Company" for the given period. In line with the provisions of Articles 21.a and 24. a of the Accounting Act (OG 78/15, 134/15, 120/16, 116/18), the Company will prepare a non-financial statement and publish it on the web pages of the Company www.adriatic-osiguranje.hr by the end of June 2019.

Organisation structure

Adriatic osiguranje Plc. operates through its head office and branches. The branches have a series of offices and dealerships, and sales points everywhere in the Republic of Croatia.

The head office and branches are located at the following address:

- Head office in Zagreb, Listopadska 2
- Branch Split, Varaždinska 54
- Branch Šibenik, Put Bioca 27
- Branch Zagreb, Listopadska 2
- Branch Osijek, Gundulićeva 5 b
- Branch Rijeka, Riva 8
- Branch Koprivnica, Križevačka 13
- Branch Pula, Industrijska 15c
- Branch Sisak, Ante Starčevića 5
- Branch Dubrovnik, Iva Vojnovića 116

In addition to the geographical division, the Company is vertically subdivided into four sectors, based on four basic functions or groups of business activities: Sales, Claims, Finance and IT.

> **The Company's written gross premium realisation was the most significant in the area of Motor Vehicle Liability Insurance**

DANIJELA ŠABAN
Member of the Management Board

GORAN JURIŠIĆ
President of the Management Board

NINO PAVIĆ
Member of the
Management Board

Management of the Company

The Management has three members and two of them jointly represent the Company.

- **Goran Jurišić**, Member of the Management Board since 1 October 2013, President of the Management Board since 1 June 2015
- **Danijela Šaban**, Member of the Management Board since 5 May 2012, member of the Management Board since 21 June 2016
- **Nino Pavić**, Member of the Management Board since 20 August 2015

Supervisory Board

In 2018, the Supervisory Board had five members and acts in the following composition:

- Davor Bubalo, President of the Supervisory Board since 9 February 2018
- Nenad Volarević, Vice-President
- Ante Jažo, President of the Supervisory Board by 9 February 2018, Member of the Supervisory Board since 9 February 2018
- Zdenko Milas, Member
- Mirko Grgić, Member

The Supervisory Board held regular meetings in which it would authorise the Management Board for undertaking certain business decisions which, in line with the by-laws, require the approval of the Supervisory Board.

Employees

ADRIATIC OSIGURANJE PLC.
OVERVIEW OF NUMBER OF EMPLOYEES PER SECTOR
31/12/2018 c/a 31/12/2017 (per sector)

Code	All			Sector														
				Sales			Claims			Finance			IT			Joint services		
	17	18	18-17	17	18	18-17	17	18	18-17	17	18	18-17	17	18	18-17	17	18	18-17
ADRIATIC	749	773	24	545	575	30	75	71	-4	33	31	-2	19	20	1	77	76	-1
Total	749	773	24	545	575	30	75	71	-4	33	31	-2	19	20	1	77	76	-1

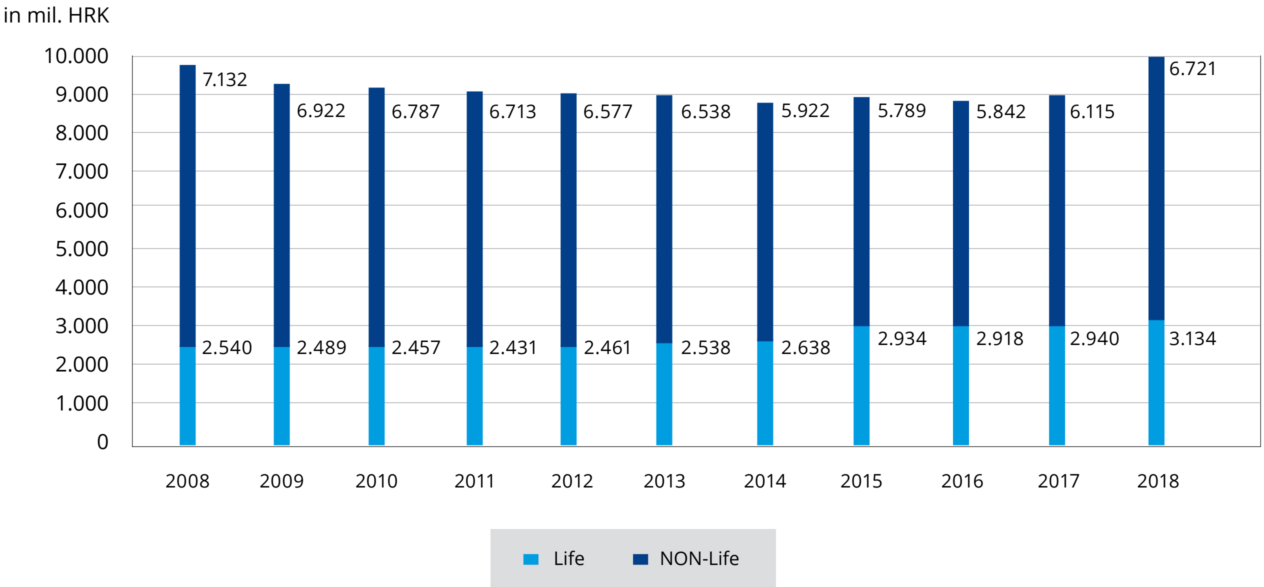
In 2018, the number of employees in the Company increased by 24.

ADRIATIC OSIGURANJE PLC.
OVERVIEW OF EMPLOYEES ACCORDING TO THEIR QUALIFICATIONS
December, 2018 (per branch)

Code	Branch	No.	University degree - PHD/MSC	University degree	Vocational qualification	High-skilled	Medium-skilled	Skilled	Semi-skilled. low skilled	Unskilled
80	SPLIT	78	0	27	13	0	38	0	0	0
81	ŠIBENIK	78	4	26	8	1	36	1	0	2
82	ZAGREB	201	5	62	21	1	108	1	3	0
83	OSIJEK	100	3	22	13	0	59	1	1	1
84	RIJEKA	69	5	17	5	1	40	0	1	0
85	KOPRIVNICA	74	0	9	8	0	54	0	3	0
86	PULA	66	3	7	6	0	47	0	2	1
87	SISAK	36	0	3	1	1	29	1	1	0
88	DUBROVNIK	25	0	7	2	0	16	0	0	0
89	HEAD OFFICE	46	6	29	4	1	5	1	0	0
	TOTAL	773	26	209	81	5	432	5	11	4

The overview of employees according to their qualifications per subsidiary as at 31/12/2018

Market and competition



Total written insurance premiums in the Republic of Croatia

In 2018, 20 insurance companies operated on the insurance market of the Republic of Croatia.

The total written gross premium of insurance companies amounted to HRK 9.86 billion in 2018, which represents a 8.83% increase in relation to the same period in 2017.

2017			2018		
NO.	**COMPANY**	**PREMIUM**	**NO.**	**COMPANY**	**PREMIUM**
1.	CROATIA OSIGURANJE PLC.	2.618.037.959	1.	CROATIA OSIGURANJE PLC.	2.750.428.630
2.	ALLIANZ ZAGREB PLC.	1.146.091.907	2.	ALLIANZ ZAGREB PLC.	1.165.575.839
3.	EUROHERC OSIGURANJE PLC.	915.180.435	3.	EUROHERC OSIGURANJE PLC.	1.118.861.695
4.	**JADRANSKO OSIGURANJE PLC. (ADRIATIC OSIGURANJE PLC.)**	**593.036.331**	4.	WIENER OSIGURANJE VIENNA INSURANCE GROUP PLC.	766.059.722
5.	WIENER OSIGURANJE VIENNA INSURANCE GROUP PLC.	592.769.925	5.	GENERALI OSIGURANJE PLC.	716.002.897
6.	GENERALI OSIGURANJE PLC.	567.748.827	**6.**	**JADRANSKO OSIGURANJE PLC. (ADRIATIC OSIGURANJE PLC.)**	**662.491.637**
7.	UNIQA OSIGURANJE PLC.	560.041.333	7.	UNIQA OSIGURANJE PLC.	583.151.378
8.	GRAWE HRVATSKA PLC.	412.938.645	8.	GRAWE HRVATSKA PLC.	431.481.263
9.	TRIGLAV OSIGURANJE PLC.	400.859.215	9.	TRIGLAV OSIGURANJE PLC.	429.580.932
10.	AGRAM LIFE OSIGURANJE PLC.	329.854.162	10.	AGRAM LIFE OSIGURANJE PLC.	351.395.187
11.	MERKUR OSIGURANJE PLC.	280.135.776	11.	MERKUR OSIGURANJE PLC.	279.126.972
12.	HOK OSIGURANJE PLC.	200.903.748	12.	HOK OSIGURANJE PLC.	209.016.196
13.	ERSTE OSIGURANJE VIG PLC.	182.324.938	13.	ERSTE OSIGURANJE VIG PLC.	125.465.954
14.	ERGO OSIGURANJE PLC.	96.011.580	14.	ERGO OSIGURANJE PLC.	105.495.675
15.	IZVOR OSIGURANJE PLC.	54.033.191	15.	IZVOR OSIGURANJE PLC.	62.617.851
16.	OTP OSIGURANJE PLC.	44.868.317	16.	OTP OSIGURANJE PLC.	43.384.127
17.	WÜSTENROT ŽIVOTNO OSIGURANJE PLC.	39.612.431	17.	WÜSTENROT ŽIVOTNO OSIGURANJE PLC.	40.726.073
18.	HRVATSKO KREDITNO OSIGURANJE PLC.	10.593.995	18.	HRVATSKO KREDITNO OSIGURANJE PLC.	10.460.819
19.	CROATIA OSIGURANJE KREDITA PLC.	8.531.609	19.	CROATIA OSIGURANJE KREDITA PLC.	3.536.338
20.	ERGO ŽIVOTNO OSIGURANJE PLC.	2.349.413	20.	ERGO ŽIVOTNO OSIGURANJE PLC.	770.385
	TOTAL	**9.055.923.737**		**TOTAL**	**9.855.629.571**

Ranking of insurance companies in the Republic of Croatia - 2017/2018

2017			2018		
NO.	COMPANY	PREMIUM	NO.	COMPANY	PREMIUM
1.	CROATIA OSIGURANJE PLC.	2.084.497.044	1.	CROATIA OSIGURANJE PLC.	2.185.697.437
2.	EUROHERC OSIGURANJE PLC.	915.180.435	2.	EUROHERC OSIGURANJE PLC.	1.118.861.695
3.	ALLIANZ ZAGREB PLC.	614.813.718	**3.**	**JADRANSKO OSIGURANJE PLC. (ADRIATIC OSIGURANJE PLC.)**	**662.491.637**
4.	**JADRANSKO OSIGURANJE PLC. (ADRIATIC OSIGURANJE PLC.)**	**593.036.331**	4.	ALLIANZ ZAGREB PLC.	650.998.275
5.	UNIQA OSIGURANJE PLC.	360.271.556	5.	GENERALI OSIGURANJE PLC.	381.824.226
6.	TRIGLAV OSIGURANJE PLC.	343.513.548	6.	UNIQA OSIGURANJE PLC.	381.568.891
7.	WIENER OSIGURANJE VIENNA INSURANCE GROUP PLC.	309.522.628	7.	TRIGLAV OSIGURANJE PLC.	372.270.482
8.	GENERALI OSIGURANJE PLC.	302.185.300	8.	WIENER OSIGURANJE VIENNA INSURANCE GROUP PLC.	343.196.692
9.	HOK OSIGURANJE PLC.	200.903.748	9.	HOK OSIGURANJE PLC.	209.016.196
10.	GRAWE HRVATSKA PLC.	134.638.052	10.	GRAWE HRVATSKA PLC.	141.779.452
11.	ERGO OSIGURANJE PLC.	96.011.580	11.	ERGO OSIGURANJE PLC.	105.495.675
12.	AGRAM LIFE OSIGURANJE PLC.	62.062.992	12.	AGRAM LIFE OSIGURANJE PLC.	65.054.010
13.	IZVOR OSIGURANJE PLC.	54.033.191	13.	IZVOR OSIGURANJE PLC.	62.617.851
14.	MERKUR OSIGURANJE PLC.	25.913.870	14.	MERKUR OSIGURANJE PLC.	26.568.628
15.	HRVATSKO KREDITNO OSIGURANJE PLC.	10.593.995	15.	HRVATSKO KREDITNO OSIGURANJE PLC.	10.460.819
16.	CROATIA OSIGURANJE KREDITA PLC.	8.531.609	16.	CROATIA OSIGURANJE KREDITA PLC.	3.536.338
	TOTAL	**6.115.709.596**		**TOTAL**	**6.721.438.304**

Ranking of insurance companies in the Republic of Croatia - 2017/2018 – non-life

With a written premium in the amount of HRK 662.5 million and a market share of 9.86%, the Company today ranks 3rd in the non-life insurance market in the Republic of Croatia.

Non-life insurance premiums in Adriatic osiguranje

Types of insurance	Wrinen gross premium in HRK in 2017	Share in %	Wrinen gross premium in HRK in 2018	Share in %	Index 18/17
Accident Insurance	73.064.047	12,32%	79.474.618	12,00%	108,77
Health Insurance	1.315.958	0,22%	1.308.513	0,20%	99,43
Road Vehicle Insurance	81.763.325	13,79%	108.521.160	16,38%	132,73
Railroad Vehicle Insurance	0	0,00%	0	0,00%	0,00
Aircraft Insurance	29.607	0,00%	15.155	0,00%	51,19
Vessel Insurance	2.248.138	0,38%	3.174.270	0,48%	141,20
Goods in Transit Insurance	1.343.580	0,23%	2.246.895	0,34%	167,23
Fire and Special Perils Insurance	26.029.975	4,39%	28.218.327	4,26%	108,41
Other Property Insurance	26.122.980	4,40%	36.168.105	5,46%	138,45
Motor Vehicle Liability Insurance	320.827.950	54,10%	343.724.352	51,88%	107,14
Aircraft Liability Insurance	30.419	0,01%	25.111	0,00%	82,55
Vessel Liability Insurance	1.924.404	0,32%	2.342.234	0,35%	121,71
Other Liability Insurance	32.210.844	5,43%	31.748.690	4,79%	98,57
Loan insurance	11.086	0,00%	70.000	0,01%	631,43
Guarantee Insurance	143.038	0,02%	238.110	0,04%	166,47
Financial Losses Insurance	15.028.833	2,53%	15.106.160	2,28%	100,51
Legal Protection Insurance	0	0,00%	0	0,00%	0,00
Assistance Insurance	10.942.149	1,85%	10.109.936	1,53%	92,39
TOTAL (non-life insurance)	**593.036.331**	**100,00%**	**662.491.637**	**100,00%**	**111,71**

Non-life insurance premiums in Adriatic osiguranje

It is clear that the premium increased in case of almost all types of insurance other than Health Insurance, Aircraft Insurance, Aircraft Liability Insurance, Other Liability Insurance, and Assistance Insurance.

Financial statements

Positions	2017	2018	INDEX 18/17
Written gross premium	593.036.331	662.491.637	111,71
Value adjustment and paid premium value adjustment	-2.489.956	-3.181.502	127,77
Outward reinsurance	-16.356.134	-18.799.108	114,94
Changes in gross unearned premium provisions	-21.363.507	-30.752.307	143,95
Changes in unearned premium provisions, reinsurer's share	598.389	238.924	39,93
Earned premium	553.425.123	609.997.644	110,22
Investment income	62.698.738	70.905.374	113,09
Income from fees and commissions	1.524.335	776.638	50,95
Other insurance-technical income, net of reinsurance	20.458.422	8.897.182	43,49
Other income	8.668.677	7.776.539	89,71
TOTAL INCOME	**649.027.889**	**696.033.241**	**107,24**
Claims incurred, net	-207.897.045	-268.385.058	129,10
Liquidated claims	-230.478.746	-256.587.278	111,33
Changes in claims outstanding	22.581.701	-11.797.780	-52,24
Changes in other technical provisions for claims outstanding net of reinsurance	37.343	219.950	589,00
Return of premium (bonuses and rebates) expenses, net of reinsurance	172.029	9.446	5,49
Acquisition costs	-132.640.717	-142.507.820	107,44
Depreciation and amortisation	-10.994.011	-11.726.343	106,66
Salaries, taxes and contributions from and on salaries	-93.256.075	-98.523.003	105,65
Other management costs	-38.882.365	-38.720.639	99,58
Investment costs	-79.818.484	-36.064.607	45,18
Other technical costs, net of reinsurance	-22.729.339	-20.552.441	90,42
Other costs, including value adjustments	-1.312.512	-5.385.789	410,34
TOTAL EXPENSES	**-606.303.846**	**-634.638.700**	**104,67**
GROSS PROFIT	**59.454.122**	**76.717.073**	**129,04**
Income tax	-18.982.672	-13.002.395	68,50
Deferred tax expense (income)	2.252.594	-2.320.137	-103,00
PROFIT for the current accounting period	**42.724.044**	**61.394.541**	**143,70**

PROFIT AND LOSS ACCOUNT for the period from 1 January to 31 December 2017 and 2018

In 2018, the written gross insurance premium amounted to HRK 662,491,637, which constitutes a 11.71% increase in relation to 2017, while the earned premiums (premiums less outward reinsurance, value adjustments and paid premium value adjustments for changes in unearned premium provisions) amounted to HRK 609,997,644 and are 10.22% higher than in 2017.

The total income amounts to HRK 696,033,241 in 2018 and increased by 7.24% in relation to 2017.

Insurance claims

In 2018, Adriatic osiguranje Plc. paid a total of HRK 256.59 million for claims incurred, which is HRK 26.11 million or 11.33% more than in the same period of the previous year.

The average value of liquidated claims amounted to HRK 8,475 in 2018, whereas it amounted to HRK 8,861 in the same period of 2017, which represents a 4.36% decrease in the average value of claims paid.

	CLAIMS	2017	2018	Index 18/17
1.	NUMBER OF REPORTED CLAIMS	33.537	35.515	105,90
2.	NUMBER OF LIQUIDATED CLAIMS	27.147	30.584	112,66
3.	TOTAL CLAIMS BEING HANDLED	44.573	48.724	109,31
4.	PERCENTAGE OF RESOLVED CLAIMS	70,37%	72,51%	103,05
5.	DEFLECTION PERCENTAGE	9,46%	9,74%	102,98
6.	SHARE OF CLAIMS PAID IN PREMIUM	40,56%	39,13%	96,46
7.	NUMBER OF CLAIMS IN RESERVE	13.209	13.393	101,39
8.	AVERAGE PAID CLAIM AMOUNT	8.861 HRK	8.475 HRK	95,64

Changes in claims outstanding increased by HRK 34,379,481 in relation to 2017.

Other expenses

In case of other expenses, the most significant increases were achieved in the acquisition costs, depreciation costs, salaries costs, taxes and contributions from and on salaries. The aforementioned costs increased in relation to 2017 by HRK 14.5 million, i.e. 5.25%. On the total level, the expenses increased by HRK 28.33 million, i.e. by 4.67% in relation to 2017.

Due to the income and expenses ratio, the Company made a gross operating profit in the amount of HRK 76,717,073 in 2018. The gross profit increased in relation to 2017 by 29.04%, while the net operating profit increased by 43.70%.

BALANCE SHEET AS AT 31/12/2017 and 31/12/2018

Position description	2017	2018	INDEX 18/17
INTANGIBLE ASSETS	14.961.339	14.763.131	98,68
PROPERTY, PLANT AND EQUIPMENT	271.167.767	291.332.348	107,44
INVESTMENT	1.483.164.349	1.566.649.233	105,63
SHARE OF REINSURANCE IN TECHNICAL PROVISIONS	17.050.978	15.066.920	88,36
DEFERRED AND CURRENT TAX ASSETS	15.193.454	16.896.691	111,21
RECEIVABLES	140.711.024	132.400.410	94,09
CASH AT BANK AND IN HAND	4.415.312	24.958.509	565,27
OTHER	5.015	247	4,93
PAID EXPENSES OF THE FUTURE PERIOD AND UNDUE INCOME PAYMENTS	14.137.493	19.347.239	136,85
TOTAL ASSETS	**1.960.806.731**	**2.081.414.729**	**106,15**
OFF-BALANCE SHEET ITEMS	**73.448.751**	**121.316.995**	**165,17**

Assets

PROPERTY, PLANT AND EQUIPMENT	2017	2018	INDEX 18/17
Land and buildings used by the Company for its activities	260.263.017	276.897.124	106,39
Land and buildings not used by the Company for its activities	395.440.170	425.817.792	107,68
Other (equipment, furniture, vehicles)	10.904.750	14.435.224	132,38
TOTAL	**666.607.937**	**717.150.140**	**107,58**

Property, plant and equipment

FINANCIAL INVESTMENT	2017	2018	INDEX 18/17
Investment in subsidiaries, associates and joint ventures	68.497.088	85.886.875	125,39
Equity financial instruments	359.650.315	369.698.458	102,79
Debt financial instruments	136.516.574	115.151.962	84,35
Shares i n investlnent funds	38.456.274	20.328.251	52,86
Deposits with credit institutions	29.785.713	30.226.727	101,48
Loans	417.034.597	469.755.551	112,64
Other	37.783.617	49.783.617	131,76
TOTAL	**1.087.724.179**	**1.140.831.442**	**104,88**

Financial investment

Investment in equity financial instruments increased by 2.79%, while the investment in debt financial instruments decreased by 15.65%. Investment in investment fund shares decreased by 47.14%.

Loans increased by 12.64% and deposits with credit institutions increased by 1.48%.

Position description	2017	2018	INDEX 18/17
CAPITAL AND RESERVES	939.977.932	976.051.400	103,84
TECHNICAL PROVISIONS	800.353.244	840.450.954	105,01
NON-CURRENT LIABILITIES	119.063.256	148.035.480	124,33
CURRENT LIABILITIES	101.412.298	116.876.894	115,25
TOTAL LIABILITIES	**1.960.806.731**	**2.081.414.729**	**106,15**
OFF-BALANCE SHEET ITEMS	**73.448.751**	**121.316.995**	**165,17**

Liabilities

CAPITAL, PROVISIONS AND LIABILITIES	2017	2018	INDEX 18/17
Subscribed capital	50.000.000	50.000.000,00	100,00
Revaluation provisions	369.309.340	365.319.122	98,92
Legal provisions	91.154.569	91.154.569	100,00
Other provisions	47.606.966	47.606.966	100,00
Retained earnings	339.183.013	360.576.202	106,31
Profit for the financial year	42.724.044	61.394.541	143,70
TOTAL CAPITAL AND RESERVES	**939.977.932**	**976.051.400**	**103,84**
Long-term credit liabilities	30.000.000	53.736.240	179,12

Capital, provisions and reserves

TECHNICAL PROVISIONS	2017	2018	INDEX 18/17
Unearned premium	305.064.971	335.578.354	110,00
Gross unearned premium	310.744.349	341.496.656	109,90
Reinsurance share (-)	-5.679.378	-5.679.378	104,21
Provisions for claims outstanding	478.237.296	489.805.680	102,42
Provisions for claims outstanding, gross	488.882.450	498.457.249	101,96
Reinsurance share (-)	-11.371.599	-9.148.619	80,45
Return of premium provisions depending and not depending on the result, gross amount	286.692	286.692	96,71
Equalisation provisions, gross	439.753	219.803	49,98
TOTAL	**783.302.267**	**825.384.034**	**105,37**

Technical provisions

INDICATORS	2017	2018	INDEX 18/17
Total assets	1.960.806.731	2.081.414.729	106,15
Written premium	593.036.331	662.491.637	111,71
Net profit	42.724.044	61.394.541	143,70
Number of employees	749	773	103,20
Total assets per employee	2.617.900	2.692.645	102,86
Written premium per employee	791.771	857.040	108,24
Net profit per employee	**57.041**	**79.424**	**139,24**

Performance indicators

Risks the Company is exposed to

The main activity of the insurance company is underwriting and managing risks in a way which settles insurance contracts (i.e. settles the contracted amounts for claims incurred), as well as to settle other business liabilities of the Company (towards employees, owners of the Company etc.).

When conducting its activities, the insurance company is exposed to a great number of different risks in the internal and external surroundings, which are usually classified as a series of business risks in literature. These risks need to be recognised, supervised, monitored and managed.

The Company established individual risk management policies, and defined individual risk monitoring processes of the Company with clearly and precisely defined levels of risk likelihood.

The Company's risk management is described in Note 39 Financial instruments and risk management.

Acquisition risks

By concluding an insurance contract, i.e. underwriting risks, the insurance company exposes itself to a series of risks the insured person transfers to the Company for a certain premium fee. Acquisition risk may firstly result from premium inadequacy or insufficient risk portfolio fragmentation and diversification. Premium inadequacy may arise from premium undervaluation, but also premium overvaluation. In times of fierce competition, growing economic crisis, decrease in standard, insufficient customer purchase power et sim., premium undervaluation risk is significant. The domination of acquisition risk is fostered by omissions in internal supervisory procedures, unsatisfactory level of training of sales personnel, non-compliance with social and business norms, as well as moral principles in order to pursue one's own interest, no matter the subsequent consequences for the Company or the insured person.

However, acquisition risk may result in an overvalued premium, which puts the Company in the position of non-competitiveness and falling behind on the market. The Company will pay maximum attention to acquisition risk and manage it through constant identification, monitoring, reporting, measurement and valuation. During its mandate, it will manage the acquisition risk by adhering to the following principles:

- The prices of insurance products, i.e. premiums for underwriting risks, will be determined based on certain calculations, and will change (increase or decrease) only after systematic analyses and argumentation. A necessary component of argumentation is the individual business and moral responsibility of everyone participating in proposing, calculating and deciding on the changes, including the final decision adopted by the Management, in line with its powers and responsibilities
- All employees of the Company must avoid dumping and strictly adhere to the price list. The Company will underwrite risks extremely carefully, primarily relying on operations it is familiar with and experienced in, i.e. for which it has enough trained and experienced employees for underwriting certain risks and managing them
- The Company will insist on high-quality reinsurance protection in managing risks. The Company will underwrite a part of the risks by contracting co-insurance with other companies when it is justified, allowed, possible, and acceptable for the policy holder
- During acquisition, the Company will act in line with its basic principle of portfolio fragmentation and diversification. This means that it will try to market the products if their price is competitive, which guarantees product eligibility on the largest possible market. Underwriting risks in such a wide range and for individual small subjects, but in a large and numerous group, enables balancing relevant claims and relevant premiums in a high-quality and efficient manner
- Technical provisions are estimated carefully and invested in line with legal regulations.

Operating risks

Inadequate, deficient or completely wrong internal processes, human errors, inadequate system effects, consequences of negative factors from the relevant surrounding et sim. represent a large group of operational risks. Therefore, the internal processes will be monitored and directed in a systematic manner, based on comprehensive reports and impact analyses, constant performance tracking for all employees, assessment of impact of every measure, decision or use of new applications. Assessment of impact of all business processes will be conducted daily, monthly, quarterly and annually, starting from an individual workplace, operational function of a team, subsidiary, sector and the whole Company. In that respect, the Company will work on systematically training all employees, and the management will have to comply with the international certified management quality standards.

The following operational risks will be particularly monitored and managed:

- The human factor risk is considered the driver of all business risks, as a driver of risks which could be avoided without the presence of the negative impact of the human factor, or not enabling sufficient safeguarding mechanisms in case of risks caused regardless of the voluntary human factor, for example, force majeure, accident etc. The human factor risk is particularly present in case of insufficiently trained employees, lack of clear instructions and guidelines, and the ability to verify the adherence to the relevant instructions and guidelines. The Company will insist on promoting a responsible business approach, based on legal rules, business codes and, finally, moral practices in every procedure

- The information technology risk in our Company, in an operational sense, is reduced to the minimum, primarily because the Company is oriented towards the development and application of its own IT solutions. IT tools are created by engineers familiar with the insurance business and processes: from issuing an offer to contracting a policy, and tracking collection and claims per every individual policy. Thanks to its own solutions, the Company may, on all levels, depending on the authorisations to access data, use all data which refer to issued offers, contracted policies and their relation to the system of tariffs, collection of claims per issued policies, as well as all other indicators related to the declaration, handling and status of damages.

Investment risks

The insured person's exposure to investment risks is determined based on the height and structure of the investment portfolio. Risks primarily derive from the insurance company's obligation to form provisions for insured person's claims after underwriting risks. In line with the law, assets for covering technical provisions will be invested in assets which also enables making a return on investments. The Company will not get exposed to the risk of investment in only one type of assets, e.g. financial assets, shares in funds or securities. As much as their return may seem attractive during certain periods, the relevant type of assets is exposed to a wide range of additional financial assets risks, i.e. interest rate and currency risks, and the risk of loss in value, something we are currently witnessing. The Company will supervise and manage the investment risk by optimising the investment portfolio through its diversification with the aim to constantly maximise the return on assets while, at the same time, minimising the risk, i.e. even the slightest volatility of financial assets.

The Company will manage investment risks based on its market research findings or relying on the results of specialised professional research and consult with investment companies, rating agencies and financial intermediaries in all of its operating segments.

Reinsurance risk

This risk may occur when underwriting risks above the defined excess, when the Company transfers the extra risk to the reinsurer, as well as due to the re-insurer's default.

We will control and limits the relevant risk, as we did so far: by selecting and maintaining the best possible business relations with European reinsurers of high credit rating. Furthermore, the Company decreases this risk by dispersing the reinsurance coverage on several partners. This reduces the danger of impact of any reinsurer's insolvency to the minimum.

Credit risk

This risk is defined as a potential decrease in market value as a result of unfavourable changes in the debtors' abilities to repay their debt. The carrying amount of cash and cash equivalents, bank deposits, client loans and insurance claims have the greatest credit risk exposure.

The Company constantly monitors the credit risk exposure. It monitors the creditworthiness of all insured persons and collects insurance instruments before payments for approved loans or their prolongation. Insurance instruments comply with the Insurance Act.

Liquidity risk

The liquidity risk is a result of the Company's financial activities and position management. This risk entails the risk of inability to finance assets in relevant periods and with relevant interest rates, as well as the risk of inability to liquidate assets at a reasonable price an in the relevant period.

The Company has a liquid assets portfolio as a part of the liquidity risk management strategy, which enables it to operate as a going concern and comply with legal requirements.

Final considerations

Finally, it may be concluded that the business year was successful. In 2018, the Management managed the Company's operations in line with professional rules, laws, good economic practices and by-laws of the Company, in the interest and for the benefit of the Company's shareholders and employees.

The Management fulfilled all of its obligations stipulated by law and the Company's general acts towards the Company's bodies.

We are grateful for the trust we have enjoyed so far and we hope that ADRIATIC osiguranje Plc. will successfully continue its operations.

Corporate Governance Statement

Corporate Governance

In line with the provisions of Article 272.p of the Companies Act, the Management and Supervisory Board of the Company shall apply the Corporate Governance Statement prepared by the Croatian Agency for Supervision of Financial Services and the Zagreb Stock Exchange.

A constituent part of the Statement is the Annual survey for the business year 2018, available on the web site of the Company, which reflects the corporate governance practices in the Company in relation to the recommendations from the Statement, with explanations of relevant departures.

The Company continuously improves its corporate governance, having in mind the organisation of the Company, its strategy and business goals, distribution of powers and responsibilities, with a particular emphasis on effective procedures of determining, measuring, monitoring and reporting on the risks for the Company's operations, as well as establishing relevant internal control mechanisms.

Significant shareholders and limited shareholders' rights

400 shareholders participate in the Company's equity. The 10 largest shareholders own 55.00% shares.

No.	Shareholder	% in equity
1.	Dubravko Grgić	15,00
2.	Euroherc osiguranje Plc.	9,99
3.	Agram životno osiguranje Plc.	7,06
4.	Grbavac Martina	4,88
5.	Mladenka Grgić	4,41
6.	Zlatko Lerota	3,60
7.	Pavlović Radoslav	3,39
8.	Zdenko Milas	2,70
9.	Husnija Kurtović	2,55
10.	Mate Erkapić	2,25

Overview of the 10 largest shareholders as at 31/12/2018

In line with the Company's Statute, voting rights are not limited and there are no limitations for exercising voting rights.

On 20 November 2018, the General Assembly adopted a decision to distribute dividends from the retained earnings for the period 01/01/2005-31/12/2011 and a decision confirming the Decision of the Management Board on Renaming the Company Jadransko osiguranje Plc. to Adriatic osiguranje Plc.

Adriatic osiguranje Plc. and the companies Tehnomobil nekretnine Ltd. and Autocentar Vrbovec Ltd. are reported as the Group in the annual financial statement for 2018. The parent company of the Group is the company Adriatic osiguranje Plc., and its subsidiaries are the company Tehnomobil nekretnine Ltd. and the company Autocentar Vrbovec Ltd., since the subsidiaries are 100% owned by the Company Adriatic osiguranje Plc.

Rules for appointing and revoking the Management Board, amendment to the Statute and special powers of the Management Board

In line with the Statute of the Company, the Management comprises from two to five members, and the Supervisory Board decides on the number of members. Members and the President of the Management Board are appointed by the Supervisory Board for a 5-year term, and may be re-appointed for an unlimited period of time. Only a person who complies with the requirements stipulated in the regulations and codes which govern the Company's operations may be appointed as a Member of the Management Board. Furthermore, The Croatian Agency for Supervision of Financial Services must approve of this person. The Supervisory Board may revoke the President and members of the Management Board with its decision, when there is an important reason to do so. The President and members of the Management Board may resign in written form. The Statute may be amended based on the decision of the General Assembly. The decision is considered adopted if 3/4 of equity represented in the General Assembly votes in favour of the relevant decision. The Management submits its proposed decision amendment to the Supervisory Board, which is authorised to accept the proposal and forward it to the General Assembly for it to decide on the proposal.

Composition and operation of the Supervisory Board

The Supervisory Board has five members which are selected and revoked by the General Assembly. Only a person who complies with the requirements stipulated in the regulations and codes which govern the Company's operations may be appointed as a Member of the Supervisory Board.

The powers of the Supervisory Board are regulated by

In 2018, the Supervisory Board had five following members:

- Davor Bubalo, President of the Supervisory Board since 9 February 2018
- Nenad Volarević, Vice-President
- Ante Jažo, President of the Supervisory Board by 9 February 2018, from 9 February 2018 a member of the Supervisory Board
- Zdenko Milas, member
- Mirko Grgić, member

Composition and operation of the Management Board

The powers, duties and responsibilities of the Management Board when managing the operations and representing the Company are determined in the Companies Act, Insurance Act, Statute of the Company and the Rules of Procedure of the Supervisory Board.

In 2018, the Management had three following members:

- Goran Jurišić, President of the Management Board
- Danijela Šaban, member of the Management Board
- Nino Pavić, member of the Management Board

Diversity Policy Description

Managing human resources in the context of diversity refers to managing a diverse group of people with the aim to achieve organisational goals.

During recruitment and selecting senior management, the Company does not discriminate based on sex, age or any other basis, but takes into account the experience and knowledge of candidates in order to achieve the aims of the Company.

Organisation structure

The organisation structure of the Company is vertically subdivided into four sectors: Sales, Claims, Finance and IT.

System of internal controls

With regard to the relevant recommendations and in line with the relevant regulations, the Company continuously improves its corporate governance, having in mind the organisation of the Company, its strategy and business goals, distribution of powers and responsibilities, with a particular emphasis on effective procedures of determining, measuring, monitoring and reporting on the risks for the Company's operations, as well as establishing relevant internal control mechanisms.

Managing human resources in Adriatic osiguranje

Continuous improvement in managing human resources provides support to the vision, mission and corporate values of the Company. This is reflected in the acquisition of new, high-quality personnel, but also assistance to business units in identifying and retaining existing excellent employees.

The Company focuses on the increase in use of knowledge and skills of all employees through control and constant supervision of work performance adjusted to the specific business area.

In order to achieve developmental and strategic business goals, the Company constantly tries to ensure an adequate number and structure of employees, their knowledge, skills, and motivation.

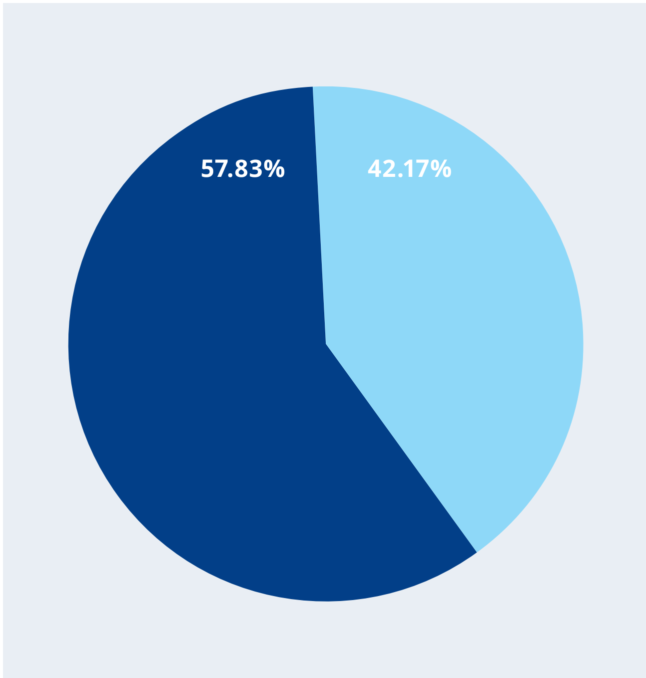
Number of employees as at	31/12/2015	31/12/2016	31/12/2017	31/12/2018
Number based on working hours	778	711	707	725
Number at end of period	774	755	749	773

Overview of the number of employees in the Company for the period 2014 to 2018

Gender structure of employees as at 31/12/2018:

Men

Women



Overview of employees' qualifications in the Company for the period 2014 to 2018

Professional qualification	31/12/2015	31/12/2016	31/12/2017	31/12/2018
MSC/PHD	18	23	28	26
University degree	206	201	205	209
Higher education	73	74	70	81
Medium-skilled	447	431	421	432
High-skilled, qualified workers, semi-skilled, unskilled	30	26	25	25
Total number of employees	**778**	**755**	**749**	**773**

Medium-skilled employees with are the most represented in the qualifications structure

Code of Corporate Governance

All the questions contained in this questionnaire relate to the period of one business year to which annual financial statements also relate.

Commitment to corporate governance and corporate responsibility principles

1. Has the company adopted the use of the Code of Corporate Governance or its own corporate governance policy?

YES

2. Are there corporate governance code principles adopted as part of the company's internal policies?

YES

3. Does the company disclose in its annual financial statements its compliance with corporate governance principles on the basis of the "comply or explain" principle?

YES

4. In the decision-making process, does the company consider the interests of all its shareholders, in line with the principles of the corporate governance code?

YES

Shareholders and the general assembly

5. Is the company in a cross-shareholding relationship with another company/other companies? (If yes, please explain).

NO

6. Does each share of the company have one voting right? (If not, please explain)

YES

7. Does the company treat all shareholders equally? (If not, please explain)

YES

8. Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, please explain)

YES

9. Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person have proxies who are obliged to vote in accordance with instructions received from the shareholders, at no extra cost for those shareholders? (If not, please explain)

YES

10. Did the management or the management board of the company, when convening an assembly, set the date for defining the status in the register of shares which will be relevant for exercising voting rights at the assembly, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of the assembly? (If not, please explain)

YES

11. Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, please explain

YES

12. Does the decision on dividend payment or advance dividend payment include the date on which shareholders are entitled to receive dividend payment and the date or period when the dividend will be paid? (If not, please explain).

YES

13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the day on which the decision was made? (If not, please explain)

YES

14. Were any shareholders favoured while receiving their dividends or advance dividends? (If yes, please explain).

NO

15. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, please explain)

NO. There were no such requests from the shareholders.

16. Have the conditions been defined for participating at the general assembly by voting through proxy (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney? (If yes, please explain).

NO

17. Did the management of the company made the decisions of the general assembly publicly available?

YES

18. Did the management of the company made any information about potential claims challenging the decisions publicly available? (If not, please explain)

NO. No decisions were challenged.

Managing and supervisory bodies

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:

Goran Jurišić, President of the Management Board

Danijela Šaban, member of the Management Board

Nino Pavić, member of the Management Board

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:

Davor Bubalo, President of the Supervisory Board since 9 February 2018

Ante Jažo, President of the Supervisory Board by 9 February 2018, member of the Supervisory Board since 9 February 2018

Nenad Volarević, Vice-President of the Supervisory Board

Zdenko Milas, member of the Supervisory Board

Mirko Grgić, member of the Supervisory Board

19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members regularly and in a timely manner? (If not, please explain).

YES

20. Have the Supervisory or Management Board passed its internal rules of procedure? (If not, please explain)

YES

21. Is the supervisory board composed of, i.e. are non-executive directors on the management board, mostly independent members? (If not, please explain)

YES

22. Is there a long-term succession plan in the company? (If not, please explain).

NO. This is not necessary.

23. Is the remuneration received by the members of the supervisory or management board entirely or partly determined according to their contribution to the company's business performance? (If not, please explain).

NO

The President of the Supervisory Board receives a fixed remuneration defined by a decision of the General Assembly.

24. Is the remuneration to the members of the supervisory or management board determined by a decision of the general assembly or in the articles of association of the company? (If not, please explain)

YES

25. Have details about all remuneration and other benefits received by each member of the supervisory or management board received from the company or from other persons related to the company, including the structure of such remuneration, been made public? (If not, please explain).

NO

26. Details about all remuneration and other benefits received by each member of the Supervisory or Management Board have been disclosed in aggregated amounts in the Notes to the Annual Report for the Year 2018, prepared in line with the International Financial Reporting Standards, and is available on the web pages of the Company and the Zagreb Stock Exchange. Does every member of the supervisory or management board inform the company of each change relating to the acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company 's shares, not later than five trading days from such a change? (If not, please explain)

YES

27. Are all transactions involving members of the supervisory or management board or their related persons and the company and its related persons clearly presented in the financial statements of the company? (If not, please explain).

NO. Such transactions do not exist.

28. Are there any contracts or agreements between the members of the supervisory or management board and the company?

NO. Such transactions do not exist

29. Were they previously approved by the supervisory or management board? (If not, please explain).

NO. Such transactions do not exist.

30. Are the essential elements of all such contracts or agreements included in the annual report? (If not, please explain).

NO. Such transactions do not exist.

31. Did the supervisory or management board establish the appointment committee?

NO

32. Did the supervisory or management board establish the remuneration committee?

NO

33. Did the supervisory or management board establish the audit committee?

YES

34. Was the majority of the committee members selected from the group of independent members of the supervisory board? (If not, please explain)

YES

35. Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial statements of the companies belonging to the group? (If not, please explain).

YES

36. Did the committee assess the quality of the internal control and risk management systems with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, please explain).

YES

37. Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, please explain)

YES

38. If there is no internal audit function in the company, did the committee

NO.

There is an internal audit function in the Company.

39. Did the committee monitor the independence and objectivity of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, please explain).

YES

40. Did the committee monitor the nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, please explain)

YES

41. Did the committee prepare any rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, please explain).

NO

This is regulated by applicable law.

42. Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, please explain).

YES

43. Did the audit committee ensure the provision of quality information by subsidiary and associated companies, as well as by third parties (such as expert advisors)? (If not, please explain

YES

44. Was the documentation relevant for the work of the supervisory board or management board submitted to all the members on time? (If not, please explain)

YES

45. Do supervisory board or management board meeting minutes contain all adopted decisions, together with the voting results? (If not, please explain)

YES

46. Has the supervisory or management board evaluated their work over the past period, which includes the evaluation of the contribution and competencies of the individual members, as well as of joint activities of the board, evaluation of the work of the committees established and the evaluation of the company's objectives reached in comparison with the objectives set?

YES

47. Did the company publish a statement on the remuneration policy for the management, managing body and the supervisory board as part of the annual report? (If not, please explain)

NO

Business secret.

48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, please explain)

NO

The remuneration policy has not been adopted.

49. Are detailed data on all remuneration and benefits received by each member of the management or each executive director from the company published in

NO

Details about all remuneration and other benefits received by each member of the Management or each executive director have been disclosed in aggregated amounts in the Notes to the Annual Report for the Year 2018, prepared in line with the International Financial Reporting Standards, and is available on the web pages of the Company and the Zagreb Stock Exchange

50. Are all forms of remuneration to the members of the management and supervisory board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, please explain)

NO

There were no such payments in 2018.

51. Are all transactions involving members of the management board or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, please explain)

NO. Such transactions do not exist.

52. Does the report to be submitted by the supervisory or management board to the general assembly include, apart from minimum information defined by law, the evaluation of the overall business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, please explain).

YES

Audit and internal control mechanisms

53. Does the company have an external auditor?

YES

54. Is the external auditor of the company related with the company in terms of ownership or interests

NO

55. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?

NO

56. Has the company published the amount of fees paid to the independent external auditors for the audit carried out and for other services provided? (If not, please explain)

YES

57. Does the company have internal auditors and an internal control system established? (If not, please explain)

YES

Transparancy and the public visibility of the business

58. Are the semi-annual, annual and quarterly reports available to the shareholders?

YES

59. Did the company prepare a calendar of important events?

YES

60. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?

YES

61. Did the company establish mechanisms to ensure monitoring the inside information and possible abuse thereof?

YES

62. Did the management of the company hold meetings with interested investors, in the last year?

NO

63. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionn?

YES

Management and Supervisory Board Responsibility for the preparation and adoption of financial statements and the Annual Financial Statement

Pursuant to the Accounting Act of the Republic of Croatia, the Management of the Company is responsible for ensuring that the annual consolidated and non-consolidated financial statements of the Company are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, to give a truthful and objective review of the financial position of the Group and Company, as well as their results of business operations for the given period.

On the basis of the review, the Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management has drawn up consolidated and non-consolidated financial statements under the assumption that the Company is a going concern.

In preparing these financial statements, the Management Board is responsible for:

- selecting and then consistently applying suitable accounting policies
- making reasonable and prudent judgements and estimates
- applying valid accountancy standards and disclosing and explaining any material departures in the financial statements; and
- preparing the consolidated and non-consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue its business operations.

The Management is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Group and the Company, and their compliance with the Accountancy Act. Furthermore, the Management is responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for the preparation and content of the annual report in line with the Accounting Act (OG 78/15, OG 134/15, OG 120/16, OG 116/18) and for the preparation and content of the Additional reports prescribed by the Croatian Financial Services Supervisory Agency.

The Management of the Company approved these financial statements on 29 April 2019.

On behalf and for Adriatic osiguranje Plc.:

GORAN JURIŠIĆ
President of the Management Board

NINO PAVIĆ
Member of the Management Board

DANIJELA ŠABAN
Member of the Management Board

ADRIATIC 1 osiguranje d.d. ZAGREB

Adriatic osiguranje Plc.
Listopadska 2
10000 Zagreb
Croatia
29 April 2019

NON-FINANCIAL REPORT

Introduction

Under Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 and Article 21.a of the Accounting Act (OG 78/15, 134/15 and 120/16), large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the previous business year shall publish a non-financial report.

A non-financial report should contain information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. A description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented and the outcome of those policies should also be published.[1]

The matters to be included in a non-financial report are related to the existing circumstances of the company, taking into account specific situations and sectoral issues. On the basis of an analysis of the relevance of information, the company assesses which information is material for an understanding of its development, performance, position and impact.

As regards environmental matters, the non-financial report should contain details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on health and safety, the use of renewable and/or non-renewable energy sources, greenhouse gas emissions, water use and air pollution. As regards social and employee-related matters, the information provided in the report may concern the actions taken to ensure gender equality, implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety at work and the dialogue with local communities, and/or the actions taken to ensure the protection and the development of those communities. With regard to human rights, anti-corruption and bribery, the non-financial report could include information on the prevention of human rights abuses and/or on instruments in place to fight corruption and bribery.[2]

[1] Accounting Act. (OG 78/15, 134/15 and 120/16), Article 21.a, paragraph 1.
[2] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, recital (7).

Operations and position

About the Company

Adriatic osiguranje Plc. Zagreb (hereinafter: Adriatic, the Company) was established in 1991 with private capital provided by Croatian citizens. Under the decision Tt-95/618-4 of 25 March 1996, the harmonization of the Company's general bylaws with the Companies Act was entered in the register. The Company's share capital amounts to HRK 50,000,000 and is divided into 125,000 shares, each in the nominal amount of HRK 400. All shares are ordinary and registered, each entitling holders to one vote at the Company's General Assembly. They were issued in book entry form and fully paid, and are kept in the register of shares of Central Depository and Clearing Company Inc. The shares were quoted on the Zagreb Stock Exchange in April 2007, and are currently traded in the Regular Market.

In 2018, the Company's shares were traded at an average price of HRK 2,863.40, which price is 7.16 times higher than the nominal value of a share. In 2018, the movement of the share price was stable. The lowest price amounted to HRK 2,500.00, and the highest HRK 3,300.00.

The ownership structure of the Company consists predominantly of domestic natural and legal persons and domestic financial institutions and companies, unlike the majority of other insurance companies in Croatia that are owned by international financial groups. Therefore, the Company has complete freedom and independence to operate according to the standards of the Croatian insurance system and, in doing so, it has an opportunity to be a significant factor in the development of the domestic economy. According to the size of its premium income, Adriatic osiguranje Plc. today belongs to the group of leading Croatian insurance companies. In 2018, the Company ended the year with a premium income of HRK 662.49 million, taking the sixth (6) position in the overall insurance market and the third (3) position in the non-life insurance market in the Republic of Croatia.

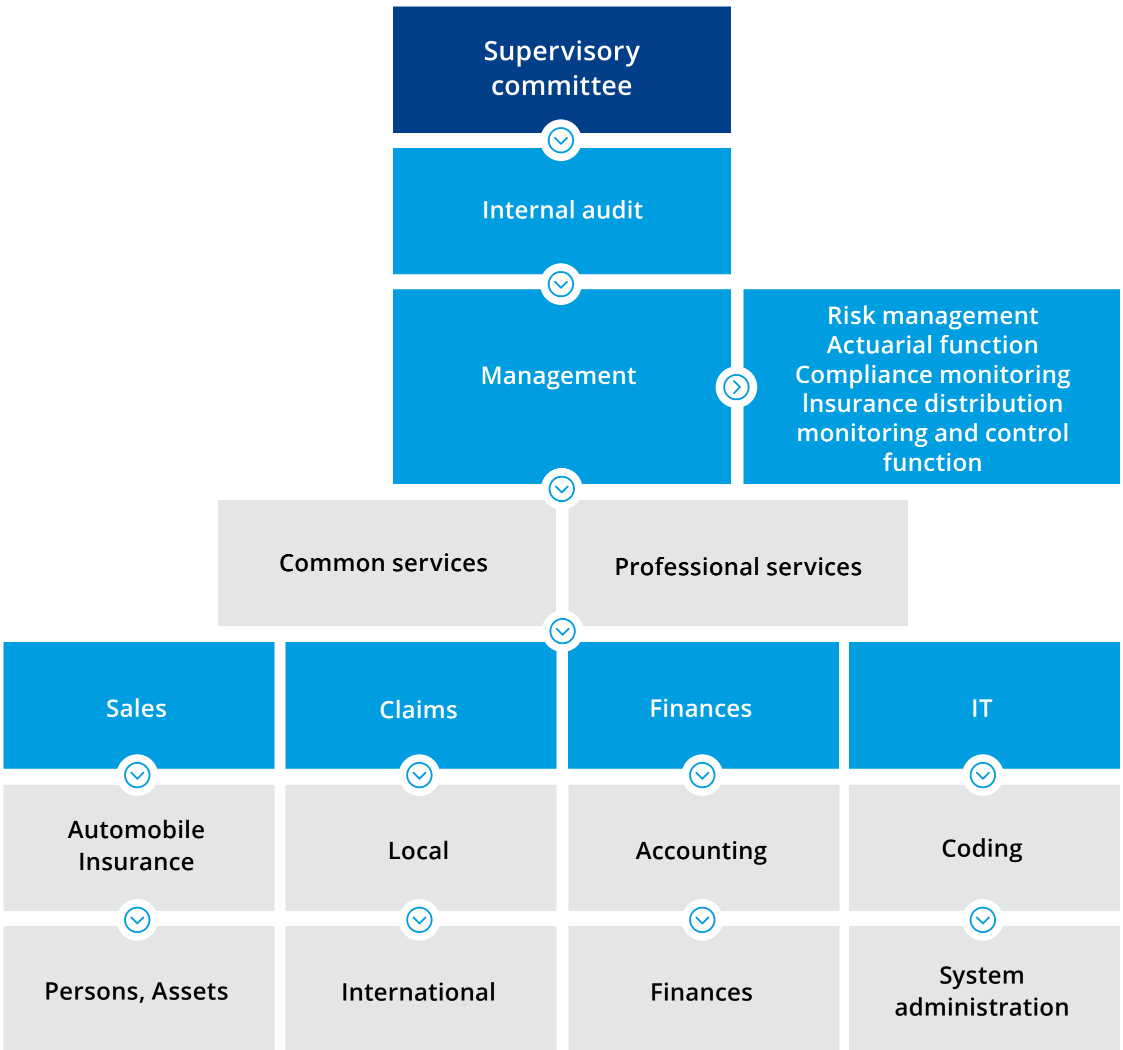
Organisational structure of the Company

The Company operates on the territory of the Republic of Croatia, with the Directorate in Zagreb and nine branch offices located in Split, Šibenik, Zagreb, Osijek, Rijeka, Koprivnica, Pula, Sisak and Dubrovnik, acting as centres for their respective business areas. The Company applies a centralised approach to business planning, management and control through a sectoral approach, while operational actions are undertaken at the level of branch offices as independent organisational units.

The organisational structure of the Company is a combination of functional and territorial organisational structure, all for the purpose of faster and easier coordination of business activities. The Company operates through four organisational units, i.e. sectors with clearly defined, transparent and consistent lines of authority and responsibility:

- Sales Sector
- Claims Sector
- Finance and Accounting Sector
- IT Sector

The sectors are managed by sector directors, while specific expert groups of tasks in a sector are managed by sector executive directors. All sectors have their own organisational structures that spread vertically down to branch offices. Branch offices are headed by directors and, in line with the sectoral structure, departments organised within branch offices are headed by directors or heads of departments.



Organisational structure of the Company

The above shown organisational structure of the Company fully complies with the requirements for an efficient and reliable system of governance, better operational efficiency, clearer organisation and improved quality of the management of risks the Company is exposed to or could be exposed to while conducting its business operations. In addition to the sectors, the Directorate also includes professional services that cover the tasks of receiving consumer complaints and marketing.

In accordance with the regulatory solvency requirements and provisions of the Insurance Act (OG 30/2015, 112/2018), the Company, within its system of governance, integrated into its organisational structure the following key functions: risk management function, compliance monitoring function, internal audit function, actuarial function and insurance distribution monitoring and control function.

Persons who possess professional qualifications, knowledge and experience that comply with the requirements and criteria prescribed by the Insurance Act and HANFA's Ordinance on the conditions for performing the key function in an insurance undertaking are appointed as key function holders.

Activity of the Company

Under the licence issued by the competent authority (hereinafter: the Agency, HANFA), the Company is currently pursuing the following non-life insurance activities:

1. accident insurance
2. health insurance
3. motor vehicle insurance
4. rail vehicle insurance
5. aircraft insurance
6. vessel insurance (sea, river, lake and canal vessels)
7. insurance of goods in transit, including merchandise, baggage, and other goods
8. insurance against fires and natural disasters
9. other types of property insurance
10. motor vehicle liability insurance
11. aircraft liability insurance
12. vessel liability insurance
13. other types of liability insurance
14. credit insurance
15. warranty insurance
16. miscellaneous financial loss insurance
17. travel insurance.

The core activity of an insurance company is to underwrite and manage risks in such a way that the sums agreed for coverage of loss are settled based on insured event. In addition to insurance risks, significant risks for the Company arise from its investment business function, which it is obliged to perform for insurance purposes and to fulfil its responsibilities. The risks to be considered by the Company are:

1. underwriting risk
2. market risk
3. credit risk
4. operational risk
5. liquidity risk
6. concentration risk
7. strategic risk or business environment risk
8. reputation risk

Insurance market in 2018

The breakdown of the global insurance premium shows that Asia is the largest global insurance market with a 33% share in the total global premium, while North America holds 31%, Europe 30%, and South America, Oceania and Africa 6%.

In 2017, the share of the Croatian insurance industry in the total global premium was 0.03% and, based on the amount of insurance premiums, the Republic of Croatia is ranked 65th in the world. On the other hand, the Croatian insurance market has a 0.10% share in the European insurance market.

As part of the financial system, insurance companies are important financial institutions and institutional investors. The importance of insurance companies in the financial system is reflected in the share of assets of insurance companies in the assets of all financial institutions and the share of insurance savings in the household sector as the sector which has a surplus of funds.

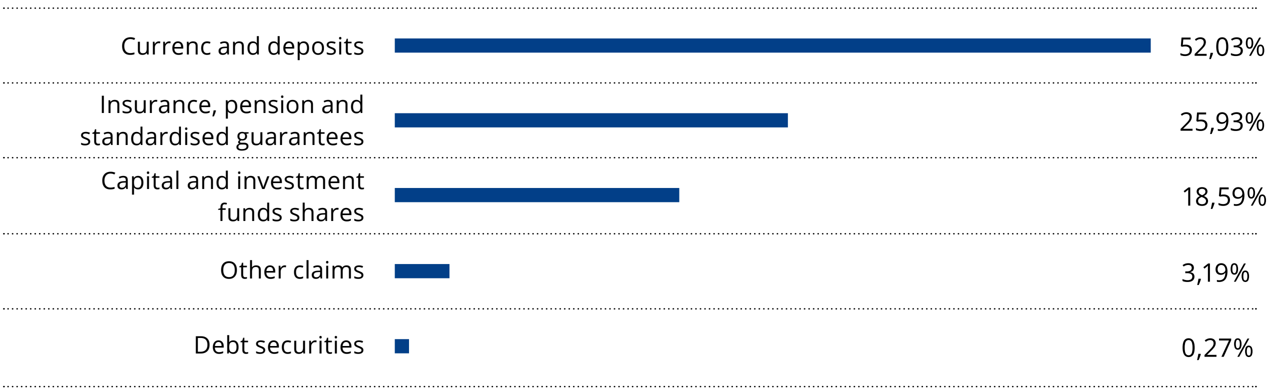
The Croatian financial system is bank-centric and characterised by the dominant position of banks, which hold a 69% share in the total assets of all financial institutions. Insurance companies hold a 7% share and, together with mandatory pension funds holding a 16% share, represent the most significant institutional investors in the financial system of the Republic of Croatia.

Financial system	Assets	Assets share
Banks	416.437	68,78%
Mandatory Pension Funds	98.126	16,21%
Insurance Companies	41.940	6,93%
Leasing Companies	19.531	3,23%
UCITS Investment Funds	19.117	3,16%
Voluntary Pension Funds	5.139	0,85%
Alternative Investment Funds	3.728	0,62%
Factoring Companies	1.411	0,23%
TOTAL	**605.429**	**100,00%**

Source: CNB, HANFA

The assets of insurers in the financial sector are slowly but steadily increasing. In 2007. the assets of Croatian insurers amounted to HRK 22.4 billion or 5% of the total assets of financial institutions, while at the end of 2018 it amounted to HRK 41.9 billion or 7% of the total assets of financial institutions. Within the structure of savings of the household sector, as another indicator of development and representation of insurance companies in the financial system, insurance companies and the assets in pension funds have a share of 24%. This would indicate that out of HRK 100 of financial assets of an average citizen of the Republic of Croatia, HRK 24 has been invested in insurance and pension funds.

The structure of financial assets of the household sector points to the need for encouraging the development of long-term voluntary specific-purpose savings. Not taking into account the assets of mandatory pension funds, voluntary pension savings and long-term specific-purpose savings in general are under-represented in the household sector. As regards such savings, a key role should, as in other parts of the world, be played by insurance companies.



Financial assets of the household sector in the Republic of Croatia in 2018, percentage

Insurance market characteristics

At the end of 2018, a total of 20 insurance companies with their registered office in the Republic of Croatia were active in the insurance market. Out of the total number of insurance companies, 4 companies were performing exclusively life insurance activities, 7 companies exclusively non-life insurance activities, while the remaining 9 insurance companies were performing both life and non-life insurance activities.

At the end of 2018, there were 8,602 employees in insurance companies (in 2017 8,723). In this period there were 36 thousand employees in the financial sector, and employees of insurance companies accounted for 24% of all employees. In view of the total number of employees, insurance companies also represent a significant player in the financial and economic sector.

Premium structure

According to cumulative data of the Croatian Insurance Bureau for December 2018, the gross written premium of insurance companies amounted to HRK 9,855,629,571, which is an 8.83% growth compared to December 2017. In the group of non-life insurance, which represents 68% of the total premium, the gross written premium amounted to HRK 6,721,438,304, which is 9.9% higher compared to December 2017. An average premium in mandatory insurance of owners or users of motor vehicles against third-party liability amounted to HRK 931.68 kn, which is 0.8% higher compared to the same period in 2017, when it amounted to HRK 924.27.[3]

There were no significant changes in the structure of the premium income of insurance companies in the Republic of Croatia at the end of 2018. The largest share of 25.7% is still held by life insurance, and it is slightly higher than in the previous year (in 2017 24.5%). The share of motor third party liability insurance is still in decline, which is primarily a result of the market liberalization process. The third position is still held by all-risks insurance for motor vehicles with 10.6%, followed by other types of property insurance with 7% and insurance against fires and natural disasters with 6.6% share. Other types of insurance have a share below 6%, among which health insurance with a 5.3% and accident insurance with a 4.9% share in the total premium income should be noted.

Structure of claims

In the structure of claims paid per amount, the leading position is held by life insurance with 37% (in 2017 36%), while motor vehicle liability insurance has 20%, motor vehicle insurance 13% (in 2017 12%), other property insurance 8% (in 2017 8%), insurance against fires and natural disasters 4% (same as in 2017), and other types of insurance have a lower share.

Business performance of the Company in 2018

Position	2017	2018	Index 18/17
Total assets per employee	2.617.900	2.692.645	102,9
Charged premium per employee	791.771	857.040	108,2
Net profit per employee	57.041	79.424	139,2
Net profit per share	341,79	491,16	143,7
Price earnings ratio	11,97%	17,01%	170,0

In 2018, Adriatic osiguranje again defined its objectives according to the general market situation, taking into account the reversal of negative trends in the non-life insurance market. The Company generated a net profit of HRK 61,394,541 in the reporting period, which is an increase of 43.70% compared to the same period in 2017.

The business year 2018 brought a certain degree of stability

[3] Publication: Insurance market result for 2018 (Insurance Market in the Republic of Croatia for December 2018, www.huo.hr)

in the non-life insurance market, which recorded growth after a number of years. On the other hand, the life insurance market also recorded a growth, but to a lesser extent than non-life insurance, while the overall insurance market posted an 8.83% growth. As regards the structure of the gross written premium in 2018 in the non-life insurance market in Croatia, motor vehicle insurance - all-risks insurance, accident insurance, motor vehicle liability insurance and roadside assistance insurance represent the most significant share amounting to as much as 56.66%. The share of this premium has decreased by 0.3% compared to the same period of the previous year.

In 2018, the Company generated income from gross written insurance premiums in the amount of HRK 662,491,637, which is 11.7% higher compared to the same period of the previous year. The gross written premium growth in the absolute amount of HRK 69,455,307 was primarily generated by premiums paid for:

- motor vehicle insurance, in the amount of HRK 26,757,835
- motor vehicle liability insurance, in the amount of HRK 22,896,402
- insurance against fires and natural disasters, in the amount of HRK 2,188,353
- other property insurance, in the amount of HRK 10,045,125
- accident insurance in the amount of HRK 6,410,572.

Such motor vehicle insurance growth is a result of continuous efforts by the Company to improve sales, but also of changes in the market that resulted in higher prices of competitors, which led to a higher total market value and, consequently, to a higher average premium in this insurance segment.

In the structure of the gross written premium, the Company realises the most significant premium by underwriting the following risks:

- motor vehicle liability insurance (2018: 51.88%, 2017: 54.10%)
- accident insurance (2018: 12.00%, 2017: 12.32%)
- motor vehicle insurance (2018: 16.38%, 2017: 13.79%).

Compared to 2017, the above-listed most significant underwritten risks in the total gross written premium recorded a decline, namely in motor vehicle liability insurance (-2.22 pp), accident insurance (-0.32 pp), while on the other hand the share of motor vehicle insurance grew by 2.59 pp. In 2018, a total of 1,038,533 insurance policies were concluded, of which 50.62% pertain to mandatory motor third party liability insurance.

As already indicated above, the income from gross written insurance premiums grew by 11.7%, while earned premiums (premiums minus written premiums ceded to reinsurers, value adjustments and charged value adjustments of insurance premiums and changes in unearned premiums) amounted to HRK 609,997,644, which is 10.22% higher than in 2017. The total other income realised in 2018 amounted to HRK 627,448,004, which is 7.43% higher than in 2017.

With a total written premium of HRK 662 million and a market share of 9.86%, the Company advanced from the fourth place in the Croatian non-life insurance market in 2017 to the third place in 2018.

In 2017, the Company acquired shares in the company Tehnomobil nekretnine d.o.o. and in 2018 shares in the company Autocentar Vrbovec d.o.o. Through these acquisitions the Company acquired a 100% share of ownership.

At the end of 2018, the Company went through a rebranding phase, including changing its name, so that the Company will in the future operate under the name Adriatic osiguranje Plc. In 2019, the Company plans to take a new step forward in expanding its business operations and offer insurance products on European markets as well. The Company will begin its European journey with the market of the Republic of Italy. The headquarters of the Italian branch office will be in Trieste, where the Company purchased a building on a prestigious location in the city centre. The Company's primary goal in expanding its business operations into the Italian insurance market is the growth, development and stability of the Company's business operations, at the same time aiming to establish itself as a serious insurance market player in Italy.

Other business results of the company

In the structure of total income, which in 2018 amounted to HRK 696,033,241, the share of the gross written premium is 95.18%. The remaining share of income is made up of financial income from loan placements, investments in deposits, bonds, real estate and other financial instruments. Under its investment policy, the Company applies a conservative approach and the principles of safety, profitability, liquidity and dispersion and, as a result of such investment policy, the Company invested most of its available funds into real estate.
The Company's total expenditure in 2018 amounted to HRK 634,638,700. The costs of claims paid and operating expenses represent the most significant share in the expenditure.

At the end of 2018, the cost of claims paid amounted to HRK 268,385,058, which is HRK 60.49 million or 29.1% higher compared to the same period of the previous year. The average value of a claim paid in 2018 amounted to HRK 8,475, while in the same period in 2017 it amounted to HRK 8,861, which represents a 2.85% decrease in the average value of a claim paid. The changes in claims reserves increased by HRK 34,379,481 compared to 2017. As regards other expenditure, the largest increase was recorded in the group of acquisition costs, depreciation costs, and costs of salaries, taxes and contributions to and from salaries. These expenses increased by HRK 14.5 million or 5.25% compared to 2017. The total expenditure incurred in 2018 amounted to HRK 583,946,194, which is 15.15% higher than in 2017. At the end of 2018, the Company realised a positive result in terms of the ratio of other income and expenses, which amounted to HRK 43,501,810.

Investment performance

At the end of 2018, the Company realised a positive result from investments in the total amount of HRK 48,796,752, which represents a 166% growth compared to the previous period. The primary reason behind the increased investment result compared to the previous period are realised and unrealised losses from investments in financial assets, i.e. shares of the companies within Agrokor Group in 2017. In 2017, the Company generated total realised and unrealised losses in the amount of HRK 20.04 million from investments in shares of the companies within Agrokor Group. Out of the overall achieved positive investment result in 2018, realised investment income and expenses amounted to HRK 52,782,186 and unrealised investment income and expenses amounted to HRK -3,985,433. Out of the overall achieved investment result in 2018, the yield realised through investments in loans accounted for 44.1%, while 33.5% of the yield was realised through investments in real estate, 12.9% through investments in equity securities (shares and business shares) and 8.4% through investments in state and corporate bonds.

In 2018, the Company realised an average total yield on investments at the level of 3.2%. The Company realised the best total yield of 6.0% on investments in corporate bonds, followed by 5.2% on investments in loans, 4.6% on investments in state bonds and 3.6% on investments in real estate. The lowest yield was realised on investments in investment funds, where a negative yield of 2.8% was recorded in 2018. Investments in shares and business shares with the yield of 1.0% and deposits with credit institutions with the yield of 1.9% generated yields lower than the Company's average total yield on investments.

Strategic objectives of the Company

In the following periods the Company will continue to strive to increase its market share and profit. The Company will carry out the activities necessary to enhance the Company's competitiveness in the global market and create an image that policy holders can recognise and differentiate from others. The Company implements an image strategy focused on achieving excellence and strengthening relations with all its key segments, primarily with its policy holders, business partners and employees. Furthermore, the Company is implementing a profit maximisation policy, taking into account stability and development as well as alignment with the Company's interests. Taking account of the existing potentials, the Company decides on the use of insurance products for the purpose of implementing the long-term growth and development strategy, as well as achieving the set objectives, primarily in terms of satisfying the needs and interests of policy holders and increasing investments, market share, profit and stability, as well as improving its own reputation. In 2016, the Company updated its 2014 business strategy for the purposes of the upcoming five-year period by adopting the Adriatic osiguranje Plc. Business Strategy 2016-2020. The main strategic objectives of the Company are as follows:

1. Achieve positive financial results

The possibility of achieving positive financial results in the current market conditions remains primarily in the area of rationalisation of business operations and cutting costs, as well as in the area of additional work productivity and optimisation of tasks by workplace. In view of the declining market of motor third party liability insurance, which is the most significant product in the portfolio structure, special attention will be devoted to cost management, taking account that costs follow movements in the premium.

2. Achieve planned sales targets

One of the main objectives of the Company is to maintain and increase its market share in the total gross written premium in the Republic of Croatia. The sales plans are set on the basis of new Terms and Conditions and a new price list for motor third party liability insurance, but their realisation will to a large extent depend on overall market trends, as well as actions taken by competitors. The opportunities for positioning the Company in areas where it is not sufficiently present should be utilised, while continuous monitoring of clients' needs and development of new products should be used to stay one step ahead of the competition. The quality work of other sectors, primarily the Claims Sector, can and should have a positive effect on the satisfaction of policy holders and the Company's image. The development of new technological solutions will create further competitive advantages.

3. Develop relations with clients and business partners and strengthen marketing activities

High-quality and continuous relations with clients represent one of the key preconditions for the Company's further growth, so special attention is given to the satisfaction of policy holders, and they are in the focus of all the Company's activities. Adriatic's good position in the Croatian insurance market is the result of good business policy and conduct in all business operations, as well as of carefully selected marketing and PR activities aimed at informing policy holders about novelties in all business segments, and socially beneficial actions aimed at supporting them in those segments where it is most needed (e.g. children's safety in traffic). Such and similar actions will continue to be carried out in the future.

4. Continuous investments in the Company's human resources and motivation of our employees

The professional training and motivation of employees is a key precondition for achieving the set business objectives. The fact that the Company keeps up with the modern trends is reflected in this segment as well; namely, the Company organised a special education and training system for its employees, so that they be prepared to professionally respond to all market challenges and that their performance can be properly evaluated.

5. Maintain claims processing efficiency

The Company's permanent goal is to maintain or increase the claims processing efficiency above 75%, regardless of the predominant share of motor vehicle insurance in the portfolio structure. Through better organisation of the Claims Sector and use of new technologies, the aim is to raise active processing and payment of claims to a higher level and reduce processing costs, raise the quality of services provided to injured parties, achieve transparency in payment of fees and increase the level of satisfaction of injured parties. Endeavour to amicably solve as many claims as possible. In order to reduce the number of lawsuits, suggest mediation to the injured parties, which is performed by the Mediation Centre. Fully align the claims processing and payment process with internal regulations and strictly comply with deadlines for solving claims stipulated by law.

6. Development and maintenance of own IT solutions

One of the Company's strategic characteristics is to develop IT solutions based on own experience, which are aimed at providing maximum support and competitive advantage in the market. The integration of development solutions with IP telephony systems, DMS systems and others will contribute to faster performance of business activities. The quality of data entry will be further improved by applying the principle of one-point data entry, which will serve as the basis for developing B1 tools that will contribute to more quality business decisions. It is planned to raise the business intelligence and data warehouse system to a higher level in order to introduce tools of statistical analysis and predictive analytics that would be applied in business operations, not only in the reporting segment, but also in the segment of transaction databases, i.e. software that uses them, such as the claims processing software with special emphasis on fraud prediction, the application Neo for drafting policies with special emphasis on policy holder behaviour prediction, etc.

7. Develop IT infrastructure

The continuous development of the Company's business operations must be based on quality ICT infrastructure. The more relevant developments related to IT infrastructure that occurred in the previous period are listed below.Due to age-related deterioration of the data storage system, as well as increasing demands concerning the speed of data processing, it was decided to procure a new data storage system. The IBM Storwize data storage system was installed, and migration of all servers from the old to the new storage system was performed. In 2017, the Company established a remote location with the backup data centre and data recovery was successfully tested. In 2018, the link between the primary and secondary location was established by using a 1 GB optic cable, which significantly increased the data transmission speed and decreased the risk of data loss due to transmission errors. Under the project of single POS terminals, we replaced the banks' POS terminals with our own POS terminals. This resulted in improved business process of acquiring insurance, increased workplace tidiness and lower costs of commission fees for payments over POS terminals. The integration of POS terminals and of the sales application eliminated the need for manual entry of payment data, thus reducing the processing time and minimising the probability of error. The need for corrections of funds for payment has been significantly reduced. Additionally, better control of transactions between banks and the Company has been established. There are currently 405 fixed POS terminals. The project will continue to be implemented in 2019 by installing 30 mobile POS terminals.As part of consolidating the hardware infrastructure, it was required to install new SAN switches. The existing switches are operating in redundant mode, i.e. if one malfunctions, the other takes over the entire traffic. The level of reliability is quite high in this respect. However, considering the age of those devices (more than 10 years), replacement was advisable. Moreover, the existing switches have a limited throughput (4 GB) which can no longer keep up with the demands of other hardware (8 GB throughput of storage and servers).

The HP Brocade switches with a 16 GB throughput are installed. In addition, the Company is continuously replacing outdated computers that no longer meet the requirements placed before them in terms of faster and higher-quality performance of business activities.

8. Continuous control of internal procedures and business processes

The Company is continuously working on improving and applying internal procedures in all sectors, not only for the purpose of complying with the regulatory requirements, but also for the purpose of complete supervision of business operations and improvement business processes.

9. Follow a conservative investment policy

Follow a prudent and conservative policy of investing in real and solid assets in accordance with legal options and restrictions, taking into account their profitability, availability and liquidity, so that the Company can always fulfil all its obligations.

10. Solvency II

The active realisation of all processes related to implementing Solvency II requirements and coordination of all organisational units within the Company, so that the Company complies with all requirements prescribed under Solvency II.

Risk management

The Company has established and implements an effective and reliable governance system. It has established effective key functions (the risk-management function, the compliance function, the internal audit function and the actuarial function), as well as the risk management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and prepare reports on a continuous basis about the risks to which the Company is or could be exposed in their business operations. When performing its activity, an insurance company is exposed to a great number of various risks in external and internal environment, which reference works classify as a series of business risks that need to be recognised, supervised, monitored and managed

Pursuant to the Insurance Act (OG No. 30/15, 112/18) and the Ordinance on the risk management system, the Company has aligned its business operations, strategy and organisation, and has adopted policies and procedures in accordance with the provisions of the said Act and Ordinance.

Taking into consideration the size of its assets, the profit it generates, as well as the ethical principles and legal regulations, the Company stipulated and adopted the Risk management strategy, procedures and policies for individual risk management, that define a strict and efficient risk management within the Company, as well as risk control, all for the purpose of maintaining the stability of the Company and achieving a growing and positive financial result.

The Company adopted the following policies and internal acts with regard to risk management:

1. Insurance Risk Management Policy
2. Market Risk Management Policy
3. Credit Risk Management Policy
4. Operational Risk Management Policy
5. Insurance Risk Management Policy
6. Liquidity Risk Management Policy
7. Concentration Risk Management Policy
8. Strategic Risk Management Policy
9. Reputational Risk Management Policy
10. IT Risk Management Policy
11. Business Continuity Plan.

The Company identified the risks to which it is exposed

in its business operations, and accordingly specified individual events that may cause a risk event, determined the ability to bear a particular type of risk, and clearly defined the roles and responsibilities in the risk management process, current and planned measures, as well as the methods and deadlines for reporting on these matters.

Within the framework of its risk management policies, the Company has defined its business operations by way of individual business processes in order to be able to identify, analyse, monitor and introduce control procedures in the management of risks to which the Company is or could be exposed. Pursuant to primary and secondary legislation, internal procedures and rules, a s well the official decisions and circulars of the Company relating to a particular process, the Company defined the following business processes:

1. process of acquiring AO insurance
2. process of acquiring insurance (excl. AO)
3. commissions process
4. unearned premium calculation process
5. reinsurance process
6. claims process
7. claims provision process
8. real estate investment process
9. loan investment process
10. process of investing in bank deposits, investment fund shares, debt and equity securities.

Within each business process the Company has defined its process steps, identified potential risks to which the Company is or could be exposed in an individual business process and stipulated preventive and detective controls i.e. measures for limiting the identified risk.

In the risk management procedure the Company is guided by the following principles:

1. The principle of the capacity to assume the risks

Each assumption of risk must be within the limits of the Company's capacity to assume the risks concerned.

2. The principle of the integrity of the risk management system

The system is all-encompassing if it covers all Company activities and organisational units relevant for the risk-management system.

3. The principle of effective communication and information flow

The information flow within the Company has to go both ways. The management levels must have access to information pertaining to adoption of business decisions and risk management decisions, whereas employees must have a sufficient level of awareness and knowledge in order to identify a particular risk.

4. The principle of the separation of powers and tasks among all employeesa:

It is important to clearly separate the responsibilities and tasks for the purpose of limiting and preventing conflict of interests.

5. The principle of qualified employees

Employees must have the specific skills and experience in order to perform their tasks successfully. Continuous professional development results in the improvement of personal business skills necessary for successful fulfilment of increasingly complex demands of a professional career.

Organisational structure of the Company was set up by applying a clear separation of powers and responsibilities in risk management and by means of an internal control system. Organisational structure of the Company is divided from the managerial level to the executive level, thereby ensuring the operational and organisational separation of the front office function from the back office function and the risk control function.

The Supervisory Board is aware of the nature and overall level of risks to which the Company is exposed in its business operations. The Company Supervisory Board is also aware of the Strategy, all risk management policies and the organisational structure of the Company.

The Company Management Board ensures the establishment of an effective risk management system by way of the organisational set-up, establishment of the separation of powers and responsibilities, ensuring the appropriate level of available competencies, establishment of the internal control system, ensuring regular review of the adopted internal acts and establishment of the organisational culture. The Management Board is responsible for the approval of individual risk management policies. The Management Board Member responsible for the risk management process is also responsible for the implementation of the Risk Management Strategy.

The Company's senior management (sector directors) answers to the Management Board, particularly with regard to the implementation of the Risk Management Strategy, policies and other internal acts, as well as with regard to the maintenance and improvement of the efficiency of the internal controls integrated in the risk management system in order to meet business objectives. Within the organisational structure of the Company there is a place for a risk manager, whose function is to manage and control risks. The risk manager is responsible for regular, timely and accurate reporting to the Management Board of the Company. The Company's Risk Department is responsible for the implementation for the Strategy in business processes and for the development of policies and other internal acts related to risk management. Risk Department closely cooperates with the personnel from the Finance and Accounting Sector, Sales Sector, Claims Sector and IT Sector in charge of identifying risks and monitoring controls within the individual sectors of the Company.

The risk manager continuously monitors the data on identified risks, analyses the data, develops the automatic monitoring software in cooperation with the IT Sector, and reports, on a semi-annual basis, to the Company's Management Board on the Company's exposure to individual risks. The report contains basic data for each individual type of risk:

1. Information on the occurrence of the risk
2. Material quantification of the possible impact of the risk on the Company's profit and business operations
3. Measure proposals for mitigating or avoiding the risk

The actuarial findings are reported to the Management Board when necessary, but at least once a year the appointed certified actuary submits a report enclosed to the planned reinsurance programme, and provides an opinion enclosed to the annual report and the report on the findings of the supervision he/she carried out in the previous business year pursuant to Article 68, paragraphs 1 and 2 of the Insurance Act.

Human resources

In the business world there are certain rules of behaviour i.e. business culture which is a very important, and sometimes even deciding factor in achieving success. Business culture is defined as a system of behaviour, knowledge and skills, values and symbols that are generally accepted in the business world and that are transferred by communication. Business culture implies business etiquette and ethical behaviour in terms of integrity, honesty, truthfulness and professionalism.
In this context the Company believes that employees are the main factor in business operations and recognises the key value of employees for the overall success of the company. Also, the Company is aware that each employee has private and individual business goals, and that a successful and satisfied employee contributes to the success of the company. Each person wants their work to be valued and, on the basis of that work, that they be valued and respected. Moreover, each successful employee wants the company where they work to be successful and that thereby its employees be valued both as on a collective and individual level.
With the aim to unify the approach of all employees and to improve business culture of all employees, the Company adopted the Code of Business that deals with the most valuable and most sensitive segments of business behaviour: business ethics, relations with clients and customers and mutual relations between employees as the fundamental prerequisites for good quality work. The knowledge of such matters is of great importance for each individual and for the company as a whole, because the aim of complying with these rules is the achievement of harmonious interpersonal relations and maximum satisfaction of clients and business partners.

The Company is aware that it operates as a part of the economic and social environment, and that as an integral part of that environment it must protect the rights and interests of its policy holders, debtors, shareholders, as well as the interests of employees, and to ensure transparency and regularity of its business operations. A company's reputation depends on the behaviour of its employees and each employee has an important role in the preservation of the reputation and good standing of the Company where they work, and should always be guided by the highest ethical standards.

Risk management

The Company has carried out and carries out various activities and has adopted several different policies and rules with the aim of minimising the risks that may arise from human resources, such as the risk of personal safety of employees, and all the way to the risk of (not) meeting the set business objectives.

Upon their employment, all employees are made aware of the culture and the expected standards of conduct in the Company and attend training sessions in order to learn about the basics of the insurance business. The Company has also adopted the document System, plan and programme of employee workplace safety training, pursuant to the requirements stipulated by the Occupational Safety Act, which document serves for the training of employees for work and training and informing employees on the types of hazards and adverse effects to which they are exposed during the work process.

Furthermore, special attention is given to the welfare of employees in terms of their health and satisfaction with work conditions by providing and making available preventive medical check-ups, use of restaurant, reimbursement of expenses for the transport to and from work, discount for the use of medical services in various medical institutions etc. Also, it is ensured that all employees work in high-level conditions in terms of the appearance and quality of work premises and use of modern equipment for performing the activities. The average number of annual leave days per employee in 2018 was 24 days.

The Company established internal procedures and rules dealing with the matter of responsible behaviour of employees in the workplace. The Company's activity is essentially based largely on working with people and clients and it is subject to most sensitive measurements. Reputational risk refers to the possibility of negative public perception of the Company, or subsequent identification of problems that may result in adverse consequences on the brand and corporative reputation. The Company manages the reputational risk well by a series of measures, and this is the reason why there are no substantial manifestations of the risk itself. The measures that are implemented with the aim of maintaining good repute imply the knowledge and understanding of the market and acting in accordance with the legal regulations and good business practices, education of employees on all levels, fostering good relations with the local community and general public, developing corporative values in employees, internal control, caring relationship with policy holders, planned information management by public relations and planned marketing activities.

The Company's main principles are the basis of all business processes and rules, and the Code of Business constitutes the central document to that regard. The Code of Business explains in more detail the Company's code of ethics, how the employees should deal with the clients, the market and their colleagues, how to treat confidential information, how to maintain the state of the work premises and how to behave during and after business hours. The Company's reputation is important for all employees and stakeholders. Therefore, the employees are told that it is inappropriate to spread, outside business hours and Company premises, false and malicious information that create a bad image of the Company, employees or business partners.

Human rights of employees

All employees are equal, regardless of their age, sex, religion, nationality or social status. All Company employees are aware that differences should be accepted in a tolerant manner and not to invade the intimate life and privacy of others.

The Company doers not tolerate abuse or violence of any kind. This means sexual and psychological and any other abuse or behaviour expressing a hostile attitude, disrespect, humiliation, threat, etc.

Employees are required to inform their superiors if there are any issues. If the issue cannot be resolved with the immediate superior, the employee may contact a higher level of authority as well as the competent services.
In the relations between the superiors and subordinates emotions must always be secondary to business interests, and business interests must always come before personal ones. It is expected from employees to take due notice of the comments to their performance. On the other hand, it is also expected from the superiors to commend the employees who deserve it. The injustice demonstrated by a superior towards a subordinate is dangerous and damaging, and so is exclusion. The superior has to be prepared to accept criticism and suggestions of a subordinate employee if substantiated and useful, and must be neither resentful nor revengeful. This manner of communication not only ensures that each person is respected, but at the same time it also enables greater motivation, security, trust and dedication of employees. In 2018, not a single labour dispute was initiated against the Company, whereas as at 31 December 2018 there were 4 ongoing legal disputes in total, but neither of them was related to issues involving mobbing or abuse at the workplace.

Behaviour in accordance with all aforementioned principles, and the principles stipulated by the Code of Business, is a professional and personal responsibility of all employees. It is expected that employees, in addition to complying with the aforementioned rules of behaviour, monitor if these rules are complied with in their work environment. If employees notice events and situations contrary to the principles, they are obliged to inform their superior. When they notice that their subordinate employees do not comply with the principles, the competent heads of individual organisational structures are obliged to react and warn their employees. The Code of Business is published in the Company business policy documents, as well as in printed form, and is therefore available to all employees at all times

Employee training

Considering its attitude towards the employees and the understanding of the significance of the potential they represent, the Company attaches great importance to employee training. The Company also recognised its large internal knowledge base and in 2017 it focused on internal training. In 2017, it launched the Training portal project that represents training by way of e-learning.

During 2018 the Company continued with the use of the training portal by way of e-learning and covered new topics:

1. Plan for a safe day: a module intended for the Insurance Sales Sector, with 496 employees participating
2. Package household insurance policies: 28 new employees selling this product took this seminar in 2017
3. Information security: new employees have to

take the seminar when opening an official e-mail address. 83 new employees took the seminar in 2018

4. GDPR Regulation: module intended for all employees covering the topic of personal data protection. 763 employees took this module in 2018.

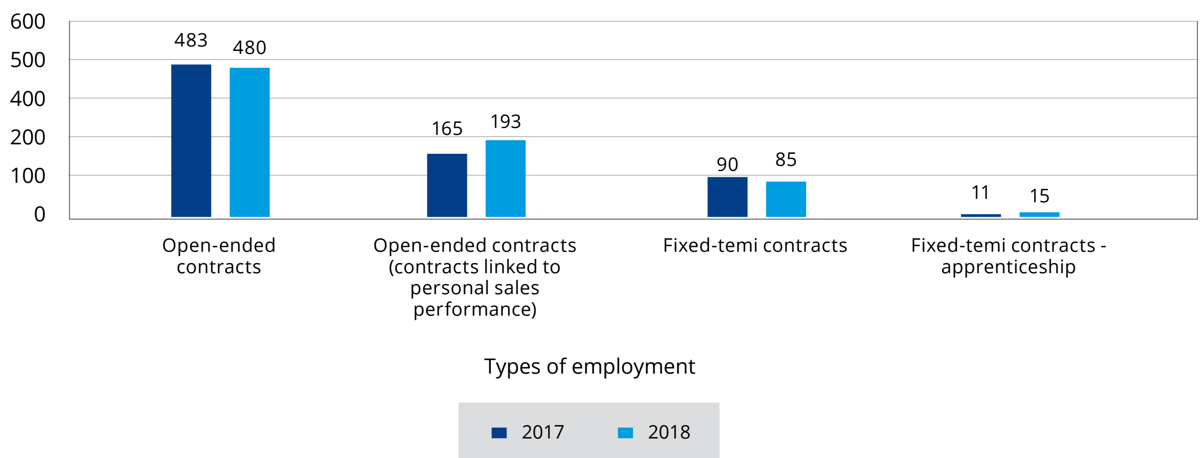
In 2018, the Company hired 83 employees, 80 of them in the Sales Sector. In addition to the aforementioned seminar modules, they attended expert seminars held in branch offices.

In 2018, the IT Sector continued holding the specialised Apex training. It deals with the Oracle technology that the Company decided to use to develop new application modules, and also gradually migrate the existing ones so that, in the future, it will also be able to meet all the demands of business users. 10 employees attended the training sessions.

The state of Company employees in 2018

As at 31 December 2018, the Company had 773 employees (2017: 749) of which 673 employees or 87% were employees with open-ended employment contracts (2017: 648 or 87%). The Company believes that employees should be offered security and many different opportunities in order for them to be able to build a long-term career without any obstacles and develop as professionals in their respective fields. As it can also be seen in the overview below, there is a certain continuity in maintaining the same level of (the same) employees.

In addition to the most important employment types set out below, in 2017 and 2018 the Company employed 10 disabled employees with open-ended employment contracts, and two i.e. four employees doing their apprenticeship.



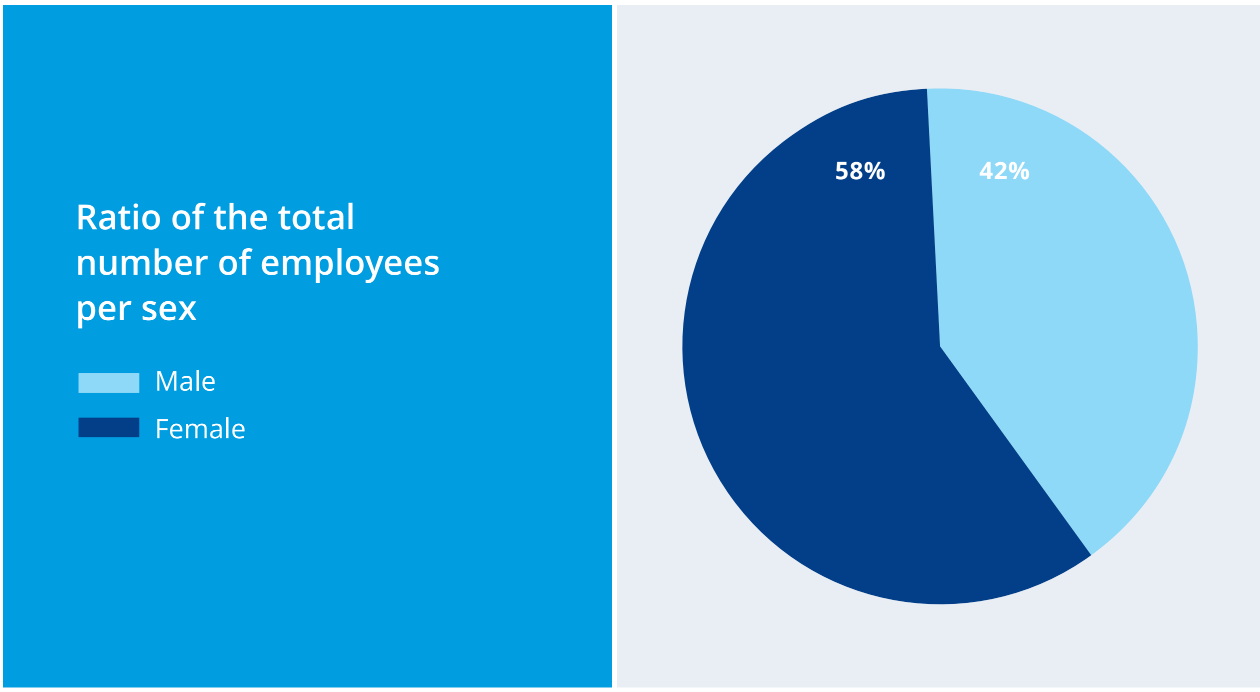
Overview of the development of the number of employees per most significant types of employment

When recruiting, the Company treats all candidates equally regardless of age, sex, religion, nationality or social status.

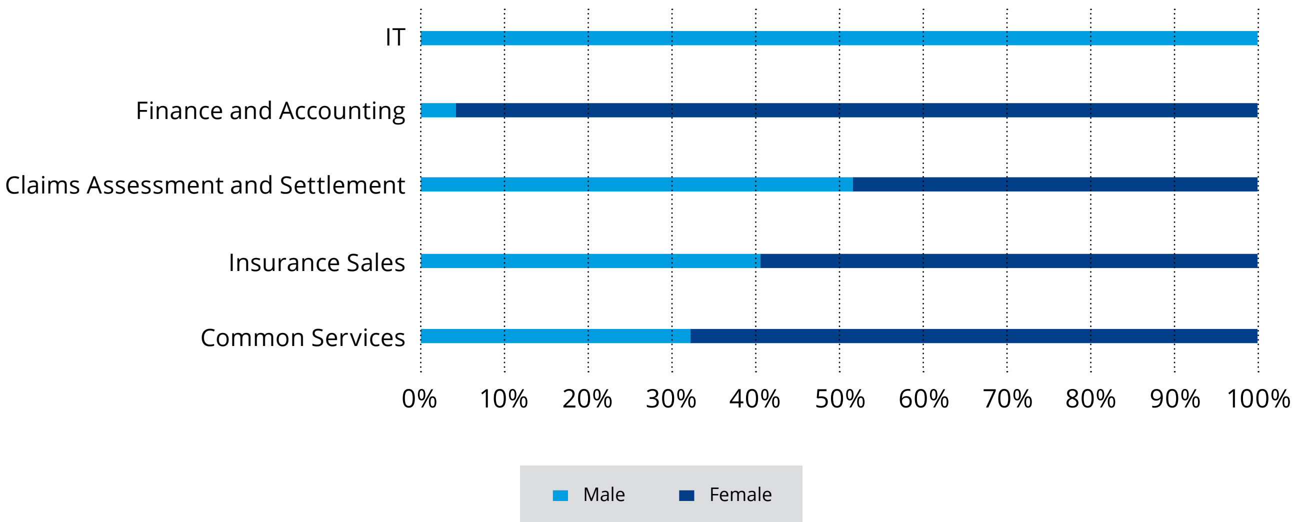
Overview of the number of the employees per age structure and sex																					
December 2018 (per sector)																					
	Total			Age groups																	
Sector	No. of employees			< 25		25-30		31-35		36-40		41-45		46-50		51-55		56-60		>60	
	M	F	Tot.	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Common Services	24	52	76	0	1	0	2	4	3	4	6	6	10	1	18	4	8	1	3	4	1
Insurance Sales	241	334	575	15	11	30	27	38	53	53	85	53	66	20	45	11	26	12	17	9	4
Claims Assesment and Settlement	37	34	71	0	0	1	3	3	2	10	10	7	9	7	1	4	4	5	5	0	0
Finance and Accouting	2	29	31	0	0	0	3	2	2	0	4	0	4	0	3	0	5	0	8	0	0
IT	20	0	20	0	0	0	0	4	0	7	0	5	0	2	0	1	0	1	0	0	0
TOTAL	324	449	773	15	12	31	35	51	60	74	105	71	89	30	67	20	43	19	33	13	5

Structure of employees per age group and sex, per divisions

As at 31 December 2018, the total structure of employees consisted of 58% women, and 42% men.

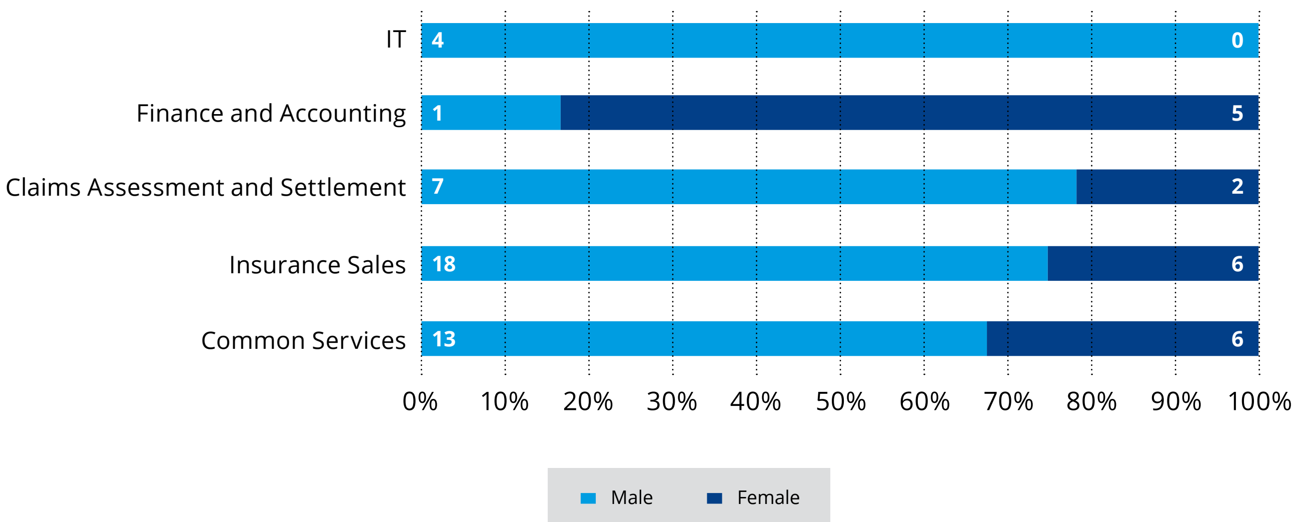


With regard to the share of sexes by Company sectors. Claims Assessment and Settlement Sector has almost the same number of male and female employees, followed in terms of male-female equal ratio by the Insurance Sales Sector. 68% of employees in the Common Services Sector are female. All 20 employees in the IT Sector are male, while, on the other hand, the Finance and Accounting Sector has 94% female employees (29 out of 31 employees in total).



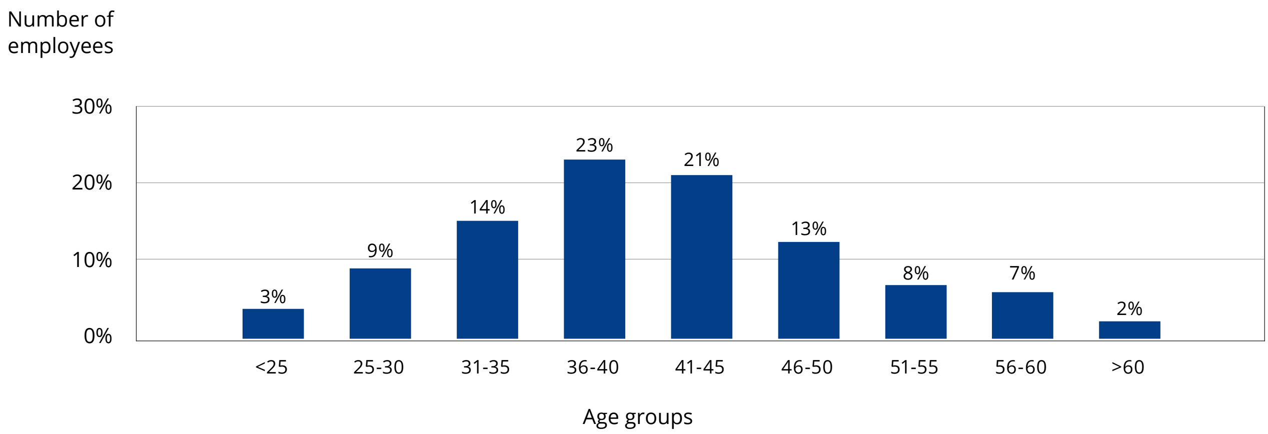
Structure of employees per sex and sector

The senior management structure in the IT Sector and the Finance and Accounting Sector is dominated by male or female employees, according to the structure of the sectors concerned. The Claims Assessment and Settlement Sector has equal shares of male and female senior management employees, corresponding to the overall structure of this sector. Male employees make up 75% of the senior management in the Insurance Sales Sector, as well as 68% in the Common Services Sector.



Senior management structure by sex and sector

As at 31 December 2018, 49% of employees were under the age of 40, while almost 71% of employees were in the 31-50 age group.

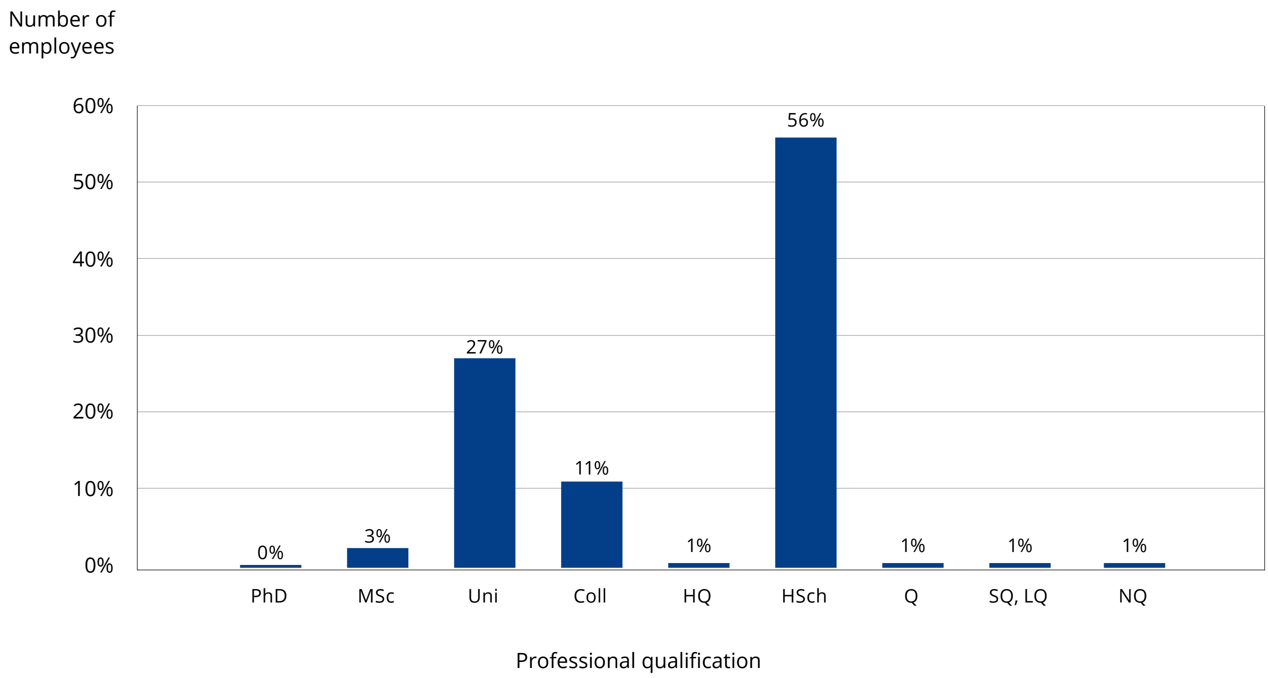


Number of employees per age groups

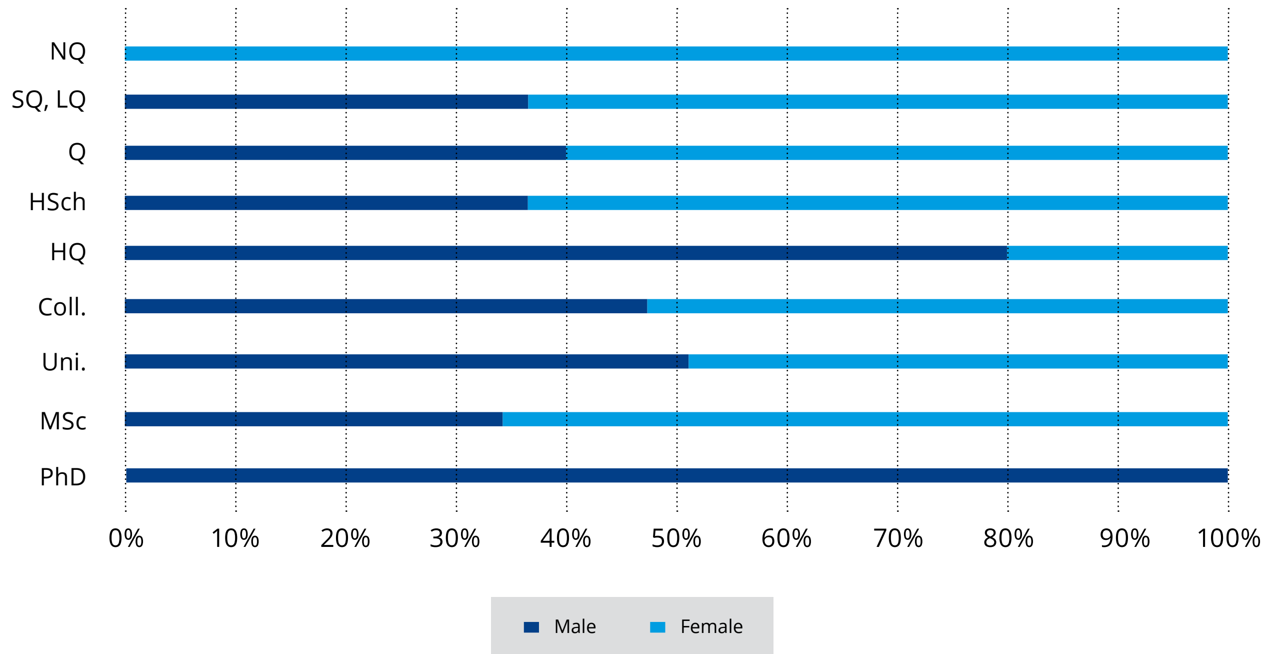
Overview of the number of the employees per professional qualification and sex																					
December 2018 (per sector)																					
Sector	Total			Complexity group - professional qualification																	
	No. of employees			Uni.-PhD		Uni.-MSc		Uni		Coll		HQ		HSch		Q		SQ, LQ		NQ	
	M	F	Tot.	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Common Services	24	52	76	1	0	1	3	12	8	1	2	2	0	7	30	0	2	0	4	0	3
Insurance Sales	241	334	575	0	0	9	4	58	71	29	34	2	1	137	219	2	1	4	3	0	1
Claims Assesment and Settlement	37	34	71	0	0	0	2	25	17	5	4	0	0	7	11	0	0	0	0	0	0
Finance and Accouting	2	29	31	0	0	1	5	1	5	0	4	0	0	0	15	0	0	0	0	0	0
IT	20	0	20	0	0	0	0	12	0	3	0	0	0	5	0	0	0	0	0	0	0
Total	324	449	773	1	0	11	14	108	101	38		4	1	156	275	2	3	4	7	0	4

Overview of employees per professional qualification and sex, per division

Out of the total number of employees, 209 employees or 28% have university degrees, 11% have college degrees, and 59% have some kind of a high school degree. Out of the employees with high school degrees, 83% are employed in the Insurance Sales Sector, and make up 62% of the employees in the said sector, while the rest of the sector is made up of 22% of employees with university degrees and 11% of employees with college degrees.



Number of employees per professional qualification



Structure of employees per sex and professional qualification

Ecology and corporate responsibility

Care for the environment and sustainable

Each year the Company renews the fleet and, when buying new vehicles, takes care to give preference to personal vehicles with lower CO2 emissions and lower fuel consumption. In 2018, the Company replaced 54 used personal vehicles with new vehicles. In 2019, the Company plans to replace additional 50 used personal vehicles in its fleet with new vehicles, thereby renewing 75% of the fleet within three years.

Project goal

- Replacing paper documents with electronic ones
- Easier manipulation
- Reduced costs
- Improvement of sales and debt transfer
- Improvement of billing processes

Methods

- Necessary hardware acquisition
- Digitalization of all insurance policies
- Digitization of all damages
- Bar codes on all issued documents
- Automatic recognition

During 2018., the Company digitalised approx. 2.5 mil. documents i.e. 93% more than in 2017. This digitalisation resulted in a significantly lower consumption of paper due to reduced printing and copying, which also contributed to reduced amounts of printing-related waste (toners). Digitalisation also improved business processes and reduced the costs of archiving; it also simplified and accelerated the insurance policy contracting process. The Company will continue with intensive activities in this area in the future. In 2018, the Company also started sending and receiving e-invoices, which will further increase the number of digitalised documents. The Company continues to invest in energy efficiency and reduction of electricity consumption. At the same time, attention is paid to the quality of the employees' working conditions. In 2017, a project was launched for the replacement of the equipment in the Company's restaurant with a more efficient source of energy: power was replaced by gas, and the project was completed in January 2018. This resulted in 23.25% of power savings in February 2019 compared to the same month of 2018. The Company also launched projects for the replacement and modernisation of elevators in order to save power, but the results will be visible only upon the completion of the modernisation.

In cooperation with the companies for disposal and recycling of waste, the Company disposed of nearly 5 tonnes of IT waste in 2018. During 2018, archival material was destroyed in accordance with the GDPR, and was disposed of in cooperation with certified waste disposal companies.

Plans regarding the operation and maintenance of waste water drainage facilities continue to be implemented, as well as the plan of measures in the event of extraordinary and sudden water pollution on Company sites.

Also, the Company offers its partners and potential partners the product named SOLAR, dealing with "clean" energy: insurance package (property risks, liability and business interruption due to fire) primarily intended for small/private solar energy producers; in addition, the Company also offers a special insurance package for wind farms.

Corporate responsibility

Adriatic osiguranje is a financial institution of public interest aware of its role and overall influence on Croatian society. Corporate values that the Company integrates in everyday business operations include not only business success but also care for people, environment and overall improvement of the quality of the community where it operates. By expressing social responsibility and goodwill by dedication that goes beyond the legal requirements, the Company seeks to increase the standards of social development, environmental protection and respect for human rights. The Company implements corporate responsibility throughout the entire range of its business operations. Proper relations with employees and other stakeholders, responsibility in all business processes and their positive impact on the community and environment is an everyday task of the Company.

Adriatic osiguranje also seeks to contribute and show responsibility towards the community, including by way of sponsorships and donations. By way of sponsorships and donations the Company supports science and education, associations, individuals as well as cultural and sporting events. In this way the Company also supports charitable, welfare and health institutions, as well as children and other socially sensitive groups of our society.

During 2018, the Company gave donations to more than 400 different institutions, such as kindergartens, children dance associations, educational institutions, sports associations, religious communities, cultural institutions, fire brigades, environmental associations, etc., in the total amount of more than HRK 1.2 million. Some of the aforementioned donations are as follows:

- Lions Clubs International is an international secular humanitarian organisation with cca. 1.4 million members in more than 200 countries in the world
  In 2018, the Company gave donations to Lions Club Croatia, an association that held a fund-raising event to help the hungry and poor in Croatia and in Africa. Also, the Company gave donations to Lions Club Osijek, that organised a programme for awarding the best students of the Josip Juraj Strossmayer University. These were exceptionally important donations to young people, future experts and carriers of development
- Croatian Society of Paediatric Surgeons
  In 2018, the Company gave donations for the "8th

Croatian Congress of Paediatric Surgery" held in Vodice from 3rd to 6th October 2018. This was an important gathering of both Croatian and foreign experts in the fields of paediatric surgery, paediatric urology, anaesthesiology, paediatrics, radiology and other closely related medical fields.

- Naš san, njihov osmijeh (Our dream, their smile) charity association
  Naš san, njihov osmijeh (Our dream, their smile) charity association was registered on 26 March 2010 with the aim to promote humanity, kindness and love towards human beings, and the need for charitable actions in order to help people, especially children and adults who suffer from serious diseases, poor families with many children, to sensitise the public and raise awareness in the society. In the period of 8 years the association organised and carried out 80 charity events, collecting cca. 80 tonnes of foodstuffs for more than 1400 families.

Some of the aforementioned sponsorships are as follows:

- Museum of Contemporary Art, Zagreb
  In 2018, the Company sponsored the event Summer in MSU held in the period from 2nd to 14th July 2018. The programme included 6 concerts, exhibitions and performances by performance artists.
- Šibenik Fortress of Culture
  Public Cultural Institution Fortress of Culture Šibenik joined the initiative of celebrating the European Fortress Day, launched by the European network of fortified towns and defence fortifications, EFFORTS, of which the Institution is a member. Organised by the Šibenik Fortress of Culture from 20th to 22nd September 2018, the renovated fortresses of Šibenik held the programme to celebrate the European Fortress Day, under the patronage of the Croatian Ministry of Culture. The programme was intended for both professional and general public.

Customer complaints

Pursuant to the Customer Protection Act, the Company is required to enable its clients i.e. customers to file written complaints, in any sales premises or by post, fax or e-mail, and respond within 15 days of the receipt of the complaint. The Company informed and trained all employees with regard to this matter and prepared a leaflet for points of sale to be displayed in a visible place in every point of sale, as well as the complaint form to be placed in every point of sale if the customer wishes to file a complaint immediately.

Every complaint received is immediately forwarded to the headquarters of the branch office where it is registered. A written reply is sent by registered mail with return receipt, by fax with the option to print out the confirmation of dispatch or by e-mail with the option to confirm the delivery of the e-mail.

1.	Total number of received complaints	15
2.	Number of rejected and dismissed complaints, number of partially substantiated complaints and number of substantiated complaints	6 substantiated complaints 2 partially substantiated 4 rejected 3 dismissed
3.	Number of resolved complaints and number of pending complaints	8 resolved complaints
4.	Results of the analysis of the cause of complaints	Better communication between the policy holder and employee
5.	Activities and measures undertaken to remove the illegalities and irregularities that were the cause for filing the complaints	Training of employees
6.	Complaints classified by categories	Sales 6 Finance 3 Other 6

The state of complaints and their status as at 31 December 2018 was as follows

The development of the share of new lawsuits in the total number of filed claims in the 2013 – 2018 period shows successful efforts of the Company to improve the satisfaction of the clients who filed claims. The share of lawsuits in total filed claims fell from 3.7% to a very low 1.5% in 2018.

Year	Share of complaints in filed claims
2013	3,70%
2014	2,80%
2015	2,20%
2016	1,90%
2017	1,50%
2018	1,50%

Anticorruption and conflict of interests

The Company expects from its employees to use the ability of impartial judgement to the maximum degree possible in all segments pertaining the Company's operations when doing their job. In order to maintain independence in judgement and actions, employees must avoid conflict of interests or possible occurrence of such conflict due to economic or personal interest. Occasional exchange of business gifts, lunches or dinners constitute usual practice aimed at creating an atmosphere of good will and establishing trust between business partners. Employees may give and receive business gifts, but these have to be modest so that they do not influence the business decisions of the recipient. Common sense and good judgement must be used when determining what is appropriate and what is inappropriate.

Employees are required to act honestly to a maximum degree possible and all relations with persons they come into contact, whether they are clients, competitors or colleagues, have to be based on mutual respect and trust, complying with the principles of the profession, good business practices and business ethics. The principles of free and loyal competition must be respected.

In their work Company employees collect, process and use data necessary for concluding contracts, processing of claims, etc. All data on policy holders, suppliers, other company clients and partners acquired while working with them are deemed business secret, even after the end of the contractual relationship (except the data we are required to provide pursuant to the Act - bonus, malus, etc.). In the event of certain issues with the client and his status in the Company, or his financial transactions, employees must, taking into account the interest of the Company, show readiness, as the first step, to talks about the raised issues.

Business decisions and actions of each employee must be in accordance with laws and regulations.

Clients are required to treat clients, suppliers and competitors fairly. Nobody should be taken advantage of through manipulation, keeping secrets, abuse of confidential information, false representations of material facts or any other dishonest action.
Employees are required to be honest towards clients, treat them with respect and dignity, and promise only the things they can deliver, and present the Company services/products accurately and with authenticity. Employees are not allowed to deceive clients, falsely present services/products of the Company or competitors, or use any other dishonest methods for "disqualifying" the competitors.

Employees may compete for a business deal only truthfully and honestly, and are not allowed to discuss sensitive market data (prices, strategies, etc.) with competitors. Communication regarding offers, tenders and negotiations when concluding a contract must always be truthful, and all relations with business partners should be in the best interest of the Company and its clients.

Trading for one's own or somebody else's account and similar occurrences are not appropriate since these may cause various problems to both the employees and the work environment.

Employees are not allowed to offer or give monetary remunerations outside the legal framework. Any indecent behaviour damages the reputation of the Company. Also, it is inappropriate to ask for or receive from the clients anything that is not related to the provision of services. Regardless of how much the employee knows the client, and the level of closeness and friendliness in their relationship, the service and communication with the client must be performed at the highest possible level of professionalism and distance.

Zagreb, 19 June 2019

Company Management Board:

GORAN JURIŠIĆ
Chairman of the
Management Board

NINO PAVIĆ
Member of the
Management Board

DANIJELA ŠABAN
Member of the
Management Board

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INDEPENDENT AUDITOR'S REPORT

to the owners of the Company Adriatic osiguranje d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Company Adriatic osiguranje d.d. ("the Company") and its subsidiaries (together: "the Group"), which comprise the statement of financial position of the Company and the Group as at 31 December 2018, the statement of comprehensive income of the Company and the Group, statement of changes in equity of the Company and the Group, and statement of cash flows of the Company and the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

This document is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	*The audit addressed the matter in the following manner*
Investment property valuation *Pay attention to Notes 2, 3, and 18 in the financial statements* The assessment of fair value of property for the Company represents a demanding process, considering the complexity of the value assessment method. The Company uses the fair value model when subsequently measuring investment property. During subsequent measurements, gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Assessments are conducted annually, in line with the accounting standard. The Management of the Company assessed that the fair value of the investment property as at 31/12/2018 amounted to HRK 426 million with a profit increase recorded in the profit and loss account in the amount of HRK 367 thousand for the year ended 31/12/2018. In order to assess the investment property value, an independent assessor made a study of the complete portfolio owned by the Company. Investment property value assessments depend on certain key assumptions, level of rentals on the market, capitalisation rate and the property market value.	Our audit procedures which refer to investment property valuation by the Management of the Company entail: - Assessment of the ability, competence and objectivity of the independent assessor; - Assessment of whether the level of future leases is reasonable and whether the relevant amounts represent realistic lease income in the future periods; - Assessment of methodologies used and the appropriateness of main assumptions used, in line with our knowledge of the industry and use of internal audit assessment experts; - Based on the sample, verification of accuracy and relevance of used data; and - We reviewed the capitalisation rate according to the currently available data. We reviewed the information disclosed in the financial statements concerning the additional information on property valuation.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of given loans *Pay attention to Notes 2, and 20 in the financial statements* In line with the International Accounting Standard 39 – Financial instruments: Recognition and Measurement (hereinafter: IAS 39), the Company has general reserves for the entire given loans portfolio and individual reserves for loans given to other companies. As at 31 December 2018, the loans given to other companies amounted to 23% of the Company's total assets. The given loans portfolio predominantly comprises insurance companies and companies which own vehicle control stations. The given loans portfolio holds big individual loans, which then requires the Company to supervise the debtor's ability to pay the loan and the need to assess future cash flows based on the business operations of individual debtors and collaterals, for example, real estates. Impairment of given loans represents an extremely important process for the Company, as it requires the use of estimates and subjective judgements of the Management of the Company primarily concerning the assessment of future free cash flows of the borrower, business outlook of the borrower and valuation of collateral per given loans.	Our audit procedures as a response to the defined specific risk of the Company, which refer to the assessment of the Management of the Company on the reserve necessary for individual given loans, entail the following: - Understanding the policy of giving loans of the Company and assessing the procedure for identifying signs of impairment of loans. - We selected a sample of given loans for our review and done the following for the review: • For given loans without any payments, we assessed the expectations of the Management of the Company concerning future cash flows, collateral valuation, expected ability to pay the loan and other sources of payment. We estimated the consistency of main assumptions used. • In case of individual given loans, we examined the accuracy of data found in the accounting records. • In case of loans given and secured by property collateral, we examined the amount of the necessary reserve calculated based on expected future cash flows with regard to the fair value of the relevant property less sales costs, used impairment factor, and the expected collection period. • In case of unsecured given loans, we examined the debtor's free cash flow for loan repayment needs. • In case of given loans with instalments paid, we examined whether the debtor suffered losses or whether other circumstances which may put into question the ability to repay loans occurred. Furthermore, we examined the information disclosed in the Company's financial statements so as to assess whether they were sufficiently comprehensive.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Valuation of illiquid financial instruments *Pay attention to Notes 2, 3, and 19 in the financial statements* Valuation of the Company's financial instruments (shares of limited liability companies and companies quoted on the stock exchange without significant trading) was the key focus of the audit, due to the complexity of valuation of individual instruments, carried out by an independent assessor for the Company, and the relevance of judgements and estimates of the Management of the Company concerning the selection of a company with similar features used in the benchmark analysis and the selection of average weighted interest rates. In particular, determining prices for financial instruments for the calculation of which non-public inputs were used. As at 31/12/2018, 15% (HRK 320 million) of total assets of the Company stated at fair value are classified at level 3, i.e. calculated by using non-public input. Level 3 financial instruments predominantly comprise unquoted and quoted shares, but without significant trading.	Our audit procedures which refer to illiquid financial instruments valuation by the Management of the Company entail: - Assessment of the key control activity of the Company in the process of valuation and confirmation, including the valuation of revaluation reserves; - In case of illiquid shares trading, we examined the appropriateness of used valuation methodologies; - In case of the sample of financial instruments with significant values, for which the assessment parameters are not available, we used internal experts in order to critically assess the assumptions used during valuation and data used by the Management of the Company or to conduct independent value assessments, including the alternative methods used by other market participants and key factor sensitivity analysis. Furthermore, we examined the information published in the Company's financial statements so as to assess whether they were sufficiently comprehensive and concluded that the information disclosed in the financial statements adequately indicates the exposure of the Company to the financial instrument valuation risk. We assessed the compliance of the fair value hierarchy policy with the requirements of the International Financial Reporting Standard 13 – Fair Value Measurement.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Valuation of technical provisions *Pay attention to Notes 2, and 29 in the financial statements* Technical provisions of the Company, which entail the provisions for declared, but unpaid claims and provisions for non-expired risks, reflect the uncertainty which forms a constituent part of the insurance industry. The calculation of technical provisions is demanding because it includes a high level of assessment and complex mathematical and statistical calculations. In case of provisions for declared, but unpaid claims, the Claims department sets the amount of the provision after processing all available information. The claims data is aggregated and observed on a group level in order to set the total amount of losses to be incurred for all policies per type of insurance. The provisions for claims outstanding models take into account experience, claims development, market conditions, as well as assumptions sensitive to legal, economic and other different insecurity factors in order to assess losses. The provision for non-expired risks is calculated by taking into account the recognised premiums, nature of risk and generally accepted valuation methods. The Management examines the claims and premiums, as well as model inputs, and is responsible for appointing an authorised independent actuary, whose task is to examine the estimated provisions in order to ensure their adequacy.	When auditing the technical provisions, we examined the controls design and implementation, details testing and analytical procedures for the Company's technical provisions. In addition, we compared the actuary methods and assumptions used by the Management with the insurance market data and recognised actuary procedures. Our procedures include a review of assumptions used by the independent qualified authorised actuary, review of input data for the calculation of technical provisions and understanding the conclusions made, an assessment of the methodology consistency in comparison to the previous years, and determining whether the changes in actuarial models are in line with our expectations derived from the business and market development. We engaged an independent authorised actuary in order to analyse and critically examine the calculation of provisions which are subject to uncertainty the most and which have the highest amounts. We compared the independent analysis to the Management's analysis and obtained explanations for material departures, if any. Furthermore, we examined the information disclosed in the Company's financial statements so as to assess whether the relevant transaction was sufficiently comprehensive to the users of financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Other information is the responsibility of the Management. Such other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.
Our opinion on the annual financial statements does not cover the other information.

With respect to our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement includes required disclosures as set out in Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Articles 22 and 24 of the Accounting Act.

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

1. Information included in the other information is, in all material respects, consistent with the accompanying annual financial statements for the year;
2. Management Report has been prepared, in all material respects, in accordance with the Articles 21 and 24 of the Accounting Act;
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, points 3 and 4, and the Article 24 of the Accounting Act, and includes also the information from Article 22, paragraph 1, points 2, 5, 6 and 7, and Article 24, paragraph 2 of the same Act.

Based on the knowledge and understanding of the Company and the group and their environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor’s Responsibilities for the Audit of the Annual Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company and/or Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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

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

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

Reporting in line with Other Legal and Regulatory Requirements

In line with the Ordinance on the structure and content of the financial statements and additional reports of insurance companies or reinsurance companies (OG No. 37/16, “the Ordinance”), the Management Board of the Company designed forms shown in the Appendix to these financial statements on pages 133 to 143, and contain the statement of comprehensive income, statement of financial position, statement of changes in capital and reserves, statement of cash flows, and notes on adjustments. These forms and relevant adjustments are the responsibility of the Management Board of the Company, and they do not form an inseparable part of these financial statements, which are shown on pages 25 to 132, but are required by the Ordinance.

Other Regulatory Requirements of Regulation (EU) No. 537/2014 of the European Parliament and the Council and Audit Act

We were appointed as the statutory auditor of the Company by the shareholders on 6 July 2018 to perform the audit of accompanying financial statements. Our total uninterrupted engagement has lasted 5 years and covers period from 31 December 2014 to 31 December 2018.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 29 April 2019 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

The engagement partner on the audit resulting in this independent auditor’s report is Vanja Vlak.

Branislav Vrtačnik	**Vanja Vlak**
Member of the Board	Certified Auditor

Deloitte d.o.o.
29 April 2018
Radnička cesta 80
10 000 Zagreb
Republic of Croatia

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	Note	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Earned premiums					
Written gross premium		662,492	593,036	662,492	593,036
Value adjustment and paid premium value adjustment		(3,182)	(2,490)	(3,182)	(2,490)
Outward reinsurance gross premiums		(18,799)	(16,356)	(18,799)	(16,356)
Net written premium		**640,511**	**574,190**	**640,511**	**574,190**
Changes in gross unearned premium provisions		(30,752)	(21,364)	(30,752)	(21,364)
Changes in gross unearned premium provisions, reinsurance share		239	598	239	598
Net earned premium	5	**609,998**	**553,425**	**609,998**	**553,425**
Income from fees and commissions	6	777	1,524	777	1,524
Net investment income	7	35,774	(17,030)	35,669	(17,154)
Other operating income	8	16,769	29,068	16,627	29,067
Net income		**53,320**	**13,562**	**53,073**	**13,437**
Claims incurred		(258,514)	(239,034)	(258,514)	(239,034)
Claims incurred, reinsurance share		2,456	9,120	2,456	9,120
Changes in provisions for claims outstanding		(9,345)	15,347	(9,345)	15,347
Changes in provisions for claims outstanding, reinsurance share		(2,223)	7,444	(2,223)	7,444
Claims incurred	9	**(267,626)**	**(207,123)**	**(267,626)**	**(207,123)**
Acquisition costs	10	(209,392)	(194,653)	(209,392)	(194,653)
Administrative expenses	11	(80,460)	(80,730)	(80,460)	(80,730)
Other operating costs	12	(27,799)	(24,432)	(27,564)	(24,432)
Foreign exchange losses	13	(1,312)	(470)	(1,312)	(470)
Profit before tax		**76,729**	**59,579**	**76,717**	**59,454**
Current tax expense	14	(13,002)	(18,983)	(13,002)	(18,983)
Deferred tax (expense)/income	14	(2,320)	2,253	(2,320)	2,253
Profit after tax		**61,407**	**42,849**	**61,395**	**42,724**
Other comprehensive income					
Items that cannot be subsequently reclassified as profit or loss:					
Net gains from revaluation of land and buildings for the performance of activities		3,655	3,336	3,655	3,336
Net (loss)/gain from reversal of land and buildings revaluation provisions		(12,774)	(128)	(12,774)	(128)
		(9,119)	**3,208**	**(9,119)**	**3,208**
Items that can be subsequently included in the profit or loss					
Net (loss)/profit from the increase in fair value of financial assets available for sale		9,833	(9,524)	9,833	(9,524)
Net profit/(loss) from the reversal of revaluation provisions of financial assets available for sale		(1,696)	13,844	(1,696)	13,844
		8,137	**4,320**	**8,137**	**4,320**
Total comprehensive income		**60,425**	**50,377**	**60,413**	**50,252**
Earnings per share (*in HRK*)		**491.26**	**342.79**	**491.16**	**341.79**

The following notes form an inseparable part of these financial statements.

ASSETS	Note	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Goodwill	15	35,159	21,461	14,420	14,696
Intangible assets	16	343	266	343	266
Intangible assets		**35,502**	**21,727**	**14,763**	**14,962**
Property, plant and equipment	17	**318,864**	**296,760**	**291,332**	**271,168**
Investment property	18	425,818	395,440	425,818	395,440
Investments available for sale	19	554,962	572,407	554,962	572,407
Loans and receivables	20	499,983	446,821	499,983	446,821
Investments		**1,480,763**	**1,414,668**	**1,480,763**	**1,414,668**
Investments in subsidiaries and associates	19a	**41,786**	**40,497**	**85,886**	**68,497**
Deferred and current tax assets	14	**16,897**	**15,193**	**16,897**	**15,193**
Reinsurance share in technical provisions	21	**15,067**	**17,051**	**15,067**	**17,051**
Claims from direct insurance	22	66,139	63,190	66,139	63,190
Co-insurance and reinsurance claims	22	-	32	-	32
Other receivables	23	67,135	77,554	66,262	77,489
Receivables		**133,274**	**140,776**	**132,401**	**140,711**
Inventories		**659**	**-**	**-**	**-**
Cash at bank and in hand	24	**25,685**	**4,679**	**24,959**	**4,415**
Paid costs for the future period		**19,360**	**14,137**	**19,347**	**14,137**
Other assets	25	**-**	**5**	**-**	**5**
TOTAL ASSETS		**2,087,857**	**1,965,493**	**2,081,415**	**1,960,807**

The following notes form an inseparable part of these financial statements.

LIABILITIES	Note	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Subscribed capital	26	50,000	50,000	50,000	50,000
Revaluation reserves	27	365,319	369,309	365,319	369,309
Other reserves	28	138,762	138,762	138,762	138,762
Retained earnings		360,576	339,183	360,576	339,183
Profit for the current year		61,407	42,850	61,395	42,724
Capital and reserves		**976,064**	**940,104**	**976,052**	**939,978**
Unearned premiums, gross amount		341,496	310,744	341,496	310,744
Provisions for claims outstanding, gross amount		498,954	489,609	498,954	489,609
Technical provisions	29	**840,450**	**800,353**	**840,450**	**800,353**
Deferred and current tax liability	14	**84,787**	**93,658**	**80,192**	**89,063**
Financial liabilities	30	**102,279**	**62,986**	**102,279**	**62,986**
Liabilities from direct insurance	31	26,911	24,949	26,911	24,949
Liabilities from reinsurance	32	4,781	4,483	4,781	4,483
Other liabilities	33	38,557	30,318	36,722	30,353
Other liabilities		**70,249**	**59,750**	**68,414**	**59,785**
Deferred cost payment	34	**14,028**	**8,642**	**14,028**	**8,642**
TOTAL LIABILITIES		**2,087,857**	**1,965,493**	**2,081,415**	**1,960,807**

The following notes form an inseparable part of these financial statements.

GROUP

	Subscribed capital	Revaluation provisions - shares	Revaluation provisions - property	Other reserves	Retained profit	Profit for the current year	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 31 December 2016	**50,000**	**84,431**	**280,253**	**138,762**	**288,796**	**51,111**	**893,353**
Net profit from the change in fair value of financial assets available for sale and property during the year	-	(9,524)	3,336	-	-	-	(6,188)
Realisation of revaluation provisions	-	13,844	(128)	-	-	-	13,716
Net profit for the current year	-	-	-	-	-	42,850	42,850
Total comprehensive income	**-**	**4,320**	**3,208**	**-**	**-**	**42,850**	**50,378**
Transfer (revaluation depreciation)	-	-	(2,903)	-	3,541	-	638
Profit distribution for 2016	-	-	-		46,846	(51,111)	(4,265)
Balance at 31 December 2017	**50,000**	**88,751**	**280,558**	**138,762**	**339,183**	**42,850**	**940,104**
Net profit from the change in fair value of financial assets available for sale and property during the year	-	9,833	3,655	-	-	-	13,488
Realisation of revaluation provisions	-	(1,696)	(12,774)	-	-	-	(14,470)
Net profit for the current year	-	-	-	-	-	61,407	61,407
Total comprehensive income	**-**	**8,137**	**(9,119)**	**-**	**-**	**61,407**	**60,425**
Transfer (revaluation depreciation)	-	-	(3,009)	-	3,669	-	660
Profit distribution for 2017	-	-	-	-	42,724	(42,850)	(126)
Voted payment of dividends for 2017	-	-	-	-	(25,000)	-	(25,000)
Balance at 31 December 2018	**50,000**	**96,889**	**268,430**	**138,762**	**360,576**	**61,407**	**976,064**

The following notes form an inseparable part of these financial statements.

COMPANY

	Subscribed capital	Revaluation provisions - shares	Revaluation provisions - property	Other reserves	Retained profit	Profit for the current year	Total
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Balance at 31 December 2016	**50,000**	**84,431**	**280,253**	**138,762**	**288,796**	**51,111**	**893,353**
Net (loss) from the change in fair value of financial assets available for sale and property during the year	-	(9,524)	3,336	-	-	-	(6,188)
Realisation of revaluation provisions	-	13,844	(128)	-	-	-	13,716
Net profit for the current year	-	-	-		-	42,724	42,724
Total comprehensive income	**-**	**4,320**	**3,208**	**-**	**-**	**42,724**	**50,252**
Transfer (revaluation depreciation)	-	-	(2,903)	-	3,541	-	638
Profit distribution for 2016	-	-	-	-	46,846	(51,111)	(4,265)
Balance at 31 December 2017	**50,000**	**88,751**	**280,558**	**138,762**	**339,183**	**42,724**	**939,978**
Net (loss) from the change in fair value of financial assets available for sale and property during the year	-	9,833	3,655	-	-	-	13,488
Realisation of revaluation provisions	-	(1,696)	(12,774)	-	-	-	(14,470)
Net profit for the current year	-	-	-	-	-	61,395	61,395
Total comprehensive income	**-**	**8,137**	**(9,119)**	**-**	**-**	**61,395**	**60,413**
Transfer (revaluation depreciation)	-	-	(3,009)	-	3,669	-	660
Profit distribution for 2017	-	-	-	-	42,724	(42,724)	-
Voted payment of dividends for 2017	-	-	-	-	(25,000)	-	(25,000)
Balance at 31 December 2018	**50,000**	**96,889**	**268,430**	**138,762**	**360,576**	**61,395**	**976,052**

The following notes form an inseparable part of these financial statements.

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
CASH FLOW FROM OPERATING ACTIVITIES	**92,646**	**65,780**	**105,052**	**93,516**
Cash flow before the change in assets and liabilities	**37,218**	**67,273**	**50,550**	**94,910**
Profit before tax	76,729	59,579	76,717	59,454
Adjustments:	**(39,511)**	**7,694**	**(26,167)**	**35,456**
Depreciation of property and equipment	11,466	10,463	11,466	10,463
Depreciation of intangible assets	261	531	261	531
(Income)/loss from reduction to fair value	(9,679)	27,611	4,296	29,781
Interest costs	2,232	2,135	2,232	2,135
Interest income	(22,555)	(10,343)	(22,554)	(10,343)
Share of profit of associates	(3,765)	(399)	(3,765)	(399)
Gain on disposal of tangible assets	(3,896)	(3,974)	(3,896)	(3,974)
Adjustment of loans and receivables	(13,510)	12,883	(13,510)	12,883
Other impairments	(66)	(31,213)	(697)	(5,621)
Increase/decrease in assets and liabilities	**72,454**	**9,494**	**71,528**	**9,593**
Increase (-)/decrease in investments available for sale	16,580	(17,597)	16,580	(17,597)
Increase (-)/decrease in deposits, loans and receivables	(194)	27,334	(194)	27,334
Increase (-)/decrease in the reinsurance share in technical provisions	1,984	(8,042)	1,984	(8,042)
Increase (-)/decrease in receivables	20,338	11,328	21,147	11,393
Increase (-)/decrease in paid costs for the future period	(5,222)	(6,202)	(5,210)	(6,202)
Increase/decrease (-) in technical provisions	40,098	6,016	40,098	6,016
Increase/decrease (-) in tax liabilities	(27,415)	6,003	(27,290)	6,003
Increase/decrease (-) in financial liabilities	(2,253)	(2,298)	(2,253)	(2,298)
Increase/decrease (-) in other liabilities	23,152	644	21,280	678
Increase/decrease (-) in deferred cost payment	5,386	(7,692)	5,386	(7,692)
Income tax paid	**(17,026)**	**(10,987)**	**(17,026)**	**(10,987)**
CASH FLOW FROM INVESTMENT ACTIVITIES	**(100,775)**	**(90,631)**	**(113,644)**	**(118,630)**
Gains from sale of tangible assets	1,359	729	1,359	729
Tangible assets purchase expenses	(23,490)	(6,203)	(23,490)	(6,203)
Intangible assets purchase expenses	(338)	(155)	(338)	(155)
Gains from sale of land and buildings not used by the Company for its activities	1,302	753	1,302	753
Expenses for the purchase of land and buildings not used by the Company for its activities	(49,936)	(20,053)	(49,936)	(20,053)
Gains from the sale of securities and shares	26,214	90,113	26,214	90,113
Expenses for the investment in securities and shares	(15,130)	(107,305)	(27,999)	(135,304)
Gains from dividends and shares in profit	8,815	1,743	8,815	1,743
Gains from payment of given short-term and long-term loans	45,879	70,748	45,879	70,748
Expenses of given short-term and long-term loans	(95,450)	(121,001)	(95,450)	(121,001)
CASH FLOW FROM FINANCIAL ACTIVITIES	**28,967**	**251**	**28,967**	**251**
Cash received from approved short-term and long-term loans	159,946	64,733	159,946	64,733
Cash paid for the payment of short-term and long-term loans	(120,927)	(63,973)	(120,927)	(63,973)
Cash paid for the payment of shares in profit (dividends)	(10,052)	(509)	(10,052)	(509)
PURE CASH FLOW	**20,838**	**(24,600)**	**20,375**	**(24,863)**
Net (decrease)/increase in cash and cash equivalents	20,838	(24,600)	20,375	(24,863)
Cash and cash equivalents at the beginning of the period	5,032	29,632	4,769	29,632
Cash and cash equivalents at the end of the period (Note 24)	**25,870**	**5,032**	**25,144**	**4,769**

The following notes form an inseparable part of these financial statements.

1. General data

Adriatic osiguranje d.d. (hereinafter: “the Company”) is a limited liability company registered in Split in 1991. The Company moved to Zagreb on 1 January 2007. The Company's address is Listopadska 2, Zagreb, Republic of Croatia.

The Company provides non-life insurance services, and specialises in Motor Vehicle Insurance. As at 31 December 2018, the Company had 773 employees (as at 31 December 2017: 749 employees).

As at 21 December 2018, the Company bought a 100% share in the company Autocentar Vrbovec d.o.o. for 16.1 million HRK.

Adriatic osiguranje d.d. and the companies Tehnomobil nekretnine d.o.o. and Autocentar Vrbovec d.o.o. are reported as the Group in the annual financial statement for 2018. The parent company of the Group is the company Adriatic osiguranje d.d., and its subsidiaries are the company Tehnomobil nekretnine d.o.o. and the company Autocentar Vrbovec d.o.o., since the subsidiaries are 100% owned by the Company Adriatic osiguranje d.d.

In the reporting period Tehnomobil nekretnine d.o.o. made a net profit of HRK 186,094. In 2018, total income amounted to HRK 186,907, expenses amounted to HRK 813, while EBITDA amounted to HRK 186,094. Share capital amounted to HRK 20,000 in 2018, while total assets amounted to HRK 26,101,449.

In the reporting period Autocentar Vrbovec d.o.o. made a net profit of HRK 1,052,548. In 2018, total income amounted to HRK 9,380,759, expenses amounted to HRK 8,070,881, while EBITDA amounted to HRK 1,052,548. Share capital amounted to HRK 300,000 in 2018, while total assets amounted to HRK 3,725,869.

Management and Supervisory Board

Management

Goran Jurišić, Member of the Management Board since 1 October 2013, President of the Management Board since 1 June 2015

Danijela Šaban, Member of the Management Board since 5 May 2012, Member of the Management Board since 21 June 2016

Nino Pavić, Member of the Management Board since 20 August 2015

Supervisory Board

Davor Bubalo, President of the Supervisory Board since 9 February 2018

Nenad Volarević, Vice-President of the Supervisory Board since 24 June 2014

Ante Jažo, President of the Supervisory Board by 9 February 2018, member of the Supervisory Board since 9 February 2018

Mirko Grgić, Member of the Supervisory Board since 24 June 2014

Zdenko Milas, Member of the Supervisory Board since 29 June 2015

2. Summary of significant accounting policies

Statement of compliance

Financial statements comprise consolidated and separate financial statements of the Company, and are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

Basis of preparation

The financial statements are prepared in accordance with the historical cost principle, except for certain financial instruments, property, and investment property, which are reported in revalued amounts. The financial statements are prepared on the going concern basis.

The financial statements are reported in thousands of HRK.

The accompanying financial statements are prepared based on the accounting records of the Company and entail adjustments and reclassifications necessary for a fair overview in compliance with International financial reporting standards, as adopted in the European Union.

Preparing financial statements pursuant to IFRSs adopted in the European Union requires the use of certain accounting assumptions. Furthermore, it requires the Management to use its assumptions and assessments when applying the Company's accountancy policies. The areas that require a higher assessment level are more complex. The areas in which assessments and assumptions relevant for the financial statements are used are given in the notes to the financial statements.

Basis of consolidation

The consolidated financial statements comprise the Group and its subsidiaries (together "the Group").

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Negative goodwill that arises in case of a bargain purchase is recognised immediately in the profit and loss account. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls another company when exposed to or having rights to variable returns on its investment and when it has the possibility to affect the returns through its control of the other company. The financial statements of subsidiaries are included in the consolidated financial statements by using the full consolidation method from the date on which the control was transferred to the Group until the date on which control ceases.

In the separate financial statement of the Company, investments in subsidiaries were reported at cost less the relevant impairment, if necessary.

2. Summary of significant accounting policies (continued)

Basis for Consolidation (continued)

Loss of control

When the Group suffers the loss of control, it ceases to recognise assets and liabilities of subsidiaries, shares of minority shareholders and other elements of capital and reserves relating to subsidiaries. Any gain or loss resulting from the loss of control is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value as at the day control ceases. Afterwords, the share is stated as an investment valued pursuant to the equity method or pursuant to the Group's Financial Instrument Accountancy Policy, depending on the level of retained influence.

Investments in entities recognised under the equity method

Group's shares in entities recognised under the equity method refer to shares in an associate.

Associates represent entities in which the Group holds a significant influence, but no control nor joint control over the financial and business policies of the relevant subject.

Shares in associates is accounted for using the equity method. They are initially recognised using the cost method, including the transaction costs. After the initial recognition, the Group's shares in profit and loss, and other comprehensive income of entities accounted for using the equity method are reported in the consolidated financial statements up to the date of loss of significant influence i.e. joint control.

In the separate financial statement of the Company, investments in associates were reported at cost less the relevant impairment, if necessary.

Transactions eliminated on consolidation

Balances and transactions among Group members and all unrealised income and expenses from transactions among Group members are eliminated on the preparation of consolidated financial statements. Unrealised gains from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are also eliminated, same as unrealised gains, but only if there are no indicators of impairment.

2. Summary of significant accounting policies (continued)

Application of new and revised International Financial Reporting Standards

Existing standards and interpretations in the current period

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

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment"** – "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** – "Applying IFRS 9 'Financial Instruments' with IFRS 4 "Insurance Contracts'", adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 "Financial Instruments"),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 "Investment Property"** - "Transfers of Investment Property", adopted by the EU on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12, and IAS 28), primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRS 22 "Foreign Currency Transactions and Advance Consideration"**, adopted by the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

Considering the entry into force of IFRS 17, which enabled a later application of IFRS 9, the Company did not apply IFRS 9. The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

2. Summary of significant accounting policies (continued)

Application of new and revised International Financial Reporting Standards (continued)

Standards and interpretations issued by IASB and adopted by the European Union, but not yet effective

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

- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation", adopted by the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Company and the Group have decided not to adopt these new standards and amendments to existing standards in advance of their effective dates.

The Company and the Group anticipate that the adoption of the new standard IFRS 16 *Leases* will have a material impact on the financial statements in the period of the initial application of the standard. The Company and the Group assess that the impact on the statement of financial position amounted to HRK 17,668 thousand of recognised value of assets with the right to use and liabilities per lease for 244 lease agreements. Furthermore, the Company and the Group believe that the new standard IFRS 16 will have a significant influence on the statement of comprehensive income of the Company and the Group, and expect it to affect the *Operating and other administrative expenses*, i.e. result in a decrease in *Lease payments costs* amounting to HRK 6,155, and an increase in depreciation costs by HRK 5,544 and interest costs by HRK 986 thousand.

In addition, the Company and the Group anticipate that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements in the period of the initial application of the standard.

2. Summary of significant accounting policies (continued)

Application of new and revised International Financial Reporting Standards (continued)

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

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which have still not been adopted by the EU as at the date of publication of these financial statements (the effective dates stated below is for IFRSs in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to delay the adoption of this transitional standard until the issue of its final version,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to MFSI 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** entitled "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to Conceptual Framework for IFRS** (effective for annual periods beginning on or after 1 January 2020).

When IFRS 17: "Insurance Contracts" and IFRS 9: "Financial Instruments" become effective, certain changes in the financial statements of the Company and the Group will take place. Management of the Company is currently assessing the impact of IFRS 17 and believes that the implementation of IFRS 9 will have a significant impact on the financial statements of the Company and the Group.

2. Summary of significant accounting policies (continued)

Application of new and revised International Financial Reporting Standards (continued)

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

According to estimates, other than the aforementioned standards IFRS 17 and IFRS 9, the application of relevant new standards and amendments to the existing standards would have no significant material impact on the Company's financial statements.

Hedge accounting in the portfolio of financial assets and liabilities whose principles were not adopted in the EU is still unregulated.

2. Summary of significant accounting policies (continued)

Premium

Written gross premium comprises all amounts of premiums contracted by the end of the accounting period for policies issued by the end of the accounting period, regardless whether the relevant amounts refer to later accounting periods entirely or in part. Earned premiums entail gross written premium less the outward reinsurance and changes in unearned premium provisions. Reinsurance premiums for non-insurance operations are accounted for in the same accounting period as the premiums which refer to related direct insurance operations.

Unearned premium provisions

Unearned premium provisions are formed for those contracts under which the insurance coverage lasts after the accounting period expires, since the insurance and accounting year do not overlap. The calculation of the gross unearned premium is done for every contract in the manner stipulated in the Minimal standards, ways of calculation and parametres for the calculation of unearned premium provisions. Unearned premium, net of reinsurance, is a gross unearned premium less the contracted reinsurance part, in line with effective reinsurance contracts. Changes in unearned premium provisions in relation to the previous period are recognised in the earned premium.

2. Summary of significant accounting policies (continued)

Non-life insurance liability adequacy test

In line with the International Financial Reporting Standard (IFRS) 4, which refers to insurance contracts, the insured person is required to assess the adequacy of recognised liabilities from insurance operations at every reporting date, by applying the current assessments of future cash flows for its own insurance contracts.

If the assessment indicates that the carrying amounts of insurance liabilities (less deferred acquisition costs) are inadequate in relation to the estimated future cash flows, the total amount of the difference is recognised in the profit and loss.

IFRS does not stipulate further requirements if the insured person uses the liability adequacy test which complies with the established minimum conditions. The relevant minimum conditions are the following:

- The test considers the current assessments of all contracted cash flows and related cash flows, such as claims handling costs, as well as cash flows resulting from embedded options and guarantees;
- If the test proves that the liability is inadequate, the entire difference needs to be recognised in the profit or loss.

The assumptions, methodologies and results of the liability adequacy test need to be documented correctly.

The Group conducted the liability adequacy test on 31 December 2018 and did not form a provision for non-expired risks in 2018. The sufficiency of unearned premiums is calculated by projecting the average claims quota in the past seven years, costs quota (including the acquisition costs other than the commission costs) of the current year and the open commissions quota in the current year, together with the reinsurance in the unearned premium.

Acquisition costs

The acquisition costs entail costs incurred by concluding the insurance contract, which entails all direct insurance costs. Direct acquisition costs are commission costs for insurance contract conclusion calculated pursuant to the agency contract. The commission costs for non-insurance operations are acknowledged based on the way these costs were incurred. Other acquisition costs refer to costs of insurance documents submission or including the insurance contract into the portfolio, as well as indirect costs such as advertising costs or administrative costs related to offer processing and policy issuance, and operating lease costs. These acquisition costs are period costs and are not delimited.

Claims

Claims incurred entail all liquidated claims amounts in the accounting period, no matter the accounting period the claims incurred in, less the reinsurer's share in claims, and reduced or augmented by the changes in provisions for claims outstanding (net of reinsurance) in relation to the previous period. Non-life insurance claims are increased by claims handling costs. Provisions for open (non-liquidated) claims, which are based on the assessment of the claim and the statistical methods applied, are determined for estimated liquidation costs of all claims incurred and unpaid by the date of the report, regardless whether they were reported or not, together with the belonging internal and external claims liquidation costs. If applicable, the provisions are reported less the reasonably estimated returns through recovery and subrogation.

2. Summary of significant accounting policies (continued)

Claims (continued)

The Management believes that the claims provisions have been realistically and objectively reported considering the currently available information, and the final amount of the liability depends on future information and events, which may lead to the adjustments of the provision amounts, which will be reported in the financial statements for the period they were performed in. Methods and estimates used are regularly reviewed.

Provisions for claims outstanding, net of reinsurance, are gross provisions for claims outstanding less the reinsurance part, pursuant to the provisions of the reinsurance contract and depending on the provisions for claims outstanding calculation method applied.

Gross business operating costs

Gross business operating costs comprise policy acquisition costs and administrative costs. Acquisition costs consist of commissions paid to external sales agents, other sales-related costs and costs of offering policies and policies' forms.

Administrative costs comprise staff costs, intangible assets depreciation, energy costs, advertising costs, operating lease costs, services costs and other costs.

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term.

Reinsurers' commissions

Reinsurers' commissions for non-life insurance are recognised in profit or loss on an accrual basis.

Allocating investment income

Interest income is recognised in the profit or loss on the accrual basis, considering the effective yield on the relevant asset.

Foreign currencies

Business events not reported in HRK are initially recognised by translation at the rates prevailing at the dates of the transaction. Monetary assets and liabilities that are denominated in foreign currency are recalculated on the reporting date by applying the exchange rate on the date. Non-monetary assets and liabilities in foreign currencies reported at fair value are translated at the rates prevailing at the date of fair value assessment. Foreign exchange gains and losses are reported in the net profit or loss for the period.

On 31 December, the official exchange rate of HRK against the EUR was the following:

31 December 2018	EUR 1 = HRK 7,417575
31 December 2017	EUR 1 = HRK 7,513648

2. Summary of significant accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax liability

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘net profit for the period’ as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax liability is calculated by applying the tax rates in force, i.e. being adopted on the reporting date.

Deferred tax

Deferred tax is recognised based on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for by using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax liabilities are generally recognised for all taxable temporary differences up to the taxable profit amount which will probably become available and enable the use of deductible temporary differences. Deferred tax liabilities and deferred tax assets are not recognised if the temporary difference arises from the goodwill or initial recognition (other than in a business combination) of other assets and other liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are also recognised based on taxable temporary differences connected with investments into subsidiaries and associates, as well as shares in joint ventures, except when the Group is able to influence the cancellation of the temporary difference even when the cancellation of the temporary difference is not probable in the near future. Deferred tax assets which derive from deductible temporary differences connected to the aforementioned type of investments and shares is recognised up to the taxable profit amount which will probably become available and enable the use of relief based on temporary differences, and if their cancellation is expected in the nearby future.

2. Summary of significant accounting policies (continued)

Taxation (continued)

Deferred taxes (continued)

The carrying amount of deferred tax assets is reviewed at every reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and deferred tax liabilities are calculated at tax rates which are expected to be applicable in the period for the settlement of liabilities or realisation of assets based on tax rates and acts which are in force or being adopted on the reporting date. The calculation of deferred tax liabilities and deferred tax assets reflects tax consequences which would result from the way in which the Group expects to realise the return of the carrying amount of its assets, i.e. settle the carrying amount of its liabilities, on the reporting day.

Current and deferred taxes for the period

Current and deferred taxes are recognised as income and expenses in the statement of profit or loss, except for taxes which refer to items directly stated in the principal or other comprehensive income, in which case taxes are also stated in the principal or other comprehensive income, or if taxes result from the first statement of the business merger, in which case the tax effect is taken into consideration when calculating goodwill or determining the surplus of the acquiring company's share in the net fair value of determinable assets, liabilities and potential liabilities of the acquired company which exceed the business merger cost.

Property, plant and equipment

Land and buildings used for goods or services production or delivery or administrative purposes are reported in the statement of financial position in revalued amounts, which represent their revaluation date fair value less the value adjustment and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Every increase resulting from land and building revaluation is credited to property revaluation provisions, except if it cancels the decrease resulting from the revaluation of the same asset which has been previously recognised in the statement of profit or loss, and in that case the increase is recorded in the statement of profit or loss up to the amount of the previously stated decrease. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

2. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation on revalued buildings is recognised in profit or loss. During subsequent sale or retirement of revalued property, revaluation surplus reported in the revaluation reserve is transferred directly to retained earnings. Transfer from revaluation reserves to retained earnings is done only if an asset is derecognised. Buildings are depreciated in the period of 50 years.

Properties in the course of construction for production, lease or administrative or still undefined purposes are carried at cost, less any recognised impairment loss. The purchase cost entails the professional services fee cost, and in case of qualifying assets, borrowing costs capitalised pursuant to the Group's accountancy policy. Depreciation of these assets, accounted for on the same basis as other property assets, commences when the assets are ready for their intended use.

Furniture and equipment are reported at cost less depreciation and accumulated losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis. Land is not depreciated. The estimated useful life is presented below:

	2018	**2017**
Buildings	50 years	50 years
Plant and equipment	5 years	5 years
Furniture, tools and equipment	10 years	10 years
Other	4-8 years	4-8 years

The property held based on a financial lease is depreciated during the expected useful life on the same basis as property owned or during the period of the lease, if it is shorter.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Individually acquired intangible assets are stated based on their purchase value less the value adjustment and accumulated impairment losses. Depreciation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2. Summary of significant accounting policies (continued)

Goodwill

Goodwill represents the surplus of the acquisition cost of the Group's share in the net fair value of determinable assets, as well as determinable liabilities incurred and unforeseeable liabilities of the subsidiary. Goodwill is initially recognised as an asset per cost and subsequently measured at cost adjusted for accumulated impairment losses. At the moment of acquisition of the subsidiary by the acquirer, the value of goodwill determined in the moment of acquisition is recorded in the financial statements of the acquirer.

During goodwill impairment testing, goodwill is allocated to all cash-generating units of the Group which are expected to benefit from the merger synergy. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is no longer reversed in subsequent periods.

Investment property

Investment property, which is property held in order to earn rentals and/or for capital appreciation is initially valued at purchase cost, including transaction costs, and is subsequently measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

2. Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets other than goodwill

At every reporting date, the Group will examine the carrying amount of its fixed tangible and intangible assets so as to ascertain whether signs of impairment losses exist. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. If it is impossible to estimate the recoverable amount of an asset, the Company estimates the recoverable amount of the cash-generating unit the relevant amount belongs to.

If it is possible to establish a real and consistent basis for allocation, the Group’s assets are also allocated to individual cash-generating units or, if this is not the case, to the smallest group of cash-generating units for which a real and consistent basis for distribution can be established.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. For the purpose of estimating the value in use, the estimated future cash flows are discounted to the present value by applying the discount rate before taxation, which reflects the current market estimate of the time value of money and the risks specific for the asset, for which the assessments of future cash flows were not harmonised.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised as expenses, unless the asset is stated as a revalued amount, in which case the impairment loss is stated as an impairment loss resulting from asset revaluation.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Cancellation of the impairment loss is immediately recognised as income, unless the relevant asset is not stated as a revalued amount, in which case the cancelled impairment loss is stated as an increase due to revaluation.

2. Summary of significant accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee in the period of the lease. All other leases are classified as operating leases.

Company as a lessee

The property that is the subject of financial lease is recognised as the Group's property measured at fair value in the beginning of the lease or at current value of minimum lease payments if it is lower. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability. Lease payments are apportioned between finance expenses and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financial costs are directly recorded in the statement of profit or loss, unless they can be directly attributed to a qualifying asset, in which case they are capitalised pursuant to the general policy of the Group which regulates the capitalisation of borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Financial assets

Investments are recognised or stop being recognised on their trading date, i.e. a date when an investment is bought or sold pursuant to a contract whose conditions stipulate the delivery of investment in a deadline set on the relevant market, and are initially measured at fair value increased by transaction costs, other than financial assets classified in the category of assets whose changes in fair value are stated in the statement of profit or loss, which is initially measured at fair value.

Financial assets are classified into the following categories: „financial assets measured at fair value in the statement of profit or loss", „financial assets available for sale" and „given loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2. Summary of significant accounting policies (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the depreciated cost of a financial asset and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period.

Income from debt instruments, other than financial assets designated as at FVTPL, is recognised by using the effective interest rate method.

Financial assets for which changes in fair value are reported in the profit and loss account

Financial assets are classified in the category of assets for which changes in fair value are reported in the profit and loss account (i.e. at fair value through profit and loss) if they are trading assets or if they are set to be reported in that manner.

Financial assets are classified as trading assets if:

- they are initially acquired for sale in the near future; or
- they form a part of the identified portfolio of financial instruments the Group manages and if it recently maintained the pattern of making profit in the short term.

Financial assets per fair value for which the changes in fair value are reported in the profit and loss account are reported at fair value, and all profit and losses are recognised in the profit and loss account. Net profit or loss recognised in the profit and loss account comprises dividends and interests made on the financial asset.

Financial assets available for sale

Available-for-sale securities are recognised at fair value. Gains and losses resulting from changes in fair value are recognised directly in the principal within the revaluation provision for investment, except for impairment losses. Interests calculated by using the effective interest rate method and exchange rate differences for monetary assets are directly recognised in the profit and loss account. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss for the period.

2. Summary of significant accounting policies (continued)

Financial assets (continued)

Dividends of equity instruments classified in the portfolio of assets available for sale are recognised in the statement of profit or loss, after the Group's right to receive dividends has been determined.

The fair value of monetary assets available for sale denominated in a foreign currency is given in a currency the asset was denominated in and then recalculated pursuant to the spot exchange rate on the reporting date. The changes in fair value connected to the exchange rate differences resulting from the changes in the depreciated asset cost is stated in the statement of profit or loss, and other changes are stated in the principal.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at depreciated cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than fair value assets with changes in fair value stated in the statement of profit or loss, are reviewed at the end of each reporting period in order to establish the existence of indicators of any impairment. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

In case of unlisted shares classified as assets available for sale, a significant or long-term fall in securities value below the purchase price is considered an objective proof of impairment.

In case of other financial assets, including redeemable notes classified as available-for-sale assets and finance lease receivables, an objective proof of impairment may include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

2. Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at depreciated cost, the amount of impairment is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted using the original effective interest rate for the financial asset concerned.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Except for fair value equity instruments with changes in fair value recognised in profit or loss, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the depreciated cost would have been had the impairment not been recognised.

In case of fair value equity interests (shares) with changes in fair value recognised in profit or loss, impairment loss previously recognised in profit or loss is not is reversed through profit or loss. Every increase in fair value after the impairment loss is recognised directly in the principal.

Derecognition of financial assets

The Group will stop recognising the financial asset only if the contract right to cash flows expired based on the asset, if the financial asset is transferred and if all risks and rewards associated with the ownership of the financial asset are to mainly transferred to another entity. If the Group does not transfer or retain almost all risks and rewards associated with ownership and, if it still has control over the transferred asset, it recognizes its retained interest in the asset and the related liability in the amounts it may have to pay. If the Group maintains most of the risks and rewards associated with ownership of the transferred financial asset, the asset continues to be recognized, together with the recognition of collateralised borrowing, and which was given for the received income.

Cash and cash equivalents

Cash and cash equivalents refer to assets on HRK and foreign-currency denominated accounts of commercial banks, cash and checks. Amounts in foreign currencies are recalculated on the reporting date pursuant to the middle exchange rate of the Croatian National Bank.

2. Summary of significant accounting policies (continued)

Premium and other receivables

Premium and other receivables are reported at cost less any impairment. The assessment procedure includes judgements based on the latest reliable available data. If it is estimated that the receivable cannot be collected at all, it will be written off. A receivable is written off only if Management so decides. Value adjustment by means of value provision is conducted when there are objective reasons for the Group being unable to recover receivables pursuant to agreed conditions. The Management adopts a decision on adjustments of suspicious receivables based on the review of the total structure of receivables per groups of insured persons based on the review of significant individual amounts and insights into the financial state of individual insured persons. Amounts of value provisions of receivables are stated in the statement of profit or loss as other insurance expenses.

Financial liabilities and equity instruments the Company issued

Debt and equity instruments are classified as financial liabilities or as principal pursuant to the essence of the agreement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The equity instruments issued by the Group are recorded in the amount of income, less direct issuance costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings and loans, are initially measured at fair value less transaction costs. Other financial liabilities are subsequently measured at depreciated cost by applying the effective interest rate method, and the interest income is recognised based on the effective yield basis

The effective interest method is a method of calculating the depreciated cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises the financial liabilities when and only if the Company's liabilities have been settled, cancelled or expired.

3. The critical judgements in the application of accounting policies

The Group estimates and makes assumptions which affect the value of assets and liabilities for the next financial year. The estimates and assumptions are continuously re-assessed and are based on the principle of experience and other factors, including the real expectations of future events.

Impairment of goodwill

Determining whether goodwill impairment occured requires the assessment of value in use of the cash-generating units the goodwill is allocated to. When calculating the value in use, the Management Board assesses future cash flows expected from the cash-generating units, as well as the relevant discount rate for calculating the current value.

Useful life of property, plant and equipment

The Group checks the estimated useful life of property, plant and equipment in the end of each annual reporting period. The useful life of property,plant and equipment remained unchanged.

Calculation of premiums

The calculation of unearned premiums and other technical provisions is based on static methods, with regard to the relative presumptions. The Group has not substantially changed its presumptions when calculating the premium and other technical provisions.

Fair value of financial instruments

The Group uses an adequate valuation method for financial instruments which are not quoted on the active market, by employing valuation assessment models and techniques. The assessor uses average values when calculating the indicative value by using the PEER comparable companies method.

Property fair value

The Group revalued its land and buildings based on an independent assessment. Furthermore, the Company performed an independent investment property assessment. The assessments were done through on-spot checks of property, as well as controls and reviews/measurements of the property location and dimensions, and subsequently of submitted and available documentation and the data obtained from the party/owner which is used in good faith in case it was not possible to verify the relevant data nor determine its accuracy.

Property value assessments were done by using one or more recognised methods, and every property is analysed individually, and the method or methods are chosen according to available data and the real state of the property. The methods used were the cost, comparative, and capitalisation method. The assumptions used for the fair value assessment are provided in the Note 18 to the financial statements.

The calculation of unearned premiums and other technical provisions

The calculation of unearned premiums and other technical provisions are based on static methods considering the relative assumptions. The Group has not substantially changed its assumptions when calculating the unearned premiums and other technical provisions. Details of the calculation of unearned premiums and other technical provisions are contained in Note 29.

3 The critical judgements in the application of accountancy policies (continued)

Classification of property between investment property and property for own use

The Group classifies all property not used for its activities, but held with the aim to make proceeds from rentals and/or increase the market value of the investment property.

Property used for own use and rental

The Group owns a dual-use property (one part of the property is used for own purposes, and the other part is used as investment property). A part of the dual-use property is classified as investment property only if the relevant part can be sold or individually provided to a lessee under a financial lease.

Impairment of receivables from insurance operations

Receivables form insurance operations are evaluated at each reporting date in order to identify whether indications of potential impairment exist, based on the best estimate of the probability of recovering the carrying amount of these assets. Every receivable is assessed separately based on the expected date of collection and the amount to be collected, as well as potential insurance instruments. The Management believes that the receivables from insurance operations are recoverable.

Impairment test for investments in securities classified as available for sale

The Group decided that the financial instruments classified as available for sale were to be impaired due to significant or long-term decreases in market values. The assessment of materiality and long-term nature requires an evaluation. Impairment is necessary if there is proof of decline of the investors' financial situation, industry and sector activity, changes in technology, and operational and financial cash flows. The assumptions used for the fair value assessment are provided in the Note 19 to the financial statements.

4. Segment reporting

The Company provided limited information on its business segments. The reporting format for primary segments, i.e. business segments, is based on the internal needs reporting structure. The Company has the following main business segments, based on their territory, and include the Head Office:
Segment analysis does not comprise the changes in technical provisions, goodwill impairment, and reserves for court cases, depreciation cost, changes in property value. Segment reporting is provided only at the Company level. In case segment reporting of the Group's operations, the position *Net profit before tax and depreciation* would increase by HRK 15 thousand in investment income.

COMPANY IN 2018	**Head Office HRK'000**	**Split HRK'000**	**Šibenik HRK'000**	**Zagreb HRK'000**	**Osijek HRK'000**	**Rijeka HRK'000**	**Koprivnica HRK'000**	**Pula HRK'000**	**Sisak HRK'000**	**Dubrovnik HRK'000**	**Total HRK'000**
Written gross premium	299	80,763	61,029	251,935	72,590	52,581	38,338	46,983	28,625	29,349	662,492
Value adjustment and paid premium value adjustment	20	8	(248)	(1,635)	(551)	(418)	(155)	(184)	(116)	97	(3,182)
Outward reinsurance gross premiums	-	(3,344)	(1,573)	(9,100)	(2,233)	(598)	(422)	(443)	(456)	(630)	(18,799)
Net written premiums	**319**	**77,427**	**59,208**	**241,200**	**69,806**	**51,565**	**37,760**	**46,356**	**28,054**	**28,816**	**640,511**
Investment and other operating income	84,997	3,859	968	7,571	1,494	861	513	980	580	360	102,183
Net income	**85,316**	**81,286**	**60,176**	**248,771**	**71,300**	**52,426**	**38,274**	**47,336**	**28,633**	**29,176**	**742,694**
Claims	**(28,972)**	**(29,472)**	**(17,399)**	**(98,794)**	**(26,929)**	**(15,491)**	**(16,017)**	**(11,138)**	**(6,457)**	**(8,540)**	**(259,209)**
Acquisition costs	(974)	(7,895)	(4,309)	(22,723)	(7,268)	(5,438)	(3,514)	(3,499)	(3,413)	(1,619)	(60,652)
Administrative and other operating costs	(64,068)	(25,292)	(20,313)	(66,592)	(27,613)	(18,350)	(15,234)	(16,793)	(11,329)	(7,261)	(272,845)
Investment costs	(7,088)	-	(1)	(4)	-	(6)	-	(5)	-	-	(7,104)
Net profit before tax and depreciation	**(15,785)**	**18,627**	**18,153**	**60,658**	**9,490**	**13,141**	**3,509**	**15,901**	**7,434**	**11,756**	**142,884**

4. Segment reporting (continued)

Segment analysis does not comprise the changes in technical provisions, goodwill impairment, and reserves for court cases, depreciation cost, changes in property value.

COMPANY IN 2017	Head Office HRK'000	Split HRK'000	Šibenik HRK'000	Zagreb HRK'000	Osijek HRK'000	Rijeka HRK'000	Koprivnica HRK'000	Pula HRK'000	Sisak HRK'000	Dubrovnik HRK'000	Total HRK'000
Written gross premium	638	75,676	55,144	232,441	59,563	41,838	36,078	39,435	26,657	25,566	593,036
Value adjustment and paid premium value adjustment	19	(30)	(42)	(1,390)	(556)	(416)	32	(286)	(36)	215	(2,490)
Outward reinsurance gross premiums	-	(2,768)	(1,486)	(8,554)	(1,600)	(168)	(584)	(420)	(384)	(392)	(16,356)
Net written premiums	**657**	**72,878**	**53,616**	**222,497**	**57,407**	**41,254**	**35,526**	**38,729**	**26,237**	**25,389**	**574,190**
Investment and other operating income	76,434	2,513	1,204	8,105	1,195	1,190	974	869	485	204	93,173
Net income	**77,091**	**75,391**	**54,820**	**230,602**	**58,602**	**42,444**	**36,500**	**39,598**	**26,722**	**25,593**	**667,363**
Claims	**(24,937)**	**(27,964)**	**(25,527)**	**(87,409)**	**(22,513)**	**(15,022)**	**(12,669)**	**(9,509)**	**(7,049)**	**(7,961)**	**(240,560)**
Acquisition costs	(1,799)	(7,664)	(3,950)	(21,418)	(5,457)	(4,317)	(3,238)	(3,050)	(3,206)	(1,369)	(55,468)
Administrative and other operating costs	(71,625)	(24,909)	(13,846)	(65,532)	(25,877)	(16,192)	(14,609)	(16,201)	(10,841)	(6,542)	(266,174)
Investment costs	(18,540)	(37)	(1)	(2)	(1)	-	(1)	(1)	-	-	(18,583)
Net profit before tax and depreciation	**(39,810)**	**14,817**	**11,496**	**56,241**	**4,754**	**6,913**	**5,983**	**10,837**	**5,626**	**9,721**	**86,578**

5. Net earned premium

All contracts were concluded in the Republic of Croatia. The premium analysis according to the business structure is described below.

GROUP AND COMPANY

2018	Written gross premium	Outward reinsurance gross premiums	Changes in gross unearned premium provisions	Changes in gross unearned premium provisions, reinsurance share	Value adjustment and paid premium value adjustment	Earned premiums
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Motor Third Party Liability Insurance	343,723	(701)	(11,548)	1	(2,201)	329,273
Road Vehicle Insurance – Casco	108,521	-	(13,677)	-	(351)	94,492
Assets	64,387	(7,330)	(2,207)	485	6	55,341
Accident Insurance and Health Insurance	80,784	(6,021)	(3,379)	(348)	(383)	70,654
Other	65,077	(4,748)	59	101	(251)	60,238
	662,492	**(18,799)**	**(30,752)**	**239**	**(3,182)**	**609,998**

GROUP AND COMPANY

2017	Written gross premium	Outward reinsurance gross premiums	Changes in gross unearned premium provisions	Changes in gross unearned premium provisions, reinsurance share	Value adjustment and paid premium value adjustment	Earned premiums
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Motor Third Party Liability Insurance	320,828	(634)	(5,888)	1	(1,814)	312,493
Road Vehicle Insurance – Casco	81,763	-	(7,385)	-	(222)	74,156
Assets	52,153	(5,839)	(4,752)	336	46	41,944
Accident Insurance and Health Insurance	74,380	(6,092)	(1,240)	405	(298)	67,155
Other	63,912	(3,791)	(2,099)	(144)	(202)	57,676
	593,036	**(16,356)**	**(21,364)**	**598**	**(2,490)**	**553,424**

6. Income from fees and commissions

In 2018, the Group and the Company's income from fees and commissions amounted to HRK 777 thousand (2017: HRK 1,524 thousand) and referred to the income from fees for reinsurance.

7. Net investment income

Investment income	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Interest income	27,616	21,552	27,616	21,552
Lease income	15,940	14,431	15,835	14,306
Dividend income	6,811	8,089	6,811	8,089
Realised gains from sales of financial instruments	2,775	5,571	2,775	5,571
Income from sale of assets	577	181	577	181
	53,719	**49,824**	**53,614**	**49,699**

Investment cost	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Net income/cost from the increase/(decrease) of the investment value	10,086	(23,450)	10,086	(23,450)
Value adjustments for investments	(2,816)	-	(2,816)	-
Value adjustments for loans (i)	(182)	(13,603)	(182)	(13,603)
Interest expense	(2,332)	(6,032)	(2,332)	(6,032)
Realised losses from sale of financial assets	(421)	(1,236)	(421)	(1,236)
Goodwill decrease (*Note 15*)	(275)	(205)	(275)	(205)
Expenses from sale of assets	(2)	(9)	(2)	(9)
Financial investment insurance costs	(21,920)	(21,850)	(21,920)	(21,850)
Other costs	(83)	(466)	(83)	(466)
	(17,945)	**(66,851)**	**(17,945)**	**(66,851)**
	35,774	**(17,030)**	**35,669**	**(17,154)**

7. Net investment income (continued)

Interest income	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Loans interest income	17,592	15,198
Bonds interest income	4,397	5,594
Bank deposits interest income	565	739
Other (assets on accounts, default interest)	5,062	20
	27,616	**21,552**

Dividend income	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Agram banka d.d.	1,936	1,200
Adriatic osiguranje d.d. Sarajevo	-	753
Agram d.d. Ljubuški	1,495	399
Euro Daus d.d.	401	375
Autoservisni centar d.d.	145	213
Autoslavonija d.d.	309	77
Automehanika servisi d.d.	141	58
Agraminvest d.o.o. BiH	114	32
Euroherc osiguranje d.d.	-	4,982
Agram Life osiguranje d.d.	-	-
Ledo d.d.	-	-
Hrvatska poštanska banka d.d.	-	-
Autocentar Vrbovec d.o.o.	2,270	-
	6,811	**8,089**

Interest cost	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Default interest	100	3,801
Company loans interest costs	1,353	1,397
Bank loans interest costs	879	834
	2,332	**6,032**

8. Other operating income

	Group 2018 HRK'000	Company 2018 HRK'000	Group 2017 HRK'000	Company 2017 HRK'000
Income from long-term reserves (Note 34)	-	-	8,996	8,996
Income from surrender value and refunds	10,256	10,256	14,936	14,936
Income from provisions for claims outstanding	721	721	3,124	3,124
Premium from the previous year - policy addition	521	521	76	76
Other income	5,271	5,129	1,936	1,936
	16,769	**16,627**	**29,068**	**29,068**

HRK 2,408 thousand of other income in 2018 refers to payment of written-off and adjusted receivables (2017: HRK 1,175 thousand).

9. Claims incurred

GROUP AND COMPANY

2018	Gross liquidated claims	Reinsurer's share in gross liquidated claims	Changes in gross provisions for claims outstanding	Changes in gross provisions for claims outstanding, reinsurer's share	Claims incurred, net of insurer
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Motor Third Party Liability Insurance	157,733	-	711	14	158,458
Road Vehicle Insurance – Casco	55,286	-	3,537	-	58,823
Assets	27,162	(2,420)	(4,124)	432	21,050
Accident Insurance and Health Insurance	7,083	-	(1,496)	-	5,587
Other	11,250	(36)	10,717	1,777	23,708
	258,514	**(2,456)**	**9,345**	**2,223**	**267,626**

2017	Gross liquidated claims	Reinsurer's share in gross liquidated claims	Changes in gross provisions for claims outstanding	Changes in gross provisions for claims outstanding, reinsurer's share	Claims incurred, net of insurer
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Motor Third Party Liability Insurance	158,762	(600)	(34,757)	985	124,390
Road Vehicle Insurance – Casco	41,062	-	5,698	-	46,760
Assets	19,752	(3,374)	8,286	(3,400)	21,264
Accident Insurance and Health Insurance	5,642	-	(180)	-	5,462
Other	13,817	(5,146)	5,606	(5,029)	9,248
	239,035	**(9,120)**	**(15,347)**	**(7,444)**	**207,123**

The Company liquidated a total of 97,164 payment claims in 2018 (2017: 81,460), while 13,393 payment claims are in the reserve on 31 December 2018 (in 2017: 13,209).

15% of claims refer to Motor Third Party Liability Insurance policies, 9% of claims refer to Road Vehicle Insurance policies, and 76% of claims refer to other insurance groups.

9. Claims incurred (continued)

Analysis of the claims quota, costs quota and combined claims quota

The damage quota, costs quota and combined costs quota for types of insurance calculated pursuant to the Instruction for filling in financial statements of the Insurance company or reinsurance companies.

	Group and Company	Group and Company	Group and Company
2018	**Claims quota**	**Costs quota**	**Combined quota**
Accident Insurance	7.15%	78.58%	85.73%
Health Insurance	14.41%	27.20%	41.61%
Road Vehicle Insurance	62.35%	33.12%	95.47%
Aircraft Insurance	32.26%	20.25%	52.50%
Vessel Insurance	53.54%	34.51%	88.05%
Goods in Transit Insurance	2.58%	28.08%	30.66%
Fire and Special Perils Insurance	16.19%	51.98%	68.17%
Other Property Insurance	54.19%	44.35%	98.54%
Motor Vehicle Liability Insurance	48.12%	47.86%	95.98%
Aircraft Liability Insurance	2,119.34%	27.90%	2,147.24%
Vessel Liability Insurance	0.29%	31.00%	31.29%
Other Liability Insurance	9.72%	32.75%	42.48%
Loan insurance	(645.24%)	27.44%	(617.80%)
Guarantee Insurance	5,397.31%	37.09%	5,434.39%
Financial Losses Insurance	0.12%	37.23%	37.35%
Travel Insurance	43.26%	40.95%	84.22%

9. Claims incurred (continued)

Analysis of the claims quota, costs quota and combined claims quota (continued)

2017	Group and Company Claims quota	Group and Company Costs quota	Group and Company Combined quota
Accident Insurance	6.87%	69.56%	76.43%
Health Insurance	43.75%	27.17%	70.92%
Road Vehicle Insurance	63.19%	37.00%	100.19%
Aircraft Insurance	14.84%	172.85%	187.69%
Vessel Insurance	34.74%	29.03%	63.77%
Goods in Transit Insurance	0.90%	37.88%	38.78%
Fire and Special Perils Insurance	51.47%	68.27%	119.74%
Other Property Insurance	67.19%	44.65%	111.85%
Motor Vehicle Liability Insurance	39.72%	48.02%	87.75%
Aircraft Liability Insurance	(625.26%)	190.01%	(435.26)
Vessel Liability Insurance	1.60%	89.68%	91.29%
Other Liability Insurance	51.36%	81.38%	132.74%
Loan insurance	(210.46%)	2.31%	(208.15)
Guarantee Insurance	21.92%	36.99%	58.91%
Financial Losses Insurance	0.44%	85.45%	85.89%
Travel Insurance	39.64%	35.63%	75.27%

The aforementioned quotas have been calculated in line with the Ordinance on the minimum standards, methods of calculating and guidelines for calculating technical provisions in accordance with accounting rules (Official Gazette No. 10/16, 42/17 and 59/17) of the Croatian Financial Services Supervisory Agency as follows:

Claims quota *= (liquidated claims, gross amount + changes in provisions for claims outstanding, gross amount + changes in other technical provisions, gross amount) / (written gross premiums + value adjustment and paid premium value adjustment + changes in gross unearned premium provisions* (-100)*

Costs quota *= (operating expenses (activity performance expenses), net + other insurance-technical income, net of reinsurance + other technical costs, net of reinsurance) / (calculated gross premiums + value adjustment and paid premium value adjustment + changes in gross unearned premium provisions)* (-100)*

Combined quota *= claims quota + costs quota*

10. Acquisition costs

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Sales agents’ commissions	20,900	16,520
Other acquisition costs	188,492	178,133
	209,392	**194,653**

Other acquisition costs

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Costs of sales agents’ salaries	66,884	62,012
Media promotion costs	39,753	38,947
Insurance costs	8,984	8,427
Lease payments costs	17,984	17,214
Material expenses	8,614	8,689
Entertainment	7,416	7,619
Bank fees and transaction fees	5,187	4,844
Energy costs	5,178	4,766
Other employee costs, not including gross and net salaries	5,475	4,137
Maintenance of other tangible assets	4,346	3,600
Telecommunications costs	2,089	2,317
Postage costs	1,417	1,488
Vehicle leasing	1,585	1,464
Employees’ health services	915	898
Consultancy costs (i)	651	883
Vehicle maintenance	677	741
Equipment lease	274	232
Other costs (services) (ii)	11,063	9,855
	188,492	**178,133**

10. Acquisition costs (continued)

(i) The cost of the statutory audit for the financial year 2018 amounts to HRK 274 thousand.

(ii) Other acquisition costs, other than media promotion costs, are allocated with regard to the share of the acquisition cost in total costs, which amounts to 67.89% in 2018.

Acquisition costs based on type of insurance for 2018 are shown below:

	Group and Company	Group and Company
	Commission	Other acquisition costs
Accident Insurance	1,883	50,238
Health Insurance	-	244
Road Vehicle Insurance	3,798	17,010
Railroad Vehicle Insurance	-	-
Aircraft Insurance	1	3
Vessel Insurance	83	673
Goods in Transit Insurance	14	399
Fire and Special Perils Insurance	1,151	7,669
Other Property Insurance	2,207	8,465
Motor Vehicle Liability Insurance	10,563	91,937
Aircraft Liability Insurance	-	5
Vessel Liability Insurance	55	617
Other Liability Insurance	797	6,295
Loan insurance	-	12
Guarantee Insurance	8	47
Financial Losses Insurance	49	2,676
Travel Insurance	292	2,202
	20,900	**188,492**

10. Acquisition costs (continued)

Acquisition costs based on type of insurance for 2017 are shown below:

	Group and Company Commission	Group and Company Other acquisition costs
Accident Insurance	1,468	42,280
Health Insurance	-	252
Road Vehicle Insurance	2,491	17,528
Railroad Vehicle Insurance	-	-
Aircraft Insurance	1	6
Vessel Insurance	61	486
Goods in Transit Insurance	14	247
Fire and Special Perils Insurance	854	8,261
Other Property Insurance	1,244	6,572
Motor Vehicle Liability Insurance	9,091	88,859
Aircraft Liability Insurance	-	6
Vessel Liability Insurance	120	557
Other Liability Insurance	856	7,932
Loan insurance	-	2
Guarantee Insurance	3	30
Financial Losses Insurance	90	2,748
Travel Insurance	227	2,368
	16,520	**178,133**

11. Administrative expenses

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Salaries, taxes and contributions from and on salaries	31,639	31,244
Depreciation and amortisation	10,101	10,604
Other administrative costs	38,720	38,882
	80,460	**80,730**

11. Administrative costs (continued)

Other administrative costs:

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Insurance costs	4,250	4,246
Lease payments costs	8,507	8,673
Material expenses	4,075	4,378
Entertainment	3,508	3,839
Bank fees and transaction fees	2,454	2,440
Energy costs	2,449	2,401
Other employee costs, not including gross and net salaries	2,590	2,084
Maintenance of other tangible assets	2,056	1,814
Telecommunications costs	988	1,167
Postage costs	670	750
Vehicle leasing	750	738
Employees' health services	433	453
Consultancy costs	308	445
Vehicle maintenance	320	373
Equipment lease	130	117
Other costs (services)	5,232	4,964
	38,720	**38,882**

11. Administrative costs (continued)

Management costs based on type of insurance for 2018 are shown below:

	Group and Company	Group and Company	Group and Company
	Depreciation and amortisation	Salaries, taxes and contribut-ions	Other manage-ment costs
Accident Insurance	81	3,795	4,210
Health Insurance	-	62	55
Road Vehicle Insurance	367	5,183	5,011
Railroad Vehicle Insurance	-	-	-
Aircraft Insurance	-	1	1
Vessel Insurance	7	152	128
Goods in Transit Insurance	1	107	85
Fire and Special Perils Insurance	251	1,348	2,134
Other Property Insurance	335	1,727	2,101
Motor Vehicle Liability Insurance	7,567	16,415	22,322
Aircraft Liability Insurance	-	1	1
Vessel Liability Insurance	47	112	149
Other Liability Insurance	77	1,516	1,466
Loan insurance	-	3	3
Guarantee Insurance	1	11	10
Financial Losses Insurance	5	721	570
Travel Insurance	1,362	483	474
	10,101	**31,639**	**38,720**

11. Administrative costs (continued)

Management costs based on type of insurance for 2017 are shown below:

	Group and Company	**Group and Company**	**Group and Company**
	Depreciation and amortisation	**Salaries, taxes and contributions**	**Other management costs**
Accident Insurance	77	3,849	3,969
Health Insurance	-	69	61
Road Vehicle Insurance	338	4,308	4,276
Railroad Vehicle Insurance	-	-	-
Aircraft Insurance	-	2	1
Vessel Insurance	6	118	103
Goods in Transit Insurance	1	71	56
Fire and Special Perils Insurance	279	1,371	2,652
Other Property Insurance	361	1,376	1,765
Motor Vehicle Liability Insurance	9,359	16,903	22,999
Aircraft Liability Insurance	-	2	1
Vessel Liability Insurance	49	101	155
Other Liability Insurance	78	1,697	1,676
Loan insurance	-	1	-
Guarantee Insurance	1	8	7
Financial Losses Insurance	3	792	628
Travel Insurance	52	576	532
	10,604	**31,244**	**38,882**

12. Other operating costs

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Croatian Health Insurance Fund (HZZO) fee	7,880	7,627	7,880	7,627
Adjustment cost - policy addition	5,624	5,626	5,624	5,626
Reserves (Note 34)	5,386	1,313	5,386	1,313
Guarantee Fund and claims outstanding of the Croatian Insurance Bureau	2,612	3,007	2,612	3,007
Premium returns	2,335	2,586	2,335	2,586
Depreciation and amortisation	1,615	390	1,626	390
Regulatory bodies fees	1,375	1,248	1,375	1,248
Other	972	2,635	727	2,635
	27,799	**24,432**	**27,564**	**24,432**

12. Other business costs (continued)

Insurance companies in the Republic of Croatia pay a monthly fee to the Guarantee Fund of the Croatian Insurance Bureau for compensating damages caused by non-insured and unknown vehicles. The monthly fee is established as a percentage, based on the share of every insurance company's premium in the market. The funds of the Guarantee Fund of the Croatian Insurance Bureau are used to pay for damages caused by non-insured and unknown vehicles.

13. Foreign exchange losses

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
Net exchange rate differences - financial assets	(578)	147
Net exchange rate differences - liabilities and receivables for foreign claims	(483)	(504)
Negative exchange rate differences - adjustment of credits with the foreign currency clause	(251)	(113)
	(1,312)	**(470)**

14. Income tax

Income tax is calculated in line with Croatian regulations. The corporate tax income rate amounts to 18% (in 2017: 18%).

The total income tax expense is in line with the accounting profit as follows:

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Profit before tax	**76,729**	**59,579**	**76,717**	**59,454**
Corporate income tax at a rate of 18%	13,812	10,724	13,808	10,702
Non-deductible tax expenses at a rate of 18%	2,689	10,069	2,689	10,069
Deductible tax income at a rate of 18%	(3,499)	(1,810)	(3,495)	(1,788)
Current income tax	**13,002**	**18,983**	**13,002**	**18,983**
Effect of reversal/recognition of deferred tax assets	(2,320)	2,253	(2,320)	2,253
Deferred corporate income tax	**(2,320)**	**2,253**	**(2,320)**	**2,253**

14. Income tax (continued)

Deferred and current tax liability were as follows:

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Revaluation of property tax	**63,518**	66,181	**58,923**	61,586
Revaluation of financial assets tax	21,269	19,482	**21,269**	19,482
Deferred tax liabilities	**84,787**	**85,663**	**80,192**	**81,068**
Income tax	-	7,995	-	7,995
Income tax	**-**	**7,995**	**-**	**7,995**
	84,787	**93,658**	**80,192**	**89,063**

Movement of deferred tax liability was as follows:

GROUP

2018	Opening balance HRK'000	Recognised in other comprehensive income HRK'000	Transfer to P&A HRK'000	Transfer to retained profit HRK'000	Closing balance HRK'000
Revaluation of securities available for sale	19,482	2,154	(367)		21,269
Property revaluation	66,181	(1,927)	(75)	(661)	63,518
	85,663	**227**	**(442)**	**(661)**	**84,787**
2017					
Revaluation of securities available for sale	18,534	(2,090)	3,038	-	19,482
Property revaluation	61,519	5,327	(28)	(637)	66,181
	80,053	**3,237**	**3,010**	**(637)**	**85,663**

14. Income tax (continued)

COMPANY

2018	Opening balance HRK'000	Recognised in other comprehensive income HRK'000	Transfer to P&A HRK'000	Transfer to retained profit HRK'000	Closing balance HRK'000
Revaluation of securities available for sale	19,482	2,154	(367)	-	21,269
Property revaluation	61,586	(1,927)	(75)	(661)	58,923
	81,068	**227**	**(442)**	**(661)**	**80,192**
2017					
Revaluation of securities available for sale	18,534	(2,090)	3,038	-	19,482
Property revaluation	61,519	732	(28)	(637)	61,586
	80,053	**(1,358)**	**3,010**	**(637)**	**81,068**

Movement of deferred tax assets was as follows:

GROUP AND COMPANY

2018	Opening balance HRK'000	Recognised in P&A HRK'000	Closing balance HRK'000
Value adjustment for shares available for sale	9,921	-	9,921
Current tax assets	-	4,024	4,024
Value adjustment for loans	5,272	(2,320)	2,952
	15,193	**1,704**	**16,897**
2017			
Value adjustment for shares available for sale	9,921	-	9,921
Value adjustment for loans	3,020	2,252	5,272
	12,941	**2,252**	**15,193**

15. Goodwill

Cost	**Group 31/12/2018 HRK'000**	**Group 31/12/2017 HRK'000**	**Company 31/12/2018 HRK'000**	**Company 31/12/2017 HRK'000**
Balance at beginning of year	**55,823**	**49,058**	**49,058**	**49,058**
Additions	13,973	6,765	-	-
Balance at end of the year	**69,796**	**55,823**	**49,058**	**49,058**
Accumulated impairment				
Balance at beginning of year	**34,362**	**34,157**	**34,362**	**34,157**
Impairment losses	275	205	275	205
Balance at end of the year	**34,637**	**34,362**	**34,637**	**34,362**
Carrying amount				
Balance at beginning of year	**21,461**	**14,901**	**14,696**	**14,901**
Balance at end of the year	**35,159**	**21,461**	**14,420**	**14,696**

The Company bought Atlas d.d., which generated goodwill. The Company acquired the aforementioned company and continued recognising goodwill per cash-generating units which refer to the acquired company.

During the financial year, the Group and the Company assessed the recoverable value of goodwill and established a goodwill impairment in the amount of HRK 275 thousand (in 2017: HRK 205 thousand). The recoverable value of the cash-generating unit was assessed based on the value in use.

The discount factor used when determining the net current value of future income as at 31 December 2018 amounted to 5.54% (in 2017: 6.10%).

As at 21 December 2018, the Company bought a 100% share in Autocentar Vrbovec d.o.o. for 16.1 million HRK. The difference between net assets of the acquired Company and the consideration is stated as goodwill of the Group. In 2018, the Group recognised goodwill after the purchase of Autocentar Vrbovec d.o.o. in the amount of HRK 13,973 thousand.

As at 8 May 2017, the Company bought a 100% share in the Tehnomobil nekretnine d.o.o. for 28 million HRK. The difference between net assets of the acquired Company and the consideration is stated as goodwill of the Group.

16. Intangible assets

	GROUP AND COMPANY
	Software
Cost	**HRK'000**
Balance at 1 January 2017	**3,321**
Additions	155
Decreases	(329)
Balance at 31 December 2017	**3,147**
Additions	338
Decreases	(537)
Balance at 31 December 2018	**2,948**
Accumulated depreciation	
Balance at 1 January 2017	**2,679**
Charge for the year	531
Decreases	(329)
Balance at 31 December 2017	**2,881**
Charge for the year	261
Decreases	(537)
Balance at 31 December 2018	**2,605**
Net carrying amount	
Balance at 31 December 2017	**266**
Balance at 31 December 2018	**343**

17. Property, plant and equipment

GROUP

	Land	Buildings	Plant and equipment and investment property	Other tangible assets	Total
Cost or revaluation	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Balance at 1 January 2017	**34,929**	**293,435**	**66,358**	**373**	**395,095**
Additions	25,764	3,485	2,547	-	31,796
Decreases	-	-	(2,916)	-	(2,916)
Revaluation	(198)	3,716	-	(14)	3,504
Balance at 31 December 2017	**60,495**	**300,636**	**65,989**	**359**	**427,479**
Additions	47	18,332	14,337	1,040	33,756
Decreases	-	-	(3,971)	-	(3,971)
Revaluation	423	4,015	-	8	4,446
Balance at 31 December 2018	**60,965**	**322,983**	**76,355**	**1,407**	**461,710**
Accumulated depreciation					
Balance at 1 January 2017	**-**	**69,504**	**53,893**	**88**	**123,485**
Charge for the year	-	6,036	4,029	8	10,073
Decreases	-	-	(2,839)	-	(2,839)
Balance at 31 December 2017	**-**	**75,540**	**55,083**	**96**	**130,719**
Charge for the year	-	6,184	3,649	7	9,840
Decreases	-	-	(3,846)	-	(3,846)
Additions	-	-	6,129	4	6,133
Balance at 31 December 2018	**-**	**81,724**	**61,014**	**107**	**142,846**
Net carrying amount					
Balance at 31 December 2017	**60,495**	**225,096**	**10,906**	**263**	**296,760**
Balance at 31 December 2018	**60,965**	**241,259**	**15,341**	**1,300**	**318,864**

17. Property, plant and equipment (continued)

COMPANY

	Land	Buildings	Plant and equipment and investment property	Other tangible assets	Total
Cost or revaluation	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Balance at 1 January 2017	**34,929**	**293,435**	**66,358**	**373**	**395,095**
Additions	172	3,485	2,547	-	6,204
Decreases	-	-	(2,916)	-	(2,916)
Revaluation	(198)	3,716	-	(14)	3,504
Balance at 31 December 2017	**34,903**	**300,636**	**65,989**	**359**	**401,887**
Additions	47	18,332	7,304	-	25,683
Decreases	-	-	(3,971)	-	(3,971)
Revaluation	423	4,015	-	8	4,446
Balance at 31 December 2018	**35,373**	**322,983**	**69,322**	**367**	**428,045**
Accumulated depreciation					
Balance at 1 January 2017	**-**	**69,504**	**53,893**	**88**	**123,485**
Charge for the year	-	6,036	4,029	8	10,073
Decreases	-	-	(2,839)	-	(2,839)
Balance at 31 December 2017	**-**	**75,540**	**55,083**	**96**	**130,719**
Charge for the year	-	6,184	3,649	7	9,840
Decreases	-	-	(3,846)	-	(3,846)
Balance at 31 December 2018	**-**	**81,724**	**54,886**	**103**	**136,713**
Net carrying amount					
Balance at 31 December 2017	**34,903**	**225,096**	**10,906**	**263**	**271,168**
Balance at 31 December 2018	**35,373**	**241,259**	**14,435**	**264**	**291,332**

17. Property, plant and equipment (continued)

The fair value of land and buildings of net carrying amount equals to HRK 276,633 thousand as at 31 December 2018 (as at 31 December 2017: HRK 259,999 thousands HRK). The Group based the fair value of investment property on the assessments of the authorised assessor and permanently appointed expert witness Mr Mladen Rukavina.

On the level of the Group, the fair value of land and buildings of net carrying amount equals to HRK 303,524 thousand as at 31 December 2018. The increased fair value of the Group in relation to the Company in the amount of HRK 25,592 thousand refers to the land of the associated company Tehnomobil nekretnine d.o.o.

In order to calculate the market value of property, the assessor used the income, cost and comparative method. The calculation uses data published by relevant institutions, data on current trends in property value for the location in question and the equivalent object, as well as own experiences. There has been no change to the value assessment method during the year. However, the estimated fair values do not necessarily have to refer to amounts that the Group might realise in a real transaction. As at 31 December 2018, ownership of property of the Group in the amount of HRK 90 thousand is being registered, which represents 0.03% of the total material assets (in 2017: 0.4%). In 2018, the Company has no financial lease liability (2017: HRK 21 thousand).

18. Investment property

GROUP AND COMPANY

	2018 HRK'000	2017 HRK'000
Buildings	316,797	307,402
Land	90,893	85,386
Current investments	592	-
Equipment	17,536	2,652
	425,818	**395,440**

The Company purchased a property in Trieste, Italy (Corso Italia 31) on 30 November 2018 for HRK 15.2 million and classified it as investment property in the amount of HRK 7,585 thousand (50%). On 27/12/2018 the Company purchased a property in Split (Varaždinska 54) for HRK 18.8 million. The relevant property is classified as investment property in the amount of HRK 18,800 thousand at purchase.

	2018 HRK'000	2017 HRK'000
Balance at beginning of year	**395,440**	**372,319**
Additions	51,720	20,053
Decreases	(21,709)	(1,144)
Revaluation, net	367	4,212
Balance at end of the year	**425,818**	**395,440**

18. Investment property (continued)

The Group based the fair value of investment property on the assessments of the authorised assessor and permanently appointed expert witness Mr Mladen Rukavina, which were conducted by using familiar market data, but also relevant assessment methods. In order to calculate the market value of property, the assessor used the income, cost and comparative method. The calculation uses data published by relevant institutions, data on current trends in property value for the location in question and the equivalent object, as well as own experiences. There has been no change to the value assessment method during the year. However, the estimated fair values do not necessarily have to refer to amounts that the Group might realise in a real transaction.

As at 31 December 2018, the right to build was given for the Group's property in the amount of HRK 11,497 thousand, whereas the Group's property of current value in the amount of HRK 5,077 thousand (2017: HRK 27,632 thousand) or 1.19% (2017: 7.17%) of total investment property is currently being registered.

The value of recently acquired property was determined in the value assessment of the authorised assessor, Proventus nekretnine. The property market value assessment is carried out by an assessor authorised to perform it, based on long-term experience, in line with documentation and data received from the customer, as well as insight in the status of the property on the relevant location. The calculation is performed by using methods for determining property value - cost method, comparative method and/or income method, depending on the type of property. The calculation uses data published by relevant institutions, data on current trends in property value for the location in question and the equivalent object, as well as own experiences. There has been no change to the value assessment method during the year.

All property as at 31 December 2017 and 31 December 2018 have been reclassified to Level 3. There were no reclassifications between levels in this year.

19. Investments available for sale

	Group and Company 31/12/2018 HRK'000	Group and Company 31/12/2017 HRK'000
Securities	419,482	397,434
Bonds	115,152	122,989
Investment funds	20,328	38,456
Commercial papers	-	13,528
	554,962	**572,407**

19. Investments available for sale (continued)

GROUP AND COMPANY

Securities	Quotation	31/12/2018	Ownership	31/12/2017	Ownership
		HRK'000	%	HRK'000	%
Agram banka d.d.	Quoted	67,324	19.98	62,547	19.98
Euroherc osiguranje d.d.	Unquoted	161,614	9.90	156,176	9.90
Zvijezda d.d.	Quoted	-	2.65	371	2.65
Ledo d.d.	Quoted	-	0.21	189	0.21
PIK-VINKOVCI d.d.	Quoted	-	6.85	217	6.85
HPB d.d.	Quoted	1,464	0.16	1,649	0.16
Agram Life osiguranje d.d.	Unquoted	59,553	12.49	60,259	12.49
Per fair value		**289,955**		**281,408**	
Agram Invest d.o.o., BIH	Unquoted	30,863	14.98	30,864	17.54
Specijalna bolnica Agram	Unquoted	5,500	10.00	5,500	10.00
Agram nekretnine d.d., Mostar	Quoted	12,985	19.74	12,985	19.74
Adriatic osiguranje d.d. Sarajevo	Quoted	9,810	19.87	9,810	19.87
Nava banka d.d.	Quoted	-	0.36	-	0.36
Euro Daus d.d.	Unquoted	33,978	19.96	33,979	19.96
Auto Dubrovnik d.d.	Unquoted	3,192	19.74	3,192	19.74
Automehanika servisi d.d.	Unquoted	6,602	19.50	6,602	19.50
Autoservisni centar d.d.	Unquoted	5,994	19.41	5,994	19.41
Autoslavonija d.d.	Unquoted	5,680	19.88	5,680	19.88
Euroleasing d.o.o.	Unquoted	1,420	9.90	1,420	9.90
Agram Yachting d.o.o.	Unquoted	12,000	17.14	-	-
Hipotekarna banka d.d. Podgorica	Unquoted	1,503	0.36	-	-
Per cost		**129,527**		**116,026**	
Total		**419,482**		**397,434**	

In 2018, the company Bosna Sunce osiguranje d.d. changed its name to Adriatic osiguranje d.d. Sarajevo.

19. Investments available for sale (continued)

Unrealised gains/(losses) determined when evaluating shares in 2018 have been recorded in the revaluation provisions in the capital and amounted to:

GROUP AND COMPANY IN 2018

	Number of shares	Accumulated unrealised profit/(losses) HRK'000	Fair value HRK'000
Agram banka d.d.	387,143	4,777	67,324
Euroherc osiguranje d.d.	30,192	5,437	161,614
Ledo d.d.	659	-	-
Zvijezda d.d.	2,653	-	-
PIK-VINKOVCI d.d.	21,725	-	-
Agram Life osiguranje d.d.	20,354	(706)	59,553
Medora ljetovališta i hoteli d.d.	1,057,202	1,290	31,801
HPB d.d.	3,253	(185)	1,464
		10,613	**321,756**

GROUP AND COMPANY IN 2017

	Number of shares	Accumulated unrealised profit/(losses) HRK'000	Fair value HRK'000
Agram banka d.d.	387,143	2,915	62,547
Euroherc osiguranje d.d.	30,192	74,579	156,176
Ledo d.d.	659	-	189
Zvijezda d.d.	2,653	-	371
PIK-VINKOVCI d.d.	21,725	-	217
Agram Life osiguranje d.d.	20,354	14,029	60,259
Medora ljetovališta i hoteli d.d.	1,057,202	8,503	30,511
HPB d.d.	3,253	(303)	1,649
		99,723	**311,919**

The Company determined the fair value of the investment in Agram banka d.d., Euroherc osiguranje d.d., Agram Life osiguranje d.d. and Medora ljetovališta i hoteli d.d. based on the assessment.

19 Investments available for sale (continued)

Assessments for Agram banka Zagreb d.d., Euroherc osiguranje d.d. and Agram life osiguranje d.d. were made based on the weighted average method of comparable companies, discounted free cash flows and net assets, by using the following assumptions:

- For the valuation of shares of Agram banka Zagreb d.d., the weighted average method for comparable companies used three credit institutions operating on the Croatian market and regularly listed in the Zagreb stock exchange in the regular market quotation with the most significant level of trading. The assessor used average values when calculating the indicative value by using the PEER comparable companies method and applied an illiquidity discount of 10.9%. The method of discounted cash flows is based on the review of the default risk, assessment of shares investment premium risk, assessment of beta coefficients, assessment of non-risk interest rate, establishment of a discount rate, establishment of an illiquidity discount and calculation of estimated value. The discount rate which reduced the free cash flows of the capital owners to the current value amounts to 8.81% and the expected growth rate amounts to 1.29%. The assessment of the net carrying amount is based on the fair value of the net value of assets, i.e. carrying amount of capital and reserves from the balance sheet of the Company as at 31 December 2018 and the application of the discount factor to illiquidity in the amount of 10.9%.
- The PEER comparable companies method was used for the valuation of shares of Agram Life osiguranja d.d. and life insurance companies were selected as comparable companies. Furthermore, an adjustment of comparable companies was performed in the way that insurance companies which approximately represent the risk profile of the company Agram Life osiguranja d.d. were selected. The Company also used an illiquidity discount in the amount of 10.90%. The method of discounted cash flows is based on the review of the default risk, assessment of shares investment premium risk, assessment of beta coefficients, assessment of non-risk interest rate, establishment of a discount rate, establishment of an illiquidity discount and calculation of estimated value. The discount rate which reduced the free cash flows of the capital owners to the current value amounts to 9.03% and the expected growth rate amounts to 1.30%. The assessment of the net carrying amount is based on the fair value of the net value of assets, i.e. carrying amount of capital and reserves from the balance sheet of the Company as at 31 December 2018 and the application of the discount factor to illiquidity in the amount of 10.9%.

19 Investments available for sale (continued)

- The PEER comparable companies method was used for the valuation of shares of Euroherc osiguranje d.d. and non-life insurance companies were selected as comparable companies. Furthermore, an adjustment of comparable companies was performed in the way that insurance companies which approximately represent the risk profile of the company Euroherc osiguranje d.d. were selected. The Company also used an illiquidity discount in the amount of 10.90%. The method of discounted cash flows is based on the review of the default risk, assessment of shares investment premium risk, assessment of beta coefficients, assessment of non-risk interest rate, establishment of a discount rate, establishment of an illiquidity discount and calculation of estimated value. The discount rate which reduced the free cash flows of the capital owners to the current value amounts to 7.81% and the expected growth rate amounts to 1.25%. The assessment of the net carrying amount is based on the fair value of the net value of assets, i.e. carrying amount of capital and reserves from the balance sheet of the Company as at 31 December 2018 and the application of the discount factor to illiquidity in the amount of 10.9%.

The PEER comparable companies method was used for assessing the fair value of the company Medora ljetovališta i hoteli d.d. and hotels in the Republic of Croatia were selected as comparable companies. The discount factor to illiquidity in the amount of 10.9% was also used when determining the fair value.

With regard to the corporate portfolio, the Group performed impairment tests of its shares by using the acquisition cost method.

For the remaining shares kept at acquisition cost, the impairment assessment was performed by using the following assessment methods:

- Two assessment methods, i.e. the free cash flow method and the assessment method based on the net carrying amount of assets. The final assessed value was calculated based on the average value of the two used methods;
- PEER comparable companies method;
- Two assessment methods, i.e. the free cash flow method and the PEER comparable companies method. The final assessed value was calculated based on the average value of the two used methods.

19 Investments available for sale (continued)

The total value of the share of the members of the concern Agrokor d.d. as at 31 December 2018 amounted to HRK 0 (2017: HRK 777 thousand).

GROUP AND COMPANY

Investment funds	31/12/2018 HRK'000	Number of shares 31/12/2018	31/12/2017 HRK'000	Number of shares 31/12/2017
Locusta CASH	12,460	13,288	18,319	13,288
Auctor Cash	-	-	11,288	101,110
APRIVATE	7,868	1,365	8,849	1,365
	20,328		**38,456**	

Investments in investment funds are valued at disclosed market value of the share, according to the management company's calculation.

GROUP AND COMPANY

Bonds	Nominal value	Effective interest rate	Maturity	Curren-cy	31/12/2018 HRK'000	31/12/2017 HRK'000
HRRHMFO203E0	500	6.50%	05/03/2020	EUR	4,077	4,331
HRRHMFO187A3	-	5.25%	10/07/2018	HRK	-	8,623
HRRHMFO227E9	736	6.50%	22/07/2022	EUR	6,784	7,033
HRRHMFO19BA2	1,400	5.38%	29/11/2019	EUR	10,942	11,529
RHP00O19BA4	2,500	5.13%	10/11/2019	HRK	2,628	2,653
HRRHMFO257A4	6,500	4.50%	09/07/2025	HRK	7,816	7,748
HRRHMFO217A8	9,400	2.75%	08/07/2021	HRK	10,064	10,086
HRHPDGO212A1	6,539	0.00%	22/02/2021	HRK	5,313	4,886
HRKBZ0O227A8	6,500	6.00%	31/07/2022	HRK	6,755	5,126
HRRHMFO327A5	-	3.25%	07/07/2032	EUR	-	21,218
HRRHMFO282A2	11,130	2.88%	07/02/2028	HRK	12,038	10,534
HRRHMFO26CA5	2,500	4.25%	14/12/2026	HRK	2,952	2,910
BAERLMK00008	225	6.00%	22/09/2020	BAM	883	904
HRRHMFO222A8	12,950	2.25%	07/02/2022	HRK	13,653	11,145
HRRHMFO23BA4	15,600	1.75%	27/11/2023	HRK	16,109	14,263
XS1117298916	1,850	3.00%	11/03/2025	EUR	15,138	-
					115,152	**122,989**

19 Investments available for sale (continued)

Investments in bonds are valued at disclosed market value.

GROUP AND COMPANY

Commercial papers	Nominal value	Effective interest rate	Maturity	Curren-cy	31/12/2018 HRK'000	31/12/2017 HRK'000
HRAUCTM850A6	14,165	0.00%	10/12/2018	HRK	-	13,528
					-	**13,528**

19.a Investments in subsidiaries and associates

GROUP

Securities	Quotation	31/12/2018	Ownership	31/12/2017	Ownership
			%	HRK'000	%
Medora ljetovališta i hoteli d.d.	Quoted	31,801	20.08	30,511	20.08
Per fair value		**31,801**		**30,511**	
Agram d.d., Ljubuški	Quoted	9,986	39.52	9,986	39.52
Per cost		**9,986**		**9,986**	
Total		**41,787**		**40,497**	

COMPANY

Securities	Quotation	31/12/2018	Ownership	31/12/2017	Ownership
			%	HRK'000	%
Medora ljetovališta i hoteli d.d.	Quoted	31,801	20.08	30,511	20.08
Per fair value		**31,801**		**30,511**	
Agram d.d., Ljubuški	Quoted	9,986	39.52	9,986	39.52
Tehnomobil nekretnine d.o.o.	Unquoted	28,000	100.00	28,000	100.00
Autocentar Vrbovec d.o.o.	Unquoted	16,100	100.00	-	-
Per cost		**54,086**		**37,986**	
Total		**85,887**		**68,497**	

20 Loans and receivables

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Loans	469,756	417,035
General loan provisions	(5,372)	(4,625)
Deposits	30,227	29,786
	494,611	**442,196**

Loans	Currency	Contract date	Interest rate	Maturity	31/12/2018 HRK'000
Short-term					
Strukturiranja d.o.o.	HRK	04/06/2018	2.50%	When	2,536
Strukturiranja d.o.o.	HRK	14/06/2018	2.50%	When	2,028
Strukturiranja d.o.o.	HRK	21/08/2018	3.00%	When	1,011
Agram invest d.d.	HRK	08/06/2017	1.50%	29/03/2019	16,645
Agram invest d.d.	HRK	08/06/2017	1.50%	29/03/2019	16,645
Natural persons	HRK	-	-	-	4,725
					43,590
Long-term					
Krivić d.o.o.	HRK	05/01/2017	3.84%	31/08/2025	12,890
Euroleasing d.o.o.	HRK	15/03/2017	3.59%	31/12/2022	82,298
Medora hoteli i ljetovališta d.d.	HRK	09/06/2017	5.58%	31/12/2030	3,826
Automehanika servisi d.d.	HRK	01/06/2017	4.30%	31/05/2024	2,520
Euro Daus d.d.	HRK	01/07/2017	4.05%	30/06/2037	53,015
Euro Daus d.d.	HRK	01/07/2017	4.05%	30/06/2037	41,973
Auto-Dubrovnik d.d.	HRK	29/03/2012	4.25%	31/12/2023	7,457
Euroagram TIS d.o.o.	HRK	08/07/2017	4.05%	31/07/2037	64,592
Euroagram TIS d.o.o.	HRK	08/07/2017	4.05%	31/07/2037	38,358
Euroagram TIS d.o.o.	HRK	08/07/2017	4.05%	31/07/2037	61,962
Euroagram TIS d.o.o.	HRK	25/01/2018	4.05%	31/08/2038	29,670
Auto-Dubrovnik d.d.	HRK	07/12/2018	4.05%	31/12/2019	5,984
Euro Daus d.d.	HRK	28/02/2018	4.05%	31/12/2038	13,457
Agram d.d., Ljubuški	HRK	18/12/2009	5.90%	31/12/2023	978
Konzum d.d.	EUR	29/09/2015	7.50%	31/12/2017	7,186
					426,166
					469,756

The loan of Konzum d.d. is secured by property collateral and the Group holds the encumbrance of the real estate.

As at 31 December 2018, the short-term loans of Agram invest d.d. in the total net amount HRK 33,290 thousand refer to repurchase loans mostly secured by shares of the Agrokor Group and the value adjustment for relevant loans amounted to HRK 12.9 million.

20. Loans and receivables (continued)

GROUP AND COMPANY

Loans	**Currency**	**Contract date**	**Interest rate**	**Maturity**	**31/12/2017 HRK'000**
Short-term					
KD Locusta fondovi d.o.o.	HRK	04/01/20	2.50%	When	12,500
KD Locusta fondovi d.o.o.	HRK	12/07/20	2.00%	When	5,000
KD Locusta fondovi d.o.o.	HRK	10/10/20	2.50%	When	5,000
Agram invest d.d.	HRK	08/06/20	1.50%	07/06/2018	8,647
Agram invest d.d.	HRK	08/06/20	1.50%	07/06/2018	8,716
Autocentar Vrbovec d.o.o.	HRK	30/10/20	4.05%	31/10/2018	1,006
MTT d.o.o.	HRK	31/10/20	4.05%	31/10/2018	836
Natural persons	HRK	-	-	-	4,544
					46,249
Long-term					
Krivić d.o.o.	HRK	05/01/20	3.84%	31/08/2025	13,102
Euroleasing d.o.o.	HRK	15/03/20	3.59%	31/12/2022	51,267
Medora hoteli i ljetovališta d.d.	HRK	09/06/20	5.58%	31/12/2030	3,941
Automehanika servisi d.d.	HRK	01/06/20	4.30%	31/05/2024	2,811
Euro Daus d.d.	HRK	01/07/20	4.05%	30/06/2037	56,876
Euro Daus d.d.	HRK	01/07/20	4.05%	30/06/2037	42,449
Auto-Dubrovnik d.d.	HRK	29/03/20	4.25%	31/12/2023	9,568
Euroagram TIS d.o.o.	HRK	08/07/20	4.05%	31/07/2037	62,635
Euroagram TIS d.o.o.	HRK	08/07/20	4.05%	31/07/2037	40,457
Euroagram TIS d.o.o.	HRK	08/07/20	4.05%	31/07/2037	68,126
Agram Yachting d.o.o.	HRK	30/01/20	4.50%	31/12/2023	6,864
Agram Yachting d.o.o.	HRK	23/06/20	7.00%	31/12/2023	4,371
Agram d.d., Ljubuški	HRK	18/12/20	5.90%	31/12/2023	1,133
Konzum d.d.	EUR	29/09/20	7.50%	31/12/2017	7,186
					370,786
					417,035

20. Loans and receivables (continued)

Loans value adjustments movement during the year:

GROUP AND COMPANY

	2018	2017
	HRK'000	HRK'000
Opening balance	39,267	26,395
Value adjustment during the year	(12,890)	12,890
Write-off	(75)	-
Amounts recovered	(608)	(18)
Closing balance	**25,694**	**39,267**

The carrying amount of loans secured by property is HRK 317,669 thousand (2017: HRK 287,297 thousand), loans secured by securities amount to HRK 41,795 thousand (2017: 20,173) and other collateralised loans amount to HRK 110,292 thousand (2017: HRK 109,565 thousand).

Deposits	2018	2017
	HRK'000	HRK'000
Bank deposits in HRK	30,227	29,786
	30,227	**29,786**

Overview of deposits as at 31 December 2018:

GROUP AND COMPANY

Bank	Curr-ency	Maturity	Interest rate	31/12/2018 HRK'000
Short-term				
KentBank d.d.	HRK	12/02/2019	1.95%	5,086
Agram banka d.d.	HRK	13/02/2019	1.00%	42
Croatia banka d.d.	HRK	07/03/2019	1.70%	5,184
Erste &Steiremärkische Bank d.d.	HRK	28/03/2019	1.80%	6,389
Partner banka d.d.	HRK	17/05/2019	1.30%	1,008
				17,709
Long-term				
Agram banka d.d.	HRK	16/04/2020	0.01%	274
Agram banka d.d.	HRK	15/05/2020	2.10%	12,244
				12,518
				30,227

20. Loans and receivables (continued)

Overview of deposits as at 31 December 2017:

GROUP AND COMPANY

Bank	Curr-ency	Maturity	Interest rate	31/12/2017 HRK'000
Short-term				
KentBank d.d.	HRK	30/04/2018	1.65%	5,056
Agram banka d.d.	HRK	09/02/2018	0.80%	123
Partner banka d.d.	HRK	17/05/2018	1.80%	1,011
				6,190
Long-term				
Erste &Steiremärkische Bank d.d.	HRK	28/03/2019	1.80%	6,277
Croatia banka d.d.	HRK	07/03/2019	1.70%	5,097
Agram banka d.d.	HRK	15/05/2020	2.10%	12,222
				23,596
				29,786

21. Reinsurance share in technical provisions

	31/12/2018 HRK'000	31/12/2017 HRK'000
Provisions for claims outstanding, reinsurance share	9,149	11,372
Unearned premiums, reinsurance share	5,918	5,679
	15,067	**17,051**

22. Claims from direct insurance

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Gross amount		
Premium receivables per country	72,140	64,981
Enforceable premium receivables	19,577	19,704
Premium receivables from bankrupt companies	6,979	6,983
Premium receivables per business cooperation contract	6,923	7,971
Premium receivables from companies in pre-bankrutptcy proceedings	3,725	6,615
Vehicle control receivables	427	441
Receivables from agents, i.e. insurance intermediaries	81	1,254
	109,852	**107,949**
Value adjustments		
Adjustments for claimed premiums	(19,577)	(19,704)
Adjustments for unpaid premiums	(13,432)	(11,457)
Adjustments for premium receivables from bankrupt companies	(6,979)	(6,983)
Adjustments for premium receivables from companies in pre-bankrutptcy proceedings	(3,725)	(6,615)
	(43,713)	**(44,759)**
	66,139	**63,190**
Receivables from co-insurance	-	32
Total premium receivables	**66,139**	**63,222**

Overview of premium receivables, 31 December maturity date category

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Not yet due	41,944	41,843
Due in 30 days	9,631	8,139
Due in 31 to 60 days	4,143	4,459
Due in 61 to 90 days	3,323	2,481
Due in 91 to 180 days	7,098	6,300
	66,139	**63,222**

22. Claims from direct insurance (continued)

Premium value adjustment movement during the year:

	2018 HRK'000	2017 HRK'000
Opening balance	44,759	50,575
Value adjustment during the year (Note 5)	17,865	15,216
Limitations write-off	(3,497)	(8,306)
Amounts paid (Note 5)	(15,414)	(12,726)
Closing balance	**43,713**	**44,759**

23. Other receivables

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Claims from other insurance operations	39,247	38,925	39,247	38,925
Return on investment receivables	2,899	9,792	2,899	9,792
Other receivables	24,989	28,837	24,116	28,772
	67,135	**77,554**	**66,262**	**77,489**

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Claims from other insurance operations:				
Credit cards receivables	38,393	37,563	38,393	37,563
Receivables from foreign insurance companies	686	1,293	686	1,293
Receivables from the Croatian Insurance Bureau	168	69	168	69
	39,247	38,925	39,247	38,925

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Other receivables:				
Receivables for given advances	256	6,259	256	6,259
Corporate income tax advance payment	-	-	-	-
Contract guarantees	2,705	2,882	2,705	2,882
Sale of property, plant and equipment	495	641	495	641
Receivables from sale of stocks and shares	205	205	205	205
Capital reserve receivables	10,750	10,750	10,750	10,750
Other (Croatian Health Insurance Fund, cessions)	10,578	8,100	9,705	8,035
	24,989	**28,837**	**24,116**	**28,772**

24. Cash at bank and in hand

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Bank accounts	25,562	4,606	24,842	4,342
Cash in hand	123	73	117	73
	25,685	**4,679**	**24,959**	**4,415**

In the statement of cash flow, cash and cash equivalents comprise the following amounts:

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Cash at bank and in hand	6,845	3,516	6,119	3,253
Cash per court deposits	18,840	1,162	18,840	1,162
Credit cards and checks sent to be paid	185	354	185	354
	25,870	**5,033**	**25,144**	**4,769**

25. Other assets

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Checks	-	5
	-	**5**

26. Subscribed capital

The share capital of the Company entails 125 thousand regular shares of nominal value in the amount of HRK 400. The total value of the share capital amounts to HRK 50,000 thousand (2017: HRK 50,000 thousand).

Shareholders' structure at 31 December according to number of shares and capital participation:

	2018		2017	
	Number of shares	Share in %	Number of shares	Share in %
Grgić Dubravko	18,750	15.00	18,750	15.00
Euroherc osiguranje d.d.	12,069	9.66	12,488	9.99
Agram Life osiguranje d.d.	11,299	9.04	8,821	7.06
Grbavac Martina	-	-	6,104	4.88
Grgić Mladenka	5,515	4.41	5,515	4.41
Lerota Zlatko	4,500	3.60	4,500	3.60
Pavlović Radoslav	4,234	3.39	4,234	3.39
Milas Zdenko	3,375	2.70	3,375	2.70
Kurtović Husnija	3,187	2.55	3,187	2.55
Erkapić Mate	2,812	2.25	2,812	2.25
Krivić Niko	2,812	2.25	2,812	2.25
Čeko Ankica	2,812	2.25	2,812	2.25
Krile Mirjana	2,812	2.25	2,812	2.25
Rajić Milenko	2,812	2.25	2,812	2.25
Planinić Hrvoje	2,812	2.25	2,812	2.25
Other	45,199	36.15	41,154	32.92
Total	**125,000**	**100.00**	**125,000**	**100.00**

	Group 31/12/2018 HRK	Group 31/12/2017 HRK	Company 31/12/2018 HRK	Company 31/12/2017 HRK
Profit after tax (in thousands of HRK)	61,407	42,849	61,395	42,724
Profit attributable to the shareholders (in thousands of HRK)	61,407	42,849	61,395	42,724
Number of ordinary shares used in the calculation of basic earnings per share	125,000	125,000	125,000	125,000
Earnings per share (in HRK and lipa)	**491.26**	**342.79**	**491.16**	**341.79**

27. Revaluation reserves

Movement of revaluation provisions for securities available for sale is as follows:

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Opening balance	**88,752**	**84,432**
Increase in fair value	13,151	37,429
Decrease in fair value	(3,318)	(46,953)
Realisation of financial instruments	(1,696)	13,844
Closing balance	**96,889**	**88,752**

Movement of revaluation provisions for property is as follows:

	31/12/2018 HRK'000	31/12/2017 HRK'000
Opening balance	**280,557**	**280,252**
Increase in fair value	4,544	4,060
Decrease in fair value	(13,662)	(852)
Transfer to retained profit	(3,009)	(2,903)
Closing balance	**268,430**	**280,557**
	365,319	**369,309**

28. Other reserves

	31/12/2018 HRK'000	31/12/2017 HRK'000
Legal reserves	91,155	91,155
Other reserves	47,607	47,607
	138,762	**138,762**

Legal reserves refer to reserves established by the Insurance Act, formed before 1 January 2006. These reserves entailed the allocation of 1/3 of net income of every business year, until 31 December 2005.

The Company established the other reserves pursuant to the Companies Act, and can use them to pay out dividends or cover losses pursuant to the Companies Act.

29 Technical provisions

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Unearned premium provisions		
Gross amount	341,496	310,744
Reinsurance	(5,918)	(5,679)
Unearned premium provisions, less reinsurance	**335,578**	**305,065**
Outstanding claims incurred		
Gross amount	498,954	489,609
Reinsurance	(9,149)	(11,372)
Outstanding claims incurred, net of reinsurance	***489,805***	***478,237***
Total technical provisions, gross	**840,450**	**800,353**
Total technical provisions, net of reinsurance	**825,383**	**783,302**

GROUP AND COMPANY

	Gross claims outstanding as at 1 January 2018 HRK'000	Payments in 2018 HRK'000	Gross claims outstanding as at 31 December 2018 HRK'000
Property Insurance	24,134	26,472	20,011
Accident Insurance	13,500	5,307	11,822
Casco Insurance	31,375	56,156	35,854
Motor Vehicle Liability Insurance	405,117	163,459	405,828
Accident Insurance	11,412	6,832	10,006
Health Insurance	1,637	267	1,548
Transport and loan insurance	2,434	5,353	13,885
	489,609	**263,846**	**498,954**

29 Technical provisions (continued)

GROUP AND COMPANY

	Gross claims outstanding as at 1 January 2017	Payments in 2017	Gross claims outstanding as at 31 December 2017
	HRK'000	HRK'000	HRK'000
Property Insurance	15,848	19,150	24,134
Accident Insurance	8,113	9,180	13,500
Casco Insurance	25,487	41,924	31,375
Motor Vehicle Liability Insurance	439,875	163,956	405,117
Accident Insurance	11,989	5,695	11,412
Health Insurance	1,240	155	1,637
Transport and loan insurance	2,404	3,902	2,434
	504,956	**243,962**	**489,609**

29. Technical provisions (continued)

GROUP AND COMPANY

a) Analysis of movement of unearned premium provisions:

	31/12/2018 HRK'000	31/12/2017 HRK'000
As at 1 January	305,065	284,300
Premiums written throughout the year	662,492	593,036
Less earned premium throughout the year	(631,979)	(572,271)
As at 31 December	**335,578**	**305,065**

b) Analysis of movement of provisions for claims reported, but not liquidated:

	31/12/2018 HRK'000	31/12/2017 HRK'000
As at 1 January	287,915	291,242
Claims incurred in the current year	277,772	213,481
Changes in claims from the previous year	(11,568)	22,791
Liquidated claims	(259,043)	(239,599)
As at 31 December	**295,076**	**287,915**

c) Analysis of movement of provisions for claims incurred, but not reported:

	31/12/2018 HRK'000	31/12/2017 HRK'000
As at 1 January	200,967	212,778
Increase recognised in the year	2,414	(11,811)
As at 31 December	**203,381**	**200,967**

29. Technical provisions (continued)

d) Analysis of movement of provisions for claims outstanding as at 31 December 2018

	Before 2009 HRK '000	**2009** HRK '000	**2010** HRK '000	**2011** HRK	**2012** HRK '000	**2013** HRK '000	**2014** HRK '000	**2015** HRK '000	**2016** HRK '000	**2017** HRK '000	**2018** HRK '000	**Total** HRK '000
Assessment of accumulated claims at the end of the year of claim	190,599	197,051	198,205	198,856	199,443	199,948	200,403	200,831	201,218	201,583	264,270	
1 year later	174,279	175,349	175,999	176,581	177,081	177,531	177,950	178,329	178,683	180,302		
2 years later	137,660	138,113	138,524	138,879	139,201	139,504	139,778	140,036	140,531			
3 years later	119,038	119,386	119,687	119,961	120,218	120,452	120,672	120,904				
4 years later	120,129	120,425	120,692	120,945	121,174	121,390	121,762					
5 years later	126,087	126,376	126,649	126,896	127,130	127,851						
6 years later	126,541	126,812	127,057	127,289	127,691							
7 years later	147,545	147,825	148,091	148,398								
8 years later	166,294	166,593	166,934									
9 years later	219,208	219,642										
10 years later	1,399,451											
Assessment of accumulated claims	**1,399,451**	**219,642**	**166,934**	**148,398**	**127,691**	**127,851**	**121,762**	**120,904**	**140,531**	**180,302**	**264,270**	**3,017,738**
Accumulated payments	1,303,624	204,244	153,884	133,995	112,714	109,965	102,038	97,502	107,061	124,672	83,896	**2,533,596**
Previous years' provisions	95,827	15,398	13,050	14,403	14,977	17,886	19,725	23,402	33,470	55,630	180,374	**484,142**
Claims handling costs	2,833	455	386	426	443	529	583	692	990	1,645	5,333	**14,315**
Value recognised in the statement of financial position for the current year	**98,661**	**15,853**	**13,436**	**14,829**	**15,420**	**18,415**	**20,308**	**24,094**	**34,460**	**57,275**	**185,707**	**498,457**

29. Technical provisions (continued)

e) Analysis of movement of provisions for claims outstanding as at 31 December 2017

	Before 2008 HRK '000	**2008** HRK '000	**2009** HRK '000	**2010** HRK '000	**2011** HRK '000	**2012** HRK '000	**2013** HRK '000	**2014** HRK '000	**2015** HRK '000	**2016** HRK '000	**2017** HRK '000	**Total** HRK '000
Assessment of accumulated claims at the end of the year of claim	179,162	184,965	185,999	186,586	187,088	187,531	187,929	188,294	188,630	188,943	222,686	
1 year later	144,819	145,499	145,915	146,281	146,610	146,911	147,189	147,449	147,692	149,722		
2 years later	122,438	122,785	123,092	123,369	123,622	123,857	124,077	124,282	124,571			
3 years later	122,053	122,353	122,624	122,872	123,102	123,317	123,518	124,031				
4 years later	127,213	127,500	127,764	128,010	128,239	128,455	129,032					
5 years later	127,117	127,380	127,624	127,853	128,067	128,378						
6 years later	147,375	147,656	147,920	148,168	148,455							
7 years later	166,107	166,405	166,685	167,647								
8 years later	217,595	217,971	218,568									
9 years later	230,385	231,012										
10 years later	1,187,068											
Assessment of accumulated claims	**1,187,068**	**231,012**	**218,568**	**167,647**	**148,455**	**128,378**	**129,032**	**124,031**	**124,571**	**149,722**	**222,686**	**2,831,170**
Accumulated payments	1,078,591	212,192	198,274	149,853	130,378	110,187	106,913	99,548	93,792	100,204	76,421	**2,356,353**
Previous years' provisions	108,477	18,820	20,294	17,794	18,077	18,191	22,119	24,483	30,778	49,519	146,265	**474,817**
Claims handling costs	3,213	557	601	527	535	539	655	725	912	1,467	4,333	**14,065**
Value recognised in the statement of financial position for the current year	**111,691**	**19,377**	**20,896**	**18,321**	**18,612**	**18,730**	**22,775**	**25,208**	**31,690**	**50,985**	**150,598**	**488,882**

30. Financial liabilities

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Long-term loans	53,736	30,000
Short-term borrowings	48,543	32,970
Other financial liabilities	-	16
	102,279	**62,986**

As at 31 December 2018, the long-term loan refers to the KBZ d.d. loan secured by the Company's bonds.

GROUP AND COMPANY

Overview of short-term loans:

	Currency	Maturity	Interest rate %	31/12/2018 HRK'000	31/12/2017 HRK'000
Agram Life osiguranje d.d.	EUR	31/12/2019	5.90%	27,543	23,038
Agram banka d.d.	HRK	31/01/2019	0.30%	11,000	-
OTP banka d.d.	HRK	31/10/2019	1-m ZIBOR + 3.30%	10,000	9,932
				48,543	**32,970**

31. Liabilities from direct insurance operations

GROUP AND COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Liabilities for provisions for claims outstanding of unknown and uninsured vehicles	18,905	19,510
Liabilities for agents' commissions	2,717	2,678
Return of premium to insured persons	1,904	395
Liability for payment of damages	1,808	999
Unallocated premiums	788	540
Croatian Health Insurance Institute contribution	478	584
Insurance advance payments	254	190
Other	57	53
	26,911	**24,949**

32. Liabilities from reinsurance

The Company signed reinsurance contracts with the following foreign insurance companies: Swiss Re, Sava Re, Hannover RE, MAPFRE Re, Trust RE, Aspen RE, SCOR Global P&C, QBE RE, Sirius. Reinsurance refers to insurance of other assets and the green card.

The Company ensured that it was doing business with reinsurers with the highest credit rating.

In 2018, the Company was doing business with reinsurers whose credit rating it monitors closely. As at 31/12/2018, the liabilities from reinsurance and co-insurance amount to HRK 4,781 thousand (as at 31/12/2017, they amounted to HRK 4,483 thousand).

33. Other liabilities

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Liabilities for dividends	12,739	154	12,169	154
Payables to suppliers	10,912	17,568	10,114	17,581
Salaries payable	8,207	7,514	7,980	7,514
Undue liabilities for insurance premium tax	3,868	3,505	3,868	3,505
Liabilities for capital gains tax and surtax	43	43	43	43
Other	2,788	1,534	2,548	1,556
	38,557	**30,318**	**36,722**	**30,353**

34. Deferred cost payment

THE GROUP AND THE COMPANY

	31/12/2018 HRK'000	31/12/2017 HRK'000
Reserves for costs	9,404	4,018
	9,404	**4,018**

Reserves for costs refer to provisions for other court cases in the amount of HRK 6,014 thousand, and provisions for termination benefits and annual leave in the amount of HRK 2,642 thousand.

Movement of reserves for costs is as follows:

	31/12/2018 HRK'000	31/12/2017 HRK'000
Balance at beginning of year	4,018	12,893
Reserve costs (Note 12)	5,386	121
Reversal of reserves (Note 8)	-	(8,996)
Balance at end of the year	**9,404**	**4,018**

35. Operating leases

As at the reporting date, the Company had operating leases for premises, equipment and vehicles. The average duration of leases amounts to 5 years. The maturity of outstanding liabilities is as follows:

GROUP AND COMPANY	31/12/2018	31/12/2017
	HRK'000	HRK'000
Within 1 year	30,309	20,108
2-5 years (inclusive)	116,600	65,652
	146,909	**85,760**

36. Capital adequacy

Solvency II, a legal and regulatory framework for overall business operations of insurance and reinsurance companies in the European Union entered into force on 1 January 2018. The new regime Solvency II thoroughly amended the calculation of solvency capital, valuation of assets and liabilities, and introduces a series of new risk management requirements. In order to systematically manage risks, the Company designed and adopted risk management policies, Own Risk and Solvency Assessment (ORSA), and risk management for each risk category.

Capital management goals, policies and approach

Underlying goals of Solvency II are the protection of policy holders, setting a solvency margin representing the total exposure to all risks, anticipating market changes, reliance on principles instead of strict rules, and maintenance of financial stability. The Solvency II goals may be attained primarily through the risk management process. The risk management process entails precise identification, assessment, measurement and control of risks the Company is exposed to or could be exposed to in the future in order to efficiently manage them, all in order to protect the policy holders, achieve the planned financial results and increase the economic and market value of the Company's assets and equity.

The main characteristics of the risk system management within the organisation at the same time represent its advantages:

- Better understanding of key risks and implications;
- Higher quality risk management;
- Greater probability of achieving goals;
- Quicker response to both internal and external changes;
- Increasing the Company's profitability;
- More comprehensive and concise reporting on risk management.

The Company's operations are subject to regulatory requirements stipulated by the Croatian Financial Services Supervisory Agency, who also monitors their implementation. Such regulations not only prescribe the approval and monitoring of activities, but also impose restrictive provisions with the aim to minimise insolvency risks for insurance companies when meeting unforeseen liabilities once they incur. In 2018, the Company complied with all of the relevant requirements.

Solvency is calculated pursuant to rules stipulated by the European Insurance and Occupational Pensions Authority (EIOPA). Solvency II introduced economic/market asset and liabilities valuation based on the overall approach to total balance sheet items, meaning that all risks balance sheet items are exposed to are subject to market valuation.

36. Capital adequacy (continued)

Capital management goals, policies and approach (continued)

ORSA is one of the Solvency II legislative requirements. ORSA is defined as a series of processes, which constitute a tool for making decisions and strategic analyses. Its intent and task is to identify, assess, monitor, manage and report on short-term and long-term risks the insurance company is exposed to or might be exposed to in the future, as well as determining Own Funds, necessary for the Company to remain solvent at all times, i.e. to ensure all needs and liabilities are covered.

In line with legal acts, ORSA includes the following three elements:

- Own assessment of the total need for solvency;
- Continuous assessment of compliance with capital requirements and technical provisions requirements;
- Assessment of significance of the insurance company's deviation from the assumptions underlying the Solvency Capital Requirement, as calculated using the standard formula.

The aim of the Company is to maintain the available capital on the level significantly above the minimum requirements and consistent with its risk profile, risk appetite and capital management strategy.

37. Assets covering technical provisions

	2018 HRK'000	2017 HRK'000
Claims provisions (Note 29)	489,806	478,237
Unearned premium provisions (Note 29)	335,578	305,065
Technical provisions, net of reinsurance	**825,384**	**783,302**

	2018 HRK'000	2017 HRK'000
Assets covering technical provisions	1,499,365	1,436,512
Total technical provisions (Note 29)	825,385	783,302
Surplus	**673,981**	**653,210**

As at 31 December 2018, the Company had a surplus of assets covering technical provisions in the amount of HRK 673,981 thousand.

38. Transactions with related parties

Related parties are considered those parties who have the ability to exercise control over the other party or who have a significant impact on the other party making financial or business decisions.

Transactions and outstanding items among related parties within the Group are disclosed in the entity's financial statements.

In line with the definition of IAS 24 and IFRS 10, a Group consists of a parent company and its subsidiaries.

Since there is no parent company, the Company cannot disclose the name of the parent or the ultimate entity which exercises control of the Company, i.e. there are no transactions which could be considered intra-group transactions.

Transactions with related parties are reported based on the Decision of the Agency of 15 December 2017, which requires the Company to act in line with the provisions of the Insurance Act and other regulations applicable to related companies and participating undertakings in the group of companies.

Based on the Decision, the related companies are the following:

- Adriatic osiguranje d.d. BiH
- Agram d.d. Ljubuški
- Agram invest d.d.
- Agram Brokeri d.d.
- Agram Yachting d.o.o.
- Agram Life osiguranje d.d.
- Agraminvest d.o.o. Mostar
- Agram nekretnine d.d. Mostar
- Auto Dubrovnik d.d.
- Automehanika servisi d.d.
- Autoservisni centar d.d. Varaždin
- Autoslavonija d.d.
- Brioni d.d., Pula
- Euro Daus d.d.
- EuroagramTis d.o.o.
- Euroherc osiguranje d.d.
- Euroherc osiguranje d.d., Sarajevo
- Euroleasing d.o.o.
- Agram banka d.d.
- Specijalna bolnica Agram
- Strukturiranje d.o.o.

The aforementioned Decision of the supervisory body, in line with the Decision of the Administrative Court in Zagreb of 26 January 2018, has a suspensive effect by the end of the court proceedings following the action brought by the Company on 15 January 2018.

A review of assets, receivables, liabilities, income and expenses in line with the Agency's Decision is provided below:

38. Transactions with related parties (continued)

GROUP AND COMPANY

	Receivables 31/12/2018 HRK'000	Liabilities 31/12/2018 HRK'000	Income 2018 HRK'000	Expenses 2018 HRK'000
Management	-	101	-	1,226
Supervisory Board	-	25	-	685
Adriatic osiguranje d.d. BiH	-	2,346	(3,340)	89
Agram d.d., Ljubuški	978	-	1,552	3
Agram invest d.d.	33,290	-	13,423	139
Agram Brokeri d.d.	-	49	83	211
Agram Yachting d.o.o.	138	-	1,312	1,307
Agram Life osiguranje d.d.	-	29,283	9,837	9,068
Agraminvest d.o.o. Mostar	170	-	114	-
Agram nekretnine d.d. Mostar	883	-	57	26
Auto Dubrovnik d.d.	20,941	21	380	287
Automehanika servisi d.d.	2,529	59	362	508
Autoservisni centar d.d. Varaždin	1,133	82	209	393
Autoslavonija d.d.	-	40	319	431
Brioni d.d., Pula	-	-	-	-
Euro Daus d.d.	110,366	284	14,620	7,757
EuroagramTis d.o.o.	195,465	1,872	14,531	18,092
Euroherc osiguranje d.d.	7,315	60	31,430	24,607
Euroherc osiguranje d.d., Sarajevo	-	1,380	(4,712)	69
Euroleasing d.o.o.	95,701	5	2,668	1,785
Agram banka d.d.	35,022	41,125	3,707	2,799
Specijalna bolnica Agram	5	-	5	7
Strukturiranja d.o.o.	5,575	15	91	156
	509,511	**76,747**	**86,648**	**69,645**

In 2018, the company Bosna Sunce osiguranje d.d. changed its name to Adriatic osiguranje d.d.

In 2018, the Company had HRK 156 thousand in lease costs towards Tehnomobil nekretnine d.o.o. Together with the Autocentar Vrbovec, the Company made HRK 130 thousand in leases and maintenance, and HRK 2,270 thousand in income from dividends from retained earnings.

38 Transactions with related parties (continued)

	Receivables 31/12/2017 HRK'000	Liabilities 31/12/2017 HRK'000	Income 2017 HRK'000	Expenses 2017 HRK'000
Management	-	98	-	1,219
Supervisory Board	-	24	-	682
Adriatic osiguranje d.d. BiH	102	2,647	(2,811)	25
Agram d.d., Ljubuški	1,133	-	469	22
Agram invest d.d.	17,362	-	439	12,890
Agram Brokeri d.d.	-	12	85	9
Agram Yachting d.o.o.	15,791	-	447	2,026
Agram Life osiguranje d.d.	1	23,335	13,914	7,335
Agraminvest d.o.o. Mostar	170	-	203	-
Agram nekretnine d.d. Mostar	904	-	26	5
Auto Dubrovnik d.d.	15,568	16	432	100
Automehanika servisi d.d.	2,811	195	223	493
Autoservisni centar d.d. Varaždin	988	56	213	381
Autoslavonija d.d.	-	107	79	361
Brioni d.d., Pula	24	-	187	162
Euro Daus d.d.	105,985	20	13,317	7,761
EuroagramTis d.o.o.	173,778	-	13,177	18,589
Euroherc osiguranje d.d.	13,981	7,126	37,087	24,611
Euroherc osiguranje d.d., Sarajevo	-	1,302	(4,648)	99
Euroleasing d.o.o.	64,849	-	1,230	1,866
Agram banka d.d.	20,663	30,086	2,779	2,500
Specijalna bolnica Agram	-	-	-	3
Strukturiranja d.o.o.	-	17	19	128
	434,110	**65,041**	**76,867**	**81,267**

39. Financial instruments and risk management

Significant accounting policies and adopted methods, including the recognition criteria, valuation basis, and the basis for recognising profit and losses for all classes of financial assets, financial liabilities and equity instruments are stated in detail in Note 2 of the financial statements.

Categories of financial instruments

	Group 31/12/2018 HRK'000	Group 31/12/2017 HRK'000	Company 31/12/2018 HRK'000	Company 31/12/2017 HRK'000
Financial assets				
Investments available for sale	554,962	572,407	554,962	572,407
Loans and receivables	499,983	446,821	499,983	446,821
Cash at bank and in hand	25,685	4,679	24,959	4,415
Other assets	-	5	-	5
Financial liabilities	102,279	62,986	102,279	62,986

Currency risk management

The Group holds no significant amount of assets and liabilities in foreign currency. The Group's carrying amounts of monetary assets and liabilities in foreign currency are as follows:

GROUP

31/12/2018	HRK HRK'000	EUR HRK'000	BAM HRK'000	Total HRK'000
Investments available for sale	509,269	44,810	883	554,962
Loans and receivables	492,797	7,186	-	499,983
Receivables and other assets	132,762	512		133,274
Cash	25,067	618	-	25,685
Monetary assets	**1,159,895**	**53,126**	**883**	**1,213,904**
Financial liabilities	51,000	51,279	-	102,279
Other liabilities	65,165	5,084	-	70,249
Monetary liabilities	**116,165**	**56,363**	**-**	**172,528**

39. Financial instruments and risk management (continued)

GROUP

31/12/2017	HRK HRK'000	EUR HRK'000	BAM HRK'000	Total HRK'000
Investments available for sale	518,543	52,960	904	572,407
Loans and receivables	439,635	7,186	-	446,821
Receivables and other assets	139,661	1,120	-	140,781
Cash	4,664	15	-	4,679
Monetary assets	**1,102,503**	**61,281**	**904**	**1,164,688**
Financial liabilities	39,927	23,059	-	62,986
Other liabilities	55,125	4,625	-	59,750
Monetary liabilities	**95,052**	**27,684**	**-**	**122,736**

COMPANY

31/12/2018	HRK HRK'000	EUR HRK'000	BAM HRK'000	Total HRK'000
Investments available for sale	509,269	44,810	883	554,962
Loans and receivables	492,797	7,186	-	499,983
Receivables and other assets	131,889	512		132,401
Cash	24,341	618	-	24,959
Monetary assets	**1,158,296**	**53,126**	**883**	**1,212,305**
Financial liabilities	51,000	51,279	-	102,279
Other liabilities	63,330	5,084	-	68,414
Monetary liabilities	**114,330**	**56,363**	**-**	**170,693**

31/12/2017	HRK HRK'000	EUR HRK'000	BAM HRK'000	Total HRK'000
Investments available for sale	518,543	52,960	904	572,407
Loans and receivables	439,635	7,186	-	446,821
Receivables and other assets	139,596	1,120	-	140,716
Cash	4,400	15	-	4,415
Monetary assets	**1,102,174**	**61,281**	**904**	**1,164,359**
Financial liabilities	39,927	23,059	-	62,986
Other liabilities	55,160	4,625	-	59,785
Monetary liabilities	**95,087**	**27,684**	**-**	**122,771**

39 Financial instruments and risk management (continued)

Currency risk management (continued)

The value of assets and liabilities denominated in foreign currencies of the Group makes up for 2.59% of total assets i.e. 2.69% of total liabilities (2017: 3.22% and 1.41% respectively), so the changes in the foreign exchange rate cannot significantly affect the Group's operations. For the year ending on 31 December 2018, the Group recognised negative exchange rate differences in the amount of 1,312 thousands HRK (2017: HRK 470 thousand) and shows that changes in the foreign exchange rate have no significant bearing on the Group's operations.

Interest rate risk management

The Group is not significantly exposed to interest rate risk. The Group's carrying amounts of monetary assets and liabilities are as follows:

GROUP

31/12/2018	**Up to 1 year**	**1-5 year**	**Up to 5 year**	**Interest-free**	**Total**	**Fixed interest rate**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Investments available for sale	13,570	63,637	37,945	439,810	554,962	115,152
Loans and receivables	68,485	103,250	328,248	-	499,983	499,983
Cash	25,685	-	-	-	25,685	-
Interest-bearing assets	**107,740**	**166,887**	**366,193**	**439,810**	**1,080,630**	**615,135**
Loan liabilities	48,543	30,000	23,736	-	102,279	92,316
Interest-bearing liabilities	**48,543**	**30,000**	**23,736**	**-**	**102,279**	**102,279**

31/12/2017	**Up to 1 year**	**1-5 years**	**Up to 5 years**	**Interest-free**	**Total**	**Fixed interest rate**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Investments available for sale	9,842	57,075	56,072	449,418	572,407	122,989
Loans and receivables	75,797	133,163	237,861	-	446,821	446,821
Cash	4,679	-	-	-	4,679	-
Interest-bearing assets	**90,318**	**190,238**	**293,933**	**449,418**	**1,023,907**	**569,810**
Loan liabilities	32,986	30,000	-	-	62,986	53,054
Interest-bearing liabilities	**32,986**	**30,000**	**-**	**-**	**62,986**	**53,054**

The changes in interest rates cannot significantly affect the Group's operations, since the total liabilities for variable-rate loans amount to 10,000 thousands HRK (2017: HRK 9,932 thousand) and account for merely 0,48% of total liabilities for the year ending on 31 December 2018 (2017: 0.51%).

39. Financial instruments and risk management (continued)

Interest rate risk management (continued)

COMPANY

31/12/2018	Up to 1 year	1-5 year	Up to 5 year	Interest-free	Total	Fixed interest rate
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Investments available for sale	13,570	63,637	37,945	439,810	554,962	115,152
Loans and receivables	68,485	103,250	328,248	-	499,983	499,983
Cash	24,959	-	-	-	24,959	-
Interest-bearing assets	**107,014**	**166,887**	**366,193**	**439,810**	**1,079,904**	**615,135**
Loan liabilities	48,543	30,000	23,736	-	102,279	92,316
Interest-bearing liabilities	**48,543**	**30,000**	**23,736**	**-**	**102,279**	**102,279**

31/12/2017	Up to 1 year	1-5 years	Up to 5 years	Interest-free	Total	Fixed interest rate
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Investments available for sale	9,842	57,075	56,072	449,418	572,407	122,989
Loans and receivables	75,796	133,164	237,861	-	446,821	446,821
Cash	4,415	-	-	-	4,415	-
Interest-bearing assets	**90,053**	**190,239**	**293,933**	**449,418**	**1,023,643**	**569,810**
Loan liabilities	32,986	30,000	-	-	62,986	53,054
Interest-bearing liabilities	**32,986**	**30,000**	**-**	**-**	**62,986**	**53,054**

39. Financial instruments and risk management (continued)

Interest rate risk management (continued)

Other price risks

The Group is exposed to risks of price change, since equity instruments account for a significant part of the Company's assets. A certain number of equity instruments classified in the "available for sale" category is not quoted on the market and are recognised at cost. The Group changed the impact of changes in price of securities on its operations. If the price of principle increase/decrease by 5%, the Group will increase/decrease its revaluation provisions by HRK 20,624 thousand (in 2017: HRK 23,122 thousand).

Credit risk management

Credit risk refers to the default risk of the other contracting party, which would lead to substantial financial losses of the Group. The Group's exposure and the credit rating of the parties it cooperates with is continuously monitored, and the total value of concluded transactions is allocated to approved clients. An assessment of creditworthiness for claims is carried out continuously and, where appropriate, insurance coverage for credit guarantees is acquired.

Investment procedures for assets covering technical provisions

The Management of the Company adopts investment decisions based on the proposal of the CFO or CEO.

The Company invests in debt securities in the following manner:

- purchasing securities at initial public offering or on the secondary market, i.e. organised securities market,
- other ways of purchase (direct purchase, offsetting etc.).

The Group invests into stocks and shares (equity securities) in the following manners:

- purchasing securities at initial public offering, at the time of the company's establishment, or on the organised securities market,
- purchase or other ways of acquisition (direct purchase, offsetting, recapitalisation etc.).

The Company invests in funds based on the Management decisions determining the funds investment strategy and conditions.

Bank deposits are denominated as:

- HRK deposits which are realised:
  a) in HRK without the currency clause,
  b) in HRK with the application of a two-way currency clause pegged to the EUR middle exchange rate of the Croatian National Bank
- foreign currency deposits approved and realised in foreign currencies.

Payment of given loans and payment of loan liabilities are secured by one of the following instruments:

- bank guarantees,
- pledge (mortgage) on the property,
- transfer of property ownership rights,
- pledge/transfer of property ownership rights on the equity securities,
- pledge/transfer of property ownership rights on the debt securities.

The Group gives loans to legal entities and natural persons, and the loan is approved based on the relevant Management decision.

39. Financial instruments and risk management (continued)

Liquidity risk management

The Management is responsible for credit risk management and has set a high-quality framework for management of liquidity risk for short, medium and long positions of the Group and defined the requisites which refer to liquidity management. The Group manages its liquidity by maintaining adequate provisions, which it calculates pursuant to the Insurance Act in order to cover its potential claims liabilities. Furthermore, the Group has significant amounts of short-term loans which ensure the Company has sufficient funds in the short and long term. Actuarial calculation of technical provisions is done on a quarterly basis, in order to ensure the existence of sufficient provision amounts. The Group also needs to ensure additional investment funds in order to cover its provisions pursuant to the Insurance Act.

Remaining contractual maturities of insurance and financial liabilities per investment is as follows:

GROUP

2018	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Capital and reserves	-	-	-	-	-	976,064	976,064
Financial liabilities	48,543	30,000	23,736	-	-	-	102,279
Underwriting liabilities - technical provisions	497,858	172,006	87,753	45,352	19,226	18,255	840,450
Tax liability	-	-	-	-	-	84,787	84,787
Other liabilities	70,249	14,028	-	-	-	-	84,277
Total	**616,650**	**216,034**	**111,489**	**45,352**	**19,226**	**1,079,106**	**2,087,857**

2017	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Capital and reserves	-	-	-	-	-	940,104	940,104
Financial liabilities	32,986	30,000	-	-	-	-	62,986
Underwriting liabilities - technical provisions	456,632	165,704	82,974	45,697	24,050	25,296	800,353
Tax liability	7,995	-	-	-	-	85,663	93,658
Other liabilities	59,750	8,642	-	-	-	-	68,392
Total	**557,363**	**204,346**	**82,974**	**45,697**	**24,050**	**1,051,063**	**1,965,493**

39. Financial instruments and risk management (continued)

COMPANY

2018	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Capital and reserves	-	-	-	-	-	976,052	976,052
Financial liabilities	48,543	30,000	23,736	-	-	-	102,279
Underwriting liabilities - technical provisions	497,858	172,006	87,753	45,352	19,226	18,255	840,450
Tax liability	-	-	-	-	-	80,192	80,192
Other liabilities	68,414	14,028	-	-	-	-	82,442
Total	**614,815**	**216,034**	**111,489**	**45,352**	**19,226**	**1,074,499**	**2,081,415**

2017	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Capital and reserves	-	-	-	-	-	939,978	939,978
Financial liabilities	32,986	30,000	-	-	-	-	62,986
Underwriting liabilities - technical provisions	456,632	165,704	82,974	45,697	24,050	25,296	800,353
Tax liability	7,995	-	-	-	-	81,068	89,063
Other liabilities	59,785	8,642	-	-	-	-	68,427
Total	**557,398**	**204,346**	**82,974**	**45,697**	**24,050**	**1,046,342**	**1,960,807**

39. Financial instruments and risk management (continued)

Liquidity risk management (continued)

Maturity alignment of assets covering technical provisions and technical provisions liabilities is as follows:

GROUP

2018	**Up to 1 year**	**1 to 5 years**	**5 to 10 years**	**10 to 15 years**	**15 to 20 years**	**Over 20 years**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'00 0**	**HRK'000**	**HRK'000**	**HRK'000**
Financial assets available for sale	528,325	25,693	17,541	-	-	-	571,559
Loans and deposits	73,100	144,987	53,377	61,883	154,076	-	487,423
Property	-	-	-	-	-	354,621	354,621
Cash and cash equivalents	25,685	-	-	-	-	-	25,685
Assets covering technical provisions	**627,110**	**170,680**	**70,918**	**61,883**	**154,076**	**354,621**	**1,439,288**
Requested covering technical provisions	**487,140**	**169,166**	**86,793**	**44,920**	**19,152**	**18,213**	**825,384**
Difference	**139,970**	**1,514**	**(15,875)**	**16,963**	**134,924**	**336,409**	**613,904**

2017	**Up to 1 year**	**1 to 5 years**	**5 to 10 years**	**10 to 15 years**	**15 to 20 years**	**Over 20 years**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Financial assets available for sale	517,915	45,956	11,698	21,218	-	-	596,787
Loans and deposits	75,675	120,941	42,212	51,483	144,165	-	434,476
Property	-	-	-	-	-	345,075	345,075
Cash and cash equivalents	4,679	-	-	-	-	-	4,679
Assets covering technical provisions	**598,269**	**166,897**	**53,910**	**72,701**	**144,165**	**345,075**	**1,381,017**
Requested covering technical provisions	**444,520**	**162,118**	**82,124**	**45,361**	**23,951**	**25,228**	**783,302**
Difference	**153,749**	**4,779**	**(28,214)**	**27,340**	**120,214**	**319,847**	**597,715**

39. Financial instruments and risk management (continued)

Liquidity risk management (continued)

Maturity alignment of assets covering technical provisions and technical provisions liabilities (continued)

COMPANY

2018	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets available for sale	528,325	25,693	17,541	-	-	-	571,559
Loans and deposits	73,100	144,987	53,377	61,883	154,076	-	487,423
Property	-	-	-	-	-	354,621	354,621
Cash and cash equivalents	24,959	-	-	-	-	-	24,959
Other assets covering technical provisions other than mathematical provisions	**60,804**	**-**	**-**	**-**	**-**	**-**	**60,804**
Assets covering technical provisions	**687,188**	**170,680**	**70,918**	**61,883**	**154,076**	**354,621**	**1,499,366**
Requested covering technical provisions	**487,140**	**169,166**	**86,793**	**44,920**	**19,152**	**18,213**	**825,384**
Difference	**200,048**	**1,514**	**(15,875)**	**16,963**	**134,924**	**336,409**	**673,981**

2017	Over 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets available for sale	517,915	45,956	11,698	21,218	-	-	596,787
Loans and deposits	75,675	120,941	42,212	51,483	144,165	-	434,476
Property	-	-	-	-	-	345,075	345,075
Cash and cash equivalents	4,415	-	-	-	-	-	4,415
Other assets covering technical provisions other than mathematical provisions	**55,759**	**-**	**-**	**-**	**-**	**-**	**55,759**
Assets covering technical provisions	**653,764**	**166,897**	**53,910**	**72,701**	**144,165**	**345,075**	**1,436,512**
Requested covering technical provisions	**444,520**	**162,118**	**82,124**	**45,361**	**23,951**	**25,228**	**783,302**
Difference	**209,244**	**4,779**	**(28,214)**	**27,340**	**120,214**	**319,847**	**653,210**

39 Financial instruments and risk management (continued)

Liquidity risk management (continued)

Provision for declared, but unpaid claims or claims incurred, but not reported, augmented by claims handling costs is as follows:

GROUP AND COMPANY

	Gross provisions	Reinsurance share	Net of reinsurance
31/12/2018	**HRK'000**	**HRK'000**	**HRK'000**
Provisions for declared, but unpaid claims	295,076	(9,149)	285,928
Provisions for claims incurred, but not reported	203,381	-	203,381

	Gross provisions	Reinsurance share	Net of reinsurance
31/12/2017	**HRK'000**	**HRK'000**	**HRK'000**
Provisions for declared, but unpaid claims	287,915	(11,372)	276,544
Provisions for claims incurred, but not reported	200,967	-	200,967

	Gross provisions	Reinsurance share	Net of reinsurance
31/12/2016	**HRK'000**	**HRK'000**	**HRK'000**
Provisions for declared, but unpaid claims	291,242	(3,928)	287,314
Provisions for claims incurred, but not reported	212,778	-	212,778

Fair value

Fair value is determined based on quoted market prices or using valuation methods if the relevant and reliable market prices are not available. The Management believes that the value of the Group's assets and liabilities reported at depreciated cost reflect the fair value of the relevant assets and liabilities.

Fair value represents the price which would be achieved in the sale of assets, i.e. it represents the price which would be paid for the transfer of liabilities, in an orderly transaction between market participants at the measurement date (exit price).

The following table provides an analysis of assets which have been stated at fair value after their first recognition and classified into three groups depending on the availability of fair value indicators:

- Indicator level 1 – fair value indicators have been derived from (unaligned) prices quoted in active markets for identical assets and liabilities;
- Indicator level 2 – fair value indicators have been derived from other assets and liabilities data which are not quoted Level 1 prices and are obtained directly (i.e. from their prices) or indirectly (i.e. derived from their prices); and

39 Financial instruments and risk management (continued)

Fair value (continued)

- Indicator level 3 – indicators established through the application of valuation methods whose input is asset or liabilities data which is not based on available market data (unavailable input).

GROUP

31/12/2018	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Land and buildings	-	-	303,524	303,524
Investment property	-	-	425,818	425,818
Securities	1,464	-	320,292	321,756
Investment funds	12,460	-	7,868	20,328
Bonds	102,201	-	12,951	115,152
Total	**116,125**	**-**	**1,070,456**	**1,186,580**

31/12/2017	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Land and buildings	-	-	285,854	285,854
Investment property	-	-	395,440	395,440
Securities	2,426	-	309,493	311,919
Investment funds	29,607	-	8,849	38,456
Bonds	122,989	-	-	122,989
Commercial papers	-	-	13,528	13,528
Total	**155,022**	**-**	**1,013,164**	**1,168,186**

COMPANY

31/12/2018	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Land and buildings	-	-	276,897	276,897
Investment property	-	-	425,818	425,818
Securities	1,464	-	320 292	321,756
Investment funds	12,460	-	7,868	20,328
Bonds	102,201	-	12,951	115,152
Total	**116,125**	**-**	**1,043,826**	**1,159,951**

39 Financial instruments and risk management (continued)

Fair value (continued)

31/12/2017	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Land and buildings	-	-	260,262	260,262
Investment property	-	-	395,440	395,440
Securities	2,426	-	309,493	311,919
Investment funds	29,607	-	8,849	38,456
Bonds	122,989	-	-	122,989
Commercial papers	-	-	13,528	13,528
Total	**155,022**	**-**	**987,572**	**1,142,594**

Securities

GROUP AND COMPANY

31/12/2018	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Agram banka d.d.	-	-	67,324	67,324
Euroherc osiguranje d.d.	-	-	161,614	161,614
HPB d.d.	1,464	-	-	1,464
Agram Life osiguranje d.d.	-	-	59,553	59,553
Medora ljetovališta i hoteli d.d.	-	-	31,801	31,801
Total	**1,464**	**-**	**320,292**	**321,756**

31/12/2017	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Agram banka d.d.	-	-	62,547	62,547
Euroherc osiguranje d.d.	-	-	156,176	156,176
Ledo d.d.	189	-	-	189
Zvijezda d.d.	371	-	-	371
PIK-VINKOVCI d.d.	217	-	-	217
HPB d.d.	1,649	-	-	1,649
Agram Life osiguranje d.d.	-	-	60,259	60,259
Medora ljetovališta i hoteli d.d.	-	-	30,511	30,511
Total	**2,426**	**-**	**309,493**	**311,919**

Both the Group and the Company have investments in Level 3 securities, amounting to HRK 289 million as at 31 December 2018 (2017: HRK 279 million), measured using the discounted cash flow method If the used discount rate were 1% lower, total comprehensive income would be HRK 20 million higher (2017: HRK 18 million). If the used discount rate were 1% higher, total comprehensive income would be HRK 15 million lower (2017: HRK 13 million).

39 Financial instruments and risk management (continued)

Fair value (continued)

Some financial assets of the Company are measured at fair value at the end of every reporting period. The following table contains information on the ways of determining fair value of financial assets and financial liabilities items, together with valuation methods and inputs used.

GROUP

Financial assets and financial liabilities	Fair value as at		Fair value level	Valuation method and main input	Relevant unavailable input	Unavailable input in relation to fair value
	31/12/2018	31/12/2017				
Available for sale - equity securities	320,292	309,493	Level 3	The fair value assessment calculated based on the peer group discounted by the discount rate derived from the CAPM model, by applying the Level 3 input to a certain extent, with a sensitivity analysis of the change effect in invisible input for securities at cost, in line with the discounted cash flow method.	Active market	Active market
Available for sale - equity securities	1,464	2,426	Level 1	Quoted price on the active market - final price of the last working day in the month	N/a	N/a
Available for sale - debt securities	102,201	122,989	Level 1	Quoted price on the active market - bid price at 15:30 of the last working day in the month	N/a	N/a
Available for sale - debt securities	12,951	-	Level 3	Valuation at acquisition cost adjusted by the effective interest rate	N/a	N/a
Available for sale - shares in open investment funds	12,460	29,607	Level 1	Quoted purchase price of the fund	N/a	N/a
Available for sale - commercial papers	-	13,528	Level 3	Valuation at acquisition cost adjusted by the effective interest rate	N/a	N/a

Most financial instruments are reported at fair value as at the date of the statement of financial position. Fair value is based on quoted market prices, if available. If the market prices are not available, fair value is assessed by using the discounted cash flow model or other relevant price-determining techniques. Changes in assumptions assessments are based on entail discount rates and estimated future cash flows which significantly affect the assessments.

39. Financial instruments and risk management (continued)

Fair value (continued)

COMPANY

Financial assets and financial liabilities	Fair value as at		Fair value level	Valuation method and main input	Relevant unavailable input	Unavailable input in relation to fair value
	31/12/2018	31/12/2017				
Available for sale - equity securities	320,292	309,493	Level 3	The fair value assessment calculated based on the peer group discounted by the discount rate derived from the CAPM model, by applying the Level 3 input to a certain extent, with a sensitivity analysis of the change effect in invisible input for securities at cost, in line with the discounted cash flow method.	Active market	Active market
Available for sale - equity securities	1,464	2,426	Level 1	Quoted price on the active market - final price of the last working day in the month	N/a	N/a
Available for sale - debt securities	115,152	122,989	Level 1	Quoted price on the active market - bid price at 15:30 of the last working day in the month	N/a	N/a
Available for sale - debt securities	12,951	-	Level 3	Valuation at acquisition cost adjusted by the effective interest rate	N/a	N/a
Available for sale - shares in open investment funds	12,460	29,607	Level 1	Quoted purchase price of the fund	N/a	N/a
Available for sale - commercial papers	-	13,528	Level 3	Valuation at acquisition cost adjusted by the effective interest rate	N/a	N/a

Most financial instruments are reported at fair value as at the date of the statement of financial position. Fair value is based on quoted market prices, if available. If the market prices are not available, fair value is assessed by using the discounted cash flow model or other relevant price-determining techniques. Changes in assumptions assessments are based on entail discount rates and estimated future cash flows which significantly affect the assessments.

39. Financial instruments and risk management (continued)

Insurance risk management

The Company is exposed to actuarial risk and acquisition risk which derive from a vast offer of products of all types of non-life insurance (Motor Vehicle Insurance, Accident Insurance, Property insurance, Liability Insurance, Vessel Insurance, Aircraft Insurance, and Transport Insurance).

Insurance risk refers to insurance operations uncertainty. The most significant insurance risk components are premium risk and provision risk. They refer to the adequacy of premium tariffs and adequacy of provisions in relation to insurance liabilities and the capital basis.

Premium risk is present at the moment of policy issuance, before the insured event occurs. There is a risk that costs and damages exceed the received premiums. Provision risk represents the risk that the absolute level of technical provisions is misstated or that the real damage will vary around the statistical average value.

The acquisition risk also entails the disaster risk, which derives from outstanding events which have not been sufficiently covered by the premium risk or the provision risk.

The Company manages the insurance risk through acquisition limits, transaction approval procedures which entail new products or exceed the set limits, tariffing, product design and reinsurance management.

The aim of the acquisition strategy is to achieve a variety which will ensure a balanced portfolio, based on a large portfolio of similar risks during several years, which will lead to a decrease in result variability. Considering the nature of non-life insurance, the acquisitors have the right to refuse a contract extension or change the contract conditions upon its renewal.

The Group reinsures a part of the risk it acquires in order to control the exposure to losses and protect the capital basis. The Company buys proportional and unproportional insurance contracts.

Ceded reinsurance entails credit risk and such insurance claims are presented less uncollectible payments. The Group monitors the reinsurer’s financial situation and cautiously enters into reinsurance contracts. The Group controls and limits the relevant risk by selecting and maintaining the best possible business relations with European reinsurers of high credit rating. The Group decreases this risk by dispersing the reinsurance coverage on several partners. This reduces the reinsurer’s credit risk to the minimum.

Insurance concentration risk

The key aspect of the reinsurance risk the Group is exposed to is the level of the insurance concentration risk which sets the level by which a certain event or a series of events may affect the Group’s liabilities. Concentration risk may derive from one or more insurance contracts. An important aspect of insurance concentration risk is that it may result from accumulating risk through different types of insurance.

39. Financial instruments and risk management (continued)

Insurance concentration risk (continued)

Concentration risk may derive from rare events with great consequences such as natural disasters, in situations when the Group is exposed to unexpected trend changes; for example, when significant court or regulatory risks provoke great individual losses or substantially impact a great number of contracts.

Risks the Company acquires are primarily located in the Republic of Croatia. The Group has no significant concentration exposures to any group of policy holders according to social, professional, generational and similar criteria.

The greatest probability for significant losses results from disastrous events, such as thunderstorms or earthquakes. Techniques and presumptions the Group uses to calculate these risks entail:

- Measuring geographical accumulation;
- Assessing the maximum loss;
- Reinsuring the claims surplus for earthquakes.

Insurance concentration risk before and after reinsurance in relation to the type of accepted insurance risk is shown bellow, with reference to the carrying amount of fees and claims (gross and net of reinsurance) incurred based on the insurance contract:

GROUP AND COMPANY

2018	Gross claims incurred	Reinsurance share	Net claims incurred
	HRK'000	HRK'000	HRK'000
Motor Third Party Liability Insurance	158,085	725	158,810
Road Vehicle Insurance – Casco	55,377	3,537	58,913
Assets	24,785	(3,684)	21,101
Personal Insurance	7,095	(1,496)	5,599
Other	11,245	12,716	23,962
Total	**256,587**	**11,798**	**268,385**

2017	Gross claims incurred	Reinsurance share	Net claims incurred
	HRK'000	HRK'000	HRK'000
Motor Third Party Liability Insurance	158,536	(33,773)	124,763
Road Vehicle Insurance – Casco	41,159	5,698	46,857
Assets	16,424	5,021	21,445
Personal Insurance	5,656	(180)	5,476
Other	8,704	652	9,356
Total	**230,479**	**(22,582)**	**207,897**

39. Financial instruments and risk management (continued)

Claims development

In case of long-tail claims, the level of provisions largely depends on the assessment of claims development since the last year of development, for which there are historical data by the final settlement. The remaining claims development factors are assessed prudently, by using mathematical methods projecting noticed development factors, or are based on the actuarial judgement.

Basic assumptions which affect the uncertainty of insurance operations assessments the most

The main source of uncertainty of insurance operations derives from the uncertainty of occurrence of harmful events and uncertainty surrounding their amounts.

Insurance amount

Considering the fact that there is no product which guarantees unlimited non-life insurance coverage, the maximum amount the insured person may be liable for per individual policy if a harmful event occurs is always limited to the contracted insurance amount. The exception to the rule is Motor Third Party Liability Insurance in green card system countries, with unlimited coverage. The Group transfers this risk through reinsuring the claims surplus over EUR 1.5 million.

Provisions for claims outstanding

The provisions for the estimated final settlement cost of all claims incurred by the reporting date, resulting from a reported or unreported event, together with the relevant claims handling costs, less the amounts already paid.

Reported but not settled (“RBNS”) claims liability is estimated for every claim individually, considering the claims circumstances, available evaluators’ information and historical proof of similar claims amounts. Individual claims are regularly examined and the reserve is regularly updated when new information appear.

Incurred But Not Reported (“IBNR”) claims estimates are, in general, subject to a greater level of uncertainty than the provisions for claims reported. IBNR provision is estimated by an authorised actuary, using statistical and actuary methods such as the chain-linking method, when historical data is extrapolated in order to estimate the final claims costs. The chain-linking method is key, as it uses historical data in order to asses the claims so-far incurred, but not reported, in the final claims costs.

39. Financial instruments and risk management (continued)

Basic assumptions which affect the uncertainty of insurance operations assessments the most (continued)

Claims outstanding (continued)

To the extent these methods use the historical claims development, it is presumed that the historical sample of claims development will recur in the future. There are reasons why this might not be the case, which are considered in the method adjustment, to the extent in which they can be established. These reasons comprise:

- economic, legal, political and social trends (which cause different levels of inflation in relation to the expected inflation level);
- changes in the combination of insurance contracts type which are being acquired;
- random variations, including the influence of great claims.

Provisions for claims outstanding are initially estimated in gross amounts and a special calculation is performed in order to estimate the reinsurance share.

The assumptions which affect the measurement of provision amounts for non-life insurance the most are the following:

The remaining claims development factor

In case of long-tail claims, the level of provisions largely depends on the assessment of claims development since the last year of development, for which there are historical data by the final settlement. The remaining claims development factors are assessed prudently based on actuarial judgements.

Discounting

Other than rental claims, non-life insurance provisions are not discounted.

Provision for annuity liabilities from Motor Third Party Liability Insurance was set with actuarial methods pursuant to the Mortality tables of the Republic of Croatia for the period 2000-2002, for males and females separately, discounted by a 1.48% annual rate.

Liability adequacy test

Liability adequacy test is limited to the non-expired part of existing insurance contracts. The expected value of claims and costs which can be attributed to non-expired contracts valid on the reporting date is compared to the unearned premiums for those policies (unearned premiums). The expected amounts connected to claims and costs are estimated based on the experience form the previous period.

The test is performed per individual types of insurance.

In case of non-life insurance, the variables which would affect the underwriting liabilities the most refer to Road Vehicle Insurance court claims. The court claims liabilities are sensitive to changes in regulatory, legal, political, economic and social trends. The Management believes it is not practical to quantify the sensitivity of provisions for non-life insurance operations to the relevant changes in variables.

40. Contingent liabilities

There are several pending legal disputes against the Group, with significantly smaller legal claims for which the Group, as at 31 December 2018, has reserved assets in the total amount of 6,014 thousands HRK.

As at 31 December 2018, the Group issued guarantees in the amount of HRK 8,375 thousand (as at 31 December 2017: HRK 7,629 thousand). The warranties mostly refer to bank guarantees for the Croatian Insurance Bureau - Guarantee Fund and bank guarantees for tenders for insuring vehicles and property as tendering security.

As at 31 December 2018, the Group had no contingent liabilities for approved unused loans.

41. Events after the balance sheet date

As at 31 December 2018, the Company had significant investments in Strukturiranje d.o.o. And Agram invest d.d. As at 31 December 2018, the Company had receivables from Strukturiranje d.o.o. pursuant to Bill 27281 of 04/06/2018 in the amount of HRK 2.5 million, pursuant to Bill 27294 of 14/06/2018 in the amount of HRK 2 million, and pursuant to Bill 27305 of 20/08/2018 in the amount of HRK 1 million. The Company collected all of the receivables on 02/04/2019. As at 31 December 2018, the Company had receivables from Agram Invest d.o.o. pursuant to Bill 19501704 of 08/06/2017 in the amount of HRK 16,262 thousand, pursuant to Bill 19501705 of 08/06/2017 HRK 16,262 thousand. The Company collected all of the receivables on 02/04/2019.

42. Approval of financial statements

The financial statements were approved by the Management Board and authorized for issue on 29 April 2019.

On behalf and for Adriatic osiguranje d.d.:

Goran Jurišić	Nino Pavić	Danijela Šaban
President of the Management Board	*Member of the Management Board*	*Member of the Management Board*

STATEMENT OF COMPREHENSIVE INCOME (PROFIT AND LOSS ACCOUNT) FOR THE PERIOD 01/01/2018-31/12/2018

in HRK

Number of position	Sum elements	Position	Position description	Previous accounting period			Current accounting period		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003+004+005+006	**I**	**Earned premium**		**553.425.123**	**553.425.123**		**609.997.644**	**609.997.644**
002		1	Written gross premium		593.036.331	593.036.331		662.491.637	662.491.637
003		2	Value adjustment and paid premium value adjustment		-2.489.956	-2.489.956		-3.181.502	-3.181.502
004		3	Outward reinsurance (-)		-16.356.134	-16.356.134		-18.799.108	-18.799.108
005		4	Changes in gross unearned premium provisions (+/-)		-21.363.507	-21.363.507		-30.752.307	-30.752.307
006		5	Changes in unearned premium provisions, reinsurer's share (+/-)		598.389	598.389		238.924	238.924
007	008+009+010+011+012+013+014	**II**	**Investment income**		**62.698.738**	**62.698.738**		**70.905.374**	**70.905.374**
008		1	Income from subsidiaries, associates and joint ventures					0	
009		2	Income from investment in land and buildings		14.487.029	14.487.029		16.412.270	16.412.270
010		3	Interest income		21.551.700	21.551.700		27.616.125	27.616.125
011		4	Unrealised investment gains		11.920.080	11.920.080		16.667.810	16.667.810
012		5	Realised investment gains		5.479.687	5.479.687		2.702.539	2.702.539
013		6	Net positive exchange rate differences		1.080.889	1.080.889		623.223	623.223
014		7	Other investment income		8.179.354	8.179.354		6.883.407	6.883.407
015		**III**	**Income from fees and commissions**		**1.524.335**	**1.524.335**		**776.638**	**776.638**
016		**IV**	**Other insurance-technical income, net of reinsurance**		**20.458.422**	**20.458.422**		**8.897.182**	**8.897.182**
017		**V**	**Other income**		**8.668.677**	**8.668.677**		**7.776.539**	**7.776.539**
018	019+022	**VI**	**Claims incurred, net**		**-207.897.045**	**-207.897.045**		**-268.385.058**	**-268.385.058**
019	020+021	1	Liquidated claims		-230.478.746	-230.478.746		-256.587.278	-256.587.278
020		1.1	Gross amount (-)		-239.598.780	-239.598.780		-259.042.807	-259.042.807
021		1.2	Reinsurance share (+)		9.120.034	9.120.034		2.455.529	2.455.529
022	023+024	2	Changes in claims outstanding (+/-)		22.581.701	22.581.701		-11.797.780	-11.797.780
023		2.1	Gross amount (-)		15.137.752	15.137.752		-9.574.799	-9.574.799
024		2.2	Reinsurance share (+)		7.443.949	7.443.949		-2.222.981	-2.222.981
025	026+029	**VII**	**Changes in mathematical and other technical provisions, net of reinsurance**		**37.343**	**37.343**		**219.950**	**219.950**
026	027+028	1	Changes in mathematical provision (+/-)					0	
027		1.1	Gross amount (-)					0	
028		1.2	Reinsurance share (+)					0	
029	030+031	2	Changes in other technical provisions for claims outstanding, net of reinsurance (+/-)		37.343	37.343		219.950	219.950
030		1.1	Gross amount (-)		37.343	37.343		219.950	219.950
031		1.3	Reinsurance share (+)					0	
032	033+034	**VIII**	**Changes in provisions for special life insurance for which the insured person bears the investment risk**					**0**	
033		1	Gross amount (-)					0	
034		2	Reinsurance share (+)					0	
035	036+037	**IX**	**Return of premium (bonuses and rebates) expenses, net of reinsurance**		**172.029**	**172.029**		**9.446**	**9.446**
036		1	Result-related (bonuses)		172.029	172.029		9.446	9.446
037		2	Result-unrelated (rebates)					0	
038	039+043	**X**	**Operating expenses (activity performance expenses), net**		**-275.383.344**	**-275.383.344**		**-289.852.302**	**-289.852.302**
039	040+041+042	1	Acquisition costs		-194.652.854	-194.652.854		-209.392.110	-209.392.110
040		1.1	Commission		-16.520.211	-16.520.211		-20.899.854	-20.899.854
041		1.2	Other underwriting costs		-178.132.643	-178.132.643		-188.492.256	-188.492.256
042		1.3	Changes in deferred acquisition costs (+/-)					0	
043	044+045+046	2	Management costs (administrative costs)		-80.730.490	-80.730.490		-80.460.191	-80.460.191
044		2.1	Depreciation and amortisation		-10.604.188	-10.604.188		-10.100.839	-10.100.839
045		2.3.	Taxes and contributions from and on salaries		-31.243.938	-31.243.938		-31.638.713	-31.638.713
046		2.4	Other management costs		-38.882.365	-38.882.365		-38.720.639	-38.720.639
047	048+049+050+051+052+053+054	**XI**	**Investment costs**		**-80.208.307**	**-80.208.307**		**-37.690.111**	**-37.690.111**

048		1	Depreciation of land and buildings not used by the Company for its activities		-389.823	-389.823		-1.625.504	-1.625.504
049		2	Interests		-6.031.745	-6.031.745		-2.332.020	-2.332.020
050		3	Investment impairment					-2.815.650	-2.815.650
051		4	Realised investment losses		-1.235.532	-1.235.532		-421.060	-421.060
052		5	Unrealised investment losses		-35.370.018	-35.370.018		-6.582.148	-6.582.148
053		6	Net negative exchange rate differences		-1.047.087	-1.047.087		-1.452.494	-1.452.494
054		7	Other investment costs		-36.134.103	-36.134.103		-22.461.235	-22.461.235
055	056+057	**XII**	**Other technical costs, net of reinsurance**		**-22.729.339**	**-22.729.339**		**-20.552.441**	**-20.552.441**
056		1	Prevention activities costs		-2.527.698	-2.527.698		-522.068	-522.068
057		2	Other technical insurance costs		-20.201.640	-20.201.640		-20.030.373	-20.030.373
058		**XIII**	**Other costs, including value adjustments**		**-1.312.512**	**-1.312.512**		**-5.385.789**	**-5.385.789**
059	001+007+015+016+017+018+025+032+035+038+047+055+058	**XIV**	**Profit or loss for the accounting period, before taxes (+/-)**		**59.454.122**	**59.454.122**		**76.717.073**	**76.717.073**
060	061+062	**XV**	**Income or loss tax**		**-16.730.078**	**-16.730.078**		**-15.322.532**	**-15.322.532**
061		1	Current tax expense		-18.982.672	-18.982.672		-13.002.395	-13.002.395
062		2	Deferred tax expense/(income)		2.252.594	2.252.594		-2.320.137	-2.320.137
063	059+060	**XVI**	**Profit or loss for the accounting period, after taxes (+/-)**		**42.724.044**	**42.724.044**		**61.394.541**	**61.394.541**
064		1	Attributed to equity holders of the parent					0	
065		2	Attributed to the non-controlling interest					0	
066	001+007+015+016+017+062	**XVII**	**TOTAL INCOME**		**649.027.889**	**649.027.889**		**696.033.241**	**696.033.241**
067	018+025+032+035+038+047+055+058+061	**XVIII**	**TOTAL EXPENSES**		**-606.303.846**	**-606.303.846**		**-634.638.700**	**-634.638.700**
068	069+070+071+072+073+074+075+076	**XIX**	**Other comprehensive income**		**7.528.609**	**7.528.609**		**-981.519**	**-981.519**
069		1	Gains/losses derived from the recalculation of foreign operations' financial statements					0	
070		2	Gains/losses derived from the revaluation of financial assets available for sale		5.268.434	5.268.434		9.923.655	9.923.655
071		3	Gains/losses derived from the revaluation of land and buildings used by the Company for its activities		3.912.796	3.912.796		-11.120.629	-11.120.629
072		4	Gains/losses derived from the revaluation of other tangible (other than land and buildings) and intangible assets					0	
073		5	Effects of cash flow hedging instruments					0	
074		6	Actuarial gains/losses per pension plans with defined pensions					0	
075		7	Share in other comprehensive income of associated companies					0	
076		8	Corporate income tax for other comprehensive income		-1.652.621	-1.652.621		215.455	215.455
077	063+068	**XX**	**Total comprehensive income**		**50.252.652**	**50.252.652**		**60.413.022**	**60.413.022**
078		1	Attributed to equity holders of the parent					0	
079		2	Attributed to the non-controlling interest					0	
080		**XXI**	**Reclassification adjustments**					**0**	

STATEMENT OF FINANCIAL POSITION AS AT 31/12/2018

ASSETS									*in HRK*
Number of position	Sum elements	Position	Position description	Previous year			Current year		
				Life	Non-life	Total	Life	Non-life	Total
001	002+003	**I**	**INTANGIBLE ASSETS**		**14.961.339**	**14.961.339**		**14.763.131**	**14.763.131**
002		1	Goodwill		14.695.626	14.695.626		14.420.305	14.420.305
003		2	Other intangible assets		265.714	265.714		342.826	342.826
004	005+006+007	**II**	**TANGIBLE ASSETS**		**271.167.767**	**271.167.767**		**291.332.348**	**291.332.348**
005		1	Land and buildings used by the Company for its activities		260.263.017	260.263.017		276.897.124	276.897.124
006		2	Equipment		10.904.750	10.904.750		14.435.224	14.435.224
007		3	Other tangible assets and inventories						
008	009+010+014+033	**III**	**INVESTMENT**		**1.483.164.349**	**1.483.164.349**		**1.566.649.233**	**1.566.649.233**
009		**A**	**Investment in land and buildings not used by the Company for its activities**		**395.440.170**	**395.440.170**		**425.817.792**	**425.817.792**
010	011+012+013	**B**	**Investment in subsidiaries, associates and joint ventures**		**68.497.088**	**68.497.088**		**85.886.875**	**85.886.875**
011		1	Stocks and shares in subsidiaries						
012		2	Stocks and shares in associates		68.497.088	68.497.088		85.886.875	85.886.875
013		3	Stocks and shares in joint ventures						
014	015+018+023+029	**C**	**Financial assets**		**1.019.227.091**	**1.019.227.091**		**1.054.944.567**	**1.054.944.567**
015	016+017	**1**	**Financial assets held to maturity**						
016		1.1	Debt financial instruments						
017		1.2	Other						
018	019+020+021+022	**2**	**Financial assets available for sale**		**572.406.781**	**572.406.781**		**554.962.288**	**554.962.288**
019		2.1	Equity financial instruments		359.650.315	359.650.315		369.698.458	369.698.458
020		2.2	Debt financial instruments		136.516.574	136.516.574		115.151.962	115.151.962
021		2.3	Shares in investment funds		38.456.274	38.456.274		20.328.251	20.328.251
022		2.4	Other		37.783.617	37.783.617		49.783.617	49.783.617
023	024+025+026+027+028	**3**	**Financial assets at fair value in the Profit and Loss Account**						
024		3.1	Equity financial instruments						
025		3.2	Debt financial instruments						
026		3.3	Derivative financial instruments						
027		3.4	Shares in investment funds						
028		3.5	Other						
029	030+031+032	**4**	**Loans and receivables**		**446.820.310**	**446.820.310**		**499.982.279**	**499.982.279**
030		4.1	Deposits with credit institutions		29.785.713	29.785.713		30.226.727	30.226.727
031		4.2	Loans		417.034.597	417.034.597		469.755.551	469.755.551
032		4.3	Other						
033		**D**	**Deposits with the ceding company**						
034		**IV**	**INVESTMENT FOR THE ACCOUNT AND RISK OF THE PERSON WITH LIFE INSURANCE**						
035	036+037+038+039+043+044+045	**V**	**SHARE OF REINSURANCE IN TECHNICAL PROVISIONS**		**17.050.978**	**17.050.978**		**15.066.920**	**15.066.920**
036		1	Unearned premium provisions, reinsurance share		5.679.378	5.679.378		5.918.302	5.918.302
037		2	Mathematical provisions, reinsurance share						
038		3	Provisions for claims outstanding, reinsurance share		11.371.599	11.371.599		9.148.619	9.148.619
039		4	Provisions for bonuses and rebates, reinsurance share						
040		5	Equalisation provisions, reinsurance share						
041		6	Other technical provisions, reinsurance share						
042		7	Special provisions for life insurance for which the insured person bears the investment risk, reinsurance						
043	044+045	**VI**	**DEFERRED AND CURRENT TAX ASSETS**		**15.193.453**	**15.193.453**		**16.896.691**	**16.896.691**
044		1	Deferred tax assets		15.193.453	15.193.453		12.873.316	12.873.316
045		2	Current tax assets					4.023.375	4.023.375

046	047+050+051	**VII**	**RECEIVABLES**		**140.711.024**	**140.711.024**		**132.400.410**	**132.400.410**
047	048+049	**1**	**Claims from insurance operations**		**63.189.504**	**63.189.504**		**66.138.827**	**66.138.827**
048		1.1	From insured persons		61.935.774	61.935.774		66.057.773	66.057.773
049		1.2	From agents, i.e. insurance intermediaries		1.253.730	1.253.730		81.054	81.054
050		**2**	**Claims from reinsurance operations**		32.171	**32.171**			
051	052+053+054	**3**	**Other receivables**		**77.489.349**	**77.489.349**		**66.261.583**	**66.261.583**
052		3.1	Claims from other insurance operations		38.925.079	38.925.079		39.246.996	39.246.996
053		3.1	Receivables for investment income		9.791.917	9.791.917		2.898.786	2.898.786
054		3.2	Other receivables		28.772.352	28.772.352		24.115.802	24.115.802
055	056+060+061	**VIII**	**OTHER ASSETS**		**4.420.327**	**4.420.327**		**24.958.756**	**24.958.756**
056	060+061+062	**1**	**Cash at bank and in hand**		**4.415.312**	**4.415.312**		**24.958.509**	**24.958.509**
057		1.1	Funds on business account		4.341.617	4.341.617		24.841.648	24.841.648
058		1.2	Funds on account for assets covering mathematical provisions						
059		1.3	Cash in hand		73.695	73.695		116.861	116.861
060		**2**	**Non-current assets held for sale and discontinued operations**						
061		**3**	**Other**		**5.015**	**5.015**		**247**	**247**
062	063+064+065	**IX**	**PAID EXPENSES OF THE FUTURE PERIOD AND UNDUE INCOME PAYMENTS**		**14.137.493**	**14.137.493**		**19.347.239**	**19.347.239**
063		1	Deferred interests and lease payments		312.136	312.136		240.174	240.174
064		2	Deferred underwriting costs						
065		3	Other paid expenses of the future periods and undue income payments		13.825.357	13.825.357		19.107.065	19.107.065
066	001+004+008 +034+035+043 +046+055+062	**X**	**TOTAL ASSETS**		**1.960.806.731**	**1.960.806.731**		**2.081.414.729**	**2.081.414.729**
067		**XI**	**OFF-BALANCE SHEET ITEMS**		**73.448.751**	**73.448.751**		**121.316.995**	**121.316.995**

STATEMENT OF FINANCIAL POSITION AS AT 31/12/2018

LIABILITIES *in HRK*

Number of position	Sum elements	Position	Position description	Previous year Life	Previous year Non-life	Previous year Total	Current year Life	Current year Non-life	Current year Total
068	069+072+073+077+081+084	**XII**	**CAPITAL AND RESERVES**		**939.977.932**	**939.977.932**		**976.051.400**	**976.051.400**
069	070+071	**1**	**Subscribed capital**		**50.000.000**	**50.000.000**		**50.000.000**	**50.000.000**
070		1.1	Paid capital - regular shares		50.000.000	50.000.000		50.000.000	50.000.000
071		1.2	Paid capital - preferential shares						
072		**2**	**Share premium account (capital reserves)**						
073	074+075+076	**3**	**Revaluation reserves**		**369.309.340**	**369.309.340**		**365.319.122**	**365.319.122**
074		3.1	Land and buildings		280.557.408	280.557.408		268.429.794	268.429.794
075		3.2	Financial assets available for sale		88.751.932	88.751.932		96.889.329	96.889.329
076		3.3	Other revaluation reserves						
077	078+079+080	**4**	**Reserves**		**138.761.535**	**138.761.535**		**138.761.535**	**138.761.535**
078		4.1	Legal reserves		91.154.569	91.154.569		91.154.569	91.154.569
079		4.2	Statutory reserves						
080		4.3	Other reserves		47.606.966	47.606.966		47.606.966	47.606.966
081	082+083	**5**	**Retained profit or transferred loss**		**339.183.013**	**339.183.013**		**360.576.202**	**360.576.202**
082		5.1	Retained earnings		339.183.013	339.183.013		360.576.202	360.576.202
083		5.2	Transferred loss (-)						
084	085+086	**6**	**Income or loss of the current accounting period**		**42.724.044**	**42.724.044**		**61.394.541**	**61.394.541**
085		6.1	Profit for the current accounting period		42.724.044	42.724.044		61.394.541	61.394.541
086		6.2	Loss for the current accounting period (-)						
087		**XIII**	**SECOND PRIORITY LIABILITIES (SUBORDINATED LIABILITIES)**						
088		**XIV**	**MINORITY INTEREST**						
089	090+091+092+093+094+095	**XV**	**TECHNICAL PROVISIONS**		**800.353.244**	**800.353.244**		**840.450.954**	**840.450.954**
090		1	Unearned premium provisions, gross amount		310.744.349	310.744.349		341.496.656	341.496.656
091		2	Mathematical provisions, gross amount						
092		3	Provisions for claims outstanding, gross amount		488.882.450	488.882.450		498.457.249	498.457.249
093		4	Provisions for bonuses and rebates, gross amount		286.692	286.692		277.247	277.247
094		5	Equalisation provisions, gross		439.753	439.753		219.803	219.803
095		6	Other technical provisions, gross amount						
096		**XVI**	**SPECIAL PROVISIONS FOR LIFE INSURANCE FOR WHICH THE INSURED PERSON BEARS THE INVESTMENT RISK, gross amount**						

097	098+099	**XVII**	**OTHER PROVISIONS**						
098		1	Pension provisions and similar liabilities						
099		2	Other provisions						
100	101+102	**XVIII**	**DEFERRED AND CURRENT TAX LIABILITY**		**89.063.256**	**89.063.256**		**80.192.003**	**80.192.003**
101		1	Deferred tax liability		81.067.904	81.067.904		80.192.003	80.192.003
102		2	Current tax liability		7.995.352	7.995.352			
103		**XIX**	**DEPOSITS RECEIVED FROM REINSURERS**						
104	105+106+107	**XX**	**FINANCIAL LIABILITIES**		**62.986.318**	**62.986.318**		**102.279.382**	**102.279.382**
105		1	Loan liabilities		62.970.397	62.970.397		102.279.382	102.279.382
106		2	Issued financial instruments liabilities						
107		3	Other financial liabilities		15.922	15.922			
108	109+110+111+112	**XXI**	**OTHER LIABILITIES**		**59.784.160**	**59.784.160**		**68.413.380**	**68.413.380**
109		1	Liabilities from direct insurance operations		24.948.928	24.948.928		26.911.332	26.911.332
110		2	Liabilities from reinsurance and co-insurance		4.482.723	4.482.723		4.780.938	4.780.938
111		3	Liabilities for disposal and cease of operations						
112		4	Other liabilities		30.352.509	30.352.509		36.721.110	36.721.110
113	114+115	**XXII**	**DEFERRED EXPENSES AND FUTURE INCOME**		**8.641.820**	**8.641.820**		**14.027.610**	**14.027.610**
114		1	Deferred reinsurance commission						
115		2	Other deferred expenses and future income		8.641.820	8.641.820		14.027.610	14.027.610
116	068+087+088+089+096+097+100+103+104+108+113	**XXIII**	**TOTAL LIABILITIES**		**1.960.806.731**	**1.960.806.731**		**2.081.414.729**	**2.081.414.729**
117		**XXIV**	**OFF-BALANCE SHEET ITEMS**		**73.448.751**	**73.448.751**		**121.316.995**	**121.316.995**

STATEMENT OF CASH FLOWS (INDIRECT METHOD) FOR THE PERIOD 01/01/2018-31/12/2018

in HRK

No.	Sum elements	Position	Position description	Current business period	Same period of the previous year
001	002+013+031	**I**	**CASH FLOW FROM OPERATING ACTIVITIES**	**105.051.840**	**93.515.766**
002	003+004	**1**	**Cash flow before the change in assets and liabilities**	**50.549.442**	**94.910.352**
003		1.1	Profit/loss before taxes	76.717.073	59.454.122
004	005+006+007 +008+009+010 +011+012	**1.2**	**Adjustments:**	**-26.167.631**	**35.456.230**
005		1.2.1	Depreciation of property and equipment	11.465.650	10.462.745
006		1.2.2	Depreciation of intangible assets	260.693	531.266
007		1.2.3	Impairment and gains/losses from reduction to fair value	4.295.973	29.781.448
008		1.2.4	Interest costs	2.231.992	2.134.784
009		1.2.5	Interest income	-22.554.575	-10.343.335
010		1.2.6	Shares in profit of associated companies	-3.764.675	-398.788
011		1.2.7	Gains/(losses) from sale of tangible assets (including land and buildings)	-3.895.599	-3.973.477
012		1.2.8	Other adjustments	-14.207.090	7.261.588
013	014+015+…+030	**2**	**Increase/decrease in assets and liabilities**	**71.528.168**	**9.592.733**
014		2.1	Increase/decrease in investments available for sale	16.579.709	-17.597.516
015		2.2	Increase/decrease in investments valued at fair value in the Profit and Loss Account		
016		2.3	Increase/decrease in deposits, loans and receivables	-194.484	27.333.852
017		2.4	Increase/decrease in deposits received from reinsurers		
018		2.5	Increase/decrease in investments for the account and risk of the life insurance policy holder		
019		2.6	Increase/decrease in the reinsurance share in technical provisions	1.984.057	-8.042.338
020		2.7	Increase/decrease in tax assets	-1.703.237	-2.252.594
021		2.8	Increase/decrease in receivables	22.850.268	13.645.910
022		2.9	Increase/decrease in other assets		
023		2.10	Increase/decrease in paid costs for the future period and undue income payments	-5.209.746	-6.202.455
024		2.11	Increase/decrease in technical provisions	40.097.710	6.016.383
025		2.12	Increase/decrease in technical provisions of life insurance when the insured person bears the investment risk		
026		2.13	Increase/decrease in tax liabilities	-27.289.807	6.002.883
027		2.14	Increase/decrease in deposits received from reinsurers		
028		2.15	Increase/decrease in financial liabilities	-2.253.192	-2.297.594
029		2.16	Increase/decrease in other liabilities	21.281.100	677.727
030		2.17	Increase/decrease in deferred expenses and future income	5.385.789	-7.691.526
031		3	Income tax paid	-17.025.770	-10.987.319

032	033+034+…+046	**II**	**CASH FLOW FROM INVESTMENT ACTIVITIES**	**-113.644.191**	**-118.630.105**
033		1	Gains from sale of tangible assets	1.359.125	728.730
034		2	Tangible assets purchase expenses	-23.490.302	-6.203.100
035		3	Gains from sale of intangible assets		
036		4	Intangible assets purchase expenses	-337.806	-155.004
037		5	Gains from sale of land and buildings not used by the Company for its activities	1.302.003	753.427
038		6	Expenses for the purchase of land and buildings not used by the Company for its activities	-49.936.134	-20.052.475
039		7	Increase/decrease in investment in subsidiaries, associates and joint ventures		
040		8	Gains from investments held to maturity		
041		9	Losses from investments held to maturity		
042		10	Gains from the sale of securities and shares	26.214.231	90.112.640
043		11	Expenses for the investment in securities and shares	-27.999.565	-135.303.835
044		12	Gains from dividends and shares in profit	8.815.350	1.743.154
045		13	Gains from payment of given short-term and long-term loans	45.878.908	70.747.604
046		14	Expenses of given short-term and long-term loans	-95.450.000	-121.001.248
047	048+049+050 +051+052	**III.**	**CASH FLOW FROM FINANCIAL ACTIVITIES**	**28.967.763**	**250.861**
048		1	Cash received from increase in share capital		
049		2	Cash received from approved short-term and long-term loans	159.946.721	64.732.495
050		3	Cash paid for the payment of short-term and long-term loans	-120.927.216	-63.972.650
051		4	Cash paid for the purchase of own shares		
052		5	Cash paid for the payment of shares in profit (dividends)	-10.051.742	-508.984
053	001+032+047		**PURE CASH FLOW**	**20.375.412**	**-24.863.478**
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**	**20.375.412**	**-24.863.478**
056		1	Cash and cash equivalents at the beginning of the period	4.768.667	29.632.145
057	055+056	**2**	**Cash and cash equivalents at end of year**	**25.144.079**	**4.768.667**

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 01/01/2018-31/12/2018

in HRK

No.	Position description	Attributable to the parent's owners: Paid capital (regular and preferential shares)	Share premium account	Revaluation reserves	Reserves (legal, statutory, others)	Retained profit or transferred loss	Profit/loss for the year	Total capital and reserves	Attributable to the non-controlling interest	Total capital and reserves
I.	**Balance at 1 January of the previous year**	**50.000.000**		**364.683.830**	**138.761.535**	**288.796.436**	**51.110.716**	**893.352.517**		**893.352.517**
1	Change in accounting policies									
2	Prior period adjustment									
II.	**Balance at 1 January of the previous year (adjusted)**	**50.000.000**		**364.683.830**	**138.761.535**	**288.796.436**	**51.110.716**	**893.352.517**		**893.352.517**
III.	**Comprehensive income or loss of the previous year**			**7.528.609**			**42.724.044**	**50.252.652**		**50.252.652**
1	Profit or loss for the period						42.724.044	42.724.044		42.724.044
2	**Other comprehensive income or loss of the previous year**			**7.528.609**				**7.528.609**		**7.528.609**
2.1	Unrealised gains or losses from tangible assets (land and buildings)			3.208.493				3.208.493		3.208.493
2.2	Unrealised gains or losses from financial assets available for sale			-9.740.816				-9.740.816		-9.740.816
2.3	Realised gains or losses from financial assets available for sale			14.060.931				14.060.931		14.060.931
2.4	Other non-owner changes in equity									
IV.	**Transactions with owners (previous period)**			**-2.903.098**		**50.386.577**	**-51.110.716**	**-3.627.237**		**-3.627.237**
1	Increase/decrease in shared capital									
2	Other owners' payments									
3	Payment of shares in profit/dividends									
4	Other allocations to owners			-2.903.098		50.386.577	-51.110.716	-3.627.237		-3.627.237
V.	**Balance at the last day of the reporting period in the previous year**	**50.000.000**		**369.309.340**	**138.761.535**	**339.183.013**	**42.724.044**	**939.977.932**		**939.977.932**
VI	**Balance at 1 January of the current year**	**50.000.000**		**369.309.340**	**138.761.535**	**339.183.013**	**42.724.044**	**939.977.932**		**939.977.932**
1	Change in accounting policies									
2	Prior period adjustment									
VII.	**Balance at 1 January of the current year (adjusted)**	**50.000.000**		**369.309.340**	**138.761.535**	**339.183.013**	**42.724.044**	**939.977.932**		**939.977.932**
VIII	**Comprehensive income or loss of the current period**			**-981.519**			**61.394.541**	**60.413.022**		**60.413.022**
1	Profit or loss for the period						61.394.541	61.394.541		61.394.541
2	**Other comprehensive income or loss of the current year**			**-981.519**				**-981.519**		**-981.519**
2.1	Unrealised gains or losses from tangible assets (land and buildings)			3.655.259				3.655.259		3.655.259
2.2	Unrealised gains or losses from financial assets available for sale			9.807.695				9.807.695		9.807.695
2.3	Realised gains or losses from financial assets available for sale			-14.444.473				-14.444.473		-14.444.473
2.4	Other non-owner changes in equity									
IX	**Transactions with owners (current period)**			**-3.008.699**		**21.393.189**	**-42.724.044**	**-24.339.554**		**-24.339.554**
1	Increase/decrease in shared capital									
2	Other owners' payments									
3	Payment of shares in profit/dividends					-25.000.000		-25.000.000		-25.000.000
4	Other transactions with owners			-3.008.699		46.393.189	-42.724.044	660.446		660.446
X	**Balance at the last day of the reporting period in the current year**	**50.000.000**		**365.319.122**	**138.761.535**	**360.576.202**	**61.394.541**	**976.051.400**		**976.051.400**

Statement of Comprehensive Income for 2018

Audited financial statements	HRK'000	Agency	HRK'000	Difference	Explanation
Written gross premium	662.492	Written gross premium	662.492	-	
Value adjustment and paid premium value adjustment	(3.182)	Value adjustment and paid premium value adjustment	(3.182)	-	
Outward reinsurance gross premiums	(18.799)	Outward reinsurance and co-insurance premiu	(18.799)	-	
Net written premium	**640.511**	**Net written premium**	**640.511**	**-**	
Changes in gross unearned premium provisions	(30.752)	Changes in gross unearned premium provisions	(30.752)	-	
Changes in gross unearned premium provisions, reinsurance share	239	Changes in unearned premium provisions, reinsurer's share (+/-)	239	-	
Net earned premium	**609.998**	**Net earned premium**	**609.998**	**-**	
Income from fees and commissions	777	Income from fees and commissions	777	-	
Net investment income	35.669	Net investment income	33.215	2.454	a)
Other operating income	16.627	Other insurance-technical income, net of reinsurance	16.674	(47)	b)
Net income	**53.073**	**Net income**	**50.666**	**2.407**	
Claims incurred	(258.514)	Gross amount	(259.043)	529	c)
Claims incurred, reinsurance share	2.456	Reinsurance share	2.456	-	
outstanding	(9.345)	Gross amount	(9.575)	229	d)
Changes in provisions for claims outstanding, reinsurance share	(2.223)	Reinsurance share	(2.223)	-	
Claims incurred	**(267.626)**	**Claims incurred**	**(268.385)**	**759**	
Changes in mathematical and other technical provisions, net of reinsurance	**-**	**Changes in mathematical and other technical provisions, net of reinsurance**	**220**	**220**	d)
Return of premium (bonuses and rebates) expenses, net of reinsurance	**-**	**Return of premium (bonuses and rebates) expenses, net of reinsurance**	**9**	**9**	d)
Acquisition costs	(209.392)	Acquisition costs	(209.392)	-	
Administrative expenses	(80.460)	Administrative expenses	(80.460)	-	
Other operating costs	(27.564)	Other technical costs, net of reinsurance, and other costs	(25.939)	(1.625)	
Foreign exchange losses	(1.312)	Foreign exchange losses		(1.312)	a) b) c)
Profit before tax	**76.717**	**Profit or loss for the accounting period, before taxes**	**76.717**	**-**	
Tax expense	(13.002)	*Current tax expense*	(13.002)	-	
Deferred tax expense (income)	(2.320)	*Deferred tax expense (income)*	(2.320)	-	
Profit after tax	**61.395**	***Profit or loss for the accounting period, after taxes***	**61.395**	**-**	
				-	
Other comprehensive income		***Other comprehensive income***		**-**	
Income from revaluation reserves for securities available for sale	9.924	Gains/losses derived from the revaluation of financial assets available for sale	9.924	-	
Income from revaluation provisions for property, plant and equipment	(11.121)	Gains/losses derived from the revaluation of land and buildings used by the Company for its activities	(11.121)	-	
Corporate income tax for other comprehensive income	215	Corporate income tax for other comprehensive income	215	-	
Total comprehensive income	**60.413**	**Total comprehensive income**	**60.413**	**-**	

Explanations of adjustments of the Statement of Comprehensive Income for 2018

a) The item *Net investment income* in the financial statements prepared in line with the regulators' requirements contains positive and negative exchange rate differences which refer to Positive exchange rate differences - bonds, funds and other financial assets and Negative exchange rate differences - bonds, funds and receivables in the total net amount of HRK 829 thousand, which have been reported in the item *Net exchange rate differences* in the audited financial statements. The items *Net investment income* and *Depreciation of land and buildings not used for the Company's activities* in the financial statements prepared in line with the regulators' requirements, which amount to HRK 1,625 thousand, have been reported in the audited financial statements in the item Other operating costs.

b) The item *Other insurance-technical income, net of reinsurance and other income* in the financial statements prepared in line with the regulators' requirements contains positive exchange rate differences which refer to *Positive exchange rate differences - premium, claims* in the amount of HRK 47 thousand, which have been reported in the item *Net exchange rate differences* in the audited financial statements.

c) The item *Claims incurred, net (gross)* in the financial statements prepared in line with the regulators' requirements contains negative exchange rate differences which refer to *Negative exchange rate differences - claims* in the amount of HRK 529 thousand, which have been reported in the item *Net exchange rate differences* in the audited financial statements.

d) In the audited financial statements, the item *Changes in provisions for claims outstanding* contains the *Changes in equalisation provisions* and *Provisions for bonuses and rebates* in the total amount of HRK 229 thousand, which have been reported in the financial statements prepared in line with the regulators' requirements in the item *Return of premium expenses (bonuses and rebates), net of reinsurance* in the amount of HRK 220 thousand and in the item *Changes in other technical provisions for claims outstanding, net of reinsurance* in the amount of HRK 9 thousand.

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ANNUAL REPORT FOR THE YEAR 2018 TOGETHER WITH THE INDEPENDENT AUDITOR`S REPORT

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