Wiener osiguranje Vienna Insurance Group

a.d. Banja Luka

Consolidated and separate

financial statements

31 December 2017

This version of the report is a translation from the original, which was prepared in Serbian 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 and the original language version of the financial reports take precedence over this translation.

Contents

Management's Report

Management presents its report together with the audited financial statements for the year ending on 31 December 2017.

Wiener osiguranje Vienna Insurance Group, a Joint Stock Company Banja Luka was founded in 1992, and today it operates as full member of one of the biggest insurance groups in Central and Eastern Europe, VIENNA INSURANCE GROUP AG Vienna. The share capital of the Wiener osiguranje VIG AD Banja Luka amounts to BAM 11,180 thousand. In accordance with the Law on insurance companies, the Company is registered for offering non-life and life insurance products.

Effective from 1 December 2014 the Company has changed its name and seat. The old name and seat „Jahorina osiguranje VIG“ a.d. Pale was changed to Wiener osiguranje Vienna Insurance Group ad with seat in Banja Luka. The relocation processes was successfully completed on 1 February 2015.

For the purpose of increasing the level of quality of our services, in 2003 we founded a specialized company for performance of car technical inspection services “Jahorina auto” d.o.o. and today in over 20 towns throughout Bosnia and Herzegovina, in our modern equipped centers, we perform motor technical checkups for our clients.

Wiener osiguranje Vienna Insurance Group AD is also one of the founders and owner, with a 28% stake of the capital of a Company for management of investment funds ‘’Jahorina Konseko progres’’ AD Pale.

As evidence that we operate upon highest quality standards, since 2002 we possess the quality certificate Quality Management System ISO 9001:2008 obtained from TÜV Nord Cert GmbH.

Our desire to be closer to the users of our products and services we have created the network of 8 branch offices with a network of field offices throughout Bosnia and Herzegovina. As at 31 December 2017 Wiener osiguranje Vienna Insurance Group had 284 employees and an extended distribution network throughout Bosnia and Herzegovina.

The main goals and long term strategy of the Company comprise protection of the safety and the interests of our clients, and maintaining the leading position in Republic of Srpska insurance market, while simultaneously increasing the market share in Bosnia and Herzegovina. Our strategy is supported by development of wider range of property insurance products as well as the life insurance products, a segment in which the Company has achieved significant growth compared to previous year. Wiener osiguranje Vienna Insurance Group attained second position on the Republic of Srpska insurance market with total market share of 9.6% (excluding premium from FBiH). In 2017, Wiener osiguranje VIG AD had a total market share of 5.2% on the market of BiH, and in terms of premium volume attained eight position on the market.

The total premium volume in 2017 amounted to BAM 35,191 thousand, out of which BAM 29,346 thousand related to written premium from non-life insurance and BAM 5,845 thousand to written premium from life insurance products. Out of the total amount of non-life premium the highest share was generated from property insurance premium (lines of business 08 and 09) with 34%, followed by MTPL premium with 32%, accident premium with 18%, car casco premium with 8% etc.

The strategy of Wiener osiguranje Vienna Insurance Group AD, is to concentrate on profitable property insurance products and increase property insurance share in the total portfolio of the Company.

In 2017, Wiener osiguranje VIG AD settled claims in total amount of BAM 11,092 thousand, out of which BAM 10,547 thousand related to claims from non-life insurance or 95.09% and BAM 544 thousand to claims from life insurance or 4.91%. Out of total amount of settled claims, BAM 11,025 thousand was paid out.

During 2017 we have settled a total of 5,024 claims. Out of the total number of claims settled, 4,710 relate to non-life insurance claims and 314 to life insurance claims.

As at 31 December 2017 the Company has provided for 1,050 incurred and reported claims from non-life insurance in total amount of BAM 11,068 thousand. The largest number of claims provided for relates to MTPL insurance claims (346 or 32.95%) provided for in total amount of BAM 4,837 thousand or 43.7 %. Voluntary insurance claims reported amount to 704 claims or 67.05%, in total amount of BAM 6.231 thousand or 56.23%.

Highest amount of provisions for incurred and reported claims in no voluntary insurance is other property insurance in amount of BAM 4,108 thousand, casco in amount of BAM 834 thousand, accident BAM 563 thousand, fire insurance BAM 500 thousand, travel insurance BAM 161 thousand and transport BAM 4 thousand.

The average provision per claim amounts to BAM 11 thousand.

Management's Report (continued)

The Company has formed technical provisions for life and non-life insurances for coverage of future liabilities and losses arising from insurance business in accordance with Law on insurance companies. The insurance business is associated with a number of different risks which are constantly present and which can be realized with different intensities. The risk implies probability of occurrence of negative effects on business and financial result and position of an insurance company.

Technical provisions as at 31 December 2017 for non-life insurance amounted to BAM 35,193 thousand and BAM 10,745 thousand for life insurance and they are formed in accordance with actuarial principles, rules of insurance profession and appropriate statistical data and they are 100% covered by allowed forms of investments for technical provision assets (Rulebook on level and method for investment of assets for coverage of technical provisions and minimal guarantee fund).

Minimal guarantee fund of the Company for non-life insurances, according to the Law on insurance companies, amounts to BAM 5,000,000, and for life insurance BAM 3,000,000. 50 % of the minimal guarantee fund is deposited with domestic banks in Republic of Srpska (BiH), in accordance with the legal requirements.

The Company's assets are managed in line with good corporate governance principles, selecting the investments with highest return at certain level of risk. The goal of the investment policy is to optimize the returns on investment taking into account management of cash flows and maturities of Company's assets and liabilities. Any transfer of funds from the low yields investments to investments with higher yields carries a risk. The risks that the Company faces can be summarised under system, market and credit risks. Due care is given to the compliance with the provisions of the Insurance Act of Republic of Srpska.

Taking into consideration our long term goals and role of our investments portfolio, adoption of appropriate instructions for risk management is firmly connected to the adoption of guidelines for our investment policy. In accordance with this, the Company actively seeks to introduce new systems for risk and assets management, for the purpose of setting a solid foundation which will meet the standards of professional management.

The basic goal of the Company in management of financial and insurance risks is maintaining an adequate level of capital compared to the volume and lines of business it performs, and in relation to risks it is exposed to. The Management recognizes the importance of efficient and effective risk management system. The Management periodically reviews and approves target portfolios, it determines investment guidelines and limits, and oversees the process of assets and liability management.

The management of risks, which the Company is exposed to in its operations, is performed continuously. Risk management enables identification, analysis, quantification and control of the Company risks.

The Agency controls the solvency of the Company in order to provide coverage of liabilities arising from possible economic changes or natural catastrophes.

Economic environment

Currently the financial markets in RS and BiH are limited and small, and if we take into consideration the global economic crisis, including the situation in EU countries, all of this will reflect on investment methods and returns on assets invested in 2017.

Insurance market

Total premium volume on the BiH market for the period 01.01.-31.12.2017 was BAM 682,232 thousand, which compared to premiums in the amount of BAM 633,944 thousand in 2016, represents a growth of 7.8%.

Total share of non-life insurance was 79.62%, and share of life insurance 20.38%.

Total premium volume on Republic of Srpska market was BAM 213,287 thousand, and compared to premium realized in 2016 in the amount of BAM 198,149 thousand it represents a growth of 7,6%. Total premium volume on FBiH market amounted to BAM 469,945 thousand and it is higher by 7.8% compared to 2016.

Management's Report (continued)

VIENNA INSURANCE GROUP

Approximately 25,000 Vienna Insurance Group (VIG) employees in around 50 Group companies in 25 countries generated around EUR 9 billion in premiums in 2017. This makes the Group one of the leading exchange-listed insurance groups in Austria and Central and Eastern Europe. As the number 1 in its core markets, VIG provides its customers an outstanding portfolio offering a wide range of property and casualty, life and health insurance products and services.

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

Number 1 in its core markets
VIG's core markets include Austria, the Czech Republic, Slovakia, Poland, Romania, Bulgaria, Croatia, Hungary, Serbia and Ukraine. With a market share of more than 19%, VIG is the clear number 1 insurer in these markets.
The VIG markets in Central and Eastern Europe generated more than half of EUR 9 billion in Group premiums in 2017 – a clear indication of the success of the CEE expansion strategy. VIG is convinced that the region will continue to converge economically, leading to further increases in the demand for insurance.

VIG RE, the reinsurance company that was established by VIG in 2008, has its registered office in the Czech Republic, thereby stressing the importance of the CEE region as a growth market for VIG.

Customer proximity – in 25 markets
Local entrepreneurship, and the customer proximity it brings, plays a key role in VIG's success and is reflected in the regional ties, multi-brand strategy and the wide variety of distribution channels used. The Group therefore intentionally relies on established regional brands united under the Vienna Insurance Group umbrella, because it is the individual strengths of these brands and local expertise that make VIG successful as a corporate group.

Management's Report (continued)

Success thanks to a focus on our core business and binding values
VIG is a progressive, highly risk-conscious insurer that focuses on its core business, the insurance business. It offers security in the form of reliability, trustworthiness and soundness – not only to its customers, but also in its dealings with business partners, employees and shareholders. All its business decisions in this regard are based on ethical values such as honesty, integrity, diversity, equal opportunity and customer orientation.

The effects of this fundamental approach are shown not only by its strategy of continuous sustainable growth, but also its excellent creditworthiness.

In July 2014 the internationally recognized rating agency Standard & Poor's confirmed its A+ rating with a stable outlook. As a result, VIG continues to have the best rating of all companies in the ATX, the leading index of the Vienna Stock Exchange. The agency pointed out the excellent competitive position of VIG as the market leader in Austria and Central and Eastern Europe, it’s diversified portfolio and multi-channel distribution strategy.

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

Strong stock-exchange presence, long-term principal shareholder
VIG shares have been listed on the Vienna Stock Exchange since October 1994. At the end of 2017, slightly more than 20 years after its IPO, VIG was one of the top companies in the Prime Market of the Vienna Stock Exchange with a market capitalization of around EUR 3.30 billion. While the ATX leading index rose by 28.82% in 2017, VIG share price rose around 12.5%. The Company's dividend policy is based on stability and continuity. VIG has paid a dividend every year since its IPO.

VIG's secondary listing on the Prague Stock Exchange in February 2008 underscores the great importance of the Central and Eastern European region to the Company. With a market capitalization of around CZK 73.7 billion, VIG was also one of the largest companies on the Prague Stock Exchange at the end of 2017.

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

Employer of choice
In addition to being first choice for insurance products, VIG also wants to be the first choice as an employer and to attract the most talented and intelligent employees. A wide array of measures, such as identifying and developing each employee's individual skills, are implemented by a modern People Management department. Diversity is seen as an opportunity and is part of day-to-day life at VIG. Importance is attached to creating the conditions needed to enable women to develop their full potential. This is because Vienna Insurance Group is aware that its success is based on people, and therefore on the dedication of its approximately 25,000 employees.

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

Management's Report (continued)

Review of operations

The result of operations of the Group and the Company for the year ending 31 December 2017 is presented in the financial statements below.

Company Management

Board of Directors of the Wiener osiguranje VIG ad is consisted of:

- Gabor Lehel, Chairman
- Branko Krstonošić, Deputy Chairman
- Dr Rudolf Ertl, member
- Srđan Šuput, member
- Dragana Plavšić, member until 1 January 2018
- Slavko Mitrović, member
- Goran Mandić, member
- Sanel Kusturica, member
- Rober Lasshofer, member

The Executive board is consisted of:

- Srđan Šuput, Chairman
- Dragana Plavšić, member until 1 January 2018
- Goran Mandić, member

Compared to the previous year, during 2018, the company is dedicated to the stabilization of the sales network, a clear positioning in the market and improvement of work processes with the main aim of improving the results the sales, support and customer relations.

Responsibility of the Management for preparation and approval of annual financial statements

The Management Board is required to prepare separate and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and the Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently, making judgements and estimates that are reasonable and prudent, and preparing the separate and consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Management Board is responsible for the submission to the General Assembly of its annual report on the Company and the Group together with the annual financial statements, following which the General Assembly is required to adopt the annual financial statements.

Management is responsible for the approval and submission for the approval of the General Assembly of separate and consolidated financial statements on pages 14 to 100, and confirming this, they are signed by:

In Banja Luka, 23 April 2018

Srđan Šuput
General Director

Goran Mandić
Executive member of Management board

Wiener osiguranje Vienna Insurance Group a.d.
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VIENNA INSURANCE GROUP
3
BANJA LUKA

Independent Auditors' report to the shareholders of Wiener osiguranje Vienna Insurance Group a.d.

Opinion

We have audited the separate financial statements of Wiener osiguranje Vienna Insurance Group a.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2017, and their respective separate and consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2017, and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' 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) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' report to the shareholders of Wiener osiguranje Vienna Insurance Group a.d. *(continued)*

Key Audit Matters

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

Measurement of life- and non-life technical (insurance) provisions

As at 31 December 2017, in the separate financial statements, technical provisions amounted to BAM 45,938 thousand, representing 80.9% of the Company's total liabilities (31 December 2016: BAM 41,970 thousand, 79.2%).

As at 31 December 2017, in the consolidated financial statements, technical provisions amounted to BAM 45,938 thousand, representing 79.2% of the Group's total liabilities (31 December 2016: BAM 41,970 thousand, 77.3%).

Please refer to pages 33 and 34 (Significant accounting policies), page 37 (Accounting estimates and judgements), Note 1.6 *Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses*, Note 1.7 *Liability adequacy test* and Note 1.21 *Insurance contract provisions*.

Key audit matter	How our audit addressed the matter
Technical provisions represent the Company's and the Group's single largest liability in their statements of financial position. Measurement thereof is associated with significant estimation uncertainty as it requires the Management Board to exercise judgment and develop complex and subjective assumptions. These assumptions are used as inputs into a valuation model that uses standard actuarial methodologies. For non-life insurance business, particular complexity is associated with the Management Board's assessment of the amounts of the expected ultimate cost of claims incurred but not yet reported as at the reporting date ('IBNR') as well as reported but not yet settled ('RBNS'). A range of methods may be used and in many cases standard actuarial methods need adjustments specific to the circumstances and such adjustments also require the application of judgment. The Management Board estimates the IBNR amount using a complex model, with key assumptions including those in respect of the applicability of historical trends to project the pattern of future reporting of incurred claims and their settlement. The Company and the Group use the number and amounts of incurred and already reported losses, average cost per claim and claim frequency data to develop their estimate of these claim reserves.	Our audit procedures in this area included, among others: ▪ Evaluating the methodology applied by the Company in measuring technical provisions against relevant regulatory and financial reporting requirements. Also, assessing the consistency of the methodologies applied in the reporting period; ▪ Testing the design, implementation and operating effectiveness of selected key actuarial process controls and also, assisted by our own IT specialists, testing general IT controls associated with data collection, extraction and validation; Supported by our own actuarial specialists: ▪ Reconciling the claims data underlying the actuarial projections to source systems (in total and per type of insurance coverage);

Key Audit Matters (continued)

Measurement of life and non-life insurance provisions *(continued)*

Key audit matter	How our audit addressed the matter
Also, at each reporting date, the Company and the Group are required to perform a liability adequacy test (hereinafter, 'LAT') with an aim to determine whether their recognized insurance provisions are sufficient. The test is based on the comparison of the Management Board's current estimates of the present value of the future cash flows arising from the in-force insurance contracts with the stated amounts of related provisions. In case the LAT shows that the amounts of insurance provisions are insufficient, the deficiency is recognized in profit or loss. For life assurance provisions, the key assumptions applied in the above cash flow projections include those in respect of expected expenses, mortality, lapses and risk free rates. As part of the process, the Company also needs to assess whether past claims experience is a reasonable predictor of future experience. Relatively minor changes in the Management Board's assumptions can have a significant effect on the recognized amounts of the insurance provisions. The completeness and accuracy of the data underlying the actuarial projections is also an area of our audit focus. In view of the above-mentioned factors, we consider measurement of life- and non-life technical provisions to be a key risk in our audit.	▪ Performing our own independent estimation of technical provisions for selected lines of business, on a sample basis, by, inter alia: o Assessing whether the key assumptions of mortality, lapses, paid-up and risk free rate (for life assurance) as well as claims and expenses frequency and severity (for non-life business) applied by the Management Board in the LAT were properly extracted from the Company's experience studies (where was it possible concerning the Company's experience and collected data); o Performing a retrospective assessment of the Company's LAT test model by comparing the predictions of the previous year's model with actual outcomes; o Independently recalculating the non-life IBNR claim reserve, and comparing the re-calculated amounts to those recognized by the Company with explanations sought for any significant differences; ▪ Evaluating the reasonableness of the prior year's IBNR and RBNS claim reserves by performing the comparison of the actual experience to previously expected results; ▪ Assessing the Company's disclosures in respect of the technical provisions against the requirements of the relevant financial reporting standards.

Independent Auditors' report to the shareholders of Wiener osiguranje Vienna Insurance Group a.d. *(continued)*

Key Audit Matters (continued)

Fair value of investment property

As at 31 December 2017, the carrying amount of investment property in the financial statements was BAM 6,209 thousand (31 December 2016: BAM 8,726 thousand).

Please refer to Note 1.3 (d) Investment property (Significant accounting policies), Note 1.4 Investment property (Accounting estimates and judgements) and Note 1.11 Investment property.

Key audit matter	How our audit addressed the matter
Investment property, represented primarily by office space and stations for technical inspection of vehicles, is the property the Company and the Group hold to earn rental income, and is stated at fair value in the financial statements. The determination of the fair value of the Company's and the Group's investment properties is based on the income method (discounted future cash flow projections). It involves significant judgment and estimates from the Management Board, using the inputs from valuation reports produced by external appraisers engaged by the Company and the Group, in particular in respect of the assumptions such as discount rates applied and cash flow projections (based on expected future rental income). Due to the fact that the assessment of office space and stations for technical inspection of vehicles by the Management Board is associated with its significant judgment and estimation uncertainty, and due to the sensitivity of the assessment results to even insignificant changes in the assumptions used, we considered this area to require our increased attention in the audit and hence to be our key audit matter.	Our procedures in this area included, among others: ▪ assisted by our own valuation specialists, assessing the external appraisers' valuation reports, by challenging the key assumptions and judgements applied, for a sample of investment properties. This involved, but was not limited to: o assessing the competence, experience and objectivity of, as well as work performed by, external appraisers engaged by the Company and the Group; o critically evaluating, by reference to the relevant financial reporting standards and market practices, the appropriateness of the methodology applied by the Company, the Group and their external appraisers in their determination of the recoverable amounts of the investment property; o assessing the internal consistency of the methodology applied, as well as inputs and sources used by the Company's and the Group's external appraiser against publicly available market data; o comparing the key inputs used to the Company's and the Group's past experience with these and other similar properties, and market (comparable property) data, mainly with regards to rental income, capitalization rates and discount rates applied; ▪ Assessing the accuracy and completeness of the Company's and the Group's disclosures related to the significant judgments and assumptions associated with the measurement of investment property at fair value.

Independent Auditors' report to the shareholders of Wiener osiguranje Vienna Insurance Group a.d. *(continued)*

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's and the 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's and the Group's financial reporting process.

Independent Auditors' report to the shareholders of Wiener osiguranje Vienna Insurance Group a.d. *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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 our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and the 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 of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' report to the shareholders of Wiener osiguranje Vienna Insurance Group a.d. *(continued)*

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Vedran Vukotić.

23 April 2018

KPMG B-H d.o.o. za reviziju
Branch office Banja Luka
Registered Auditors

Kralja Petra II 17
78000 Banja Luka
Bosnia and Herzegovina

D.O.O. ZA REVIZIJU KPMG B-H 1 PODRUŽNICA BANJA LUKA

Statement of financial position

As at 31 December

	Notes	**Group**	Group	**Company**	Company
		2017	2016	**2017**	2016
		BAM '000	BAM '000	**BAM '000**	BAM '000
Assets					
Property and equipment	1.10	**5,664**	5,998	**4,212**	4,457
Investment property	1.11	**6,209**	8,726	**6,209**	8,726
Intangible assets					
- Deferred acquisition costs	1.12	**3,738**	2,942	**3,738**	2,942
- Other intangible assets	1.13	**98**	195	**95**	191
Investment in subsidiary	1.14	**-**	-	**226**	415
Investment in associate	1.15	**70**	70	**70**	70
Available-for-sale financial assets	1.16	**29,279**	22,120	**29,279**	22,120
Loans and receivables	1.16	**6,725**	7,754	**6,734**	7,679
Reinsurers' share of insurance contract provisions	1.17	**11,952**	13,627	**11,952**	13,627
Inventory	1.18	**35**	55	**35**	55
Insurance and other receivables	1.19	**4,852**	4,852	**4,737**	4,675
Cash and cash equivalents	1.20	**1,229**	1,034	**1,219**	1,023
Total assets		**69,851**	67,373	**68,506**	65,980
Liabilities					
Insurance contract provisions	1.21	**45,938**	41,970	**45,938**	41,970
Borrowings	1.22	**653**	1,310	**-**	391
Provisions for liabilities and charges	1.23	**588**	1,264	**555**	1,231
Deferred tax liability	1.36 (b)	**220**	95	**212**	86
Insurance and other payables and deferred income	1.24	**10,606**	9,647	**10,044**	9,304
Total liabilities		**58,005**	54,286	**56,749**	52,982
Equity					
Share capital	1.25 (a)	**11,180**	14,149	**11,180**	14,149
Share premium	1.25 (b)	**-**	2,934	**-**	2,934
Legal and statutory reserve		**1,118**	897	**1,118**	897
Fair value reserve	1.25 (c)	**1,676**	568	**1,676**	568
Revaluation reserve		**207**	207	**133**	133
Accumulated losses		**(2,335)**	(5,668)	**(2,350)**	(5,683)
Total equity		**11,846**	13,087	**11,757**	12,998
Total liabilities and equity		**69,851**	67,373	**68,506**	65,980

The notes on pages 20 to100 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	Notes	**Group 2017 BAM '000**	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Gross premiums written	1.27	**35,187**	31,478	**35,192**	31,483
Written premiums ceded to reinsurers	1.27	**(15,324)**	(14,436)	**(15,323)**	(14,436)
Net premiums written		**19,863**	17,042	**19,869**	17,047
Change in the gross provision for unearned premiums	1.27	**(2,399)**	678	**(2,399)**	678
Reinsurers' share of change in the provision for unearned premiums	1.27	**(171)**	(1,144)	**(171)**	(1.144)
Net premiums earned	1.27	**17,293**	16,576	**17,299**	16,581
Fee and commission income	1.28	**3,877**	3,830	**3,877**	3,830
Finance income	1.29	**1,858**	1,873	**1,856**	1,883
Other operating income	1.30	**2,742**	3,534	**1,285**	1,593
Operating income		**25,770**	25,813	**24,317**	23,887
Claims and benefits incurred	1.31	**(12,930)**	(13,945)	**(12,968)**	(13,989)
Reinsurers' share of claims and benefits incurred	1.31	**3,275**	4,132	**3,275**	4,132
Net policyholder claims and benefits incurred		**(9,655)**	(9,813)	**(9,693)**	(9,857)
Acquisition costs	1.32	**(9,618)**	(9,452)	**(9,618)**	(9,452)
Administrative expenses	1.33	**(6,995)**	(7,329)	**(5,442)**	(5,582)
Other operating expenses	1.34	**(1,681)**	(4,597)	**(1,791)**	(4.456)
Finance costs	1.35	**(171)**	(288)	**(123)**	(223)
Loss before income tax		**(2,350)**	(5,666)	**(2,350)**	(5,683)
Income tax expense	1.36 (a)	**-**	-	**-**	-
Loss for the year		**(2,350)**	(5,666)	**(2.350)**	(5,683)

The notes on pages 20 to 100 are an integral part of these financial statements.

Statement of comprehensive income (continued)

For the year ended 31 December

	Notes	**Group 2017 BAM '000**	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Loss for the year		**(2,350)**	(5,666)	**(2,350)**	(5,683)
Other comprehensive income for the year					
Items that may be reclassified subsequently to profit or loss		**-**	-	**-**	-
Change in fair value of available-for-sale financial asset, net of deferred tax and realized amounts		**1,108**	(326)	**1,108**	(326)
Items that will never be reclassified to profit or loss		**-**	-	**-**	-
Revaluation of property		**-**	-	**-**	-
Other comprehensive income, net of tax		**1,108**	(326)	**1,108**	(326)
Total comprehensive income for the year		**(1,242)**	(5,992)	**(1,242)**	(6,009)
Basic and diluted loss per share in BAM	1.26	(18.21)	(45.36)	**(18.21)**	(45.49)

The notes on pages 20 to 100 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

Group	**Share capital**	**Share premium**	**Legal and statutory reserve**	**Fair value reserve**	**Revaluation reserve**	**Accumulated losses**	**Total**
	BAM '000	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Balance as at 1 January 2016	**11,216**	**2,934**	**1,121**	**894**	**207**	**(3,156)**	**13,216**
Net gains and losses from change in fair value of assets available for sale, net of deferred tax and realised amounts (Note 1.25 (c))	-	-	-	(326)	-	-	(326)
Gains from revaluation of property, net of deferred tax	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	*(4)*	*(4)*
Loss for the year	-	-	-	-	-	*(5,666)*	*(5,666)*
Total comprehensive income for the period	-	-	-	***(326)***	-	***(5,670)***	***(5,996)***
Increase in capital	2,933	2,934	-	-	-	-	5,866
Transfer to cover accumulated losses	-	(2,934)	(234)	-	-	3,168	-
Transfer to legal reserves	-	-	9	-	-	(9)	-
Transactions recognized directly in equity	2,933	-	(224)	-	-	3,159	5,866
Balance as at 31 December 2016	**14,149**	**2,934**	**897**	**568**	**207**	**(5.668)**	**13,087**
Balance as at 1 January 2017	**14,149**	**2,934**	**897**	**568**	**207**	**(5.668)**	**13,087**
Net gains and losses from change in fair value of assets available for sale, net of deferred tax and realised amounts (Note 1.25 (c))	-	-	-	**1,108**	-	-	**1,108**
Gain from revaluation of property, net of deferred tax	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	**1,108**	-	-	**1,108**
Loss for the year	-	-	-	-	-	**(2,350)**	**(2,350)**
Total comprehensive income for the period	-	-	-	**1,108**	-	**(2,350)**	**(1,242)**
Transfer to cover accumulated losses	**(1,852)**	**(2,934)**	**(897)**	-	-	**5,683**	-
Transfer to legal reserves	**(1,118)**	-	**1,118**	-	-	-	-
Transactions recognized directly in equity	**(2,970)**	**(2,934)**	**221**	**1,108**	-	**3,333**	**(1,242)**
Balance as at 31 December 2017	**11,180**	-	**1,118**	**1,676**	**207**	**(2,335)**	**11,846**

The notes on pages 20 to 100 are an integral part of these financial statements.

Statement of changes in equity (continued)

For the year ended 31 December

Company	**Share capital**	**Share premium**	**Legal and statutory reserve**	**Fair value reserve**	**Revaluation reserve**	**Accumulated losses**	**Total**
	BAM '000	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Balance as at 1 January 2016	**11,216**	**2,934**	**1,121**	**894**	**133**	**(3,159)**	**13,139**
Net gains and losses from change in fair value of assets available for sale, net of deferred tax and realised amounts (Note 1.25 (c))	-	-	-	(326)	-	-	(326)
Other comprehensive income	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	*(5,683)*	*(5,683)*
Total comprehensive income for the year	-	-	-	***(326)***	-	***(5,683)***	***(6,009)***
Increase in capital	2,933	2,934	-	-	-	-	5,866
Transfer to cover accumulated losses	-	(2,934)	(234)	-	-	3.168	-
Transfer to legal reserves	-	-	9	-	-	(9)	-
Transactions recognized directly in the equity	2,933	-	(224)	-	-	3.159	5.868
Balance as at 31 December 2016	**14,149**	**2,934**	**897**	**568**	**133**	**(5,684)**	**12,998**
Balance as at 1 January 2017	**14,149**	**2,934**	**897**	**568**	**133**	**(5,684)**	**12,998**
Net gains and losses from change in fair value of assets available for sale, net of deferred tax and realised amounts (Note 1.25 (c))	-	-	-	**1,108**	-	-	**1,108**
Other comprehensive income	-	-	-	**1,108**	-	-	**1,108**
Loss for the year	-	-	-	-	-	**(2,350)**	**(2,350)**
Total comprehensive income for the year							
Increase in capital	-	-	-	**1,108**	-	**(2,350)**	**(1,242)**
Transfer to cover accumulated losses	**(1,852)**	**(2,934)**	**(897)**	-	-	**5,683**	-
Transfer to legal reserves	**(1,118)**	-	**1,118**	-	-	-	-
Transaction recognized directly in equity	**(2,970)**	**(2,934)**	**221**	**1,108**	-	**3,333**	**(1,242)**
Balance as at 31 December 2017	**11,180**	-	**1,118**	**1,676**	**133**	**(2,350)**	**11,757**

The notes on pages 20 to 100 are an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December

	Note	**Group 2017**	Group 2016	**Company 2017**	Company 2016
Cash flows from operating activities		**BAM '000**	BAM '000	**BAM '000**	BAM '000
Insurance premiums, coinsurance and prepayments received		**33,688**	30.775	**33,689**	30,778
Share in compensation of claims		**2,493**	2.771	**2,493**	2,771
Other inflows from operating activities		**2,407**	2.957	**486**	775
Outflows based on claims compensation from insurance and claims paid and given advances		**(10,832)**	(11.287)	**(10,832)**	(11,367)
Payments for coinsurance, reinsurance and retrocession		**(8,445)**	(8.841)	**(8,445)**	(8,841)
Payments of salaries, wages and other personal expenditures		**(7,943)**	(9.939)	**(6,928)**	(8,689)
Outflows from operating expenses		**(8,269)**	(6.447)	**(8,228)**	(6,450)
Outflows from interest paid		**(53)**	(90)	**(5)**	(25)
Other outflows from operating activities		**(711)**	(706)	**(407)**	(325)
Net cash used in operations		**2,335**	*(807)*	**1,823**	*(1,373)*
Cash flows from investing activities					
Repayment of long term financial placements		**(9,430)**	(11.571)	**(9,430)**	(11,571)
Proceeds from sale of intangible assets, property, equipment, investment property		**2,602**	1.009	**2,602**	1,009
Proceeds from interest received		**784**	647	**781**	645
Proceeds from other long term financial placements		**5,189**	6.882	**5,189**	6,874
Acquisition of intangible assets, property, equipment, investment property		**(276)**	(839)	**(276)**	(840)
		-	-	**(77)**	-
Net cash from/(used in) investing activities		**(1,131)**	*(3.872)*	**(1,211)**	*(3,883)*
Cash flows from financing activities					
Proceeds from increase in capital		**-**	5.867	**-**	5,867
Proceeds from short term loans		**7**	-	**-**	-
Repayment of loans		**(657)**	(266)	**(391)**	-
Other financial outflows		**(359)**	(432)	**(24)**	(78)
Net cash from financing activities		**(1,009)**	*5.169*	**(416)**	*5,789*
Net increase in cash and cash equivalents		**195**	490	**196**	533
Cash and cash equivalents at the beginning of year	**1.20**	**1,034**	544	**1,023**	490
Cash and cash equivalents at the year end	**1.20**	**1,229**	1.034	**1,219**	1,023

The notes on pages 20 to 100 are an integral part of these financial statements.

Notes to the financial statements

1.1 Reporting entity

Wiener osiguranje Vienna Insurance Group a.d. Banja Luka („the Company") is a joint stock company with a registered address in Banja Luka, Kninska 1. The Company is the parent company of Wiener osiguranje Group („the Group"). As at 1 December 2014 the Company has changed its firm and seat. Old firm and address "Jahorina osiguranje VIG" a.d. Pale has been changed into Wiener osiguranje Vienna Insurance Group a.d. with registered head office in Banja Luka. The Company has moved to new headquarter as of 1 February 2015.

The Company is a composite insurer offering non-life and life insurance products in Bosnia and Herzegovina (Republic of Srpska – „RS", Brčko District – „BD" and Federation of Bosnia and Herzegovina -„FBiH"). The Company's operation is subject to the Law on insurance companies, and its financial statements are regulated by the Insurance Agency of Republic of Srpska („the Agency") as a central institution for monitoring the insurance system in the Republic of Srpska, including the work of FBiH Branch Office.

The Company is 100% owned by Vienna Insurance Group („VIG"), a joint stock company domiciled in Vienna, Austria.

1.2 Basis of preparation

(a) Statement of compliance

These financial statements comprise both the consolidated and separate financial statements of the Company.

The consolidated and separate financial statements of the Company and its subsidiary ("Group") have been prepared in accordance with International Financial Reporting Standards („IFRS").

The financial statements were authorized for issue by the Management Board for approval by the General Assembly.

(b) Functional and presentation currency

The financial statements are presented in convertible marks ("BAM") which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated). The Central Bank of Bosnia and Herzegovina („CBBiH") has implemented a currency board arrangement aligning BAM to EUR at an exchange rate of EUR 1: BAM 1.95583, throughout 2017 and 2016. This is expected to continue in foreseeable future.

(c) Basis of measurement

These financial statements are prepared on a historical or amortized cost basis less impairment, were applicable, except for available-for-sale financial assets and investment property measured at fair value.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

Information about judgments made by management in the application of IFRS that have significant effect on the financial statements and information about estimates that have a significant risk of resulting in a material adjustment within the next year are included in Note 1.4.

1.2 Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

Measurement of fair values

A number of Group's accounting policies and disclosures require the measurement of fair values for financial and non-financial assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used and valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the Note 1.43 Fair value measurement.

1.3 Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiary (together "the Group"), together with the Group's share in associate.

Subsidiaries

Subsidiaries are all entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit or loss.

In the separate financial statements of the Company, the investment in subsidiary is stated at cost, less impairment losses, if any.

1.3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise an interest in an associate.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate of the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not retranslated. Foreign currency differences arising on translation are recognized in profit or loss.

The most significant foreign currency in which the Group holds its liabilities (life insurance mathematical reserve) as well as income (life premium) and expenses (life insurance benefits) is EUR, while the largest part of assets is held in BAM.

(c) Property and equipment

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

Recognition and measurement

Items of equipment are stated at historical cost less accumulated depreciation and impairment losses.

Land and buildings held for supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any revaluation increase arising on the revaluation of such land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

1.3 Significant accounting policies (continued)

(c) Property and equipment (continued)

Recognition and measurement (continued)

Assets in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Equipment is measured at cost less accumulated depreciation and impairment losses.

Subsequent costs

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably.

Deprecation

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

Estimated useful life is shown in continuation:

	2017 and 2016
Buildings	66 – 76 years
Computers equipment	4 – 5 years
Furniture and other equipment	6 – 10 years
Motor vehicles	6.5 years
Other	5 – 20 years

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

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

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

(d) Investment property

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

Investment property comprises separate land and buildings measured at fair value, with any change therein recognized in profit or loss.

Real estates are initially recognized at fair value and they are measured at fair value after recognition. If the Group changes the purpose of investment property, to property and equipment, the fair value on the day of reclassification becomes cost for further measuring.

If Group changes the purpose of property and equipment to investment property, eventual difference between book value and fair value on the day of transfer is recognized in equity as revaluation of property and equipment. After disposal, remaining revaluation reserve gain is transferred to retained earnings directly in equity, i.e. transfer is not presented in comprehensive income.

1.3 Significant accounting policies (continued)

(e) Intangible assets

Deferred acquisition costs – insurance contracts

Acquisition costs comprise all direct and indirect costs arising from the conclusion of new insurance contracts and the renewal of the existing contracts.

Deferred acquisition costs for non-life business comprise commissions paid to the external sales force (except for renewed policies) and salaries of the internal sales force incurred in concluding insurance policies during a financial year but which relate to a subsequent financial year, and other variable underwriting and policy issue costs. General selling expenses and general expenses of each insurance product are not deferred. For non-life insurance business the deferred acquisition cost asset at the reporting date has been calculated by comparing the provision for unearned premiums at the reporting date with gross premiums written during the year and deferring a comparable proportion of deferrable acquisition costs.

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

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

Other intangible assets

Other intangible assets acquired by the Group, which have finite useful life, are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

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

Amortization

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

	2017 and 2016
Software	7.5 years
Other intangible assets – rights	10 years

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

(f) Leases

Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expenses.

Finance - Group as lessee

Leases where the lessor transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. Finance leases are included in the statement of financial position within property and equipment at cost net of accumulated depreciation. Such assets are depreciated over their expected useful lives which are based on the lease term (refer to the accounting policy for property and equipment). Payments made under finance leases are recognized in profit or loss on a straight-line basis over the term of the lease.

1.3 Significant accounting policies (continued)

(g) Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories are valued based on purchase price and include the costs of bringing the inventories to a condition ready for use, using the weighted average cost principle.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

(h) Financial instruments

Classification

The Group classifies its financial instruments in the following categories: loans and receivables, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. The Management determines the classification of financial assets and financial liabilities at initial recognition and, where appropriate, re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Group provides money to a debtor with no intention of trading with the receivable and include deposits with banks and loans to policyholders and employees and other institutions.

Available-for-sale financial assets

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

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Payables arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*. Other financial liabilities are disclosed in the statement of financial position under line item “Insurance and other payables and deferred income”.

Recognition and derecognition

Purchases and sales of available-for-sale financial assets are recognized on the trade date which is the date when the Group commits to purchase or sell the instrument. Loans and receivables and financial liabilities carried at amortized cost are recognised when advanced to borrowers or received from lender.

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

The Group derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions. Realised gains and losses from the disposal of financial instruments are calculated using the weighted average cost method.

1.3 Significant accounting policies (continued)

(h) Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures available-for-sale financial assets at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

Loans and receivables are measured at amortized cost less impairment losses. Other financial liabilities are measured at amortized cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Gains and losses

Gains or losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortization of premium or discount using the effective interest method on available-for-sale financial assets are recognised in the profit or loss. Dividend income is recognised in profit or loss when the dividend is declared. Upon sale or other de-recognition of available-for-sale financial assets, all cumulative gains or losses are transferred from other comprehensive income to profit or loss.

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

Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

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

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

Impairment losses on available-for-sale debt securities are recognised by transferring the difference between the amortized acquisition cost and current fair value out of other comprehensive income to profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Subsequent recovery in the fair value of equity securities available for sale, for which the impairment is recognised, is recognised in other comprehensive income. Changes in impairment provisions attributable to the time value of money are reflected as a component of interest income.

1.3 Significant accounting policies (continued)

(h) Financial instruments (continued)

Specific instruments

Deposits with banks

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

Debt securities

Debt securities are classified as financial assets available for sale and they are carried at fair value, unless there is no reliable measure of fair value, in which case they are stated at acquisition cost, less impairment.

Loans

Loans to employees and policyholders are classified as loans and receivables and are carried at cost less any impairment.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less any impairment in the separate financial statements of the Company. All investments in subsidiaries are fully consolidated in the consolidated financial statements, while investments in associates are accounted for using equity method.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortized cost.

Offsetting of financial instruments

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

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

(i) Cash and cash equivalents

For the purpose of the statement of financial position and cash flow statement, cash and cash equivalents comprise cash at bank and cash in hand.

(j) Employee benefits

Short-term employee benefits

In name of its employees, the Group pays pensions and health insurance on and from gross salary which are calculated on gross paid salary, as well as the tax on salaries which is calculated on paid net salary. The Group pays above mentioned contributions to Pensions and Disability Insurance Fund of Republic of Srpska, Health Insurance Fund of Republic of Srpska, and Pension and Health Insurance Fund of FBiH, in accordance with legal rates valid during the year. Further on, meal, transportation and recourse expenses are paid in accordance with the local legal regulations. These expenses are presented in profit or loss as they occur.

Liabilities for contributions for defined pension plans are recognised as expense in profit or loss as they occur.

1.3 Significant accounting policies (continued)

(j) Employee benefits (continued)

Long term expenses: pension severance and bonuses for early retirement

The Group is in obligation to pay the severances at retirement of the employees in amount of at least 3 average monthly salaries of the employee or three average salaries in Federation of Bosnia and Herzegovina in period of three months after the retirement (depending what is more favorable for the employee).

The projected credit unit method is used for the calculation of the present value of the liability. This method starts from the point that each period of service leads to creation of additional credit unit, and each unit is measured separately in order to calculate the final liability. The liability is presented in the present value of future cash flows using the discount rate which approximately corresponds to the interest rate on three-year deposits in commercial banks and interest rates of commercial and government bonds.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or non-current liabilities.

(l) Provisions

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

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for expenditure for which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

1.3 Significant accounting policies (continued)

(m) Equity

Share capital

Share capital represents the nominal value of paid-in shares classified as equity and denominated in BAM.

Share premium

Share premium represents the excess of the paid-in amount over the nominal value of the issued shares.

Legal and statutory reserves

Legal and statutory reserves are derived from distribution of net profit from previous years.

Pursuant to the Companies Act, upon allocation of profit distribution under annual accounts, joint stock companies in Republic of Srpska are required to allocate a minimum of 5% of the profit into legal and statutory reserves, until the amount of such reserves reaches the level of 10% of the joint stock company's share capital.

Fair value reserves

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

Retained earnings and accumulated loss

Any profit for the year retained after appropriations is transferred to reserves based on the shareholder's decision or left in the retained earnings (accumulated losses).

Revaluation reserves

Revaluation reserves are formed by assessment of business property due to adjustment with fair value. Assessment is made by independent surveyor. Property appreciation is stated as increase in equity, and impairment is stated as decrease in equity in the revaluation reserve position.

(n) Impairment of non-financial assets

The carrying amounts of the Group's assets, other than deferred acquisition costs (see accounting policy 1.3 (e)), financial assets (see accounting policy 1.3 (h)) and deferred tax assets (see accounting policy 1.3 (k)), are tested for impairment at each reporting date. If any indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life of impairment and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from the Group's other assets and liabilities. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

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

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

1.3 Significant accounting policies (continued)

(o) Segment reporting

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

Allocation of income and expenses between life assurance and non-life insurance segments

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

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

During the year, direct administration costs are directly charged to the life or non-life segments. For administrative expenses that cannot be directly allocated, a key is used to allocate the expense between life and non-life insurance. Advertising and marketing costs are directly allocated to the life and non-life segments based on the insurance product being advertised or marketed. For marketing expenses related to the Company, costs are allocated to individual segments on the basis of written premium by line of business in insurance portfolio.

Commissions are recorded separately in the life and non-life segments. A significant part of personnel expenses is directly allocated between the life and non-life segments. Where personnel expenses cannot be directly allocated, an allocation is made based on the percentage of hours spent directly on life and non-life insurance business. Other acquisition costs are allocated directly to the non-life and life segments, or in accordance with hours spent at life and non-life insurance tasks. Other receivables and liabilities are allocated to those segments from which they originated.

Allocation of equity and assets

All property and equipment, as well as investment property are allocated to non-life segment. Financial investments are allocated according to the source of funding. Equity is allocated according to minimal regulatory capital requirements for issued share capital, while any excess is allocated to the non-life segment pursuant to the General Assembly's Decision.

(p) Revenue

The accounting policy in relation to revenue recognition from insurance contracts is disclosed in accounting policy Note 1.3 (s).

Financial income

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

Financial income also includes net positive foreign exchange differences resulting from the translation of monetary assets and liabilities using the exchange rate applicable at the reporting date and realised net gains from derecognition financial assets available for sale.

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

1.3 Significant accounting policies (continued)

(p) Revenue (continued)

Fee and commission income

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

(q) Expenses

Operating expenses

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

Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts such as sales representatives' commission (except commission for renewal), salaries of sales personnel and marketing and advertising expenses.

Non-life commission expenses are recognised on an accruals basis (on the basis of collected premium), while life commission expenses are recognised on a cash basis consistent with the related income recognition.

The Group's accounting policy related to deferred acquisition costs is described in accounting policy 1.3 (e).

Administrative expenses

Administrative expenses include personnel expenses, depreciation of property and equipment, electricity costs and other costs. Other costs consist mainly of costs of premium collection, policy termination costs, portfolio management costs and administrative expenses related to reinsurance.

Financial expenses

Financial expenses include interest expenses recognised using the effective interest rate method, impairment of financial assets, and net negative foreign exchange differences resulting from translating monetary assets and liabilities using the exchange rate at the reporting date.

(r) Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified variable: interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

1.3 Significant accounting policies (continued)

(r) Classification of contracts (continued)

Contracts with discretionary participation features

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

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

The discretionary element of those contracts is accounted for as a liability within the life assurance provision in relation to participating policies and for amounts note allocated at the reporting date.

Mixed insurance contains discretionary share which provides holders with a right to minimum guaranteed interest annual rate of 2.5% or 3%, the rate for bonuses determined by the Group from qualified excess.

(s) Premiums

Non-life business written premiums are recognised as premium from the inception of the insurance coverage. Any receipts before that date are treated as a liability for an advance payment. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

Premiums written include adjustments to reflect write-offs of amounts due from policyholders e.g.: change of the premium amount in the following year and the movement in impairment allowances for premiums due from policyholders.

The earned portion of premiums received, including policies not yet closed, is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received in the same accounting period as the premiums for the related direct insurance business. A portion of outwards reinsurance premiums are treated as prepayments.

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

(t) Unearned premium reserve

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed using pro-rata temporis method. The provision for unearned premiums in respect of life insurance is included within the life insurance provision.

1.3 Significant accounting policies (continued)

(u) Unexpired risk reserve

Provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisitions costs and administrative expenses likely to arise after the end of the financial year) attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, before taking into account relevant investment returns. Liability adequacy testing for both life and non-life and related assets is disclosed in more details in Note 1.7.

(v) Life assurance provisions

The life assurance provision has been computed by the Group's actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life assurers, issued by the Agency. The life assurance provision has been computed on an in-force premium basis, applying a Zillmer type valuation method, and taking into account actual acquisition, collection and administrative costs as well as all guaranteed benefits and bonuses already declared and proposed. A prospective net premium valuation method has been adopted for calculation of the mathematical provision.

The Group uses Zillmer factor of 3% in the underwriting year. The applied Zillmer rate is within the limits prescribed by the Agency.

The provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where liability inadequacy occurs.

(w) Claim provisions

The claims provisions represent the estimated ultimate cost of settling all claims, including direct and indirect settlement costs, arising from events that occurred up to the reporting date and include the provision for reported, but not settled claims, the provision for incurred but unreported claims.

(x) Claims

Claims arising from non-life insurance

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

Claims settled are recorded in the moment of processing the claim and are recognised (determined) as the amount to be paid to settle the claim. Non-life claims settled include claims handling costs.

Collected claims recoverable from third parties (recourse) and claims recoverable from third parties that are anticipated to be collected are shown as other income (recourse income).

Claims outstanding based on case estimates and statistical methods comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred up to but unpaid at the reporting date whether reported or not, together with related internal and external claims handling expenses and an appropriate prudential margin. The provision for reported but not settled claims is determined based on the individual assessment of each reported claim. The provision for incurred but not reported claims is determined based on the statistical data and actuarial methods, taking into account the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends.

The provision for incurred but not reported claims is determined using lump-sum method for all insurance products except for accident, motor hull and MTPL, whereby the Company uses the chain-ladder method.

Anticipated reinsurance recoveries and recourse receivables are recognised and disclosed as separate assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

1.3 Significant accounting policies (continued)

(x) Claims (continued)

Claims arising from non-life insurance (continued)

In respect of Motor Third Party Liability ("MTPL") insurance, a part of the claims payment is in the form of an annuity. The provision for such claims is established at the present value of the expected payments over the whole period of entitlement of the claimants using a discount rate of 5%. With the exception of annuities, the Group does not discount provisions for outstanding claims.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately, if significant. The methods used, and the estimates made, are reviewed regularly, which is further discussed in Note 1.6.

Claims arising from life insurance business

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

(y) Reinsurance

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

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

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

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Reinsurance commissions

Reinsurance commissions include commissions received or receivable from reinsurers based on reinsurance contracts.

1.3 Significant accounting policies (continued)

(z) Insurance receivables and payables

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

(aa) New standards and interpretation

A number of new standards and amendments to standards are not yet effective for annual periods beginning 1 January 2017; however the Group and the Company have not applied the following new or amended standards in preparing these financial statements.

IFRS 9 Financial instruments

IFRS 9 (Financial instruments) published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance of recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Although IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted, for insurance companies the application of IFRS 9 has been postponed until the application of new standard IFRS 17 Insurance contracts, which has been adopted in May 2017 by the International Accounting Standards Board, whose mandatory application is as of 1 January 2021.

The Group and the Company are assessing the potential impact in its financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 (Revenue from Contracts with Customers) establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group and the Company are assessing the potential impact on its financial statements resulting from the application of IFRS 15.

Amendments to IFRS 4 Insurance Contracts

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

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

During the year the Company carried out insurance predmoninance test and concluded that its activities were primarily related to insurance as at 31 December 2015. During 2017 no significant changes occurred in the Company's activities requiring re-evaluation. The Company intends to apply a temporary exemption from IFRS 9 and continue to apply IAS 39 in the next reporting period.

1.3 Significant accounting policies (continued)

(aa) New standards and interpretation (continued)

IFRS 17 Insurance Contracts

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

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

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

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

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt a new standard on the Effective Date together with IFRS 9.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaced by IAS 17 Leases. IFRS 16 prescribes the principles for recognising, measuring, presenting and publishing the leases and requires the lessees to take into account all leases within a single accounting model similar to the financial lease accounting under IAS 17. The Standard includes two exceptions from the recognition of lessors - lease of assets of low value (eg personal computers) and short-term rentals (ie leases up to 12 months). At the beginning of the lease, the lessee will recognize the obligation to pay the lease and the property that represents the right to use the asset during the lease period (that is, the right to use property).

The lessee will be required to separately recognise the interest expense on the lease and the depreciation cost on the right-of-use asset. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted but not before the entity applies IFRS 15.

The Company is currently reviewing existing lease agreements and analyses the potential effects of the standards on the financial statements.

1.4 Accounting estimates and judgments

These disclosures supplement the commentary on financial risk management (Note 1.38) and insurance risk management (Note 1.5).

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements relating to insurance contract provisions represent the major source of uncertainty and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1.4.1. Key sources of estimation uncertainty

Losses from impairment of loans and receivables

Assets accounted for at amortized cost are evaluated for impairment on the basis described in accounting policy 1.3 (h) on impairment of financial assets.

The need for impairment is assessed individually for each exposure based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

Estimation of uncertainty in relation to reserving

The most significant estimates in relation to the Group's financial statements relate to insurance contracts reserving. The Group employs two certified actuaries (one is full time internal actuary in the Company (Group), other one is external, engaged under special contract).

Major assumptions in calculating the life assurance provision are set out in Note 1.6. Insurance risk management is discussed in detail in Note 1.5, whilst insurance contract provisions are analyzed in Note 1.21.

Deferred acquisition costs

Deferred acquisition costs are assessed at each reporting date for non-life insurance business through comparison of provision for unearned premium with gross premiums written during the year, deferring certain part of acquisition costs. The calculation is based on the Group's assumptions for allocation of acquisition costs over the duration of the related insurance contract. The Management Board believes that deferred acquisition costs are recoverable during the remaining duration of insurance contracts active at the reporting date.

Tax

The Group provides for tax liabilities in accordance with the tax regulations of Republic of Srpska, Brčko District BiH and Federation of BiH. Tax return is subject to approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayer´s records (each entity separately).

Regulatory requirements

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

Mutual liabilities

The Group has a liability towards the Protection Insurance Fund in respect of the Group's share in motor third party liability ("MTPL") claims arising from unknown or uninsured vehicles. Additionally, the Group, as well as other participants in MTPL business on the insurance market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Law on insurance companies in private insurance. The Management Board of the Company believes that this risk is not significant at the reporting date.

1.4 Accounting estimates and judgments (continued)

1.4.1 Key sources of estimation uncertainty (continued)

Impairment of investment in subsidiaries and associates

Impairment of investment into subsidiaries and associates is based on management's best estimate of the recoverable amount of subsidiaries and associates. Recoverable amount is the higher of fair value less cost to sell and value in use.

Investment property

Investment property is carried at fair value. Fair value was determined as at 31 December 2017 by an independent certified appraiser with adequate professional qualifications and relevant experience in relation to the location and category of property that is subject to valuation. Independent appraisers prepare valuations of fair value every 12 months. Management believes that the investment property at the reporting date is stated at its realizable value.

As at 31 December 2017, the value adjustments of investment property were not made taking in kind that the value of investment property, determined on 31 December 2017, does not significantly deviate from the book value.

1.4.2 Critical accounting judgements in applying the Group's accounting policies

Key accounting estimation in application of the Group accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide a framework according to which assets and liabilities to be designated at inception into different accounting categories in certain circumstances. Held-to-maturity investments can be classified as such only if the Group has the positive intention and ability to hold these investments to maturity.

Classification of products

For accounting policy on classification of contracts as insurance or investment contracts, please refer to Note 1.3 (r). At the reporting date, the Group had no insurance products on the reporting date which could be classified as investment contracts.

Classification of property

The Group classifies all property that is not used in the performance of its own activities but is held to earn rental income as investment property.

Allocation of indirect expenses between life and non-life

The allocation of expenses to life and non-life insurance segments is described in accounting policy 1.3 (o).

Estimated useful economic life of equipment and intangible assets

The Group continues to use certain equipment and intangible assets which have been fully depreciated. Amortization/depreciation rates were initially determined in accordance with the best assessment of the useful life of these assets. Management believes this is appropriate, since soon the Group will discontinue the use of this property.

1.5 Insurance risk management

The Group is exposed to insurance risk arising from a wide range of life and non-life products: participating traditional life products and main groups of non-life insurance (motor vehicle - MTPL and motor hull, property, transport, third party liability, accident and health insurance).

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

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

Underwriting risk includes also catastrophe risk, which streams from irregular events that are not sufficiently covered by premium and reserve. Underwriting risk components of the life business include biometric risk (comprising mortality, longevity, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rate of policy lapses, terminations, termination of contract (payment) and surrenders.

Risk management

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Group buys a combination of proportional and non-proportional reinsurance treaties in order to reduce net exposure. For the accumulation of net property losses arising from one occurrence, reinsurance catastrophe treaty provides cover to claims over EUR 0.25 Mil. The adequacy of liabilities is assessed taking into consideration the supporting property, changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses, as well as general market conditions.

Concentration of insurance risk

A key aspect of insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group’s liabilities. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

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

1.5 Insurance risk management (continued)

Non-life insurance

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

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

- Measurement of geographical accumulation.
- Assessment of probable maximum loss.
- Reinsurance.

Life assurance

There is no significant geographic concentration risk for life insurance contracts covering the risk of death, although the concentration of the value at risk can affect the ratio of insurance payments on the portfolio level.

Tables for long-term insurance stated below, show risk concentration through five insurance classes grouped by sum insured for each insured life.

Sum insured as at 31 December 2017	**Total insured sum**			
	Before reinsurance		**After reinsurance**	
BAM	**BAM '000**	**%**	**BAM '000**	**%**
1,500-5,000	2,184	4%	2,184	4%
5,001-10,000	8,230	17%	8,230	17%
10,001-20,000	16,996	35%	16,996	35%
20,001-40,000	14,961	30%	14,961	31%
>40,001	6,766	14%	6,560	13%
Balance as at 31 December 2017	**49,137**	**100%**	**48,931**	**100%**

Sum insured as at 31 December 2016	**Total insured sum**			
	Before reinsurance		**After reinsurance**	
BAM	**BAM '000**	**%**	**BAM '000**	**%**
1,500-5,000	2,703	5%	2,703	5%
5,001-10,000	9,400	18%	9,400	18%
10,001-20,000	19,377	37%	19,377	38%
20,001-40,000	15,194	29%	15,194	30%
>40,001	5,518	11%	4,715	9%
Balance as at 31 December 2016	**52,192**	**100%**	**51,389**	**100%**

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

Non-life insurance

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

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

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Group's certified actuaries using the statistics method stipulated by the Agency.

The key assessment methods for IBNR, which remain unchanged from prior year, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost (MTPL, casco and accident);
- expected loss ratio method, which use the Group's experience with individual amounts of claims and which is used for all other insurance classes except MTPL, Casco and accident insurance.

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

- economic, legal, political and social trends (which cause different inflation level in relation to expected);
- changes in the mix of insurance contracts incepted;
- random fluctuations, including the impact of large losses.

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

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

Expected claims ratio

The expected claims ratio represents the ratio of expected claims incurred to premiums earned.

Discounts

With exception of annuities, non-life claims provisions are not discounted. Annuity MTPL claims are discounted per rate of 5.00%.

Zajednica Osiguranja Imovine i Lica (ZOIL) Sarajevo

Provisions for "Zajednica Osiguranja Imovine i Lica" ("ZOIL") relate to provisions based on decision of the Republic of Srpska Government (Official Gazette and Decision on merging of insurance companies parts to Srpsko osiguravajuće društvo (Serbian insurance company), number: 05-262/92, which has obliged the Company on payment of such claims.

Based on above, the Company inherited a property carried off-balance. Transfer of off-balance property to balance sheet is made on the basis of valid decision under procedures started at the competent Authority for geodetic and property-legal affairs.

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

Life assurance

The life assurance provision is calculated by a prospective net premium method using the same statistical data and interest rates as in calculation of tariffs (in accordance with relevant national legislation). Life insurance policies are linked to EUR which is common market practice.

Guaranteed technical interest rate in insurance policies is defined separately for each product.

The principal assumptions used in calculation of significant components of the life assurance provision are listed below:

Description	Product	Interest rates	Mortality tables
Mixed life insurance of one person with premium payments in installments, where the proportion of insured sum fin case of pure endowment and death is 1:1. In case of accidental death which is in accordance with general conditions for insurance of persons against consequences of accident, the insurer shall pay amount of two insured sums as in case of death.	C	2%	RS 80-82_M i RS 80-82_Z
Mixed life insurance of one person with the premium payments in installments, where the proportion of insured sums in case of pure endowment and death is 1:1. In case of accident which is in accordance with general conditions for insurance of persons against accident, the insurer shall pay amount of two insured sum as in case of death. After insurance contract expires the insurer shall pay to beneficiaries one additional insured sum.	E	2%	RS 80-82_M i RS 80-82_Z
Mixed life insurance of one person with single payment of premium where the proportion of insured sums for pure endowment and death is 1:1. In case of accidental death which is in accordance with general conditions for personal accident insurance, the insurer shall pay the amount of two insured sums as in case of death.	CE-N11	2%	RS 80-82_M i RS 80-82_Z
Mixed life insurance of one persons with single payment of premium, where the proportion of insured sums in pure endowment and death is 1:1. In case of accidental death which is in accordance with general insurance conditions for personal accident insurance, the insurer shall pay the amount of one insured sum as in case of death.	CE-11	2%	RS 80-82_M i RS 80-82_Z
Mixed life insurance of one person with single payment of premium, where the proportion of insured sums in pure endowment and death is 1:1. Insurance can be arranged with a deferral period. The period of deferrals is a period in which there is no insurance cover in the event of the death of the insured, or there is no obligation of the insurer to pay the sum insured in the event of his death.	CED	2%	RS 80-82_M i RS 80-82_Z
Mixed life insurance of one person with single payment of premium, where the proportion of insured sums in pure endowment and death is 1:1. Insurance can be arranged with a deferral period. The period of deferrals is a period in which there is no insurance cover in the event of the death of the insured, or there is no obligation of the insurer to pay the sum insured in the event of his death. . In case of accidental death which is in accordance with general insurance conditions for personal accident insurance, the insurer shall pay the amount of one insured sum as in case of death.	CEND	2%	RS 80-82_M i RS 80-82_Z
Mixed life insurance of one person with premium payment in installments, where the proportion of insured sum for pure endowment and death is 1:1. In case of accidental death, which is in accordance with general insurance conditions for insurance of personal accident insurance the insurer shall pay amount of two insured sums as in case of death.	SAFE LIFE	2%	RS 80-82_M i RS 80-82_Z

Mixed life insurance of one person with premium payment in installments where the proportion of insured sum for pure endowment and death is 1:1. Persons who, according to Insurer's conditions which insures increased risks, could not be insured, they may be insured under this conditions but through negotiation of deferment period which is a year shorter that insurance period. Deferment period is period without insurance coverage in case of insured's death that is there is no insurer's obligation for payment of insured sum in case of his/her death. In case of accidental death which is in accordance with general insurance conditions for insurance of personal accident insurance, the insurer shall pay amount of two insured sums for case in death.	D	2%	RS 80-82_M i RS 80-82_Z
Endowment insurance a person with installment payments of premiums. Insurance is contracted with the obligation to pay premiums for the entire duration of the contract or part duration of premium payment.	D2014	2%	RS 80-82_M i RS 80-82_Z
Additional insurance of persons against critical illnesses, which is agreed with basis life insurance. If insured event occurs, the insurer shall pay insured sum of additional insurance of persons against critical illness.	B	2%	RS 80-82_M i RS 80-82_Z

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

Life assurance (continued)

Annuity insurance of one person with premium payment in installments, according to which insurer guarantees payment of agreed annuity from agreed date and for agreed period.	R	2%	RS 80-82_M i RS 80-82_Z
Deferred lifelong personal rent with guaranteed period of payment	III/2	2%	RS 80-82_M i RS 80-82_Z
Deferred temporary personal rent with guaranteed period of payment	III/5	2%	RS 80-82_M i RS 80-82_Z
Deferred lifelong personal rent with single payment of premium	JR	2%	RS 80-82_M i RS 80-82_Z
Term life insurance with descending insured sum and single payment of premium.	IKD	2%	RS 80-82_M i RS 80-82_Z
Term life insurance of one person with payment of premium in installments	IK-11	2%	RS 80-82 M i RS 80-82 Z
Term life insurance of one person with single payment of premium	IKE-11	2%	RS 80-82 M i RS 80-82 Z
Lifelong insurance in case of death – senior programme	SEN	2%	RS 80-82 M i RS 80-82 Z

In 2017 there was a reduction in the technical interest rate to 2%.

Discretionary bonuses to insured

Policyholders or beneficiaries of endowment policies (C, E, SAFE LIFE, CE-11, CEN-11, D, CED, CEND, D2014), annuity policies (R, III/2, III/5, JR) are entitled to a discretionary share in the profits of the Company reported in the management of life assurance funds. The entitlement is calculated upon preparation of annual account and attributed to each life assurance policy following the expiry of the third year from the insurance commencement. In the case of single payment, the entitlement shall be attributed if at least one year passed from the insurance commencement. In case of pure endowment, profit share is to be paid together with sum insured. In case of death or surrender, the Group shall pay sum insured and profit share calculated up to that date.

1.7 Liability adequacy test

Life assurance

The life assurance provision is tested at annually against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options.

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

Non-life insurance

Insurance liabilities connected with non-life insurance are calculated by using current (not historical) assumptions.

The liability adequacy test for non-life insurance is therefore limited to the unexpired portion of existing contracts. It is performed by comparing the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date with the amount of unearned premiums in relation to such policies after deduction of deferred acquisition costs. Expected cash flows relating to claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur. Investment return was set to 0% due to the current market situation.

1.7 Liability adequacy test (continued)

Non-life insurance (continued)

The test is performed by product groups which comprise insurance contracts with a similar risk profile.

For annuities, the assumptions used to establish the provision include all future cash flows with changes being recognised immediately in the profit or loss.

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

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

1.8 Terms and conditions of insurance contracts that have a material effect on amount, time and uncertainty of future cash flows

Non-life insurance contracts

The Group offers various types of nonlife insurance, mostly MTPL, property, liability, transport, travel health insurance and accident. Contracts may be concluded for the fixed period of one year or on permanent basis where each party has an option of termination with three months' notice period (or 6 months' notice period for long-term contracts concluded for period over 5 years). Therefore the Group has a possibility of reassessment of risk price in intervals not longer than a year. Moreover, there is a possibility to impose decrease of premium as well as rejection of claims resulting from frauds.

Future insurance claims are the main source of uncertainty which influence on amount and time of future cash flows. Amount paid per one claim is limited by insured sum determined in insurance policy.

Other uncertainty sources of relevance refer to nonlife insurance arising from regulations which provide a right to policies' owners to report the claim before falls under statute of limitation which comes into force 3 years from the discovery of claim, that is 3 year from discovery of claim if interested person proofs that up to date defined in previous period was not informed on claim, but not later than 5 years from the beginning of year, one year after occurrence of loss. This provision is especially important for permanent disability resulting from accident insurance, due to difficulties in estimation of period between occurrence and confirmation of its effects.

Characteristic of certain lines of business if significantly differ from above mentioned, are described below.

Motor vehicle insurance

The Group portfolio of motor vehicle insurance includes MTPL and Casco insurance. MTPL insurance covers body injuries and property loss in Republic of Srpska and Bosnia and Herzegovina as well as claims caused abroad and by policyholders within Green Card system.

Property loss within motor liability and Casco are mostly reported and settled not long after the date of accidents. Reporting and payments relate to body injuries, but, they are being assessed difficultly and need longer period to be determined. Such claims may be settled in the form of single payment or as an annuity.

Amount of claims regarding body injuries and loss of earning related to them under influence of decisions in court practice.

MTPL is governed by the Law on MTPL and other provisions on compulsory liability insurance. Tariffs and minimum insurance sums are regulated by law. Policyholders have a right on bonus at renewal of the policy if meet certain conditions.

Casco insurance presents standard insurance against loss. Paid claims are limited by insured sum.

Property insurance

Property insurance is generally divided in industrial and private risks. For industrial risks the Group uses risk management techniques in order to identify risks and analysis losses and cooperates with reinsurers. Private property risks contain standard insurance of buildings and items. Claims are commonly quickly reported and can be settled without delay.

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

Liability insurance

Covers all types of liability and includes commercial liability, liability of the Management members, entrepreneurs and professional liability as well as personal liability. While the most of general liability insurances are acquired on the "reported claim" principle, certain liability insurances are insured on the "occurrence" principle.

Accident insurance

Accident insurance is traditionally sold as addition to life insurance or MTPL marketed by the Group. The most often form of accident insurance is collective accident insurance of employees. This form of insurance includes bank assurance (credit beneficiaries, current account beneficiaries).

Life assurance contracts

Share in part of profit

Profit is distributed according at the discretion of the Group and being recognised at the time when proposed and approved by the Management Board in accordance with relevant legislative. After allocation to policyholders, and after the General Assembly pass a decision on distribution of life assurance profit to policyholders the profit becomes guaranteed.

Premiums

Premiums for all life assurance products are linked to EUR and may be payable in regular instalments or as single premium at inception of the policy.

Insurance in case of death serving as security for given bank credits

Traditional term life assurance products comprise risks of death. Policies include descending sum insured. Benefits in case of death are payable only if insured person dies within the insurance policy period.

Endowment insurance

These are also traditional life assurance products providing long-term financial protection. Capital life insurance policies for regular or single premium cover a risk of death, endowment, critical illness or connected accident.

Annuity insurance

Annuity insurance of one person with premium payment in instalments, according to which the insurer from agreed date and for agreed period guarantee payment of agreed annuity.

1.9 Segment reporting

Consolidated statement of financial position by business segment on 31 December 2017

	Non-life BAM '000	Life BAM '000	Jahorina Auto BAM '000	Total BAM '000
Assets				
Property and equipment	4,148	64	1,452	5,664
Investment property	6,209	-	-	6,209
Intangible assets				
-Deferred acquisition costs	3,738	-	-	3,738
-Other intangible assets	77	18	3	98
Investment in associate	70	-	-	70
Available-for-sale financial assets	14,691	14,588	-	29,279
Loans and receivables	6,483	175	67	6,725
Reinsurers' share of insurance contract provisions	11,936	16	-	11,952
Inventory	34	-	1	35
Insurance and other receivables	4,100	614	138	4,852
Cash and cash equivalents	966	253	10	1,229
Total assets	**52,452**	**15,728**	**1,671**	**69,851**
Liabilities				
Insurance contract provisions	35,193	10,745	-	45,938
Borrowings	-	-	587	587
Provisions for liabilities and charges	552	3	33	588
Deferred tax liability	77	135	8	220
Insurance and other payables and deferred income	9,613	346	728	10,687
	45,435	**11,229**	**1,356**	**58,020**
Equity				
Share capital	8,180	3,000	-	11,180
Legal and statutory reserve	661	457	-	1,118
Fair value reserve	476	1,200	-	1,676
Revaluation reserve	133	-	74	207
(Accumulated losses)/retained profit	(2,507)	(31)	189	(2,350)
Total equity	**6,943**	**4,626**	**263**	**11,831**
Total liabilities and equity	**52,377**	**15,856**	**1,618**	**69,851**

1.9 Segment reporting (continued)

Consolidated statement of financial position by business segment on 31 December 2016

	Non-life	Life	Jahorina Auto	Total
	BAM '000	BAM '000	BAM '000	BAM '000
Assets				
Property and equipment	4,370	87	1,541	5,998
Investment property	8,726	-	-	8,726
Intangible assets				
- Deferred acquisition costs	2,942	-	-	2,942
- Other intangible assets	105	86	4	195
Investment in associate	70	-	-	70
Available-for-sale financial assets	13,000	9,120	-	22,120
Loans and receivables	7,218	461	75	7,754
Reinsurers' share of insurance contract provisions	13,627	-	-	13,627
Inventory	53	2	-	55
Insurance and other receivables	4,109	566	177	4,852
Cash and cash equivalents	738	285	11	1,034
Total assets	**54,958**	**10,607**	**1,808**	**67,373**
Liabilities				
Insurance contract provisions	35,632	6,338	-	41,970
Borrowings	391	-	919	1,310
Provisions for liabilities and charges	1,228	3	33	1,264
Deferred tax liability	43	44	8	95
Insurance and other payables and deferred income	8,822	464	343	9,647
Total liabilities	**46,143**	**6,849**	**1,303**	**54,286**
Equity				
Share capital	11,149	3,000	-	14,149
Share premium	2,934	-	-	2,934
Legal and statutory reserve	461	436	-	897
Fair value reserve	194	374	-	568
Revaluation reserve	133	-	74	207
(Accumulated losses)/retained profit	(5,405)	(278)	15	(5,668)
Total equity	**9,466**	**3,532**	**89**	**13,087**
Total equity and liabilities	**55,609**	**10,381**	**1,392**	**67,373**

1.9 Segment reporting (continued)

Consolidated income statement by business segment for 2017

	Non-life	Life	Jahorina Auto	Total
	BAM '000	BAM '000	BAM '000	BAM '000
Gross premiums written	29,346	5,846	(5)	35,187
Written premium ceded to reinsurers	(15,280)	(43)	-	(15,324)
Net premiums written	**14,066**	**5,803**	**(5)**	**19,863**
Change in the gross provision for unearned premiums	(2,399)	-	-	(2,399)
Reinsurers' share of change in the provision for unearned premiums	(171)	-	-	(171)
Net premiums earned	**11,496**	**5,803**	**(5)**	**17,293**
Fee and commission income	3,866	11	-	3,877
Financial income	1,149	707	2	1,858
Other operating income	1,277	7	1,457	2,742
Operating income	**17,788**	**6,528**	**1,454**	**25,770**
Claims and benefits incurred	(8,016)	(4,952)	38	(12,930)
Reinsurers' share of claims and benefits incurred	3,253	23	-	3,275
Net policyholder claims and benefits incurred	**(4,763)**	**(4,929)**	**38**	**(9,655)**
Acquisition costs	(8,504)	(1,114)	-	(9,618)
Administrative expenses	(4,994)	(448)	(1,554)	(6,995)
Other operating expenses	(1,786)	(5)	110	(1,681)
Finance costs	(123)	-	(48)	(171)
(Loss)/profit before income tax	**(2,381)**	**31**	**-**	**(2,350)**
Income tax expense	-	-	-	-
(Loss)/profit for the year	**(2,381)**	**31**	**-**	**(2,350)**

1.9 Segment reporting (continued)

Consolidated income statement by business segment for 2016

	Non-life	Life	Jahorina Auto	Total
	BAM '000	BAM '000	BAM '000	BAM '000
Gross premiums written	27,302	4,181	(5)	31,478
Written premium ceded to reinsurers	(14,323)	(113)	-	(14,436)
Net premiums written	**12,979**	**4,068**	**(5)**	**17,042**
Change in the gross provision for unearned premiums	693	(15)	-	678
Reinsurers' share of change in the provision for unearned premiums	(1,144)	-	-	(1,144)
Net premiums earned	**12,528**	**4,053**	**(5)**	**16,576**
Fee and commission income	3,760	70	-	3,830
Financial income	1,395	488	(10)	1,873
Other operating income	1,567	26	1,941	3,534
Operating income	**19,250**	**4,637**	**1,926**	**25,813**
Claims and benefits incurred	(10,809)	(3,180)	44	(13,945)
Reinsurers' share of claims and benefits incurred	4,132	-	-	4,132
Net policyholder claims and benefits incurred	**(6,677)**	**(3,180)**	**44**	**(9,813)**
Acquisition costs	(8,250)	(1,202)	-	(9,452)
Administrative expenses	(5,094)	(488)	(1,747)	(7,329)
Other operating expenses	(4,411)	(45)	(141)	(4,597)
Finance costs	(223)	-	(65)	(288)
(Loss)/profit before income tax	**(5,405)**	**(278)**	**17**	**(5,666)**
Income tax expense	-	-	-	-
(Loss)/profit for the year	**(5,405)**	**(278)**	**17**	**(5,666)**

1.9 Segment reporting (continued)

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

The main business segments of the Group are Non-life insurance, Life assurance and car technical inspection services. Note 1.8 of these financial statements provides further information about significant terms and conditions of insurance products.

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

The main products offered by the reported business segments include:

Non-life:
Motor third party liability
Motor casco
Property and liability
Accident and health

Life:
Traditional life
Endowment
Pure risk
Pure endowment

Geographical segment

The Group operates in Bosnia and Herzegovina. Since the entire income from insurance contracts is generated from clients in Bosnia and Herzegovina, geographical segment information is not presented.

Company (Group) may observe future total income from insurance contracts realized in certain entities in Bosnia and Herzegovina (RS + FBiH).

The Company provides the Insurance Agency of Republic of Srpska with Reports on premium and claims in RS and FBIH on a monthly basis.

1.10 Property and equipment

Group	Land and buildings	Equipment and furniture	Leasehold improvements	Advances and assets acquired but not brought into use	Total
Cost	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Balance at 1 January 2016	**5,392**	**6,093**	**257**	**442**	**12,184**
Additions	32	924	26	29	1,011
Write-offs	-	(481)	-	(70)	(551)
Disposals	(536)	(659)	-	-	(1,195)
Other write-off	-	-	-	(201)	(201)
Balance at 31 December 2016	**4,888**	**5,877**	**283**	**200**	**11,248**
Balance at 1 January 2017	**4,888**	**5,877**	**283**	**200**	**11,248**
Additions	6	404	-	-	410
Write-offs	(12)	(271)	-	-	(283)
Disposals	(84)	(307)	-	-	(391)
Other write-off	-	-	-	(34)	(34)
Balance at 31 December 2017	**4,798**	**5,703**	**283**	**166**	**10,950**
Depreciation and impairment					
Balance at 1 January 2016	**925**	**4,576**	**136**	**9**	**5,646**
Charge for the year	69	502	17	(3)	585
Revaluation	77	-	-	-	77
Write-offs	-	(429)	-	(70)	(499)
Disposals	(72)	(487)	-	-	(559)
Balance at 31 December 2016	**999**	**4,162**	**153**	**(64)**	**5,250**
Balance at 1 January 2017	**999**	**4,162**	**153**	**(64)**	**5,250**
Charge for the year	67	495	14	-	576
Write-offs	(10)	(264)	-	-	(274)
Disposals	(35)	(231)	-	-	(266)
Balance at 31 December 2017	**1,021**	**4,162**	**167**	**(64)**	**5,286**
Net book value					
At 1 January 2016	4,467	1,517	121	433	6,538
At 31 December 2016	3,889	1,715	130	264	5,998
At 1 January 2017	**3,889**	**1,715**	**130**	**264**	**5,998**
At 31 December 2017	**3,777**	**1,541**	**116**	**230**	**5,664**

Land and buildings with a total carrying value of BAM 1,459 thousand were pledged as a guarantee for loans received from TBIH Finansial Services Group N.V. Amsterdam, Holandija (EUR 300,000). Properties pledged as collateral are owned by the Company and Jahorina Auto: business premises in Gacko, Istočno Sarajevo, Novi Grad, Sokolac and Foča, premises in Zvornik, Han Pijesak, Modriča, Nevesinje, Kozarska Dubica and Pale (Note 1.22). Depreciation cost of the period is recognized as a part of administrative expenses in profit or loss (Note 1.33). In 2017 the Group organized a new appraisal of property and land by engaging the independent property valuer with appropriate professional qualifications. No subsequent appraisal has been made.

1.10 Property and equipment (continued)

Company	Land and buildings	Equipment and furniture	Leasehold improvements	Advances and assets acquired but not brought into use	Total
Cost	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Balance at 1 January 2016	**4,243**	**4,289**	**28**	**437**	**8,997**
Additions	32	874	15	29	950
Write-offs	-	(384)	-	(70)	(454)
Disposals	(536)	(615)	-	-	(1,151)
Asset activation	-	-	-	(203)	(203)
Balance at 31 December 2016	**3,739**	**4,164**	**43**	**193**	**8,139**
Balance at 1 January 2017	**3,739**	**4,164**	**43**	**193**	**8,139**
Additions	6	363	-	-	369
Write-offs	(12)	(271)	-	-	(283)
Disposals	(84)	(306)	-	-	(390)
Asset activation	-	-	-	(34)	(34)
Balance at 31 December 2017	**3,649**	**3,950**	**43**	**159**	**7,801**
Depreciation and impairment					
Balance at 1 January 2016	**838**	**3,213**	**11**	**70**	**4,132**
Charge for the year	50	348	2	-	400
Revaluation	77	-	-	-	77
Write-offs	-	(336)	-	(70)	(406)
Disposals	(72)	(449)	-	-	(521)
Balance at 31 December 2016	**893**	**2,776**	**13**	**-**	**3,682**
Balance at 1 January 2017	**893**	**2,776**	**13**	**-**	**3,682**
Charge for the year	47	396	4	-	447
Write-offs	(10)	(264)	-	-	(274)
Disposals	(35)	(231)	-	-	(266)
Balance at 31 December 2017	**895**	**2,677**	**17**	**-**	**3,589**
Net book value					
At 1 January 2016	3,405	1,076	17	367	4,865
At 31 December 2016	2,846	1,388	30	193	4,457
At 1 January 2017	2,846	1,388	30	193	4,457
At 31 December 2017	**2,754**	**1,273**	**26**	**159**	**4,212**

Depreciation cost of the period is recognized as a part of administrative expenses in profit or loss (Note 1.33).

1.11 Investment property

Group and Company

	2017	2016
	BAM '000	BAM '000
Balance at 1 January	**8,726**	10,507
Change		
Purchases	**20**	-
Transfer from property and equipment	**-**	179
Disposals	**(2,537)**	(481)
Change in fair value	**-**	(1,479)
Balance at 31 December	**6,209**	8,726

Investment property comprises a number of commercial properties that are leased to third parties.

Investment property is carried at fair value. The fair value is determined by independent licensed appraisers on December 31, 2017. Appraisers have adequate professional qualifications and relevant experience when it comes to location and category of real estate that were subjected to assessment. Independent appraisers prepare fair value estimates every 12 months. The Board considers that investment property is stated at their recoverable amount at the reporting date.

Sale of investment property with net book value of KM 2,537 thousand refers to the sale of a business building in Pale, where the Company's headquarters were located by the year 2015.

1.12 Deferred acquisition costs

As part of the Company's and the Group's insurance business, certain acquisition costs are deferred. For the life assurance business, acquisition costs are taken into account in calculating the life assurance provisions by means of Zillmerisation. Deferred acquisition costs for the life assurance business are not recognised as a separate asset at the reporting date.

Analysis of these costs is shown below:

Group and Company

	2017	2016
	BAM '000	BAM '000
Balance at 1 January	**2,942**	2,924
Decrease/(increase) of acquisition costs recognized in profit or loss (Note 1.32)	**796**	18
Balance at 31 December	**3,738**	2,942

1.13 Other intangible assets

Group

	Intangible assets acquired but not brought into use	Software	Total
	BAM '000	**BAM '000**	**BAM '000**
Cost			
Balance at 1 January 2016	690	764	1,454
Additions	-	39	39
Write-offs	(37)	(2)	(39)
Balance at 31 December 2016	**653**	**801**	**1,454**
Balance at 1 January 2017	653	801	1,454
Additions	33	4	37
Write-offs	(59)	(154)	(213)
Balance at 31 December 2017	**627**	**651**	**1,278**
Accumulated amortization and impairment			
Balance at 1 January 2016	649	490	972
Charge for the year	-	157	157
Write-offs	(37)	-	(37)
Balance at 31 December 2016	**612**	**647**	**1.259**
Balance at 1 January 2017	612	647	1,259
Charge for the year	25	109	134
Write-offs	(59)	(154)	(213)
Balance at 31 December 2017	**578**	**602**	**1,180**
Net book value			
At 1 January 2016	41	274	315
At 31 December 2016	41	154	195
At 1 January 2017	41	154	195
At 31 December 2017	**49**	**49**	**98**

Depreciation charge for the year is recognised in profit or loss under administrative expenses (Note 1.33).

1.13 Other intangible assets (continued)

Company

	Intangible assets acquired but not brought into use	Software	Total
	BAM '000	BAM '000	BAM '000
Cost			
Balance at 1 January 2016	519	764	1.283
Additions	-	39	39
Write-offs	(37)	(2)	(39)
Balance at 31 January 2016	**482**	**801**	**1,283**
Balance at 1 January 2017	482	801	1,283
Additions	33	4	37
Write-offs	(59)	(154)	(213)
Balance at 31 December 2017	**456**	**651**	**1,107**
Accumulated amortization and impairment			
Balance at 1 January 2016	482	490	972
Charge for the year	-	157	157
Write-offs	(37)	-	(37)
	445	**647**	**1,092**
Balance at 1 January 2017	445	647	1,092
Charge for the year	24	109	133
Write-offs	(59)	(154)	(213)
Balance at 31 December 2017	**410**	**602**	**1,012**
Net book value			
At 1 January 2016	37	274	311
At 31 December 2016	37	154	191
At 1 January 2017	37	154	191
At 31 December 2017	**46**	**49**	**95**

As at 31 December 2017 and 31 December 2016 the Company did not have internally generated intangible assets.

Depreciation charge for the year is recognised in profit or loss under administrative expenses (Note 1.33).

1.14 Investment in subsidiary

a) Subsidiary of the Group is:

	Industry	Country	**Group ownership at 31 December 2017**	Group ownership at 31 December 2016
Jahorina Auto d.o.o.	Car technical inspection services	Bosnia and Herzegovina	**100.00%**	100.00%

Subsidiary is fully consolidated in the Group financial statements.

b) Investment in subsidiary is:

	Company 2017 BAM '000	Company 2016 BAM '000
Jahorina auto d.o.o.	**226**	415

c) Movement in investment in subsidiary is as follows:

	Company 2017 BAM '000	Company 2016 BAM '000
Balance at 1 January	**415**	415
Impairment (Note 1.34)	**(189)**	-
Balance at 31 December	**226**	415

1.15 Investment in associate

a) Associate of the Group is:

	Industry	Country	**Group ownership at 31 December 2017**	Group ownership at 31 December 2016
DUIF Jahorina Konseko Progres	Fund Management Company	Bosnia & Herzegovina	**28.00%**	28.00%

b) Investment in associate of the Group is as follows:

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
DUIF Jahorina Konseko Progres	**70**	70	**70**	70

As at 31 December 2017, total assets of DUIF Jahorina Konseko Progress a.d. amounted to BAM 1.348 thousand (2016: BAM 395 thousand), liabilities BAM 4 thousand (2016: BAM 38 thousand), and income BAM 1.031 thousand (2016: BAM 526 thousand) and loss for 2017 in the amount of BAM 979 thousand (2016: loss of BAM 70 thousand).

On 3 April 2017, a liquidation process initiated at the Group's proposal was opened over the associated legal entity. The Group believes that it will succeed in recovering the amount of investments in the associate.

1.16 Financial investments

a) Available-for-sale financial assets

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Available-for-sale financial assets	29,279	22,120	29,279	22,120
Loans and receivables	6,725	7,754	6,734	7,679
	36,004	29,874	**36,013**	29,799

As at 31 December 2017 there were no past due available-for-sale financial assets (*2016: nil*).

At the reporting date there were no available-for-sale financial assets which were impaired (*2016: nil*).

1.16 Financial investments (continued)

b) Breakdown of investments

Group	Available-for-sale financial assets	Loans and receivables	Total
	BAM '000	BAM '000	BAM '000
2017			
Debt securities – government bonds– listed	**29,279**	**-**	**29,279**
Deposits with banks	-	5,920	**5,920**
Deposits with other institutions	-	599	**599**
Loans to employees	-	206	**206**
Total	**29,279**	**6,725**	**36,004**
2016			
Debt securities – government bonds– listed	**22,120**	**-**	**22,120**
Deposits with banks	-	6,907	**6.907**
Deposits with other institutions	-	588	**588**
Loans to employees	-	259	**259**
Total	**22,120**	**7,754**	**29,874**

Deposits with other institutions relate to cash paid to a Reserve Fund and Fund for compensation of claims of the Green Card Bureau in Bosnia and Herzegovina.

1.16 Financial investments (continued)

b) Breakdown of investments (continued)

Company	**Available-for-sale financial assets**	**Loans and receivables**	**Total**
	BAM '000	**BAM '000**	**BAM '000**
2017			
Debt securities – government bonds– listed	**29,279**	-	**29,279**
Deposits with banks	-	5,920	**5,920**
Deposits with other institutions	-	599	**599**
Loans to employees	-	138	**138**
	-	77	**77**
Total	**29,279**	**6,734**	**36,013**
2016			
Debt securities – government bonds– listed	**22,120**	-	**22,120**
Deposits with banks	-	6,907	**6,907**
Deposits with other institutions	-	588	**588**
Loans to employees	-	184	**184**
Total	**22,120**	**7,679**	**29,799**

Deposits with other institutions relate to cash paid to a Reserve Fund and Fund for compensation of claims of the Green Card Bureau in Bosnia and Herzegovina.

1.17 Reinsurers' share of insurance contract provisions

Group and Company

	2017 BAM '000	2016 BAM '000
Non-life		
Reinsurers' share in unearned premiums reserve	**4,927**	5,097
Reinsurers' share in notified outstanding and incurred but not reported claims reserve	**7,009**	8,530
	11,936	13,627
Life	16	-
	11,952	13,627

1.18 Inventory

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Material in warehouse	**35**	55	**35**	55

1.19 Insurance and other receivables

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Insurance contract receivables	**4,460**	4,508	**4,460**	4,508
Receivables from reinsurance				
- for claims recoveries	**204**	252	**204**	252
- for reinsurance commissions	**73**	9	**73**	9
Receivable from tax administration	**18**	18	**18**	18
Other receivables and prepayments	**2,780**	3,582	**2,652**	2,505
	7,535	8,369	**7,407**	7,292
Impairment:				
- insurance contract receivables	**(1,344)**	(1,308)	**(1,344)**	(1,308)
- other receivables	**(1,339)**	(2,209)	**(1,326)**	(1,309)
	(2,683)	(3,517)	**(2,670)**	(2,617)
	4,852	4,852	**4,737**	4,675

1.19 Insurance and other receivables (continued)

Movement in impairment allowances for insurance receivables during the year was as follows:

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Balance at 1 January	1,308	1,270	1,308	1,270
Impairment losses	263	164	263	164
Net impairment losses recognised in profit or loss	*263*	*164*	*263*	*164*
Write-offs of amounts previously provided for	*(227)*	*(126)*	*(227)*	*(126)*
Balance at 31 December	**1,344**	**1,308**	**1,344**	**1,308**

Impairment losses for insurance receivables are recognised under other operating expenses (Note 1.34).

Movement in impairment allowance for other receivables for the Group and the Company is not practicable to disclose.

1.20 Cash and cash equivalents

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Cash at bank	**1,229**	1,034	**1,219**	1,023

1.21 Insurance contract provisions

Group and Company	**2017 BAM '000**	2016 BAM '000
Non-life insurance		
Provision for unearned premium	19,612	17,203
Notified outstanding claims reserve	10,734	13,110
Notified outstanding claims reserve-ZOIL	333	568
Incurred but not reported claims reserve	3,539	3,752
Direct claims costs reserve	328	308
Indirect claims costs reserve	647	691
	35,193	35,632
Life assurance		
Provision for unearned premium	40	40
Life assurance provisions	10,648	6,220
Notified outstanding claims reserve	20	12
Incurred but not reported claims reserve	37	66
	10,745	6,338
	45,938	41,970

a) Analysis of movement in provision for unearned premium

Group and Company

	2017 Gross BAM '000	**2017 Reinsurance BAM '000**	**2017 Net BAM '000**	**2016 Gross BAM '000**	**2016 Reinsurance BAM '000**	**2016 Net BAM '000**
Non-life business						
Balance as at 1 January	17,204	5,097	12,107	17,897	6,241	11,656
Premiums written during the year	29,346	15,280	14,066	27,302	14,323	12,979
Less: premiums earned during the year	(26,938)	(15,450)	(11,488)	(27,995)	(15,467)	(12,528)
Balance at 31 December	**19,612**	**4,927**	**14,685**	**17,204**	**5,097**	**12,107**
Life assurance business						
Balance as at 1 January	40	-	40	26	-	26
Premiums written during the year	5,846	43	5,803	4,195	113	4,082
Less: premiums earned during the year	(5,846)	(43)	(5,803)	(4,181)	(113)	(4,068)
Balance at 31 December	**40**	**-**	**40**	**40**	**-**	**40**

1.21 Insurance contract provisions (continued)

b) Analysis of movements in notified outstanding claims reserve

Group

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Non-life business						
Balance as at 1 January	13,110	7,418	5,692	13,488	7,767	5,721
Claims incurred in current year	6,286	2,229	4,057	7,336	3,668	3,668
Transfer from IBNR	1,924	820	1,104	2,981	1,629	1,352
Change in previous year claims	(68)	(4)	(64)	283	(969)	1,252
Claims paid	(10,518)	(4,744)	(5,774)	(10,978)	(4,677)	(6,301)
Balance at 31 December	**10,734**	**5,719**	**5,015**	**13,110**	**7,418**	**5,692**
Life assurance business						
Balance as at 1 January	11	-	11	34	-	34
Claims incurred in current year	11	-	11	2	-	2
Change in previous year claims	(2)	-	(2)	-	-	-
Claims paid	(3)	-	(3)	(25)	-	(25)
Balance at 31 December	**17**	**-**	**17**	**11**	**-**	**11**

Company

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Non-life business						
Balance as at 1 January	13,110	7,418	5,692	13,488	7,767	5,721
Claims incurred in current year	6,286	2,229	4,057	7,336	3,668	3,668
Transfer from IBNR	1,924	820	1,104	2,981	1,629	1,352
Change in previous year claims	(68)	(4)	(64)	283	(969)	1,252
Claims paid	(10,518)	(4,744)	(5,774)	(10,978)	(4,677)	(6,301)
Balance at 31 December	**10,734**	**5,719**	**5,015**	**13,110**	**7,418**	**5,692**
Life assurance business						
Balance as at 1 January	11	-	11	34	-	34
Claims incurred in current year	11	-	11	2	-	2
Change in previous year claims	(2)	-	(2)	-	-	-
Claims paid	(3)	-	(3)	(25)	-	(25)
Balance at 31 December	**17**	**-**	**17**	**11**	**-**	**11**

1.21 Insurance contract provisions (continued)

c) Analysis of movements in notified outstanding claims reserve-ZOIL

Group and Company

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Non-life business						
Balance as at 1 January	568	-	568	802	-	802
Change in previous year claims	(205)	-	(205)	(185)	-	(185)
Claims paid	(30)	-	(30)	(49)	-	(49)
Balance at 31 December	**333**	**-**	**333**	**568**	**-**	**568**

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

Group and Company

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Non-life business						
Balance as at 1 January	3,752	1,113	2,639	3,768	1,340	2,428
Increases recognised during the year	1,711	997	714	2,965	1,402	1,563
Transfer to notified outstanding claims reserve	(1,924)	(820)	(1,104)	(2,981)	(1,629)	(1,352)
Balance at 31 December	**3,539**	**1,290**	**2,249**	**3,752**	**1,113**	**2,639**

Group and Company

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Life assurance business						
Balance as at 1 January	62	-	62	73	-	73
Additions recognised during the year	-	-	-	(11)	-	(11)
Transfer to notified outstanding claims reserve	(25)	-	(25)	-	-	-
Balance at 31 December	**37**	**-**	**37**	**62**	**-**	**62**

1.21 Insurance contracts provisions (continued)

e) Analysis of movement in direct claims cost reserve

Group and Company

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Non-life business						
Balance as at 1 January	**308**	**-**	**308**	**216**	**-**	**216**
Additions recognised during the year	20	-	20	92	-	92
Balance at 31 December	**328**	**-**	**328**	**308**	**-**	**308**

f) Analysis of movement in indirect claims cost reserve

Group and Company

	2017 Gross BAM'000	2017 Reinsurance BAM'000	2017 Net BAM'000	2016 Gross BAM'000	2016 Reinsurance BAM'000	2016 Net BAM'000
Non-life business						
Balance as at 1 January	**691**	**-**	**691**	**653**	**-**	**653**
Additions recognised during the year	(44)	-	(44)	38	-	38
Balance at 31 December	**647**	**-**	**647**	**691**	**-**	**691**

g) Analysis of movement in life assurance provisions

Group and Company

	2017 Gross BAM'000	2016 Gross BAM'000
Balance at 1 January	**6,220**	3,497
Premium allocation (savings part)	4,664	2,905
Release of liabilities due to benefits paid, surrenders and other terminations	(392)	(269)
Unwinding of discount/accretion of interest	156	87
Balance at 31 December	**10,648**	6,220

1.21 Insurance contract provisions (continued)

h) Remaining maturity of technical provisions

Group and Company

2017	Less than 1 year BAM'000	From 1 to 5 year BAM'000	From 5 to 10 years BAM'000	From 10 to 15 years BAM'000	From 15 to 20 years BAM'000	Over 20 years BAM'000	Total BAM'000
Non-life							
Provision for unearned premiums	10,603	2,155	6,235	307	230	82	**19,612**
Notified outstanding claims reserve and incurred but not reported claims reserve and other provisions	10,321	4,119	498	643	-	-	**15,581**
	20,924	**6,274**	**6,733**	**950**	**230**	**82**	**35,193**
Life							
Provision for unearned premiums	40	-	-	-	-	-	**40**
Notified outstanding claims reserve and incurred but not reported claims reserve and other provisions	57	-	-	-	-	-	**57**
Life assurance provision	114	4,524	3,015	1,375	866	754	**10,648**
	211	**4,524**	**3,015**	**1,375**	**866**	**754**	**10,745**
2016							
Non-life							
Provision for unearned premiums	10,211	1,723	4,805	290	134	40	**17,203**
Notified outstanding claims reserve and incurred but not reported claims reserve and other provisions	12,208	4,872	589	760	-	-	**18,429**
	22,419	**6,595**	**5,394**	**1,050**	**134**	**40**	**35,632**
Life							
Provision for unearned premiums	40	-	-	-	-	-	**40**
Notified outstanding claims reserve and incurred but not reported claims reserve and other provisions	78	-	-	-	-	-	**78**
Life assurance provision	1	2,041	2,284	830	600	464	**6,220**
	119	**2,041**	**2,284**	**830**	**600**	**464**	**6,338**

1.21 Insurance contract provisions (continued)

i) Run-off - Notified outstanding claims reserve

Insurance class	Reported but not settled (RBNS) claims 31 December 2016	Claims settled in 2016, reported before 1 January 2017	Outstanding RBNS claims reported before 1 January 2017	Run-off	
01 Accident insurance	368	144	170	**54**	14.7%
02 Health insurance	105	35	29	**41**	39.0%
03 Motor hull	783	308	387	**88**	11.2%
05 Insurance of aircraft	-	-	-	**-**	-
07 Insurance of goods in transit	-	-	-	**-**	-
08 Insurance against fire and natural disasters	423	105	248	**70**	16.5%
09 Other property insurance lines	6,408	2,795	3,595	**18**	0.3%
10 Motor vehicle liability insurance	5,562	1,507	4,056	**(1)**	0.0%
13 Other liability insurance lines	29	15	4	**10**	345.5%
16 Insurance of miscellaneous financial losses	-	-	-	**-**	-
Total non-life	**13,678**	**4,909**	**8,489**	**280**	**2.05%**

Run-off of reported but not settled claims reserves as at 31 December 2017 indicates defficiency of the non-life reserves in the amont of BAM 280 thousand or 2.05%.

j) Run-off - Incurred but not reported claims reserve

Insurance class	Incurred but not reported claims reserve 31 December 2016	Claims settled in 2016, occurred but not reported before 1 January 2017	Outstanding RBNS claims occurred but not reported before 1 January 2017	Estimation of outstanding IBNR	Run-off	
01 Accident insurance	449	269	32	**35**	**113**	25.17%
02 Health insurance	63	14	4	**-**	**45**	70.97%
03 Motor hull	246	59	154	**13**	**20**	8.13%
05 Insurance of aircraft	-	-	-	**-**	**-**	-
07 Insurance of goods in transit	2	-	-	**-**	**2**	100.00%
08 Insurance against fire and natural disasters	212	21	-	**-**	**191**	90.09%
09 Other property insurance lines	253	10	98	**-**	**145**	57.31%
10 Motor vehicle liability insurance	2.504	758	358	**1,204**	**184**	7.35%
13 Other liability insurance lines	3	5	10	**-**	**(12)**	(400.00%)
16 Insurance of miscellaneous financial losses	21	-	-	**-**	**21**	100.00%
Total non-life	**3.753**	**1.136**	**656**	**1.252**	**709**	**18.86%**

Run-off of incurred but not reported claims reserve as at 31 December 2017 indicates sufficiency of the non-life reserves in the amount of BAM 709 thousand or 18.86%.

1.21 Insurance contract provisions (continued)

k) Run-off - Total

Insurance class	RBNS and IBNR 31 December 2016	Claims settled in 2016, occurred but not reported before 1 January 2017	Outstanding RBNS claims occurred but not reported before 1 January 2017	Estimation of outstanding IBNR	Run-off	
01 Accident insurance	817	413	202	35	**167**	20.44%
02 Health insurance	167	49	33	-	**85**	50.90%
03 Motor hull	1,029	367	541	13	**108**	10.50%
05 Insurance of aircraft	-	-	-	-	**-**	-
07 Insurance of goods in transit	2	-	-	-	**2**	100.00%
08 Insurance against fire and natural disasters	635	126	248	-	**261**	41.0%
09 Other property insurance lines	6,661	2,805	3,639	-	**163**	2.45%
10 Motor vehicle liability insurance	8,066	2,265	4,414	1,204	**183**	2.27%
13 Other liability insurance lines	32	20	14	-	**(2)**	(6.25%)
16 Insurance of miscellaneous financial losses	21	-	-	-	**21**	100.00%
Total non-life	**17,430**	**6,045**	**9,145**	**1,252**	**988**	**5.67%**

Total run-off of reported but not settled claims reserve and incurred but not reported claims reserve as at 31 December 2017 indicates sufficiency of the non-life reserves in the amount of BAM 988 thousand or 5.67%.

1.22 Borrowings

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Borrowings	**653**	1,310	**-**	391

Lender	**Currency**	**Principal in currency**	**Interest rate**	**Maturity**	**Group 2017 BAM '000**	Group 2016 BAM '000
Vienna Insurance Group	EUR	680	6%	2018	66	332
TBIH Financial Amsterdam	EUR	200	5,75%	2017	-	391
TBIH Financial Amsterdam	EUR	300	5,75%	2019	587	587
					653	1,310

1.23 Provisions for liabilities and charges

Group	**Provisions for prevention BAM '000**	**Provisions for severance payments BAM '000**	**Provisions for court cases BAM '000**	**Total BAM '000**
Balance at 1 January 2016	330	192	999	1,521
Increase in provisions recognized in profit or loss	59	7	397	463
Provisions used in the year	(269)	-	(451)	(720)
Balance at 31 December 2016	**120**	**199**	**945**	**1,264**
Increase in provisions recognized in profit or loss	64	1	130	195
Provisions used in the year	(169)	(36)	(666)	(871)
Balance at 31 December 2017	**15**	**164**	**409**	**588**

1.23 Provisions for liabilities and charges

Company	Provisions for prevention	Provisions for severance payments	Provisions for court cases	Total
	BAM '000	BAM '000	BAM '000	BAM '000
Balance at 1 January 2016	298	192	998	1,488
Increase in provisions recognized in profit or loss	59	-	397	456
Provisions used in the year	(237)	(26)	(450)	(713)
Balance at 31 December 2016	**120**	**166**	**945**	**1,231**
Increase in provisions recognized in profit or loss	64	1	130	195
Provisions used in the year	(169)	(36)	(666)	(871)
Balance at 31 December 2017	**15**	**131**	**409**	**555**

Assumptions used in calculating provisions for severance payments are as follows:

	Group and Company 2017	Group and Company 2016
Discount rate	4%	4.5%
Expected increases of salaries	2%	2%
Mortality rate	Mortality tables RS 80	Mortality tables RS 80

The increase in provisions for prevention and court cases is recognized as part of other operating expenses (Note 1.34).

1.24 Insurance and other payables and deferred income

	Group	Group	**Company**	Company
	2017	2016	**2017**	2016
	BAM '000	BAM '000	**BAM '000**	BAM '000
Reinsurance and coinsurance contract payables	**7,450**	6,698	**7,450**	6,698
Insurance contract payables to agents	**174**	120	**174**	120
Trade payables	**561**	622	**561**	485
Liabilities to employees	**883**	760	**608**	613
Liabilities for dividends	**331**	331	**331**	331
Other payables	**1,207**	1,116	**920**	1,056
	10,606	9,647	**10,044**	9,303

1.25 Equity

(a) Share capital

	2017	2016
	BAM '000	BAM '000
Authorized, issued and fully paid		
111,795 (2016.: 141,492) ordinary shares of 100 BAM	**11,180**	14,149

The share capital of the Company is denominated in BAM. The nominal value of issued shares is BAM 100. During 2017 the Company covered accumulated losses in the amount of BAM 5,683 thousand by decreasing its share premium by BAM 2,934 thousand, legal reserves by BAM 897 thousand and share capital in amount of BAM 1,852 thousand.

The shareholders of the Company at the reporting date were as follows:

	2017				2016			
Number of shares	**Ordinary shares**	**Preference shares**	**Total**	**% ownership**	Ordinary shares	Preference shares	Total	% ownership
Vienna Insurance Group	**111,795**	-	**11,180**	**100.00%**	141,492	-	14,149	100.00%

The owner of the Company is Vienna Insurance Group, joint stock Company registered and domiciled in Austria. During 2013 Vienna Insurance Group acquired all preference shares held by other shareholders which resulted with holding 100% ownership over the Company.

(b) Share premium

In 2017, based on shareholder's decision, the Company has used share premium to cover accumulated losses in the amount of BAM 2,934 thousand.

1.25 Equity (continued)

(c) Fair value reserve

Fair value reserve represents accumulated changes in fair value of available-for-sale financial assets net of corresponding deferred tax. All movements are presented in comprehensive income, net of tax. Movements in fair value reserve were follows:

Group and Company	**2017 BAM '000**	2016 BAM '000
Gross fair value reserve at 1 January	630	993
Deferred tax liability at 1 January	(62)	(99)
Balance at 1 January	**568**	894
Gains from change in fair value of available-for-sale financial assets	1,231	(363)
Deferred tax on net gains from change in fair value of available-for-sale financial assets, net of realised amounts and impairment losses	(123)	37
Net gains from change in fair value of available-for-sale financial assets	**1,108**	(326)
Gross fair value reserve at 31 December	1,861	630
Deferred tax liability at 31 December	(185)	(62)
Balance at 31 December	**1,676**	568

1.26 Basic and diluted (loss)/earnings per share

For the purpose of calculating (loss)/earnings per share, earnings/ (loss) was calculated as the (loss)/profit for year attributable to equity holders of the Company, after dividend attributable for preference shareholders. The number of ordinary shares is the weighted average number of ordinary shares issued during the year. Number of ordinary shares used in calculating basic and diluted earnings per share was 111,795 (2016: 141,492). Given that there are no options, convertible bonds or similar instruments, the diluted (loss)/profit per share is the same as the basic (loss)/profit per share.

	Group 2017	Group 2016	**Company 2017**	Company 2016
Loss for the year in BAM '000	**(2,350)**	(5,666)	**(2,350)**	(5.683)
Loss attributable to ordinary shareholders in BAM'000	**(2,350)**	(5,666)	**(2,350)**	(5.683)
Weighted average number of ordinary shares as at 31 December	**129,043**	124,920	**129,043**	124.920
Basic and diluted loss per share in BAM	**(18.21)**	(45.36)	**(18.21)**	(45.49)

1.27 Premiums

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Non-life insurance				
Gross premiums written	**29,341**	27,297	**29,346**	27,302
Premiums written ceded to reinsurance	**(15,280)**	(14,323)	**(15,280)**	(14,323)
Written premium from non-life insurance, net of reinsurance	**14,061**	12,974	**14,066**	12,979
Change in unearned premium, gross	**(2,399)**	693	**(2,399)**	693
Change in unearned premium, reinsurance share	**(171)**	(1,144)	**(171)**	(1,144)
Net premium earned from non-life insurance	**11,491**	12,523	**11,496**	12,528
Life assurance				
Gross premiums written	**5,846**	4,181	**5,846**	4,181
Premiums written ceded to reinsurance	**(44)**	(113)	**(43)**	(113)
Premiums written from life assurance, net of reinsurance	**5,802**	4,068	**5,803**	4,068
Change in unearned premium, gross	-	(15)	-	(15)
Change in unearned premium, reinsurance share	-	-	-	-
Net premium earned from life assurance	**5,802**	4,053	**5,803**	4,053
Total non-life and life				
Gross premiums written	**35,187**	31,478	**35,192**	31,483
Premiums ceded to reinsurance	**(15,324)**	(14,436)	**(15,323)**	(14,436)
Premiums written, net	**19,863**	17,042	**19,869**	17,047
Change in the gross provision for unearned premiums	**(2,399)**	678	**(2,399)**	678
Reinsurers' share of change in the provision for unearned premiums	**(171)**	(1,144)	**(171)**	(1,144)
Net premiums earned	**17,293**	16,576	**17,299**	16,581

Change in reinsurance share of unearned premium reserve relates to quota share agreement with VIG Holding, which was in accordance with VIG accounting policies presented in these financial statements as part of reinsurance and coinsurance contract payables, instead of reinsurers' share of insurance contract provisions.

1.27 Premiums (continued)

Analysis of premiums written and claims incurred by class of business

The following table shows the analysis of premiums written and claims incurred by class of business. All insurance contracts are concluded in Bosnia and Herzegovina.

Group

	Gross premium written	Gross premium earned	Gross claims incurred	Acquisition costs and administrative expenses	Reinsurance balance
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
2017					
Non- life insurance					
MTPL	9,325	9,011	(3,223)	(4,146)	(281)
Motor vehicles (other)	2,384	2,311	(1,674)	(1,149)	(41)
Property	9,868	10,261	(1,314)	(4,549)	(7,049)
Personal lines	5,710	3,579	(1,578)	(2,449)	(363)
Other	2,054	1,780	(189)	(1,206)	(673)
Total non-life insurances	**29,341**	**26,942**	**(7,978)**	**(13,498)**	**(8,407)**
Life assurance					
Annuities	5,846	5,846	(4,929)	(1,562)	(29)
Total life assurance	**5,846**	**5,846**	**(4,929)**	**(1,562)**	**(29)**
Total	**35,187**	**32,788**	**(12,907)**	**(15,060)**	**(8,436)**
2016					
Non-life insurance					
MTPL	8,905	9,203	(4,704)	(5,468)	201
Motor vehicles (other)	2,189	2,455	(1,920)	(1,131)	(54)
Property	10,337	11,590	(2,629)	(3,799)	(7,116)
Personal lines	4,545	3,406	(1,468)	(2,358)	(238)
Other	1,321	1,336	(44)	(588)	(579)
Total non-life insurances	**27,297**	**27,990**	**(10,765)**	**(13,344)**	**(7,786)**
Life assurance					
Annuities	4,181	4,166	(3,180)	(1,690)	(37)
Total life assurance	**4,181**	**4,166**	**(3,180)**	**(1,690)**	**(37)**
Total	**31,478**	**32,156**	**(13,945)**	**15,034**	**(7,823)**

1.27 Premiums (continued)

Analysis of premiums written and claims incurred by class of business

The following table shows the analysis of premiums written and claims incurred by class of business. All insurance contracts are concluded in Bosnia and Herzegovina.

Company

	Gross premium written	Gross premium earned	Gross claims incurred	Acquisition costs and administrative expenses	Reinsurance balance
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
2017					
Non- life insurance					
MTPL	9,326	9,012	(3,233)	(4,146)	(281)
Motor vehicles (other)	2,384	2,311	(1,688)	(1,149)	(41)
Property	9,868	10,261	(1,327)	(4,549)	(7,049)
Personal lines	5,714	3,583	(1,578)	(2,449)	(363)
Other	2,054	1,781	(190)	(1,205)	(674)
Total non-life insurances	**29,346**	**26,948**	**(8,016)**	**(13,498)**	**(8,408)**
Life assurance					
Annuities	5,846	5,846	(4,929)	(1,562)	(29)
Total life assurance	**5,845**	**5,846**	**(4,929)**	**(1,562)**	**(29)**
Total	**35,192**	**32,794**	**(12,945)**	**(15,060)**	**(8,436)**
2016					
Nonlife insurance					
MTPL	8,905	9,203	(4,722)	(5,468)	201
Motor vehicles (other)	2,190	2,456	(1,934)	(1,131)	(54)
Property	10,337	11,590	(2,641)	(3,799)	(7,116)
Personal lines	4,549	3,410	(1,468)	(2,358)	(238)
Other	1,321	1,336	(44)	(588)	(579)
Total non-life insurances	**27,302**	**27,995**	**(10,809)**	**13,344**	**(7,786)**
Life assurance					
Annuities	4,181	4,166	(3,180)	(1,690)	(37)
Total life assurance	**4,181**	**4,166**	**(3,180)**	**(1,690)**	**(37)**
Total	**31,483**	**32,161**	**(13,989)**	**(15,034)**	**(7,823)**

1.28 Fee and commission income

Group and Company	**2017 BAM '000**	2016 BAM '000
Non-life reinsurance commissions	**3,866**	3,760
Life reinsurance commissions	**11**	70
	3,877	3,830

1.29 Finance income

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Interest income	**1,659**	1.377	**1,657**	1.375
Income from parent, subsidiary and other related parties	**-**	10	**-**	-
Positive foreign exchange differences	**4**	6	**4**	6
Rental income from investment property	**195**	299	**195**	321
Gain on sale of available- for-sale financial assets	**-**	181	**-**	181
	1,858	1.873	**1,856**	1.883

1.30 Other operating income

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Income from technical inspection service	**739**	1,448	**-**	-
Income from services provided	**1,229**	1,110	**510**	617
Income from recourse	**351**	341	**351**	341
Release of provisions for impairment of other receivables	**51**	81	**51**	81
Income from increased value of investment property	**-**	134	**-**	134
Other operating income	**372**	420	**373**	420
	2,742	3,534	**1,285**	1,593

1.31 Claims and benefits incurred

Group and Company	**Group 2017**	Group 2016	**Company 2017**	Company 2016
Non-life insurances	**BAM '000**	BAM '000	**BAM '000**	BAM '000
Claims paid				
Gross amount	**10,825**	11,264	**10,863**	11,308
Reinsurers' share	**(4,774)**	(4,710)	**(4,774)**	(4,710)
Change in notified outstanding claims reserve				
Gross amount	**(2,634)**	(483)	**(2,634)**	(483)
Reinsurers' share	**1,343**	350	**1,343**	350
Change in incurred but not reported claims reserve				
Gross amount	**(213)**	(16)	**(213)**	(16)
Reinsurers' share	**177**	228	**177**	228
Total claims incurred from non-life insurance	**7,978**	10,765	**8,016**	10,809
Total reinsurance share in claims incurred from non-life insurance	**(3,254)**	(4,132)	**(3,254)**	(4,132)
Total net claims incurred from non-life insurance	**4,724**	6,633	**4,762**	6,677
Life assurance				
Claims paid				
Gross amount	**544**	494	**544**	494
Reinsurers' share	**(11)**	-	**(11)**	-
Change in life assurance provision				
Gross amount	**4,427**	2,723	**4,427**	2,723
Reinsurers' share	**(10)**	(7)	**(10)**	(7)
Change in notified outstanding claims reserve				
Gross amount	**7**	(24)	**7**	(24)
Reinsurance share	**-**	-	**-**	-
Change in incurred but not reported claims reserve	**(26)**	(6)	**(26)**	(6)
Total claims incurred from life assurance	**4,952**	3,187	**4,952**	3,187
Total reinsurance share in claims incurred from life assurance	**(21)**	(7)	**(21)**	(7)
Total net claims incurred from life insurance	**4,931**	3,180	**4,931**	3,180
Total claims and benefits incurred	**12,930**	13,952	**12,968**	13,996
Reinsurers' share of claims and benefits incurred	**(3,275)**	(4,139)	**(3,275)**	(4,139)
Total incurred claims, net from reinsurance	**9,655**	9,813	**9,693**	9,857

Change in gross amount of notified outstanding claims reserve includes direct and indirect claims costs reserve. Gross amount of claims paid includes direct claims costs in the amount of BAM 317 thousand in 2017 (2016.: BAM 281 thousand) for the Company and the Group.

1.32 Acquisition costs

Group and Company	**2017**	2016
	BAM '000	BAM '000
Non-life insurance		
Commissions expense	**2,375**	1,844
Other acquisition costs	**6,925**	6,424
Change in deferred acquisition costs (Note 1.12)	**(796)**	(18)
Total acquisition costs, non-life	**8,504**	8,250
Life assurance		
Commissions expense	**170**	205
Other acquisition costs	**944**	997
Total acquisition costs, life	**1,114**	1,202
	9,618	9,452

Acquisition costs for the Group and the Company include the costs of internal sales personnel in the amount of 3,522 thousands BAM (*2016: 3,802 thousands BAM*).

The commission for life assurance contracts that is recognized when collected, as explained in the accounting policy 1.3 (p), is in accordance with corresponding recognition of income. It is not practical to calculate commission liabilities if the corresponding income would be recognized as accrued, and not when collected.

1.33 Administrative expenses

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Personnel expenses	**3,296**	3,651	**2,140**	2,314
Other head office costs	**1,551**	1,633	**1,470**	1,614
Depreciation	**710**	744	**580**	558
Other claim costs	**671**	532	**671**	532
Advertising and rebranding expenses	**377**	349	**306**	268
Costs of gas, electricity and water	**278**	272	**200**	217
Other administrative expenses	**112**	148	**75**	79
	6,995	7,329	**5,442**	5,582

In 2017 total number of employees of the Group was 369 (*2016: 386 employees*), and total number of employees in the Company was 284 (*2016: 295 employees*).

1.34 Other operating expenses

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Other expenditures	**474**	1,190	**395**	1,049
Premium refunds	**356**	613	**356**	613
Impairment losses from insurance contracts receivables (Note 1.19)	**263**	164	**263**	164
Contributions to protection funds, insurance bureau and the Agency	**170**	187	**170**	187
Fire brigade contribution and hail protection	**139**	107	**139**	107
Court case provisions (Note 1.23)	**130**	391	**130**	391
Impairment losses from other receivables	**95**	193	**95**	193
Republic, court and administrative fees	**55**	61	**55**	61
Impairment of investment in subsidiary and associate (Notes 1.14c and 1.15b))	**-**	-	**189**	-
Losses from impairment of investment property	**-**	1,613	**-**	1,613
Losses from impairment of real estate from activities	**-**	78	**-**	78
Total	**1,682**	4,597	**1,791**	4,456

1.35 Finance costs

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Interest expenses	**146**	207	97	142
Net loss from foreign exchange rate differences	**26**	81	26	81
	171	288	**123**	223

1.36 Income taxes

(a) Current tax expense

Reconciliation of accounting profit for the period and income tax expense is shown below:

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Current tax expense				
Current year	**-**	-	**-**	-
Total income tax expense	-	-	-	-
Accounting loss before income tax	**(2,350)**	(5,666)	**(2,350)**	(5,683)
Income tax at 10% (*2016: 10%*)	**(235)**	(567)	**(235)**	(568)
Non-deductible expenses	**622**	228	**262**	228
Tax exempt income	**(90)**	(40)	**(90)**	(40)
Tax losses carried forward not recognised as deferred tax asset	**-**	(379)	**-**	380
Income tax expense recognized in profit and loss	**-**	-	**-**	-
Effective income tax rate	**-**	-	**-**	-

1.36 Income taxes (continued)

(a) Current tax expense (continued)

In accordance with the Law on Corporate Profit Tax, tax losses can be carried forward for relief against profits of future accounting periods, but no longer than 5 years. In view of their uncertain recoverability, the Company does not recognize deferred tax assets on tax losses carried forward.

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Tax losses (not recognized as deferred tax assets) expire as follows:				
2017	**411**	63	**458**	63
2018	**411**	411	**465**	458
2019	**171**	411	**171**	465
2020	**379**	171	**380**	171
2021	**63**	379	**63**	380
	1,435	1,435	**1,537**	1,537

(b) Deferred tax liability

Deferred taxes are calculated on temporary differences under balance sheet method using legal tax rate of 10% (*2016:10%*). Changes in temporary differences and parts of deferred tax liability in equity and reserves are presented as follows:

Group	**Available-for-sale financial assets BAM '000**	**Land and buildings BAM '000**	**Total BAM '000**
Balance at 1 January 2016	**(99)**	**(23)**	**(122)**
Movement recognized in other comprehensive income	**27**	**-**	**27**
Balance at 31 December 2016	**(72)**	**(23)**	**(95)**
Balance at January 2017	**(72)**	**(23)**	**(95)**
Movement recognized in other comprehensive income	**(126)**	**-**	**(126)**
Balance at 31 December 2017	**(198)**	**(23)**	**(221)**

Company	**Available-for-sale financial assets BAM '000**	**Land and buildings BAM '000**	**Total BAM '000**
Balance at 1 January 2016	**(99)**	**(15)**	**(114)**
Movement recognised in other comprehensive income	27	-	27
Balance at 31 December 2016	**(72)**	**(15)**	**(87)**
Balance at January 2017	**(72)**	**(15)**	**(87)**
Movement recognised in other comprehensive income	(126)	-	(126)
Balance at 31 December 2017	**(198)**	**(15)**	**(213)**

1.37 Related parties transactions

Key shareholder of the Company is Vienna Insurance Group. The Company considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associated entities; Executive Board members; Management Board members and executive management (together „key management"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 „*Related party disclosures* " („IAS 24").

Key shareholders

Owner Vienna Insurance Group has a 100% holding in ordinary shares.

Largest part of non-life reinsurance the Company ceded to VIG Holding Vienna and WIENER RE Beograd.

Key management

Key management includes the Management Board and Executive Board members.

The remuneration of the Management board amounted to BAM 588 thousand (*2016: BAM 422 thousand*), and comprise the total gross amount of their compensation including short term and long term benefits, basic salary, calculated bonuses, pension benefits and other benefits related to retirement.

The following amounts represent the result of related party transactions:

Group 2017	**Assets BAM '000**	**Liabilities BAM '000**	**Income BAM '000**	**Expense BAM '000**
Key employees (including bonuses)	6	62	-	639
Parent company				
Vienna Insurance Group	-	498	158	1,848
Related entities				
Wiener Re Beograd	6,721	969	3,388	9,012
VIG HOLDING Wien	5,107	5,197	4,829	5,006
VIG Re Prague	18	38	24	129
Donau Versicherung AG VIG	-	-	3	13
Wiener Stadtische Versicherung	21	58	26	394
	11,873	**6,822**	**8,428**	**17,040**

Company 2017	**Assets BAM '000**	**Liabilities BAM '000**	**Income BAM '000**	**Expense BAM '000**
Key employees (including bonuses)	2	30	-	588
Parent company				
Vienna Insurance Group	-	498	158	1,848
Subsidiaries				
Jahorina Auto d.o.o.	323	-	32	1,386
Related entities				
Wiener Re Beograd	6,721	969	3,388	9,012
VIG HOLDING Wien	5,107	5,197	4,829	5,006
VIG Re Prague	18	38	24	129
Donau Versicherung AG VIG	-	-	3	13
Wiener Stadtische Versicherung	21	58	26	394
	12,192	**6,790**	**8,460**	**18,376**

1.37 Related parties transactions (continued)

Group 2016	**Assets BAM '000**	**Liabilities BAM '000**	**Income BAM '000**	**Expense BAM '000**
Key employees (including bonuses)	1	22	3	465
Parent company				
Vienna Insurance Group	-	563	-	211
Related entities				
Wiener Re Beograd	9,042	840	3,352	10,859
VIG Holding Wien	4,824	4,874	4,951	5,158
VIG Re Prague	8	44	70	167
	13,875	**6,343**	**8,376**	**16,860**

Company 2016	**Assets BAM '000**	**Liabilities BAM '000**	**Income BAM '000**	**Expense BAM '000**
Key employees (including bonuses)	-	22	3	422
Parent company				
Vienna Insurance Group	-	563	-	211
Subsidiaries				
Jahorina Auto d.o.o	-	27	32	772
Related entities				
Wiener Re Beograd	9,042	840	3,352	10,859
VIG HOLDING Wien	4,824	4,874	4,951	5,158
VIG Re Prague	8	44	70	167
	13,874	**6,370**	**8,408**	**17,589**

1.38 Financial risks management

Transactions with financial instruments result in the Group assuming financial risks. These include market risk, credit risk (including reinsurance credit risk) and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Group manages these risks.

Market risk

Market risk is defined as the effect of changes in market prices on the statement of comprehensive income and statement of financial position of the Group. Basic risk factors include:

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

Market risk embodies not only the potential for loss but also the potential for gain.

Asset and liability matching

The Group actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimize the income from investment whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Management reviews and approves target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process. Due attention is also given to the compliance with the rules established by the local regulations.

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

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

Interest rate risk

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

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

The Group does not have significant debt obligations and as a result interest rate changes do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the reporting date. The life assurance provision is discounted using the lower of the technical interest rate or maximum rate prescribed by Agency.

1.38 Financial risks management (continued)

Interest rate risk (continued)

According to this, the change in value of investments that can be matched with interest rate will not be partially mitigated with accompanying changes in economic values of reserve which offset to some extent.

The Group monitors this exposure with periodic reviews of the status of its assets and liabilities.

According to the insurance contracts, the Group is required to calculate interest by rates from 2.5% to 3% per annum on paid premiums from life insurance business for payment of the amounts to insured after expiration of such policies and currently it cannot be protected from future interest rate fluctuation to which is exposed through investments covering insurance contract provision.

The Note 1.40 discloses effective interest rates and analysis of changes in interest rates on the day of financial position for the financial assets of the Group within IAS 39. Technical interest rates for life assurance products are disclosed in Note 1.6. Sensitivity to changes in interest rates is not practical to disclose.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Foreign exchange risk

The Group is exposed to currency risk through transactions in foreign currencies. This is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Exposure to the foreign exchange risk on the reporting date was minimal. Assets and liabilities of the Group, with exception of insignificant share of cash with banks and life assurance provision linked to EURO, are denominated in BAM. Exchange rate BAM to EURO is fixed and it is expected that it will remain fixed. Therefore, calculation of sensitivity to change in exchange rate is not relevant. Note 1.41 discloses the currency analysis at the statement of financial position for Group's and the Company's financial assets and financial liabilities.

Credit risk

Maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements is as follows:

	Group 2017 BAM '000	Group 2016 BAM '000	**Company 2017 BAM '000**	Company 2016 BAM '000
Cash and cash equivalents	**1,229**	1,034	**1,219**	1,023
Deposits with banks	**5,920**	6,907	**5,920**	6,907
Deposits with other institutions	**599**	588	**599**	588
Debt securities	**29,279**	22,120	**29,279**	22,120
Loans to employees	**206**	259	**139**	184
Loans to Jahorina auto	**-**	-	**77**	-
Receivable from insurance contracts	**3,116**	3,201	**3,116**	3,201
Other receivables, net	**1,736**	1,645	**1,621**	1,468
	42,085	35,754	**41,969**	35,491

1.38 Financial risks management (continued)

Credit risk (continued)

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

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans. The Group has adopted conservative risk investment policy.

Ageing analysis of assets is not practicable for the Group and the Company to disclose.

Liquidity risk

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

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

Note 1.39 discloses the maturity analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities

Note 1.21 (i) discloses the maturity analysis of the Group's and the Company's insurance contract provision.

1.39 Maturity analysis

The tables below analyze the financial assets within scope of IAS 39 of the Group and the Company at 31 December 2017 and 31 December 2016 into relevant maturity groupings based on the remaining contractual maturity except for financial assets available for sale which are included in the category „up to 6 months“. Estimated remaining contractual maturities of insurance provisions are analyzed in Note 1.21 (h), and hence are not repeated in this analysis

Group – 2017	**Up to 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	BAM '000	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Financial assets						
Available-for-sale financial assets						
Debt securities	29,279	-	-	-	-	**29,279**
Loans and receivables						
Deposits with banks	-	3,654	2,266	-	-	**5,920**
Deposits with other institutions	-	-	-	-	599	**599**
Loans to employees	26	26	62	46	46	**206**
Cash and cash equivalents	1,229	-	-	-	-	**1,229**
Total financial assets	**30,534**	**3,680**	**2,328**	**46**	**645**	**37,233**
Financial liabilities						
Borrowings	(66)	(86)	(214)	(287)	-	**(653)**
Total financial liabilities	**(66)**	**(86)**	**(214)**	**(287)**	**-**	**(653)**
Maturity gap	**30,468**	**3,594**	**2,114**	**(241)**	**645**	**36,580**

Group – 2016						
Financial assets						
Available-for-sale financial assets						
Debt securities	22,120	-	-	-	-	**22,120**
Loans and receivables						
Deposits with banks	117	2,136	4,654	-	-	**6,907**
Deposits with other institutions	-	-	-	-	588	**588**
Loans to employees	26	26	112	64	31	**259**
Cash and cash equivalents	1,034	-	-	-	-	**1,034**
Total financial assets	**23,297**	**2,162**	**4,766**	**64**	**619**	**30,908**
Financial liabilities						
Borrowings	(1,244)	-	(66)	-	-	**(1,310)**
Total financial liabilities	**(1,244)**	**-**	**(66)**	**-**	**-**	**(1,310)**
Maturity gap	**22,053**	**2,162**	**4,700**	**64**	**619**	**29,598**

1.39 Maturity analysis (continued)

Company – 2017	**Up to 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	BAM '000	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Financial assets						
Available-for-sale financial assets						
Debt securities	29,279	-	-	-	-	**29,279**
Loans and receivables						
Deposits with banks	-	3,654	2,266	-	-	**5,920**
Deposits with other institutions	-	-	-	-	599	**599**
Loans to employees	22	22	46	30	18	**139**
Cash and cash equivalents	1,219	-	-	-	-	**1,219**
Total financial assets	**30,520**	**3,676**	**2,312**	**30**	**617**	**37,155**
Financial liabilities						
Borrowings	-	-	-	-	-	**-**
Total financial liabilities	-	-	-	-	-	**-**
Maturity gap	**30,520**	**3,676**	**2,312**	**30**	**617**	**37,155**

Company – 2016						
Financial assets						
Available-for-sale financial assets						
Debt securities	22,120	-	-	-	-	**22,120**
Loans and receivables						
Deposits with banks	117	2,136	4,654	-	-	**6,907**
Deposits with other institutions	-	-	-	-	588	**588**
Loans to employees	22	22	88	40	12	**184**
Cash and cash equivalents	1,023	-	-	-	-	**1,023**
Total financial assets	**23,282**	**2,158**	**4,742**	**40**	**600**	**30,822**
Financial liabilities						
Borrowings	(391)	-	-	-	-	**(391)**
Total financial liabilities	(391)	-	-	-	-	**(391)**
Maturity gap	**22,891**	**2,158**	**4,742**	**40**	**600**	**30,431**

1.40 Interest rate repricing analysis

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

The tables are management's estimate of the interest rate risk for the Group and the Company as at 31 December 2017 and 31 December 2016 and are not necessarily indicative of the positions at other times but, taking into account the interest rate assumptions on which the calculation of mathematical reserve is based (Note 1.6), provide some indication of the sensitivities of the Group's and the Company's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets, liabilities and equity.

Group – 2017	**Effective interest rate**	**Up to 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**	**Interest-free**	**Total**	**Amounts subject to fixed rates**
		BAM'000	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**
Financial assets									
Available-for-sale financial assets									
Debt securities	2.43%	29,279	-	-	-	-	-	**29,279**	**29,279**
Loans and receivables									
Deposits with banks	2.55%	-	3,654	2,266	-	-	-	**5,920**	**5,920**
Deposits with other institutions	4.91%	-	-	-	-	599	-	**599**	**599**
Loans to employees	2.5%	26	26	62	46	46	-	**206**	**206**
Cash and cash equivalents	0.03%	1,229	-	-	-	-	-	**1,229**	**1,229**
Total financial assets		**30,534**	**3,680**	**2,328**	**46**	**645**	**-**	**37,233**	**37,233**
Financial liabilities									
Borrowings	5.75%	(66)	(86)	(214)	(287)	-	-	**(653)**	**(653)**
Total financial liabilities		**(66)**	**(86)**	**(214)**	**(287)**	**-**	**-**	**(653)**	**(653)**
Repricing gap		**30,468**	**3,594**	**2,114**	**(241)**	**645**	**-**	**36,580**	**36,580**
Group – 2016									
Financial assets									
Available-for-sale financial assets									
Debt securities	2.07%	22,120	-	-	-	-	-	**22,120**	**22,120**
Loans and receivables									
Deposits with banks	3.43%	117	2,136	4,654	-	-	-	**6,907**	**6,907**
Deposits with other institutions	4.91%	-	-	-	-	588	-	**588**	**588**
Loans to employees	2.50%	26	26	112	64	31	-	**259**	**259**
Cash and cash equivalents	0.04%	1,034	-	-	-	-	-	**1,034**	**1,034**
Total financial assets		**23,297**	**2,162**	**4,766**	**64**	**619**	**-**	**30,908**	**30,908**
Financial liabilities									
Borrowings	5.75%	(1,244)	-	(66)	-	-	-	**(1,310)**	**(1,310)**
Total financial liabilities		**(1,244)**	**-**	**(66)**	**-**	**-**	**-**	**(1,310)**	**(1,310)**
Repricing gap		**22,053**	**2,162**	**4,700**	**64**	**619**	**-**	**29,598**	**29,598**

1.40 Interest rate repricing analysis (continued)

Company – 2017	**Effective interest rate**	**Up to 6 months BAM '000**	**6-12 months BAM '000**	**1-3 years BAM '000**	**3-5 years BAM '000**	**Over 5 years BAM '000**	**No interest BAM '000**	**Total BAM '000**	**Amounts subject to fixed rates BAM '000**
Financial assets									
Available-for-sale financial assets									
Debt securities	2.07/%	29,279	-	-	-	29,279	-	**29,279**	**29,279**
Loans and receivables									
Loans to employees	2.55%	-	3,654	2,266	-	-	-	**5,920**	**5,920**
Deposits with banks	4.91%	-	-	-	-	599	-	**599**	**599**
Deposits with other institutions	2.50%	22	22	63	20	11	-	**139**	**139**
Cash and cash equivalents	0.03%	1,219	-	-	-	-	-	**1,219**	**1,219**
Total financial assets		**30,520**	**3,676**	**2,329**	**20**	**610**	**-**	**37,155**	**37,155**
Financial liabilities									
Borrowings	5.75%	-	-	-	-	-	-	-	-
Total financial liabilities		-	-	-	-	-	-	-	-
Repricing gap		**30,520**	**3,676**	**2,329**	**20**	**610**	**-**	**37,155**	**37,155**

Company – 2016	**Effective interest rate**	Up to 6 months BAM '000	6-12 months BAM '000	1-3 years BAM '000	3-5 years BAM '000	Over 5 years BAM '000	No interest BAM '000	Total BAM '000	Amounts subject to fixed rates BAM '000
Financial assets									
Available-for-sale financial assets									
Debt securities	2.07%	22,120	-	-	-	-	-	**22,120**	**22,120**
Loans and receivables									
Loans to employees	2.50%	22	22	88	40	12	-	**184**	**184**
Deposits with banks	3.43%	117	2,136	4,654	-	-	-	**6,907**	**6,907**
Deposits with other institutions	4.91%	-	-	-	-	588	-	**588**	**588**
Cash and cash equivalents	0.04%	1,023	-	-	-	-	-	**1,023**	**1,023**
Total financial assets		**23,282**	**2,158**	**4,742**	**40**	**600**	**-**	**30,822**	**30,822**
Financial liabilities									
Borrowings	5.75%	(391)	-	-	-	-	-	**(391)**	**(391)**
Total financial liabilities		(391)	-	-	-	-	-	**(391)**	**(391)**
Repricing gap		**22,891**	**2,158**	**4,742**	**40**	**600**	**-**	**30,431**	**30,431**

1.41 Currency risk analysis

The Group's and the Company's financial assets and financial liabilities were denominated as follows as at 31 December 2017 and 31 December 2016:

Group 2017	**EURO BAM '000**	**BAM BAM '000**	**Total BAM '000**
Financial assets			
Available-for-sale financial assets			
Debt securities-Government bonds	-	29,279	**29,279**
Loans and receivables			
Deposits with banks	154	5,766	5,920
Deposits with other institutions	-	599	599
Loans to employees	-	206	206
Cash and cash equivalents	38	1,191	1,229
Total financial assets	**38**	**37,195**	**37,233**
Borrowings	(653)	-	**(653)**
Currency gap	**(615)**	**37,195**	**36,580**
Group 2016			
Financial assets			
Available-for-sale financial assets			
Debt securities-Government bonds	-	22,120	**22,120**
Loans and receivables			
Deposits with banks	450	6,457	**6.907**
Deposits with other institutions	-	588	**588**
Loans to employees	-	259	**259**
Cash and cash equivalents	18	1,016	**1,034**
Total financial assets	**468**	**30,440**	**30,908**
Borrowings	(1,310)	-	**(1,310)**
Currency gap	**(842)**	**30,440**	**29,598**

1.41 Currency risk analysis (continued)

Company 2017	**EURO BAM '000**	**BAM BAM '000**	**Total BAM '000**
Financial assets			
Available-for-sale financial assets			
Debt securities – Government bonds	-	29,279	**29,279**
Loans and receivables			
Deposits with banks	154	5,766	**5,920**
Deposits with other institutions	-	599	**599**
Loans to employees	-	138	**138**
Cash and cash equivalents	38	1,181	**1,219**
Total financial assets	**38**	**37,117**	**37,155**
Borrowings	-	-	-
Currency gap	**38**	**37,117**	**37,155**

Company 2016			
Financial assets			
Available-for-sale financial assets			
Debt securities – Government bonds	-	22,210	**22,210**
Loans and receivables			
Deposits with banks	450	6,457	**6,907**
Deposits with other institutions	-	588	**588**
Loans to employees	-	184	**184**
Cash and cash equivalents	18	1.005	**1,023**
Total financial assets	**468**	**30,444**	**30,912**
Borrowings	(391)	-	(391)
Currency gap	**77**	**30,444**	**30,521**

1.42 Capital management

Insurance companies are obligated to have available appropriate capital in respect of volume and lines of business they conduct as well as in respect of risks they are exposed to in performance of those operations.

In accordance with the Rulebook on elements and control of solvency margin of insurance companies in the Republic of Srpska („the Rulebook“), the capital of the Company consists of core capital and supplementary capital reduced by deductible items.

The sum of core capital and supplementary capital represents the guarantee capital of a company. The guarantee capital must represent one third of the solvency margin.

Capital of a company cannot be lower than the following three categories:

a. solvency margin;
b. 1/3 of the solvency margin;
c. minimum amount of guarantee capital as described in article 53 paragraph 2 of the Law on insurance companies („the Law “).

Guarantee capital of a company cannot be lower than:

1. 1/3 of the solvency margin;
2. minimum amount of guarantee fund as described in Article 53 of the Law.

	Non-life		**Life**	
Company	**2017**	2016	**2017**	2016
	BAM ’000	BAM ’000	**BAM ’000**	BAM ’000
Core capital	**6,383**	9,035	**3,438**	3,071
Supplementary capital	**-**	-	**-**	-
Guarantee capital	**6383**	9,035	**3,438**	3,071
Deductible items	**(1,256)**	(1,698)	**-**	-
Capital	**5,127**	7,337	**3,438**	3,071
Solvency margin	**3,419**	3,948	**596**	399
1/3 of solvency margin	**1,140**	1,316	**199**	133
Minimum guarantee fund	**5,000**	5,000	**3,000**	3,000
Excess/(shortfall) of capital over minimum guarantee fund	**128**	2,337	**438**	71
Excess of capital over solvency margin	**1,708**	3,389	**2,842**	2,672

1.43 Fair value measurement

1.43.1 Assets and liabilities at fair value hierarchy

The following table sets out the assets and liabilities that are measured and recognized at fair value as at 31 December 2017.

Group	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total BAM '000
Recurring fair value measurements				
Financial assets				
Debt securities – government bonds – listed	29,279	-	-	**29,279**
Total recurring financial assets	**29,279**	-	-	**29,279**
Non-financial assets				
Investment property	-	-	6,209	**6,209**
Total non-financial assets	-	-	**6,209**	**6,209**
Non-recurring fair value measurements				
Land and buildings	-	-	3,776	**3,776**
Total non-recurring	-	-	**3,776**	**3,776**

Company	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total BAM '000
Recurring fair value measurements				
Financial assets				
Debt securities – government bonds – listed	29,279	-	-	**29,279**
Total recurring financial assets	**29,279**	-	-	**29,279**
Non-financial assets				
Investment property	-	-	6,209	**6,209**
Total recurring non-financial assets	-	-	**6,209**	**6,209**
Non-recurring fair value measurements				
Land and buildings	-	-	2,753	**2,753**
Total non-recurring	-	-	**2,753**	**2,753**

1.43 Fair value measurement (continued)

1.43.1 Assets and liabilities at fair value hierarchy (continued)

The following table sets out the assets and liabilities that are measured and recognized at fair value as at 31 December 2016.

Group	**Level 1 BAM '000**	**Level 2 BAM '000**	**Level 3 BAM '000**	**Total BAM '000**
Recurring fair value measurements				
Financial assets				
Debt securities – government bonds – listed	22,120	-	-	**22,120**
Total recurring financial assets	**22,120**	-	-	**22,120**
Non-financial assets				
Investment property	-	-	8,726	**8,726**
Total recurring non-financial assets	-	-	**8,726**	**8,726**
Non-recurring fair value measurements				
Land and buildings	-	-	3,889	**3,889**
Total non-recurring	-	-	**3,889**	**3,889**

Company	**Level 1 BAM '000**	**Level 2 BAM '000**	**Level 3 BAM '000**	**Total BAM '000**
Recurring fair value measurements				
Financial assets				
Debt securities – government bonds – listed	22,120	-	-	**22,120**
Total recurring financial assets	**22,120**	-	-	**22,120**
Non-financial assets				
Investment property	-	-	8,726	**8,726**
Total recurring non-financial assets	-	-	**8,726**	**8,726**
Non-recurring fair value measurements				
Land and buildings	-	-	2,846	**2,846**
Total non-recurring	-	-	**2,846**	**2,846**

1.43 Fair value measurement (continued)

1.43.1 Assets and liabilities at fair value hierarchy (continued)

Level 3 fair values

The Group engages external and independent property valuers, having appropriate recognized professional qualifications and recent experience in the locations and category of the property being valued.

The independent valuers provide the fair value of the Group's investment property portfolio at the end of each annual reporting period and the fair value of the Group's land and buildings classified as property and equipment every three years.

The fair value of investment property and land and buildings has been categorized as Level 3 fair value based on the inputs to the valuation technique used.

The following table sets out a reconciliation of the opening and closing balances for Level 3 fair values, including amount of unrealized gains or losses for the period that is attributable to the changes in unrealized gains or loss:

Group	**Investment property BAM '000**	**Land and buildings BAM '000**	**Total BAM '000**
Balance at 1 January 2017	**8,726**	**3,889**	**12,615**
Purchases	20	6	**26**
Sale	(2,537)	(49)	**(2,586)**
Depreciation charge	-	(67)	**(67)**
Write off	-	(2)	**(2)**
Balance at 31 December 2017	**6,209**	**3,777**	**9,986**

Company	**Investment property BAM '000**	**Land and buildings BAM '000**	**Total BAM '000**
Balance at 1 January 2017	**8,726**	**2,846**	**11,572**
Purchases	20	6	**26**
Sale	(2,537)	(49)	**(2,586)**
Depreciation charge	-	(48)	**(48)**
Write off	-	(2)	**(2)**
Balance at 31 December 2017	**6,209**	**2,753**	**8,962**

1.43 Fair value measurement (continued)

1.43.1 Assets and liabilities at fair value hierarchy (continued)

Group	Investment property BAM '000	Land and buildings BAM '000	Total BAM '000
Balance at 1 January 2016	**10,507**	**4,467**	**14,974**
Purchases	**-**	**32**	**32**
Activation of investment property	**179**	**-**	**179**
Sale	**(481)**	**(464)**	**(945)**
Depreciation charge	**-**	**(69)**	**(69)**
-Changes in fair value	**(1,479)**	**(77)**	**(1,556)**
Off-balance sheet items transfer	**-**	**-**	**-**
Balance at 31 December 2016	**8,726**	**3,889**	**12,615**

Company	Investment property BAM '000	Land and buildings BAM '000	Total BAM '000
Balance at 1 January 2016	**10,507**	**3,405**	**13,912**
Purchases	**-**	**32**	**32**
Reclassification	**179**	**-**	**179**
Sale	**(481)**	**(464)**	**(945)**
Depreciation charge	**-**	**(50)**	**(50)**
-Changes in fair value	**(1,479)**	**(77)**	**(1,556)**
Balance at 31 December 2016	**8,726**	**2,846**	**11,572**

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property and land and buildings, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Cost technique and income capitalization approach: The Group considers both techniques, and reconciles and weights the estimates under each technique based on its assessment of the judgment that market participants would apply. The cost technique considers the current replacement costs. The income capitalization method is based on estimated net operating income generated by the property divided by the capitalization rate.	• capitalization rate (5 – 8%) • estimated rental values

1.43 Fair value measurement (continued)

1.43.2 Fair value of financial instruments not measured at fair value

Group

31 December 2017	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total fair value BAM '000	Carrying value BAM '000
Assets					
Deposits with banks and other institutions	-	6,519	-	6,519	6,519
Loans to employees	-	-	206	206	206
Cash and cash equivalents	1,229	-	-	1,229	1,229
Total	**1,229**	**6,519**	**206**	**7,954**	**7,954**
Liabilities					
Borrowings	653	-	-	653	653
Total	**653**	**-**	**-**	**653**	**653**

Company

31 December 2017	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total fair value BAM '000	Carrying value BAM '000
Assets					
Deposits with banks and other institutions	-	6,519	-	6,519	6,519
Loans to employees	-	-	138	138	138
Loan to Jahorina auto	-	-	77	77	77
Cash and cash equivalents	1,219	-	-	1,219	1,219
Total	**1,219**	**6,519**	**215**	**7,953**	**7,953**

1.43 Fair value measurement (continued)

1.43.2 Fair value of financial instruments not measured at fair value (continued)

Group

31 December 2016	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total fair value BAM '000	Carrying value BAM '000
Assets					
Deposits with banks and other institutions	-	7,495	-	7,495	7,495
Loans to employees	-	-	259	259	259
Cash and cash equivalents	1,034	-	-	1,034	1,034
Total	**1,034**	**7,495**	**259**	**8,788**	**8,788**
Liabilities					
Borrowings	1,310	-	-	1,310	1,310
Total	**1,310**	**-**	**-**	**1,310**	**1,310**

Company

31 December 2016	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total fair value BAM '000	Carrying value BAM '000
Assets					
Deposits with banks and other institutions	-	7,495	-	7,495	7,495
Loans to employees	-	-	184	184	184
Cash and cash equivalents	1,023	-	-	1,023	1,023
Total	**1,023**	**7,495**	**184**	**8,702**	**8,702**
Liabilities					
Borrowings	391	-	-	391	391
Total	**391**	**-**	**-**	**391**	**391**

1.43 Fair value measurement (continued)

1.43.2 Fair value of financial instruments not measured at fair value (continued)

In estimation the fair value of financial instruments, the following methods and assumptions are used and the following limitations apply:

Deposits with banks and other institutions

Fair value of deposits with fixed maturity is based on cash flows discounted with currently offered interest rates on deposits with similar remaining maturity. Also, considering that the deposits with banks and other institutions have fixed interest rate, which is approximately the same as the market rate, their book value is equal to their fair value. It was not practical to calculate fair value of deposits with fixed interest rates.

Loans to employees

Loans to employees are measured at amortized cost less impairment. Management believes that the carrying value of this instrument is not significantly different from their fair value, assuming that all payments on unimpaired exposures will be collected as contracted, and not taking into account any future losses.

Cash and cash equivalents

The carrying value of cash and cash equivalents is generally deemed to approximate their fair value.

Borrowings

The majority of the borrowings does not have listed market price and the fair value is estimated as current value of future cash flows discounted with interest rates available on the reporting date, for new borrowings with similar type of remaining maturity. Also, considering that the long term borrowings have variable interest rate, which is approximately the same as the market rate, their book value is equal to their fair value.